Santander

2010

ANNUAL
REPORT

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Photo: The headquarters of Santander UK, Triton Square, London, UK

KEY FIGURES

BALANCE SHEET AND INCOME STATEMENT*	**2010**	2009	% 2010/2009	2008
Total assets	1,217,501	1,110,529	9.6	1,049,632
Customer loans (net)	724,154	682,551	6.1	626,888
Customer deposits	616,376	506,976	21.6	420,229
Managed customer funds	985,269	900,057	9.5	826,567
Shareholders' funds (after distribution of earnings)	75,273	70,006	7.5	63,768
Total managed funds	1,362,289	1,245,420	9.4	1,168,355
Net interest income	29,224	26,299	11.1	20,945
Gross income	42,049	39,381	6.8	33,489
Net operating income	23,853	22,960	3.9	18,540
Profit from continuing operations	9,129	9,427	(3.2)	9,030
Attributable profit to the Group	8,181	8,943	(8.5)	8,876

RATIOS (%)				
Efficiency (with amortization)	43.3	41.7		44.6
ROE	11.80	13.90		17.07
ROA	0.76	0.86		0.96
RoRWA	1.55	1.74		1.87
Core capital	8.8	8.6		7.5
Tier 1	10.0	10.1		9.1
BIS ratio	13.1	14.2		13.3
Tangible capital/tangible assets(1)	4.4	4.3		3.6
Ratio of basic financing(2)	79.6	76.0		75.1
Lending/deposit ratio	117	135		150
Non-performing loan (NPL) ratio	3.55	3.24		2.04
NPL coverage	73	75		91

THE SHARE AND CAPITALISATION				
Number of shares in circulation (million)	8,329	8,229	1.2	7,994
Share price (euros)	7.928	11.550	(31.4)	6.750
Market capitalisation (million euros)	66,033	95,043	(30.5)	53,960
Shareholders' funds per share (euros)(3)	8.58	8.04		7.58
Share price/shareholders' funds per share (times)(3)	0.92	1.44		0.89
PER (share price/attributable profit per share) (times)(3)	8.42	11.05		5.53
Attributable profit per share (euros)(3)	0.9418	1.0454	(9.9)	1.2207
Diluted attributable profit per share (euros)(3)	0.9356	1.0382	(9.9)	1.2133
Remuneration per share(3)	0.6000	0.6000	0.0	0.6325
Total shareholder return (million euros)	4,999	4,919	1.6	4,812

OTHER FIGURES				
Number of shareholders	3,202,324	3,062,633	4.6	3,034,816
Number of employees	178,869	169,460	5.6	170,961
Continental Europe	54,518	49,870	9.3	48,467
United Kingdom	23,649	22,949	3.1	24,379
Latin America	89,526	85,974	4.1	96,405
Sovereign	8,647	8,847	(2.3)	
Corporate activities	2,529	1,820	39.0	1,710
Number of branches	14,082	13,660	3.1	13,390
Continental Europe	6,063	5,871	3.3	5,998
United Kingdom	1,416	1,322	7.1	1,303
Latin America	5,882	5,745	2.4	6,089
Sovereign	721	722	(0.1)	

* Million euros

(1) (Capital+Reserves+Minority Interests+Profits-Treasury stock-Dividends-Valuation adjustments-Goodwill-Intangibles)/(Total assets-Goodwill-Intangibles)

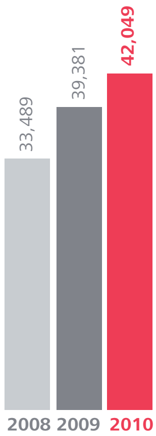
(2) (Deposits+Medium and long-term wholesale financing+capital)/Total assets (excluding dividends)

(3) 2008 adjusted to the capital increase with preferential right at the end of 2008

Banco Santander distributed among its shareholders almost EUR 15,000 million in dividends in the last three years

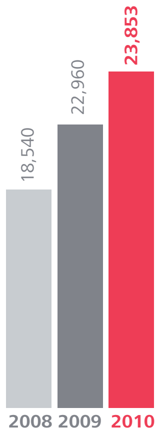
GROSS INCOME
Million euros

+6.8%
2009-2010



NET OPERATING INCOME
Million euros

+3.9%
2009-2010



ATTRIBUTABLE PROFIT
Million euros

– 8.5%
2009-2010

* EUR 8,653 million before the impact of applying Bank of Spain circular 3/2010 (-3.2%)

TOTAL DIVIDEND PAYOUT
Million euros

+1.6%
2009-2010

EFFICIENCY
%

+1.6 p.p.
2009-2010

CORE CAPITAL
%

+0.2 p.p.
2009-2010

"Grupo Santander's attributable profit between 2007 and 2010 totalled EUR 35,060 million, making us the world's third bank in earnings during this period"

Photo: Mr Emilio Botín addresses the convention of Grupo Santander executives at the Bank's corporate centre in Boadilla del Monte, Spain, in February 2011

LETTER FROM THE CHAIRMAN

Emilio Botín

Dear Shareholders

In a very difficult economic and financial environment, Banco Santander generated recurring results in 2010 and strengthened its balance sheet with more capital, liquidity and provisions. This laid the foundations for continued growth in the coming years.

Attributable profit was EUR 8,181 million in 2010, 8.5% less than in 2009.

Thanks to our geographic diversification, the commercial strength of our branch network, the focus on controlling costs and prudent risk management we have remained one of the world's leading banks in terms of profits in the last four years.

Grupo Santander's total attributable profit in 2007-2010 amounted to EUR 35,060 million, making us the world's third bank in earnings during this period.

The good performance of the Bank's businesses enabled the total shareholder return to be held at EUR 0.60 per share, a figure in line with the objective announced at the AGM in June 2010. In terms of total remuneration, this meant distributing almost EUR 19,000 million among our shareholders in the last four years.

> The good performance of all the Bank's businesses enabled total shareholder remuneration to remain at EUR 0.60 per share, in line with the objective announced at the AGM in June 2010

All this is particularly important in the current context, as many of our competitors were forced over the past few years to eliminate or significantly reduce their dividend payout.

The good reception given to Santander Dividendo Elección programme in 2009 —under which Banco Santander gives its shareholders the option to receive part of the dividend in cash or in new shares— led us to extend the plan and offer it for the second and third interim dividends charged to 2010's earnings. A total of 85% of shareholders opted to receive new shares.

A DEMANDING ECONOMIC, FINANCIAL AND REGULATORY FUTURE

The global economy is recovering, led by emerging countries. Some developed economies, such as the US and Germany, are also registering positive growth rates.

International financial reforms, in general terms, are moving in the right direction and significant steps forward have been taken, although there are still some issues to be resolved.

In our view:

- Basel III will mean enhanced levels of capital and liquidity for banks.
- The contingency and resolution plans (living wills) are a key mechanism for enhancing management of banking crises. Banco Santander was the first international bank to deliver its living will.
- No regulation can take the place of good supervision, which must be rigorous and closely monitored.
- The additional capital requirements imposed on banks which are considered systemic must be directly related to risk. The structure of Banco Santander's subsidiaries limits the contagion between the Group's institutions and minimizes systemic risk.
- In Spain's case, the restructuring of savings banks is leading to very important steps in the right direction.

As a result of all this, I am convinced that the financial sector, which emerges from the crisis, will be more stable, more balanced and less vulnerable.

A SOLID BASE UPON WHICH TO CONTINUE GROWING

In the last few years, Banco Santander has managed to be profitable even in the most difficult economic scenarios and, moreover, has taken advantage of its position of strength to build a solid base upon which to continue growing, backed by:

BALANCE SHEET STRENGTH

Solid and sustained growth can only be achieved with a healthy balance sheet and high levels of solvency. Banco Santander has:

- High and maximum quality solvency ratios: The core capital ratio ended 2010 at 8.8% and will exceed 9% at the end of 2011, largely due to the Group's capacity to organically generate capital.
- A balance sheet that withstands the most adverse scenarios: Santander was among the best in Europe in terms of profitability and solvency in the stress tests conducted on banks during 2010.
- A solid liquidity position: The strong capture of deposits via commercial networks (EUR 109,000 million in 2010 alone) and our capacity to issue medium- and long-term debt in the markets where we are present (EUR 38,000 million in 2010) enable Santander to meet its financial obligations and finance customer transactions. Banco Santander has no need to issue securities in Spain in 2011 and 2012 to cover its expected debt maturities.
- Our non-performing loan (NPL) ratios and coverage are better than the banking system's average in all the countries where we operate: This is due to our strict management of risk and conservative policies for provisions. Banco Santander's generic provisions amounted to EUR 5,846 million at the end of 2010.

In line with our criteria of maximum prudence, Banco Santander decided to apply the Bank of Spain's new rules on provisions conservatively, charging to the third quarter's results EUR 472 million net of tax. Excluding this impact, the Group's profit in 2010 would have been similar to that in 2009, instead of declining 8.5%.

Solid and sustained growth can only be achieved with a healthy balance sheet and high levels of solvency

GEOGRAPHIC DIVERSIFICATION

Banco Santander's international strategy in the last few years has been aimed at attaining a diversified presence with critical mass and high market shares in its main markets, which currently number 10: Spain, Portugal, Germany, the UK, Brazil, Mexico, Chile, Argentina, the US and Poland. These countries give the Group an appropriate balance between mature and emerging markets and greater recurrence in results. Of note are:

- Brazil: Its contribution to the Group's attributable profit was the largest, at EUR 2,836 million (25% of the total). Economic stability and a still low level of "bankarisation" will fuel Santander's strategic plans to grow in the country. Technological integration and unification of the brand in 3,702 branches was completed successfully.
- In the UK, Santander has become a leading bank in just six years. The acquisition of Abbey in 2004 was the most successful cross-border transaction. The UK contributed EUR 1,985 million to the Group's attributable profit (18% of the total). In 2010, we reached an agreement to acquire 318 Royal Bank of Scotland branches to expand business with SMEs.
- Spain (15% of the Group's total profits): In a very difficult year for the Spanish economy, the commercial networks were very busy, capturing EUR 32,000 million in deposits and leading the channelling of ICO loans, while maintaining the focus on the quality of service to customers, for which the "We want to be your Bank" strategy of the Santander branch network continued to play a key role. Furthermore, the Group's NPL ratio in Spain (4.2%) remained below the banking system's average, the efficiency ratio remained very competitive and provisions were increased.

  The Group's loans to the construction and property sectors for real estate development were reduced by 27% in 2009 and 2010 to EUR 27,000 million (3.7% of the Group's total lending and 12% of lending in Spain). Grupo Santander's share of loans to this sector is around 10%, well below our average market share of 15% for the various businesses in Spain. Bad and substandard loans are 28% covered by provisions.

  Grupo Santander has a competitive advantage in Spain as it has two brands, Santander (with 2,931 branches) and Banesto (with 1,762 branches). We have no intention of closing branches in the near future.
- The United States contributed 7% of the Group's total profits. The restructuring of Sovereign continues. In less than two years of management by Banco Santander, it has moved from a loss to a profit of $561 million.

Santander also took advantage of the situation in 2010 to bolster its presence in other significant markets, such as:

- Mexico: With the purchase of the 25% of Santander Mexico in the hands of Bank of America, this country generated 6% of the Group's profits.
- Germany (4% of the Group's profits): 173 retail banking branches of the Swedish group SEB were acquired.
- Poland: With the acquisition of Bank Zachodni WBK, the country's third largest bank, Banco Santander will enter the retail banking business.

We envisage an additional contribution of these businesses of EUR 750 million to the Group's results in 2013. Santander has no need to make further acquisitions in the coming years.

Banco Santander's international strategy in the last few years has been aimed at attaining a diversified presence with critical mass and high market shares in its main markets

Lastly, I would like to point out that in the last three years Banco Santander's strategy of expansion and acquisitions has gone hand-in-hand with a policy of selling businesses and assets. Overall, the amount invested is roughly equal to that received from the sales (around EUR 14,000 million), with an almost neutral impact on the Group's capital.

RETAIL BANKING: FOCUSED ON CUSTOMERS

These years of financial crisis have highlighted the fact that financial institutions with business more centred on retail banking have shown greater recurrence and less volatility in their results. Santander's retail banking businesses generate 76% of the Group's profits.

Banco Santander's retail banking businesses generate 76% of the Group's profits

Grupo Santander serves almost 100 million customers through its 14,082 branches, the largest network of any international bank. This is complemented by a wide range of multi-channel banking. The quality of customer service, innovation in products and services and the confidence and security transmitted by the Bank help to capture, link and retain a growing customer base.

Our customer banking model also has cutting-edge technology, which transforms cost savings into higher value for customers and shareholders, while the Santander brand, the third most valued financial brand in the world, today has unprecedented levels of recognition and renown.

CORPORATE GOVERNANCE AND SUSTAINABILITY

The business model is also supported by:

- Solid corporate governance, which guarantees an appropriate risk profile and a long-term business strategy aligned with shareholders' interests. Mr Ángel Jado Becerro de Bengoa joined the board in 2010. His long experience will contribute value to the board's decisions, and
- A corporate social responsibility policy focused on supporting universities. We announced last May at the Second International Meeting of Universia Rectors in Guadalajara, Mexico, that we will invest EUR 600 million over the next five years in higher education. Santander Universities has agreements with 938 universities throughout the world, awards 13,000 scholarships and integrates more than 1,200 universities in the Universia portal.

THE SANTANDER SHARE

The performance of the Santander share in 2010 did not truly reflect the Bank's results or growth prospects. The share ended the year at EUR 7.93, down from EUR 11.55 in 2009 (-31%). The concerns about the international financial sector, regulatory uncertainty and, above all, the performance of Spain's sovereign risk dented the share price in 2010, although I am sure that when the economic and financial environment clears up the share will rise and reflect Grupo Santander's real value.

Nevertheless, Santander still has one of the highest total shareholder return among its European bank competitors in the medium- and long-term. The dividend yield in 2010 was 6.36%.

Santander remains one of the banks with the highest total shareholder return among its European competitors in the medium- and long-term

Banco Santander is well placed to continue to create shareholder value. Today, we are a more solvent bank, with a greater degree of leadership in our main markets and with a stronger growth potential than at the start of the crisis. Furthermore, we have the best and most committed management team, led by the best CEO in banking.

Lastly, I would like to thank you again for your support during these years and for the confidence you have placed in Banco Santander. You can rest assured that all of us who work for Grupo Santander will strive to make this Bank the best investment for all shareholders.

Emilio Botín
CHAIRMAN

"Santander is in an excellent position: we are a well diversified banking group, with one of the soundest balance sheets in international banking, a presence in growing markets and a banking model that proves its success year after year"

Photo: Mr Alfredo Sáenz speaks to the convention of Grupo Santander executives at the Bank's headquarters in Boadilla del Monte, Spain, in February 2011

Dear shareholders,

RESULTS AND SANTANDER SHARE

Grupo Santander posted attributable profit of EUR 8,181 million in 2010, 8.5% less than in 2009. Once more, we gave priority to strengthening our balance sheet over short-term results by applying the Bank of Spain's 3/2010 Circular very strictly. Excluding the impact of this decision, profit would have been EUR 8,653 million (-3.2%).

Earnings per share (EPS) were EUR 0.9418, 9.9% less than in 2009. Eliminating the impact of the circular, the EPS would have been EUR 0.9961 (-4.7%).

Meanwhile, the stronger balance sheet is reflected in the core capital ratio, which increased from 8.6% at the end of 2009 to 8.8% a year later.

The Santander share price fell 31.4% in 2010, mainly due to the concern over the sovereign debt crisis in countries on the periphery of the euro zone and the impact of "risk contagion" on Spain, which is not justified. To the extent that the Spanish economy and the financial system reach a more balanced situation, it is reasonable to assume a normalisation of the financial markets.

I am optimistic about the Spanish economy because the private sector is making progress in its adjustments — raising productivity, achieving cost savings and higher exports in the face of the fall in domestic demand — the public sector is correcting its imbalances and, lastly, the financial sector, especially savings banks, is starting to recognize its losses, to recapitalize and to restructure its cost base.

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RESULTS BY UNITS

To analyse Grupo Santander's positioning and results, we can divide our markets into three groups: mature markets where a clear recovery is still pending (Spain and Portugal); mature markets where the upturn is solid (the UK, the US and Germany) and emerging markets which are growing strongly (Brazil, Mexico, Chile, Argentina, Uruguay, Colombia and Poland).

This business portfolio shows very tangibly the advantages of a diversified group: our businesses have different cycles, and this injects stability into the Group's results.

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MATURE MARKETS STILL RECOVERING

Our income statement was hard hit in 2010 by the pressure on results from our retail banking activity in Spain and Portugal: the combined contribution of the Santander Branch Network, Banesto and our business in Portugal was down by EUR 1,200 million from 2009. This was mainly due to the lack of growth in lending because of low solvent demand, higher provisions because of the economic downturn and the pressure of spreads on deposits as a result of the low interest-rate environment and liquidity tensions.

Unlike in other markets, the Spanish and Portuguese financial systems have still not adjusted sufficiently to the new environment, producing a significant deterioration in the system's structural profitability.

We are currently at a turning point:

- First, the Spanish financial system is going through a profound restructuring process, focused, in particular, on savings banks. As a result of the integration of this sector, we expect to see a significant reduction in the number of branches, as well as greater rationality in prices. In this context, our objective in Spain is to gain profitable market share and maintain a low risk profile.
- Second, we are seeing some upward movement in euro zone interest rates. This will have a positive impact on our spreads.
- Third, there is a gradual rise in credit pricing in Spain, which will help normalize our spreads and those of the financial system. In the last two years, loans have been made at prices which were not consistent with the cost of liquidity. Clearly, this situation was not sustainable and we are seeing the beginning of the adjustment.
- Fourth, the credit quality of our portfolio in Spain and Portugal is stabilizing.

Combining these factors, we can expect a "return to the average" profitability of our businesses in Spain and Portugal over the next two or three years, probably beginning in the second half of 2011. Our medium-term objective is to recover the profit *temporarily* lost in 2010, and we are working on this.

MATURE MARKETS WITH SOLID RECOVERY

Our operations in the UK, the US and Santander Consumer Finance (which generated 54% of its attributable profit in Germany) are once again achieving good results, despite doing business in markets with moderate growth.

- In the UK, attributable profit rose 10.7%, in local currency, to £1,701 million. In this market, we continued to concentrate on gaining market share — particularly in segments such as SMEs — managing spreads and continuing to maintain excellent credit quality.

Over the next few years, our objective is to speed up our growth in segments such as companies and SMEs where our presence is lower than our natural market share. The integration of the business acquired from Royal Bank of Scotland will enable us to make a significant leap forward in this aspect.

Santander has been one of the few banks in the UK that has lived through the crisis without problems and we have continued to make loans to the British economy, enabling us to gain profitable market share.

- In the US, Sovereign's restructuring continues to produce good results. In 2010, attributable profit was $561 million, higher than the goal announced at the time of the bank's purchase.

  Sovereign still has a significant potential to improve. During the two previous years, the main drivers of growth were the improvement in the efficiency ratio, management of spreads and enhanced credit quality. The focus now is on strengthening the bank's commercial capabilities, which will be the driver of growth in the next few years. We expect further strong growth in Sovereign's profit in 2011 to the announced target of $750 million.

- Santander Consumer Finance also had a good year. Its attributable profit rose 28.9% to EUR 811 million. This was a new record for this unit, which, after two years of declines because of the crisis, has comfortably surpassed the profit posted in 2007.

  Santander Consumer Finance's objectives for the next few years are to complete the integrations underway (mainly in Germany), gain profitable market share from weaker competitors and continue to manage spreads and loan loss recoveries well.

  We believe that 2011 will be another year of strong growth in this division.

EMERGING MARKETS WITH STRONG GROWTH

Our units in emerging markets continued to generate very good results, reflecting the good economic conditions in the countries where we operate.

- In 2010, we returned to double-digit growth in our Latin American businesses.
- In Brazil, attributable profit of $3,751 million was 10.4% more than in 2009. It would have been 24.4% higher excluding the impact of increased minority interests, following the IPO of Santander Brazil in October 2009.
- Latin America excluding Brazil generated attributable profit of $2,604 million, 12.4% more than in 2009, with strong growth in loans and deposits in the core markets.
- In Mexico, we obtained attributable profit of $902 million, 22.7% more than in the previous year. Chile's attributable profit was $904 million (+5.4%). Both units registered strong growth in business, with double-digit increases in lending and an improvement in the cost of credit.
- Moreover, in 2011 we acquired Bank Zachodni WBK, making us one of the leading banks in the Polish market. Poland, with almost 40 million inhabitants and a significant potential for growth, is a market where we have had a notable presence in consumer finance since 2004. Bank Zachodni WBK is an excellent franchise, the third largest bank by number of branches. Our objective, announced to the market at the time of the purchase, is to achieve a contribution from this business of more than EUR 450 million in 2013.

Our positioning in emerging markets will be a very significant driver of growth for the Group in the next few years. Very few international banks have such a deep and high quality presence in growth markets as we do.

Very few international banks have such a deep and high quality presence in growth markets as we do

THE NEED TO ADAPT TO THE NEW BANKING ENVIRONMENT

As I commented last year, banking business has changed considerably in the last few years. The main changes include:

1. In many markets, including the main ones in Continental Europe, the UK and the US, we are operating in an environment of deleveraging and low growth in lending.
2. Moreover, a new regulatory environment is being designed. One of the main implications of this change is the need to operate with much higher capital ratios, and with a stricter calculation of risk assets. As a result of these changes, a same business could be subject to more than double the capital requirement in less than five years.

   To this must be added the pressure on profitability from the new rules on liquidity and other effects, such as the new taxes on banks in some countries.

   These new capital and liquidity rules also have a negative impact on western economies, in terms of access to and pricing of credit.

We are witnessing profound changes in the banking business. It is vital to adapt to the new environment. We have to:

- Review the real profitability of all our businesses. It makes sense, in those businesses that do not justify the capital they consume, to reduce the allocation of capital or seek different approaches.
- Adapt pricing policies, particularly for loans.
- Adjust the structure of costs to the revenue-generating prospects of each business. In many segments, the international banking sector continues to maintain cost structures designed in the pre-crisis environment. Banks that do not generate revenues to justify these costs must adjust them to the current scenario.

In short, the new environment could be very negative for those institutions that continue to operate through inertia, and are not capable of understanding the changes and adapting. We are very well positioned, and this makes me optimistic about our future prospects.

We are witnessing profound changes in the banking business. It is vital to adapt to the new environment

CONCLUSIONS

My message for the coming years is very optimistic. Santander is in an excellent position: we are a well diversified banking group, with one of the soundest balance sheets in international banking, a presence in growth markets and a banking model that proves its success year after year.

In our business in Spain and Portugal, we are at a very low phase of the cycle in generating profits. However, I am optimistic about our prospects in these markets. We also have in both cases excellent opportunities to gain profitable market share, taking advantage of the relative weakness of many competitors.

Moreover, one of our main hallmarks as a bank is our flexibility and the speed with which we take decisions. This is very valuable in the current environment, where it is essential to adapt to the sector's new conditions.

We also have one of the best teams of professionals in the international banking sector.

We have big opportunities ahead, and are working to ensure we take advantage of them. So far, these good prospects are not reflected in the price of the Santander share.

Along these lines, I would like to point out that in a sum-of-its-parts calculation, the valuations of Grupo Santander today assign a value of close to zero to the Spanish businesses. As the adjustment capacity of the Spanish private sector, public accounts and the financial system becomes clear for the market, I have no doubt that the share price will start to reflect our Group's good prospects.

We have great opportunities ahead, and are working to ensure we take advantage of them

Alfredo Sáenz
CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE

Banco Santander has solid and transparent corporate governance and aligned with shareholders' interests

BANCO SANTANDER'S CORPORATE GOVERNANCE MODEL

A balanced and committed board of directors.

- Of the 20 directors, 14 are non-executive and 6 executive.

Equality of shareholders' rights.

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

Maximum transparency, particularly in remuneration.

A corporate governance model recognised by external institutions.

- 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 annual meeting of shareholders. It is responsible, among other things, for the Bank's strategy. Its functioning and activities are regulated by the Bank's internal rules and it is guided by principles of transparency, efficiency and defence of shareholders' interests. The board is closely involved in the Bank's activity and makes an exhaustive analysis of the most relevant issues and risks.

Banco Santander's board is balanced between executive and non-executive directors. All members are recognised for their professional capacity, integrity and independence.

After the appointment of Mr Ángel Jado Becerro de Bengoa, approved by the annual meeting of shareholders on June 11, 2010, the board has 20 members, six of whom are executive directors and 14 non-executive (10 of them independent).

The board ensures compliance with the best international practices, based on the principle of full equality of shareholders' rights and maximum transparency.

Grupo Santander City, Boadilla del Monte, Madrid, Spain

REMUNERATION POLICY

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

1. Transparency, as the fundamental principle that the board has fostered for years.
2. Anticipation and adapting to regulatory changes, given the importance that Santander has always attached to rigorous management of risk and a remuneration policy consistent with it.
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.

The board submitted for the first time in 2010 the report on the remuneration policy for directors to a consultative vote at the ordinary general meeting of shareholders where it received the favourable vote of 95% of shareholders who were present and represented.

This measure joined others adopted by the board over the last decade in order to implement the best international practices in remuneration matters. In 2002, the Bank pioneered the publication of the individual remuneration of executive and non-executive directors and broken down by items, and in 2005 it was the first to present at a general meeting of shareholders a report by the appointments and remuneration committee. Since 2007, this report has included the remuneration policy for directors of the previous and current year. In 2008, the disclosure of directors' remuneration became a statutory obligation.

REMUNERATION OF DIRECTORS IN 2010

In 2010, for the second year in a row, the board agreed to keep unchanged the annual remuneration of its members for exercising the functions of supervision and collegiate decision-making. There has been no change in it since 2008.

As regards executive directors, the board decided to maintain with only one exception the fixed remuneration for 2011 and increase by 10% the variable remuneration for 2010.

THE BOARD OF DIRECTORS IN 2010

- For the fifth year running, a meeting was dedicated solely to the Group's strategy.
- The second vice-chairman and chief executive officer presented to the board eight management reports and the third vice-chairman, who heads the risks division, presented seven reports on risks.
- The board analysed the businesses in Latin America, particularly Brazil, and those in the UK, the Santander Branch Network in Spain and Banesto and the Group's Asia Plan, as well as the liquidity of European banks and of Santander and the new rules on capital (Basel III).
- Ana Patricia Botín-Sanz de Sautuola y O'Shea was proposed to the board of Santander UK as chief executive officer of Santander UK. Antonio Basagoiti García-Tuñón was proposed to the board of Banesto as non-executive chairman of Banesto.

BOARD OF DIRECTORS

Director
Lord Terence Burns

Director
Mr Ángel Jado
Becerro de Bengoa

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

Director
Mr Antonio Basagoiti
García-Tuñón

Director
Mr Antonio Escámez Torres

Director
Mr Guillermo de
la Dehesa Romero

Director
Mr Luis Ángel
Rojo Duque

Director
Mr Abel Matutes Juan

Director
Mr Rodrigo Echenique
Gordillo

Fourth vice-chairman
Mr Manuel Soto Serrano

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

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

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

Director
Ms Isabel Tocino Biscarolasaga

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

Director
Mr Luis Alberto Salazar-Simpson Bos
▲ △

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

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

Third vice-chairman
Mr Matías Rodríguez Inciarte
● ■

Director
Mr Francisco Luzón López
● ■

Director
Mr Juan Rodríguez Inciarte
■

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

THE SHARE

Banco Santander paid a total of EUR 4,999 million in dividends in 2010 to its more than 3.2 million shareholders

1st

Santander is the euro zone's largest bank by market capitalisation

0.60

euros of remuneration per share

85%

of the capital opted to receive the second and third interim dividends charged to 2010's earnings in the form of shares

3,202,324

shareholders

SHAREHOLDER REMUNERATION

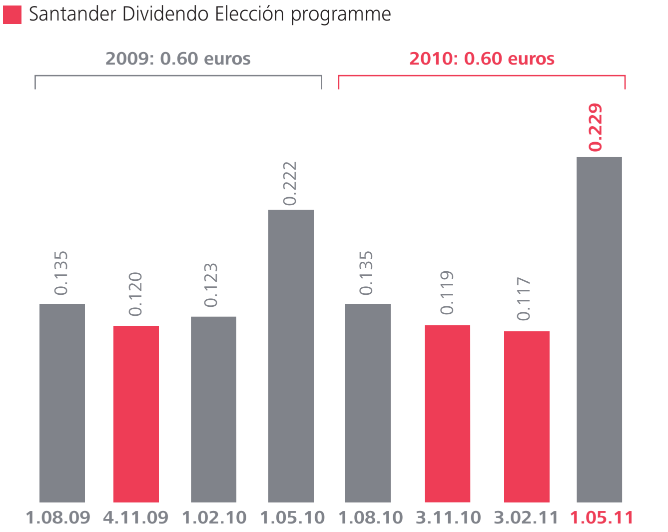
Banco Santander assigned EUR 4,999 million to dividends in 2010, 1.6% more than in 2009. The high degree of recurrence of profits and the soundness of Santander's capital enabled the Bank to pay out more than EUR 14,700 million in the last three years, making Santander the international bank that most remunerated its shareholders during this period.

As part of this remuneration, and due to its success in 2009, Santander maintained and increased the Santander Dividendo Elección programme. This scrip dividend offers Banco Santander's shareholders the possibility of opting to receive an amount equivalent to that of the second and third interim dividends in the form of cash or new Santander shares. More than 85% of the Bank's capital chose to receive shares, up from 81% in 2009.

The board approved in January 2011 a fourth interim dividend of EUR 0.229 per share to be paid in May which, added to the dividends paid in August and the scrip dividend, paid in November 2010 and February 2011, brought the total remuneration per share in 2010 to EUR 0.60, the same as in 2009.

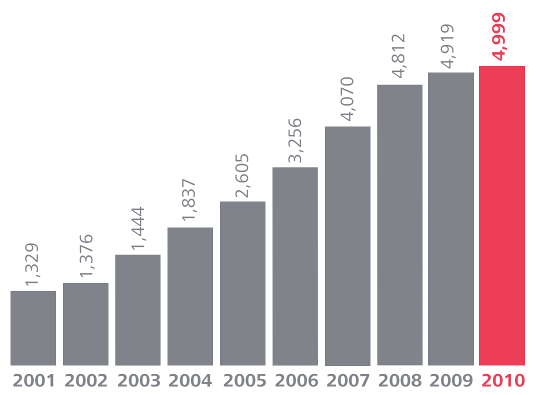
REMUNERATION PER SHARE

Euros



TOTAL DIVIDEND PAYOUT

Million euros



General meeting of shareholders, June 11,2010, Santander, Cantabria, Spain

PERFORMANCE OF THE SANTANDER SHARE

Stock markets were very volatile during 2010 because of doubts on consolidation of the economic recovery. The share ended 2010 at EUR 7.928, 31.4% lower than a year earlier. This performance did not reflect the results and the Bank's solid balance sheet, nor the Group's future prospects. Three factors hit the share:

- The problems of confidence that weighed on the euro zone and in particular on Spain. The Ibex-35 index was the worst performer among international markets.
- The penalisation of financial stocks.
- The uncertainty associated with coming regulatory changes.

Santander continued to be the largest bank in the euro zone by market value, with a capitalisation of EUR 66,033 million at the end of 2010. In terms of total shareholder return, Santander is one of the European banks with the best return in the medium- and long-term.

SHAREHOLDER BASE AND CAPITAL

The number of Banco Santander shareholders increased by 140,000 in 2010 to 3,202,324. At the end of the year, 3.0% of the capital stock was in the hands of the board of directors, 37.8% with individual shareholders and rest with institutional investors. Of the total capital stock, 85.5% is located in Europe, 14.1% in the Americas and 0.4% in the rest of the world

The interests held by Chase Nominees Limited (10.24%), State Street Bank & Trust (9.52%), EC Nominees Limited (6.45%), Bank of New York Mellon (5.05%), Guaranty Nominees Limited (3.73%) and Societé Générale (3.28%), which were the only ones in excess of 3%, were held by them for the account of their clients. The Bank is not aware of any other shareholders holding individual stakes of 3% or more of its capital stock.

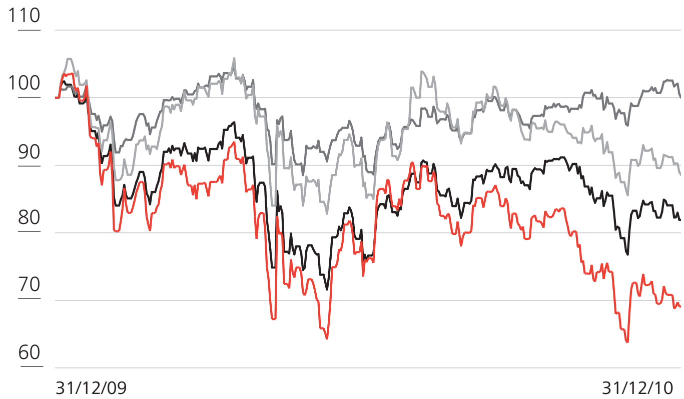
Banco Santander carried out two capital increases in 2010 to tend to the conversion of 33,544 bonds (October) and for the Santander Dividendo Elección programme (November). Overall, 100,295,963 new shares were issued.

Banco Santander continued in 2010 to strengthen its information and attention channels for its shareholders through seven dedicated offices in Spain, the UK, the US, Brazil, Mexico, Portugal and Chile. These offices tended to 247,057 consultations by telephone, 20,704 e-mails and 14,230 shareholders attended 179 forums and events held in various countries.

COMPARATIVE PERFORMANCE OF THE SANTANDER SHARE AND INDICES

Data from December 31 2009 to December 31 2010

— Santander — Dow Jones Stoxx 50
— Dow Jones Stoxx Banks — Ibex 35



Base: 100

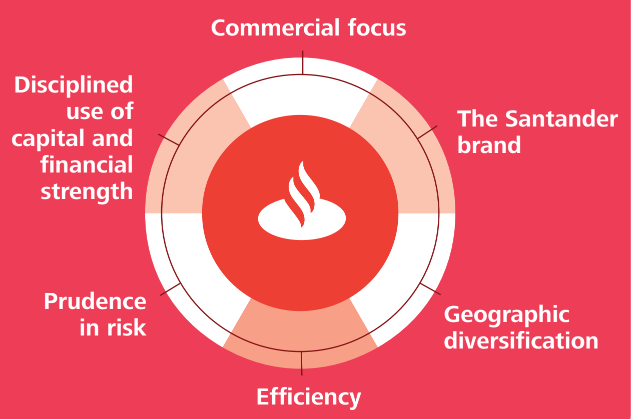
DISTRIBUTION OF THE CAPITAL STOCK BY TYPE OF SHAREHOLDER

Number of shares and %

December 2010	Shares	(%)
Board	253,156,054	3.04
Institutional	4,926,897,662	59.15
Retail	3,149,068,382	37.81
Total	**8,329,122,098**	**100.00**

THE SANTANDER BUSINESS MODEL

Santander's customer-focused model generates a large degree of recurrence in its results



COMMERCIAL FOCUS

The most lasting customer relationships, which create the most value, are generated and maintained in branches. Santander has 14,082 branches, more than any other international bank and mostly distributed in its 10 core markets. The Bank also provides services through other around-the-clock channels, such as online and telephone banking.

In 2010, Santander stepped up its distribution capacity by 422 branches, mainly as a result of plans of branch openings in high growth countries such as Brazil and Mexico.

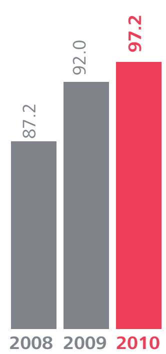
The customer base has grown significantly in the last few years. It doubled between 2004 and 2010. At the end of 2010, Santander had 97.2 million customers, distributed as follows: 31% in Continental Europe, 26% in the UK and 43% in the Americas.

Customer linkage and retention are constant objectives of Banco Santander's commercial policy. In 2010, the initiatives launched in various countries with plans to eliminate service fees are having a very positive impact on retaining customers: in Spain, the "We want to be your Bank" plan notably increased customer loyalty.

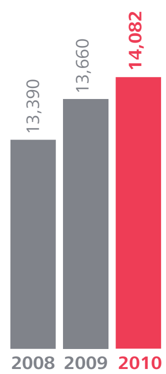
Quality of service is a priority at Banco Santander, which strives for maximum customer satisfaction. As well as various local initiatives, Santander also has corporate strategies to enhance the quality of service in all countries and channels in which it operates. A total of 85.7% of customers said they were satisfied, generating greater linkage and loyalty as well as more revenues.

Banco Santander has a broad range of financial products and services with which to seek to satisfy customers' needs. A hallmark of the Bank, in all its markets, is its anticipation and dynamism when launching new products. For example, in 2010 the "Depósito Ganador" in Spain, the Santander Zero Current Account in the UK and the "Conta Integrada" in Brazil for shops and companies.

CUSTOMERS
Million



BRANCHES
Number



Santander, a strong and attractive brand positioned among the world's best

Santander is the brand which embodies the Group's identity and expresses a corporate culture, an international positioning and a strong identity throughout the world. It represents the essence, personality and values that make Santander unique: dynamism, strength, innovation, leadership, commercial drive, quality of service and professional ethics and sustainability.

Integral and consistent management of the Santander brand has enabled it to be known throughout the world. Today it is present in all the brand rankings of the main consultancy firms, such as Interbrand, Millward Brown and Brand Finance.

Progress continued in 2010 in consolidating the brand in key markets for the Group. Santander adopted a single brand in the UK after integrating those of Abbey, Bradford & Bingley and Alliance & Leicester. In just five years, Santander has become a leading brand in UK banking, where it is known by more than 90% of the population. In November, Santander also had a single brand in Brazil following the integration of Santander and Banco Real.

As regards the challenges for 2011, in Poland the integration and change of brand of the business acquired from AIG will be completed and become Santander Consumer Finance.

In Germany, the branches acquired from the Swedish bank SEB will assume the Santander brand. The Bank will also launch various initiatives and corporate and brand marketing strategies to strengthen and foster customer satisfaction. The aim is to make the Santander brand increasingly associated with the Bank's excellent quality of service.

CORPORATE SPONSORSHIPS

Corporate sponsorships continue to be the best platform for enhancing the renown of the brand and consolidating the Bank's positioning at the international level. The five-year alliance with the Formula 1 Ferrari team has been a complete success. The return on the advertising in the first year covered the investment for 2010-2013. This sponsorship has proved to be an excellent tool for business: the success of the launch of the Santander-Ferrari card in Spain, Brazil, Mexico and Portugal is the best proof of this.

In the UK, Santander continued to sponsor the drivers of the McLaren Formula 1 team and in Latin America, for the fourth year running, the Bank will sponsor in 2011 the Santander Libertadores Cup. Furthermore, in order to increase the link with Latin America Santander will be the official bank of the Copa América Argentina 2011, one of the world's main football championships.

United Kingdom:
January and November 2010

REBRANDING OF ABBEY AND BRADFORD & BINGLEY

REBRANDING OF ALLIANCE & LEICESTER

Brazil:
November 2010

UNIFICATION OF THE BANCO REAL AND SANTANDER BRAZIL BRAND

GEOGRAPHIC DIVERSIFICATION

Banco Santander's geographic position is balanced between mature and emerging markets, which contributed 57% and 43% of profits in 2010, respectively. This enables the Bank to maximise revenues and profits throughout the economic cycle.

The Bank concentrates on 10 core markets: Spain, Portugal, Germany, the UK, Brazil, Mexico, Chile, Argentina, the US and, most recently, Poland.

The Bank also has global business areas which develop activities in other countries as well as in the main markets.

Main countries.

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

US-SOVEREIGN

Customers (million)	1.7
Branches	721
Employees	8,647
Market share[8]	3%

MEXICO

Customers (million)	9.1
Branches	1,100
Employees	12,500
Market share[1]	15%
Ranking[1]	3rd

BRAZIL

Customers (million)	24.7
Branches	3,702
Employees	53,900
Market share[1]	9%
Ranking[1][2]	3rd

CHILE

Customers (million)	3.1
Branches	504
Employees	11,595
Market share[1]	19%
Ranking[1]	2nd

ARGENTINA

Customers (million)	2.3
Branches	324
Employees	6,466
Market share[1]	10%
Ranking[1][2]	1st

UNITED KINGDOM

Customers (million)	25.6
Branches	1,416
Employees	23,649
Market share(1)	11%
Ranking(3)	2nd

GERMANY(9)

Customers (million)	6.2
Branches	142
Employees	3,483
Market share(4)	13%
Ranking(5)	1st

POLAND(10)

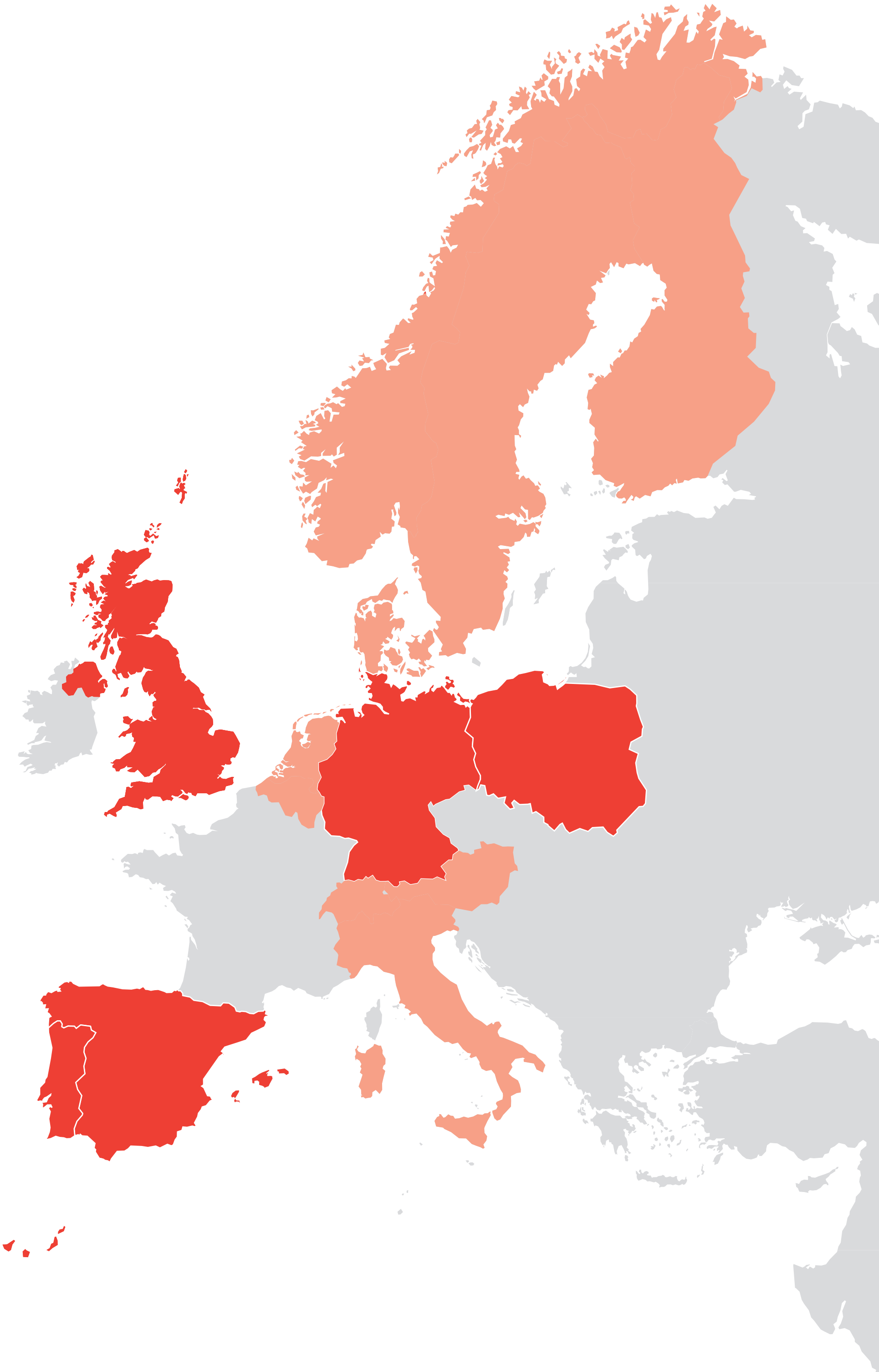
Customers (million)	1.8
Branches	213
Employees	2,751
Market share(6)	10%
Ranking(7)	2nd

SPAIN

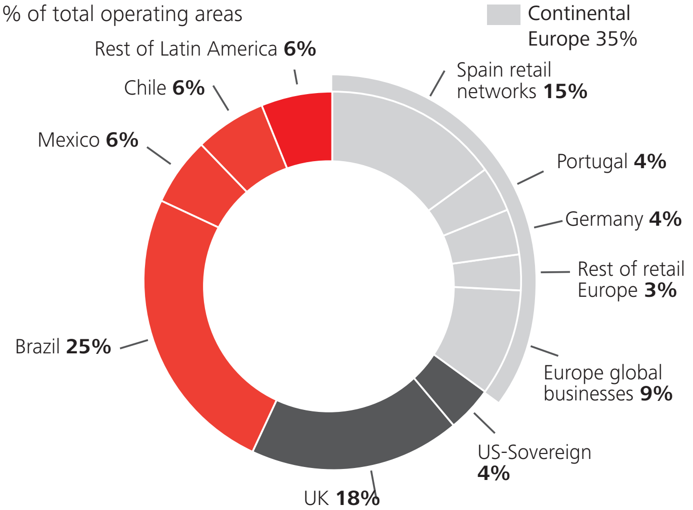
Customers (million)	14.4
Branches	4,848
Employees	33,694
Market share(1)	15%
Ranking(1)	1st

PORTUGAL

Customers (million)	1.9
Branches	759
Employees	6,214
Market share(1)	10%
Ranking(1)(2)	3rd



ATTRIBUTABLE PROFIT BY GEOGRAPHIC AREAS
% of total operating areas



(1) Loans, deposits and mutual funds.
(2) Excluding state banks.
(3) Loans and retail deposits.
(4) Consumer credits.
(5) Among independent finance companies.
(6) In new car sales of individuals.
(7) In institutions specialised in consumer financing.
(8) In its zone of influence.
(9) In January 2011, 173 more retail banking branches in Germany were incorporated into the Group.
(10) On March 25 Santander's takeover of Bank Zachodni WBK was completed. This will add 527 retail banking branches in Poland.

EFFICIENCY

With an efficiency ratio of 43.3%, Santander is one of the most efficient international banks

Santander has a cutting-edge technological and operational platform in international banking, which enables it to achieve high productivity and know in detail the overall financial needs of its customers. The Bank strives to centre all its resources on customer service, improving processes and optimising the functioning of the support areas.

Santander continues to progress in the technological and operational integration of all its units, which is creating value via synergies and cost savings. In 2010, all the Bank's businesses in the UK were successfully integrated and now operate under the same brand and IT systems. As for Brazil, the technological integration of the commercial networks has already been completed. The experience that the Bank has accumulated in the last few years enables it to execute these integration processes quickly and efficiently.

This strategy, combined with the recurrent growth in the Bank's revenues, strict control of costs and very productive branches, makes Santander one of the most efficient international banks, with an efficiency ratio of 43.3%.

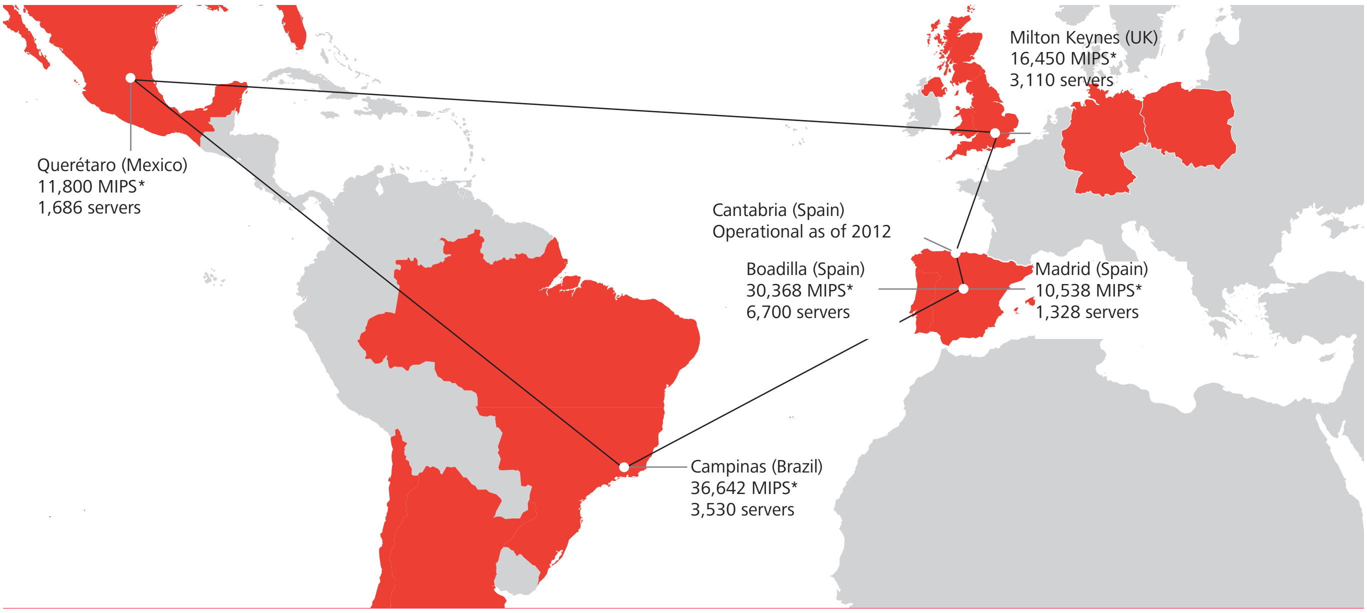
The continuous improvements in efficiency have produced higher value-added for customers, as shown by the decisions taken in some of the main markets where the Bank has eliminated customer fees. In Spain, the "We want to be your Bank" plan is now five years old and more than 4 million linked customers benefit from zero commissions and other advantages. In the UK, the Santander Zero Current Account was launched, which eliminates commissions for certain services and on overdrafts and gives free access to Santander ATMs throughout the world to, among others, customers who have a mortgage, an investment product or their main current account with Santander UK.

DATA PROCESSING CENTRES

Banco Santander's technology drive led in 2010 to the construction of a new data-processing centre in Cantabria, Spain, which will be fully working at the beginning of 2012. This centre joins those that the Bank already has in Madrid, London, Querétaro (Mexico), and Campinas in the state of São Paulo, Brazil. These centres have all the infrastructure needed to provide services to customers and manage the three trillion transactions processed every year.

The new data-processing centre in Cantabria will reduce operational risk to a minimum and will increase by 30% the space for storing data and the Group's processing servers. As well as the technological advances incorporated, the design and construction take into account the most demanding and innovative standards in energy efficiency and sustainability.

GRUPO SANTANDER'S DATA-PROCESSING CENTRES



* MIPS: millions of instructions per second

PRUDENCE IN RISK

Banco Santander has better credit quality than its competitors in the regions where it operates

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

Everyone is involved in risk management, from the daily transactions in branches, where many business managers also have risk objectives, to senior management, the executive committee and the board, whose risk committee comprises five directors and meets for 297 hours a year.

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

Grupo Santander's coverage in 2010 was 73% and the NPL ratio 3.55%. In Spain, the NPL ratio was 4.24% compared to an average for the sector of 5.83%, while some of the Group's units, such as Santander Consumer Finance, Brazil and Sovereign reduced their ratios during the year.

Credit exposure to the construction and real estate sectors in Spain represented 3.7% of the Group's total loans and 12% of total credit in Spain. Santander's estimated market share of this business is approximately10%, substantially lower than that of the Group's total businesses in Spain (15%). All these risks are appropiately provisioned (coverage of 28%).

SANTANDER HAS A LOW AND PREDICTABLE RISK PROFILE

Retail banking accounts for 86% of Banco Santander's risk. As it is very close to its customers, Santander knows their risks well and this enables it to act rigorously and with anticipation when admitting, monitoring and recovering loans. Santander's risk profiles are highly diversified and their concentration in customers, business groups, sectors, products and countries is subject to limits.

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

The policy for provisions was very strict in 2010 for bad, doubtful and substandard loans, with very rigorous criteria for their classification.

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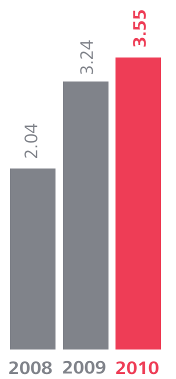
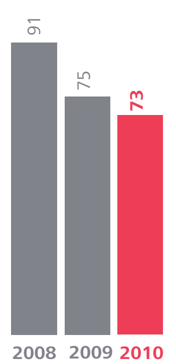
Banco Santander's risk management principles are set out in greater detail on pages 154-158 of the annual report.

NON-PERFORMING LOAN RATIO
%



COVERAGE RATIO
%



DISCIPLINED USE OF CAPITAL AND FINANCIAL STRENGTH

In an uncertain banking environment, Banco Santander significantly strengthened its balance sheet

CAPITAL

The core capital ratio, the main indicator of a bank's solvency, increased to 8.8% in 2010. This increase is the result of organic generation of capital as well as the Santander Dividendo Elección programme (scrip dividend), which 85% of the Bank's capital opted to accept.

During the last few years of financial crisis, Santander raised its core capital by more than 2.5 p.p., without the need of state aid. This was largely achieved by generating organic capital, the Santander Dividendo Elección programme (scrip dividend), the listing of Banco Santander Brazil and the capital increase with preferential subscription rights in 2008.

Santander's core capital ratio is of very high quality, mainly consisting of capital and reserves.

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

LIQUIDITY

Santander finances most of its loans with customer deposits, has wide access to wholesale financing and draws upon a diverse range of instruments and markets to obtain liquidity.

Banco Santander also continued in 2010 to bolster its liquidity, capturing EUR 109,000 million in deposits and EUR 38,000 million in medium- and long-term financing. This means Santander has no need to issue debt in Spain in 2011 and 2012.

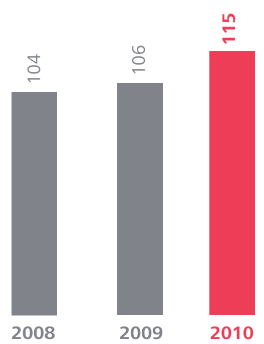
Banco Santander's geographic diversification has also benefited its liquidity. Strong deleveraging and the capturing of deposits, mainly in mature markets, have had a positive impact on liquidity ratios, while growth in lending by the Group's banks in emerging markets was financed by increased deposits.

***

The main rating agencies affirmed their high ratings for Santander in 2010 (AA). Santander is one of only four international banks with an AA rating from the three main agencies.

CORE CAPITAL
%

DEPOSITS + MEDIUM- AND LONG-TERM FINANCING/LOANS
%



BANCO SANTANDER AND THE NEW FINANCIAL REGULATIONS

Banco Santander's subsidiary structure, financial soundness and prudence: The best formula for tackling the new economic scenario and international regulations

The global economy requires an agile, solvent and well supervised financial system to guarantee stability and economic growth. Santander has a proactive and constructive position in the design of the new regulatory and international supervisory environment, which will be the framework of activity for banks in the coming years.

Banco Santander participated during 2010 in the highest level international forums, where it set out its position on the key issues of financial reform. Banco Santander attaches particular importance to close and rigorous supervision; no regulation can take the place of good supervision.

The international regulatory debate is currently centred around three main issues:

- Implementing the capital and liquidity reforms known as Basel III.
- Specific regulation of institutions considered systemic.
- Frameworks for resolving and managing a crisis.

BASEL III

The new Basel III regulations are a very important step for strengthening the international financial system via more demanding and higher quality capital ratios. As regards the new liquidity requirements, it is very important that the final definition reflects the differences associated with the various banking business models and avoids collaterally penalising the flow of loans to the real economy.

THE SUBSIDIARY MODEL

The focus of Santander's business model is retail banking with a low and predictable risk profile and without any complex interconnections. These factors clearly mitigate systemic risk. Furthermore, Banco Santander's international expansion has been carried out through a structure of legally independent subsidiaries. A fundamental element of this model is the principle of financial autonomy of local subsidiaries:

- Capital: Local units have the capital needed to autonomously carry out their activity and tend to the regulatory requirements, without recourse to the parent bank.
- Liquidity: Each subsidiary develops its financial plans, liquidity projections and financing needs without counting on funds and guarantees from the parent bank. The ALCO committees coordinate the liquidity position at Group level.

This autonomy is compatible with strong corporate policies that ensure the Group's co-ordination in spheres such as technology and risks.

The structure of financially autonomous subsidiaries reduces the possibilities of systemic risk contagion among the Group's units. This structure is also submitted to a two-pronged supervision, by the home supervisor and the local one, and has very positive implications with regard to resolving and managing a crisis.

Banco Santander, in line with the requirements of the Financial Stability Board in crisis resolution and management matters, was the first international bank to send its living will to its supervisor. This plan highlights the strength of Banco Santander's business model and the advantages for the Group of the structure of its subsidiaries.

III International banking conference, September 15th 2010, Grupo Santander City, Boadilla del Monte, Madrid, Spain.

SANTANDER'S BUSINESSES IN 2010

Santander branch in São Paulo, Brazil

GRUPO SANTANDER RESULTS

Santander's net attributable profit in 2010 was EUR 8,181 million.

The recurrence of profits, which for the fourth year in a row were more than EUR 8,000 million, is based on a business model that focuses on retail banking, geographic diversification and the strength of Santander's balance sheet. These results enabled the Bank, for the second year running, to provide total shareholder remuneration of EUR 0.60 per share.

The Group's results are increasingly more geographically diversified: Continental Europe contributes 35% of profits (the commercial networks in Spain 15%), Latin America 43% (Brazil 25%), the UK 18% and Sovereign in the US 4%.

The Group kept up intense activity in 2010. Deposits grew 22% and loans 6%. Gross income increased 6.8%, spurred by the most commercial revenues such as net interest income, fee income and insurance, as well as the contribution of the new units. Costs remained under firm control in almost all countries in which the Group operates. This, coupled with revenues, pushed up net operating income by 3.9%.
The efficiency ratio of 43.3% was one of the best among international banks.

Profit was 8.5% lower than in 2009 because of the Bank's decision to apply very prudently and conservatively the Bank of Spain's new regulations on provisions, which absorbed EUR 472 million of the third quarter's net profit.

The credit quality of the Group's main units improved in 2010, with falls in net entries of bad loans and in the risk premium. The NPL ratio rose from 3.24% in 2009 to 3.55%, a slower pace of growth than in 2009 and 2008. The ratio was lower in Brazil, Sovereign and Santander Consumer Finance. NPL coverage was 73% and the Group's generic provisions amounted to EUR 5,846 million.

Santander has a comfortable liquidity position. In 2010 it increased its deposits by EUR 109,000 million, captured EUR 38,000 million in debt issues and improved the main liquidity ratios.

Core capital, the main measure of a bank's solvency, was 8.8% and is expected to surpass 9% in 2011.

CORPORATE TRANSACTIONS

Banco Santander strengthens its presence in its core markets

GERMANY

SEB branches

Santander has been operating in Germany for more than 20 years through a consumer finance business that is a leader in this segment of the market and which contributed 4% of the Group's profits in 2010.

In July, Santander reached an agreement with the Swedish financial group Skandinaviska Enskilda Banken (SEB Group) to acquire its retail banking business in Germany for EUR 555 million. This operation was completed on January 31, 2011, with the integration of SEB's branches into Santander Consumer Bank in Germany.

This acquisition will add 173 branches to the Group, offering services to one million customers including 10,000 SMEs. It also boosts Santander's balance sheet in Germany with EUR 8,500 million of loans and EUR 4,600 million of deposits. As a result of this operation, Santander will double its number of branches in Germany, have 7 million customers and EUR 30,000 million in customer loans. The new branches will operate under the Santander brand in the first half of 2011.

This acquisition is also strategically very important for the Group, as it is a natural step toward developing retail banking beyond consumer finance in Germany, the euro zone's largest economy and the European country with the largest volume of deposits.

173 branches

1 million customers

Investment: EUR 555 million

UNITED KINGDOM

Royal Bank of Scotland branches

The UK, which contributed 18% of the Group's attributable profit in 2010, is one of Santander's core markets. Santander entered retail banking in the UK in 2004 when it acquired Abbey. In just six years, it has become one of the leading banks in the country in terms of deposits, efficiency and profitability.

In August 2010, Santander UK reached an agreement to acquire the part of the business that the Royal Bank of Scotland conducted via its branches in England and Wales, and of the NatWest network in Scotland. The price was £1,650 million.

The acquisition includes 311 RBS branches in England and Wales, seven of NatWest in Scotland, 40 SME banking centres, four company banking centres and three private banking centres. The operation affects 1.8 million individual customers, 244,000 SMEs and 1,200 company banking clients.

318 branches

1.8 million individual customers

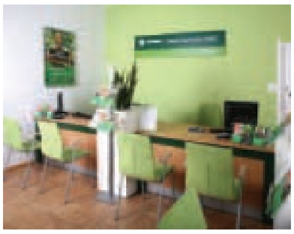
Investment: £ 1,650 million

POLAND

Bank Zachodni WBK

Poland is one of east Europe's most attractive markets due to the size of its economy and its good medium- and long-term prospects. It is a country that Banco Santander knows well through its experience there since 2004 via Santander Consumer Bank.

Banco Santander agreed in September to buy Allied Irish Bank's 70.36% stake in Poland's Bank Zachodni WBK, a transaction carried out through a takeover bid for all of the capital. In March 2011 Banco Santander announced completion of the acquisition, after securing tender acceptances representing



95.67% of the bank's capital. The total amount of the operation, including the 50% stake that Allied Irish Bank had in BZ WBK Asset Management (EUR 150 million in cash), was EUR 4,139 million.

Bank Zachodni, headquartered in Wroclaw, is Poland's third largest bank by profits (EUR 244 million in 2010) and branches (527 throughout the country). It has EUR 10,500 million of deposits and EUR 8,700 million of loans (market shares of 6.4% and 4.7%, respectively). It is Poland's second best bank in terms of efficiency and has good liquidity and solvency positions.

This acquisition will make a positive contribution to Santander's earnings per share right from the start.

This operation enables Santander to enter universal banking in Poland with force and deepen its geographic diversification in large emerging markets with high growth potential.

527 branches
2.4 million customers
Investment: EUR 4,139 million

MEXICO

Acquisition of 25% of Santander Mexico

Santander is Mexico's third largest financial group by business volume, with a market share of 13.5% in loans and 15.1% in savings, 1,100 branches and 9.1 million customers. It has been conducting retail banking in the country for 13 years.

Banco Santander acquired in 2010 the 25% of Santander Mexico that Bank of America held since 2003. Banco Santander now fully owns Santander Mexico, whose contribution to the Group's profits will increase to 7%.

The purchase cost $2,500 million, a price which valued Santander's businesses in Mexico at $10,000 million. This acquisition will have a positive impact on earnings per share of 1.3% as of the first year.

This operation strengthened Santander's commitment to Latin America and in particular to Mexico, a country where the Group has a significant growth potential thanks to the good economic outlook and the solid, efficient and competitive business model of the Mexican franchise.

Santander in Mexico
1,100 branches
9.1 million customers
Additional investment: $2,500 million

CONTINENTAL EUROPE

Santander strengthens its leadership in its core markets of Continental Europe and generates a net attributable profit of EUR 3,885 million

Santander is the leader in retail banking in Spain, via the Santander and Banesto branch networks, and in private banking. Santander Totta is the largest bank in terms of profits in Portugal. Santander is the consumer finance leader in Germany and, since February 2011, also provides retail banking services. Santander also has wholesale businesses, asset management and insurance in Continental Europe.

In 2010, Continental Europe's revenues were dented by the weak economic environment, particularly in Spain and Portugal. Operating costs, meanwhile, remained flat in the main commercial units. The efficiency ratio was 38.6% and net operating income was 5.0% lower than in 2009.

The area's attributable profit was EUR 3,885 million (35% of the Group's total). This was 22.8% lower than in 2009 as it was affected by Santander's decision to apply very conservatively and prudently the Bank of Spain's new regulations on provisions. This meant reducing the profit generated in Spain by EUR 472 million.

Activity in 2010 centred on capturing customer funds as demand for loans was very weak.

For the third year running, Grupo Santander was chosen by the magazine *Euromoney* as the Best Bank in Spain (Santander and Banesto) and in Portugal (where *The Banker* also awarded it their prize).

ATTRIBUTABLE PROFIT
Million euros

– 22.8%

(1) EUR 4,357 million before the impact of Bank of Spain circular 3/2010 (-13.4%)

MANAGED CUSTOMER FUNDS
Billion euros

+9.6%

CONTINENTAL EUROPE	Santander Branch Network	Banesto	Portugal	Santander Consumer Finance	Rest	**Total Continental Europe**
Customers (million)	9.3	2.5	1.9	15.6	0.4	**29.7**
Branches (number)	2,931	1,762	759	519	92	**6,063**
Employees (number)	18,893	9,742	6,214	13,852	5,817	**54,518**
Customer loans*	111,372	75,624	30,102	63,342	43,221	**323,660**
Managed customer funds*	112,531	98,325	33,927	38,118	68,936	**351,836**
Net operating income*	2,769	1,376	650	3,361	1,637	**9,794**
Attributable profit*	1,243	419	456	811	957	**3,885**
Efficiency (%)	42.8	42.8	45.4	27.5	43.1	**38.6**

(*) Million euros

Branch of Santander in Calle Alcalá, Madrid. Spain

SPAIN-SANTANDER BRANCH NETWORK

The Santander Branch Network contributed EUR 1,243 million to the Group's results, 38.0% less than in 2009.

The focus of the strategy of the Santander Branch Network in 2010 was on achieving closer, more profitable and lasting relations with customers, through its 2,931 branches.

In an environment of low economic growth, an increase in non-performing loans and low interest rates, the Santander Branch Network concentrated in 2010 on intensifying commercial activity, defending spreads, maintaining flat costs and active risk management. The good results of this management led to gross income of EUR 4,841 million.

The year 2010 was particularly significant for commercial activity. Despite the reduced demand for loans, more than 285,000 lending transactions were executed for a total of more than EUR 35,000 million. Of note were the operations conducted via programmes with state institutions and regional and local governments, and above all the contribution of the Santander Branch Network to the financing programmes of the Official Credit Institute (ICO), where it remained the market leader with a market share of 18% as a result of granting more than 50,000 loans, especially to SMEs and businesses in Spain.

Customer funds grew much more strongly, particularly in the first half of 2010 because of the "Depósito Ganador" and "Cuenta Crecimiento" campaigns. The balance of deposits increased by EUR 13,240 million.

This achieved two objectives: an increase in the customer base and strengthening the Group's balance sheet and liquidity. As a result of this strong contribution to customer funds, Santander's market share rose by more than 100 b.p. to 9.0%.

The strategic plan, "We want to be your Bank" remained in force after five years. It is the main driver behind capturing new customers. The total number of customers in Spain reached 9.3 million, 4.2 million of whom benefit from the plan and are exempt from paying service commissions.

Santander attained these results while keeping costs flat and without reducing its installed capacity. Banco Santander's non-performing loan ratio at the end of 2010 was 4.24%, well below the sector's average of 5.83%.

ATTRIBUTABLE PROFIT
Million euros

– 38.0%

CUSTOMERS
Million

+ 0.4 mill.

(1) EUR 1,536 million before the impact of Bank of Spain circular 3/2010 (-23.4%).

Santander Totta, Lisbon, Portugal

SPAIN - BANESTO

Banesto contributed net attributable profit of EUR 419 million in 2010, 43.2% less than in 2009 and largely due to the effort made in provisions.

Banesto focuses on retail banking services with individual customers, SMEs and companies, and together they generate 82% of the bank's gross income. Its 2.5 million customers are tended to in 1,762 branches and through its multi channel platform. The online bank, ibanesto, has more than 150,000 customers and in 2010 was the leader in capturing funds in direct banking in Spain.

Despite the strong pressures exerted by a difficult economic environment, in 2010 Banesto managed to improve its competitive position and was the sector's reference in efficiency and risk quality. It also notably bolstered its capital and liquidity position and increased the number of customers and their degree of linkage:

- 270,000 new individual customers and 82,000 companies and SMEs were captured.
- Total private sector funds increased 6.5%.
- The efficiency ratio was 42.8%, a notable figure given the complicated economic context.
- The non-performing loan ratio was 4.11%.
- Capital ratios increased through organic growth, with the core capital ratio reaching 8.3%.

The magazine *Global Finance* included Banesto among the world's 50 safest banks for the second year running.

PORTUGAL

Net attributable profit was EUR 456 million, 14.2% lower than in 2009.

Against a background of a sharp slowdown in economic and financial activity, and strong restrictions on Portuguese banks' access to international financing markets, Santander Totta maintained solid capital and efficiency ratios, as well as higher levels of profitability than those of its competitors.

One of the strategic priorities of 2010 was the greater emphasis placed on capturing funds (+45% in deposits). This, coupled with weak demand for loans by individual customers and companies, produced a better financial structure and enabled Santander Totta to maintain a comfortable liquidity position.

In 2010, Santander Totta launched two innovative products in the Portuguese market: the "Soluciones Integradas" campaign, which offers a higher return on deposits and also provides access in special conditions to various credit lines; and the "Gestor de Pagos y Cobros" which aims to deepen the relation with SMEs, the backbone of the Portuguese economy.

The 6.2% decline in gross income was mainly due to the higher cost of financing, the lower demand for loans and stiffer competition to capture funds. Another of the year's priorities was rigorous control of operating costs (-0.6%). Risk continued to be actively and prudently managed as well as the focus on loan loss recoveries. At the end of 2010, the non-performing loan ratio was 2.90% and coverage 60%.

Santander Totta consolidated itself as Portugal's leading bank in terms of financial strength and solvency. The bank has the highest Tier 1 capital ratio in the sector (11.2%) and obtained the best results in the stress test conducted on banks in Portugal, as well as the best rating of a bank in the country.

SANTANDER CONSUMER FINANCE

Santander Consumer Finance is the Group's division specialised in consumer finance. Its business model is based on providing customers with financial solutions via more than 145,000 distributors. Once a relation is started with a customer, Santander Consumer Finance increases customer linkage and loyalty by directly offering them other products such as credit cards and personal loans.

RESULTS IN 2010

Santander Consumer Finance generated a record net attributable profit of EUR 811 million, 28.9% more than in 2009.

Lending rose 11% to EUR 63,342 million, thanks to strong commercial activity and integration of the new credit portfolios in Poland and the US. Deposits increased 16% to EUR 25,950 million.

The efficiency ratio remained at 27.5%, one of the best in its sector, while the non-performing loan ratio reached a turning point and dropped to 4.95%.

Santander Consumer USA's profit was EUR 255 million, spurred by a sharp rise in lending. The Nordic countries and the UK also performed well, with significant growth in profits. Santander Consumer Spain, in a very weak market, recovered its leadership position in auto finance.

GERMANY

Attributable profit was EUR 435 million, 4% of the Group's total. Santander Consumer is the country's consumer finance leader with a market share of 12.8%.

The acquisition of 173 retail banking branches from the Swedish group SEB was completed on January 31, 2011. This doubled the number of Santander's branches in Germany to 315 and added more than one million customers.

OTHER ACQUISITIONS AND INTEGRATIONS

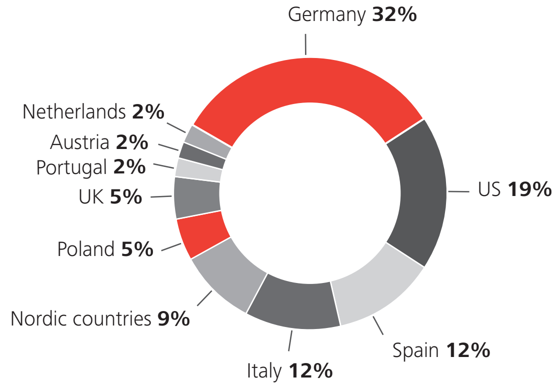
In Poland, approval was given to merge Santander Consumer Bank and AIG Bank Polska. This transaction increased the number of Santander Consumer branches in this country to 213.

Santander Consumer USA acquired consumer finance portfolios from HSBC and Citi amounting to $7,500 million. An agreement was also reached to manage the servicing of $7,200 million of third party funds.

Branch of Santander Consumer Bank in Austria

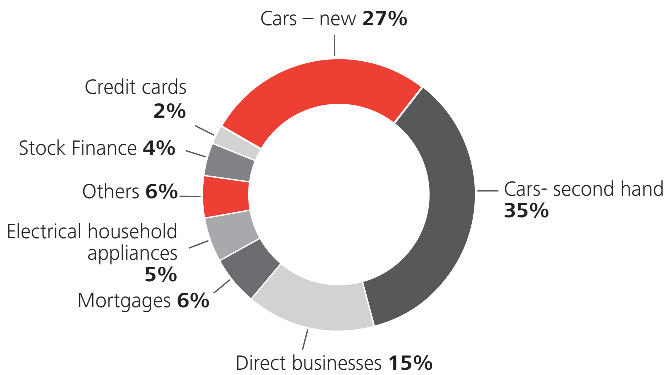
LENDING BY COUNTRIES

%



LENDING BY SEGMENTS

%



UNITED KINGDOM

Santander UK posted net attributable profit of EUR 1,985 million, carried out strong commercial activity and brought all its businesses under the Santander brand

Santander UK has 1,416 branches serving its 25.6 million customers. It is the UK's second largest bank by deposits, number of branches and mortgages. It completed in 2010 the technological integration and rebranding of the former branches of Abbey, Alliance & Leicester and Bradford & Bingley. For the third year running, the magazine *Euromoney* named Santander the best bank in the UK, while The Banker did so for the second time.

Santander UK generated attributable profit of £1,701 million, 10.7% more than in 2009. Its contribution to the Group's total profit increased from 16% to 18%.

The drivers behind the good results were gross income (+3.7%), strict control of costs, savings and synergies from the integration of businesses and a prudent risk policy. The efficiency ratio was below 40% (39.4%), one of the best among British banks (the average is around 50%) and the non-performing loan ratio was 1.76%, only 5 b.p. more than in 2009.

ATTRIBUTABLE PROFIT
Million euros

+ 15.0%*

* In sterling: +10.7%

UNITED KINGDOM	
Customers (million)	25.6
Branches (number)	1,416
Employees (number)	23,649
Customer loans*	233,856
Managed customer funds*	271,386
Net operating income*	3,567
Attributable profit*	1,985
Efficiency (%)	39.4

(*) Million euros

BUSINESS STRENGTH

In an environment of low economic and financial activity, Santander UK was characterised by its business growth.

The stock of mortgages rose 3% to £166,000 million. Santander UK's market share of new mortgage lending in 2010 was 18%, compared to a 14% share for the total stock of its mortgages. Loans to SMEs grew 26%, underscoring Santander UK's drive to support the recovery of the UK economy.

This growth in lending was done prudently: new mortgages had an average loan-to-value of 63%; personal loans were only granted to existing customers with a good history of payment (these loans fell 24%) and credit growth went hand-in-hand with a notable rise in managed customer funds.

Retail deposits rose 7% to £153,500 million. Around one million current accounts were opened in 2010 for the second straight year. Total managed customer funds increased 7% to £233,600 million.

CUSTOMER-FOCUSED

One of the main objectives of Santander UK is to increase customer loyalty by offering high value-added products. One of them is the Santander Zero Account, 194,000 of which were opened, which waives various service fees for costumers with a mortgage. This offer will be extended to customers with savings accounts as of 2011. Other products are the Zero Credit Card and the Loyalty Tracker Bond.

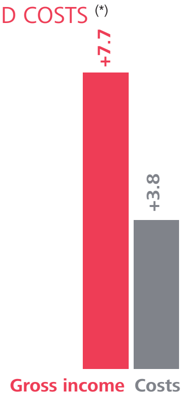
Santander UK announced in 2010 that, in order to raise its service quality levels, it would hire 1,000 people to strengthen customer attention in its branches and would begin to provide again its call centre service from the UK (provided from India before). All of this in the framework of an integral plan to make Santander UK one of the best banks in terms of customer satisfaction.

BUSINESS INTEGRATION AND EXPANSION

Santander UK integrated during 2010 its three commercial networks – Abbey, Alliance & Leicester and Bradford & Bingley – under the Santander brand. The technological integration was completed in record time and will enable Santander's customers in the UK to benefit from access to more than 1,400 branches.

Santander UK continued to increase its distribution capacity with the acquisition of 88 branches from Halifax and an agreement with Royal Bank of Scotland to purchase 311 RBS branches in England and Wales and seven NatWest branches in Scotland.

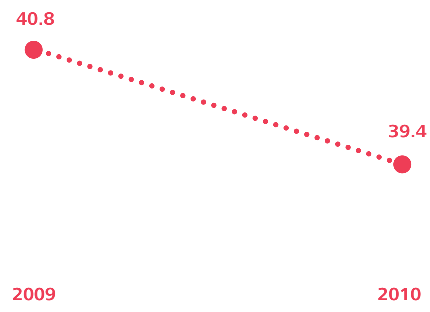
GROSS INCOME AND COSTS (*)
%



(*) Gross income in sterling +3.7% and costs -0.1%

EFFICIENCY RATIO
(with amortisations) %

– 1.4 p.p.



Santander branch in London, UK

LATIN AMERICA

Santander posted net attributable profit of EUR 4,804 million and consolidated itself as the leading financial franchise in Latin America

The Group has leadership positions in the most dynamic and solid economies such as Brazil, Mexico, Chile and Argentina, with an overall market share in the region of 10%. Latin America contributes 43% of the Group's total profits and is one of the main drivers of Santander's growth.

The Latin American economy recovered strongly in 2010 from the global financial crisis and, along with Asia, was one of the engines of global growth. This recovery was not based solely on a pick up in external demand, but also on the strength of domestic demand, job creation and an upturn in lending.

Santander has 5,882 branches and 27,550 ATMs for its 40 million customers. The focus of the Group's commercial strategy in 2010 was to increase transactional business of corporate clients and institutions, raise the linkage of medium and high income segments through the capturing of payroll cheques and a greater emphasis on attracting customer funds.

Santander remained committed to the region's "bankarisation" and development. The pace of lending continued to quicken and reached 15% at the end of 2010, spurred by Brazil, Mexico and Chile. Santander's market share of loans in the countries where it operates is 11.5%.

Under the slogan "Crecer con cliente" the three-year "América 20.13" plan was launched to drive greater growth in revenues through a larger, more linked and more satisfied customer base.

ATTRIBUTABLE PROFIT
Million euros

+25.3%*

(*) Excluding the exchange-rate impact:+10.5%

CUSTOMER LOANS
Billion euros

+30.0%*

(*) Excluding the exchange-rate impact: +14.7%.

LATIN AMERICA	Brazil	Mexico	Chile	Argentina	Uruguay	Colombia	Puerto Rico	Peru	Rest	Total
Customers (million)	24.7	9.1	3.1	2.3	0.2	0.3	0.5	0.1	0.1	**40.3**
Branches (number)	3,702	1,100	504	324	43	76	121	1	11	**5,882**
Employees (number)	53,900	12,500	11,595	6,466	817	1,343	1,820	41	1,044	**89,526**
Customer loans*	71,027	15,156	25,732	3,914	1,013	1,935	4,066	421	4,005	**127,268**
Managed customer funds*	137,931	31,622	30,674	5,478	2,468	2,880	8,790	357	15,888	**236,087**
Net operating income*	9,037	1,458	1,311	454	76	75	186	11	198	**12,805**
Attributable profit*	2,836	682	683	297	67	41	38	7	153	**4,804**
Efficiency (%)	37.0	38.7	36.0	45.1	55.1	59.9	48.7	36.6	54.3	**38.4**

(*) Million euros

Santander Brazil's net attributable profit of EUR 2,836 million represented 25% of the Group's total. The Bank consolidated its position as the country's third largest private sector financial institution, with 3,702 branches and 25 million customers

BRAZIL

Santander Brazil carried out its business in 2010 in a favourable economic environment, as Brazil was one of the economies that best and most quickly overcame the international crisis. In the last few years, Brazil's GDP growth rates have been more than double those of the main developed economies. Growth in 2010 was 7,5%.

Macroeconomic stability enabled the country to combine high growth with a shrinking budget deficit and external debt. The process of "bankarisation" continued, well anchored in the country's economic and financial stability, sustained growth and development of the middle classes.

Santander has invested more than $27,000 million in the last 10 years in Brazil, underscoring its long-term commitment to the country and making it one of the main foreign investors in Brazil.

ACTIVITY AND RESULTS

Lending increased 16%. Credit to individual customers rose 18% and to companies 22%. Such growth is contributing to the country's "bankarisation."

Savings, including mutual funds and deposits, grew 6% in 2010 (demand deposits +16% and mutual funds +12%).

Santander Brazil's market share of loans is 10.8% (11.5% in unrestricted lending) and 8.8% in deposits.

The good performance of revenues and costs kept the efficiency ratio at 37%, while credit quality improved. The non-performing loan ratio declined to 4.91% from 5.27% in 2009.

In local currency, the Group's attributable profit increased 10.4% and in terms of continued operations (i.e. excluding the minority interests of Santander Brazil after its IPO in October 2009) it was 24.4% higher.

Torre Santander where 4,500 Santander employees work in São Paulo, Brazil.

INTEGRATION OF SANTANDER AND BANCO REAL

The Bank dedicated a large part of its efforts in 2010 to integrating Santander and Banco Real by implementing the best operational and commercial practices of the two banks and unifying the brand and the IT platform.

Right from the first moment of integration, the customers of both networks benefited from the best products and services of each bank, such as "SantanderMaster", which provides 10 days of commission-free overdraft and can reduce interest payments for this item by half; the "Santander Van Gogh" spaces in branches with special services for high income customers; the Flex credit cards with five extra days without interest; the "SuperGiro Premium" credit lines to optimise the cash flow of SMEs and the "Cuenta Integrada", also for SMEs with point-of-sale terminal to receive credit card payments.

The brand was unified in the last part of the year, with the incorporation of the logo and Santander's corporate identity to Real's branches and points of customer attention.

At the beginning of 2011, the IT platforms of Santander and Real were already integrated, enabling the Group's 25 million customers to access any of Santander's 3,702 branches.

Santander aims to become the best bank in Brazil for customer satisfaction, shareholder remuneration, the best bank to work for and to have the best corporate reputation in Brazil. The plan also includes commitment to grow organically, with the opening of 600 new branches over the next three years.

Investors from Qatar invested $2,819 million in Banco Santander Brazil in 2010 ($2,719 million by Qatar Holding) through a subscription of a bond issue which will be exchanged for shares in Banco Santander Brazil within three years. This will make Qatar Holding the owner of a 5% stake in Banco Santander Brazil and enables Banco Santander Brazil to advance in its objective of listing 25% of its capital.

ATTRIBUTABLE PROFIT
Million euros

+30.9%*

(*) Excluding the exchange-rate impact: + 10.4%

CUSTOMERS
Million

+2.3 mill.

Santander branch in São Paulo, Brazil

Advertising of the Santander Libertadores Cup

MEXICO

Santander Mexico is the country's third largest financial group, with a market share of 13.5% in loans and 15.1% in bank savings. It has 1,100 branches for its 9.1 million customers. The magazine *Euromoney* named it the best bank in Mexico in 2010.

Attributable profit was $902 million, 6% of the Group's total. In local currency, profit growth was 22.7%. The drivers were active management of spreads on loans and deposits, appropriate management of commissions, control of costs and a focus on loans in default, which reduced the requirement for provisions.

Grupo Santander increased its investment in Mexico by $2,500 million by acquiring Bank of America's 25% stake in Santander Mexico. After this transaction, and taking into consideration the country's good growth prospects, a three-year organic growth plan was launched, based on retail banking, linkage of current customers and attracting new ones.

CHILE

Santander Chile is the leading financial group by total assets and profits, with market shares of 20.9% in loans and 17.6% in bank savings. Attributable profit was $904 million, the efficiency ratio 36.0% and ROE 30.5%.

The strategy in 2010 was to return to business growth, fuelled again by the development of retail banking and contributing to greater "bankarisation." This was accompanied by improved levels of customer linkage and the sale of products, particularly cards, insurance and mutual funds. Following the earthquake that rocked Chile on February 27, 2010, Santander was one of the country's most active companies in supporting its customers from the very first day after the disaster as well as in the subsequent reconstruction.

ARGENTINA

Santander Río is a leading franchise with 2.3 million customers and market shares of around 10% in loans and bank savings. It generated an attributable profit of $393 million, with a very positive performance of all items of the income statement.

During 2010, 17 branches and all the retail businesses of BNP Paribas Argentina were incorporated, strengthening Santander's presence in Buenos Aires. Santander will open 50 new branches by the end of 2011, most of them in the interior of Argentina.

OTHER COUNTRIES

Santander Uruguay is the country's largest private sector bank by business volumes and branches. It has a market share of 17.1% in loans and 16.7% in bank savings and 43 branches. The strategy in 2010 centred on linking individual customers and providing special attention to the tailored high-income customer attention model. Greater linkage of SMEs and companies was also sought, fostering greater use of transaction products.

In Colombia, Santander focused its business on linkage of high and medium income customers and on strengthening transaction businesses and insurance. The market share in loans was 2.9% and in bank savings 2.8%, respectively.

In Puerto Rico, the Bank continued to be one of the three main financial institutions by loans, deposits and mutual funds. Its positive return makes it stand out from the market, thanks to appropriate management of prices, discipline in risk and strict control of costs.

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

UNITED STATES-SOVEREIGN

Sovereign generated net attributable profit of EUR 424 million and continued to make progress in its integration

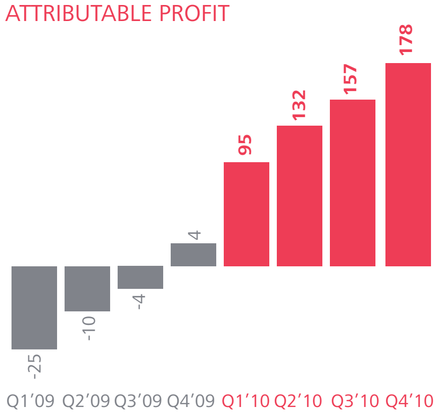
Santander conducts retail banking in the US via Sovereign Bank, which has 721 branches, 2,337 ATMs and more than 8,600 employees serving 1.7 million customers.

Grupo Santander also has consumer finance businesses in the US via Santander Consumer Finance USA[1] and has a wholesale banking office in New York[1].

Sovereign is based in Boston and focuses its activity on the US northeast, one of the country's strongest regions. It has a noteworthy presence in New York, Massachusetts, Pennsylvania, Rhode Island, New Hampshire, Connecticut, New Jersey and Maryland.

When Santander completed the acquisition of Sovereign in 2009, this bank had made a loss during three consecutive years. Since then the bank's management has concentrated on restoring stability and profitability to commercial business. This was achieved in record time; in the fourth quarter of 2009, less than a year after the acquisition, Sovereign made a profit, which has increased in every quarter since then.

SOVEREIGN: ATTRIBUTABLE PROFIT
US$ million

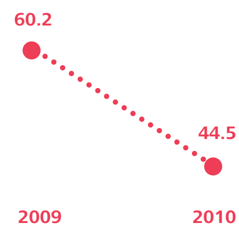


GROSS INCOME AND COSTS*
US$

(*) On a like-for-like basic

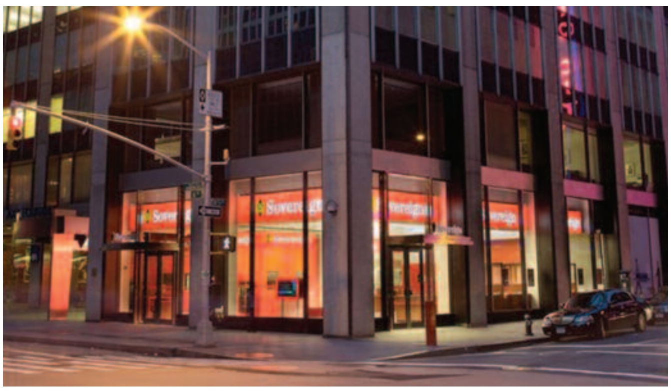
EFFICIENCY RATIO
(with amortisations)
%

– 15.7 p.p.



UNITED STATES-SOVEREIGN	
Customers (million)	1.7
Branches (number)	721
Employees (number)	8,647
Customer loans*	36,724
Managed customer funds*	36,763
Net operating income*	1,169
Attributable profit*	424
Efficiency (%)	44.5

(*) Million euros



1. The results of these businesses are recorded within Santander Consumer Finance and the Global Wholesale Banking division, respectively.

Branch of Sovereign in Federal Street, Boston, United States

RESULTS IN 2010

Sovereign posted attributable profit of $561 million compared to a loss of $35 million in 2009.

These results were supported by solid growth in gross income (+26.5%), driven by net interest income as a result of the repricing of loans and a lower cost of deposits.

Operating costs fell 8.1%, in line with the strategy of cost saving and generation of synergies derived from Sovereign's integration into Grupo Santander. The efficiency ratio continued to improve quickly to 44.5% in 2010 (down from 74.5% at the time of the acquisition).

Net loan-loss provisions continued to decline and in the fourth quarter of 2010 reached their lowest level in the last two years, thanks to prudent risk management and the effort made to recover loans in default. The non-performing loan ratio dropped to 4.61% from 5.35% and coverage rose from 62% to 75%.

SOVEREIGN, A BANK IN TRANSFORMATION

The process of transforming Sovereign began immediately after it was acquired, adopting the business model, organisational structures and the policies and models of Grupo Santander.
In the first phase, the focus was on stabilising the income statement, through normalising risk and cost policies. At the same time, a deeper process of change was begun to streamline the retail banking model, focusing it mainly on individuals and SMEs and eliminating or reducing the least profitable business lines.

This process of transformation will continue in 2011 with installation of the corporate IT platform Partenón, which will help to achieve additional synergies in costs and prepare the Bank for its commercial relaunch.

ACTIVITY

Sovereign continued to optimise its balance sheet and increasing its returns on loans and funds.

New lending grew 13% and the average spread on loans rose 28 b.p., in line with the higher cost of liquidity and a stricter risk policy. This growth in credit was centred on the more attractive business segments such as residential and multifamily.

The profitability of business banking increased as a result of campaigns to increase the degree of linkage of these clients, while continuing to reduce the portfolio of higher risk loans.

One of the main strategies undertaken during 2010 was Better Banking, which aims to drive retail banking by offering better products; grouping marketing campaigns in order to obtain greater visibility, attract a larger number of customers and push commercial actions via incentives for branch employees.

Branch of Sovereign in Burlington, Massachusetts, United States

GLOBAL BUSINESSES

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

GLOBAL WHOLESALE BANKING

Santander Global Banking & Markets provides products and services to satisfy the financial needs of large corporations and institutional investors in 21 countries. It has local and global teams (2,638 employees) with deep knowledge about their markets. Tailored solutions cover all financing, investment and hedging needs.

Business is structured around six areas:

1. **Global transaction banking**
Embraces cash management (services associated with making and receiving payments and commercial financing), trade finance and basic financing for institutions and corporations with an international presence.

2. **Corporate and investment banking**
Integrates hedging at the global level of financial institutions and large corporations, as well as M&A and asset and capital structuring teams.

3. **Credit markets**
Groups origination and distribution units for all structured credit and debt products.

4. **Rates**
Cover all trading activities in financial markets involving interest and exchange rates.

5. **Global equities**
Involves all businesses related to the equity markets.

6. **Market making**
Manages the Group's short and long-term positions in various fixed-income and equity markets.

GLOBAL WHOLESALE BANKING
Million euros

Customer loans	69,179
Customer deposits	83,689
Net operating income	4,027
Attributable profit	2,698
Efficiency (%)	26.9

ATTRIBUTABLE PROFIT
Million euros

– 1.8%

(1) EUR 2,733 million before the impact of applying Bank of Spain circular 3/2010 (-0.5%)

Santander Global Banking & Markets posted net attributable profit of EUR 2,698 million in 2010, 1.8% less than in 2009

BUSINESS IN 2010

Santander Global Banking & Markets generated attributable profit of EUR 2,698 million, 24% of the Group's total operating areas and 1.8% lower than in 2009. Given that 2009 was an exceptional year with record revenues and profits for this type of business because of a highly favourable competitive environment, the performance in 2010 was noteworthy. Santander Global Banking & Markets consolidated in 2010 its market share and results attained in prior years in a still difficult market context.

This positive performance was backed by a customer-focused business model, the division's global scope and its interconnection with local units. Other factors were strict control of risk and the strength of the Group's capital and liquidity.

The Global Relationship Model, which unifies management of 775 corporations and 158 institutions in the global sphere, continued to be deepened in 2010. This focus on client revenues, which increased 3%, makes Santander's wholesale banking business less dependent on the evolution of markets than its competitors.

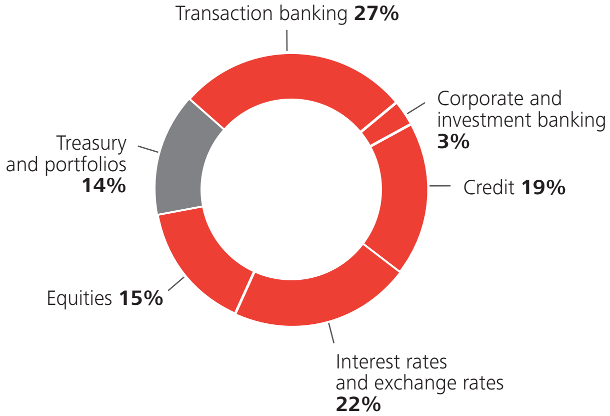
To reinforce its leadership positions in its core markets, Santander Global Banking & Markets made additional investments in 2010 in resources and capacities. This, combined with strict management of costs, enabled it to maintain an efficiency ratio of 26.9%, which continues to be the benchmark for its competitors.

LARGE TRANSACTIONS IN 2010

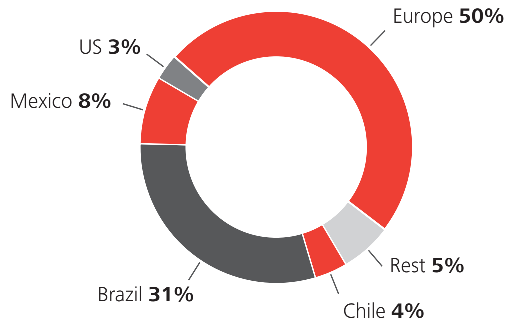
Santander Global Banking & Markets participated in the year's largest transactions, covering the needs of its clients in Europe and the Americas. Some examples of this are:

- Santander was the bookrunner in the largest equity issue in the world by the Brazilian oil company Petrobras.
- Santander advised Brisa, the largest manager of motorway concessions in Portugal, on selling its 16.35% stake in Brazil's CCR and placing the rest in the market. This was the largest infrastructure operation in Brazil in 2010.
- Santander Global Banking & Markets was the global coordinator for the international tranche of the IPO of OHL Mexico in November, the largest in the Mexican market in the last 10 years ($458 million).
- Copec, Chile's main distributor of fuel and lubricants, acquired Terpel, the Colombian leader in this sector, for $240 million. Santander Global Banking & Markets was the sole advisor of Copec, the largest merger and acquisition in Chile in 2010.

GROSS INCOME BY BUSINESS SEGMENT
% of the total



GROSS INCOME BY GEOGRAPHIC AREA
%



ASSET MANAGEMENT

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

Its activity revolves around three business areas:

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

The customer advisory model, based on excellence in the quality of products and their diversification and transparency in the service and information provided, was enriched in 2010.

Santander Asset Management launched in 2010 a new global structure to facilitate the identification of synergies between countries and which will enable a global management model to be developed and increase the value-added for customers. The range of funds continued to be streamlined and merged in order to supply the Group's units with simple and easy to understand products with high average volumes.

Grupo Santander decided, for solely commercial reasons, to contribute funds to the Santander Banif Inmobiliario investment fund by subscribing to new units and granting a two-year liquidity guarantee in order to meet the reimbursements of participants who so desire it. As a result of this measure, the suspension of reimbursements was lifted and the fund is now operating normally.

GLOBAL PRIVATE BANKING

The Global Banking division includes companies specialised in financial advice and wealth management for Grupo Santander's high income clients.

It conducts its business in Europe via:

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

In the Americas, Santander Private Banking operates in the US, Brazil, Chile and Mexico.

All Funds Bank, the leader in distributing third party funds, operates in Spain, Italy, the UK and Latin America.

The Global Private Banking unit achieved the following in 2010:

- The corporate IT platform was successfully installed in Spain, Italy and Mexico and work began in Brazil.
- In Spain, Banif occupies leadership positions in the private banking sector.
- In the UK, the Global Private Banking project entered into force in Santander UK.
- In Italy, the portfolio of clients of Meliorbanca, the private banking unit of Banca Emilia Romagna, was acquired.

ASSET MANAGEMENT
Million euros

Managed assets	124,475
Gross income	292
Attributable profit	81
Efficiency (%)	55.8

GLOBAL PRIVATE BANKING
Million euros

Managed assets	97,888
Gross income	796
Attributable profit	283
Efficiency (%)	47.8

Santander-Ferrari card

INSURANCE

Santander Insurance conducts its business through networks in all the countries where the Group operates. It provides protection for more than 14 million customers.

Its strategy is based on covering simple risks and insurance savings for individuals and households through 14,082 Grupo Santander branches throughout the world and alternative channels such as the telephone and Internet.

Total revenues from insurance (gross income + commissions received by networks) amounted to EUR 2,688 million, 11% more than in 2009.

Activity in 2010 centred on:

- Consolidating the integration of insurance businesses in Brazil, the country that generates the most revenues.
- Accompanying the Group's strategy in management of financial savings through competitive products.
- Improving coverage for consumer finance customers in Europe.

Banco Santander and the insurer Zurich Financial Services Group reached an agreement in early 2011 to form a strategic alliance that will jointly develop the bancassurance business in Brazil, Chile, Mexico, Argentina and Uruguay over the next 25 years.

Under the agreement, Santander will group its insurance firms in Latin American countries into a holding 51% owned by Zurich, while Santander will own 49% and receive 100% of the revenues from commissions on the distribution of products via the Group's 5,600 branches in these markets, which will have a broader and more innovative range of products. Santander aims to increase its revenues from the distribution of insurance products in these countries ($972 million in 2010).

The transaction values the insurance business of Grupo Santander, which is the subject of the transaction, at $3,275 million and will generate capital gains of $1,210 million. They will be used to strengthen the balance sheet.

MEANS OF PAYMENT

Santander Cards covers all businesses related to means of payment, in order to offer customers the credit and debit cards that best meet their needs. It also supplies point-of-sale terminals for shops. The division manages 83 million cards.

This unit operates in 11 mature and emerging countries, which helps to diversify its business. Its strategy is based on a global business model, which contributes best practices and methodologies and respects the commercial autonomy of countries and their knowledge of the market.

In 2010, the division generated gross income of EUR 3,562 million (+10%), in a year of business growth and consolidation with good risk evolution. A factor at play here was the success of the integrations in Brazil and the UK, which produced significant synergies.

The main achievements of Santander Cards in 2010 were:

- The launch of the first Santander-Ferrari credit card in Spain, Brazil, Mexico and Portugal with significant success in sales (in Spain more than 100,000 sold in the first six weeks).
- Launch of the acquiring business in Brazil, which will accelerate the Bank's strategy with this country's SMEs.

INSURANCE
Million euros

Contribution to the Group: profit before tax + commissions	2,491
Gross income	790
Attributable profit	381

MEANS OF PAYMENT [1]

Total number of credit cards (million)	56
Total number of debit cards (million)	27
Lending (million euros)	13,490
Gross income (million euros)	3,562

1. Perimeter of retail banks excluding Banesto, Santander Consumer Finance and Open Bank

CORPORATE SOCIAL RESPONSIBILITY

Sustainability, for Banco Santander, means contributing through its activity to economic and social progress and taking into account the impact of its business on the environment

Banco Santander business activity contributes to the economic progress of local communities, bearing in mind the impact of its activity on society and on the environment. The international market values and recognises this management. The Santander share is present in the world's main sustainability indexes, the DJSI and the FTSE4Good.

Santander held meetings in 2010 with more than 50 investors and analysts interested in knowing in detail Banco Santander's sustainability strategy.

The sustainability committee is responsible for drawing up the Group's social responsibility strategy which is submitted for the board's approval. The committee is chaired by the CEO and comprises various business and support areas. It meets every six months.

At its last meetings, this committee approved significant strategic projects such as the energy efficiency plan, the financial education project and the corporate volunteering programme. It also adopted other important decisions such as the adherence by Santander Pensiones to the principles of socially responsible investment and the approval of the corporate policy on human rights. All of this, together with the significant role of Santander Brazil and Santander UK as two key countries for the dissemination of best practices in sustainability within the Group, enabled Santander to make decisive progress and remain one of the leaders in this sphere.

Sustainability, for Santander, also means knowing how to respond at each moment to the real needs of stakeholders:

- shareholders, with maximum transparency in information, through channels of continuous and fluid dialogue and fostering their participation;
- customers, offering them the best products and services;
- employees, with training and development policies, fostering equality of opportunity and reconciling work and family life;
- suppliers, with transparency in the contract awarding processes.

Santander's activities in this area are always guided by a special interest in society and the environment.

The Bank's main corporate social responsibility activities are set out in the Sustainability Report, which is available at **www.santander.com**

El Bosque, Grupo Santander City, Boadilla del Monte, Madrid, Spain

Investment in higher education is the centrepiece of the Bank's corporate social responsibility policy

SANTANDER UNIVERSITIES GLOBAL DIVISION

Investment in higher education is the centrepiece of the corporate social responsibility strategy of the Bank, as it 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, with a team of 2,047 professionals in 14 countries, coordinates and manages Banco Santander's commitment to higher education. Its long-term strategic alliance with universities forged over the last 13 years is unique in the world. Banco Santander's contribution to co-operation projects with universities amounted to more than EUR 100 million in 2010.

Santander co-operates with universities in launching projects to improve education, internationalisation, geographic mobility, innovation and the transfer of knowledge to society. The Bank has agreements with universities in Spain, Portugal, the UK, Brazil, Mexico, Chile, Argentina, Colombia, Singapore, Puerto Rico, Uruguay, the US, China and Russia.

Banco Santander's co-operation with universities revolves around the following four pillars:

- Integral cooperation agreements, which put into effect in 2010 4,149 academic, financial and technological projects with universities.
- Support for international co-operation programmes between universities, such as national and international travel programmes for students and teachers.
- Fostering co-operation with international academic networks, such as the Latin American University Network for the Incubation of Companies (Red Emprendia).
- Supporting global projects, such as Universia, the largest online network of university co-operation in the Spanish- and Portuguese-speaking world, and the Miguel de Cervantes Virtual Library, the portal with the largest digitalisation of Hispanic culture.

938

co-operation agreements with universities in 15 countries on four continents

4,629,655

intelligent university cards in 201 universities

13,352

scholarships and aid for study granted in 2010

1,216

universities grouped in Universia

174,728

first jobs via Universia

SANTANDER UNIVERSITIES IN 2010

The main developments in 2010 were:

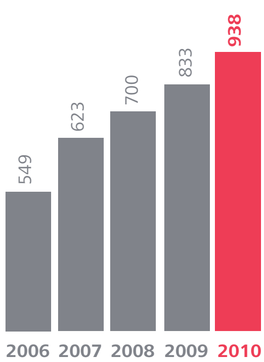
- The holding of the second meeting of Universia rectors in Guadalajara, Mexico, which, with the participation of 1,000 rectors from 23 countries, gave a decisive push to the Latin American Knowledge Space. In this framework, Mr Emilio Botín announced Banco Santander's commitment to invest EUR 600 million in 2011-2015 in co-operation projects with universities.
- 25 new scholarship programmes were launched, enabling 2,000 universities to benefit from them. The Santander Fórmula programme, the Top Brazil, Top UK and Top USA programmes and the ITACA scholarships are examples of this co-operation.
- Consolidation of activity in Brazil and Mexico and more co-operation with universities in the UK, the US and Singapore (these three countries account for 8% of the universities with agreements).
- Strong support to disseminate the Spanish language in co-operation with the Cervantes Institute, the Real Academia de la Lengua and the Fundación Campus Comillas.
- Publication of the book "La Universidad: una historia ilustrada" with the participation of 45 authors from 17 countries.
- 174,728 university students obtained their first job via Universia in 2010.

In 2011, Santander Universities will strengthen dissemination of its commitment to universities to all society. It will step up its co-operation by incorporating German universities to its network of agreements. It will also put into effect new Santander scholarship programmes for students studying for a bachelor's degree and scholarships for young researchers. Moreover, It will launch new scholarship programmes to prevent the abandonment of university studies, foster international travel by young postgraduate students and researchers and boost the exchange of students between Asia and Latin America, in accordance with the commitment made at the second meeting of Universia rectors.

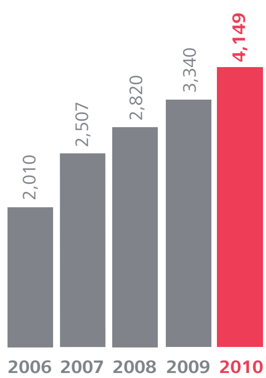
The second meeting of Universia rectors, May 2010, Guadalajara, Mexico

Santander is firmly committed to investing EUR 600 million in 2011-2015 in co-operation projects with universities

GROWTH IN AGREEMENTS WITH UNIVERSITIES
Number



GROWTH IN CO-OPERATION PROJECTS
Number



"Pão para todos" project, Santander Totta, Portugal

Thousand year old olive trees at Grupo Santander City

SOCIAL ACTIONS

Although the main contribution is investment in higher education via Santander Universities, Santander also carries out in those countries where it operates projects tailored to social and local economic circumstances and in many cases employees participate as volunteers.

In developing these projects the Bank works closely with the third sector (NGOs and other non-profit making institutions) with whom Santander maintains a fluid and constant dialogue.

In 2010, the Group's sustainability committee approved a corporate project for volunteering. In order to launch it, the Bank signed a co-operation agreement with UNICEF in order to contribute to the schooling of children in Latin America. The co-operation with UNICEF will include various initiatives in which the Group's professionals in Spain, first, can participate and then those in other countries.

This initiative joins others in which Santander participates and co-operates in the countries where it operates such as:

- Brazil, with Escola de Brasil, in order to help improve state schools. More than 2,000 volunteers from the Bank participate in this.
- The UK, with community days when employees are involved on a voluntary basis in local charities.
- Chile, where employees help to build homes for the poor under the "Un techo para Chile" programme.

THE ENVIRONMENT

Banco Santander is committed to protecting, conserving and recovering the environment. Its activities in this sphere are structured around the following elements:

- Measuring the Group's environmental footprint and drawing up an energy efficiency plan: In 2010, for the second year running, Santander calculated the main items consumed and emissions in all the Group's buildings throughout the world in order to establish its environmental footprint. A tool was developed to gather, calculate and consolidate all data in order to standardise management and treatment of environmental information. At its meeting in July 2010, the Group's sustainability committee approved a strategic plan for energy efficiency which set out common objectives for improving and reducing the consumption of items in the medium and long term. CO_2 emissions are scheduled to be reduced by 3% in the Group's five main countries and the whole Group's energy consumption by 3%.
- Analysis of social and environmental risk in credit operations: Santander has a systematic global process for analysing social and environmental risks. The corporate units of risk are responsible for evaluating these types of risk in the projects presented by the business areas for approval in accordance with the Group's policies.
- Developing financial solutions to protect the environment: The promotion and financing of renewable energy projects via various financial products enables Banco Santander to maintain its leadership position in this sphere. Of particular note is Banco Santander's participation in the carbon fund for Spanish companies (FC2E).

Banco Santander committed itself many years ago to contribute to the cultural, social and educational development of the communities in which it operates

HUMAN RESOURCES

Banco Santander's management of people is based on three pillars: leadership with talent, knowledge and corporate culture

MANAGEMENT OF PEOPLE

Grupo Santander made further progress in 2010 in implementing its people management model, focused on attracting, developing and being committed to the best talent at the international level, in order to support the strategy and sustainable business growth. The three pillars are:

1. Leadership with talent
Santander launched various initiatives to reflect on the type of leadership needed to ensure its success in the future. One of them is the training programme "Leading the Group's Growth" for senior executives and whose 2010 edition revolved around the concept of the "responsible leader."

2. Knowledge
Investment in training amounted to EUR 111 million in 2010 (EUR 93.5 million in 2009). The total number of hours spent on training was 7.0 million (7.7 million in 2009) and 179,000 employees were involved (more than 167,000 in 2009).

The corporate school of retail banking was launched in 2010 as part of the business knowledge school. Its purpose is to gather and structure retail banking business knowledge, help various business teams apply this knowledge and support the process of adapting and integrating new acquisitions. The governing council of this school is chaired by Alfredo Sáenz, Banco Santander's CEO, and its members are senior executives of the Bank. This school joins other already existing: the corporate school of risks, which in 2010 celebrated its fifth anniversary.

3. Culture
Grupo Santander is backed by a solid culture of values: leadership, innovation, strength, dynamism, commercial focus, ethics and sustainability. These inspire the work of Santander's professionals, while the mission of the human resources division is to reinforce this culture by disseminating the values and the advantages of working for Grupo Santander.

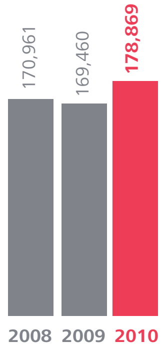
The "Santander is you" programme aims to disseminate value offer, in other words all that the Group does for its professionals to generate pride in belonging to it through initiatives such as the "Santander is you" week. The third edition was held in 2010 with more than 300 activities related to solidarity, the environment, sport, the promotion of good health and wellbeing, which are held in the same week in all countries where Santander operates.

Another initiative was the second "Santander is You" race held in Chile on 3-6 November, 2010. A total of 60 employees from all the Group's divisions, companies and countries took part in a relay race in a mountainous area between Santiago de Chile and Valparaíso under the slogan "Driven by values, Together we are more."

Santander also transmits its value offer and the meaning of the corporate values that comprise its culture to potential employees via "Santander could be you". The Group, for the second year running, visited the main business schools in the US, Europe and Asia in order to identify and recruit the best talent at the international level.

Another way to identify and attract the best international talent is the route followed by the talent scholarship programme. This initiative, in its third edition, selected 33 high potential students throughout the world and gave them a full training course tailored to the needs of a retail bank.

EMPLOYEES
Number



ADVANCES IN OTHER HUMAN RESOURCES POLICIES

Santander's human resources policy has made progress in other issues, such as:

- The gender equality policy launched in 2009 to develop female talent within the Group was consolidated. In Spain, 149 women participated in the Alcanza plan which supports the careers of women. Also, under the framework of "Avanzamos Juntos", the following steps were taken: a corporate command panel was created to monitor the corporate gender equality policy; an online training course on gender quality was launched for more than 16,000 employees and training sessions given on gender equality as part of the corporate programmes for the Group's senior executives.

  Santander Totta (Portugal) launched "Red en Femenino", a communication platform for female executives to share texts, ideas and experiences and, in the UK, the Santander Prize was created under the framework of the prestigious "Opportunity Now" prizes, which foster equality of opportunity through education and learning.

- Development and mobility: Santander offers its employees the opportunity to enhance their knowledge and work abroad for four months within their same division via the "Mundo Santander" programme. A total of 156 employees benefited from this corporate initiative in 2010, bringing the overall number to 347 in the three editions of the programme.

- Of note in 2010 among Santander's many measures to look after the health of its employees was the signing of the sponsorship, with the Fundación Botín, of the PESA-CNIC project, led by the National Council of Cardiovascular Research. Thanks to this project, headed by the world renowned cardiologist Mr Valentín Fuster, more than 3,000 of the Group's employees in Spain participated in pioneering research for early identification of cardiovascular risk.

RECOGNITIONS

Santander's corporate culture has become a reference in business circles, underscored by the prizes awarded to the Group in the countries where it operates.

- Santander is the first ranked bank, the second European company and the fifth in the world in the Hay Group's and Fortune's ranking of leadership in the best companies 2010.
- "Equality in the company 2010" recognition by Spain's equality ministry.
- Santander Río was first in the ranking of the best companies to work for in Argentina according to Great Place to Work.
- The Ranking Merco Personas recognised Grupo Santander as the third best company to work for in Spain in 2010.
- Santander Totta was the first company in Portugal to obtain the responsible family company certificate from the Más Familia Foundation.
- Santander UK was awarded in 2010 the "Be the Best" and "Best Boss" awards which recognise the human resources policies as a good company to work for.

SANTANDER IN 2010

JANUARY 11
United Kingdom. The change to the Santander brand began in 1,000 branches of Abbey and Bradford & Bingley.

JANUARY 18
Help for Haiti. Banco Santander's executive committee donated EUR 1 million.

MAY 31
The second meeting of Universia rectors is held in Guadalajara, Mexico.

JUNE 9
Mexico. Acquisition of 25% of Santander Mexico from Bank of America.

ENERO 2010 | FEB/10 | MAR/10 | ABR/10 | MAY/10 | JUN/10

FEBRUARY 4
Grupo Santander City. The Bank announced an attributable profit of EUR 8,943 million in 2009.

JUNE 11
Santander, Spain. Banco Santander holds its AGM.

SEPTEMBER 10
Poland. Agreement to buy Bank Zachodni WBK.

JULY 12
Germany. Santander acquires the retail banking businesses of the Swedish commercial banking group SEB.

NOVEMBER 14
Abu Dhabi. Santander completes the first year of its alliance with the Scuderia Ferrari, with an advertising return of EUR 270 million.

JUL/10 **AGO/10** **SEP/10** **OCT/10** **NOV/10** **DICIEMBRE 2010**

JULY 23
Spain. Santander is among the best in solvency and profitability in the stress test on European banks.

SEPTEMBER 15
Grupo Santander City. Third international banking conference held.

NOVEMBER 4
Brazil. Unification of the Santander and Banco Real brands.

AUGUST 4
UK. Agreement to acquire 318 Royal Bank of Scotland branches.

CORPORATE GOVERNANCE REPORT

Photo **Pereda Building, Grupo Santander City, Boadilla del Monte, Madrid, Spain**

MAIN ACTIVITIES OF THE BOARD IN 2010 ON MATTERS RESERVED THERETO

GENERAL STRATEGIES OF THE BANK

- During 2010, the board held twelve meetings. Two of them were devoted, as has been the practice every year since 2006, to solely discussing the Group's strategy.

DIVIDENDS

- In 2010 the board maintained the same compensation per share as in financial year 2009, i.e., 0.60 euro.

CONTROL OF ACTIVITIES AND RISK MANAGEMENT

- During 2010, the chief executive officer submitted to the board eight management reports, and the third vice-chairman and head of the risk division submitted seven risk reports.
- Each of the heads of internal and external audit reported to the board at three and two meetings, respectively.
- The board analysed the business in Latin America (particularly Brazil) and in the United Kingdom, the Santander España and Banesto branch networks and the Group's Asia Plan, as well as the liquidity of European banks and of Banco Santander and the new capital standards, BIS III.

DIRECTOR REMUNERATION POLICY

- In 2010, in line with the best international practices, the board submitted for the first time the report regarding the director remuneration policy to the shareholders at the general shareholders' meeting held on 11 June, as a separate item on the agenda and as a consultative matter; 94.943% of the votes were in favour of the report.

BYLAW-MANDATED PAYMENTS

- In 2010, for the second consecutive year, the board resolved to maintain the same amounts as in the prior year for the annual allocation to which the board members are entitled for the performance of supervisory and collective decision-making duties, such that they have remained unchanged since 2008.

REMUNERATION OF EXECUTIVE DIRECTORS

- The board decided not to change the fixed remuneration payable to executive directors in 2011, with only one exception, and to increase by 10% the variable remuneration for 2010. The variable remuneration or bonus payable to executive directors as a whole for 2010 came to 170% of the fixed remuneration. In addition, the average deferred variable remuneration vis-à-vis the total variable remuneration of executive directors stands at 51.9%. Both parameters are within those approved by the board at the proposal of the appointments and remuneration committee, which were submitted to a consultative vote of the shareholders at the general shareholders' meeting held on 11 June 2010.

FINANCIAL INFORMATION PERIODICALLY PUBLISHED BY THE BANK

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

APPOINTMENT OF MEMBERS OF SENIOR MANAGEMENT

- The appointment of Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea as chief executive officer of Santander UK and of Mr Antonio Basagoiti García-Tuñón as non-executive chairman of Banesto was proposed to the boards of directors of Santander UK and Banesto, respectively.
- The executive vice president of the Bank Mr Jorge Morán Sánchez was appointed as country head in charge of all of the Group's businesses in the United States of America.

“We have an experienced board of directors which also has a balanced composition of executive and non-executive directors.”

Emilio Botín, Chairman. General shareholders’ meeting, 11 June 2010

1. OWNERSHIP STRUCTURE

NUMBER OF SHARES AND SIGNIFICANT INTERESTS

NUMBER OF SHARES

During financial year 2010, the Bank carried out two capital increases that became effective on 7 October and 2 November, and pursuant to which there were issued 11,582,632 and 88,713,331 new shares, representing 0.139% and 1.065%, respectively, of the Bank’s share capital at year-end 2010. The first increase was carried out in order to accommodate the conversion of 33,544 mandatorily convertible bonds (*Valores Santander*), and the second one within the framework of the *Santander Dividendo Elección* (scrip dividend) programme.

The Bank’s share capital at 31 December 2010 was represented by 8,329,122,098 shares, whose value per the listing price on Spain’s Electronic Trading System (continuous market) of the Spanish stock exchanges at such date was 66,033 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 2010.

The interests held by Chase Nominees Limited (10.24%), State Street Bank & Trust (9.52%), EC Nominees Ltd. (6.45%), The Bank of New York Mellon (5.05%), Guaranty Nominees Limited, (3.73%) and Société Générale (3.28%), 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 (20), the percentage of capital needed to exercise the right to appoint a director in accordance with article 243 of the Spanish Companies Law (*Ley de Sociedades de Capital*) is 5.00%.

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

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

TREASURY SHARES

KEY DATA

At 31 December 2010, the Bank held 22,292,972 treasury shares, representing 0.268% of its share capital; at 31 December 2009, it held 2,584,249 treasury shares, representing 0.031% of the Bank's share capital at such date.

The following table sets out the monthly average percentages of treasury stock in 2010 and 2009.

MONTHLY AVERAGE[1] percentages of treasury shares[2]	2010	2009
January	0.200	1.195
February	0.523	1.795
March	0.335	1.807
April	0.328	2.820
May	0.603	1.982
June	0.482	1.250
July	0.382	0.413
August	0.253	0.695
September	0.285	0.525
October	0.360	0.617
November	0.544	0.496
December	0.525	0.414

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

2. Monthly average of daily positions of treasury stock.

The transactions in treasury stock carried out by companies belonging to the consolidated Group in the interest thereof during financial year 2010 consisted of the acquisition of 794,732,640 shares, equal to a nominal amount of 397.4 million euros (actual amount of 7,372.0 million euros), and the sale of 774,974,286 shares in the nominal amount of 387.5 million euros (actual amount of 7,169.0 million euros).

The average purchase price of shares of the Bank in financial year 2010 was 9.28 euros per share, and the average sales price of shares of the Bank in such financial year was 9.25 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 18 million euros worth of loss, 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 comprising the Group to acquire shares representing the capital stock of the Bank for any valuable consideration permitted by Law, within the limits of and subject to any legal requirements, up to a maximum limit —including the shares they already hold— of a number of shares equivalent to 10 per cent of the capital stock existing at any given time, or to such greater percentage as may be established by Law during the effectiveness of this authorisation, which shares shall be fully paid-in, at a minimum price per share equal to the par value and a maximum price of up to 3 per cent over the last listing price for transactions in which the Bank does not act for its own account on the Electronic Market of the Spanish Stock Exchanges (including the block market) prior to the acquisition in question. This authorization may only be exercised within five years from the date on which the general shareholders' meeting is held. The authorisation includes the acquisition of shares, if any, that must be conveyed directly to the employees and management of the Company, or that must be conveyed as a result of the exercise of the options they hold."

Treasury stock policy

At its meeting of 11 June 2010, the board of directors adopted the current resolution on treasury share policy, which is 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 2,038,901,430.50 euros, pursuant to the authorisation of the shareholders acting at the 19 June 2009 annual general shareholders' meeting. The period available to the Bank's directors to carry out and make capital increases up to such limit expires on 19 June 2012. Such resolution gives the board the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of article 159.2 of the Companies Law (*Ley de Sociedades Anónimas*) (now, article 506 of the new Companies Law (*Ley de Sociedades de Capital*)).

At 31 December 2010, the aforementioned limit had not been used.

In addition, the shareholders acting at the annual general shareholders' meeting held on 11 June 2010 approved the following resolutions in connection with the content of this section:

1. Two share capital increases, in each case in the maximum amount of one thousand million euros, within the shareholder compensation scheme —scrip dividend— (*Santander Dividendo Eleccción*) whereby the Bank offers the shareholders the possibility of opting for an amount equal to the second and the third dividend on account of dividends for financial year 2010, respectively, in cash or in new shares.

   For such purposes, the Bank's executive committee, at its meetings of 2 November 2010 and 1 February 2011, approved the implementation of the aforementioned capital increases with a charge to voluntary reserves from undistributed profits, which had in turn been approved by the shareholders at the general shareholders' meeting of 11 June 2010.

   The number of shares having a nominal value of 0.5 euro each which were issued in each case under the two capital increases by means of a scrip issue was 88,713,331 and 111,152,906, accounting for 1.05% and 1.32% of the current share capital of the Bank, respectively.

2. Delegation to the board of directors of the power to issue convertible and/or exchangeable fixed-income securities, with the issuance or issuances coming to the total maximum amount of 7 billion euros or the equivalent thereof in another currency. The period available to the directors of the Bank within which to implement this resolution expires on 11 June 2015.

3. Capital increase by a nominal amount of 500 million euros, with delegation to the board of directors of the broadest powers such that, within one year of the date on which the aforementioned shareholders' meeting was held, it may set the date and the terms and conditions applicable to such increase as to all matters not provided for by the shareholders. 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.

2. BANCO SANTANDER'S 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
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
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 (Spain) in 1942. Joined the board in 1994. Graduate in Economics and Law.

Other significant positions: former chief executive officer and first vice-chairman of Banco Bilbao Vizcaya, S.A. and chairman of Banco Español de Crédito, S.A. (Banesto).

Committees
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
Executive
Risk (chairman)

Mr Manuel Soto Serrano
Fourth vice-chairman

Non-executive (independent) director

Born in Madrid (Spain) in 1940. Joined the board in 1999. Graduate in Economics and Business.

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

Committees
Audit and compliance (charmain)
Appointmens and remuneration
Technology, productivity and quality

* 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 Antonio Basagoiti García-Tuñón

Non-executive director

Born in Madrid (Spain) in 1942. Joined the board in 1999. Graduate in Law.

Main activity: non-executive chairman of Banesto.

Other significant positions: former chairman of Unión Fenosa. He is a proprietary non-executive vice-chairman of Faes Farma, S.A. and non-executive director of Pescanova, S.A.

Committees
Executive
Risk
Technology, productivity and quality

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 Assicurazioni Generali S.p.A. and a member of the International Advisory Board of the New York Stock Exchange and of the board of Georgetown University.

Committees
Executive
International
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 a non-executive director of Campofrío Food Group, S.A. and of Amadeus IT Holding, S.A., chairman of the Centre for Economic Policy Research of London, a member of the Group of Thirty of Washington, chairman of the board of trustees of IE Business School and non-executive chairman of Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.

Committees
Executive
Appointments and remuneration
International

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).

Committees
Executive
Audit and compliance
Appointments and remuneration
International

Mr Antonio Escámez Torres

Non-executive (independent) director

Born in Alicante (Spain) in 1951. Joined the board in 1999. Graduate in Law.

Other significant positions: chairman of Fundación Banco Santander, non-executive chairman of Santander Consumer Finance, S.A., of Open Bank, S.A. and of Arena Media Communications España, S.A., and non-executive vice-chairman of Attijariwafa Bank.

Committees
Executive
Risk
International
Technology, productivity and quality

Mr Francisco Luzón López

Executive director

Born in Cañavate, Cuenca (Spain) in 1948. Joined the board in 1997. Graduate in Economics and Business.

Other significant positions: former chairman of Argentaria and member of the board of directors of Banco Bilbao Vizcaya, S.A. He is a non-executive director of Industria de Diseño Textil, S.A. (Inditex), global vice-chairman of Universia and second vice-chairman of the Royal Board of Trustees of the National Library.

Committees
Executive
International

Assicurazioni Generali S.p.A.

Non-executive director

Joined the board in 1999. Represented by:

Mr Antoine Bernheim
Born in Paris (France) in 1924. Graduate in Law and Sciences. Post-graduate degree in Private and Public Law.

Main activity: honorary chairman of Assicurazioni Generali. Joined the board of Assicurazioni Generali in 1973, acting as chair from 1995 to 1999 and then again from September 2002 to April 2010.

Other significant positions: he is vice-chairman of LVMH.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive (proprietary) director

Born in Santander (Spain) in 1973. Joined the board in 2004. Graduate in Law.

Main activity: chairman and chief executive officer of JB Capital Markets, Sociedad de Valores, S.A.

Lord Burns (Terence)

Non-executive director

Born in Durham (United Kingdom) in 1944. Joined the board in 2004. Graduate in Economics.

Main activity: non-executive chairman of Santander UK plc and of Alliance & Leicester plc.

Other significant positions: he is non-executive chairman of Channel Four Television Corporation. 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 Ángel Jado Becerro de Bengoa

Non-executive (independent) director

Born in Santander (Spain) in 1945. Appointed as director at the Bank’s general shareholders' meeting held on 11 June 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
Audit and compliance
International

Mr Juan Rodríguez Inciarte

Executive director

Born in Oviedo (Spain) in 1952. Member of the board since 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 a director of Alliance & Leicester plc and of Santander Consumer Finance, S.A.

Committee
Risk

Mr Luis Ángel Rojo Duque

Non-executive (independent) director

Born in Madrid (Spain) in 1934. Joined the board in 2005. Graduate in Law, Doctor in Economics, Government Economist, and holder of honorary doctorates from the universities of Alcalá de Henares and Alicante.

Other significant positions: at the Bank of Spain he was head of the research department, deputy governor and governor. He has been a member of the governing council of the European Central Bank, vice-chairman of the European Monetary Institute, a member of the United Nations Planning and Development Committee and Treasurer of the International Association of Economics. He is a member of the Royal Academy of Moral and Political Sciences and of the Royal Spanish Academy of Language.

Committees
Audit and compliance
Appointments and remuneration.

Ms Isabel Tocino Biscarolasaga

Non-executive (independent) director

Born in Santander (Spain) in 1949. Joined the board in 2007.

Main activity: full professor at Universidad Complutense de Madrid. Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School.

Other significant positions: former Spanish Minister for the Environment, former chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and former chairwoman for Spain and Portugal and former vice-chairwoman for Europe of Siebel Systems. She is currently an elected member of the Spanish State Council and a member of the Royal Academy of Doctors.

Mr Luis Alberto Salazar-Simpson Bos

Non-executive (independent) director

Born in Madrid (Spain) in 1940. Joined the board in 1999. Graduate in Law and holder of a Degree in Treasury and Tax Law.

Main activity: chairman of France Telecom España, S.A.

Committees
Audit and compliance
Technology, productivity and quality

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
Executive
Risk
Audit and compliance
Appointments and remuneration
International
Technology, productivity and quality

Mr Jaime Pérez Renovales

Deputy general secretary and deputy secretary of the board

Born in Madrid (Spain) in 1968. He was the head of cabinet of the second vice president of the Spanish Government and Minister of Economy. He joined the Group in 2003 as secretary of the board of Banesto. In March 2009 he was appointed executive vice president of Banco Santander, deputy general secretary and deputy secretary of the board. Graduate in Law and Economics and Business (ICADE-E3), and Government Attorney.

Other significant positions: director of Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.

RE-ELECTION OF DIRECTORS AT THE 2011 ANNUAL GENERAL SHAREHOLDERS' MEETING

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

An amendment of the Bylaws and of the Rules and Regulations of the Board is being contemplated in order to reduce the directors' term of office to three years.

At the 2011 annual general shareholders' meeting, scheduled for 16 and 17 June 2011 on first and second call, respectively, the re-election of the following directors will be proposed: Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea (executive director), Mr Rodrigo Echenique Gordillo (independent non-executive director), Lord Burns (non-executive director, neither proprietary nor independent) and Assicurazioni Generali S.p.A. (non-executive director, neither proprietary nor independent), whose professional profiles, together with a description of their activities, appear on the preceding pages.

The re-election 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 Bylaws 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

C Committee chairman — V Committee vice-chairman — P Proprietary — I Independent — N Non-executive, neither proprietary nor independent

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 (3)	●		●	C				
Fourth vice-chairman	Mr Manuel Soto Serrano		I			C	●		●
Members	Assicurazioni Generali S.p.A.		N						
	Mr Antonio Basagoiti García-Tuñón		N	●	●				●
	Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea (1)	●		●				●	●
	Mr Javier Botín-Sanz de Sautuola y O'Shea (1) (2)		P						
	Lord Burns (Terence)		N						
	Mr Guillermo de la Dehesa Romero		I	●			●	●	
	Mr Rodrigo Echenique Gordillo		I	●		●	●	●	
	Mr Antonio Escámez Torres		I	●	●			●	●
	Mr Ángel Jado Becerro de Bengoa		I						
	Mr Francisco Luzón López	●		●				●	
	Mr Abel Matutes Juan		I			●		●	
	Mr Juan Rodríguez Inciarte	●			●				
	Mr Luis Ángel Rojo Duque		I			●	●		
	Mr Luis Alberto Salazar-Simpson Bos		I			●			●
	Ms Isabel Tocino Biscarolasaga		I						
	Total								
General secretary and secretary of the board	Mr Ignacio Benjumea Cabeza de Vaca			●	●	●	●	●	●
Deputy general secretary and deputy secretary of the board	Mr Jaime Pérez Renovales								

1. Mr Emilio Botín-Sanz de Sautuola y García de los Ríos has the right to vote, at the general shareholders' meeting, 91,866,035 shares owned by Fundación Marcelino Botín (1.10% of the share capital), 8,096,742 shares owned by Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, 9,042,777 shares owned by Mr Emilio Botín-Sanz de Sautuola y O'Shea, 9,118,823 shares owned by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea and 9,469,213 shares owned by Mr Javier Botín-Sanz de Sautuola y O'Shea. Accordingly, this table includes the direct and indirect interests of each of the two last named, who are directors of the Bank, but in the column showing the total percentage of share capital that such interests represent they are computed together with those owned or also represented by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

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

3. Mr Matías Rodríguez Inciarte has the right to vote 78,644 shares owned by two of his children.

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 stock policies, the general risk policy, and the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion, which power cannot be delegated.

The board also reserves for itself, and likewise cannot delegate, decisions regarding the acquisition and disposition of substantial assets (except 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 Bylaws (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. Fifteen of its 20 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 15 directors, one is the first vice-chairman of the Bank, who is a member of all three committees, and another 4 directors sit on two of the committees with powers in the area of risks.

SHAREHOLDING AT 31 DECEMBER 2010								
Direct	**Indirect**	**Shares represented**	**Total**	**% of share capital**	**Date of first appointment**	**Date of last appointment**	**Expiration date [4]**	**Date of last proposal of the appointments and remuneration committee**
8,191,268	42,916,473	109,005,554	160,113,295	2.146	04.07.1960 [5]	21.06.2008	First six months of 2013	16.04.2008
61,135	50,641	-	111,776	0.001	17.04.1999	11.06.2010	First six months of 2015	21.04.2010
952,729	1,259,475	-	2,212,204	0.027	11.07.1994 [5]	11.06.2010	First six months of 2015	21.04.2010
967,600	83,578	78,644	1,129,822	0.014	07.10.1988 [5]	19.06.2009	First six months of 2014	27.04.2009
61,500	364,752	-	426,252	0.005	17.04.1999	19.06.2009	First six months of 2014	27.04.2009
75,000	56,089,940	-	56,164,940	0.674	17.04.1999	23.06.2007	First six months of 2012	19.03.2007
708,246	-	-	708,246	0.009	26.07.1999	23.06.2007	First six months of 2012	19.03.2007
5,094,687	4,024,136	-	9,118,823	0.000	04.02.1989 [5]	17.06.2006	First six months of 2011	18.04.2006
4,793,481	4,675,732	-	9,469,213	0.000	25.07.2004	11.06.2010	First six months of 2015	21.04.2010
30,102	27,001	-	57,103	0.001	20.12.2004	17.06.2006	First six months of 2011	18.04.2006
102	-	-	102	0.000	24.06.2002	19.06.2009	First six months of 2014	27.04.2009
658,758	9,398	-	668,156	0.008	07.10.1988	17.06.2006	First six months of 2011	18.04.2006
757,594	-	-	757,594	0.009	17.04.1999	23.06.2007	First six months of 2012	19.03.2007
1,877,500	4,950,000	-	6,827,500	0.082	11.06.2010	11.06.2010	First six months of 2015	21.04.2010
1,226,852	53,339	-	1,280,191	0.015	22.03.1997 [5]	23.06.2007	First six months of 2012	19.03.2007
124,969	2,319,463	-	2,444,432	0.029	24.06.2002	19.06.2009	First six months of 2014	27.04.2009
1,367,626	-	-	1,367,626	0.016	28.01.2008 [5]	21.06.2008	First six months of 2013	21.01.2008
1	-	-	1	0.000	25.04.2005	21.06.2008	First six months of 2013	16.04.2008
253,205	5,713	-	258,918	0.003	17.04.1999	21.06.2008	First six months of 2013	16.04.2008
39,860	-	-	39,860	0.000	26.03.2007	11.06.2010	First six months of 2015	21.04.2010
27,242,215	**116,829,641**	**109,084,198**	**253,156,054**	**3.039**				

4. However, and pursuant to the provisions of article 55 of the Bylaws, one-fifth of the board will be renewed each year, based on length of service and according to the date and order of the respective appointment. An amendment of the Bylaws and of the Rules and Regulations of the Board is being contemplated in order to reduce the directors' term of office to three years.

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

COMMITMENT AND EXPERIENCE OF THE BOARD

BOARD'S INTEREST IN THE BANK'S CAPITAL

Data as of the end of 2010

2,007 million euros

stock market value

253,156,054 3.039% of share capital

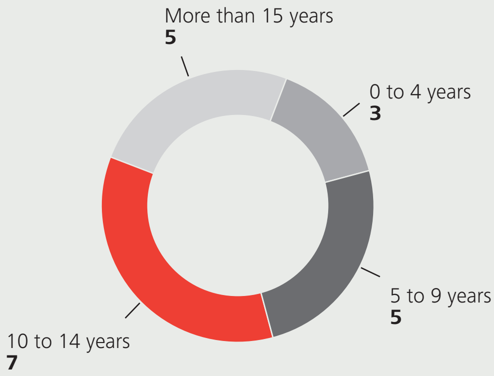
number of shares of the board

7,928 euros

stock price

The directors have, on average, thirteen years' experience working on the Bank's board

EXPERIENCE OF THE BOARD



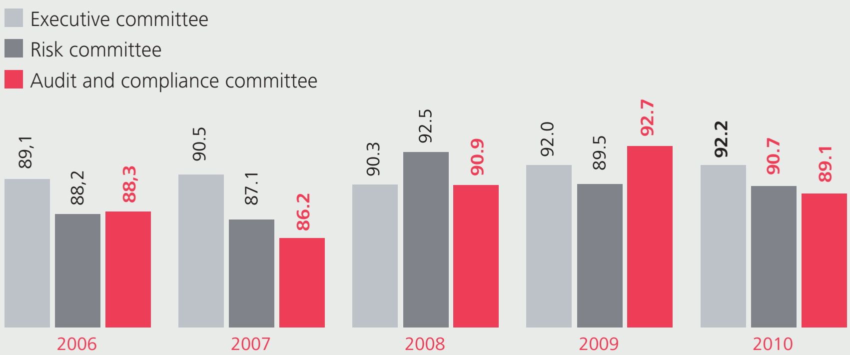
The 10 independent non-executive directors have an average of 9.6 years' experience on the board.
In the case of the 6 executive directors, their experience exceeds 21 years on average.

CORPORATE GOVERNANCE OF RISK MANAGEMENT

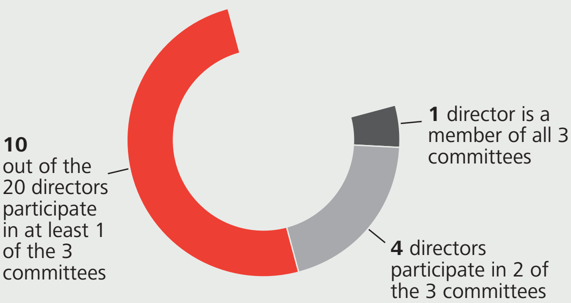
- Mr Matías Rodríguez Inciarte, third vice-chairman of the Bank and chairman of the risk committee, reports directly to the executive committee and to the board, which guarantees the independence of the risk function.
- The risk committee held 99 meetings in 2010, each of which lasted approximately 3 hours.
- The executive committee held 55 meetings in 2010 and devoted a significant amount of time to discussions on risks.
- Of the 20 members currently making up the board, 15 sit on at least one of the three committees with powers and duties in the area of risks: executive committee, risk committee, and audit and compliance committee.

AVERAGE ATTENDANCE RATE AT MEETING OF THE COMMITTEES OF THE BOARD

%



NUMBER OF DIRECTORS PARTICIPATING IN THE EXECUTIVE, THE RISK AND THE AUDIT AND COMPLIANCE COMMITTEES



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

Committees	2006	2007	2008	2009	**2010**
Executive committee	51	55	59	56	**55**
Risk committee	100	98	102	99	**99**
Audit and compliance committee	12	13	11	11	**11**
Total meetings	163	166	172	166	**165**

SIZE AND COMPOSITION OF THE BOARD

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

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

Pursuant to article 6.3 of the Rules and Regulations of the Board, the appointments and remuneration committee, at its meeting of 16 March 2011, verified the status of each director. Its proposal was submitted to the board, which approved it at its meeting of 21 March 2011 and established the composition of the board upon the terms set forth below.

Of the 20 directors currently sitting on the board of directors, 6 are executive and 14 are non-executive. Of the 14 non-executive directors, 10 are independent, 1 is proprietary and 3 are, in the opinion of the board, neither proprietary nor independent.

EXECUTIVE DIRECTORS

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

PROPRIETARY NON-EXECUTIVE DIRECTORS

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

Taking into account the circumstances of 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

At 31 December 2010, the average length of service of independent non-executive directors in the position of board member was 9.6 years.

Taking the board as a whole, the average length of service is 13 years, which is greater than that of independent non-executive directors due to the longer continuity in office of executive directors (21.3 years).

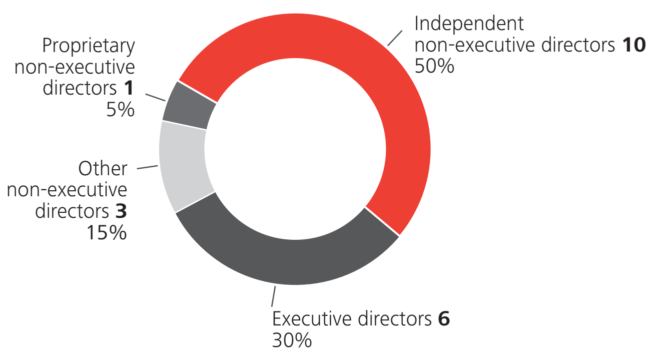
OTHER NON-EXECUTIVE DIRECTORS

Lord Burns is a non-executive, non-proprietary director. Since he currently receives remuneration in his capacity as non-executive chairman of the Group's subsidiaries, Santander UK plc and Alliance & Leicester 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.

The same applies to Mr Antonio Basagoiti García-Tuñón, who, in his capacity as non-executive chairman of Banesto, receives remuneration in addition to his remuneration as a director of Banco Santander.

In the opinion of the board, upon a prior report of the appointments and remuneration committee, the non-executive director Assicurazioni Generali S.p.A. cannot be classified as proprietary in view of the fact that its interest in the Bank's capital has decreased below 1%, which is the limit set by article 6.2.b) of the Rules and Regulations of the Board as a minimum in order for the directors holding or representing such percentage interest to be considered proprietary directors.

COMPOSITION OF THE BOARD



EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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, which assure proper equilibrium in the corporate governance structure of the Bank. The following are some particularly important aspects:

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

SUCCESSION PLANS FOR THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

"In the cases of withdrawal, announcement of renunciation or resignation, 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 on 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 Bylaws sets out interim replacement rules for the temporary performance (in cases of absence, inability to act or indisposition) of the duties of the chairman of the board in the absence of the vice-chairmen.

The board determines the numerical sequence for such purpose every year based on the directors' seniority. In this regard, at its meeting of 11 June 2010, the board unanimously resolved to assign the following order of priority for the temporary performance of the duties of chairman in the absence of the vice-chairmen of the board:

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

SECRETARY OF THE BOARD

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

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

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

PROCEEDINGS OF THE BOARD

There were twelve meetings during financial year 2010.

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

When directors cannot attend 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 such meeting.

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

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

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

CONDUCT OF MEETINGS

In 2010, the board was kept continuously and fully informed of the running of the various business areas of the Group through the eight management reports and seven risks reports presented by the chief executive officer and the third vice-chairman in charge of the risk division, respectively, at the twelve meetings held during the financial year. In addition, the board analysed in detail the business in Latin America (particularly Brazil) and in the United Kingdom, the Santander España and Banesto branch networks and the Group's Asia Plan, as well as the liquidity of European banks and of Banco Santander and the new capital standards, BIS III.

During the year, the board of directors also addressed other matters that come within its area of supervision, as are the compliance function, the sustainability policy and the definition of the Group's structure and off-shore centres.

Finally, the board was informed of the conclusions of the external and internal audits and of the Group's internal control model.

STRATEGY MEETINGS

In addition to the ordinary meetings, the board held specific meetings to discuss Santander's strategy. For such purpose, the directors held two meetings in 2010: the first one, on 18 May, and the second one, on 18 and 19 December.

Among the matters discussed were:

- The economic environment and the situation of the financial industry, with special focus on the Spanish credit system (banks and savings associations).
- The challenges and management priorities of Santander's businesses in the United Kingdom: integration of acquired businesses, regulatory framework, and strengthening of the franchise and the distribution network.
- Banco Santander's living will.
- The future regulation of the capital and liquidity of financial institutions.

TRAINING OF DIRECTORS AND ORIENTATION PROGRAMME

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

Seven meetings were held in 2010 with the attendance of an average of thirteen directors, who devoted approximately one hour and a half to each session. Various issues were reviewed in depth at such meetings in connection with the management of risks, especially standardised risks, business lines, capital and solvency, the causes of the collapse of some banks, and the technology of Santander.

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

SELF-EVALUATION BY THE BOARD

As in prior financial years, a self-evaluation was performed with the support of Spencer Stuart on the basis of a questionnaire and personal interviews with the directors, and also included —in line with the recommendation of the Unified Code and the provisions of the Rules and Regulations of the Board— a special section for the individual evaluation of the chairman, the chief executive officer and the other directors.

The process of self-evaluation by the board focused on the organisation, proceedings and content of board and committee meetings, a comparison with other international banks, and open questions on issues related to the future (strategy, internal and external factors).

The directors highlighted the following as strengths of the Group's corporate governance: knowledge of the banking business, experience, balance between executive and non-executive directors, dedication of board members, and involvement in risk control.

In the opinion of the directors, these strengths have enabled the Group to become a benchmark for management amid the current crisis and to capitalise on the business opportunities that have arisen.

Furthermore, in connection with the organisation, proceedings and content of board meetings, the following aspects were highlighted: high level of strategic debate; composition of the board and directors' expertise; director training programme; excellent operation of the chairman/chief executive officer team; promotion of debate; high level of commitment on the part of the directors; and involvement of the board in the control of credit risk, among others, including reputational, operational and technological risks.

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 (*cooptación*) as permitted by law, must, in turn, be preceded by the corresponding proposal of the appointments and remuneration committee.

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

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

REMUNERATION

REMUNERATION SYSTEM

Article 58 of the Bylaws provides that the directors shall have the right to receive, in consideration for the performance of their duties as board members and as a share in the profits for each financial year, remuneration equal to 1% of the Bank's net profits for the respective financial year, although a director may agree to reduce such percentage. In exercise of its powers, the board set the amount for financial year 2010 at 0.183% 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 in such article 58.

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

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

BOARD'S REMUNERATION IN 2010

In 2010, for the second consecutive year, the board resolved to maintain the same amounts as in the prior year for the annual allocation to which the board members are entitled for the performance of supervisory and collective decision-making duties, such that they have remained unchanged since 2008.

With regards to the executive directors, the board has agreed to keep with only one exception the fixed remuneration for 2011 and to increase the variable remuneration by 10% for 2010.

ANTICIPATION OF AND ADAPTATION TO THE REGULATORY FRAMEWORK

For some years, the board of directors, at the proposal of the appointments and remuneration committee, has initiated measures based on the need for a remuneration system that fosters rigorous risk management. This initiative, together with continuous monitoring of the recommendations of the principal domestic and international bodies in this area, has allowed the Bank to apply the principles contained in many of the more recent guidelines, on some occasions even before they go into effect.

One example of this is the deferred shares portion of variable remuneration that the Bank's board approved in 2007 and that the Financial Stability Board included among the principles for sound compensation practices announced in 2009.

REPORT ON THE DIRECTOR REMUNERATION POLICY

As provided in the Bylaws (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 2010, such report was submitted for the first time to the shareholders at the general shareholders' meeting held on 11 June 2010, as a separate item on the agenda and as a consultative matter; 94.943% of the votes were in favour of the report.

TRANSPARENCY

Pursuant to the Bylaws (article 59.2), the annual accounts 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.

DUTIES OF DIRECTORS, RELATED-PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

DUTIES

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

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

The duty of diligent management includes the directors' duty to inform themselves adequately of the running of the Bank and to dedicate to their duties the time and effort needed to carry them out effectively. The directors 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, in financial year 2010 and to the date of publication of this report, has carried out unusual or significant transactions with the Bank.

CONTROL MECHANISMS

As provided in the Rules and Regulations of the Board (article 30), directors must inform the board of any conflict of interest, whether direct or indirect, that they may have with the interests of the Bank. If the conflict relates to a transaction, the director may not carry it out without the approval of the board, following a report of 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 2010 there were 39 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 39 cases is as follows: on 16 occasions, the situation of conflict was due to proposals for appointment, re-election and renewal of powers of the directors; on 13 occasions, the matter under consideration was the approval of terms of remuneration; on 5 occasions, the situation arose from the annual verification of the status of the directors made by the appointments and remuneration committee at its meeting of 17 March 2010 pursuant to article 6.3 of the Rules and Regulations of the Board; on 4 occasions, proposals were discussed regarding the financing of companies related to various directors; and on one occasion, the matter at hand was the approval of a corporate social responsibility activity in favour of a foundation chaired by a director.

COMMITTEES OF THE BOARD

GENERAL

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

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

EXECUTIVE COMMITTEE

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

There are currently 10 directors sitting on the committee, of whom 5 are executive and 5 are non-executive directors. Of the latter, 4 are independent and 1 is neither proprietary nor independent.

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

RISK COMMITTEE

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

The committee is currently made up of five directors, of whom two are executive and three are non-executive. Of these three non-executive directors, two are independent and one is neither proprietary nor independent. Its chairman is a vice-chairman with executive duties pursuant to the Rules and Regulations of the Board (article 15.1).

Pages 150 to 207 of this annual report contain broad information regarding the risk committee and the Group's risk policies, the responsibility for which (article 3 of the Rules and Regulations of the Board) is part of the board's general duty of supervision.

AUDIT AND COMPLIANCE COMMITTEE

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

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

The coordination required by the best international practices between the activities of the risk committee and those of the audit committee is guaranteed within the Group because, on the one hand, the general secretary is the secretary of both the risk committee and the audit and compliance committee, and on the other hand, because of the presentations regarding risk management made at the audit and compliance committee.

Specifically, during the last financial year, the third vice-chairman and chairman of the risk committee reported to the audit and compliance committee, at its meeting of 21 April, regarding the status of risks within the Group, submitting a detailed presentation on the following issues:

1. Principles governing risk management.
2. Reference indicators (review of the Group's balance sheet, credit risk and market risk).
3. Principal risks, delinquency, and features of the main portfolios.
4. Other issues, such as stress test on credit portfolios, real estate risk in Spain and structured financing.

Moreover, other presentations were made in 2010 regarding specific risk issues.

The report prepared by the audit and compliance committee regarding its activities in 2010, which is distributed together with the annual report, contains detailed information on internal control systems and risk management.

APPOINTMENTS AND REMUNERATION COMMITTEE

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

During financial year 2010, none of the members of the appointments and remuneration committee was an executive director, member of senior management or employee of the Bank, and no executive director or member of the senior management of the Bank sat on the board (or on the remuneration committee) of companies that employed members of the appointments and remuneration committee.

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

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

TECHNOLOGY, PRODUCTIVITY AND QUALITY COMMITTEE

The technology, productivity and quality committee (article 13 of the Rules and Regulations of the Board) is responsible for studying and reporting on the plans and actions relating to information and application programming systems, investments in computer equipment, design of operational processes to improve productivity, and programmes to improve service quality and measurement procedures, as well as programs relating to resources and costs.

It is made up of eight directors, three executive and five non-executive directors. Of the latter, four are independent and 1 is neither proprietary nor independent.

INTERNATIONAL COMMITTEE

The international committee (article 13 of the Rules and Regulations of the Board) is responsible for monitoring the progress of the Group's strategy and the activities, markets and countries in which the Group wishes to operate through direct investments or through the deployment of specific business. The committee is informed of the commercial initiatives and strategies of the various Group units and of any new projects presented to it. It also reviews the progress of financial investments and business as well as the international economic climate so that it can make, where appropriate, suitable proposals to correct country risk limits, their structure and returns and their allocation by business and/or unit.

The committee is made up of eight directors, four executive directors and four independent non-executive directors.

COMMITTEES OF THE BOARD

	Executive committee	Risk committee	Audit and compliance committee	Appointments and remuneration committee
No. of members	10	5	5	5
Executive	5	2	-	-
Non-executive	5	3	5	5
No. of meetings	55	99	11	9
Hours*	285	297	55	28

(*) Estimated hours of average dedication per director.

INTERNATIONAL ADVISORY BOARD

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

During 2010, the international advisory board held two meetings, during which the following issues were discussed, among others: the situation in the US, Spain and the rest of Europe, the Bank's living will, Santander's image plan and sporting sponsorships, the Group's results and the prospects thereof, with special focus on the integration of the main businesses acquired over the last years.

The international advisory board is made up of leading Spanish and foreign personalities who are not members of the Bank's board.

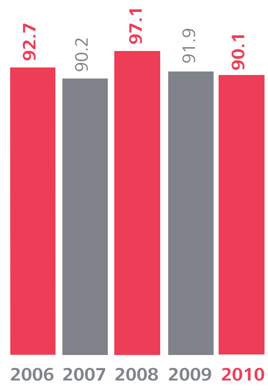
It is currently composed of the following 8 members, representing 6 nationalities:

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

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2010

Pursuant to the Rules and Regulations of the Board (article 20.1), absences from meetings must be limited to unavoidable cases. The average attendance rate at board of directors' meetings in financial year 2010 was 90.1%.

ATTENDANCE AT BOARD MEETINGS
%



The attendance rate as present at meetings of the board has exceeded 90% in each of the last five years.

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2010

		Decision-making		Reporting			
	Board	Executive	Risk	Audit and compliance	Appointments and remuneration	Technology, productivity and quality	International
Average attendance	90.13%	92.18%	90.71%	89.09%	91.11%	100.00%	100.00%
Individual attendance							
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	12/12	50/55	–	–	–	2/2	1/1
Mr Fernando de Asúa Álvarez	12/12	53/55	96/99	11/11	9/9	2/2	–
Mr Alfredo Sáenz Abad	12/12	53/55	–	–	–	2/2	1/1
Mr Matías Rodríguez Inciarte	12/12	55/55	99/99	–	–	–	–
Mr Manuel Soto Serrano	11/12	–	–	11/11	9/9	2/2	–
Assicurazioni Generali S.p.A. (1)	9/12	–	–	–	–	–	–
Mr Antonio Basagoiti García-Tuñón	12/12	53/55	93/99	–	–	2/2	–
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	12/12	45/55	–	–	–	2/2	1/1
Mr Javier Botín-Sanz de Sautuola y O'Shea	11/12	–	–	–	–	–	–
Lord Burns (Terence)	9/12	–	–	–	–	–	–
Mr Guillermo de la Dehesa Romero	12/12	52/55	–	–	9/9	–	1/1
Mr Rodrigo Echenique Gordillo (2)	12/12	49/55	–	–	8/9	–	1/1
Mr Antonio Escámez Torres	10/12	53/55	88/99	–	–	2/2	1/1
Mr Ángel Jado Becerro de Bengoa (3)	5/5	–	–	–	–	–	–
Mr Francisco Luzón López	10/12	44/55	–	–	–	–	1/1
Mr Abel Matutes Juan	11/12	–	–	9/11	–	–	1/1
Mr Juan Rodríguez Inciarte	12/12	–	73/99	–	–	–	–
Mr Luis Ángel Rojo Duque	3/12	–	–	8/11	6/9	–	–
Mr Luis Alberto Salazar-Simpson Bos	11/12	–	–	10/11	–	2/2	–
Ms Isabel Tocino Biscarolasaga	12/12	–	–	–	–	–	–

Note: the denominator refers to the number of meetings held during the year during which a director served as such or as a member of the respective committee.

(1) Represented on the board of the Bank by Mr Antoine Bernheim.
(2) Appointed as a member of the audit and compliance committee on 20 December 2010. From such date through the end of the year, this committee held no meetings.
(3) Appointed as a director by the shareholders at the general shareholders' meeting held on 11 June 2010. He accepted his appointment on such date, and from then on, the board held 5 of its 12 meetings in the year.

3. SHAREHOLDER RIGHTS AND THE GENERAL SHAREHOLDERS' MEETING

ONE SHARE, ONE VOTE, ONE DIVIDEND

NO DEFENSIVE MECHANISMS CONTEMPLATED IN THE BYLAWS

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

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

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

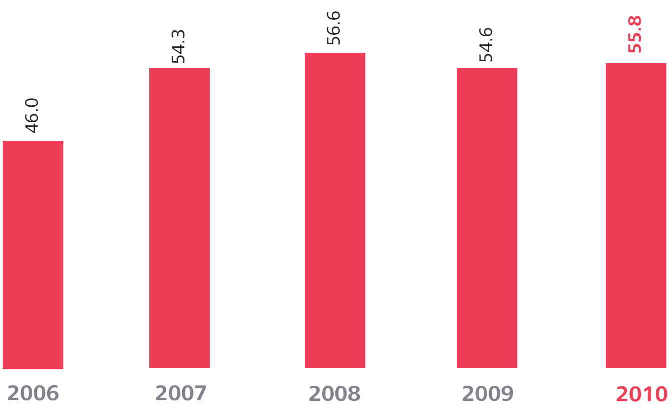
Any person is eligible for the position of director, subject only to the limitations established by law.

QUORUM AT THE ANNUAL GENERAL SHAREHOLDERS' MEETING HELD IN 2010

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

The quorum at the 2010 annual general shareholders' meeting was 55.854%, above 50% for the fourth consecutive year, despite the increase in the number of the Bank's shareholders by almost 900 thousand over the last four years and its high free float.

QUORUM AT THE ANNUAL GENERAL MEETINGS
% of capital present and by proxy



ENCOURAGEMENT OF INFORMED PARTICIPATION OF SHAREHOLDERS AT SHAREHOLDERS' MEETINGS

Noteworthy measures adopted by the Bank to encourage informed participation of the shareholders at shareholders' meetings include the following:

- Shareholders may attend meetings even if they hold only one share.
- Absence of a share blocking system to identify the persons who are entitled to attend shareholders' meetings. The only requirement is for any number of shares to be registered in the name of the shareholder five days prior to the date of the meeting.
- Remote attendance by means of data transmission and exercise of voting rights by postal correspondence, physical means and electronic communication.
- Shareholders may exercise their right to receive information by sending an e-mail to the address junta.accionistas@santander.com after the date the general shareholders' meeting is called.
- Separate voting on matters such as the appointment of directors and on articles or groups of articles which are substantially independent in the event of amendments to the Bylaws or to the Rules and Regulations for the General Shareholders' Meeting, except in the case of voting on the full text of the Bylaws or of the Rules and Regulations for the General Shareholders' Meeting.

In addition, it is planned that the annual accounts and the corporate management of the Bank and its consolidated group, all for financial year 2010, be put to a vote under separate items on the agenda at the 2011 annual general shareholders' meeting.

- Granting of proxy to any person, whether or not a shareholder.
- Attendance of a notary to prepare the minutes of the meeting.

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

INFORMATION PROVIDED TO THE SHAREHOLDERS AND COMMUNICATION WITH THEM

On occasion of the 2010 annual general shareholders' meeting, the chairman once again sent a letter to all shareholders inviting them to suggest the matters they would like to see dealt with, without prejudice to their rights to receive information and make proposals.

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

During 2010, the Bank held 661 meetings with investors and maintained an on-going relationship with analysts and rating agencies, which entailed personal contact with more than 1,350 investors/analysts. For the third consecutive year, the department of relations with investors and analysts was chosen by investors (buy side) as the best IR Team in the financial industry in Europe, according to the survey conducted by the specialised magazine *Institutional Investor*. The department also continued to inform the main investors and analysts of the Group's policies in the area of corporate social responsibility.

Santander has continued to strengthen the channels for shareholder information and service through the seven Shareholder's Offices it has in significant markets in which it is present (Spain, United Kingdom, United States of America, Brazil, Mexico, Portugal and Chile).

CHANNELS FOR SHAREHOLDER INFORMATION AND SERVICE

Telephone service lines	247,057 questions
Shareholder's mailbox	20,704 e-mails answered 127,706 subscriptions
Forums	14,230 participants 179 held
Web	1,430,542 visits
Letters	692,091 letters answered

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

GENERAL SHAREHOLDERS' MEETING HELD IN 2010

INFORMATION ON THE CALL TO MEETING, THE ESTABLISHMENT OF A QUORUM, ATTENDANCE, PROXY-GRANTING AND VOTING

Annual general shareholders' meeting of 11 June 2010
Notice of the call to meeting was published on 4 May, 38 days prior to the date of the meeting. A total of 326,826 shareholders attended, in person or by proxy, with 4,596,121,057 shares. The quorum was thus 55.854% of the share capital of the Bank.

The average percentage of affirmative votes upon which the proposals submitted by the board were approved was 96.937%.

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

MEETING OF 11 JUNE 2010

Physically present	0.364% [1]
By proxy	34.840% [2]
Remote votes	20.651% [3]
Total	55.854%

(1) Of such percentage (0.364%), 0.002% is the percentage of share capital that attended by remote means through the Internet.
(2) The percentage of share capital that granted proxies through the Internet was 0.015%.
(3) Of such percentage (20.651%), 20.647% is the percentage of votes cast by postal mail and 0.004% is the percentage of electronic votes.

Resolutions adopted at the shareholders' meeting held in 2010
The full text of the resolutions adopted at the 2010 annual general shareholders' meeting is available on the websites of both the Group (www.santander.com) and the CNMV (www.cnmv.es).

4. BANCO SANTANDER'S SENIOR MANAGEMENT

COMPOSITION

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

BANCO SANTANDER'S SENIOR MANAGEMENT

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

* Chief executive officer of Banesto (he is not an executive vice president of Banco Santander).

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

REMUNERATION

Information on the remuneration of executive vice presidents is provided in note 5 of 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 with the Bank during financial year 2010 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 division 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 2010, the Bank published 85 material facts, 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 11 June 2010 approved the re-election of Deloitte, S.L. as auditor for one year, with the affirmative vote of 98.430% 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. In this connection, the audit and compliance committee approves non-audit services provided to the Group by the auditor, which, in 2010, related mainly to the issuance of securities, tax advice, work related to capital requirements, preparation of financial studies and due diligence.

The Rules and Regulations impose on the board the duty to make public the overall fees paid by the Bank to the auditor for services other than audit services. The information for financial year 2010 is contained in note 48 of the Group's legal report.

The Rules and Regulations determine the mechanisms to be used to prepare the accounts such that there is no room for qualifications in the auditor's report. Nevertheless, the Bylaws as well as the Rules and Regulations also provide that, whenever the board believes that its opinion must prevail, it shall provide an explanation, through the chairman of the audit and compliance committee, of the content and scope of the discrepancy and shall endeavour to ensure that the auditor informs in this regard. The annual accounts of the Bank and of the consolidated Group for financial year 2010 are submitted without qualifications.

At its meeting of 15 March 2011, the audit and compliance committee received from the auditor a written confirmation of its independence in respect of the Bank and the entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the auditors or by entities related thereto, pursuant to the provisions of Law 19/1988, of 12 July, on the Audit of Accounts.

At its meeting of 15 March 2011, such committee 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 Law (*Ley del Mercado de Valores*).

INTRA-GROUP TRANSACTIONS

There were no intra-group transactions in financial year 2010 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 *Information for Shareholders and Investors* section of the main menu all information required under article 528 of the restated text of the Companies Law (*Ley de Sociedades de Capital*) and under Order ECO/3722/2003, thus carrying out the resolution adopted by the board at its meeting of 23 January 2004.

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

The following information is available on such website:

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

The announcement of the call to the 2011 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.

A new practice is that the announcement of the call to the 2011 annual general shareholders' meeting shall include the rules applicable to the electronic shareholders' forum that the Bank will make available on its website (www.santander.com) in order to facilitate communication among the shareholders prior to the meeting.

6. UNIFIED GOOD GOVERNANCE CODE

In 2007, Banco Santander carried out a process of adjustment to the Unified Good Governance Code, approved by the National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or CNMV) on 22 May 2006, based on the principle of self-regulation, which was completed in 2008 with the approval of new Bylaws and, in 2009, with new Rules and Regulations of the Board.

Banco Santander follows practically all of the recommendations of the Unified Code, and does not follow (i.e., does not adopt in full) a small number of them (3 out of 58). Such recommendations from which the Bank departs are described in the following sections, together with the rationale for the board's position.

NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS

Although the current number of directors (20) exceeds the maximum number of 15 proposed by recommendation 9, the board believes that its size is commensurate to the scale, complexity and geographical diversification of the Group. In the opinion of the board, the manner in which it operates, sitting both as a full body and through committees —with delegated supervisory, advisory, reporting and proposal-making powers—, guarantees its effectiveness and the participation of its members.

INDEPENDENT DIRECTORS

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

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

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

ECONOMIC AND FINANCIAL REVIEW

Photo: The headquarters of Santander UK, Triton Square, London, UK

ECONOMIC AND FINANCIAL REVIEW

GENERAL BACKGROUND

The global economy recovered strongly in 2010 from the recession in 2009 (-0.6%) and grew by around 5%, higher than the average of the decade before the world crisis (+4%). This recovery, which was firmer in the first half of the year, was fuelled, on the one hand, by the monetary and fiscal stimulus measures adopted in the large developed economies to offset weak domestic demand and, on the other, by the greater growth capacity of emerging economies, particularly in Asia and Latin America, which were less leveraged and with fewer growth restrictions and less affected by the downturn.

These differences led to a two-speed recovery, with a faster pace of growth in emerging than in developed economies, a trend which held until the last part of 2010 and the beginning of 2011. However, the positive surprises in US and German growth paint a panorama of a more solid recovery and more balanced among regions in 2011, although still with uncertainties.

- The US economy ended 2010 with signs of more buoyant domestic demand (consumption and investment), although still incipient. In Germany, growth in the manufacturing sector, spurred by external demand, is also feeding through to domestic demand via job creation and confidence. Meanwhile, in the rest of Europe, the uncertainty over the fiscal situation in countries on the periphery of the euro zone such as Greece and the bail-out of the Irish banking system added in the second half of the year more risk to the euro zone.

- Emerging economies continue to grow strongly, driven by greater international trade, capital inflows, higher oil prices and the strength of their domestic demand.

  This strength, however, raises two challenges for its sustainability. On the one hand, the rise in inflation in many countries already growing above their potential and, on the other, the large capital inflows which are strengthening their currencies more than desired, particularly Latin America's. The economic policies of these countries face a complicated challenge of controlling inflation without appreciating their currencies.

Analysing in greater detail the main economies where the Group operates, the US economy grew 2.9% in 2010, following accelerated growth in the fourth quarter of 2.6% annualized, spurred by private consumption and the external sector (higher exports and lower imports). Despite some weaknesses related to the property sector and medium-sized banks, the extension of tax advantages, the incipient improvement in the labour market and the better financial position of companies point to continued economic expansion. Core inflation of less than 1% (0.8%) and an unused surpluss from the producing capacity close to 6% of GDP enabled the Federal Reserve to launch a new programme of quantitative easing (purchase of $600 billion of debt in eight months) and hold its key interest rate. These trends are not expected to change in the short term.

Latin America benefited from a favourable external environment (higher raw material prices and capital inflows) and from stronger domestic demand. The region grew by more than an estimated 6% in 2010, with record growth in the second quarter of 7.8%, largely due to the big economies.

Brazil's growth slowed in the second half of 2010 and ended the year at 7.5% (-0.7% in 2009). This strong expansion put pressure on inflation which reached 5.6% in the fourth quarter, well above the Bank of Brazil's central objective of 4.5%. Although the central bank held its Selic rate in the second half of the year in order to avoid a greater appreciation of the real (the rate had risen by 2 p.p. to 10.75%), the evolution of inflation and its expectations led the bank to lift the Selic rate at the beginning of 2011 (to 11.75% in mid March). This trend is likely to continue in the coming months. The real strengthened during 2010 to BRL 1.66/$1.

Mexico, which surprised in the fourth quarter with high growth (4.6%), grew by around 5.5% for the whole year, due to greater demand for its exports to the US and the pick up in domestic demand. Inflation rose a little (4.4% in December), but is not threatening growth, enabling the Bank of Mexico to hold its rate at 4.5% since the end of 2009. As a result of these trends, the peso appreciated to MXN 12.4/$1.

Chile's growth was also surprisingly strong (7.2% year-on-year in the third quarter) and around 5.4% for the whole of 2010. Inflation rose because of higher oil and some food prices (3% in December). After raising its interest rates to 3.25% in November (0.5% at the beginning of the year), the Bank of Chile called a temporary halt to rises, which picked up again in 2011 to 3.5%. The peso's appreciation (CLP 468/$1) led to the launch of a programme to buy dollars in the currency markets in order to try to moderate the strength of the peso.

The euro zone grew by 1.7% in 2010, following a fourth quarter (1.1% annualized) that maintained the tone and pointed to stronger growth in early 2011. Inflation, which rose because of higher oil prices, ended the year at 2.2%, above the target of the European Central Bank (ECB) which, however, held its repo rate at 1% in 2010.

Rising oil prices at the beginning of 2011 are putting pressure on inflation, leading the European Central Bank to tighten its anti-inflation stance. All of this increases the probability of a preventive rise in interest rates in the first half of 2011 in order to anchor inflation expectations. The euro strengthened in the last months of 2010 to EUR/$1.34 and is maintaining this trend in 2011 because of the new interest rate expectations.

European activity continues to be largely backed by Germany (3.5% GDP growth for the whole year). Of note is the better performance in manufactures, exports and investment which, according to the latest data on confidence and the good level of job creation, is already feeding through to domestic demand.

The Spanish economy did better than expected in 2010, with zero growth in the third quarter and 0.2% in the fourth. Growth for the whole year was 0.1% negative. Consumption declined in the second half of the year (purchases were brought forward in the first half because of the rise in VAT as of July), while the external sector led growth.

The slightly better growth figure, however, was not sufficient to create jobs and the unemployment rate topped 20%. Higher oil prices and taxes (tobacco) pushed up inflation to 3% in December, a trend that intensifies at the beginning of 2011.

The UK ended 2010 with a sharp deceleration in growth (-2.1% annualized in the fourth quarter), largely due to severe weather conditions, after a good third quarter (+2.9%). Growth for the whole year was 1.4%, a trend which is likely to be maintained. Inflation continued to be high (3.7%), partly due to the rise in indirect taxes and sterling's slide.

In this context, the Bank of England held its base rate at 0.5% throughout the year, although inflationary pressures make a rise in the rate more probable in the first half of 2011. Sterling strengthened a little against the euro (EUR 1/£0.86).

SUMMARY OF 2010 FOR GRUPO SANTANDER

Grupo Santander generated an attributable profit of EUR 8,181 million in 2010. This was the fourth consecutive year, since the onset of the global crisis, that Santander's profit exceeded EUR 8,000 million (EUR 35,060 million in all). High and recurring generation of earnings make Santander the third bank in the world and the leading international one by the profits posted during this period, clearly above its competitors who have higher levels of assets and capital.

In a complex environment in the many markets where it operates, Santander again proved the resistance of its business model, which, with a differentiated management, is adapted to the various markets and environments and enables it to generate high recurring profits while also preparing the income statement for the coming years.

The drivers behind this model are a focus on the customer and on retail business, geographic diversification and continuous efforts to improve commercial efficiency, prudent risk management and discipline in capital and liquidity, all of which is strengthened by the Santander brand, recognized as one of the world's main financial brands.

Six key features sum up management of Grupo Santander in 2010:

1) **Solid generation of profits**. Attributable profit of EUR 8,181 million was 8.5% lower than in 2009 and earnings per share were EUR 0.9418.

   The profit includes the impact of the EUR 693 million (EUR 472 million after tax) allowance resulting from the new Bank of Spain regulations on provisions (Circular 3/10) and their application under criteria of maximum prudence. Excluding this effect, attributable profit would have been EUR 8,653 million (-3.2%) and earnings per share EUR 0.9961.

   The income statement reflects the diversification and focuses of management adapted to each market:

   – Profits grew strongly in emerging markets (Brazil and the rest of Latin America), which recovered pre-crisis business levels. There was also growth in developed countries with still weak macroeconomic environments but which are benefiting from their business moment (restructuring in the UK and the US, consumer business ahead of the cycle). All of this is offsetting the sharp fall in profits in Spain and Portugal, affected by intense processes of deleveraging.

   – Of note was the consistency of basic revenues. Active management of spreads was vital here to soften the impact of low growth in lending, with interest rates at lows, particularly in developed markets, and higher financing costs. Gross income rose 6.8% and net interest income 11.1%.

– Good management of total operating costs which increased 2.0% excluding a small perimeter effect and the impact of exchange rates. The efficiency ratio of 43.3% was at the level of the best of our peers.

– Strict management of risk reduced provisions for possible loan losses in the large units and countries except for Spain. Recurring provisions (excluding the impact of the regulatory change) were 8.5% lower excluding the perimeter and exchange rate effects.

2) **Improved trend in credit quality ratios**. Non-performing loan (NPL) entries and the risk premium for both the Group as a whole and for the large business units dropped.

This produced a notably slower rate of growth in the Group's NPL ratio, which ended 2010 at 3.55% (up 0.31 p.p. compared to more than one point in 2009). Of note was the trend in Santander Consumer Finance, Brazil and Sovereign. Coverage remained virtually stable at 73%. The NPL ratio in Spain was 4.24% and coverage 58%.

3) **Significant improvement in the financing structure and in the Group's liquidity ratios**. The loan-to-deposit ratio was 117%, down from 135% in 2009 and 150% in 2008. This was made possible by the strategy to capture retail funds, which aimed to gain market share and improve the financing structure with more stable deposits. This strategy increased the Group's deposits by EUR 109,400 million, well above the rise in lending (+EUR 41,600 million), which was more stable as a result of the deleveraging process in mature markets.

The Group also developed a very conservative policy in medium-and long-term issues, which exceeded the year's maturities.

4) **Further rise in solvency**. The Group's core capital ratio at the end of 2010 was 8.80%, above 2009's 8.61%. The generation of free capital, thanks to solid results and management of risk assets, together with the positive impact of the two scrip dividends, which were accepted by 84% and 87% of shareholders respectively, enabled the Group to improve its core capital for the fourth year in a row.

The ratio is very solid, as befits our business model and risk profile and places us in a comfortable position to meet the new Basel requirements and the stricter ones recently approved by Spain's regulators.

5) **High shareholder remuneration**. The total shareholder return in 2010 was EUR 0.60 per share, including the scrip dividends, the same as in 2009. A total of EUR 4,999 million was distributed among shareholders.

Recurring profits and solid capital are the keys to making Santander the international bank that best remunerated its shareholders in the last three years (more than EUR 14,700 million).

6) **Better strategic positioning of the Group**. Santander continued to combine organic growth initiatives with various agreements to boost its presence in emerging and mature countries, enabling it to end the year in a well diversified position and with greater growth potential.

Among the first was:

– The agreement to acquire 25% of the minority interests in Mexico, an operation completed in September.

– Purchase of Bank Zachodni WBK, the third largest Polish bank by branches and profits. Once the Polish authorities have authorized this operation, an acquisition offer for all of the bank's capital was made. After its completion, the Group's participation will be 95.67%.

As regards developed countries

– The retail business of Skandinaviska Enskilda Banken (SEB Group) in Germany was acquired. This operation was completed in January 2011 and enables the Group to almost double its branch network in Germany.

– Agreement was reached with The Royal Bank of Scotland to acquire 311 RBS branches in England and Wales and seven NatWest branches in Scotland, as well as 40 banking centres for SMEs, four centres for company banking and three for private banking. This agreement is yet another significant strategic step for Santander UK, as it increases our distribution and cross-selling capacity, and accelerates growth in the SMEs segment, where the Group's market share is lower than that corresponding to its presence.

These operations, which will be completed, for the most part, during 2011, paint a profile of strong growth for Santander in the coming years. The units in emerging countries, those with the best macroeconomic outlook, today account for around 45% of the Group's profits (in a

EXCHANGE RATES: 1 EURO / CURRENCY PARITY

	2010		2009	
	Year-end	Average	Year-end	Average
US$	1.3362	1.3228	1.4406	1.3906
Pound sterling	0.8608	0.8570	0.8881	0.8901
Brazilian real	2.2177	2.3262	2.5113	2.7577
New Mexican peso	16.5475	16.6997	18.9223	18.7756
Chilean peso	625.2748	673.9214	730.7444	775.2659
Argentine peso	5.3074	5.1737	5.4761	5.1760
Colombian peso	2,565.5040	2,507.2221	2,949.6285	2,984.2729
Uruguayan peso	26.5904	26.4588	28.1637	31.2598

pro forma statement including Poland), developed countries with faster prospects of recovery produce about 40% and the rest, in markets still undergoing adjustments, generate less than 20%.

The main developments of geographic areas were as follows:

- **Continental Europe**: attributable profit of EUR 3,885 million, 22.8% less than in 2009 and hit by the environment of low growth and deleveraging and by the Bank of Spain's new regulations on provisions. Excluding this, profit was 13.4% lower. The profits of the three commercial networks were lower but that of Santander Consumer Finance was 28.9% higher.

- **United Kingdom**: attributable profit £1,701 million (EUR 1,985 million), 10.7% more than in 2009. This was the sixth straight year of double-digit growth in profits. The efficiency ratio was 39.4%, clearly better than our competitors in the UK.

- **Latin America**: attributable profit of EUR 4,804 million (+25.3%). In local currency, and excluding the impact of minority interests and discontinued operations, profit increased 17.0%, due to net interest income (+6.2%), costs (+4.5%) rising below the inflation rate and lower needs for provisions (-19.5%).

  Both the area as a whole as well as the main countries, led by Brazil, ended 2010 with lending growth of around 15% or higher. All began the year with negative growth rates.

- **Sovereign**: attributable profit of EUR 424 million ($561 million) compared to losses in 2009. Since its incorporation to the Group, Sovereign's contribution has improved quarter after quarter, backed by a good evolution of revenues, costs and provisions, which has enabled the bank to exceed the targets announced at the time of the purchase.

Corporate Activities: covers a series of centralised activities and acts as the Group's holding. As a result its contribution to results is usually negative.

The area made a loss of EUR 2,918 million in 2010 compared to a loss of EUR 1,632 million in 2009. This was mainly due to lower net interest income and to losses in financial transactions, basically in hedging positions of exchange rates and to lower revenues from hedging interest rates in financings of a structural nature.

RATING AGENCIES

The Group's AA rating for long-term debt with the four main agencies was affirmed in the latest reviews, making Santander one of the few international banks with such a rating or higher with all of them.

The main features of the latest reviews are set out below.

- Standard & Poor's affirmed in July 2010 the AA rating, valuing the strength of the Bank's business, the high degree of geographic diversification, the soundness of business shares in core markets, the success and good execution of the strategy, the strong resistance of net operating income and the Group's solid capitalisation. The continued negative outlook reflects the difficult macroeconomic situation in Spain and globally.

- In September, Fitch Ratings affirmed Banco Santander's AA rating and maintained the stable outlook, valuing the strategic sense of the acquisitions as they were mainly in markets where the Bank is already present. It also affirmed that the businesses incorporated complement the fundamental activity of retail banking and provide the Group with greater geographic diversification.

  Fitch also stressed the strength of the retail franchises in core markets, the quality of management and their strategy, the robustness of profits, the diversification and good mix of business and the quality of the risk systems.

- DBRS confirmed in February 2011 the AA rating, and stable outlook, following the presentation of the Group's results and emphasizing the strong international diversification and high level of efficiency.

- On March 24, 2011, under the review with negative outlook of 30 Spanish banks last December, Moody's reaffirmed the Aa2 rating of Banco Santander's senior debt due to its strong financial strength.

RATING AGENCIES

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

GRUPO SANTANDER. RESULTS

- The Group once again showed its capacity to generate recurring profits: more than EUR 8,000 million a year in the last four years of crisis
- The income statement reflects the management's focal points:
  - Gross income at a record high, due to resistance to the cycle in developed markets and recovery in emerging markets.
  - Flexibility in costs and generation of synergies.
  - Active managemengt of risks and recoveries.
- Profits benefiting from diversification: double-digit growth in the UK, Latin America, Sovereign and Santander Consumer Finance.

Grupo Santander showed in 2010 its capacity to produce recurring profits in a difficult environment. Geographic diversification and differentiated management on the basis of each market's conditions resulted in an attributable profit of EUR 8,181 million, 8.5% less than in 2009. Earnings per share were EUR 0.9418.

In order to better interpret the results, several aspects need to be taken into account.

- The first is the impact on results of the change in the Bank of Spain's regulations on provisions, which came into force on September 30. These regulations unify and accelerate the calendars for provisions for all bad loans, and this meant a one-off and extraordinary provision in the third quarter (in the units in Spain) of EUR 693 million. Its after tax impact on attributable profit was EUR 472 million.

  The Group has been prudent, both in the criteria used for applying the Circular as well as charging all of the provision to the year's profits, without offsetting its impact through the release of generic provisions.

INCOME STATEMENT
Million euros

	2010	2009	Variation Amount	%	2008
Net interest income	**29,224**	**26,299**	**2,926**	**11.1**	**20,945**
Dividends	362	436	(74)	(17.0)	553
Income from equity-accounted method	17	(1)	17	—	117
Net fees	9,734	9,080	654	7.2	9,020
Gains (losses) on financial transactions	2,606	3,423	(817)	(23.9)	2,597
Other operating income/expenses	106	144	(38)	(26.2)	258
Gross income	**42,049**	**39,381**	**2,668**	**6.8**	**33,489**
Operating expenses	(18,196)	(16,421)	(1,775)	10.8	(14,949)
General administrative expenses	(16,256)	(14,825)	(1,431)	9.7	(13,580)
Personnel	*(9,330)*	*(8,450)*	*(879)*	*10.4*	*(7,758)*
Other general administrative expenses	*(6,926)*	*(6,374)*	*(552)*	*8.7*	*(5,822)*
Depreciation and amortisation	(1,940)	(1,596)	(344)	21.5	(1,370)
Net operating income	**23,853**	**22,960**	**893**	**3.9**	**18,540**
Net loan-loss provisions	(10,258)	(9,484)	(774)	8.2	(6,601)
Impairment losses on other assets	(471)	(402)	(69)	17.3	(91)
Other income	(1,072)	(1,311)	239	(18.2)	(426)
Profit before taxes (w/o capital gains)	**12,052**	**11,764**	**288**	**2.4**	**11,421**
Tax on profit	(2,923)	(2,336)	(587)	25.1	(2,391)
Profit from continuing operations (w/o capital gains)	**9,129**	**9,427**	**(299)**	**(3.2)**	**9,030**
Net profit from discontinued operations	(27)	31	(58)	—	319
Consolidated profit (w/o capital gains)	**9,102**	**9,458**	**(356)**	**(3.8)**	**9,349**
Minority interests	921	516	405	78.6	473
Attributable profit to the Group (w/o capital gains)	**8,181**	**8,943**	**(762)**	**(8.5)**	**8,876**
Net extraordinary capital gains and allowances (1)	—	—	—	—	—
Attributable profit to the Group (2)	**8,181**	**8,943**	**(762)**	**(8.5)**	**8,876**
EPS (euros) (2) (3)	**0.9418**	**1.0454**	**(0.1036)**	**(9.9)**	**1.2207**
Diluted EPS (euros) (3)	**0.9356**	**1.0382**	**(0.1026)**	**(9.9)**	**1.2133**
Pro memoria:					
Average total assets	1,190,361	1,099,018	91,343	8.3	970,413
Average shareholders' equity	69,334	64,335	4,999	7.8	51,986

(1).- In 2008 and 2009 extraordinary capital gains and extraordinary allowances for the same amount are included, and thus the net amount is zero.
(2).- In 2010, before the impact from the application of Bank of Spain's Circular 3/2010, attributable profit to the Group EUR 8,653 million (-3.2%) and EPS EUR 0.9961 (-4.7%).
(3).- 2008 data have been adjusted to the capital increase with preemptive rights at the end of 2008.

- There is a small positive perimeter impact from the consolidation of 11 months of Sovereign by global integration in 2009 and the incorporation into Santander Consumer Finance of Triad, HSBC and AIG portfolios, and a small negative impact of around one percentage point from the sale of Banco de Venezuela in 2009. This bank's results in the months when it consolidated have been eliminated from the various items of the income statement and recorded in discontinued operations.

- There was also a negative effect of some 5 percentage points from higher minority interests, the net effect between the placement of Banco Santander Brazil shares, mainly in October 2009, and the acquisition, in September 2010, of the minority interests of Santander Mexico in the hands of Bank of America.

- Lastly, the comparison of gross income and expenses is affected by the evolution of the average exchange rates of sterling, the dollar and the main Latin American currencies against the euro. The impact with regard to the euro was around +8 p.p. for the whole Group, +4 p.p. in the United Kingdom, 16 p.p. in Latin America and 5/6 p.p. in Sovereign.

  This positive effect in the operating areas was partly offset in Corporate Activities by the losses recorded in hedging positions.

The performance of the income statement and comparisons with 2009 was as follows:

Net interest income continued to be the main driver of revenue growth. It increased 11.1% to EUR 29,224 million. This was due to a moderate increase in volumes and appropriate management of spreads in all units, adapted in each case to the particular circumstances of markets.

The spreads on loans for the Group as a whole increased from 3.1% to 3.4%, mainly due to the UK and Sovereign, as well as consumer businesses and wholesale banking.

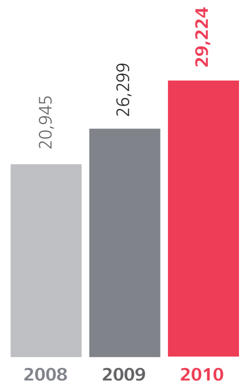
QUARTERLY
Million euros

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income	**6,039**	**6,617**	**6,822**	**6,820**	**7,122**	**7,378**	**7,396**	**7,329**
Dividends	87	153	94	102	47	144	60	111
Income from equity-accounted method	(13)	10	1	2	3	5	5	4
Net fees	2,164	2,374	2,291	2,252	2,326	2,483	2,481	2,445
Gains (losses) on financial transactions	862	977	777	806	724	567	599	715
Other operating income/expenses	80	16	19	29	38	38	22	9
Gross income	**9,221**	**10,147**	**10,004**	**10,010**	**10,260**	**10,614**	**10,563**	**10,613**
Operating expenses	(3,967)	(4,087)	(4,086)	(4,282)	(4,263)	(4,548)	(4,687)	(4,698)
General administrative expenses	(3,587)	(3,681)	(3,679)	(3,877)	(3,812)	(4,070)	(4,206)	(4,168)
Personnel	*(2,059)*	*(2,106)*	*(2,095)*	*(2,190)*	*(2,182)*	*(2,317)*	*(2,408)*	*(2,421)*
Other general administrative expenses	*(1,529)*	*(1,575)*	*(1,583)*	*(1,687)*	*(1,629)*	*(1,753)*	*(1,798)*	*(1,746)*
Depreciation and amortisation	(379)	(405)	(407)	(405)	(451)	(478)	(481)	(531)
Net operating income	**5,254**	**6,060**	**5,918**	**5,728**	**5,997**	**6,066**	**5,876**	**5,915**
Net loan-loss provisions	(2,209)	(2,417)	(2,574)	(2,284)	(2,436)	(2,483)	(2,935)	(2,404)
Impairment losses on other assets	(25)	(241)	(42)	(94)	(57)	(63)	(41)	(310)
Other income	(278)	(232)	(418)	(382)	(331)	(362)	(364)	(16)
Profit before taxes (w/o capital gains)	**2,742**	**3,171**	**2,883**	**2,967**	**3,173**	**3,158**	**2,535**	**3,186**
Tax on profit	(614)	(629)	(559)	(535)	(734)	(680)	(634)	(874)
Profit from continuing operations (w/o capital gains)	**2,128**	**2,542**	**2,325**	**2,432**	**2,439**	**2,477**	**1,901**	**2,311**
Net profit from discontinued operations	67	(6)	(7)	(23)	(12)	(1)	(4)	(10)
Consolidated profit (w/o capital gains)	**2,195**	**2,536**	**2,318**	**2,409**	**2,427**	**2,476**	**1,897**	**2,301**
Minority interests	99	113	97	207	212	246	262	201
Attributable profit to the Group (w/o capital gains)	**2,096**	**2,423**	**2,221**	**2,202**	**2,215**	**2,230**	**1,635**	**2,101**
Net extraordinary capital gains and allowances (1)	—	—	—	—	—	—	—	—
Attributable profit to the Group (2)	**2,096**	**2,423**	**2,221**	**2,202**	**2,215**	**2,230**	**1,635**	**2,101**
EPS (euros) (2)	**0.2472**	**0.2846**	**0.2588**	**0.2547**	**0.2553**	**0.2574**	**0.1884**	**0.2408**
Diluted EPS (euros)	**0.2460**	**0.2831**	**0.2584**	**0.2508**	**0.2537**	**0.2558**	**0.1854**	**0.2406**

(1).- In 2009 extraordinary capital gains and extraordinary allowances for the same amount are included, and thus the net amount is zero.
(2).- In Q3'10, before the impact from the application of Bank of Spain's Circular 3/2010, attributable profit to the Group EUR 2,107 million and EPS EUR 0.2429.

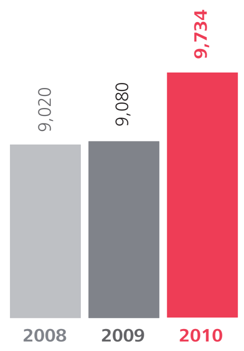
NET INTEREST INCOME
Million euros

+11.1%
2010-2009



NET FEES
Million euros

+7.2%
2010-2009



Spreads on deposits were affected by the lower interest rates in the commercial units and the Group's policy of giving priority to capturing deposits and liquidity, particularly in the European units, as in Latin America spreads are much more stable. The higher cost of wholesale financing is also reflected.

Net fee income increased 7.2%, with a favourable performance of those from insurance, cards, administration of accounts and pension funds.

If to net interest income and fee income we add revenues from insurance activity (+11.5%), the most commercial and recurring revenues increased 10.1% to EUR 39,336 million. Apart from Continental Europe, all areas evolved positively.

Dividends received dropped from EUR 436 million in 2009 to EUR 362 million, largely due to the reduced ones following the placement of Visanet, as well as some companies bringing forward payment of dividends to the fourth quarter. Income by the equity accounted method was EUR 17 million compared to a loss of EUR 1 million in 2009.

Gains on financial transactions declined 23.9%, due to Corporate Activities, where the cost of hedging exchange rates is recorded, and to lower results in some Latin American countries (due to the sale of portfolios in 2009). Good performance of revenues from wholesale businesses in Europe, mainly from customers.

Gross income increased 6.8% to EUR 42,049 million. Excluding the perimeter and exchange-rate impact, it declined 2.2% due to Corporate Activities as operating areas repeated the figure of 2009.

The favourable evolution of revenues was due to the progress (excluding the exchange-rate impact) in the UK, Brazil and Sovereign, which offset the lower contributions of Continental Europe, more affected by the conditions of the market in which activity is conducted, and the rest of Latin America, where two factors were at play. The first was the weakness of business volumes in the first half of the year and the second, the change of mix toward low risk products, which meant lower revenues but also a reduced cost of credit. The evolution of revenues thus needs to be seen jointly with provisions.

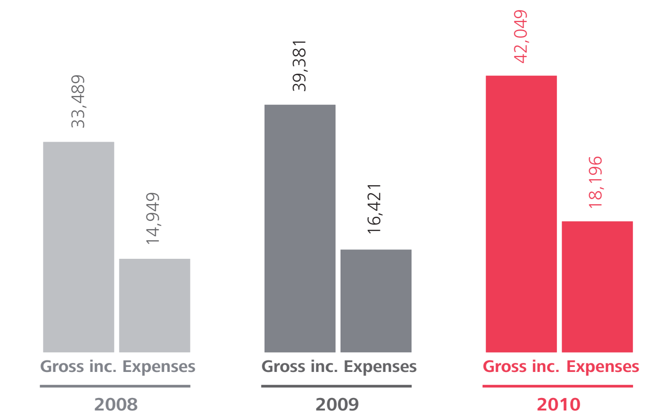
Operating expenses rose 2.0% excluding the perimeter and exchange-rate effects.

All units in continental Europe and the UK reduced their costs a little. Sovereign's reduction was the largest because of synergies, while Brazil's and Mexico's increased at a slower pace than the inflation rate. The only noteworthy rises were in Chile, because of the impact of the earthquake, the signing of a collective bargaining agreement and business dynamics, Argentina (collective agreement at rates of 23%) and Global Banking and Markets (investments made to consolidate positions reached in 2009 in its main markets).

NET FEES
Million euros

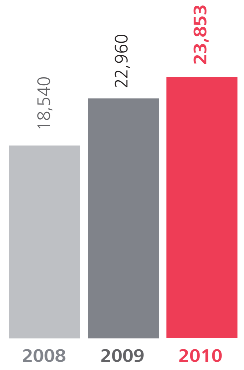
	2010	2009	Variation Amount	%	2008
Commissions from services	5,632	5,267	366	6.9	4,799
Mutual & pension funds	1,267	1,178	89	7.5	1,627
Securities services	784	774	10	1.3	732
Insurance	2,051	1,861	190	10.2	1,862
Net fees	**9,734**	**9,080**	**654**	**7.2**	**9,020**

GROSS INCOME AND EXPENSES
Million euros



NET OPERATING INCOME
Million euros

+3.9%
2010-2009



The **efficiency ratio** including amortisations was 43.3% (38.7% excluding them). Good evolution in the UK and, particularly, at Sovereign where in just two years the ratio improved from 74.5% at the time of its integration into the Group to 44.5% (close to the Group's average).

Revenue growth and control of expenses lifted **net operating income** by 3.9% to EUR 23,853 million, all of it due to the operating areas. Eliminating the favourable perimeter and exchange rate impact, costs were almost the same as in 2009, thanks to Brazil, the UK and Sovereign.

This underscored the Group's capacity to keep on generating revenues in the current difficult environment and absorb the larger provisions resulting from the environment and changes in regulations. Net operating income was 2.3 times more than the provisions made during the period. Provisions represented 3.4% of the Group's loans.

Loan-loss provisions increased 8.2% to EUR 10,258 million, due to the change in regulations. Excluding this and the perimeter and exchange-rate effects, provisions declined 8.5%.

This reduction was due to lower provisions in Latin America (-19.5% excluding the forex impact), which is beginning to benefit from the improvement in the economic cycle and the change of mix of products, and the good trend in the UK and Sovereign.

Spain and Portugal, on the other hand, still required higher provisions in 2010 because of the increase in bad loans and the Bank of Spain's Circular.

Net operating income after provisions was EUR 13,595 million. Of note by units were the strong rises (all excluding the forex impact) in the UK (+15.0%), Brazil (+16.6%), Latin America excluding Brazil (+11.7%), Santander Consumer Finance (+31.5%) and Sovereign (from EUR 11 million to EUR 659 million). Decline in Spain and Portugal.

Asset impairment losses and other results and

OPERATING EXPENSES
Million euros

	2010	2009	Variation Amount	%	2008
Personnel expenses	9,330	8,450	879	10.4	7,758
General expenses	6,926	6,374	552	8.7	5,822
Information technology	798	786	12	1.6	668
Communications	670	632	39	6.1	609
Advertising	634	594	39	6.6	632
Buildings and premises	1,553	1,405	148	10.6	1,167
Printed and office material	178	209	(31)	(14.8)	173
Taxes (other than profit tax)	376	313	63	20.2	284
Other expenses	2,718	2,436	282	11.6	2,290
Personnel and general expenses	**16,256**	**14,825**	**1,431**	**9.7**	**13,580**
Depreciation and amortisation	1,940	1,596	344	21.5	1,370
Total operating expenses	**18,196**	**16,421**	**1,775**	**10.8**	**14,949**

NET LOAN-LOSS PROVISIONS
Million euros

	2010	2009	Variation Amount	%	2008
Non performing loans	11,457	10,516	942	9.0	7,306
Country-risk	2	(117)	119	—	100
Recovery of written-off assets	(1,201)	(915)	(287)	31.3	(805)
Total	**10,258**	**9,484**	**774**	**8.2**	**6,601**

provisions, which reflect allowances for possible contingencies, were EUR 1,543 million negative compared to EUR 1,713 million also negative in 2009. In 2010 there were larger allowances in operating areas, while in 2009 the centralised ones (premises, pensions and others such as Metrovacesa) were larger.

Profit before tax was EUR 12,052 million, up 2.4%. This did not feed through to attributable profit, however, because of the higher tax charge and minority interests, which together absorbed around 5 p.p. of growth each one.

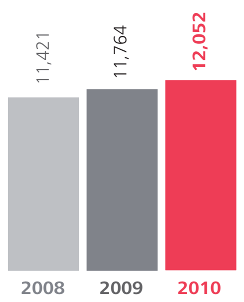
After the tax charge, the profit from continued operations was 3.2% lower.

Attributable profit, after incorporating discontinued operations (impact of the sale of Banco de Venezuela) and minority interests (placement of shares of Banco Santander Brazil and purchase of 25% of Santander Mexico), was 8.5% lower at EUR 8,181 million.

Earnings per share were EUR 0.9418, 9.9% lower than in 2009. Despite this, the Group's solid financial position and recurring profits since the start of the crisis enabled us to maintain shareholder remuneration in 2010 at EUR 0.60 per share.

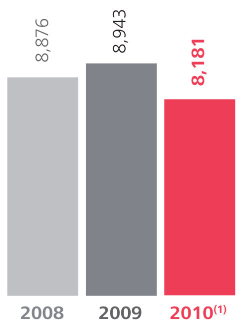
PROFIT BEFORE TAX
Million euros

+2.4%
2010-2009



ATTRIBUTABLE PROFIT TO THE GROUP
Million euros

-8.5%
2010-2009



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 8,653 million

BALANCE SHEET
Million euros

	2010	2009	Variation Amount	%	2008
ASSETS					
Cash on hand and deposits at central banks	77,785	34,889	42,896	122.9	45,781
Trading portfolio	156,762	135,054	21,707	16.1	151,817
Debt securities	*57,871*	*49,921*	*7,951*	*15.9*	*43,896*
Customer loans	*755*	*10,076*	*(9,321)*	*(92.5)*	*684*
Equities	*8,850*	*9,248*	*(398)*	*(4.3)*	*6,272*
Trading derivatives	*73,069*	*59,856*	*13,212*	*22.1*	*95,815*
Deposits from credit institutions	*16,216*	*5,953*	*10,263*	*172.4*	*5,150*
Other financial assets at fair value	39,480	37,814	1,667	4.4	25,817
Customer loans	*7,777*	*8,329*	*(551)*	*(6.6)*	*8,973*
Other (deposits at credit institutions, debt securities and equities)	*31,703*	*29,485*	*2,218*	*7.5*	*16,844*
Available-for-sale financial assets	86,235	86,621	(386)	(0.4)	48,920
Debt securities	*79,689*	*79,289*	*399*	*0.5*	*42,548*
Equities	*6,546*	*7,331*	*(785)*	*(10.7)*	*6,373*
Loans	768,858	736,746	32,112	4.4	699,615
Deposits at credit institutions	*44,808*	*57,641*	*(12,833)*	*(22.3)*	*64,731*
Customer loans	*715,621*	*664,146*	*51,475*	*7.8*	*617,231*
Debt securities	*8,429*	*14,959*	*(6,530)*	*(43.7)*	*17,653*
Investments	273	164	108	65.9	1,323
Intangible assets and property and equipment	14,584	11,774	2,810	23.9	10,289
Goodwill	24,622	22,865	1,757	7.7	18,836
Other	48,901	44,602	4,300	9.6	47,233
Total assets	**1,217,501**	**1,110,529**	**106,971**	**9.6**	**1,049,632**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Trading portfolio	136,772	115,516	21,255	18.4	136,620
Customer deposits	*7,849*	*4,658*	*3,191*	*68.5*	*4,896*
Marketable debt securities	*365*	*586*	*(221)*	*(37.7)*	*3,570*
Trading derivatives	*75,279*	*58,713*	*16,566*	*28.2*	*89,167*
Other	*53,279*	*51,559*	*1,719*	*3.3*	*38,987*
Other financial liabilities at fair value	51,020	42,371	8,648	20.4	28,639
Customer deposits	*27,142*	*14,636*	*12,506*	*85.4*	*9,318*
Marketable debt securities	*4,278*	*4,887*	*(609)*	*(12.5)*	*5,191*
Due to central banks and credit institutions	*19,600*	*22,848*	*(3,248)*	*(14.2)*	*14,130*
Financial liabilities at amortized cost	898,969	823,403	75,566	9.2	770,008
Due to central banks and credit institutions	*79,537*	*73,126*	*6,410*	*8.8*	*79,795*
Customer deposits	*581,385*	*487,681*	*93,703*	*19.2*	*406,015*
Marketable debt securities	*188,229*	*206,490*	*(18,261)*	*(8.8)*	*227,642*
Subordinated debt	*30,475*	*36,805*	*(6,330)*	*(17.2)*	*38,873*
Other financial liabilities	*19,343*	*19,300*	*43*	*0.2*	*17,681*
Insurance liabilities	10,449	16,916	(6,467)	(38.2)	16,850
Provisions	15,660	17,533	(1,873)	(10.7)	17,736
Other liability accounts	23,717	20,919	2,798	13.4	19,777
Total liabilities	**1,136,586**	**1,036,659**	**99,927**	**9.6**	**989,630**
Shareholders' equity	77,334	71,832	5,502	7.7	65,887
Capital stock	*4,165*	*4,114*	*50*	*1.2*	*3,997*
Reserves	*66,258*	*61,071*	*5,187*	*8.5*	*55,707*
Attributable profit to the Group	*8,181*	*8,943*	*(762)*	*(8.5)*	*8,876*
Less: dividends	*(1,270)*	*(2,297)*	*1,027*	*(44.7)*	*(2,693)*
Equity adjustments by valuation	(2,315)	(3,165)	850	(26.9)	(8,300)
Minority interests	5,896	5,204	692	13.3	2,415
Total equity	**80,914**	**73,871**	**7,044**	**9.5**	**60,001**
Total liabilities and equity	**1,217,501**	**1,110,529**	**106,971**	**9.6**	**1,049,632**

GRUPO SANTANDER. BALANCE SHEET

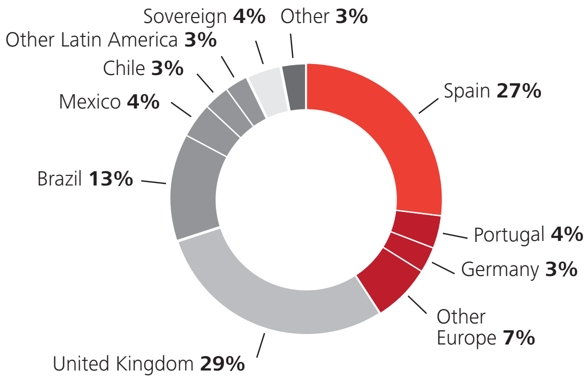
Activity reflected the current market context:

- Lower demand for loans in Europe, mainly Spain and Portugal.
- Double-digit rise in lending in Latin America after falls in 2009.
- In capturing of funds, preference for deposits, mainly in Europe.

Core capital (8.8%) rose for the fourth year running and very solid, in accordance with the Group's business model and our risk profile.

Further rise in shareholders' equity per share to EUR 8.58 (+EUR 0.54).

DISTRIBUTION OF TOTAL ASSETS BY GEOGRAPHIC SEGMENT
December 2010



Total managed funds at the end of 2010 amounted to EUR 1,362,289 million, of which EUR 1,217,501 million (89%) were on-balance sheet and the rest off-balance sheet mutual and pension funds and managed portfolios.

In order to correctly interpret this information, it is necessary to take into account two positive effects. The first was the exchange rate impact from the appreciation of currencies against the euro over the last 12 months (with end of period rates): 17% for the Chilean peso, 14% for the Mexican peso, 13% for the Brazilian real, 8% for the dollar and 3% for sterling. The second was a small rise in the perimeter due to the acquisitions of Santander Consumer Finance.

The impact of both on growth in customer balances was 5 p.p. positive in loans and in customer funds.

Lending

The Group's net lending amounted to EUR 724,154 million, 6% higher than in 2009 and 1% more after eliminating the exchange rate impact.

Lending to the public sector increased 24% in the year and that to other resident sectors dropped 2%. Secured loans, the lowest risk part of the portfolio and with the largest share (59%), increased 2%, while the commercial portfolio was similar to 2009 and other loans declined 8%.

Lending to the non-resident sector grew 10%, due to the favourable impact of the perimeter and forex effects.

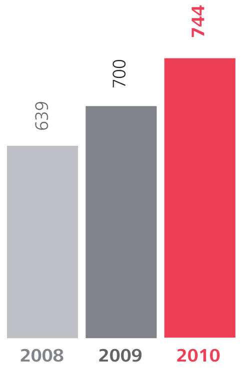
The geographic distribution (main segments) was very different by markets.

CUSTOMER LOANS
Million euros

	2010	2009	Variation Amount	%	2008
Public sector	12,137	9,803	2,335	23.8	7,668
Other residents	217,497	222,355	(4,858)	(2.2)	230,783
Commercial bills	11,146	11,134	11	0.1	14,874
Secured loans	127,472	125,397	2,076	1.7	123,566
Other loans	78,879	85,824	(6,945)	(8.1)	92,343
Non-resident sector	514,217	468,267	45,950	9.8	400,903
Secured loans	311,048	286,381	24,667	8.6	229,761
Other loans	203,168	181,886	21,283	11.7	171,142
Gross customer loans	**743,851**	**700,424**	**43,427**	**6.2**	**639,354**
Loan-loss allowances	19,697	17,873	1,824	10.2	12,466
Net customer loans	**724,154**	**682,551**	**41,603**	**6.1**	**626,888**
Pro memoria: Doubtful loans	27,908	24,027	3,880	16.1	13,968
Public sector	42	18	25	138.5	1
Other residents	12,106	9,898	2,208	22.3	6,208
Non-resident sector	15,759	14,111	1,648	11.7	7,759

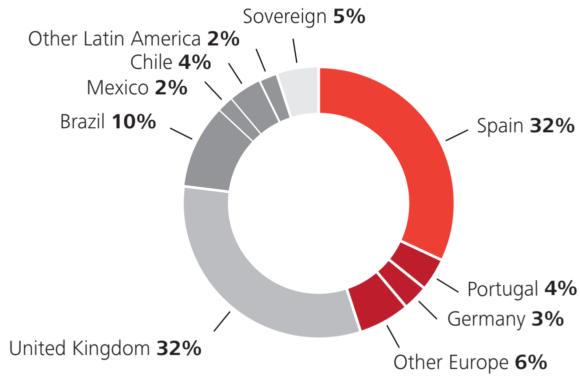
GROSS CUSTOMER LOANS
Billion euros

+6.2%*
2010-2009



(*) Excluding exchange rate impact: +2.4%

GROSS CUSTOMER LOANS
% o/ operating areas. December 2010



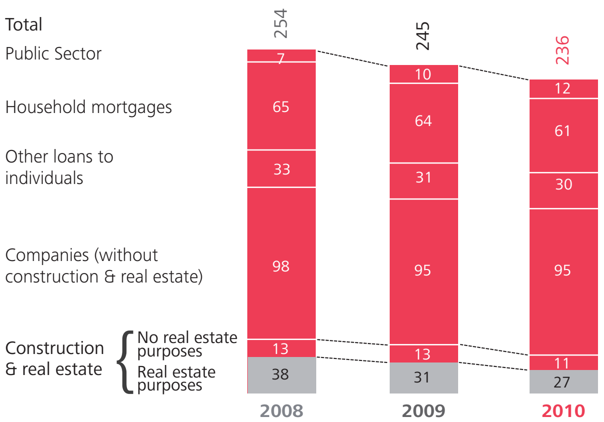
Spain and Portugal's lending fell by 4% and 7%, respectively, due to deleveraging and the selective growth policy followed by the Group in these countries. Santander Consumer Finance's lending increased 11%.

Gross lending in Spain amounted to EUR 235,993 million, with an adequate structure (see below).

Loans to public administrations rose 24% to EUR 12,137 million.

Lending to individuals amounted to EUR 91,240 million, of which EUR 61,387 million were household mortgages. These are the healthiest part and with 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, the borrower's responsibility extends to all their assets and almost all loans are for the first residence, where the customer has ownership with a very low expected loss.

LOAN PORTFOLIO IN SPAIN
Billion euros



In the specific case of Grupo Santander, 94% of mortgages are for the first residence, the portfolio has a large concentration in the lowest tranches of loan-to-value (85% with an LTV lower than 80%) and the NPL ratio is very low (2.2%).

Loans to SMEs and companies not related to the construction and real estate sectors amounted to EUR 94,406 million, virtually the same as in 2009.

Loans to the construction and real estate sectors, distinguishing between those without a real estate purpose and those directly related (with the greatest risk) which stood at EUR 27,334 million.

This figure represents only 3.7% of the Group's lending and 12% of its total loans in Spain, a notably lower proportion than that of its competitors (more than 16%). Moreover, it is 12% lower than in 2009 and 27% below 2008, a sharper fall than that of the rest of the portfolio and reflecting the Group's strategy of reducing the exposure to this higher risk segment.

In Portugal, the fall in lending was mainly to large companies, where there was a shift from loans to capital markets. In addition, balances in construction and real estate, which represent only 3% of lending, declined 10% in 2010.

Balances to individuals increased a little (+1% in mortgages).

Santander Consumer Finance's balance increased 11%, due to organic growth and the integration of the portfolios acquired in the US and Poland, as commented on in greater retail in the section on this area. New loans increased 9%, a significant change of trend, as 2009 evolution showed a downward trend.

In the United Kingdom, the balance of lending was very similar to 2009. In local criteria, residential mortgages in a still depressed market grew 3% and loans to SMEs 26%, while personal loans dropped 24%, continuing with the policy of reducing this type of loans.

CREDIT RISK MANAGEMENT*
Million euros

	2010	2009	Variation Amount	%	2008
Non-performing loans	28,522	24,554	3,969	16.2	14,191
NPL ratio (%)	3.55	3.24	0.31 p.		2.04
Loan-loss allowances	20,748	18,497	2,251	12.2	12,863
Specific	14,901	11,770	3,131	26.6	6,682
Generic	5,846	6,727	(881)	(13.1)	6,181
NPL coverage (%)	73	75	(3 p.)		91
Credit cost (%) **	1.56	1.57	(0.01 p.)		1.16
Ordinary non-performing and doubtful loans ***	18,061	17,641	420	2.4	10,626
NPL ratio (%) ***	2.28	2.35	(0.07 p.)		1.53
NPL coverage (%) ***	115	105	10 p.		121

** Excluding country-risk*
*** Net specific allowance / computable assets*
**** Excluding mortgage guarantees*

Note: NPL ratio: Non-performing loans / computable assets

Lending in Latin America gradually accelerated in year-on-year terns and ended 2010 with growth of 15% excluding the exchange-rate effect. These comments also applied to Brazil, Mexico and Chile whose growth rates were 16%, 15% and 14%, respectively (negative rates in 2009).

Sovereign's loans declined 2% in dollars, affected by the reduction of the portfolio in run-off (-32% in 2010 and -62% since Sovereign joined the Group). This resulted in a reduction from $9,700 million to $4,000 million. In addition, the focus during 2010 was on new loans and renewals, concentrating on the most attractive mortgage segments (residential and multifamily), which grew 17%.

These changes are reflected in the lesser share of lending in Europe and the increase in Latin America. At the end of 2010, Continental Europe accounted for 45% of the Group's total lending (32% Spain), the UK 32%, Latin America 18% (10% Brazil) and Sovereign 5%. The respective figures a year earlier were 47% for Continental Europe, 33% for the UK, 15% for Latin America and 5% for Sovereign.

Risks

The still weak economy in some markets caused non-performing loans (NPL) ratios to rise because of the increase in the Group's bad and doubtful loans and the slower pace of growth in lending.

However, the pace of growth in non-performing loans decelerated, as active management produced a good evolution in NPL entries and in the risk premium for the whole Group and for the main business units. Bad and doubtful loans amounted to EUR 28,522 million at the end of 2010, 16% more than in 2009 and compared to growth of 130% in 2008 and 73% in 2009.

Grupo Santander's NPL ratio stood at 3.55% at the end of 2010, 31 b.p. more than a year earlier and much lower than in 2008 and 2009 when the increase was more than 100 b.p. in each year.

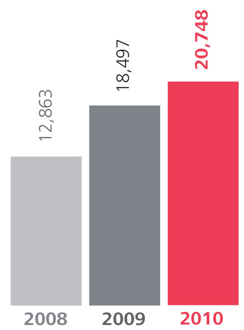
Provisions to cover the NPLs amounted to EUR 20,748 million, of which EUR 5,846 million were generic provisions. Total provisions have increased by almost EUR 8,000 million in the last two years. Coverage at 73% was very similar to 2009 (75%).

NON-PERFORMING LOANS
Million euros

	2010	2009	2008
Balance at beginning of year	24,554	14,191	6,179
Net additions	13,478	18,234	13,000
Increase in scope of consolidation	257	1,033	2,089
Exchange differences	1,147	890	(871)
Write-offs	(10,913)	(9,795)	(6,206)
Balance at year-end	**28,522**	**24,554**	**14,191**

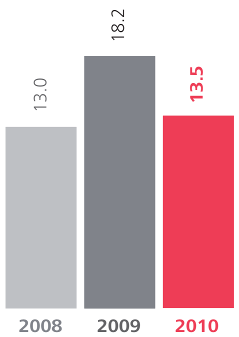
LOAN-LOSS ALLOWANCES
Million euros

+12.2%
2010-2009



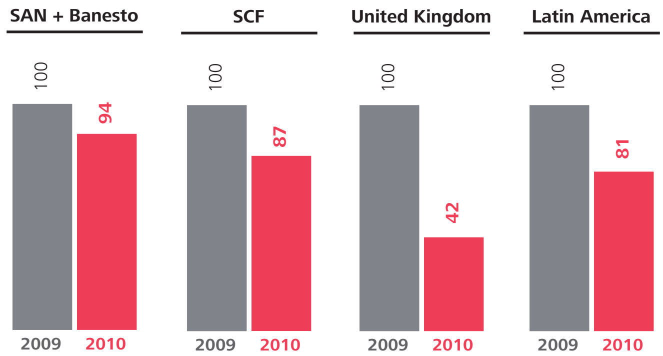
NET NPLs ENTRIES[1]. TOTAL GROUP
Billion euros

-26.1%
2010-2009



(1) Excluding perimeter and exchange rate impact

NET NPLs ENTRIES[1]. MAIN UNITS
Base 100: 2009



(1) Excluding perimeter and exchange rate impact

The Group's NPL ratio in Spain was 4.24%, well below the sector's average, and coverage 58%. The ratio rose by 83 b.p., much lower than the increase in 2009.

More than 80% of the portfolio (including mortgages and companies) had an excellent NPL ratio of 3% or lower. Of note were mortgages to buy a home whose ratio was 2.2%, which compares very well with the sector. This ratio was 2.5% in 2009 and its improvement underscored the quality of the portfolio.

As regards loans to the construction and real estate development sectors, the NPL ratio for loans not related to real estate was 4.4%, in line with the average ratio of the portfolio, while that for loans with a real estate purpose was 17.0%.

This ratio reflects, on the one hand, the larger volumes of bad loans in this segment and, on the other, the anticipative policy followed by the Group, which is reflected in the fact that 50% of the EUR 4,636 million of doubtful loans are up to date with payments. In addition, EUR 4,932 million was recorded as sub standard, 100% of which is also up to date with payments. This means that 75% of doubtful and substandard loans are up to date with payments, while both have appropriate levels of coverage via provisions and guarantees.

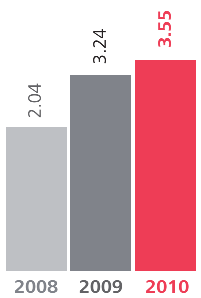
Portugal's NPL ratio was 2.90% at the end of 2010 (+63 b.p.) and coverage was 60%.

Santander Consumer Finance's NPL ratio was 4.95% and coverage 128%, improvements of – 44 b.p. and +31 p.p. respectively

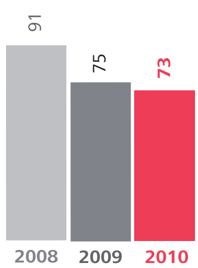
The UK's NPL ratio was 1.76% (+5 b.p.) and coverage 46% (+2 p.p.). The mortgage portfolio is focused on first residence loans and has a high quality of risk in terms of loan-to-value (average of 51%) and a NPL ratio of 1.41%.

Brazil's NPL ratio was 4.91% (-36 b.p.) and improved for the fourth straight quarter. Coverage remained at around 100%. Latin America excluding Brazil had a NPL ratio of 3.07% (2.96% at the end of 2009), with coverage of 110%.

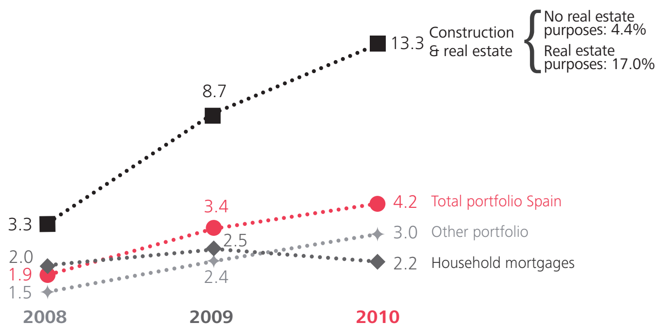
NPL RATIO
%



NPL COVERAGE
%

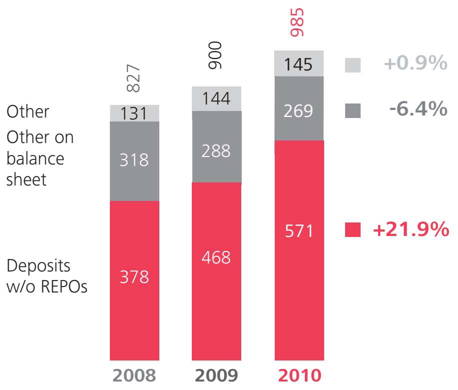


NPL RATIO IN SPAIN
%



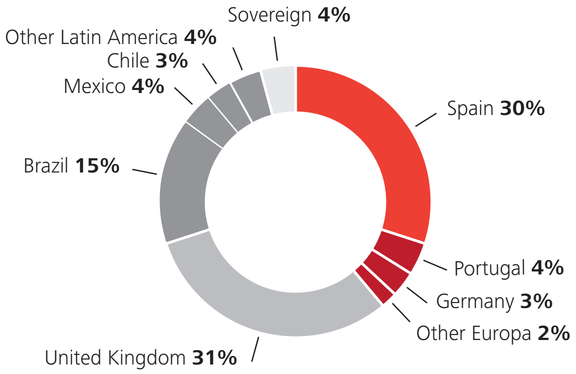
CUSTOMER FUNDS UNDER MANAGEMENT
Billion euros

+9.5%*
2010-2009



(*) Excluding exchange rate impact: +5.3%

CUSTOMER FUNDS UNDER MANAGEMENT
% o/ operating areas. December 2010



Sovereign's NPL ratio was 4.61% and coverage 75%. Both ratios were better than in 2009 and better than the forecasts made at the beginning of the year.

More detailed information on credit risk, particularly real estate risk in Spain, the control and monitoring systems and the internal models for calculating provisions are included in the section on risk management in this report.

Customer funds under management
Total managed funds at the end of 2010 amounted to EUR 985,269 million, 10% more than in 2009.

After deducting the perimeter and forex effects, growth was 5% and distributed as follows: 17% rise in deposits without repos (demand deposits: +4%; time: +36%), the balance of repos, marketable securities and subordinated debt declined 6% and the aggregate of mutual and pension funds hardly changed.

The sharp rise in deposits reflects the focus on capturing customer funds by all the Group's units, using two strategies.

CUSTOMER FUNDS UNDER MANAGEMENT
Million euros

	2010	2009	Variation Amount	%	2008
Public sector	9,655	13,293	(3,638)	(27.4)	13,720
Other residents	161,096	126,189	34,907	27.7	117,776
Demand deposits	67,077	61,000	6,077	10.0	51,300
Time deposits	81,145	49,177	31,968	65.0	46,783
REPOs	12,873	16,012	(3,138)	(19.6)	19,693
Non-resident sector	445,625	367,495	78,131	21.3	288,734
Demand deposits	210,490	195,823	14,668	7.5	151,774
Time deposits	197,590	148,485	49,105	33.1	115,620
REPOs	30,623	18,403	12,220	66.4	17,187
Public Sector	6,922	4,784	2,138	44.7	4,153
Customer deposits	**616,376**	**506,976**	**109,400**	**21.6**	**420,229**
Debt securities	192,872	211,963	(19,091)	(9.0)	236,403
Subordinated debt	30,475	36,805	(6,330)	(17.2)	38,873
On-balance-sheet customer funds	**839,723**	**755,744**	**83,979**	**11.1**	**695,506**
Mutual funds	113,510	105,216	8,293	7.9	90,306
Pension funds	10,965	11,310	(345)	(3.0)	11,128
Managed portfolios	20,314	18,364	1,950	10.6	17,289
Savings-insurance policies	758	9,422	(8,664)	(92.0)	12,338
Other customer funds under management	**145,547**	**144,313**	**1,234**	**0.9**	**131,061**
Customer funds under management	**985,269**	**900,057**	**85,213**	**9.5**	**826,567**

MUTUAL FUNDS

Million euros

	2010	2009	Variation Amount	%	2008
Spain	34,310	40,616	(6,306)	(15.5)	44,694
Portugal	3,209	3,982	(773)	(19.4)	3,031
United Kingdom	14,369	10,937	3,432	31.4	7,180
Latin America	61,621	49,681	11,940	24.0	35,400
Total	**113,510**	**105,216**	**8,293**	**7.9**	**90,306**

- The strategy in developed countries was one of deleverage, with growth in deposits much greater than that of loans. This closed the commercial gap significantly.

- In emerging countries, the strategy was to self-finance the larger relative rise in lending with a very similar increase in deposits.

Continental Europe increased its deposits excluding repos 31%.

In Spain, which accounts for three out of every four of Continental Europe's deposits, the increase was 21%, due to the strategy of growth and customers' preference for this type of product. This produced a gain in market share in demand deposits (+1.4 p.p.) and in time deposits (+1.7 p.p.). Mutual and pension funds declined 13%, impacted by the deposit capturing campaign.

Santander Consumer Finance's deposits excluding repos increased 16%, while in Portugal they rose 45% and mutual and pension funds declined 16%.

In the UK, customer deposits excluding repos increased 6% in sterling and mutual funds rose 27%.

In Latin America, savings rose 8% excluding the forex impact. Mexico's grew 14%, Brazil's 6% and Chile's 2%. The strategy in these countries was similar: double digit growth in demand deposits, more moderate in mutual funds (except for Chile) and lower balances in time deposits (except for Mexico), anticipating the next interest rate movements in markets.

Sovereign's deposits declined 4% in dollars, due to the bank's policy of reducing high cost balances. Low cost retail deposits increased 3% and more expensive ones dropped 18%.

Continental Europe accounted for 39% of managed customer funds (30% Spain), the UK 31%, Latin America 26% (Brazil 15%) and Sovereign 4%. The respective figures in 2009 were 40% for Continental Europe, 31% for the United Kingdom, 23% for Latin America and 6% Sovereign.

As well as capturing large volumes of funds in 2010, the Group, for strategic reasons, maintained an active policy of issuing securities in the international fixed income markets (EUR 37,981 million).

The Group issued, respectively, EUR 27,225 million, EUR 10,613 million and EUR 143 million of senior debt, covered bonds and subordinated debt.

This issuing activity shows the capacity of the Group via its parent bank Banco Santander and its main subsidiaries to access the different institutional markets in the countries where it operates: Spain, with Banesto, Portugal, the UK, Chile, Brazil and Mexico.

As regards securitisations, the Group's subsidiaries placed in the market a total of EUR 19,174 million (the UK with EUR 12,873 million).

Issues of senior debt, covered bonds and subordinated debt that matured in 2010 were EUR 22,390 million, EUR 3,550 million

PENSION FUNDS

Million euros

	2010	2009	Variation Amount	%	2008
Spain	9,650	9,912	(262)	(2.6)	9,734
Individuals	8,161	8,429	(268)	(3.2)	8,381
Collective plans	262	266	(4)	(1.5)	236
Group employee plans	1,227	1,217	10	0.8	1,117
Portugal	1,315	1,398	(83)	(5.9)	1,394
Total	**10,965**	**11,310**	**(345)**	**(3.0)**	**11,128**

and EUR 3,753 million, respectively. The whole of the Series V of the preferential shares of Santander Finance Capital (EUR 1,000 million) were amortised.

The Group successfully completed in the first quarter a purchase offer for a series of subordinated debt issues. This meant the acceptance and subsequent cancellation of issues for the

following nominal amounts: EUR 181 million, £1,309 million and US$ 1,632 million.

This capturing of stable funds, via deposits and issues, combined with the reduced growth in lending, enabled the credit / deposit ratio to be lowered to 117% (135% in 2009 and 150% in 2008). The ratio of deposits plus medium and long-term financing over loans increased to 115% (106% in 2009), underscoring the appropriate structure of financing the Group's lending.

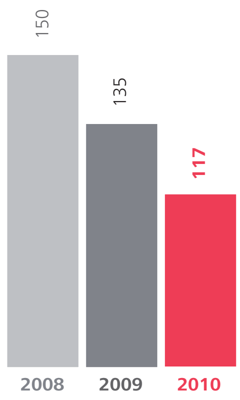
More detailed information on management of financing in markets, the management framework of liquidity and the Group's structural liquidity position is set out on the section on risk management in this report, under the heading "management of financing and liquidity risk."

Other items of the balance sheet
Total goodwill was EUR 24,622 million at the end of 2010, split between Europe and the Americas. Goodwill increased by EUR 1,757 million in 2010, mainly due to the impact of exchange rates, which have their counterparty in their positive impact on valuation adjustments.

Of note in the rest of the items were:

Cash on hand and deposits in central banks rose from EUR 34,889 million to EUR 77,785 million, mainly in the UK and Brazil and in both cases due to the tougher regulations on liquidity requirements established by the respective central banks.

LOANS / DEPOSITS. TOTAL GROUP
%



The rise in the trading portfolio was largely due to derivatives whose increase was similar in assets and liabilities, because of the evolution of the market value, mainly of interest rate swaps.

This growth does not mean an increase in risk, as it is normal practice in these products to require collateral for the positive mark to market. The balance at the end of 2010 was EUR 73,069 in assets and EUR 75,279 in liabilities.

SHAREHOLDERS' EQUITY AND MINORITY INTERESTS
Million euros

	2010	2009	Variation Amount	%	2008
Capital stock	4,165	4,114	50	1.2	3,997
Additional paid-in surplus	29,457	29,305	152	0.5	28,104
Reserves	36,993	31,796	5,197	16.3	28,024
Treasury stock	(192)	(30)	(163)	546.2	(421)
Shareholders' equity (before profit and dividends)	**70,423**	**65,186**	**5,237**	**8.0**	**59,704**
Attributable profit	8,181	8,943	(762)	(8.5)	8,876
Interim dividend distributed	(1,270)	(1,285)	15	(1.2)	(1,711)
Interim dividend not distributed	(2,060)	(2,837)	777	(27.4)	(3,102)
Shareholders' equity (after retained profit)	**75,273**	**70,006**	**5,267**	**7.5**	**63,768**
Valuation adjustments	(2,315)	(3,165)	850	(26.9)	(8,300)
Minority interests	5,896	5,204	692	13.3	2,415
Total equity (after retained profit)	**78,854**	**72,045**	**6,809**	**9.5**	**57,883**
Preferred shares and securities in subordinated debt	7,352	7,745	(393)	(5.1)	8,673
Total equity and capital with the nature of financial liabilities	**86,207**	**79,791**	**6,416**	**8.0**	**66,555**

Shareholders' equity and solvency ratios

Total shareholders' equity after retained earnings, was 8% higher at EUR 75,273 million (+EUR 5,267 million), mainly due to the increase in reserves.

Two capital increases were carried out in 2010. In the first one, 11,582,632 shares were issued in October to tend to the exchange of 33,544 Valores Santander and in the second 88,713,331 shares were issued for November's scrip dividend, in which 84% of the capital opted to receive the amount equivalent to the second interim dividend in shares.

Including valuation adjustments, minority interests and preference shares, total net equity and capital with the nature of financial liabilities increased 8% to EUR 86,207 million (+EUR 6,416 million) at the end of 2010. Valuation adjustments were EUR 850 million higher because of the favourable impact of the appreciation of currencies against the euro.

As regards capital ratios, Grupo Santander's eligible shareholders' equity, in accordance with the criteria of the Bank for International Settlements (BIS II), amounted to EUR 79,276 million (EUR 30,885 million surplus and 64% above the minimum requirement).

The BIS ratio was 13.1%, Tier I 10.0% and core capital rose for the fourth year running to 8.8%. This improvement was due to the free generation of capital and the scrip dividend, which comfortably offset the negative impact of the acquisition of minority interests in Mexico.

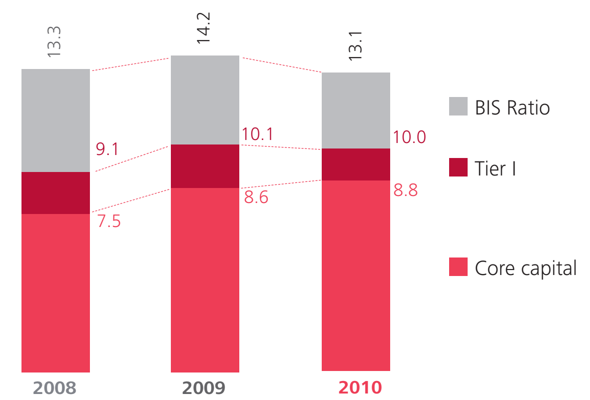
This core capital is of very high quality, very solid and adjusted to our risk profile, as underscored by the results of the stress tests conducted by the Committee of European Banking Supervisors (CEBS) and the Bank of Spain last July.

Lastly, of note is the high and sustained capacity to generate retained profits, after deducting dividends in accordance with the Group's pay-out policy. At the end of 2010, shareholders' equity per share was EUR 8.58 (+EUR 0.54), which is added to the rise in the last four years.

COMPUTABLE CAPITAL AND BIS II RATIO
Million euros

	2010	2009	2008
Core capital	53,205	48,366	38,968
Basic capital	60,617	56,615	46,894
Supplementary capital	20,670	24,309	25,225
Deductions	(2,011)	(1,221)	(3,816)
Computable capital	**79,276**	**79,704**	**68,302**
Risk-weighted assets	604,885	561,684	514,003
BIS II ratio	**13.1**	**14.2**	**13.3**
Tier I (before deductions)	**10.0**	**10.1**	**9.1**
Core capital	**8.8**	**8.6**	**7.5**
Shareholders' equity surplus (BIS II ratio)	30,885	34,769	27,182

CAPITAL RATIOS (BIS II)
%



DESCRIPTION OF THE SEGMENTS

Grupo Santander maintained in 2010 the general criteria used in 2009, with the following exceptions:

- The annual adjustment to the Global Customer Relationship Model was made. This does not mean any changes in the principal (geographic) segments, but it does affect the figures for Retail Banking and Global Wholesale Banking.
- Exit of Open Bank from the Santander Consumer Finance division, as it is being managed in a differentiated way outside this sphere.

None of these changes was significant for the Group and do not alter its figures. The figures for 2009 were restated and include the changes in the affected areas.

With the sale of Banco de Venezuela, effective in July 2009, this bank's results for 2009 were eliminated from the various lines of the income statement and recorded in discontinued operations.

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

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

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

- **Continental Europe**. This covers all retail banking business (including Banif, the specialised private bank), wholesale banking and asset management and insurance conducted in Europe with the exception of the United Kingdom. Given the importance of some of these units, the financial information of the Santander Branch Network, Banesto, Santander Consumer Finance (including Santander Consumer USA) and Portugal is also set out.
- **United Kingdom**. This includes retail and wholesale banking, asset management and insurance conducted by the various units and branches of the Group 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.

In addition, Sovereign's figures are recorded on their own. This bank began to be consolidated by global integration in February 2009, after its acquisition had gone ahead.

Secondary level (or business). This segments the activity of the operating units by the type of business. The reported segments are:

- **Retail Banking**. This covers all customer banking businesses (except those of Corporate Banking, managed through the Global Customer Relationship Model). Because of their relative importance details are provided by the main geographic areas (Continental Europe, United Kingdom and Latin America) and Sovereign, as well as by the main countries. The results of the hedging positions in each country are also included, conducted within the sphere of each one's Assets and Liabilities Committee.
- **Global Wholesale Banking (GBM)**. This business reflects the revenues from Global Corporate Banking, Investment Banking and Markets worldwide including all treasuries managed globally, both trading and distribution to customers (always after the appropriate distribution with Retail Banking customers), as well as equities business.
- **Asset Management and Insurance**. This includes the contribution of the various units to the Group in the design and management of mutual and pension funds and insurance. The Group uses, and remunerates through agreements, the retail networks 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 (their totals are the same), the Group continues to maintain the area of Corporate Activities. This area incorporates the centralised activities relating to equity stakes in industrial and financial companies, financial management of the structural exchange rate position and of the parent bank's structural interest rate risk, as well as management of liquidity and of shareholders' equity through issues and securitisations.

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

1. PRINCIPAL SEGMENTS OR GEOGRAPHIC

INCOME STATEMENT

Million euros

	Net operating income				Attributable profit to the Group			
	2010	2009	Amount	%	2010	2009	Amount	%
Continental Europe	**9,794**	**10,312**	**(519)**	**(5.0)**	**3,885**	**5,031**	**(1,146)**	**(22.8)**
o/w: Santander Branch Network	2,769	3,240	(470)	(14.5)	1,243	2,005	(762)	(38.0)
Banesto	1,376	1,551	(175)	(11.3)	419	738	(319)	(43.2)
Santander Consumer Finance	3,361	2,972	389	13.1	811	629	182	28.9
Portugal	650	726	(75)	(10.4)	456	531	(75)	(14.2)
United Kingdom	**3,567**	**3,231**	**337**	**10.4**	**1,985**	**1,726**	**259**	**15.0**
Latin America	**12,805**	**11,071**	**1,734**	**15.7**	**4,804**	**3,833**	**971**	**25.3**
o/w: Brazil	9,037	7,376	1,660	22.5	2,836	2,167	669	30.9
Mexico	1,458	1,542	(84)	(5.5)	682	495	188	37.9
Chile	1,311	1,196	115	9.7	683	563	120	21.3
Sovereign	**1,169**	**582**	**587**	**100.8**	**424**	**(25)**	**449**	**—**
Operating areas	**27,335**	**25,196**	**2,139**	**8.5**	**11,099**	**10,565**	**533**	**5.0**
Corporate Activities	(3,482)	(2,236)	(1,246)	55.7	(2,918)	(1,623)	(1,295)	79.8
Total Group	**23,853**	**22,960**	**893**	**3.9**	**8,181**	**8,943**	**(762)**	**(8.5)**

RATIOS

%

	Efficiency ratio(1)		ROE		NPL ratio*		NPL coverage*	
	2010	2009	2010	2009	2010	2009	2010	2009
Continental Europe	**38.6**	**36.4**	**14.15**	**18.78**	**4.34**	**3.64**	**71**	**77**
o/w: Santander Branch Network *	42.8	39.2	17.38	26.65	5.52	4.38	52	65
Banesto	42.8	39.9	9.43	17.24	4.11	2.97	54	64
Santander Consumer Finance	27.5	27.3	10.31	9.06	4.95	5.39	128	97
Portugal	45.4	42.8	20.34	25.38	2.90	2.27	60	65
United Kingdom	**39.4**	**40.8**	**22.72**	**29.62**	**1.76**	**1.71**	**46**	**44**
Latin America	**38.4**	**37.3**	**22.66**	**23.67**	**4.11**	**4.25**	**104**	**105**
o/w: Brazil	37.0	37.0	23.11	25.64	4.91	5.27	101	99
Mexico	38.7	34.2	19.52	18.43	1.84	1.84	215	264
Chile	36.0	33.2	30.53	32.29	3.74	3.20	89	89
Sovereign	**44.5**	**60.2**	**14.87**	**—**	**4.61**	**5.35**	**75**	**62**
Operating areas	**38.9**	**38.3**	**18.42**	**21.02**	**3.53**	**3.21**	**75**	**76**
Total Group	**43.3**	**41.7**	**11.80**	**13.90**	**3.55**	**3.24**	**73**	**75**

(1) With amortisations

* Santander Branch Network is the retail banking unit of Banco Santander S.A. The NPL ratio of Banco Santander S.A. at the end of December 2010 stood at 4.24% (3.41% in December 2009) and NPL coverage was 54% (73% in December 2009).

OPERATING MEANS

	Employees		Branches	
	2010	2009	2010	2009
Continental Europe	**54,518**	**49,870**	**6,063**	**5,871**
o/w: Santander Branch Network	18,893	19,064	2,931	2,934
Banesto	9,742	9,727	1,762	1,773
Santander Consumer Finance	13,852	9,362	519	310
Portugal	6,214	6,294	759	763
United Kingdom	**23,649**	**22,949**	**1,416**	**1,322**
Latin America	**89,526**	**85,974**	**5,882**	**5,745**
o/w: Brazil	53,900	50,961	3,702	3,593
Mexico	12,500	12,466	1,100	1,093
Chile	11,595	11,751	504	498
Sovereign	**8,647**	**8,847**	**721**	**722**
Operating areas	**176,340**	**167,640**	**14,082**	**13,660**
Corporate Activities	2,529	1,820		
Total Group	**178,869**	**169,460**	**14,082**	**13,660**

CONTINENTAL EUROPE

Million euros

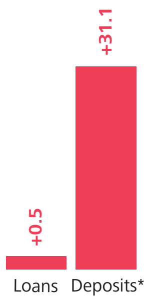
	2010	2009	Variation Amount	%
INCOME STATEMENT				
Net interest income	**10,957**	**11,456**	**(499)**	**(4.4)**
Net fees	3,748	3,787	(38)	(1.0)
Gains (losses) on financial transactions	843	609	234	38.3
Other operating income (1)	397	364	33	9.1
Gross income	**15,946**	**16,217**	**(271)**	**(1.7)**
Operating expenses	(6,152)	(5,904)	(248)	4.2
General administrative expenses	(5,513)	(5,335)	(179)	3.3
Personnel	*(3,429)*	*(3,306)*	*(123)*	*3.7*
Other general administrative expenses	*(2,084)*	*(2,028)*	*(56)*	*2.8*
Depreciation and amortisation	(639)	(569)	(70)	12.2
Net operating income	**9,794**	**10,312**	**(519)**	**(5.0)**
Net loan-loss provisions	(4,190)	(3,111)	(1,079)	34.7
Other income	(192)	(151)	(41)	26.9
Profit before taxes	**5,412**	**7,050**	**(1,638)**	**(23.2)**
Tax on profit	(1,417)	(1,882)	464	(24.7)
Profit from continuing operations	**3,995**	**5,169**	**(1,174)**	**(22.7)**
Net profit from discontinued operations	(14)	(45)	31	(69.3)
Consolidated profit	**3,981**	**5,124**	**(1,143)**	**(22.3)**
Minority interests	96	93	3	3.4
Attributable profit to the Group	**3,885**	**5,031**	**(1,146)**	**(22.8)**
BALANCE SHEET				
Customer loans (2)	323,660	322,026	1,634	0.5
Trading portfolio (w/o loans)	57,690	50,764	6,926	13.6
Available-for-sale financial assets	23,843	20,132	3,711	18.4
Due from credit institutions (2)	66,925	90,530	(23,605)	(26.1)
Intangible assets and property and equipment	4,965	5,054	(88)	(1.7)
Other assets	22,160	21,955	204	0.9
Total assets/liabilities & shareholders' equity	**499,243**	**510,461**	**(11,217)**	**(2.2)**
Customer deposits (2)	247,715	198,144	49,571	25.0
Marketable debt securities (2)	48,413	50,610	(2,196)	(4.3)
Subordinated debt (2)	1,740	2,079	(339)	(16.3)
Insurance liabilities	933	10,287	(9,354)	(90.9)
Due to credit institutions (2)	77,029	117,509	(40,480)	(34.4)
Other liabilities	95,993	105,366	(9,373)	(8.9)
Shareholders' equity (3)	27,420	26,466	953	3.6
Other customer funds under management	**53,968**	**70,289**	**(16,322)**	**(23.2)**
Mutual funds	37,519	44,598	(7,079)	(15.9)
Pension funds	10,965	11,310	(345)	(3.0)
Managed portfolios	5,484	5,499	(15)	(0.3)
Savings-insurance policies	—	8,882	(8,882)	(100.0)
Customer funds under management	**351,836**	**321,122**	**30,714**	**9.6**

(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

CONTINENTAL EUROPE

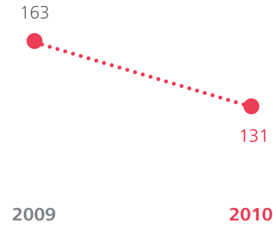
- Commercial strategy: capturing deposits given priority and continued selective growth in loans.
- Revenues affected by the weak economic environment, reduced activity and low interest rates.
- Control of expenses, with commercial units as a whole flat on a like-for-like basis.
- Provisions affected by the Bank of Spain Circular (negative after tax impact on profits of EUR 472 million).

ACTIVITY
% variation 2010 / 2009



(*) W/o REPOs

LOANS / DEPOSITS
%



NET OPERATING INC. -5.0%
Million euros

ATTRIBUTABLE PROFIT -22.8%
Million euros

(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 4,357 million; -13.4%

Attributable profit was EUR 3,885 million, 22.8% less than in 2009 and impacted by the application of the Bank of Spain's Circular (-13.4% excluding its impact).

Continental Europe includes all activities carried out in this geographic area: retail banking, global wholesale banking, asset management and insurance.

Strategy
In an environment that still remains weak, the Group's strategy focused on capturing deposits, which, combined with low demand for loans, is reflected in the rapid improvement in the gap between credits and deposits; managing spreads on loans in a context of very low interest rates; control of costs and risk management centred on recoveries. Meanwhile, the sale of products and services was strongly aimed at capturing and linking customers.

Activity
Lending remained virtually unchanged from 2009, due to lower demand in Spain and Portugal, partly offset by the growth in the business of Santander Consumer Finance.

Deposits (without repos) increased 31%, fuelled by the strategy of capturing deposits in the networks in Spain and Portugal.

The strategy aimed, on the one hand, to bolster the Group's liquidity position (the credit/deposits ratio improved by 32 p.p.) and, on the other, increase the market share by capturing and linking high-income customers. The Group improved its market share of deposits in Spain in 2010, after capturing more than 100,000 customers. This also had a favourable impact on transactions, according to the National Service of Electronic Settlement.

Growth in mutual funds and pension funds remained affected by the strategy of greater preference for deposits. Total funds (deposits, mutual and pension funds) increased 22%.

Results
Gross income fell 1.7% due to the decline in net interest income in the three large networks. The repricing of mortgages and the higher cost of funds was almost offset by the better evolution of Santander Consumer Finance and higher gains on financial transactions from wholesale business.

Operating expenses increased slightly because of a perimeter effect in Santander Consumer Finance and an increase in costs at Global Banking & Markets, as the Santander Branch Network, Banesto and Portugal reduced their costs a little. Provisions for loan losses increased 34.7%, due to the environment and applying the Bank of Spain's new regulations, whose impact is fully reflected in Continental Europe, (-13.4% excluding this impact).

NPL RATIO
%

NPL COVERAGE
%

CONTINENTAL EUROPE. MAIN UNITS

Million euros

	Santander Branch Network 2010	Var (%)	Banesto 2010	Var (%)	Santander Consumer Finance 2010	Var (%)	Portugal 2010	Var (%)
INCOME STATEMENT								
Net interest income	**3,682**	**(9.0)**	**1,521**	**(12.9)**	**3,663**	**13.4**	**724**	**(8.7)**
Net fees	1,080	(9.0)	617	1.6	955	11.8	357	3.9
Gains (losses) on financial transactions	110	(14.0)	196	18.9	(6)	(60.1)	67	(17.3)
Other operating income [(1)]	(31)	1.4	69	8.0	22	4.7	42	(17.4)
Gross income	**4,841**	**(9.1)**	**2,403**	**(7.0)**	**4,634**	**13.3**	**1,190**	**(6.2)**
Operating expenses	(2,072)	(0.8)	(1,027)	(0.4)	(1,273)	13.8	(540)	(0.6)
General administrative expenses	(1,910)	(1.0)	(904)	(0.6)	(1,156)	13.9	(467)	(0.3)
Personnel	*(1,234)*	*(0.1)*	*(666)*	*(2.4)*	*(595)*	*17.3*	*(321)*	*1.1*
Other general administrative expenses	*(676)*	*(2.7)*	*(237)*	*4.8*	*(561)*	*10.5*	*(146)*	*(3.2)*
Depreciation and amortisation	(161)	1.9	(124)	0.8	(117)	13.3	(73)	(2.4)
Net operating income	**2,769**	**(14.5)**	**1,376**	**(11.3)**	**3,361**	**13.1**	**650**	**(10.4)**
Net loan-loss provisions	(1,091)	127.1	(709)	87.0	(2,017)	2.6	(110)	20.8
Other income	25	—	(29)	26.3	(143)	215.0	20	132.4
Profit before taxes	**1,703**	**(38.0)**	**637**	**(44.5)**	**1,201**	**25.1**	**560**	**(12.9)**
Tax on profit	(460)	(38.0)	(161)	(51.7)	(339)	23.9	(104)	(6.5)
Profit from continuing operations	**1,243**	**(38.0)**	**476**	**(41.6)**	**861**	**25.5**	**457**	**(14.2)**
Net profit from discontinued operations	—	—	—	—	(14)	(69.3)	—	—
Consolidated profit	**1,243**	**(38.0)**	**476**	**(41.6)**	**847**	**32.1**	**457**	**(14.2)**
Minority interests	0	(33.7)	57	(26.0)	37	192.2	1	(41.9)
Attributable profit to the Group	**1,243**	**(38.0)**	**419**	**(43.2)**	**811**	**28.9**	**456**	**(14.2)**
BALANCE SHEET								
Customer loans [(2)]	111,372	(3.4)	75,624	0.2	63,342	11.4	30,102	(6.8)
Trading portfolio (w/o loans)	—	—	6,575	(4.1)	1,146	(0.5)	1,741	35.4
Available-for-sale financial assets	—	—	9,025	15.2	558	16.1	6,458	67.0
Due from credit institutions [(2)]	214	937.3	17,103	(27.2)	8,016	17.2	3,401	(39.6)
Intangible assets and property and equipment	1,201	(0.9)	1,374	(3.5)	889	4.3	480	(1.3)
Other assets	481	(13.0)	7,520	2.6	2,892	3.2	7,091	45.7
Total assets/liabilities & shareholders' equity	**113,268**	**(3.2)**	**117,222**	**(4.2)**	**76,844**	**11.4**	**49,272**	**1.7**
Customer deposits [(2)]	85,667	18.3	59,721	7.5	25,950	16.1	21,727	45.4
Marketable debt securities [(2)]	—	—	27,684	(7.4)	11,717	58.4	7,544	(35.4)
Subordinated debt [(2)]	—	—	1,304	(2.7)	428	(7.9)	0	(99.9)
Insurance liabilities	—	—	—	—	—	—	79	(98.4)
Due to credit institutions [(2)]	457	18.2	13,422	(26.9)	25,864	(6.4)	16,818	23.0
Other liabilities	20,089	(45.8)	10,611	(17.7)	4,273	15.3	1,171	(11.7)
Shareholders' equity [(3)]	7,056	(1.8)	4,480	3.4	8,611	15.5	1,933	9.7
Other customer funds under management	**26,864**	**(7.2)**	**9,616**	**(12.9)**	**24**	**—**	**4,655**	**(54.3)**
Mutual funds	20,347	(6.1)	5,712	(22.5)	19	—	3,209	(19.4)
Pension funds	6,132	(1.1)	1,337	(5.6)	5	—	1,315	(5.9)
Managed portfolios	—	—	117	1.7	—	—	131	7.1
Savings-insurance policies	385	(64.9)	2,450	14.8	—	—	—	(100.0)
Customer funds under management	**112,531**	**11.0**	**98,325**	**0.5**	**38,118**	**26.1**	**33,927**	**(8.5)**

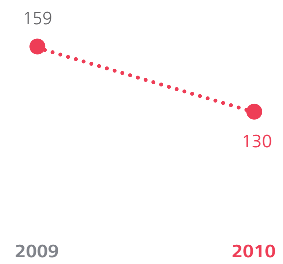
(1).- Including dividends, income from equity-accounted method and other operating income/expenses
(2).- Including all on-balance sheet balances for this item
(3).- Not including profit of the year

SANTANDER BRANCH NETWORK

- Successful strategy to capture deposits, with market share gains in demand deposits, time deposits and mutual funds.
- Lower gross income due to reduced lending and low official interest rates.
- Flat expenses in the last three years.
- Better non-performing loans than the sector and higher provisions due to the Bank of Spain Circular.
- Best Bank in Spain prize from Euromoney.

ACTIVITY
% variation 2010 / 2009

LOANS / DEPOSITS
%



Attributable profit was EUR 1,243 million, 38.0% lower than in 2009 (-23.4% excluding the application of the Bank of Spain's Circular 3/2010).

Banking was conducted in 2010 in an unfavourable environment, with strong pressures from the markets and continued weak economic activity. Non-performing loans continued to rise and interest rates remained at low levels.

Strategy
In this environment, the Santander Branch Network focused on capturing deposits, defending spreads, controlling expenses and risk management, which together with capturing, linking and retaining customers, were the main priorities. It was also very active in selling new products and services, tailored to customers' needs and aimed at specific segments.

The *Cuenta con Nosotros* was launched for individual customers. It offers up to eight products and is very focused on capturing and linking customers from the start. The *Santander Ferrari* card, aligned with the global brand strategy, was also launched for individual customers, and in just six weeks 100,000 were sold.

The *Cuenta Bienvenida Negocios* was launched for companies, particularly SMEs and businesses. This product boosts the level of new customer transactions.

In personal banking, *Santander Select*, a new business model based on an integral service for customers, was marketed. It is offered through 370 specialised managers and provides a range of specific products including the *Fondos Select*, which combine investments in own and third party products.

All these measures are part of the *We want to be your Bank* strategic plan, launched five years ago and which has benefited 4.2 million customers, who don't pay any service fees. This plan is thriving, as shown by the copies of it launched by our competitors during 2010.

Activity
The strategy was mainly focused on capturing customer funds. Deposits rose 18%, with demand deposits up 13% (setting us apart in the sector) and time deposits up 25%, reflecting the success of the campaign with the products *Depósito Ganador* and *Cuenta Crecimiento*. The direct results were an improvement in the financing structure (the lending/deposits ratio was improved by 29 p.p.), and a significant gain in market share of more than 100 b.p.

The growth in deposits was accompanied by an improvement in the market share of mutual funds of 130 b.p., as their evolution was better than the market's. Funds managed by Santander declined 6% compared to a fall of 15% for the sector. As a result, the Group recovered leadership in mutual funds with a market share of 18.5%.

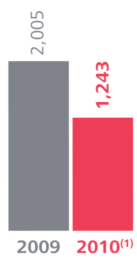
In lending, the overall balance dropped 3% because of the slight fall in mortgages and the double-digit reduction in balances with a real estate purpose. Balances with institutions increased 21%, with businesses 5% and with large companies 5%.

Of note in the sphere of public institutions was the plan to capture civil servants. Their number reached 125,000 (+10,500 in 2010).

As regards the ICO lending programme for businesses and SMEs, the Santander network held its leadership position (market share of 18%), after formalising 53,000 operations amounting to more than EUR 3,800 million.

NET OPERATING INC. | -14.5%
Million euros

ATTRIBUTABLE PROFIT | -38.0%
Million euros



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 1,536 million; -23.4%

Results

The results in 2010 reflect the impact of the Bank of Spain's new regulations on provisions (anticipation and simplification of calendars) in the third quarter. This one-off charge amounted to EUR 402 million recorded in specific provisions for loan losses. As no generic provisions were released, the whole charge was made against the unit's results. The impact on profits, net of tax, was EUR 293 million.

After absorbing this impact, attributable profit was EUR 1,243 million, 38.0% lower than in 2009 (-23.4% excluding the change in regulations).

Gross income was 9.1% lower at EUR 4,841 million. This was due to net interest income, affected by the lower demand for loans, the repricing of mortgages and the higher cost of funds resulting from stiffer competition for deposits, as well as to net fee income and gains on financial transactions, where those most directly linked to activity (securities, commercial bills and derivatives) declined. Those linked to transfers, domiciling, factoring and confirming increased, as well as those from pension funds.

Operating expenses were 0.8% lower. This reduction was achieved without reducing installed capacity, enabling business to be strengthened and a gain in market share. The efficiency ratio, including amortisations, was 42.8% and 39.5% excluding them.

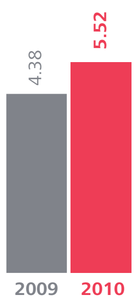
Net operating income of EUR 2,769 million underscored Santander's capacity to generate recurring results even in the most difficult environments.

This figure was almost three times higher than the provisions made during 2010 (EUR 1,091 million) including the EUR 402 million resulting from the change in the Bank of Spain's regulations, and four times the recurring provisions (EUR 689 million excluding this impact).

Active management of non-performing loans was reflected in a 15% fall in gross entries and a recovery ratio of around 70%. The NPL ratios of Banco Santander parent bank (4.24%) and of the Santander Branch Network (5.52%), excluding wholesale activity, were lower than the sector's. Coverage for Banco Santander parent bank was 54% and 52% for the Network.

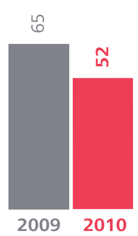
NPL RATIO

%



NPL COVERAGE

%



BANESTO

- The balance sheet and the capital and liquidity positions were strengthened.
- Revenue growth benefited from the capturing and linking of individual customers and SMEs.
- Very disciplined expenses, which continued to decline.
- Good evolution of credit risk quality, better than that of our competitors, and higher provisions because of the Bank of Spain's Circular.
- Best Bank in Spain prize from Euromoney.

Banesto's attributable profit was EUR 419 million, 43.2% lower than in 2009 (-28.1% excluding application of the Bank of Spain's Circular), while provisions notably strengthened the Group's financial position.

Strategy

These results were due to the involvement of all employees in selecting priorities focused on capturing and linking customers in order for Banesto to be the reference bank for individuals and companies. The three pillars of the strategy were: defence of revenues, cost control and prudent risk management.

These policies went hand in hand with the quality of service as the foundation of the value offer. Banesto improved its standards of quality during 2010, as shown, among other things, by having attained the best rating of Spanish banks in the EFQM evaluation conducted by the Excellence Club in Management.

This was made possible, among other circumstances, by the competitive advantage provided by Banesto's technology capacity whose innovative solutions are a differential factor over our competitors, as well as by the Bank's financial strength.

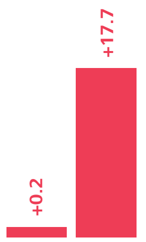
All of these factors enabled Banesto to become more efficient, improve its procedures and products and launch new initiatives, such as the *Nómina iPad*, *IPF Selección* and the *Banesto Fidelidad* programme for greater customer linkage.

As in the rest of segments, Banesto's figures were drawn up again in accordance with the criteria set out on page 108 of this report. The figures presented here, therefore, do not coincide with those published by Banesto itself.

Activity

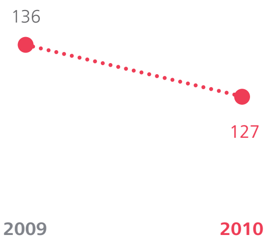
The evolution of the balance sheet was consistent with the management policy developed in 2010. Capturing and linking customers was one of the priorities in 2010. The customer base grew significantly. Deposits excluding repos increased 18% and time deposits rose by an even stronger 36%. Off-balance sheet managed funds were 13% lower than in 2009.

ACTIVITY
% variation 2010 / 2009



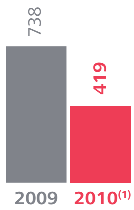
(*) W/o REPOs

LOANS / DEPOSITS
%



NET OPERATING INC. -11.3%
Million euros

ATTRIBUTABLE PROFIT -43.2%
Million euros



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 531 million; -28.1%

In 2010 demand for loans was lower. In this context, Banesto continued its policy of selective growth. Customer loans at the end of 2010 stood at EUR 75,624 million, almost the same as a year earlier.

Non-performing loans (NPLs) continued to rise because of the weak economic environment. The NPL ratio was 4.11% and coverage 54%.

Results

Net interest income was 12.9% lower at EUR 1,521 million. Management of spreads and of the balance sheet largely offset the impact of slower business growth.

Net fee income amounted to EUR 617 million, 1.6% more than in 2009. The business model, backed by growth in the customer base and linkage, is producing continuous improvement in transactions and boosting revenue from services and insurance (+2.7% in 2010). Revenue from management of mutual and pension funds, however, dropped 5.8%.

Gains on financial transactions, whose main component is still distribution of treasury products to customers, increased 18.9% to EUR 196 million.

Gross income was 7.0% less at EUR 2,403 million.

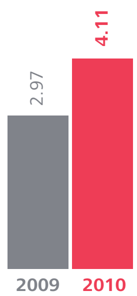
As a result of disciplined cost control, operating expenses declined 0.4% to EUR 1,027 million and together with revenue produced an efficiency ratio of 42.8%, (37.6% excluding amortisations).

Net operating income dropped 11.3% to EUR 1,376 million.

Net loan-loss provisions rose 87.0% to EUR 709 million, due, on the one hand, to the rise in non-performing loans, although Banesto's are increasing at a slower pace than the banking system's as a whole, and, on the other, the impact of the change in the Bank of Spain's regulations, which meant a charge against earnings of EUR 178 million (EUR 112 million after tax)

Profit before tax was EUR 637 million. Attributable profit after taxes and minority interest was EUR 419 million, 43.2% lower than in 2009 (-28.1% excluding the impact of the extraordinary charge).

NPL RATIO
%

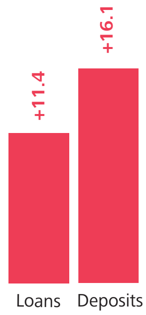


NPL COVERAGE
%

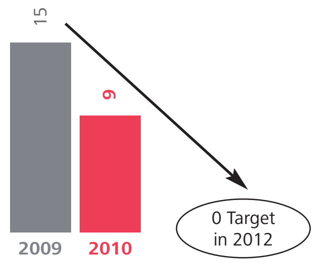
SANTANDER CONSUMER FINANCE

- Rise in revenues, due to higher volumes, management of prices, fee income from the incorporation of portfolios in the US and a still low cost of financing.
- Lower expenses on a like-for-like basis.
- Lower specific provisions because of the sharp fall in the risk premium (to levels of the second quarter of 2008).
- Improved quality of the credit portfolio, with a lower NPL ratio and higher coverage.
- The business of AIG in Poland was incorporated in the second half of 2010 and the unit in Russia sold.

ACTIVITY
% variation 2010 / 2009



REDUCED FINANCING RECOURSE TO THE PARENT BANK
Billion euros



Attributable profit was EUR 811 million, 28.9% more than in 2009 (+31.8% excluding the impact of the Bank of Spain's Circular).

Strategy
The focus was on organic growth and cross-selling, backed by brand agreements and greater penetration in the used card segment, which offset the decline in new car sales in Europe. There was also a notable effort in risk control, admission and recoveries, which enhanced credit quality.

The area also continued to actively manage its businesses: expansion into high potential markets and exit from businesses without critical mass, such as the sale of the unit in Russia.

Of note was the consolidation in Poland of AIG Bank, making Santander Consumer Poland one of the leaders in consumer finance, and the acquisition in the US of the portfolios of third parties at a discount, which improved the quality of the portfolio and increased the profile of the target customers of Santander Consumer USA.

Significant progress was also made in the integration of new units. Of note in Germany, was the integration of GE combined with the migration to the Partenón corporate platform of most of the business modules. This process is expected to be completed this year. This will be the operating base for integrating the retail business of SEB acquired in January 2011.

Activity
Lending amounted to EUR 63,342 million, 11% more than in 2009 because of organic growth and the portfolios integrated in the US and Poland. The area also manages the servicing of EUR 6,000 million of third parties in the US.

New lending (EUR 24,650 million) was on a very positive trend, as it began the year with negative growth rates and ended it up 9%. The main engine of lending was auto finance for used cars (+25% y-o-y), which offset the weakness in other segments, particularly new vehicles (+1%) although this segment performed better than the market (-5% y-o-y in Europe).

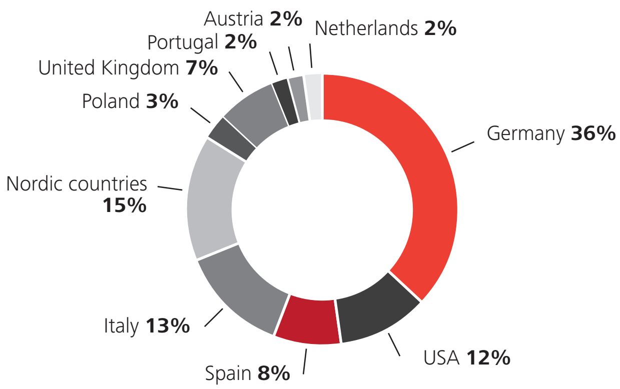
Activity was stronger in the US (new loans doubled), Spain (+18%), the UK (+16% in sterling) and Nordic countries (+13% in local currency). All of this offset the 10% fall in new loans in Germany because of the end of the scrappage scheme (new car sales fell 23%).

Customer deposits increased 16% to EUR 25,950 million, fuelled by the capacity to capture funds in Germany and the incorporation of Poland. In addition, and as part of the strategy developed by the Group to optimise the use of liquidity, Santander Consumer Finance stepped up the volume of issues and sharply reduced its recourse to the Group's parent bank in order to attain total self-financing in 2012.

Results
These actions were clearly reflected in the income statement:

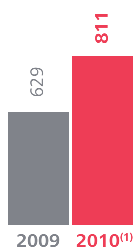
- Gross income increased 13.3%, backed by the most basic

NEW LENDING BY COUNTRIES
%



NET OPERATING INC. +13.1%
Million euros

ATTRIBUTABLE PROFIT +28.9%
Million euros



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 829 million; +31.8%

revenues: net interest income (+13.4%), due to the rise in the average portfolio and management of spreads and fee income (+11.8%), due to greater activity and servicing in the US.

- Higher expenses (+13.8%) due to the expansion in Poland and the US. At constant perimeter and exchange rates, they were 1.4% lower, due to control and the synergies obtained from the integration of GE, particularly in Germany.

- The efficiency ratio was 27.5%, much better than that of its competitors, and net operating income was 13.1% higher.

- Stable loan-loss provisions (+2.6% y-o-y) pushed up growth in net operating income after provisions to 33.6% (+0.5% in 2009).

  The provisions reflect the impact of the more demanding regulatory requirements in Spain (+EUR 26 million) and the higher generic provisions from larger volumes and portfolios. Both were offset by lower specific provisions from the enhanced credit quality. The non-performing loan ratio declined from 5.39% to 4.95% and coverage rose by 31 p.p. to 128%.

- In the rest of items, lower negative impact of discontinued operations and higher minority interests in Poland.

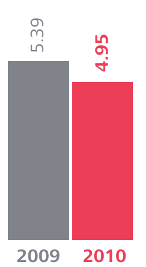
The trends for the whole area were similar in individual countries, though with varying degrees of intensity. Germany, which generates the largest profits, increased its contribution to the Group by 6.9% in an environment of weak activity, thanks to management of spreads, lower costs (-0.9%) and stable provisions.

Santander Consumer USA, the second largest contributor, increased its attributable profit 54.7% in dollars. The main factors behind this were larger volumes (organic generation and integration of portfolios), higher revenues from servicing and the lower cost of credit from the improved quality of the portfolio.

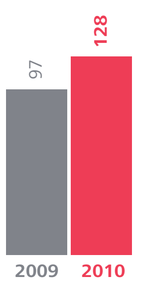
The evolution was also very positive in Nordic countries (+69.6% in attributable profit) and the UK (doubled), albeit from low bases. In both cases the better results were due to greater activity and lower provisions.

In other countries, Spain's performance was still weak, reflected in lower revenues, which the area is offsetting with lower costs and provisions clearly below those of 2009 (-29.3%) due to the better credit quality. Lastly, the business volume in Poland after the integration of AIG Bank was larger (in December EUR 3,300 million in loans and EUR 1,000 million in deposits).

NPL RATIO
%



NPL COVERAGE
%



PORTUGAL

- Revenues dented by low interest rates, reduced activity and strong competition for liquidity.
- Lower expenses for the second year running.
- Prudent management in risks and provisions.
- Improvement in the commercial gap and in the balance sheet structure as a result of the large rise in deposits and selective growth in lending
- Best bank in Portugal prize from Global Finance, Euromoney and The Banker.

Santander Totta's attributable profit of EUR 456 million was 14.2% lower than in 2009.

Activity was conducted in a very difficult environment, due to the economic downturn, the drop in investment and private consumption, the persistence of the sovereign debt crisis and the lack of liquidity.

Strategy
In this environment, Santander maintained solid capital ratios, an efficiency ratio of 45.4% and a high return on equity of more than 20%. In all of them, Santander Totta was better than its competitors.

One of the main strategic priorities in 2010 was the stronger focus on capturing funds in order to gain market share, capture and link customers and improve the balance sheet structure with more stable funds. Various products were marketed such as the *DP Vencedor*, the *DP Ganhador*, the *DP Champion* and the *Super Poupança Ídolos* with very attractive returns, within a strategy of differentiating Santander from its rivals.

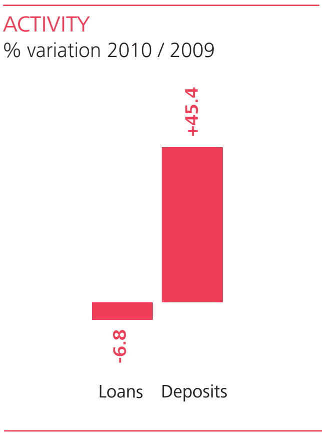
Risks and recoveries continued to be actively managed, in line with the cycle of deterioration in credit quality indicators. This management enabled Santander Totta to maintain better ratios than the system's, according to the latest available figures.

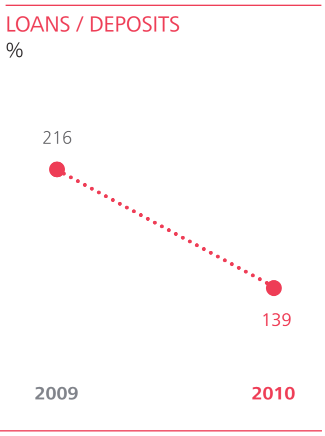
Throughout 2010, Santander Totta again received some of the main prizes, such as Best Bank in Portugal from Global Finance, Euromoney and The Banker. The prizes singled out various aspects related to growth, profitability, efficiency, solvency, cost control and risks in a complicated environment.

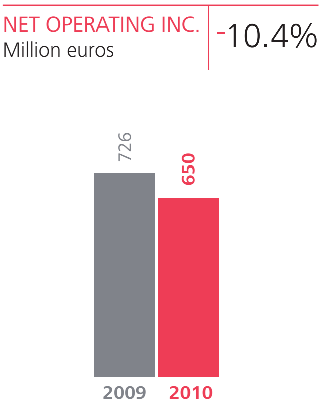
Activity
The main development was the 45% growth in deposits which, combined with the 7% fall in lending, produced a big improvement in the loan / deposit ratio (from 216% to 139%) and in the financing structure of the balance sheet, key elements in an environment of significant restrictions in financing in international markets.

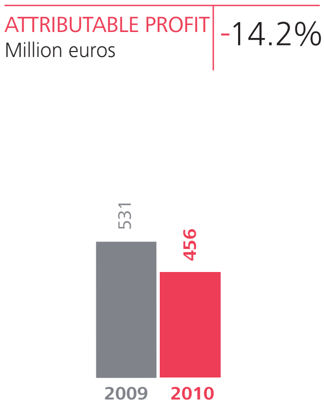
The evolution of funds reflected the intense activity of campaigns under a strategy focused on capturing deposits. They increased, largely due to time deposits, while mutual and pension funds declined 16%.

Gross lending amounted to EUR 30,634 million. Its main components were mortgages to individuals (EUR 16,452 million)









and loans to SMEs (EUR 9,481 million). The most problematic balances – those related to construction and real estate development – only amounted to EUR 1,169 million (less than 4% of total lending).

Total lending was 7% lower, due to a 10% reduction in balances with the construction and real estate development sectors and to large companies, a segment where there has been a shift from lending to financing via issues of securities. Mortgages and balances with small firms rose a little.

Lastly, its investment in Portuguese bonds, as part of its ordinary management of assets and liabilities, amounted to EUR 2,364 million at the end of 2010.

Results

Net interest income was 8.7% lower at EUR 724 million, due to the reduced business volumes, the strong competition for deposits and the higher cost of financing. Moreover, in 2009 net interest income benefited from results relating not only to the lag between the evolution of Euribor and the repricing of loans, but also to results obtained in hedging the sensitivity of the net interest margin.

Net fee income increased 3.9% to EUR 357 million, due to the increase from credit cards, mutual funds, asset management, insurance and GBM. Gains on financial transactions dropped 17.3% to EUR 67 million.

Income accounted for by the equity method was lower and revenue from insurance was higher at EUR 37 million.

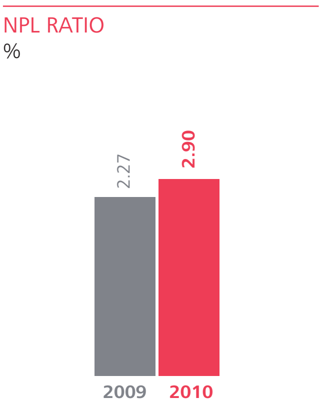
Gross income declined 6.2% to EUR 1,190 million. Rigorous control of operating expenses continued to be a strategic priority, and particularly important at a time of weaker revenues. Costs evolved better than the sector (-0.3% in general expenses and -2.4% in amortisations)

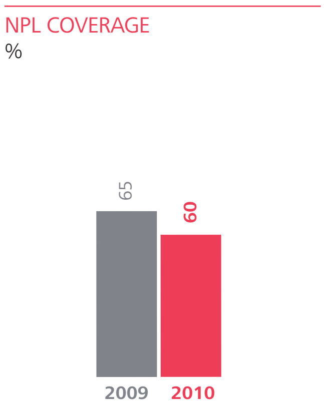
The efficiency ratio was 45.4% and net operating income 10.4% lower at EUR 650 million.

Loan-loss provisions increased 20.8% to EUR 110 million, reflecting a prudent policy of adjusting to the economic cycle with higher NPL ratios. The ratio of Santander Totta inched up to 2.90% and coverage was 60%.

On a like-for-like basis (i.e. local criteria), Santander Totta's performance was better than the sector's and its NPL ratios lower, according to the latest available figures.

Profit before tax was EUR 560 million, 12.9% lower. Attributable profit was EUR 456 million, down 14.2%.





REST OF EUROPE

The rest of businesses in this geographic area (GBM, asset management, insurance and Banif) generated attributable profit of EUR 957 million, 15.2% lower than in 2009 (-10.9% excluding the impact of the Bank of Spain's Circular).

The attributable profit of Global Wholesale Banking, the main unit included here (95% of total profits), dropped 9.0% to EUR 914 million.

Gross income was stable, which was noteworthy given that the first half of 2009 was exceptional, given the market conditions. 2009 was a record year in revenues and profits. Costs increased because of investments made to consolidate positions attained in 2009 in target businesses.

Provisions increased because of the environment, the reduced use of generic provisions and the impact of the Bank of Spain's Circular.

The attributable Profit of Asset Management and insurance was 4.2% lower, in line with gross income performance.

The latter was 4.6% lower due to the net of two factors. On the one hand, lower fee income from the decline in management of mutual and pension funds, under the Group's strategy in developed countries, which gave priority to liquidity, and customers' preference for attractive offers in deposits. And, on the other hand, higher revenues from insurance.

UNITED KINGDOM

Million euros

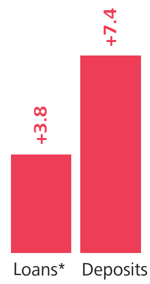
	2010	2009	Variation Amount	%
INCOME STATEMENT				
Net interest income	**4,431**	**3,934**	**497**	**12.6**
Net fees	957	993	(36)	(3.6)
Gains (losses) on financial transactions	465	506	(41)	(8.2)
Other operating income (1)	29	27	2	5.8
Gross income	**5,882**	**5,460**	**422**	**7.7**
Operating expenses	(2,315)	(2,229)	(85)	3.8
General administrative expenses	(2,029)	(1,997)	(32)	1.6
Personnel	*(1,209)*	*(1,170)*	*(40)*	*3.4*
Other general administrative expenses	*(819)*	*(827)*	*8*	*(0.9)*
Depreciation and amortisation	(286)	(233)	(53)	22.7
Net operating income	**3,567**	**3,231**	**337**	**10.4**
Net loan-loss provisions	(760)	(881)	121	(13.8)
Other income	(85)	17	(103)	—
Profit before taxes	**2,722**	**2,367**	**355**	**15.0**
Tax on profit	(737)	(641)	(96)	15.0
Profit from continuing operations	**1,985**	**1,726**	**259**	**15.0**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,985**	**1,726**	**259**	**15.0**
Minority interests	0	0	0	—
Attributable profit to the Group	**1,985**	**1,726**	**259**	**15.0**
BALANCE SHEET				
Customer loans (2)	233,856	227,713	6,144	2.7
Trading portfolio (w/o loans)	45,187	41,245	3,941	9.6
Available-for-sale financial assets	204	897	(693)	(77.3)
Due from credit institutions (2)	29,137	28,745	392	1.4
Intangible assets and property and equipment	2,323	1,424	899	63.1
Other assets	42,063	24,522	17,540	71.5
Total assets/liabilities & shareholders' equity	**352,769**	**324,546**	**28,223**	**8.7**
Customer deposits (2)	184,548	166,607	17,941	10.8
Marketable debt securities (2)	64,326	58,611	5,714	9.7
Subordinated debt (2)	8,143	8,577	(433)	(5.1)
Insurance liabilities	1	3	(2)	(64.4)
Due to credit institutions (2)	54,159	57,879	(3,721)	(6.4)
Other liabilities	29,831	26,946	2,885	10.7
Shareholders' equity (3)	11,762	5,923	5,838	98.6
Other customer funds under management	**14,369**	**10,937**	**3,432**	**31.4**
Mutual funds	14,369	10,937	3,432	31.4
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**271,386**	**244,731**	**26,655**	**10.9**

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

UNITED KINGDOM

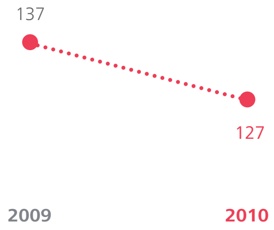
- Double-digit growth in profits for the sixth straight year.
- Larger number of products and services offered: market share gains in mortgages and loans to SMEs.
- Further improvement in the efficiency ratio (39.4%): better than the competitors in the UK.
- The non-performing loan ratio performed better than the market.
- Change of brand completed in 2010 and agreement reached to acquire 318 RBS branches and 40 corporate centres.
- Best Bank in the UK prize from The Banker and Euromoney

ACTIVITY
% variation 2010 / 2009 (sterling)



(*) w/o REPOs

LOANS / DEPOSITS
%



Santander UK generated an attributable profit of EUR 1,985 million, 15.0% higher than in 2009. In sterling, the profit was £1,701 million (+10.7%, the sixth straight year of double digit growth).

Economic environment
GDP growth for the whole year was 1.4%, a trend which is likely to be maintained in the coming quarters. Inflation was 3.7%, partly due to the rise in indirect taxes and sterling's slide. In this context, the Bank of England held its base rate at 0.5%.

Retail lending for the sector remained almost unchanged (+1%) with lending to companies declining 4-5%. Customer deposits grew at a slower pace to end the year at 3%.

Strategy
Thanks to the developments of recent years, Santander UK has attained significant market shares in core segments such as mortgages (13.9%), deposits (10.2%) and current accounts (9.2%).

The strategy in 2010 focused mainly on strengthening the relationship with customers via greater linkage, increasing the range of products and services with special offers for existing customers, including:

- The *Loyalty Tracker Bond*, which provides customers with one of the best interest rates. More than £1,300 million of deposits were captured since the launch in August 2010.

- The *Santander Zero Account*, which is free of certain services commissions and on account overdrafts for customers with a mortgage, an investment product or whose main current account is with Santander UK. More than 194,000 accounts were opened since the launch in January 2010.

- Exemption of the 3% transfer commission in the *Zero Credit Card* for customers with a mortgage or a current account.

- Free access to the close to 4,300 ATMs of the Santander Branch Network in Spain for all Santander UK customers.

We continued to work to make Santander UK a universal bank offering all types of services and products.

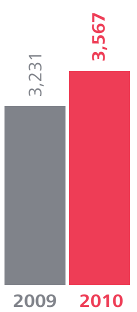
Among the measures to achieve this was the agreement in August with the Royal Bank of Scotland (RBS) to acquire 311 of its branches in England and Wales and seven of NatWest in Scotland, as well as 40 banking centres for SMEs, four company banking centres and three private banking centres. This agreement is another important strategic step for Santander UK, as it increases its distribution and cross-selling capacity and accelerates business growth in the segment of SMEs.

Lastly, as envisaged, brand unification was completed in 2010. The Group now operates in the UK with 1,416 Santander brand branches.

Activity
All figures are in sterling, and as with the other segments, figures have been restated according to the criteria on page 108 of this report. This means that the figures given below may not coincide with those published by Santander UK on the basis of local criteria.

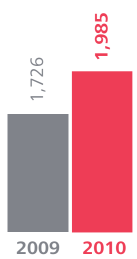
The main components of lending are residential mortgages (85% of total loans), personal loans (2%) and credits to companies (13%, with SMEs accounting for 4%). The portfolio of mortgages is high quality, as there is no exposure to self-certified mortgages or subprime and buy-to-let loans account for less than 1%.

NET OPERATING INC. +10.4%*
Million euros



(*) In sterling: +6.3%

ATTRIBUTABLE PROFIT +15.0%*
Million euros



(*) In sterling: +10.7%

Furthermore, the structure of the balance sheet has improved in recent years, both from the standpoint of the loan/deposits ratio (+ 10 p.p. in 2010) as well as exiting from non-strategic assets, which is commented on later.

Loans to customers (local criteria) amounted to £195,431 million at the end of 2010, 3% more than in 2009, due to 3% growth in residential mortgages and 26% in loans to SMEs.

Gross mortgages granted in 2010 amounted to £24,200 million, 8% less than in 2009 and reflecting the lower activity, while the market share of 18% was in line with that in 2009. The focus on providing loans to low risk customers continued. The loan-to-value (LTV) of the stock remained unchanged at 51%.

A share of new loans above that corresponding to that of our branch network, combined with a good rate of retention, produced a further improvement in the share of the stock of mortgages (from 13.5% to 13.9%).

Santander UK continued to boost lending to SMEs via its network of regional business centres. The stock of these loans reached £8,500 million (market share of 3.6%, +0.9 p.p. since the end of 2009).

On the other hand, under the policy of reducing UPLs pursued over the last few years, the volume of these loans was 24% lower than in 2009 at £3,300 million.

The non-performing loan ratio ended 2010 at 1.76%, 0.11 p.p. less than in March 2010 as of when it declined. The stock of foreclosed properties remained very low at 0.05% of the total portfolio. The evolution, in general, was better than the sector, according to the Council of Mortgage Lenders (CML).

Santander UK continued to dispose of non-strategic assets (-21% since 2009 and -37% since 2008). A&L's treasury portfolio dropped by £10,000 million since the end of 2008 (-66%), £4,500 million of it in 2010.

Retail deposits increased 7% to £153,500 million, with a net inflow of £9,600 million during 2010 and backed by all business areas. The opening of more than 450,000 current accounts in the second half of 2010 brought the total number close to one million for the year, similar to that in 2009.

The sale of credit cards was also good. The number reached 435,000 (+13%), with the focus on existing customers.

Results
Santander UK continued to perform well, spurred by revenue growth, strict control of costs and lower needs for provisions. Profit was 10.7% higher at EUR 1,985 million (£1,701 million).

Gross income increased to EUR 5,041 million, strongly fuelled by net interest income (+8.5%).

The increase in net interest income reflects the balanced growth of loans and deposits. The higher spread on loans was partly offset by the higher cost of the deposit capturing campaign. Moreover, the increased cost of funds and of liquid assets, stemming from the new liquidity requirements, mainly in the second half of the year, partly offset the strength of the core activity adding pressure to the net interest income which will continue in 2011.

In Retail Banking, there was a positive impact from greater retention of mortgages and customers' preference for variable rate mortgages. In addition, growth in bank account liability balances and hedging strategies helped to reduce the impact of lower interest rates on deposits. In SMEs and corporations, prudent management of spreads and growth in loans and deposits, also helped to lift net interest income.

Net fee income was lower than in 2009, in line with the market trend in the UK. In retail business, revenue was reduced by the lower cancellation of mortgages and the policy of reducing UPLs. The change in the mix from structured products to managed customer funds also continued, reducing current revenues but producing higher fees in the future.

Gains on financial transactions declined 11.6%, as the market situation in 2009 was not repeated in 2010 and there were losses in the sale of the portfolio of Alliance & Leicester, which has been discontinued.

Operating expenses were virtually flat in 2010 (-0.1%). The savings obtained from the integration of Alliance & Leicester were reinvested in growth in Corporate Banking and Global Banking & Markets.

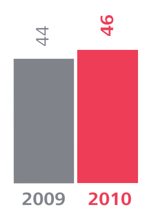
The goal of achieving £180 million of cost savings from synergies from the acquisition of A&L for 2011 remains unchanged. We continued to eliminate overlapping in back office and support functions in all businesses. By the end of 2010, over 90% of the target had been met.

Loan-loss provisions were 17.0% lower than in 2009, thanks to the better evolution of retail products, mainly mortgages, which enabled high coverage levels to be maintained.

The combined effect of higher revenues, stable costs and lower provisions was a 15.0% rise in net operating income after provisions. This did not fully feed through to attributable profit because of the establishment, in the fourth quarter, of a £74 million provision for possible contingencies.

NPL RATIO
%

NPL COVERAGE
%



LATIN AMERICA

Million euros

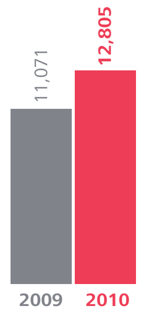
	2010	2009	Variation Amount	%
INCOME STATEMENT				
Net interest income	**14,778**	**11,959**	**2,820**	**23.6**
Net fees	4,661	3,925	736	18.7
Gains (losses) on financial transactions	1,410	1,663	(253)	(15.2)
Other operating income (1)	(74)	121	(195)	—
Gross income	**20,776**	**17,668**	**3,108**	**17.6**
Operating expenses	(7,971)	(6,597)	(1,373)	20.8
General administrative expenses	(7,193)	(6,032)	(1,161)	19.3
Personnel	*(3,955)*	*(3,210)*	*(745)*	*23.2*
Other general administrative expenses	*(3,238)*	*(2,822)*	*(416)*	*14.7*
Depreciation and amortisation	(778)	(566)	(212)	37.5
Net operating income	**12,805**	**11,071**	**1,734**	**15.7**
Net loan-loss provisions	(4,687)	(4,970)	283	(5.7)
Other income	(747)	(673)	(74)	11.0
Profit before taxes	**7,371**	**5,428**	**1,943**	**35.8**
Tax on profit	(1,717)	(1,257)	(460)	36.6
Profit from continuing operations	**5,654**	**4,171**	**1,483**	**35.6**
Net profit from discontinued operations	—	90	(90)	(100.0)
Consolidated profit	**5,654**	**4,261**	**1,393**	**32.7**
Minority interests	850	428	422	98.5
Attributable profit to the Group	**4,804**	**3,833**	**971**	**25.3**
BALANCE SHEET				
Customer loans (2)	127,268	97,901	29,367	30.0
Trading portfolio (w/o loans)	31,580	22,521	9,059	40.2
Available-for-sale financial assets	30,697	29,154	1,543	5.3
Due from credit institutions (2)	21,632	22,146	(515)	(2.3)
Intangible assets and property and equipment	4,880	3,926	954	24.3
Other assets	57,186	38,105	19,082	50.1
Total assets/liabilities & shareholders' equity	**273,243**	**213,753**	**59,490**	**27.8**
Customer deposits (2)	137,848	108,122	29,726	27.5
Marketable debt securities (2)	15,376	8,411	6,964	82.8
Subordinated debt (2)	5,683	4,888	794	16.3
Insurance liabilities	9,515	6,627	2,888	43.6
Due to credit institutions (2)	38,026	32,765	5,262	16.1
Other liabilities	45,989	34,994	10,996	31.4
Shareholders' equity (3)	20,805	17,946	2,859	15.9
Other customer funds under management	**77,180**	**62,759**	**14,421**	**23.0**
Mutual funds	61,621	49,681	11,940	24.0
Pension funds	—	—	—	—
Managed portfolios	14,800	12,538	2,262	18.0
Savings-insurance policies	758	540	218	40.4
Customer funds under management	**236,087**	**184,181**	**51,906**	**28.2**

(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

LATIN AMERICA

- Strong business, reflected in a faster pace of activity, particularly in lending.
- Control of expenses, whose growth was below that of inflation.
- Intense management of early bad loans and of their recovery, reflected in a notable decline in loan-loss provisions.
- On a like-for-like basis, attributable profit was 17.0% higher in local currency.
- Best bank in the region by The Banker and Euromoney.

NET OPERATING INC. +15.7%*
Million euros



(*) Excluding exchange rate impact: -0.6%

ATTRIBUTABLE PROFIT +25.3%*
Million euros

(*) Excluding exchange rate impact: +10.5%

Santander generated attributable profit of EUR 4,804 million, 25.3% more than in 2009 (+10.5% excluding the exchange-rate impact). On a like-for-like basis, excluding the business in Venezuela sold in 2009 and the impact of higher minority interests (net of the placement of Santander Brazil shares in 2009 and the acquisition of the minority interests of Santander Mexico in September 2010), profit from continued operations increased 35.6% (+17.0% excluding the exchange rate impact).

The trends in 2010 were upward quarter after quarter in all items of the income statement and there was a notable pick up in lending in almost all countries.

Economic environment

After showing in 2008 and 2009 a considerable resistance to the external shocks emanating from the difficult economic environment, Latin American economies registered a solid recovery in 2010. Average GDP growth was around 6.5%. This growth was increasingly due to domestic demand, particularly investment and private consumption, which are replacing the drive from restocking and from the fiscal and monetary policies in 2009.

Inflation remained moderate at close to 5% on average, although in some countries inflationary pressures were in evidence and central banks took measures to counter them. Interest rates began to rise in Chile, Brazil and Peru, by 275 b.p., 200 b.p. and 175 b.p. respectively, while in Mexico and Colombia, where inflation was moderate, monetary stimuluses have not yet begun to be withdrawn.

The global economic recovery, and in particular the dynamism of Asian economies, is fuelling Latin American exports. The trade surplus was more than 1% of GDP. The current account deficit, which had dropped sharply in 2009, widened in 2010 but at 1.5% of GDP was comfortably financed by direct investment flows (+27%).

In the current context of abundant global liquidity, Latin America has become one of the preferred destinies for investors. Comfortable current account positions and significant inflows of capital are strengthening the region's currencies in nominal terms and producing a build up of international reserves, which have already topped $560,000 million.

The evolution of public accounts is also good, spurred by growth in tax revenues. The budgets for 2011 aim to further improve the situation and reduce the level of public debt, although it is already low (around 30% of GDP on average).

In the countries where Santander operates, banking business is picking up (+16% excluding Puerto Rico). Lending by the region's banking systems increased 19% excluding the forex impact. Loans to individuals rose 21% (cards: +10%; consumer credits: +19% and mortgages: +29%), while loans to companies and institutions rose 18%.

Savings maintained their growth (+15%), rising more quickly in the second half after the deceleration in 2009. In general terms, and considering the financial systems with the greatest weight, Brazil grew the most and Chile more moderately.

LATIN AMERICA. INCOME STATEMENT
Million euros

	Gross income		Net operating income		Attributable profit to the Group	
	2010	Var (%)	2010	Var (%)	2010	Var (%)
Brazil	14,352	22.7	9,037	22.5	2,836	30.9
Mexico	2,380	1.6	1,458	(5.5)	682	37.9
Chile	2,048	14.4	1,311	9.7	683	21.3
Puerto Rico	363	8.9	186	12.5	38	13.2
Colombia	187	17.3	75	11.3	41	24.1
Argentina	827	16.4	454	8.9	297	31.5
Uruguay	169	17.4	76	14.4	67	30.3
Rest	167	(15.3)	46	(29.9)	21	(80.7)
Subtotal	**20,493**	**17.9**	**12,643**	**16.0**	**4,665**	**26.9**
Santander Private Banking	283	(2.5)	162	(7.2)	139	(10.7)
Total	**20,776**	**17.6**	**12,805**	**15.7**	**4,804**	**25.3**

Because of their impact on business and on converting figures into euros, the evolution of interest rates and exchange rates is commented on:

– Average short-term interest rates, based on the region's average weighted rate, fell between 2009 and 2010, although they increased in some countries as of the second half of 2010.

– The evolution of results in euros is affected by average exchange rates. In global terms, Latin American currencies appreciated against the dollar, while the dollar, the reference currency in Latin America, strengthened 5% against the euro. The Brazilian real strengthened against the euro on average from 2.76 to 2.33, the Mexican peso from 18.8 to 16.7 and the Chilean peso from 775 to 674.

Strategy
The return to a more favourable economic environment in the region energised the financial systems. In this context, the Group reacted agilely, stepping up activity and, consequently, the generation of gross income through management of spreads and development of fee-generating businesses. At the same time, the Group's basic values were preserved, such as prudence in granting loans, strong recovery activity and efficiency in costs.

In Brazil, Banco Real's integration into the Group and the IPO of Santander Brazil in the second half of 2009, in order to finance its strategic plan, gave the strategy in this country some distinguishing features.

At the end of 2010, the Group had 5,882 traditional branches and points of banking attention and 27,550 ATMs.

The number of customers increased by 2.7 million to 40.3 million. The Group is placing more emphasis on linking customers than capturing them.

The Group continued to receive some of the main prizes awarded to banks in the region.

The main developments in business and results in 2010 are set out below. All percentage changes exclude the exchange-rate impact.

Activity
The year-on-year pace of lending accelerated as of the beginning of the year and growth ended at 15%. Cards (excluding Mexico) grew 28%, commercial bills (companies in all their range and institutions) 19%, mortgages 14% and consumer credit 13%. Loans to individuals increased 14%, those to SMEs 17% and to companies overall 25%.

Savings (deposits excluding repos + mutual funds) increased 8%. Demand deposits grew 16%, mutual funds 9% and time deposits barely 1%.

The market shares in the countries where we operate are 11.4% in loans, 10.0% in deposits and 9.8% for total banking business.

Main focuses of management in 2010

1 Management by type of customer, with greater emphasis on linkage via transactions, particularly with companies and institutions.

2 Focus on greater linkage of high and medium income customers and payrolls.

3 Greater emphasis on growth in savings and maintaining high levels of liquidity.

4 Consolidation of the policy of integral management of customer lending in all its phases (admission, management, monitoring and recovery).

5 Selective growth in lending, with particular attention on consumer credit and maximising the profitability of shareholders' equity.

6 Strengthen service strategies and multichannel distribution in order to improve productivity and the quality of service.

7 Strict control of costs and investments.

8 Integration in Brazil.

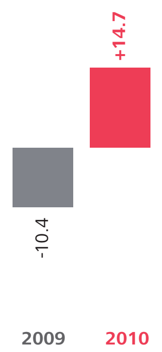
Results
Net interest income increased 6.2%, due to greater volumes, the change of mix toward lower risk products and defending spreads in an environment of lower interest rates than in 2009.

Net fee income rose 3.1%, driven by that from insurance activity (+18%), mutual funds (+14%), cards (+10%), cash management (+8%) and foreign trade (+7%). On the other hand, income from the administration of accounts was lower. Also, there was a negative impact from regulatory changes.

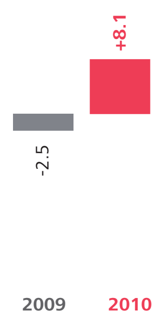
Revenue from banking activity increased 5.1%.

Gains on financial transactions dropped 27.0%, largely due to large capital gains in securities portfolios in 2009 that were not repeated in 2010.

LOANS
% y-o-y variation w/o forex impact



SAVINGS
% y-o-y variation w/o forex impact



Operating expenses rose 4.5%. In Brazil, Mexico, Colombia, Uruguay and Puerto Rico, costs grew in line with or below their respective inflation rates. In Argentina, they increased 26.9% due to the renegotiation of the collective bargaining agreement (+23%) in a context of significant growth in inflation. In Chile, the impact of the earthquake and the signing of a collective agreement produced an increase of 7.8%.

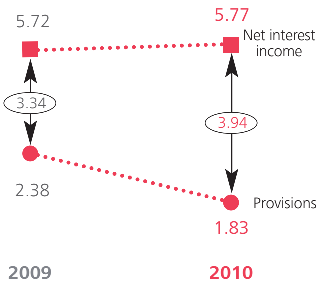
The efficiency ratio remained at around 38%.

The better macroeconomic environment and outlook, together with active risk management and a notable improvement in risk premiums (from 4.8% in 2009 to 3.6% in 2010), is beginning to be reflected in provisions (-19.5%). The NPL ratio declined 14 b.p., from 4.25% to 4.11%, while coverage was stable at 104%.

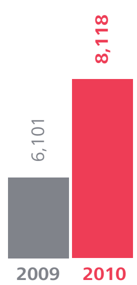
Net operating income after provisions increased 14.8%, profit from continued operations 17.0% and attributable profit 10.5%, the latter as a result of the sale of Banco de Venezuela and the negative net impact of higher minority interests.

By segments and excluding both impacts, Retail Banking's attributable profit was 32.8% higher, Wholesale Banking's declined 8.5%, notably influenced by a very good results in 2009, and Asset Management and Insurance's rose 9.5%.

NET INTEREST INCOME / PROVISIONS
% o/ ATAs



NET OPERATING INC. AFTER LLPs
Million euros
+33.1%*



(*) Excluding exchange rate impact : +14.8%

NPL RATIO
%

NPL COVERAGE
%

RECOGNITION AS THE BEST BANK IN THE PRIZES AWARDED DURING 2010

	The Banker	Euromoney	Global Finance
Region	√	√	
Mexico		√	
Chile		√	√
Argentina	√	√	
Uruguay	√	√	√
Puerto Rico	√		

LATIN AMERICA. MAIN UNITS

Million euros

	Brazil		Mexico		Chile	
	2010	Var (%)	2010	Var (%)	2010	Var (%)
INCOME STATEMENT						
Net interest income	**10,490**	**27.7**	**1,638**	**7.7**	**1,514**	**27.3**
Net fees	3,001	20.7	568	11.5	411	15.4
Gains (losses) on financial transactions	975	7.4	177	(46.6)	90	(57.3)
Other operating income (1)	(114)	—	(3)	(83.3)	33	(3.3)
Gross income	**14,352**	**22.7**	**2,380**	**1.6**	**2,048**	**14.4**
Operating expenses	(5,316)	22.9	(922)	15.2	(737)	24.0
General administrative expenses	(4,807)	20.9	(815)	14.2	(651)	23.6
Personnel	*(2,592)*	*27.0*	*(430)*	*12.0*	*(409)*	*27.5*
Other general administrative expenses	*(2,215)*	*14.4*	*(385)*	*16.7*	*(242)*	*17.6*
Depreciation and amortisation	(509)	45.9	(107)	23.6	(85)	27.1
Net operating income	**9,037**	**22.5**	**1,458**	**(5.5)**	**1,311**	**9.7**
Net loan-loss provisions	(3,709)	5.3	(469)	(38.9)	(323)	(22.7)
Other income	(746)	13.4	(29)	14.5	31	(11.2)
Profit before taxes	**4,582**	**43.4**	**960**	**28.1**	**1,019**	**25.4**
Tax on profit	(1,207)	33.0	(148)	57.1	(159)	40.4
Profit from continuing operations	**3,375**	**47.5**	**812**	**23.9**	**860**	**22.9**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**3,375**	**47.5**	**812**	**23.9**	**860**	**22.9**
Minority interests	539	345.4	130	(19.2)	177	29.9
Attributable profit to the Group	**2,836**	**30.9**	**682**	**37.9**	**683**	**21.3**
BALANCE SHEET						
Customer loans (2)	71,027	31.7	15,156	31.9	25,732	32.8
Trading portfolio (w/o loans)	11,529	42.9	13,004	43.6	3,532	40.8
Available-for-sale financial assets	21,257	12.6	3,716	(8.0)	2,825	0.3
Due from credit institutions (2)	10,863	(4.4)	4,478	(14.0)	2,349	(7.2)
Intangible assets and property and equipment	3,813	29.2	401	9.3	374	6.4
Other assets	41,775	73.4	4,394	20.3	3,987	51.6
Total assets/liabilities & shareholders' equity	**160,264**	**34.4**	**41,148**	**21.7**	**38,799**	**28.4**
Customer deposits (2)	75,669	27.7	21,144	33.2	18,108	23.8
Marketable debt securities (2)	9,164	99.8	363	(13.2)	5,590	75.6
Subordinated debt (2)	4,372	13.9	—	(100.0)	1,100	35.3
Insurance liabilities	8,857	43.3	303	34.0	332	67.7
Due to credit institutions (2)	24,211	79.8	7,489	(14.3)	5,555	(11.2)
Other liabilities	26,384	24.0	7,858	29.0	5,926	71.6
Shareholders' equity (3)	11,608	8.9	3,991	66.1	2,187	29.6
Other customer funds under management	**48,727**	**28.3**	**10,114**	**22.8**	**5,875**	**10.3**
Mutual funds	43,942	27.3	10,005	22.8	5,806	9.8
Pension funds	—	—	—	—	—	—
Managed portfolios	4,205	38.6	—	—	—	—
Savings-insurance policies	580	40.1	109	25.1	69	78.3
Customer funds under management	**137,931**	**30.5**	**31,622**	**28.6**	**30,674**	**28.1**

(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

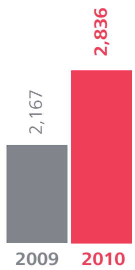
BRAZIL

- Lending continued to grow and ended the year at double digits.
- Revenues: new record of net interest income (which rose for the twelfth straight quarter) and fee income.
- Expenses: rise slower than that of inflation.
- Loan-loss provisions: lower thanks to improved performance of NPLs.
- Net operating income after provisions was 16.6% higher and profit before minority interests increased 24.4%.

NET OPERATING INC. +22.5%*
Million euros

(*) Excluding exchange rate impact: +3.3%

ATTRIBUTABLE PROFIT +30.9%*
Million euros



(*) Excluding exchange rate impact: +10.4%

Grupo Santander in Brazil generated attributable profit of EUR 2,836 million, 30.9% more than in 2009 (+10.4% in local currency). On a like-for-like basis, excluding minority interests, the increase was 24.4% in local currency.

Santander Brazil is the third largest private sector bank in terms of assets, with a market share of 9%. It operates in the main regions, with 3,702 branches and points of banking attention, 18,312 ATMs and 24.7 million customers, of whom 10 million have current accounts.

Economic environment
The economy continued to grow on a sustained basis. Growth for the whole year was around 7.5%. This was a substantial improvement over 2009 (-0.6%).

This improvement was due to the greater confidence of businessmen and consumers, the significant reduction of the unemployment rate, already at minimum levels. It was 5.3% at the end of 2010, down from an average of 9.4% for the previous five years and to the improved conditions in the credit market.

Inflation was 5.6%, above the central bank's target of 4.5%. The key Selic rate ended 2010 at 10.75% (+200 b.p.). The Monetary Policy Committee in 2011 raised it to 11.75% because of inflationary pressures.

Total lending in Brazil grew at a faster pace. It increased 20.5% (+21.5% state banks). State banks' share of lending was 41.9%, followed by private sector Brazilian banks (40.7%) and foreign banks (17.4%).

Loans to individuals (33% of the total) grew 19%, spurred by credits linked to the depositing of payroll cheques in accounts and auto finance, that to companies (33% of the total) rose 15% and directed credit (including BNDES, rural and housing, 34%) continued to grow at a faster pace than to the rest of segments (+27%).

Savings, including mutual and pension funds, increased 16%. Mutual funds rose 17%, followed by demand deposits + savings (+16%) and time deposits (+14%).

Strategy
The Santander Brazil plan centres on the integration process, which since the onset has been focused on improving the operational and commercial practices, extracting the best from each bank, pursuing greater efficiency and capturing synergies.

The new products included the *Conta Integrada* for shops and companies, Santander bonds to capture funds in the domestic market and provide greater stability to balance sheets by extending maturities, and the launch of three cards, *Santander Elite Premium*, *Santander Style Platinum* and *Santander Ferrari*. Various alliances were also forged, such as GetNet to strengthen business with companies and the creation of *Credlmob21* with *Century21* to supply mortgages.

Further progress was made in integrating the platform of credit cards, in insurance, in the training of the network's teams and unification of the brand was completed, with incorporation of the Santander brand to branches, points of banking attention, mini-branches, electronic service points, points of public attention and kiosks of the Real brand. Finally, the retail networks were integrated.

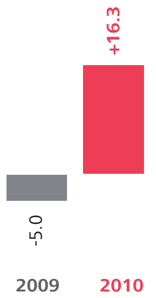
Lastly, Santander Brazil became a reference bank in corporate governance in the country, as it is the only large private sector bank to attain level 2 in this sphere from BM&FBOVESPA. Since the end of 2009 the bank has been consolidating its management in order to create and improve its corporate governance mechanisms and guarantee the principles of transparency, equity, rendition of accounts and corporate social responsibility.

Activity
As in the rest of the segments, Brazil's figures have been restated in accordance with the criteria set out on page 108 of this report. This means that the figures here do not coincide with those published locally.

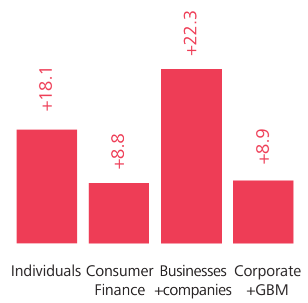
Both lending and savings grew strongly. Lending began the year with negative growth and then gradually picked up and ended 2010 up 16% and with significant rises in all segments. Growth was largely due to the 22% rise in loans to businesses and companies and the 18% rise to individuals (+27% in mortgages and cards). Lending to large companies increased 9%.

On the funding side, demand deposits grew 16% and mutual

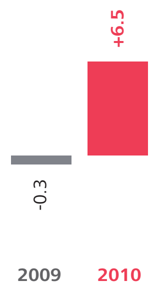
LOANS
% y-o-y variation w/o forex impact



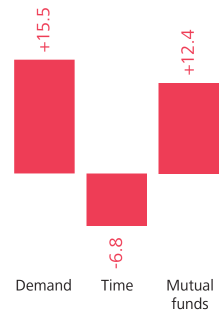
LOANS, BREAKDOWN
% var. 2010 / 2009 w/o forex impact



SAVINGS
% y-o-y variation w/o forex impact



SAVINGS, BREAKDOWN
% var. 2010 / 2009 w/o forex impact



funds 12%. Time deposits, on the other hand, under a policy based on the environment for rises in interest rates in 2010 and reduction in institutional balances of very low return, declined 7%. Overall, savings increased 6%.

The bank's market share in loans is 10.8% (11.5% for unrestricted lending) and 8.8% in deposits.

Results

As regards results, (and always in local currency) the main component of growth was net interest income (+7.7%), which has risen every quarter for the last three years. The trend of fee income was also good. Excluding regulatory changes, it rose 6%, fuelled by revenue from credit cards, insurance and mutual funds, which registered double-digit growth.

This positive performance, however, was not fully reflected in gross income (+3.5%), due to the fall in gains on financial transactions (-9.4%), affected by greater wholesale banking revenues in 2009 and the recording in the third quarter of the capital gains obtained in the Visanet green shoe (EUR 95 million), which were assigned to generic provisions.

Operating expenses increased 3.7% (personnel and general, +2.0%), clearly below the inflation rate. This evolution was compatible with the opening of 109 points of customer attention and the hiring of more employees, as the synergies obtained (BRL 1,862 million) were higher than forecast (BRL 1,600 million).

Provisions for loan losses were 11.2% lower than in 2009, due to the improvement in the risk premium and in the NPL ratio. The ratio dropped from 5.27% to 4.91%, while coverage increased to 101%.

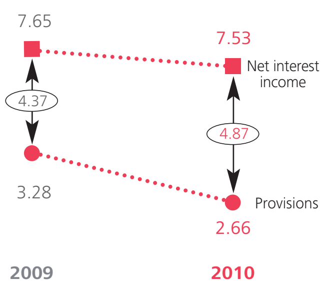
Profit before minority interests was EUR 3,375 million, 24.4% more than in 2009 in local currency.

Attributable profit, after higher minority interests (EUR 539 million compared with EUR 121 million in 2009) because of the listing in the second half of 2009, was EUR 2,836 million (+10.4% in local currency and +30.9% in euros).

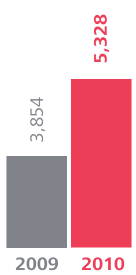
Retail Banking's profit was 34.2% higher and that of GBM was 18.9% lower because of reduced gains on financial transactions.

The efficiency and recurrence ratios were 37.0% and 62.4%, respectively, and ROE was 23.1%.

NET INTEREST INCOME / PROVISIONS
% o/ ATAs



NET OPERATING INC. AFTER LLPs
Million euros
+38.3%*



(*) Excluding exchange rate impact: +16.6%

NPL RATIO
%

NPL COVERAGE
%

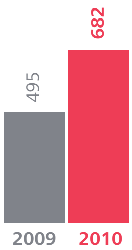
MEXICO

- Faster growth in lending, increasing at double-digits.
- Basically flat costs (growth below inflation).
- Emphasis on integral management of risk, with lower provisions.
- Net operating income after loan-loss provisions rose 13.5%, despite lower gains on financial transactions.

NET OPERATING INC. -5.5%*
Million euros

(*) Excluding exchange rate impact: -15.9%

ATTRIBUTABLE PROFIT +37.9%*
Million euros



(*) Excluding exchange rate impact: +22.7%

Attributable profit was EUR 682 million, 37.9% higher than in 2009 (+22.7% in local currency).

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 13.5% and 15.1% in savings. It has 1,100 branches and 9.1 million customers.

Economic environment
The economy expanded 5.5% in 2010. Domestic demand grew 6.1%, thanks to the recovery in private consumption and investment in fixed capital and in building up stocks, while exports continued to grow in real terms at high rates.

Job creation is a very important factor in this evolution (close to 732,000 created).

Inflation rose in the last months to 4.4% in December, although it was still within the central bank's range. After the inflation spike brought on mainly by food and energy prices, the rate eased in January 2011 to 3.8% and is expected to come down to around 3.5%. In this context, the Bank of Mexico is expected to keep its key rate stable for most of 2011.

Growth in banking business recovered in 2010. Lending rose 7% (consumer and cards: +2%) and savings 15%.

Strategy
The strategy centred on accelerating business dynamics and revenue generation, as well as continuing to deepen the already established priorities: strengthen the franchise via greater relations with customers and more transactions, and bolster integral management of risk, particularly in recovering loans in an irregular situation.

New products and services were offered in 2010 for particularly attractive segments such as high-income customers. Of note was the success in insurance. The bank's mission is not only to extend "bankarisation" but also the idea of "protection".

In accordance with this strategy, the Group significantly increased the number of linked customers, while recovery of bad loans continued to be a priority in all segments.

The agreement with Bank of America to acquire its stake of 24.9% in Santander Mexico for $2,500 million materialised in September, giving Santander 99.9% of the capital. Positive impact on results of EUR 64 million.

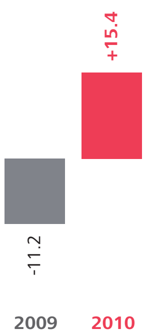
Activity
Lending began the year with negative growth rates and ended up 15%, with a very good evolution in individuals, SMEs and companies. Mortgages and loans to individuals grew 17% (especially for new homes, +107 b.p. in market share) and consumer credit grew 9%. Lending via cards dropped 16%, partly for market reasons and partly due to applying very rigorous criteria.

Savings increased 14%, with demand and time deposits growing 20% and 16%, respectively, and mutual funds 7%.

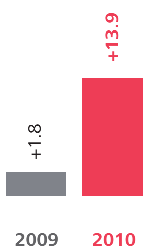
Results
In results (local currency), gross income declined 9.6%, strongly impacted by gains on financial transactions which were half those in 2009 when there were significant capital gains in the securities portfolios.

Net interest income was 4.2% lower, in line with growth more tilted toward products and segments with lower spreads (sharp reduction in the last few years in volumes related to cards), but

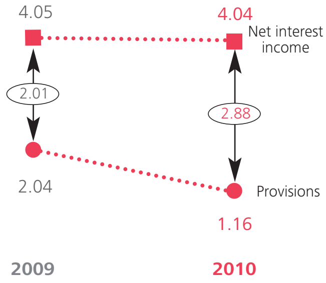
LOANS
% y-o-y variation w/o forex impact



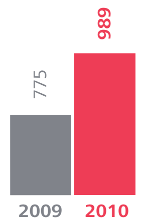
SAVINGS
% y-o-y variation w/o forex impact



NET INTEREST INCOME / PROVISIONS
% o/ ATAs



NET OPERATING INC. AFTER LLPs +27.7%*
Million euros



(*) Excluding exchange rate impact: +13.5%

also with a lower risk premium. The stability of the key interest rate at 4.50% gave rise to a drop of 52 b.p. in the average spread on deposits and on loans of 113 b.p.

Fee income was 0.8% lower, still affected by the fall in card business. Excluding this, income from other products grew 10% (+32% from insurance).

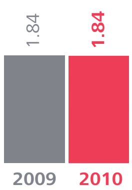
Operating expenses increased 2.5%, below inflation (4.4%).

Net loan-loss provisions declined 45.7%, from around EUR 225 million in the first half of 2009 to almost EUR 100 million in the second half of 2010. Net operating income after provisions increased 13.5%.

Attributable profit was 22.7% higher in local currency at EUR 682 million. Retail Banking's profit increased 29.5%, Global Wholesale Banking's 11.0% and Asset Management and Insurance's 22.5%. Excluding the impact of the minority interests acquired, profit from continued operations was 10.2% higher.

The efficiency ratio was 38.7%, the recurrence ratio 69.7% and ROE 19.5% The NPL ratio was unchanged at 1.84% and coverage an excellent 215%.

NPL RATIO
%

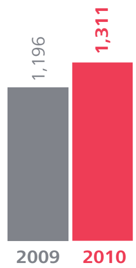


NPL COVERAGE
%

CHILE

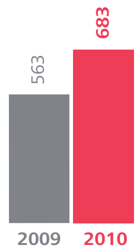
- Double-digit growth in loans, after negative rates in 2009.
- Expenses rose because of the impact of the earthquake, the signing of a collective bargaining agreement and faster business growth.
- Significant decline in provisions, thanks to consolidation of the risk management model.
- Net operating income after loan-loss provisions increased 10.4%.

NET OPERATING INC. +9.7%*
Million euros



(*) Excluding exchange rate impact: -4.7%

ATTRIBUTABLE PROFIT +21.3%*
Million euros



(*) Excluding exchange rate impact: +5.4%

Attributable profit was EUR 683 million in 2010, 21.3% higher than in 2009 (+5.4% in local currency).

Santander is the largest financial group in Chile in terms of assets and results. Its market shares are 20.9% in loans and 17.6% in savings. It has 504 branches and 3.1 million customers.

Economic environment
The economy, hit by the earthquake in the early part of the year, recovered strongly. GDP growth was more than 5% in the first nine months and domestic demand, also reflecting the reconstruction programmes, rose by around 16%. Both private consumption and investment in fixed capital and in stocks grew strongly. Inflation rose during the year and ended at 3.0%.

The central bank took preventative action, lifting interest rates (+275 b.p.).

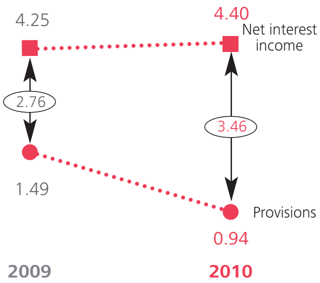
Lending began to recover at the start of the year and rose 9%, fuelled by mortgages and commercial credit. Savings increased 9% (+21% in demand deposits).

Strategy
Santander Chile concentrated on taking advantage of the economic recovery. It managed spreads well in an environment of interest rates at maximum levels. Issues such as strengthening customer linkage through all channels, recovery management and costs are still very much on the agenda.

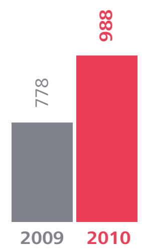
The number of insurance policies, a risk-free product and one generating fee income, amounted to more than 5.0 million and consumer loans totalled more than 1 million. Payrolls, a very binding product, increased 9% and helped to enhance the quality of the customer base and future business prospects. The number of cards reached 1.7 million. Of note was the renewal of the card co-branding alliance with LAN, Chile's main airline, and various new alliances, which have made Santander the clear leader in the country's means of payment market. Meanwhile, the rise in transactions and customer linkage sustained the growth of these revenues in an adverse environment.

In addition, management of the effects of the earthquake, from social and business standpoints, was in the centre of the strategy.

NET INTEREST INCOME / PROVISIONS
% o/ ATAs



NET OPERATING INC. AFTER LLPs
Million euros
+27.0%*



(*) Excluding exchange rate impact: +10.4%

Activity

Stronger economic growth and the positive impact of reconstruction accelerated growth in lending (+14%), with all products and segments performing well. Mortgages grew 12%, consumer credit 17% and cards 32%, while in segments growth was more than 15% to individuals, SMEs and companies.

Savings rose 2%, with demand deposits up 17%, time deposits down 2% and mutual funds down 6%.

The bank reached several milestones in fixed-income markets. In April, Santander Chile was the first bank in the region to issue a floating rate short-term note, a market reserved for high-grade issuers. In September, the bank placed the first ever international bond in Chilean pesos by a private company. Lastly, in December the bank was the first Chilean issuer to make an issue in the Swiss market. All these bonds attained the best risk rating of a Latin American company (Aa3/AA-).

Results

In results (and always in local currency), gross income slid slightly (-0.5%), although with a differentiated performance by lines. Net interest income grew 10.6%, backed by the recovery in lending and higher inflation than in 2009. Interest rates, although higher in the last part of the year, were lower than in 2009. This impacted on the spread (-78 b.p.).

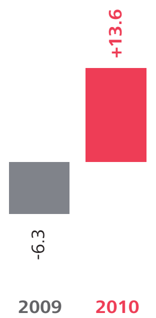
Net fee income rose 0.3%. Of note was the 29% rise from asset management, 28% from securities and 16% from insurance, which offset the falls in administration of accounts, foreign trade and cash management. Gains on financial transactions dropped from EUR 210 million to EUR 90 million, as there were capital gains not repeated in 2010.

Operating expenses increased 7.8%, higher than inflation, and impacted by the earthquake and the signing of the collective bargaining agreement, while provisions declined 32.8%. The rate at which they fell accelerated during the year, thanks to risk management.

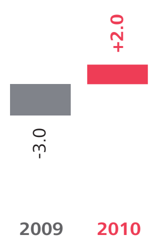
Attributable profit was 5.4% higher at EUR 683 million. Retail Banking's profit (76% of the total in Chile) rose 14.9%, Asset Management and Insurance's 1.2% and Global Wholesale Banking's dropped 24.6%, due to lower gains on financial transactions.

The efficiency ratio was 36.0%, the recurrence ratio was 63.0% and ROE 30.5%. The NPL ratio was 3.74% and coverage 89%.

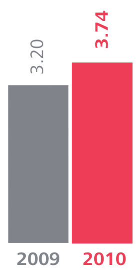
LOANS
% y-o-y variation w/o forex impact



SAVINGS
% y-o-y variation w/o forex impact



NPL RATIO
%



NPL COVERAGE
%

ARGENTINA

Attributable profit amounted to EUR 297 million in 2010, 31.5% higher than in 2009 (+31.4% in local currency).

Santander Río is one of the country's leading banks, with market shares of 9.8% in lending and 10.1% in savings. It has 324 branches and 2.3 million customers.

The economy grew by close to 9%, driven by buoyant domestic demand. Inflation spurted in the first half to 11% from 7.7% at the end of 2009, but in the second half it was stable. Interest rates remained at around 11%.

Market indicators were very positive (lower yield on bonds, 4.3% depreciation of the peso against the dollar) after the reopening of the debt exchange (adherence of 66%) and the improved sovereign rating.

The pace of growth in savings and lending in the whole financial system was 27% and 35%, respectively. The quality of the balance sheet continued to improve and high levels of liquidity were maintained.

The Group's strategy focused on taking advantage of the strengths of its commercial franchise, with greater importance attached to customer linkage and transaction banking and selective growth in lending, with particular attention paid to managing the whole risk cycle and control of costs.

Lending rose 38% in local currency and savings 34%. Of note was the 42% growth in demand deposits. These increases were higher than the market's and produced gains in the market shares of these three items.

Gross income rose 16.4%, net interest income 15.2% and fee income 22.3%. Operating expenses were 26.9% higher, impacted by the new collective bargaining agreement (+23%), and loan-loss provisions declined 59.0%. Attributable profit was EUR 297 million, as already mentioned.

The efficiency ratio was 45.1%, the recurrence ratio 90.6% and ROE 61.8%. The NPL ratio was 1.69% and coverage 149%. Both of these ratios were better than in 2009.

URUGUAY

Attributable profit amounted to EUR 67 million in 2010, 30.3% higher than in 2009 (+10.3% in local currency).

Santander is the largest private sector bank in the country in terms of profits, number of branches (43) and business (market share of 17.1% in lending and 16.7% in deposits and mutual funds). It has 258,000 customers.

The economy expanded 8.8% year-on-year in the first nine months, one of the fastest growing in the region. Growth was fuelled by domestic demand, which rose in line with GDP, and exports (+11% in real terms).

Moody's revised Uruguay's sovereign rating from Ba3 to Ba1, an increase of two notches and only one away from investment grade. The rating agency said the reason for the upward revision was the improvement in fiscal and debt indicators, combined with an outlook of continuous improvement.

Growth in the financial system's lending and deposits was 18% and 16%, respectively.

The Group's strategy focused on taking advantage of the synergies from the Santander/ABN merger, fostering retail business and expanding and linking the customer base. Another element was to boost attention to the high income segment via the Van Gogh project.

Lending increased 23% in local currency, higher than the sector and deposits rose 14%.

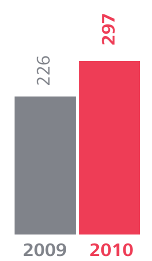
Gross income increased 2.7%, operating expenses remained almost flat and provisions continued to be insignificant thanks to the bank's exceptional credit quality. The NPL ratio was only 0.22% and the level of coverage was very high, underscoring one of the bank's strengths.

Attributable profit was 10.3% higher at EUR 67 million (+30.3% in euros).

The efficiency ratio is 55.1% and the recurrence ratio 33.6%.

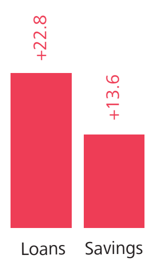
ACTIVITY
% var. 2010 / 2009 w/o forex impact

ATTRIBUTABLE PROFIT Million euros **+31.5%***

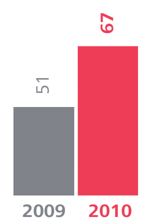


(*) Excluding exchange rate impact: +31.4%

ACTIVITY
% var. 2010 / 2009 w/o forex impact



ATTRIBUTABLE PROFIT Million euros **+30.3%***



(*) Excluding exchange rate impact: +10.3%

COLOMBIA

Attributable profit was EUR 41 million in 2010, 24.1% higher than in 2009 (+4.2% in local currency).

The Group has 76 branches, 297,000 customers and a 2.9% share in lending and 2.8% in savings.

The economy grew 4.1% in the first nine months year-on-year compared to zero growth in 2009. Inflation, after remaining at close to 2.5% for almost all the year, rose in December to end at 3.2%. The central bank held its key rate at 3% after cutting it by 50 b.p. in April 2010.

The Group concentrated on credit risk management and selective growth in lending, preserving adequate levels of liquidity. It also strengthened transaction businesses and paid close attention to controlling costs.

Lending rose 12%, with loans to individuals increasing 26% and those to companies 18%. Savings increased 15%, with demand deposits up 29%, mutual funds 11% and time deposits only rose 4%.

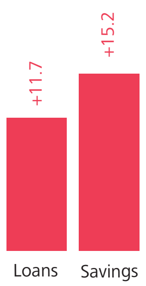
Basic revenues increased 7.1%, fuelled by net interest income (+6.2%) and by fee income (+9.7%). Gains on financial transactions were halved because of losses in 2010 in the derivatives portfolio.

Operating expenses were 2.2% higher, below inflation, and provisions were 27.9% lower thanks to good credit quality. The NPL ratio was 1.56% and coverage 200%, both figures better than in 2009.

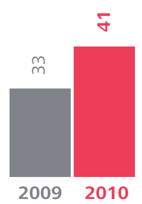
Profit before tax increased 14.8% and attributable profit only rose 4.2%, because of the higher tax charge.

The efficiency ratio is 59.9% and the recurrence ratio 48.4%.

ACTIVITY
% var. 2010 / 2009 w/o forex impact



ATTRIBUTABLE PROFIT
Million euros
+24.1%*



(*) Excluding exchange rate impact: +4.2%

PUERTO RICO

Attributable profit was 7.6% higher in dollars at EUR 38 million, due to the 4.0% rise in basic revenues and almost flat costs and provisions. The efficiency ratio was 48.7%, the recurrence ratio 42.6%, the NPL ratio 10.6% and coverage 58%.

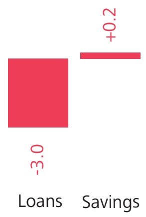
Santander Puerto Rico has 121 branches, 514,000 customers and market shares of 9.3% in loans, 10.2% in deposits and 22.6% in mutual funds.

The economy remained in recession, affecting both the growth of the financial system and its profitability.

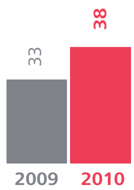
The bank continued to position itself as one of the three main financial institutions in lending, deposits and mutual funds. It made further efforts to bolster recovery of loans in an irregular situation and grow selectively in lending to individuals and companies.

In 2010, the Group fully owned the subsidiary, following its delisting

ACTIVITY
% var. 2010 / 2009 w/o forex impact



ATTRIBUTABLE PROFIT
Million euros
+13.2%*



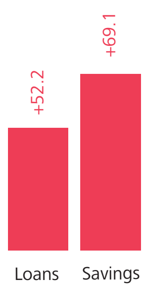
(*) Excluding exchange rate impact: +7.6%

PERU

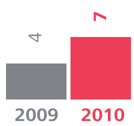
Attributable profit was EUR 7 million (EUR 4 million in 2009 and only EUR 1 million in 2008).

The Peruvian economy surged 8.8%, making it one of the most dynamic in the region. The domestic drivers were the improvement in household and business confidence, growth in lending and job creation. In this context, activity was focused on companies and tending to the Group's global customers.

ACTIVITY
% var. 2010 / 2009 w/o forex impact



ATTRIBUTABLE PROFIT
Million euros
+72.7%*



(*) Excluding exchange rate impact: +54.0%

SOVEREIGN

Million euros

	2010	2009*	Variation Amount	%
INCOME STATEMENT				
Net interest income	**1,736**	**1,160**	**575**	**49.6**
Net fees	408	380	27	7.2
Gains (losses) on financial transactions	29	13	16	124.0
Other operating income [(1)]	(66)	(91)	24	(26.9)
Gross income	**2,106**	**1,463**	**643**	**44.0**
Operating expenses	(937)	(881)	(56)	6.4
General administrative expenses	(832)	(766)	(66)	8.6
Personnel	*(468)*	*(457)*	*(11)*	*2.3*
Other general administrative expenses	*(364)*	*(309)*	*(55)*	*17.9*
Depreciation and amortisation	(105)	(114)	10	(8.5)
Net operating income	**1,169**	**582**	**587**	**100.8**
Net loan-loss provisions	(510)	(571)	61	(10.7)
Other income	(92)	(58)	(34)	58.5
Profit before taxes	**567**	**(47)**	**614**	**—**
Tax on profit	(143)	22	(165)	—
Profit from continuing operations	**424**	**(25)**	**449**	**—**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**424**	**(25)**	**449**	**—**
Minority interests	—	—	—	—
Attributable profit to the Group	**424**	**(25)**	**449**	**—**
BALANCE SHEET				
Customer loans [(2)]	36,724	34,605	2,119	6.1
Trading portfolio (w/o loans)	211	163	48	29.3
Available-for-sale financial assets	10,203	9,568	635	6.6
Due from credit institutions [(2)]	722	496	226	45.7
Intangible assets and property and equipment	507	391	116	29.7
Other assets	3,430	3,568	(138)	(3.9)
Total assets/liabilities & shareholders' equity	**51,797**	**48,791**	**3,006**	**6.2**
Customer deposits [(2)]	32,007	30,888	1,119	3.6
Marketable debt securities [(2)]	1,945	11,236	(9,292)	(82.7)
Subordinated debt [(2)]	2,781	2,129	652	30.6
Insurance liabilities	—	—	—	—
Due to credit institutions [(2)]	9,567	736	8,830	—
Other liabilities	2,297	1,689	608	36.0
Shareholders' equity [(3)]	3,200	2,113	1,088	51.5
Other customer funds under management	**30**	**327**	**(297)**	**(90.9)**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	30	327	(297)	(90.9)
Savings-insurance policies	—	—	—	—
Customer funds under management	**36,763**	**44,581**	**(7,818)**	**(17.5)**

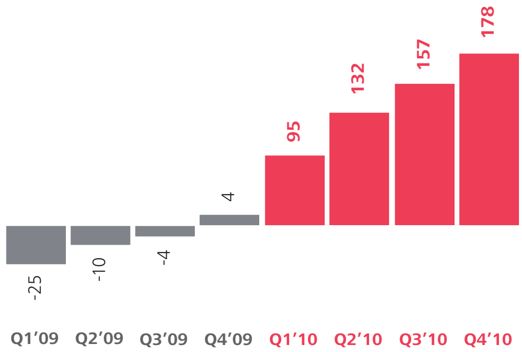
(*).- Data February-December

(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

- The franchise's profitability was consolidated. Attributable profit of $561 million, above target.
- Higher revenues, lower costs and reduced provisions.
- Improved trend in loans and core deposits, with focus on profitability.
- Enhanced credit quality: reduction in non-performing loans and higher coverage.

ATTRIBUTABLE PROFIT. QUARTERLY
Million US$



Attributable profit was EUR 424 million ($561 million), compared to a loss of EUR 25 million in 2009 ($35 million).

Despite a difficult environment with reduced demand for loans and low interest rates, Sovereign consolidated the profitability of its franchise in 2010 and secured the breakeven point reached in the fourth quarter of 2009, thanks to management of spreads, the better mix of loans and deposits, control of costs and enhanced credit quality.

Economic environment
Sovereign conducted its business in a recovering economy, but one still marked by a jobless rate close to recent highs and low interest rates.

After several quarters of declines in lending, the first signs of stabilisation began to appear in the third quarter of 2010 (-0.1% quarter-on-quarter), with slight growth to companies (+0.3% q-o-q) and stabilisation in consumer credits (-0.5% q-o-q). In deposits, continued flow into demand deposits (+2.7% q-o-q) from time deposits (-0.5% q-o-q).

Strategy
Sovereign, with 721 branches, 2,337 ATMs and more than 1.7 million customers, is developing a business model focused on retail customers and companies. It operates in the northeast of the US, one of the country's most prosperous areas, where it has significant market shares and manages close to $100,000 million of loans and deposits.

There were significant improvements in activity, backed by campaigns. Of note in retail banking were the *Get More with 4* and *Better Banking* campaigns, the first focused on retail customers and the second on SMEs. Both campaigns were the first to concentrate on cross-selling.

Of note in corporate banking was the *Race to Finish* campaign to attract new customers. Backed by the advantages of the Group's global customer relation model, the foundations were laid in 2010 for Global Wholesale Banking, which already is doing better than expected.

In Asset Management and Insurance, 2010 saw the consolidation of the Save & Invest product, launched in 2009. Of note in insurance were the campaigns to launch families of products in line with the Group's bancassurance model.

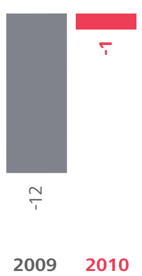
Also noteworthy was the STARR project (Steps to Achieve Remarkable Results) started in the fourth quarter of 2010 in order to apply the sales culture in branches, and whose main focus is to improve the productivity of the network.

Sovereign's integration into the Santander model offers a solid base for tackling 2011, when we will put the emphasis on further improvement in the franchise and in commercial efficiency with new products and better segmentation. The Partenón operational platform will help to achieve this.

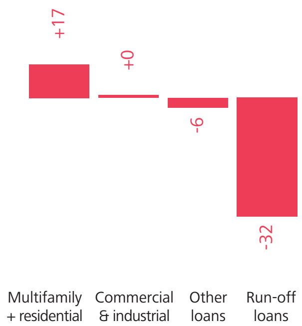
Activity
2010 was characterised by the focus on profitability and on improving the mix of lending and funding products.

In an environment of low demand for loans, Sovereign centred on improving the spreads on new loans and renewals, reflecting the higher cost of liquidity and risk.

ACTIVITY. TOTAL LOANS(1)
% (US$)



LOANS BREAKDOWN(1)
% variation 2010 / 2009 (US$)



(1) W/o securitisations, local criteria

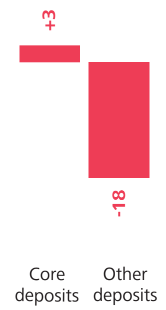
In lending (local criteria), the decision to exit higher risk segments was offset by the rise in activity in the most attractive mortgage segments such as residential and multifamily (+17%). The volume of loans, which declined 12% in 2009, picked up in 2010 and ended almost flat, despite a 32% cut in run-off credits (60% since Sovereign joined the Group). Excluding the portfolio in run-off, other loans increased 3%.

In deposits, the emphasis was on improving the mix of products. Core deposits rose 3% (mainly retail demand deposits), partly due to the success of the retail campaigns, while other balances (time, wholesale and government) of a higher cost declined 18%.

Results

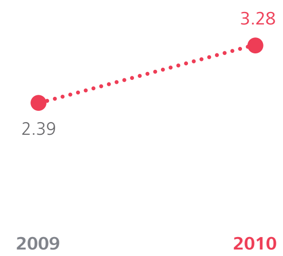
As in other businesses, Sovereign's financial statements have been restated in accordance with the criteria set out on page 108 of this report, and so the figures shown here do not coincide with those published by Sovereign with local criteria.

DEPOSITS[(1)]
% variation 2010 / 2009 (US$)



(1) Local criteria

NET INTEREST INCOME / ATAs
% (US$)



Gross income rose 26.5% to $2,786 million on a like-for-like basis (only February to December was recorded by global integration). This was largely due to net interest income (+31.5%), whose increase was due to the management of prices in loans, the lower cost of deposits and ALCO management, which offset the lower volumes of loans.

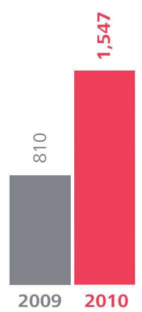
Operating expenses reflected the positive impact of synergies and the optimisation of structures and are on a clear downward trend: 8.1% lower than 2009 on a like-for-like basis. This, coupled with revenues, produced a notable gain in efficiency from 60.2% in 2009 to 44.5% and a sharp rise in net operating income (+81.4%) to $1,547 million.

Net loan-loss provisions were 21.1% lower, thanks to containment of bad loans and the recovery capacity during the whole credit cycle. This is reflected in a better than expected evolution of credit quality: the NPL ratio declined from 5.35% to 4.61% and coverage rose from 62% to 75%.

Attributable profit was $561 million, consolidating the upward path begun in 2009 and reflected in an improvement in all quarters of 2009 and 2010.

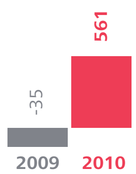
In short, 2010 showed Sovereign to have a solid income statement, backed by the generation of recurring revenues, control of costs and improved levels of provisions resulting from proactive credit risk management. All of this, steming from improved balance sheet structure, and together with the recovery of basic lending provides an optimum starting point for the coming years.

NET OPERATING INC. +91.0%*
Million US$



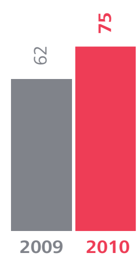
(*) In euros: +100.8%

ATTRIBUTABLE PROFIT
Million US$



NPL RATIO
%

NPL COVERAGE
%



CORPORATE ACTIVITIES

Million euros

	2010	2009	Variation Amount	%
INCOME STATEMENT				
Net interest income	**(2,678)**	**(2,210)**	**(468)**	**21.2**
Net fees	(40)	(6)	(35)	622.2
Gains (losses) on financial transactions	(142)	631	(773)	—
Dividends	64	121	(58)	(47.5)
Income from equity-accounted method	(2)	(15)	14	(89.1)
Other operating income/expenses (net)	137	52	85	162.7
Gross income	**(2,660)**	**(1,427)**	**(1,234)**	**86.5**
Operating expenses	(822)	(809)	(12)	1.5
General administrative expenses	(689)	(695)	7	(0.9)
Personnel	*(268)*	*(307)*	*39*	*(12.7)*
Other general administrative expenses	*(420)*	*(388)*	*(32)*	*8.4*
Depreciation and amortisation	(133)	(114)	(19)	16.4
Net operating income	**(3,482)**	**(2,236)**	**(1,246)**	**55.7**
Net loan-loss provisions	(111)	50	(161)	—
Other income	(428)	(848)	420	(49.6)
Profit before taxes (w/o capital gains)	**(4,021)**	**(3,034)**	**(987)**	**32.5**
Tax on profit	1,091	1,421	(330)	(23.2)
Profit from continuing operations (w/o capital gains)	**(2,930)**	**(1,614)**	**(1,316)**	**81.6**
Net profit from discontinued operations	(13)	(15)	1	(9.3)
Consolidated profit (w/o capital gains)	**(2,943)**	**(1,628)**	**(1,315)**	**80.8**
Minority interests	(25)	(5)	(20)	383.6
Attributable profit to the Group (w/o capital gains)	**(2,918)**	**(1,623)**	**(1,295)**	**79.8**
Net extraordinary capital gains and allowances	—	—	—	—
Attributable profit to the Group	**(2,918)**	**(1,623)**	**(1,295)**	**79.8**
BALANCE SHEET				
Trading portfolio (w/o loans)	5,123	4,331	792	18.3
Available-for-sale financial assets	21,288	26,870	(5,581)	(20.8)
Investments	38	32	6	19.9
Goodwill	24,622	22,865	1,757	7.7
Liquidity lent to the Group	27,766	49,677	(21,911)	(44.1)
Capital assigned to Group areas	63,187	52,448	10,739	20.5
Other assets	64,806	64,511	296	0.5
Total assets/liabilities & shareholders' equity	**206,830**	**220,733**	**(13,903)**	**(6.3)**
Customer deposits (1)	14,258	3,216	11,042	343.4
Marketable debt securities (1)	62,812	83,094	(20,282)	(24.4)
Subordinated debt (1)	12,128	19,131	(7,004)	(36.6)
Other liabilities	47,210	50,106	(2,896)	(5.8)
Group capital and reserves (2)	70,423	65,186	5,237	8.0
Other customer funds under management	**—**	**—**	**—**	**—**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**89,198**	**105,442**	**(16,244)**	**(15.4)**

(1).- Including all on-balance sheet balances for this item
(2).- Not including profit of the year

CORPORATE ACTIVITIES

- This area's losses were EUR 1,295 million more than in 2009 because of:
- Gains on financial transactions were EUR 773 million lower, basically losses in hedging positions against the profits of 2009.
- Net interest income was down EUR 468 million because of the higher cost of financing.
- The net of the rest of the income statement had an almost neutral impact.

The area made a loss of EUR 2,918 million in 2010 compared to a loss of EUR 1,632 million in 2009. This was mainly due to lower net interest income and the losses on financial transactions, as later explained.

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 coordinates and/or executes the necessary activities for managing interest rates, exposure to exchange-rate movements and measures to obtain the required levels of liquidity in the Group. On the other, it acts as the Group's holding, managing global capital as well as that of each of the units.

As regards **interest rate management**, this activity is conducted on a coordinated basis by all the units, but this business 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 recurrent results recorded as net interest income.

In order to achieve these goals, and in so far as market interest rate changes are envisaged, the Group's financial management can decide to immunise the net interest income of these portfolios to possible adverse movements in results by hedging interest rates.

Management of the exposure to **exchange-rate** movements, both from investments in the shareholders' equity 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 conducted too on a centralised basis.

This management (dynamic) is carried out by exchange-rate derivative instruments, optimising at each moment the financial cost of hedging.

In this sense, **hedging of net investments in the shareholders' equity of businesses abroad** aims to neutralise the impact on them of converting to euros the balances of the main consolidated entities whose functional currency is not the euro.

The Group considers it necessary to immunise the impact which, in situations of high volatility in the markets, sharp movements in exchange rates would have on these exposures of a permanent nature. The investments which are currently covered are those in Brazil, the UK, Mexico and Chile, and the instruments used are spot contracts, FX forwards or tunnel options.

The objective of the hedging is set as part of the shareholders' equity of the unit equivalent to a percentage of risk-weighted assets, which can be changed,

Meanwhile, exposures of a temporary nature (i.e. those 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 covered on centralised basis. These results, generated in the local currencies of the units, are hedged with exchange-rate derivatives. The objective is to establish the euros resulting from the exchange rate at the beginning of the year. These policies immunise both the investment in the shareholders' equity as well as the contribution to results of the various units.

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 aims to finance the Group's recurrent activity in optimum conditions of maturity and cost. The decisions whether to go to the wholesale markets to capture funds and cover stable and permanent liquidity needs, the type of instrument used, the structure by maturity dates, as well as management of the associated risks of interest rates and exchange rates of the various financing sources, are also conducted on a centralised basis.

The overriding objective of this activity is to maintain an appropriate liquidity profile by diversifying the sources of financing and controlling short-term financing (diversity in maturities, currencies and markets) and medium-and long-term.

Logically, the objectives that the Group wants to cover may or may not coincide with the financing provided to the units and which is based more on their individual needs. The mismatch in maturities, currencies or instruments is a corporate decision and is reflected in this unit in a centralised way.

The financial cost of the various financing sources recorded in the books of the parent bank (although part of them reflects the Group's needs as such) are registered in corporate activities and can be issues of commercial paper, senior debt, covered bonds, subordinated debt, preference shares and securitisation of assets.

The financial management area usually covers in new issues the interest rate and exchange rate risks from the start of the operation. It uses financial derivatives for this. The net impact of this hedging is recorded in the gains/loss on financial transactions in corporate activities.

This 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 by the acquisition of other assets enables us to diversify the credit portfolio as a whole.

Lastly, and separately from the financial management activities 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 liquidity that some of the business units might need (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 without liquidity premium for their duration) for each of the maturities of repricing operations.

Lastly, and more marginally, the equity stakes that the Group takes within its policy of optimising investments is reflected in corporate activities. Since 2009 following Cepsa's disposal, this item was significantly reduced.

The area made a loss of EUR 2,918 million in 2010 compared to a loss of EUR 1,632 million in 2009. This was mainly due to two factors.

First, the deterioration of net interest income from the higher financial costs resulting from the increase in the cost of credit. Second, the losses from financial transactions, basically in hedging positions of exchange rates (due to the appreciation of the main currencies, whose positive impact is reflected in the operating areas), compared to revenue in 2009 from the net results of hedging interest rates in financings.

The **main developments** were:

- Net interest income was EUR 2,678 million negative compared to EUR 2,210 million also negative in 2009. The increase was largely due to the higher cost of credit of issues.

  As previously explained, corporate activities mainly provides liquidity to the businesses of the parent bank in Spain at the euribor or swap rate. The higher cost of credit, largely due to liquidity tensions in the market, was not transmitted with the same intensity and speed to the cost for the various businesses.

  This increased cost was also reflected in the financing of the goodwill of the Group's investments, which by definition is negative, but also raised the cost of their financing proportionately.

  The net interest income of the ALCO portfolios registered here shows no substantial changes.

- Dividends from equity stakes (reduced in the last year) dropped from EUR 121 million to EUR 64 million.

- Gains on financial transaction, which includes those from centralised management of interest rate and currency risk of the parent bank as well as from equities, were EUR 142 million negative compared to EUR 631 million in 2009. The difference was due to hedging.

  In 2009, the impact from hedging the results of units was low, and, moreover, there were positive returns on the business of equity stakes and hedging of interest rates.

In 2010, the situation reverted, with higher losses from the hedging of the results of subsidiaries (which, however, were compensated in the business units with higher results in euros) and allowances for financial investments in the portfolio of equity stakes.

- Operating costs were almost flat (+1.5%). The growth in general costs from the increase in rents was offset by the reduction in personnel costs from variable remuneration.

- Net loan-loss provisions include an allowance of EUR 111 million as against a release of EUR 50 million in 2009. In 2009, there were releases from country risk but not in 2010. Furthermore, there was a generic provision in 2010 to strengthen the balance sheet.

  Other small movements were recorded in this item from normal allocations and releases from portfolios that configure the ALCO strategies, and from others that constitute positions of centralised management.

- "Other income", which includes various provisions and writedowns, was EUR 428 million negative compared to EUR 848 million negative in 2009.

  This item includes allowances derived from the management and sale of foreclosed properties. These were higher in 2009 because of a larger inflow than in 2010. Other types of writedowns are included such as derivatives of goodwill and losses in the value of equity stakes. Of note in 2009 was the EUR 196 million allowance for Metrovacesa.

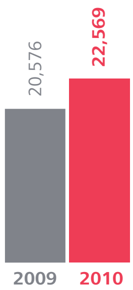
- Lastly, the tax line reflects a lower rate arising from the recovery of losses as a result of the different impact that certain one-off items had in both years.

2. SECONDARY SEGMENTS OR BY BUSINESS

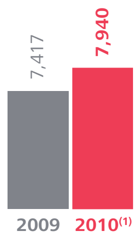
RETAIL BANKING

- Small growth in business and management of spreads increased net interest income.
- Rigorous discipline in expenses, which remained flat on a like-for-like basis and without the exchange rate impact.
- Risk management reflected in lower provisions in the Americas and the UK. One-off increase in Europe because of the imapct of the Bank of Spain's Circular (EUR 437 million, net of taxes).

NET OPERATING INC.
Million euros
+9.7%



ATTRIBUTABLE PROFIT
Million euros
+7.0%



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 8,377 million; +13.0%

Attributable profit was 7.0% higher at EUR 7,940 million. Retail Banking generated 85% of the operating areas' total gross income and 72% of attributable profit.

Gross income increased 10.1% to EUR 38,121 million, due to the 12.4% rise in net interest income thanks to management of spreads against a background of weak business growth. Net fee income grew 7.0%.

All these variations were positively impacted by the perimeter and by exchange rates. Excluding them, gross income was in line with that in 2009.

Operating expenses rose 10.7%, but remained flat without perimeter and forex impact. As a result, the efficiency ratio remained at around 40% and net operating income was 9.7% higher at EUR 22,569 million.

Net loan-loss provisions increased 5.9%. Excluding the perimeter and forex impact, provisions were 3.4% lower. These figures reflect the impact of the extraordinary provision in Spain made in the third quarter of 2010 because of the Bank of Spain's new regulations. Excluding this one-off and the perimeter and forex effects, provisions were 10.1% lower, reflecting the quality of integral management of risk in all the Group's units.

INCOME STATEMENT AND BUSINESS VOLUMES SECONDARY SEGMENTS

Million euros

	Operating business areas		Retail Banking		Global Wholesale Banking		Asset Management and Insurance	
	2010	Var (%)	2010	Var (%)	2010	Var (%)	2010	Var (%)
INCOME STATEMENT								
Net interest income	**31,902**	**11.9**	**28,994**	**12.4**	**2,676**	**6.7**	**232**	**15.6**
Net fees	9,774	7.6	8,058	7.0	1,292	14.6	425	(1.5)
Gains (losses) on financial transactions	2,747	(1.6)	1,333	(3.0)	1,364	(1.4)	49	45.0
Other operating income (1)	286	(32.2)	(264)	221.0	175	5.7	375	10.9
Gross income	**44,710**	**9.6**	**38,121**	**10.1**	**5,508**	**6.2**	**1,081**	**7.7**
Operating expenses	(17,374)	11.3	(15,552)	10.7	(1,480)	17.7	(343)	10.3
General administrative expenses	(15,567)	10.2	(13,929)	9.8	(1,343)	15.0	(295)	5.9
Personnel	*(9,061)*	*11.3*	*(8,002)*	*10.6*	*(898)*	*18.6*	*(161)*	*7.9*
Other general administrative expenses	*(6,506)*	*8.7*	*(5,927)*	*8.8*	*(445)*	*8.3*	*(134)*	*3.7*
Depreciation and amortisation	(1,807)	21.9	(1,623)	19.2	(137)	54.4	(47)	48.3
Net operating income	**27,335**	**8.5**	**22,569**	**9.7**	**4,027**	**2.6**	**739**	**6.5**
Net loan-loss provisions	(10,147)	6.4	(10,142)	5.9	(5)	—	(0)	—
Other income	(1,116)	29.0	(1,083)	33.3	(16)	—	(17)	(68.0)
Profit before taxes	**16,073**	**8.6**	**11,345**	**11.4**	**4,007**	**1.1**	**721**	**11.4**
Tax on profit	(4,014)	6.8	(2,743)	11.7	(1,071)	(1.2)	(200)	(8.6)
Profit from continuing operations	**12,059**	**9.2**	**8,602**	**11.2**	**2,936**	**2.0**	**521**	**21.6**
Net profit from discontinued operations	(14)	—	(14)	—	—	—	—	—
Consolidated profit	**12,045**	**8.6**	**8,588**	**10.4**	**2,936**	**2.0**	**521**	**21.6**
Minority interests	946	81.6	648	79.3	238	81.1	59	114.1
Attributable profit to the Group	**11,099**	**5.0**	**7,940**	**7.0**	**2,698**	**(1.8)**	**462**	**15.2**
BUSINESS VOLUMES								
Total assets	1,177,052	7.2	862,055	6.0	281,937	10.9	33,060	11.1
Customer loans	721,509	5.8	651,871	5.4	69,179	9.4	459	(22.2)
Customer deposits	602,118	19.5	514,330	14.1	83,689	60.0	4,100	710.3

(1).- Including dividends, income from equity-accounted method and other operating income/expenses

RETAIL BANKING. INCOME STATEMENT

Million euros

	Gross income 2010	Gross income Var (%)	Net operating income 2010	Net operating income Var (%)	Attributable profit to the Group 2010	Attributable profit to the Group Var (%)
Continental Europe	**13,520**	**(2.4)**	**8,194**	**(5.4)**	**2,774**	**(27.8)**
o/w: Spain	7,855	(10.2)	4,403	(16.4)	1,553	(43.4)
Portugal	985	(8.7)	485	(15.6)	340	(19.3)
United Kingdom	**5,159**	**6.8**	**3,058**	**10.2**	**1,557**	**16.0**
Latin America	**17,351**	**19.9**	**10,163**	**18.8**	**3,196**	**41.6**
o/w: Brazil	12,190	25.7	7,289	27.1	1,798	59.1
Mexico	1,841	(2.6)	1,038	(12.7)	430	45.6
Chile	1,721	17.0	1,067	12.5	519	32.2
Sovereign	**2,091**	**42.9**	**1,154**	**98.2**	**413**	**—**
Total Retail Banking	**38,121**	**10.1**	**22,569**	**9.7**	**7,940**	**7.0**

Total lending rose 5% and customer deposits increased 14%.

The performance by geographic areas reflects the varying economic environments, with lower growth in developed economies and a better macroeconomic environment in emerging countries.

- Retail Banking in Continental Europe was the most affected by the environment. Gross income declined 2.4% and net operating income 5.4%. Attributable profit dropped 27.8%, because of higher provisions, as it is Continental Europe that bears the impact of Bank of Spain Circular 3/2010.

  The main drivers were moderate business volumes and even falls in lending, good management of assets spreads in an environment of strong pressure and low interest rates, the impact of the Group's policy for capturing deposits, control of costs and the effect of the extra provisions under the new regulations.

- The profit of Retail Banking in the United Kingdom was 11.7% higher in sterling than in 2009. Growth in gross income was spurred by net interest income and lower costs, which produced a further gain in the efficiency ratio to 40.7%.

- The results of Retail Banking in Latin America (at constant exchange rates) came from growth in basic revenues (net interest income and fee income), control of costs compatible with business development (benefiting from Brazil's synergies) and lower loan-loss provisions. Gross income and costs rose moderately and the efficiency ratio (including amortisations) was around 41%.

  As a result of a lower level of provisions, net operating income after provisions increased 31.1%, while attributable profit rose 26.1% (higher minority interests).

Global Private Banking includes institutions that specialise in financial advice and asset management for high-income clients (mainly Banif in Spain, Santander Private Banking in the UK, Italy and Latin America), as well as the units of domestic private banking in Portugal and Latin America, jointly managed with local retail banks.

The division continued to deepen and adapt its common business model, paying particular attention to the commercial processes of advice, training, career plans, standardisation of investment strategies and discretional management and unification of products. The IT platform for management of clients is also being worked on intensely so that it is common to all units in the future. This platform is currently operating in Spain, Italy and Mexico. The rest of units will gradually join it.

All of this will help to enhance the quality of customer service, maintain a constant watch on portfolios to ensure they are in line with objectives, align the value offer of all units and obtain significant synergies.

The environment in which activity was conducted in 2010 was very difficult. As well as the international financial crisis, interest rates were low and the main stock market indices were lower than at the beginning of the year.

Despite the negative impact of markets, the volume of managed assets was higher on a like-for-like basis, due to the capturing of new business and more customers. This underscored the good commercial and management processes. The volume stood at EUR 97,888 million at the end of 2010, +10.6% above 2009 at constant perimeter.

Despite the determining factors, private banking posted an attributable profit of EUR 283 million. Gross income was hit by net interest income due to the evolution of interest rates, offset by higher fee income. Expenses, thanks to continued strict control, remained almost stable and provisions continued to have a low share of costs.

GLOBAL WHOLESALE BANKING

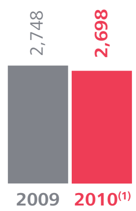
- Rigorous management of risk, liquidity and capital.
- Strong attributable profits, though less than in 2009, which was a record in revenues and earnings
- Activity mainly underscored by customer revenues (86% of the total).
- Impact on provisions and profits (-EUR 35 million after tax) of the new Bank of Spain Circular.

NET OPERATING INC.
Million euros

+2.6%

ATTRIBUTABLE PROFIT
Million euros

-1.8%



(1) Before the impact from the application of Bank of Spain's Circular 3/2010: 2,733 million; -0.5%

This segment, managed by Santander Global Banking and Markets, posted EUR 2,698 million of attributable profit, 1.8% lower than in 2009. This area contributed 12% of the operating areas' gross income and 24% of attributable profit.

Strategy in 2010

The area strengthened its capacities in core markets in order to consolidate the liquidity positions attained in 2009. This greater potential enhanced the Group's capital and liquidity strength and enabled it to keep up a high level of activity in 2010 in an environment of greater competition, while maintaining rigorous management of risk. A good example of this was Santander's notable participation in some of the year's main operations, which consolidated it as a major player.

Meanwhile, adjustment of structures achieved in the past and effective management of costs and operations enabled Santander to assume the increased capacity while maintaining an efficiency ratio, which is a benchmark for its peers.

Results and activity

These actions were reflected in the income statement. The rise in revenues was offset by higher costs and provisions and contributed to a 1.8% fall in attributable profit to EUR 2,698 million. The other reasons for this were higher minority interests in Brazil, because of the listing in October 2009, and the impact of the new Circular on provisions in the third quarter.

Nonetheless, the performance in 2010 was still notable as it was the second best year ever, only slightly behind 2009, a record year in revenues and profits which were spurred by high spreads and volatility and reduced competition. The normalisation of the environment in 2010 lifted the value of the results, which continued to be backed by a customer-focused business model, the area's global reach and its interconnection with local units.

Gross income increased 6.2%. Net fee income grew the most (+14.6%), aided by the disintermediation trends in some Latin American countries, net interest income increased 6.7% after absorbing the deleveraging of mature markets, the higher cost of liquidity and the normalisation of spreads and gains on financial transactions remained virtually unchanged.

Operating expenses reflected the investments made and some exchange-rate impact and were 17.7% higher. The efficiency ratio was 26.9%.

Net operating income rose 2.6% to EUR 4,027 million. This growth, partly absorbed by provisions including EUR 49 million from the impact of the new Circular on the area, left consolidated profit 2.0% higher. Attributable profit, after higher minority interests, was 1.8% lower. Excluding the Circular's impact, attributable profit would have dropped by 0.5%.

The results were supported by strong and diversified client revenues (86% of the total). They were 3.4% higher than in 2009; the weak evolution in Spain was offset by a higher contribution in euros from other large areas.

In order to boost client revenues, Santander Global Banking & Markets continued to deepen the global focus of business, by focusing more on the Global Customer Relation Model and fostering inter-relation between the product areas and specialised units. The model, which concentrates management of global corporations and institutions, increased its revenues 15% and lifted its share of total revenues.

The product areas also made further progress in their increasingly global business vision, adapted to the changing needs of markets and clients. Their performance was the following:

Global Transaction Banking

This area, which includes Cash Management, Trade Finance and Basic Financing, increased its client revenues 15%. Growth was solid but lower than in 2009 because of a smaller rise in volumes and lower spreads.

Trade Finance performed the best (+32%), with rises in almost all countries thanks to the Group's solid position in its natural markets. Of note was the strong growth in Brazil and Mexico, and the recovery of business in Spain. These three markets account for almost 80% of revenues and of their growth.

The area also received recognitions in the four main Latin American countries where we operate including Argentina and Chile. The magazine Trade Finance named Santander the best international bank for trade in Brazil and Chile

Cash Management's revenues rose 18% as the weakness of European markets, due to lower volumes and interest rates, was offset by the large potential of Latin American business, with growth rates that doubled those of the area in the three large markets. Santander was also named the best bank in cash management in Latin America and first in the TMI ranking in South America.

In Basic Financing, revenues grew 8%. In Europe, the strong deleveraging of the balance sheets of economic agents resulted in flat revenues. The evolution in the US and Latin America was better, the latter spurred by activity in Brazil.

Corporate Finance
This area (including Mergers and Acquisitions and Asset & Capital Structuring, -A&CS-) performed well after accelerated growth in the second half of the year. Client revenues rose 44% thanks to a very active fourth quarter in Brazil and the UK, which returned business to pre-crisis levels.

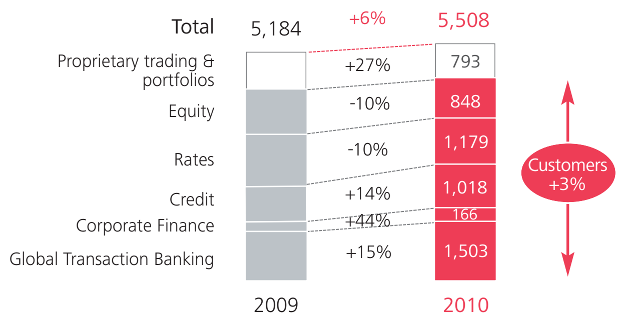
Mergers and Acquisitions recovered the positive trend in revenues, mainly due to activity in the large Latin American countries, an area where the Group continued to accompany its clients in key operations for their expansion. This offset the weak business in Spain where we maintained our leadership as the main bank by number of transactions announced.

Of note among the operations in which the Group participated was advising the Isolux-Elecnor-Cobra (ACS) consortium on the sale of eight electricity transmission lines in Brazil to a Chinese group and selling the stake of Portugal's Brisa in the Brazilian holding company CCR with interests in private interstate highway concessions. Also noteworthy was our participation in other cross-border operations such as those conducted by ENI, Dufry and Telefónica-Infosel.

The revenues of Asset & Capital Structuring (A&CS) grew the fastest thanks to the growing number of clients in Europe and Latin America. Of note was the activity of Spanish Operating Lease (purchase and lease of assets) with several operations completed and mandates on transport assets with clients in Spain, the UK, France and Brazil. In Brazil, we won Jane's Transport Finance Awards in two categories: 2010 Aircraft Leasing Innovator of the Year and 2010 Latin American Aircraft Leasing Deal of the Year.

Also notable was solar energy business in Italy and wind power in Brazil and the US, as well as in the segment of R&D+i, which optimizes the development funds of Spain's Industry Ministry and the Centre for the Development of Industrial Technology (CDTI). Lastly, we completed a CER monetization operation (CO_2 emission rights) for a wind power park in Oaxaca, Mexico.

GROSS INCOME BREAKDOWN
Million euros



Credit Markets
Credit Markets, which include origination and risk management units and distribution, with capital market instruments as well as pure loans and structured financings for the corporate, financial and public sectors, continued to generate solid client revenues (+14%), with a good performance by products and countries.

In loans, Santander had a leading role in major operations in Europe and the Americas (combined volume close to $80,000 million). Of note was the refinancing of the loan to Inbev to acquire its rival Anheuser-Busch where the Bank was the book runner.

In Project and Acquisition Finance, Santander consolidated its position as one of the leading banks at the global level. The Group is present in major operations in the energy and electricity sectors in Spain, the UK and Italy. Of note was the Castor project (Europe Oil & Gas Deal of the Year for Project Finance International) to create the third underground warehouse for the Spanish gas system, in financing the purchase of 25.83% of Abertis by both companies in which CVC and ACS have stakes and in the acquisition of the gas distribution and transport networks of Endesa and Gas Natural by infrastructure funds in Spain, or the acquisition of the gas distribution and transport networks of Eon in Italy.

In Latin America Santander capitalized on its experience in financing renewable energy and infrastructure, acting as the structuring bank for financing many projects in Brazil, Mexico and Chile. Of note was the construction and operation of the first large-scale cogeneration plant of Pemex in Mexico. Project Finance International named Santander Bank of the Year Americas.

The evolution in the segment for bonds and securitisations was also good, particularly due to activity in Latin America where the Group took Brazilian, Mexican, Argentine and Chilean issuers to the international market, added to significant operations in Europe in the public and private sectors. All of this enabled Santander to scale positions in the world of bonds and attain new recognitions in markets such as the 2010 European Institutional Performance Award for the best MTN newcomer given by Mtn-i.

Of note among the main operations in Latin America were: the issue of the first corporate bond in Argentine in three years; the largest issue in Chile, which included for the first time a tranche in Chilean pesos; and, because of its complexity and innovation, a 10-year $1,500 million bond for Brazil's Odebrecht. This operation received the IFR award as Latam Bond of the Year.

Rates
The client revenues of this area (including trading activities, structuring and distribution of FX and public bonds and interest rate derivatives for the Group's wholesale and retail clients) declined 10%. The larger volumes with institutional and mid-corp clients did not offset the impact on revenues of the normalization of spreads since the highs reached in 2009.

Geographic diversification of revenues is enabling the Group to build up an increasingly solid position. Four of our key countries (Spain, Portugal, Chile and Uruguay) received Best Foreign Exchange provider awards from the magazine Global Finance.

Of note in Europe was the increase in sales to institutional investors and large companies, particularly in bonds and simple derivatives, as well as the recovery of retail activity in Spain supported by mid corps. The evolution was also very good in the UK in the three large segments, consolidating it as the third largest unit in revenue generation. Strong growth in Latin America fuelled by the retail segment in the three large markets where the Group operates, particularly Brazil, and firmly backed by Santander Global Connect. In the US, the Group's franchise model for clients is beginning to generate significant revenues.

Equities
The revenues of the Global Equities area (activities related to the equity markets, settlement and custody) were 10% lower than in 2009 (a record year).

The factors behind the fall were the considerable degree of uncertainty in the markets, the significant fall in share prices, high volatility and sharp declines in trading volumes, despite which Santander managed to defend its position in key markets. Among the position attained in the sector's main rankings were first in Iberia and in Latin America in equity capital markets by Bloomberg and first by Institutional Investors and Thomson Reuters in equities research in Iberia.

Significant operations in 2010 included global coordinator of Petrobrás's IPO, the largest in history ($70,000 million) and book runner in Deutsche Bank's capital increase launched in October.

The sale of investment solutions and hedging via derivatives slowed down because of the increased remuneration of deposits, which triggered demand for these products.

Lastly, custody and settlement activity began to pick up, due largely to Latin America and particularly Brazil. This offset the weak performance in Europe from stock markets and a slower than expected recovery in the volume of managed funds.

RANKINGS IN 2010

	Activity	Area	Country / Region	Source
Award	Best Cash Management Bank 2010	GTB	Latin America	TMI
N1.	Cash Management in South America	GTB	Latin America	TMI
Award	Best International Trade Bank	GTB	Brazil/Chile	Trade Finance
Award	Best Trade Bank	GTB	Mexico	Trade Finance
Award	Best Argentinean trade Bank	GTB	Argentina	Trade Finance
Award	Aircraft Leasing Innovator of the Year	CIB	Brazil	Jane's Transport Finance
Award	Latinamerican Aircraft Leasing Deal of the Year	CIB	Latin America	Jane's Transport Finance
Award	Latin America Bond of the Year - PF Odebrecht	CM	Latin America / Brazil	IFR /Bond Radar / Euromoney
Award	Latin America Wind Deal of the Year : SIIF	CM	Latin America / Brazil	Euromoney
Award	Bank of the year Americas	CM	America	Project Finance International
Award	Transport Deal of the Year Asia: Peninsula Link	CM	Asia	Project Finance International
Award	Europe Oil & Gas Deal of the Year: Castor	CM	Europe	Project Finance International
Award	Best MTN newcomer for Institutional Clients	CM	Europe	Mtn-i
Award	Best Foreing Exchange Provider	RT	Chile/Portugal/Spain/Uruguay	Global Finance
N1.	Equity Capital Markets de Latin America	EQ	Latin America	Bloomberg
N1.	Equities Research en Iberia	EQ	Spain and Portugal	Institutional Investors
N1.	Equities Research en Iberia	EQ	Spain and Portugal	Thomson Reuters
N1.	Equity Capital Markets en Iberia	EQ	Spain and Portugal	Bloomberg
N2.	Equities Research en Mexico	EQ	Mexico	Institutional Investors

(*).- Prize or ranking depending on the criterion (**),- Prize or ranking by volume

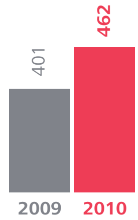
GTB: Global Transaction Banking CIB: Corporate and Investment Banking CM: Credits and Markets RT: Rates EQ: Equity

ASSET MANAGEMENT AND INSURANCE

- Total revenues accounted for 9% of all the Group's operating areas.
- Customer preference for deposits continued to negatively impact the sale of mutual funds and insurance.
- Mutual funds: higher volumes in Brazil and the UK, with a still limited impact on fee income. Leadership recovery in Spain in mutual funds.
- Insurance: better evolution, backed by growth in Latin America.

NET OPERATING INC.
Million euros
+6.5%

ATTRIBUTABLE PROFIT
Million euros
+15.2%



Strategy
Attributable profit was EUR 462 million, 15.2% more than in 2009 (4% of the operating areas' total).

At the global level Santander Asset Management continued to streamline the range and merger of funds in various markets. The aim is to supply the Group's networks with simple products, well known and with high average volumes.

Of note was the creation of the multi manager team to manage funds of funds, which maximises synergies in all units. Progress was also made in developing the platform in Luxembourg to unify distribution of products from anywhere in the world and managed by the best teams from any of the Group's fund managers.

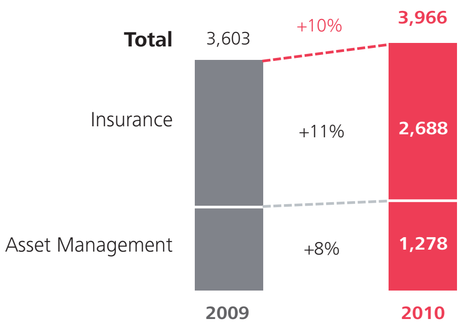
These efforts were recognised in 2010 with prizes to fund management institutions (Spain, Chile, UK and Mexico) and for the performance of funds in several countries and categories.

Santander Insurance advanced in its global business model, creating new products via its distribution channels and preserving its low risk profile and high level of efficiency in operations.

A strategic alliance was reached with the insurer Zurich to strengthen bancassurance in five key markets in Latin America: Brazil, Mexico, Chile, Argentina and Uruguay. Santander will create a holding company for its insurers in Latin America, which will be 49% owned by it and 51% by Zurich.

This agreement combines Banco Santander's commercial strength and distribution capacity with the experience and leadership of Zurich in developing and managing products. In each of the countries Banco Santander will distribute bancassurance products for 25 years.

TOTAL GROUP REVENUES
Million euros



Results
Gross income increased 7.7%, more strongly supported by insurance as revenue from mutual funds was stable. Costs almost flat in the last few quarters, ended the year up 10.3% because of the one-off impact of the change in accounting criteria for amortisation of intangible insurance assets.

Net operating income amounted to EUR 739 million, 6.5% more than in 2009. As a result of lower provisions and a more favourable tax rate, which offset the higher minority interests in Brazil, attributable profit grew at a faster pace than net operating income.

Total revenues contributed to the Group by asset management and insurance activities, without deducting those recorded by the distribution network, amounted to EUR 3,966 million, 9% of the Group's total and 10.1% more than in 2009.

The total contribution to Group profits (income before tax and the fee income paid to the networks) was EUR 3,591 million (+11.2%).

Asset Management

Santander Asset Management generated an attributable profit of EUR 81 million, better than in 2009 and reflecting the recovery in volumes, the rise in average commissions in the main markets due to the better product mix and more "normal" provisions.

Total revenues from mutual and pension funds, before distribution to the distribution networks, amounted to EUR

1,278 million (+8%), while the total contribution to profits rose 12.3% to EUR 1,099 million.

Volumes were weak in developed countries because of the strong preference of agents for on-balance sheet funds and the impact of the markets on portfolios, and stronger in Latin America within the recovery trend begun in 2009.

Total managed assets amounted to more than EUR 124,000 million at the end of 2010 (+7% and benefiting from the appreciation of currencies against the euro)

The main elements by units and countries were as follows:

- In **traditional management** of assets, mutual fund business continued to recover, with the incorporation of more markets and greater interest by clients and distributors, particularly in Latin America.

  At the end of 2010, the Group managed EUR 121,000 million (+7%) in mutual funds, investment companies and pension plans, 90% of which was in four large markets (Spain, UK, Brazil and Mexico).

  In Spain, the improvement in volumes at the end of 2009 was interrupted by the preference for on-balance sheet funds with attractive offers for deposits. This, coupled with the impact of markets, brought total assets managed in Spain, including pension funds, to EUR 40,000 million (-14%).

  Santander Asset Management recovered its leadership of mutual funds in Spain with a market share of 17.4%, according to Inverco.

  This recovery, backed by management of the networks, was focused on the sale of mixed and guaranteed fixed income funds, which were well received. Of note was the EUR 2,400 million captured in the range of *100X100 funds* and the EUR 700 million in *Santander Revalorización Activa*. The reorganisation of the range of funds improved the product mix and the average fee. Santander Asset Management continued to focus on contributing value and at the end of 2010 launched the *Gama Select* of profiled funds, which are expected to perform well in 2011.

  The trend in Brazil was good, with net sales and average commissions higher than in 2009. Of note was the reception given to new guaranteed products for the retail segment, particularly the fund *Capital protegido 6* which surpassed placement expectations. At the end of 2010, managed funds amounted to almost EUR 44,000 million (+12% in local currency).

  Also noteworthy is that in 2010 Standard & Poor's affirmed the AMP-1 rating (very strong) for Santander Asset Management Brazil and Moody's the MQ1 investment manager quality rating.

  Managed assets also rose in the UK, spurred by increasing sales in branches of multimanager funds. The retail balance at the end of 2010 was EUR 14,000 million (+27% in sterling).

  Mexico also benefited from the launch of new mixed funds which helped increase the volume of managed assets to EUR 10,000 million (+7% in local currency) and improve its product mix.

  Of note in other markets, which account for 10% of managed assets, was Chile which benefited from a personal banking product and the *Elite portfolios*. Its managed assets stood at EUR 5,800 million and its average fee improved, offsetting the exit of funds into other savings instruments (-6% in local currency).

  Portugal, on the other hand, notably improved its average fee which offset the impact on revenues and earnings of the 16% decline in volumes, the result of the bad performance of markets and the appetite for deposits.

- In **real estate management**, Grupo Santander decided, for solely commercial reasons, to contribute funds to the Santander Banif Inmobiliario investment fund by subscribing to new units and granting a two-year liquidity guarantee in order to meet the reimbursements of participants who so desire it. As a result of this measure, the suspension of reimbursements was lifted and the fund is now operating normally.

- In **alternative management**, we continued to restructure the funds and structures of Optimal Investment Services, in line with the current scant demand for this type of product and with the forced reduction in its managed assets.

- In **venture capital funds** (a product aimed at institutional clients who invest very long term in unlisted companies), assets remained at around EUR 300 million.

Insurance

The global area of Santander Insurance generated attributable profit of EUR 381 million, 9.0% more than in 2009. The main reason for this was greater activity, which absorbed the higher minority interests in Brazil.

Total revenues (the area's gross income plus fee income paid to the networks) were EUR 2,688 million, 11% more than in 2009 (+3.5% without the exchange rate impact) and representing 6% of the operating areas' total gross income

The total contribution to the Group's results (profit before tax of the insurance companies and brokers and fees received by networks) increased 10.7% to EUR 2,491 million (+3.3% excluding the exchange-rate impact).

Total premium income was 6% lower, impacted by clients' preference for liquidity and the consequent lower demand for savings-investment products. Premium income from protection insurance, on the other hand, increased 16%.

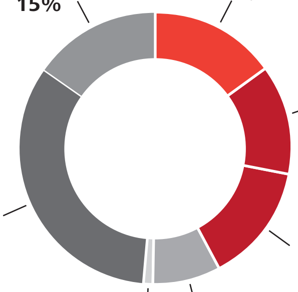
Continental Europe, which contributed 42% of the total, maintained its stable contribution despite the weakness of the main euro zone economies. Spain's contribution (excluding Santander Consumer Finance) was EUR 373 million (-7%), with a good performance of revenues from protection insurance which partially offset the fall in savings-investment.

Portugal maintained good levels of fee income and results from the insurance company. Its total contribution increased 2% to EUR 134 million.

Santander Consumer Finance maintained its pace, adjusting its levels of penetration to activity and generation of loans in each market. Its total contribution was EUR 544 million, in line with 2009.

The UK's total contribution was 16% lower in sterling at EUR 193 million. This was due to lower placement of savings insurance products because of the stronger demand for other products.

INSURANCE (DISTRIBUTION PBT + FEES)
%. December 2010



Latin America contributed EUR 1,213 million (49% of the total) and 34% more than in 2009 (+15% excluding the exchange-rate impact). All countries increased their contributions at double-digit rates in euros and in local currency.

The greater efficiency in selling products via the banking networks and other channels, coupled with development of simple products independent of lending operations lifted the region's level of activity and of results.

Of note was Brazil (+12% in local currency and 69% of the region's contribution), and Mexico (+26% in pesos). In Chile, the country's earthquake in February 2010 had no significant impact on insurance results thanks to the Group's reinsurance policy for this type of disaster. Its contribution was 15% higher in local currency.

Sovereign, in the first phases of its insurance model, already contributed EUR 34 million (+5% in dollars), basically due to fee income from distribution of savings insurance.

ASSET MANAGEMENT AND INSURANCE. INCOME STATEMENT
Million euros

	Gross income		Net operating income		Attributable profit to the Group	
	2010	Var (%)	2010	Var (%)	2010	Var (%)
Mutual funds	267	7.9	113	8.7	70	77.7
Pension funds	25	(13.2)	16	(18.4)	11	(11.0)
Insurance	790	8.4	610	6.9	381	9.0
Total Asset Management and Insurance	**1,081**	**7.7**	**739**	**6.5**	**462**	**15.2**

RISK MANAGEMENT REPORT

Photo: El Bosque, Grupo Santander City, Boadilla del Monte, Madrid, Spain

RISK MANAGEMENT REPORT
EXECUTIVE SUMMARY

BANCO SANTANDER'S RISK MANAGEMENT PRINCIPLES

pages 154 a 157

- Independence of the risk function
- All the Bank's organs of government are deeply involved
- Collegiate decisions
- Cutting-edge tools and systems in risk measurement and analysis
- Control and management of risk integrated via a corporate structure with global scope
- Support for business, maintaining risk quality

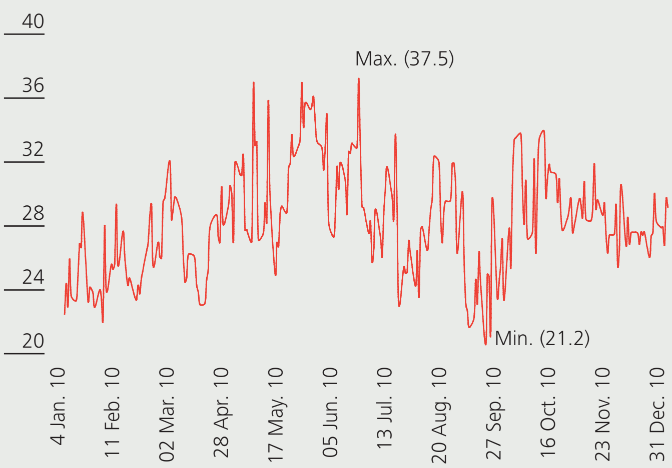
MARKET RISK

pages 182 a 196

- Santander maintains a low risk profile in activities subject to market risk.
- In trading activity, lower exposure than in 2009 in a high volatility environment due to Europe's sovereign debt crisis.
- In 2010, the exposures of Grupo Santander related to complex structured assets, from already very low levels, were reduced.

VAR PERFORMANCE IN 2010

Million euros



MANAGEMENT OF FUNDING AND LIQUIDITY RISK

pages 192 a 194

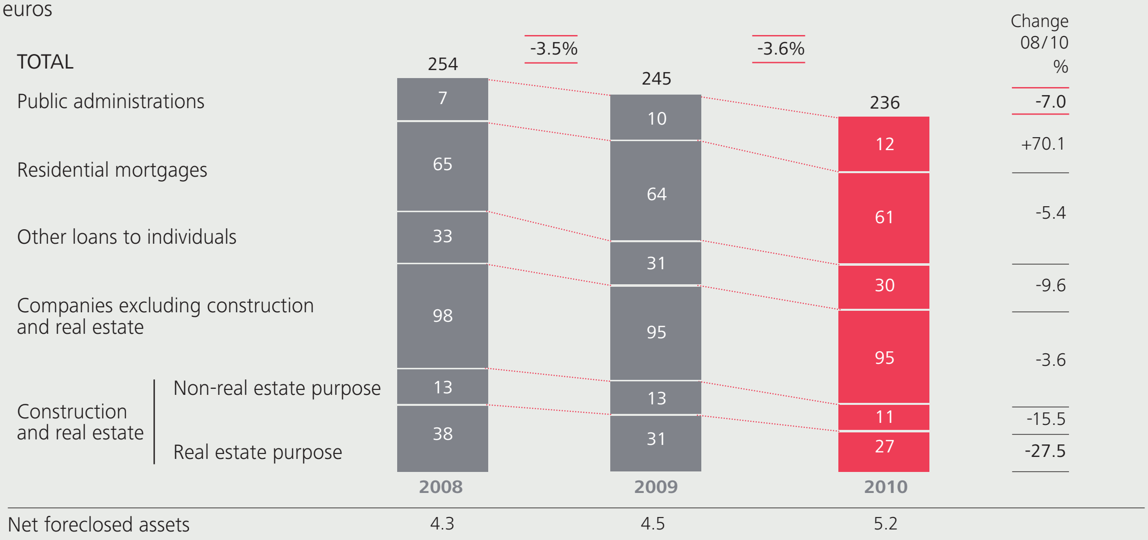
- Santander has a stable structural liquidity position backed by customer deposits and medium- and long-term wholesale funding (4.1 years on average).
- Strong improvement in 2010 in liquidity ratios after capturing EUR 109,000 million in deposits and EUR 38,000 million in medium and long-term issues. Santander has no need in 2011 and 2012 to cover the envisaged maturities of its debt.
- Discounting capacity in central banks of around EUR 100,000 million.
- Santander has a decentralized model of liquidity independent of the subsidiaries and within coordinated management at the Group level.

LIQUIDITY MONITORING METRICS

Metrics	**2010**	2009
Loans/Net assets	75%	79%
Customer deposits, insurance and medium and long-term funding/lending	115%	106%
Customer deposits, insurance and medium and long-term financing and other liabilities/Loans+fixed assets	117%	110%
Short-term financing/Net liabilities	3%	5%

CREDIT PORTFOLIO IN SPAIN

Billion euros



EXPOSURE TO REAL ESTATE CREDIT RISK IN SPAIN

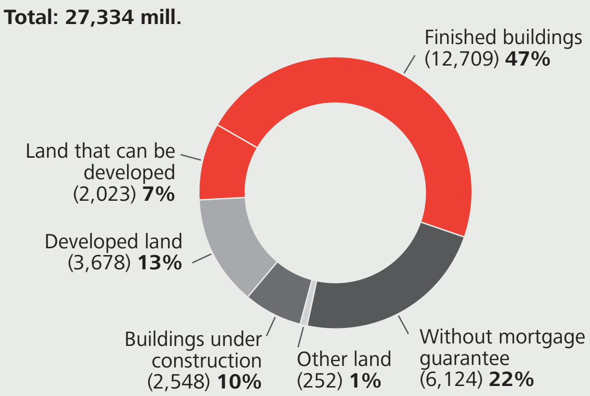
pages 172 a 174

At the end of 2010:

- Total lending to households to acquire homes with mortgage guarantee amounted to EUR 61,387 million (26% of loans in Spain). The non-performing loan ratio was 2.2% (2.5% in 2009).
- The exposure to the construction and real estate activity sectors was EUR 27,334 million (3.7% of the Group's total and 12% of lending in Spain). This exposure dropped by 27% in the last two years.
- Santander's estimated market share of this business is 10%, much lower than the market share of all the Group's businesses in Spain (15%).
- The non-performing loan ratio of this portfolio is 17.0%. Total doubtful loans (EUR 4,636 million) and sub standard loans (EUR 4,932 million) amounted to EUR 9,568 million and the level of coverage with provisions was 28%.*
- The net balance of acquired and foreclosed properties was EUR 5,195 million.*

EXPOSURE TO THE CONSTRUCTION AND REAL ESTATE ACTIVITY SECTORS

Million euros



NON-PERFORMING LOAN RATIO IN SPAIN

%

* Pages 172-173 of this report set out the structure of risk coverage in the construction and real estate development sectors and the volume of acquired and foreclosed properties.

CORPORATE PRINCIPLES OF RISK MANAGEMENT, CONTROL AND RISK APPETITE

The importance of Grupo Santander's risk policy was highlighted once again in 2010. The policy is focused on maintaining a medium-to-low, predictable profile in all risks, which, together with the Group's diversification, were again the differentiating factors that enabled Santander to maintain a leading position in this sphere.

Santander's risk management policies were particularly effective in countering the turmoil that has affected financial markets since July, 2007.

For Grupo Santander, quality risk management is one of its hallmarks and thus a priority in its activity. Throughout its 150 years, Santander has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value.

GRUPO SANTANDER'S BANKING BUSINESS MODEL FROM THE RISK STANDPOINT

The banking business model chosen by the Group mainly determines Grupo Santander's risk management, control and appetite.

- Santander focuses on retail banking and maintains an internationally diversified presence characterised by market shares of more than 10% in the main markets where it operates. Wholesale banking business is conducted above all in core markers.
- The model enables Santander to generate results with a high degree of recurrence, with a strong capital base and liquidity.
- Santander operates in markets via subsidiaries that are autonomous in terms of capital as well as liquidity and compatible with corporate control. The corporate structure has to be simple, minimising the use of non-functional subsidiaries.
- Santander develops its model for operational and technology integration via corporate platforms and tools. This provides an agile aggregation of information in time and form.
- All the activity that the Group carries out is part of its social and reputational commitment, in accordance with its strategic objectives.

The risks model that underpins the business model is based on the following principles

- Independent working from the business areas. Mr Matías Rodríguez Inciarte, the Group's third vice-chairman and chairman of the board's risk committee, reports directly to the executive committee and to the board. The establishment of separate functions between the business areas (risk takers) and the risk areas responsible for measurement, analysis, control and information provides sufficient independence and autonomy to control risks appropriately.
- Involvement of senior management in all decisions taken.
- Collective decision-making (including at the branch level), which ensures a variety of opinions and does not make results dependent on decisions solely taken by individuals. Joint responsibility for decisions on credit operations between risk and business areas.
- Defining functions. Each risk taker unit and, where appropriate, risk manager has clearly defined the types of activities, segments, risks in which they could incur and decisions they might make in the sphere of risks, in accordance with delegated powers. How risk is contracted, managed and where operations are booked is also defined.
- Centralised control. Risk control and management is conducted on an integrated basis through a corporate structure, with global scope responsibilities (all risk, all businesses, all countries).

Management and control of risks at Grupo Santander is structured around the following phases:

- Establishment of risk policies and procedures. They constitute the basic framework for regulating risk activities and processes. At the local level, the risk units incorporate the corporate rules to their internal policies.
- Defining and assessing risk methodologies. The methodologies enable us to develop the internal risk models applied by the Group, and require risk measures, methods for evaluating products and for constructing yield curves.
- Risk measurement. This considers all the risk positions taken throughout the business perimeter and uses methodologies and models put into use in accordance with a process of validation and approval, based on components and dimensions of risk in the whole life cycle.
- Define and limit the risk appetite. The aim is to delimit efficiently the maximum risk levels by setting the global and specific limits for the different types of risk, products, customers, sectors and countries.
- Execute a system to monitor and control risks, which verifies every day and with the corresponding reports the extent to which Santander's risk profile is in line with the risk policies approved and the limits established.

Santander's risk management is fully identified with the Basel principles as it recognises and supports the industry's most advanced practices which the Group has been anticipating and, as a result, it has been using for many years various tools and techniques which will be referred to later in this section. They include:

- Internal rating and scoring models which, by assessing the various qualitative and quantitative components by client and operation, enable the probability of default to be estimated first and then, on the basis of estimates of losses, the expected loss.
- Economic capital, as the homogeneous metric of the risk assumed and the basis for measuring management, using RORAC, for pricing operations (bottom up) and for analysis of portfolios and units (top down), and VaR, as the element of control and setting the market risk limits of the various trading portfolios.
- Analysis of scenarios and stress tests to complement the analysis of market and credit risk, in order to assess the impact of alternative scenarios, including on provisions and on the capital.

Grupo Santander calculates the minimum regulatory capital in accordance with Bank of Spain circular 3/2008 on determining and controlling the minimum equity of credit institutions. This regulation completed the transfer to Spanish banking legislation of the Directives (2006/48EC and 2006/49/EC), which incorporate to European Union (EU) regulations the new Basel Capital Accord (BIS II).

As a result of the new elements introduced into the regulatory framework, commonly known as BIS III, Grupo Santander took steps to apply with sufficient prevision the future requirements indicated in BIS III. This entails a greater requirement for high quality capital, sufficiency of capital conservation and counter cyclical.

Grupo Santander also foresaw the application of the two new liquidity ratios indicated in BIS III, which guarantee sufficient liquidity even in stress scenarios. These ratios are the liquidity coverage ratio (LCR) for the short term (30 days) and the net stable funding ratio (NSFR) regarding the financing structure.

As regards the new liquidity requirements, and especially concerning the ratio of stable financing, the Group believes it is very important that the final definition to attain after agreed periods of observation and review reflects the differences associated with the various banking business models and avoids penalising the flow of loans to the real economy.

GRUPO SANTANDER'S RISK APPETITE

The risks in which Santander incurs must be delimited and quantified within the risk appetite framework defined and approved by the board. Santander defines the risk appetite as the amount and type of risks considered as reasonable to assume in the execution of its business strategy.

The board, at the proposal of senior management, is responsible for establishing and monitoring Santander's risk appetite and its tolerance to risk. Senior management is responsible for achieving the desired risk profile as well as managing risks on a day to day basis. The Group has the necessary metrics and infrastructure to guarantee management.

The risk appetite has quantitative and qualitative aspects, and is directly linked to Santander's global strategy, including assessing growth opportunities in businesses and key markets, liquidity and financing capacity and capital. Pillar 2, with its corresponding exercises of planning and stress test of capital, complements the risk appetite reference framework.

Formulating the risk appetite delimits the budgetary process, in which the main strategic parameters are analysed and approved as well as their results, liquidity, capital, bad loans, VaR, etc.

RISK APPETITE MANAGEMENT CRITERIA FOR EACH SPECIFIC RISK

The main criteria and metrics used are approved by the risk committee, the executive committee and, where appropriate, the board at least yearly. Control and monitoring is conducted in accordance with various time frames (from daily to annual), on the basis of the metric and corresponding level of responsibility.

Criteria, metrics and limits ("hard" and "alert/control") where necessary are set for each risk. We now look briefly at the general criteria for each risk, which are developed in the following chapters:

- Credit risk: The credit risk appetite in general is articulated around control limits that can change during the year depending on banking business needs and the Group's risk appetite, on the basis of segmenting the risk established (individualised management, standardised and wholesale). The results of the stress tests under various scenarios are also taken into account.

The main features for each credit risk segment are as follows:

- Standardised risks: Scoring models and automated decisions are used. The risks are grouped in credit management programmes (CMPs), with credit policies designed and approved on the basis of the unit's risk appetite and in accordance with their level of predictability. The annual CMPs are approved at the local level, in accordance with the Group's structure of powers.
- Individualised management: Classified as of a certain risk exposure per customer. Each analyst is assigned a portfolio of customers to monitor. The ratings of each one are updated at least once a year.
- Global wholesale banking risk (GWB: includes corporate and financial institutions/IFIs): the distribution of the risk level by rating is used as the parameter for monitoring the portfolio. Limited for each group/customer are assigned at least once a year and all aggregated limits are analysed, breaking them down by the level of rating. The revisions are done by sectors (corporate) and countries (IFIs).

As for the risk concentration appetite, Santander's main objective is to maintain a well diversified risk portfolio from the standpoint of its exposure to large risks, certain markets and specific products. It is measured via three focal points (customers, products and sector) which include limits set such as warning or control signs.

- Market risk: Trading activity is customer-focused. The consistency between the proposed limits and the budget of the business is verified. Metrics are used such as VaR, P&L of management and capital. The VaR is established on the basis of the historic evolution of losses, and as consumption/P&L of management up to a certain percentage. Stress tests are also used.

  In the case of market/structural risks, these are linked to conservative management of the Group's assets and liabilities, liquidity and structural FX. Criteria and metrics are used that are mentioned in greater detail in the relevant sections.
- Operational and technology risk: Risk appetite is monitored on the basis of management and daily mitigation, via the ratio of gross losses/gross income, self-assessment questionnaires/risk maps and management indicators.
- Compliance and reputational risk: The appetite for this risk is zero. Active policies to manage reputational risk are established by the corporate office created for this purpose.

Support indicators are used to monitor it:

- Antimoney laundering.
- Institutional relations with regulatory bodies.
- Codes of conduct of the securities markets.
- Marketing of products.
- Markets in financial instruments directive (MiFID).
- Others: Bank of Spain/Supervisors customer complaints and data protection (law on data protection).

1. CORPORATE GOVERNANCE OF THE RISK FUNCTION

The risk committee is responsible for proposing to the board the Group's risk policy, approval of which corresponds to the board under its powers of administration and supervision. The committee also ensures that the Group's activities are consistent with its risk tolerance level and establishes the global limits for the main risk exposures, reviewing them systematically and resolving those operations that exceed the powers delegated in bodies lower down the hierarchy.

The committee is of an executive nature and takes decisions in the sphere of the powers delegated in it by the board. It is chaired by the third vice-chairman of Grupo Santander and four other board members are also members of the committee.

The committee met 99 times during 2010, underscoring the importance that Grupo Santander attaches to appropriate management of its risks.

The main responsibilities of the board's risk committee are:

- Propose to the board the risk policy for the Group, which must, in particular, identify:
  - The different types of risk (operational, technological, financial, legal and reputational, among others) facing it;
  - The information and internal control systems used to control and manage these risks;
  - Set the level of risk considered acceptable:
  - The measures envisaged to mitigate the impact of identified risks, in the event that they materialise;
- Systematically review exposures with the main customers, economic sectors, geographic areas and types of risk.
- Authorise the management tools and risk models as well be familiar with the results of the internal validation.
- Ensure that the Group's actions are consistent with the previously decided risk tolerance level.
- Know, assess and monitor the observations and recommendations periodically formulated by the supervisory authorities in the exercise of their function.
- Resolve operations beyond the powers delegated to bodies lower down the hierarchy, as well as the global limits of pre-classification of economic groups or in relation to exposures by classes of risk.

The board's 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.

In addition, both the executive committee and the Bank's board pay particular attention to management of the Group's risks.

Grupo Santander's risks function is conducted via two directorates-general of risks which are independent of the business areas, both from the hierarchical and functional standpoint. Both of them report to the Group's third vice-chairman, the maximum executive responsible for the Group's risk management. The organisational and functional framework is as follows:

- General directorate of integral control and internal validation of risks, with responsibilities of global scope and corporate nature and support for the Group's organs of governance, which are:
  - Validation of internal models of risk to assess the suitability and appropriateness of the classification systems, internal processes and treatment of data, in accordance with Basel II.
  - Integral control of risks to guarantee that the management and control systems of the various risks are in line with the Bank's global risk profile.
- Directorate general of risks, with functions in the following blocks:
  - A corporate structure, with global scope responsibilities ("all risks, all countries"), which establishes the policies, methodologies and control: solvency, market and methodology.
  - A business structure, centred on the execution and integration in management of the risks function in the Group's retail, global and local businesses.

2. INTEGRAL CONTROL OF RISK

Grupo Santander launched in 2008 the function of integral control of risks, anticipating the new regulatory requirements, then being discussed in the main organisations and forums – Basel Committee, CEBS, FSF, etc, - as well as the recommendations on best risk management practices formulated by various public and private bodies.

ORGANISATION, MISSION AND FEATURES OF INTEGRAL CONTROL OF RISKS

The organisation of this function is part of the directorate general of integral control and internal validation of risk. This function supports the Group's governance bodies in risk management and control.

Particular attention is paid to credit risk (including the risks of concentration and counterparty); market risk (including liquidity risk as well as structural risks of interest rates and exchange rates); operational and technology risks and risk of compliance and reputational risk.

Integral control of risk is treated in three modules:

Module 1. Ensure that the management and control systems of the various risks inherent in Grupo Santander's activity meet the most demanding criteria and the best practices observed in the industry and/or required by regulators.

Module 2. Ensure that senior management has at its disposal an integral vision of the profile of the various risks assumed and that these risks are in line with the previously agreed appetite for risks.

Module 3. Supervise 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.

Integral control of risk supports the work of the risk committee, providing it with the best practices in risk management.

The main features of this function are:

- Global and corporate scope: all risks, all businesses, all countries;
- It is configured as a third layer of control, following the one by the person responsible for managing and controlling each risk in the sphere of each business or functional unit (first layer of control) and the corporate control of each risk (second layer). This ensures the vision and thus integral control of all risks incurred during the year.
- Special attention is paid to the development of best practices in the sphere of the financial industry, in order to be able to incorporate within Santander and at once any advances deemed opportune.
- Both the information available as well as the resources that Grupo Santander assigns to controlling the various risks are optimised, avoiding overlapping.

METHODOLOGY AND TOOLS

In order to systemise the function and adjust it to Santander's specific needs, internal development of methodology and tools to support it was completed. This makes application of the methodology traceable. The methodology and the tools are articulated through the three modules previously referred to for all risks treated:

Module 1. A guide of tests or reviews exists for each risk, divided in spheres of control (for example, corporate governance, organisational structure, management systems, integration in management, technology environment, contingency plans and business continuity, etc).

Applying the tests and obtaining the relevant evidence which is assessed and enables the parameters of control of the various risks to be homogenised is done every 12 months. New tests are incorporated where needed. The support tool is the risk control monitor, which is a repository of the results of each test and of their work papers. A half yearly review of the state of each risk is also carried out, monitoring the recommendations emanating from the annual report of integral control.

Module 2. Senior management is able to monitor integral vision of the various risks assumed and their adjustment to the previously formulated risk appetites.

Module 3. The SEGRE tool is used to track the recommendations made by internal auditing and by the supervisors regarding risk control and management and it also includes the recommendations by integral control. Use of this tool is coordinated with the relevant risk control areas so that monitoring is optimised. The Bank of Spain can access these tools if it so wishes.

During 2010:

a) The second 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 made into recommendations – with their corresponding schedule for implementation agreed with the areas – along with half yearly monitoring of the progress achieved in the recommendations made in 2009.

b) The board and the executive committee were regularly informed and given an integral vision of all risks; and

c) Work continued on extending the integral control of risks model to the Group’s main units.

We will now look at the Group’s main risks: credit, market, operational and reputational.

3. CREDIT RISK

INTRODUCTION TO THE TREATMENT OF CREDIT RISK

Credit risk is the possibility of losses stemming from the failure of clients or counterparties to meet their financial obligations with the Group.

The Group's risks function is organised on the basis of the type of customer in order to distinguish during the risk management process companies under individualised management from standardised customers.

- Those under individualised management are assigned, mainly because of the risk assumed, a risk analyst. This category includes the companies of wholesale banking, financial institutions and some of the companies of retail banking. Risk management is conducted through expert analysis backed up by tools to support decision making based on internal models of risk assessment.
- Standardised: a customer who has not been specifically assigned a risk analyst. This category includes individuals, individual businessmen and retail banking companies that are not segmented. Management of these risks is based on internal models of assessment and automatic decisions, complemented where the model does not go far enough or is not sufficiently precise by teams of analysts specialised in this type of risk.

MAIN VOLUMES AND PERFORMANCE

The Group's credit risk profile is characterised by diversified geographic distribution and predominantly retail banking activity.

A. GLOBAL MAP OF CREDIT RISK, 2010

The table below sets out the global credit risk exposure in nominal amounts (except for derivatives and repos exposure which is expressed in equivalent credit) at December 31, 2010.

Growth in lending was moderate, due to reduced demand. The exposure to credit risk increased 8.8%. Of this growth, 48% was due to the exchange rate effect during the year of the main currencies against the euro. The rest was concentrated in similar percentages between outstanding and commitments to customers and outstanding to credit entities.

Spain was still the main unit as regards exposure to credit risk, although it share of the total was 3 p.p. less than at the end of 2009. Of note in the rest of Europe, which accounts for more than one-third of the credit exposure, is the presence in the UK. Overall, Europe, including Spain, accounted for 71% of the total exposure.

In Latin America, which accounted for 23% of the exposure, 96% of the exposure to credit risk is classified as investment-grade.

The US accounted for 6.5% of the Group's total credit exposure at the end of 2010.

GRUPO SANTANDER. GROSS EXPOSURE TO CREDIT RISK

Million euros

	Out-standing to custumers	Commit-ments to customers	Sovereign fixed income (exc. trading)	Private fixed income (exc. trading)	Outstanding to cred. ent. and central banks	Commit-ments to credit entities	Derivatives and Repos (ECR)	Total	%	%/ Dec. 09
Spain	**277,583**	**61,492**	**26,956**	**7,674**	**19,260**	**1,484**	**32,644**	**427,092**	**35.4%**	**-3.0%**
Parent Bank	168,070	45,097	16,210	4,892	14,059	1,210	26,568	276,105	22.9%	-1.6%
Banesto	79,842	10,154	7,980	1,198	3,204	273	5,905	108,556	9.0%	-5.7%
Others	29,671	6,241	2,765	1,584	1,997	1	171	42,430	3.5%	-4.9%
Rest of Europe	**320,158**	**42,791**	**6,022**	**9,163**	**34,224**	**1**	**16,167**	**428,525**	**35.5%**	**9.6%**
Germany	21,879	295	0	111	694	0	6	22,984	1.9%	0.5%
Portugal	23,062	7,831	5,515	3,517	1,466	1	1,880	43,272	3.6%	11.6%
Uk	242,864	32,154	145	5,431	31,380	0	13,650	325,624	27.0%	11.7%
Others	32,353	2,511	362	103	684	0	631	36,645	3.0%	-2.6%
Latin America	**136,084**	**63,200**	**25,602**	**3,745**	**31,544**	**6**	**10,926**	**271,106**	**22.5%**	**30.0%**
Brazil	81,684	42,159	18,040	2,613	24,008	0	5,758	174,263	14.4%	32.0%
Chile	27,397	7,929	1,764	948	2,313	6	2,938	43,296	3.6%	24.8%
Mexico	14,621	11,508	3,977	2	3,431	0	1,822	35,361	2.9%	34.0%
Others	12,382	1,603	1,820	183	1,791	0	407	18,186	1.5%	18.5%
United States	**53,288**	**10,888**	**1,682**	**8,953**	**2,984**	**0**	**795**	**78,590**	**6.5%**	**16.8%**
Rest of World	**747**	**102**	**1**	**1**	**158**	**0**	**0**	**1,009**	**0.1%**	**-33.9%**
Total Group	**787,860**	**178,473**	**60,262**	**29,536**	**88,169**	**1,491**	**60,532**	**1,206,322**	**100%**	**8.8%**
% of Total	**65,3%**	**14,8%**	**5,0%**	**2,4%**	**7,3%**	**0,1%**	**5,0%**	**100,0%**		
% Change/Dec 09	**6,9%**	**19,6%**	**1,2%**	**-24,0%**	**43,9%**	**9,4%**	**-0,7%**	**8,8%**		

Data at December 31, 2010, drawn up on the basis of legal company criteria.
ECR (equivalent credit risk: net value of replacement plus the maximum potential value. Includes mitigants)
Outstanding balances with customers including contingent risk and excluding repos (EUR 1,395 million) and other customer credit assets (EUR 12,406 million).
Total fixed income excludes the trading portfolio and investments of third party takers of insurance.
Balances with credit institutions and central banks include contingent risks and exclude repos, trading portfolio and other financial assets. Of the total, EUR 65,351 million are deposits in central banks.

B. EVOLUTION OF THE VOLUMES IN 2010

The evolution of non-performing loans and the cost of credit reflect the impact of the deterioration of the economic environment softened by prudent risk management which enabled, in general, these figures to remain lower than the levels of competitors. As a result, the Group maintains a significant level of coverage and available generic provisions.

The Group's ratio of non-performing loans (NPLs) was 3.55% at the end of 2010, up from 3.24% at the end of 2009 but reflecting a slower pace of growth in this ratio in the last few years. NPLs declined in Santander Consumer Finance, Brazil and Sovereign and rose in businesses in Spain. NPL coverage was 72.7% compared to 75.3% at the end of 2009.

Specific provisions for loan losses, net of recoveries, amounted to EUR 12,342 million, 1.56% of the average credit exposure with customers (the year's average lending plus financial guarantees), down from 1.57% in 2009.

GRUPO SANTANDER: RISK, NPLS, COVERAGE, PROVISIONS AND COST OF CREDIT
Million euros

	Credit risk with customers * (million euros)		NPL ratio %		Coverage %		Spec. prov net recovered write-offs ** (million euros)		Credit cost (% of risk)[3]	
	2010	2009	2010	2009	2010	2009	2010	2009	2010[2]	2009[1]
Continental Europe	**370,673**	**366,970**	**4.34**	**3.64**	**71.4**	**76.6**	**6,190**	**5,084**	**1.62**	**1.39**
Santander Branch Network	126,705	129,099	5.52	4.38	51.8	64.9	2,454	1,851	1.89	1.41
Banesto	86,213	86,681	4.11	2.97	54.4	64.1	1,272	737	1.52	0.89
Santander Consumer Finance	67,820	60,214	4.95	5.39	128.4	96.8	1,884	2,005	2.85	3.38
Portugal	32,265	34,501	2.90	2.27	60.0	64.6	105	95	0.30	0.27
United Kingdom	**244,707**	**238,215**	**1.76**	**1.71**	**45.8**	**43.8**	**826**	**1,018**	**0.34**	**0.43**
Latin America	**149,333**	**117,146**	**4.11**	**4.25**	**103.6**	**105.2**	**4,758**	**5,053**	**3.53**	**4.44**
Brazil	84,440	65,611	4.91	5.27	100.5	99.2	3,703	3,537	4.93	5.88
Mexico	16,432	12,676	1.84	1.84	214.9	264.4	469	824	3.12	6.13
Chile	28,858	21,384	3.74	3.20	88.7	89.0	390	402	1.57	1.98
Puerto Rico	4,360	4,132	10.59	9.60	57.5	53.3	143	89	3.22	1.99
Colombia	2,275	1,719	1.56	1.83	199.6	187.5	15	31	0.68	1.94
Argentina	4,097	2,936	1.69	2.60	149.1	141.0	26	91	0.72	2.99
Sovereign Rest	**40,604**	**38,770**	**4.61**	**5.35**	**75.4**	**62.5**	**479**	**578**	**1.16**	
Total Group	**804,036**	**758,347**	**3.55**	**3.24**	**72.7**	**75.3**	**12,342**	**11,760**	**1.56**	**1.57**
Memo item										
Spain	**283,424**	**284,307**	**4.24**	**3.41**	**57.9**	**73.4**	**4,352**	**3,497**	**1.53**	**1.20**

* Includes gross customer loans, guarantees, documentary credits and retail segment derivatives (ECR EUR 2,375 million).
** Bad debts recovered.
1. Excludes Sovereign
2. Excludes the incorporation of AIG in Santander Consumer Finance Poland.
3. (Specific allowances - recovery of bad debts)/ Total average credit risk.

C. DISTRIBUTION OF CREDIT RISK

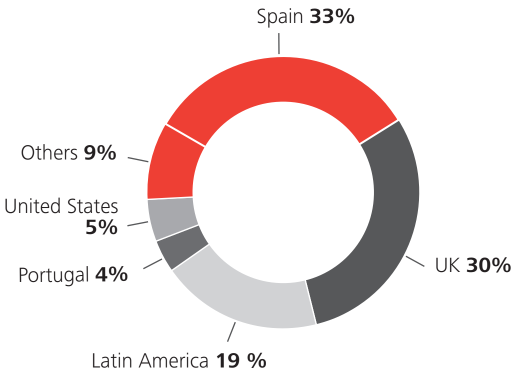
The charts below show the diversification of Santander's loans by countries and customer segments. The Group is diversified and focused on its main markets.

Grupo Santander's profile is essentially retail (86.3% retail banking), and most portfolios are products with a real guarantee (e.g. mortgages).

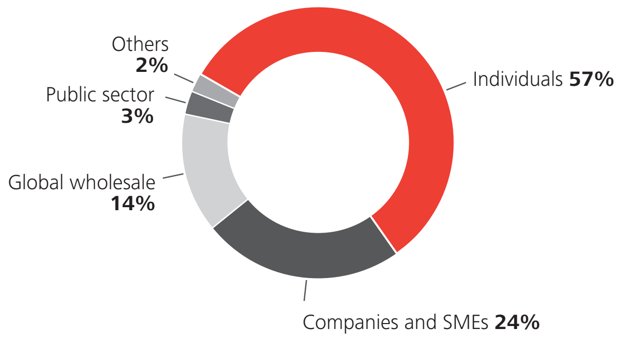
DISTRIBUTION OF CREDIT RISK

%

BY GEOGRAPHIC AREA



BY TYPE OF RISK

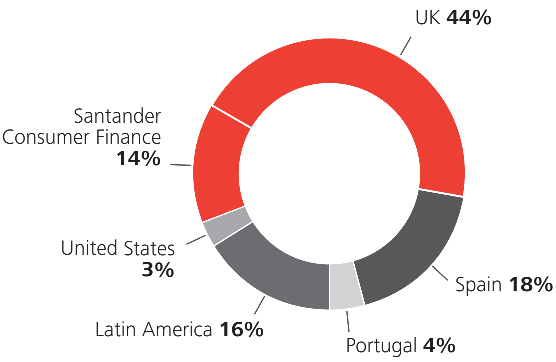


The distribution by geographic area and product of lending in the segment of standardised risks is set out below.

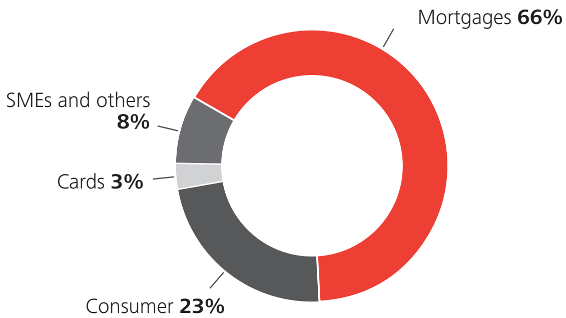
STANDARDISED

%

BY GEOGRAPHIC AREA



BY PRODUCT



3.3 METRICS AND MEASUREMENT TOOLS

A. RATING TOOLS

The Group has been using since 1993 its own models for assigning solvency and internal ratings, which measure the degree of risk of a client or transaction. Each rating or scoring corresponds to a certain probability of default or non-payment, the result of the entity's past experience, except for some termed low default portfolios. The Group has around 200 internal rating models for risk admission and monitoring.

Global rating tools are used for the segments of sovereign risk, financial institutions and global wholesale banking. Their management is centralised in the Group, both for determining their rating as well monitoring the risk. These tools assign a rating for each customer, based on balance sheet ratios or macroeconomic variables, and supplemented by the expert view of an analyst.

In the case of companies and institutions under individualised management, the parent company of Grupo Santander has defined a single methodology for formulating a rating in each country. The rating is determined by an automatic model which reflects a first intervention by the analyst and which can or not be later complemented. The automatic model determines the rating in two phases, one quantitative and the other qualitative based on a corrective questionnaire which enables the analyst to modify the automatic scoring by a maximum of ±2 points of rating. The quantitative rating is determined by analysing the credit performance of a sample of customers and the correlation with their financial statements. The questionnaire has 24 questions divided into six areas of assessment. The automatic rating (quantitative +corrective questionnaire) can be changed by an analyst by writing over it or by using a manual assessment model.

The ratings accorded to customers are regularly reviewed, incorporating new financial information available and the experience in the development of the banking relation. The regularity of the reviews increases in the case of clients who reach certain levels in the automatic warning systems and in those classified as special watch. The rating tools are also reviewed so that their accuracy can be fine-tuned.

During 2010 the quantitative model for rating wholesale banking was adjusted and new expert rating models developed for funds, fund mangers and leveraged buy outs (LBOs).

In the case of standardised risks, both for transactions with companies as well as individuals, there are scoring tools which automatically assess the operations.

These admission systems are complemented by performance assessment models which enable the risk assumed to be better predicted. They are used for both preventative activities as well as sales.

B. PARAMETERS OF CREDIT RISK

The assessment of a customer or operation, through ratings or scorings, constitutes a judgement of the credit quality, which is quantified via probability of default (PD).

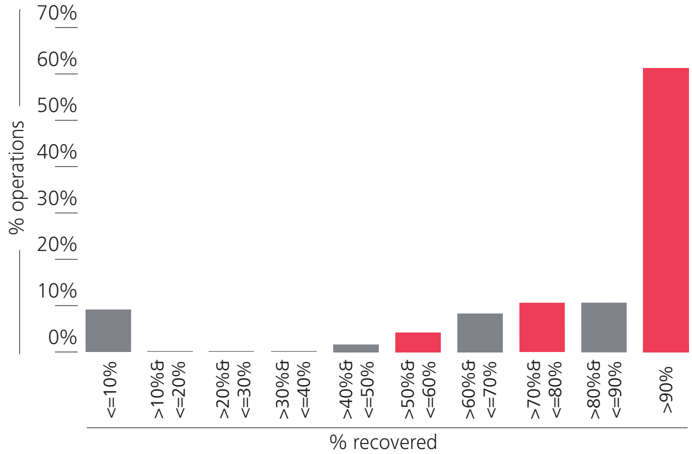
As well as evaluating the customer, quantifying credit risk requires other parameters to be estimated such as exposure at default (EaD) and the percentage of EaD that might not be recovered (loss given default or LGD). Other aspects are also included such as quantifying off-balance sheet exposures, which depend on the type of product, or analysis of expected recoveries, related to the guarantees existing and other features of the operation: type of product, maturity, etc.

These factors comprise the main credit risk parameters. Their combination enables the probable or expected loss (EL) to be calculated. This loss is considered as one more cost of the activity as it reflects the risk premium and should be incorporated into the price of operations.

The following charts show the distribution of failed consumer loans and mortgages since 2001 on the basis of the percentage recovered after discounting all the costs – including the financial or of opportunity – of the recovery process.

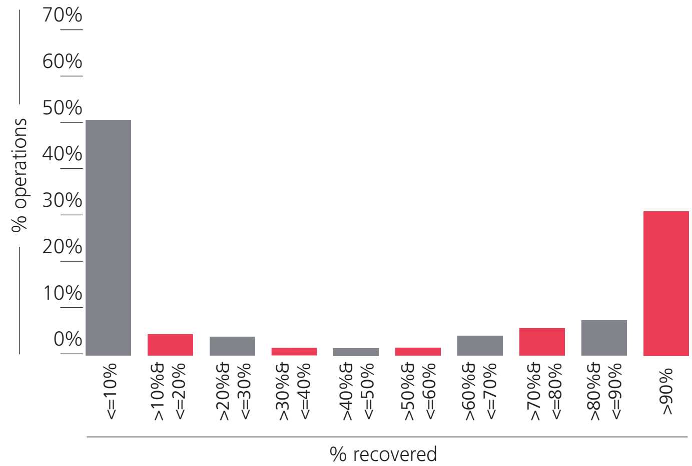
SPAIN-PARENT BANK. MORTGAGES

Distribution of operations by the percentage recovered



SPAIN- PARENT BANK. CONSUMER-RETAIL

Distribution of operations by the percentage recovered



The risk parameters also calculate the regulatory capital in accordance with the rules of the new Basel Capital Accord (BIS II). The regulatory capital is the difference between the unexpected and the expected loss.

The unexpected loss is the basis for calculating the capital and makes reference to a very high level of loss, but not very probable, not considered recurrent and which must be met with equity.

In portfolios where the internal experience of defaults is scant, such as banks, sovereigns or global wholesale banking, estimates of the parameters come from alternative sources: market prices or studies by external agencies which draw on the shared experience of a sufficient number of institutions. These portfolios are called low default portfolios.

For the rest of portfolios, estimates are based on the institution's internal experience. The PD is calculated by observing NPL entries and putting them in relation to the final rating assigned to the customer or with the scoring assigned to the operations.

The LGD calculation is based on observing the recovery process of operations not fulfilled, taking into account not only the revenues and costs associated with this process, but also the moment when they are produced and the indirect costs incurred in recovery activity.

The estimation of the EaD comes from comparing the use of the lines committed at the moment of default and a normal situation, in order to identify the real consumption of the lines at the time of default.

The parameters estimated for global portfolios are the same for all the Group's units. A financial institution with a rating of 8.5 will have the same PD regardless of the unit in which its exposure is recorded. On the other hand, retail portfolios have specific scoring systems in each unit of the group. This requires separate estimates and specific assignment in each case.

The parameters are then assigned to the operations present in the balance sheet of units in order to calculate the expected losses and the capital requirements associated with their exposure.

C. MASTER SCALE OF GLOBAL RATINGS

The following tables are used to calculate regulatory capital. They assign a PD on the basis of the internal rating, with a minimum value of 0.03%.

These PDs are applied uniformly throughout the group in accordance with the global management of these portfolios. As can be seen, the PD assigned to the internal rating is not exactly equal for a same rating in both portfolios, although it is very similar in the tranches where most of the exposure is concentrated (i.e. in tranches of rating of more than six).

REGULATORY CAPITAL

	PD		
Internal rating	Wholesale Banking	Banks	Sovereigns
8.5 to 9.3	0.030%	0.030%	0.030%
8.0 to 8.5	0.049%	0.039%	0.045%
7.5 to 8.0	0.077%	0.066%	0.072%
7.0 to 7.5	0.123%	0.111%	0.115%
6.5 to 7.0	0.195%	0.186%	0.184%
6.0 to 6.5	0.311%	0.311%	0.293%
5.5 to 6.0	0.494%	0.521%	0.468%
5.0 to 5.5	0.786%	0.874%	0.746%
4.5 to 5.0	1.251%	1.465%	1.189%
4.0 to 4.5	1.989%	2.456%	1.896%
3.5 to 4.0	3.163%	4.117%	3.022%
3.0 to 3.5	5.031%	6.901%	4.818%
2.5 to 3.0	8.002%	11.569%	7.681%
2.0 to 2.5	12.727%	19.393%	12.246%
1.5 to 2.0	20.241%	32.509%	19.524%
< 1.5	32.193%	54.496%	31.126%

D. DISTRIBUTION OF EAD AND EXPECTED LOSS (EL) ASSOCIATED

The table below sets out the distribution by segments of the outstanding credit exposure to customers in terms of EaD. PD, LGD and EL. Approximately 77% of total risk with clients (excluding sovereign, counterparty risks and other assets) corresponds to companies, SMEs and loans to individuals, underlining the retail focus of business and of Santander's risks. The expected loss from customer exposure is 1.39% (1.10% for the Group's total credit exposure), which can be considered as a medium-to-low risk profile.

SEGMENTATION OF CREDIT RISK EXPOSURE
Million euros and %

	EAD [1]	%	Average PD	Average LGD	EL
Sovereign debt	160,764	15.38%	0.14%	10.64%	0.01%
Counterparty	63,264	6.05%	0.41%	74.94%	0.31%
Public sector	12,539	1.20%	0.73%	12.01%	0.09%
Corporate	154,725	14.80%	0.90%	37.40%	0.34%
SMEs	172,547	16.51%	5.79%	31.50%	1.83%
Mortgages (individuals)	312,865	29.93%	3.20%	7.44%	0.24%
Consumer loans	119,921	11.47%	8.69%	54.57%	4.74%
Credit cards of individuals	31,193	2.98%	5.46%	63.74%	3.48%
Other assets	17,361	1.66%	1.83%	28.09%	0.51%
Memorandum item customers[2]	*803,791*	*76.90%*	*4.18%*	*33.31%*	*1.39%*
Total	**1,045,180**	**100.00%**	**3.29%**	**33.44%**	**1.10%**

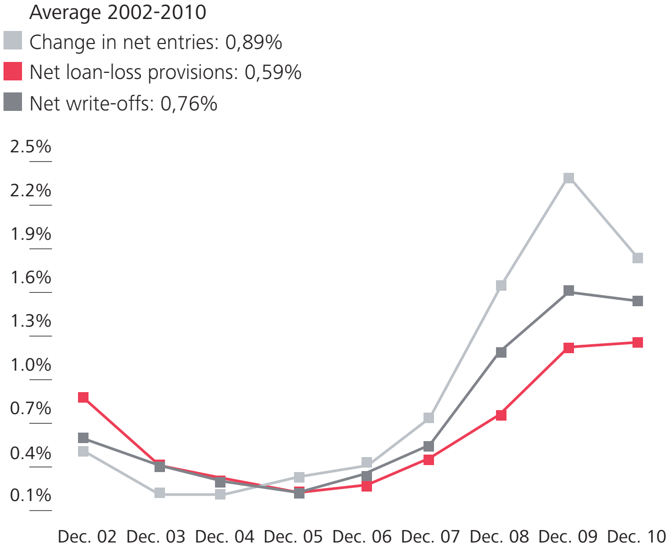
Data at December 2010
1. Excluding doubtful loans
2. Excluding sovereign debt, banks and other financial entities and other assets.

3.4. LOSS OBSERVED: MEASUREMENTS OF CREDIT COST

As well as using these advanced models, other usual measures are employed which provide prudent and effective management of credit risk on the basis of the loss observed.

Grupo Santander's cost of credit is measured by various means: change in net entries (final doubtful loans –initial doubtful loans +write offs –recovered write offs), net loan-loss provisions (net specific provisions – recovered write-offs) and net write-offs (write offs –recovered write-offs).

GRUPO SANTANDER'S TOTAL COST OF CREDIT
% of average portfolio



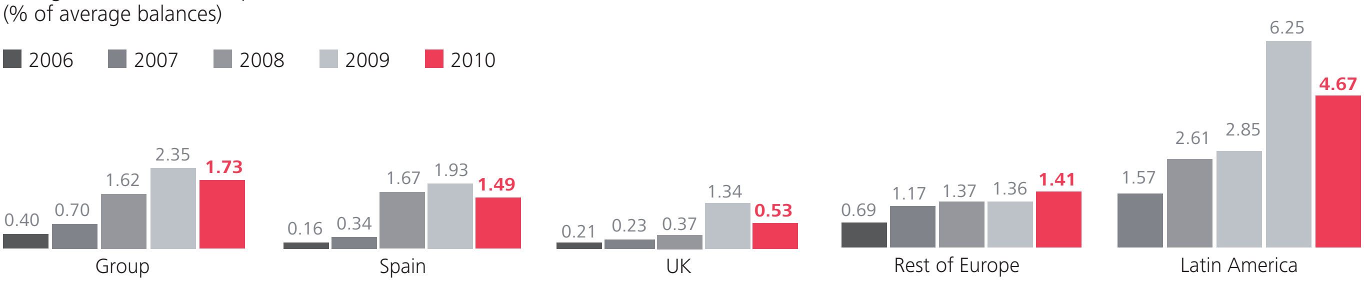
The data for 2009 reflects the incorporation of A&L and in 2010 Sovereign.

The three approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit cost measurement: flows of non-performing loans (changes in net entries) coverage of doubtful loans (net loan-loss provisions, NLLPs) and becoming write offs (net write-offs), respectively. And this without detriment that in the long term and within the same economic cycle, the three show differences at certain times, particularly significant at the start of a change of cycle. These differences are due to the various moments at which the losses are calculated, which are basically determined by accounting rules (for example, mortgages have a calendar of coverage and become write-offs more slowly than consumer loans). In addition, the analysis can be complicated by changes in the policy of coverage and entry into write offs, composition of the portfolio, doubtful loans of entities acquired, changes in accounting rules, sale of portfolios, etc.

The following charts reflect the cost of Grupo Santander's credit risk in its main areas of activity in 2010 and the comparison with prior years, measured in various ways:

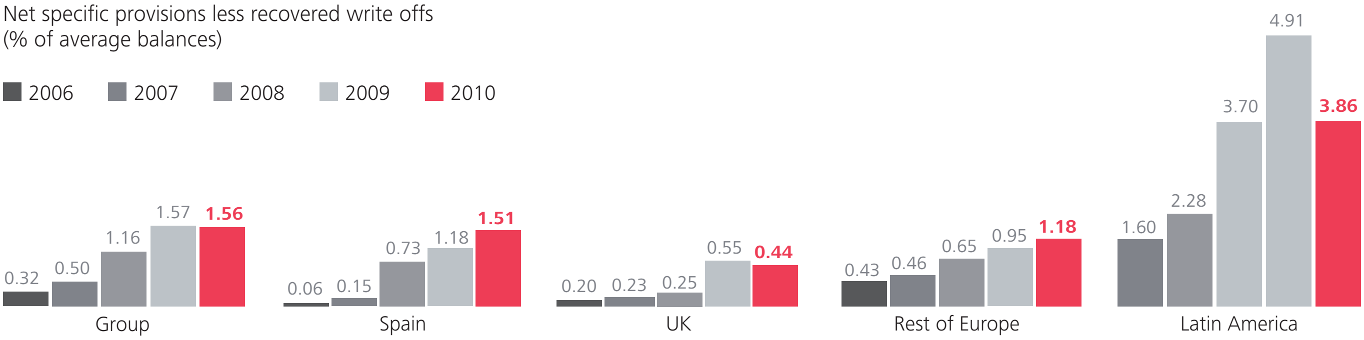
NET ENTRIES

Change in doubtful loans plus net write-offs
(% of average balances)



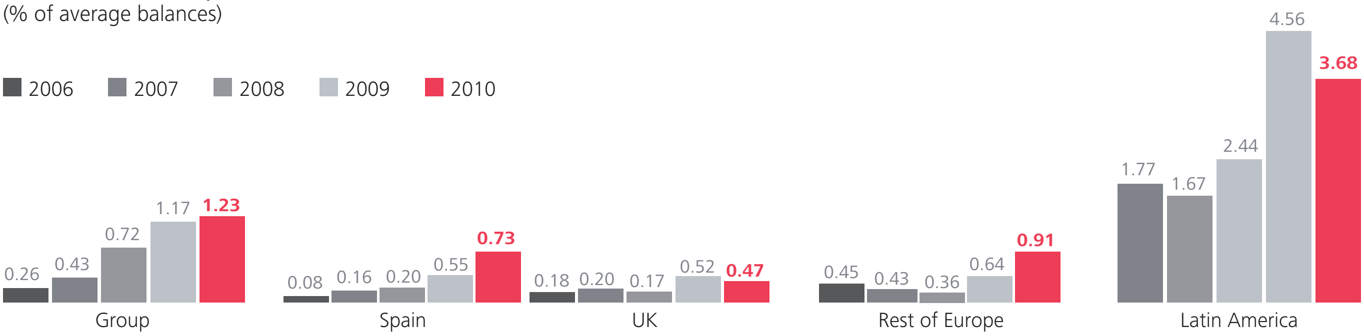
NET LOAN-LOSS PROVISIONS

Net specific provisions less recovered write offs
(% of average balances)



NET WRITE-OFFS

Write-offs less recovery of write-offs
(% of average balances)



Note: Data drawn up in accordance with legal company criteria. The figures for 2010 reflect the incorporation of Sovereign. 2008 excludes A&L and 2009 excludes Sovereign and Venezuela

The year-on-year change includes the exchange-rate impact which for Latin America was around -44.1% in net entries, 2.2% in net provisions and -17.2% in net write offs.

The general trend over the past few years has been to maintain the cost of Santander's credit at low levels. In 2010, there was a small decline of one basis point in the cost of credit as a result of the still significant deterioration of the economic environment and the mix of retail portfolios which, although with a higher expected loss, have higher levels of direct and indirect profitability and a more predictable nature of risk. These portfolios performed well during the year, particularly in Latin America, which contained the amount of provisions made.

3.5 CREDIT RISK CYCLE

Risk management consists of identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred by the Group's operations. The process involves risk takers and senior management, as well as the risk areas.

The process emanates from senior management, via the board of directors and the risk committee; they set the risk policies and procedures, the limits and delegating of powers, and approve and supervise the framework of the risks function.

The risk cycle has three phases: pre-sale, sale and after sale:

- Pre-sale: this includes the planning and setting of objectives, determining the appetite for risk, approving new products, studying the risk and rating loans, and establishing limits.
- Sale: this covers the phase of decision-making both for operations under pre-classification as well as one-off transactions.
- After sale: monitoring, measurement, control and recovery management.

A. PLANNING AND SETTING LIMITS

Setting limits is a dynamic process which identifies the Group's risk appetite by discussing business proposals and the opinion of risks.

The global plan of limits, the document drawn up on the basis of consensus which provides complete management of the balance sheet and of the inherent risks, establishes the risk appetite in the various factors.

The limits are based on two structures: customers/segments and products.

The most basic level in individualised management is the customer and when certain features are present - generally of relative importance – an individual limit (pre-classification) is set.

A pre-classification model based on a system for measuring and monitoring economic capital is used for large corporate groups. A more simplified version is used for those companies which meet certain requirements (high knowledge, rating, etc).

In the sphere of standardised risk, the planning and setting of limits is done through credit management programmes (CMPs), a document reached by consensus between the business and risk areas and approved by the 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.

B. RISK STUDY AND PROCESS OF CREDIT RATING

The study of risk is obviously a prior requirement for authorising customer operations by the Group. It consists of analysing the capacity of the customer to meet their contractual obligations with the Bank. This entails analysing the customer's credit quality, risk operations, solvency and return in accordance with the risk assumed.

The risk study is carried out every time there is a new customer or operation or with a pre-established regularity, depending on the segment. In addition, the rating is studied and reviewed every time there is an alert or something that affects the customer/operation.

C. DECISIONS ON OPERATIONS

The purpose of the decision-making process is to analyse and resolve operations, taking into consideration both the risk appetite as well as those elements of the operation that are relevant in the search for the balance between risk and return.

The Group has been using RORAC methodology (return on risk adjusted capital) since 1993 to analyse and set prices for operations and businesses.

D. MONITORING

As well as the tasks carried out by the internal auditing division, the directorate general of risks, through local and global teams, controls credit quality by monitoring the risks and has the resources and specific people to do it.

The monitoring is based on a continuous process of permanent observation, which enables incidents to be detected in advance in the evolution of risk, operations, customers, and their environment in order to take steps to mitigate them. The monitoring is conducted on the basis of customer segmentation.

The Group has a system called companies in special watch (FEVE) which identifies four levels on the basis of the degree of concern arising from the circumstances observed (extinguish, secure, reduce, monitor). The inclusion of a company in FEVE does not mean there have been defaults, but rather the advisability of adopting a specific policy toward that company and establishing the 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.

FEVE DECEMBER 2010
Million euros

	Extinguish	Secure	Reduce	Monitor	**Total FEVE**
Retail banking Spain	5,148	379	12,975	11,582	**30,084**
Banesto	8,499	460	2,720	11,116	**22,795**
Portugal	339	69	920	1,926	**3,236**
United Kingdom	236	14	933	2,318	**3,502**
Sovereign	2,640	231	742	1,992	**5,605**
Latin America	1,262	425	1,657	6,223	**9,567**
Total	**18,124**	**1,577**	**19,930**	**35,157**	**74,789**

Note: 2010 shows the application of the FEVE tool in Sovereign. The classification of risk in FEVE is independent in each institution and responds to the various criteria for classification of these risks and management of them on the basis of the category in which they are classified.

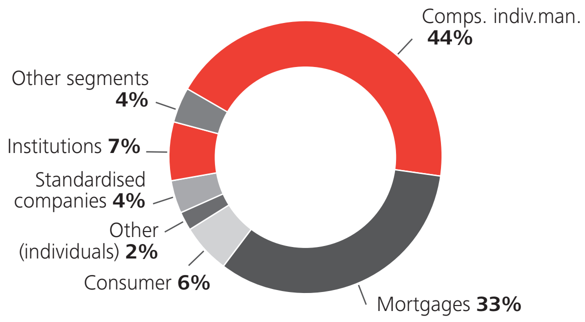
Credit exposure in Spain

a. General view of the portfolio

Grupo Santander's credit portfolio at the end of 2010 stood at EUR 236,000 million. If we mainly add to this figure guarantees and documentary credits the total credit risk of Santander's businesses in Spain amounted to EUR 283,424 million, 35% of the Group's total and with an appropriate level of diversification, both by product as well as customer segment.

The credit risk of commercial networks of the main businesses in Spain (Santander Branch Network, Banesto, Banif and Santander Consumer) accounted for 26% of the Group's total, distributed as follows:

SEGMENTATION OF THE CREDIT RISK OF COMMERCIAL NETWORKS IN SPAIN
%



Includes the commercial networks of the main businesses in Spain (Santander Retail Banking, Banesto, Banif and Santander Consumer).

In accordance with Bank of Spain rules, the Group regards as doubtful loans those which have not been serviced for more than 90 days and includes the total debt of the customer when the unpaid part represents more than 25% of it or when pre-judicial actions are taken. Also considered as doubtful loans are those which, without entering into non-compliance, have reasonable doubts of being fully repaid.

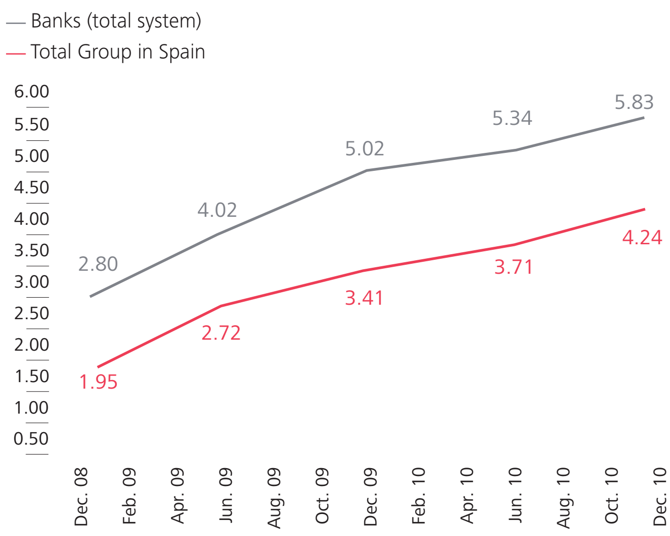
The non-performing loan (NPL) ratio in Spain was 4.24%, concentrated in those sectors which were more affected by the economic downturn. This ratio is higher than in 2009, but is on a slower growth trend as the NPL ratios of a high percentage of credit portfolios in Spain were stable during 2010.

The NPL ratio in Spain is well below the aggregate of commercial banks as a whole, according to the Bank of Spain, underscoring the Group's traditionally prudent risk management criteria.

Total provisions for covering the possible loss of these risks represent coverage of 58%.

In addition, and in line with the Bank of Spain's rules and indications, loans classified as substandard are those which, while being up to date on payments and with no reason to be classified as doubtful, shows some weakness which could lead to non-payments and losses, as they involve the weakest customers from certain collectives or sectors affected by extraordinary circumstances of greater risk. This category has EUR 10,808 million of classified risks.

MONTHLY EVOLUTION OF NON-PERFORMING LOANS 2008-2010
%



b. Analysis of the mortgage portfolio of individual customers

In line with the Bank of Spain's guidelines for greater transparency in information for the market regarding property, the table below sets out the loans granted to households to buy homes by the main businesses in Spain. This portfolio, one of the main ones, stood at EUR 61,936 million at the end of 2010 (26% of lending in Spain). Of this, EUR 61,387 million had mortgage guarantees.

LOANS TO HOUSEHOLDS FOR THE ACQUISITION OF PROPERTY
Million euros

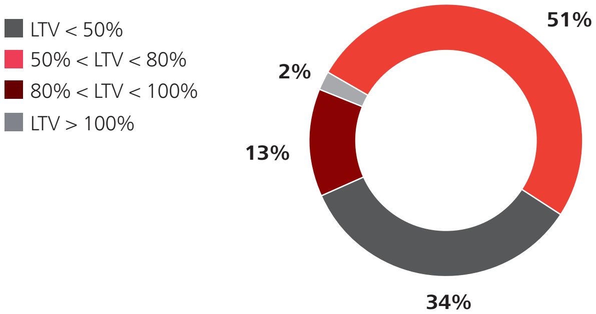
	Gross amount	Of which: doubtful
Loans to acquire property	61,936	1,388
Without mortgage guarantee	549	30
With mortgage guarantee	61,387	1,358

The NPL ratio of the portfolio with mortgage guarantee improved notably at the end of 2010, in a negative macroeconomic environment, to 2.2% from 2.5% a year earlier.

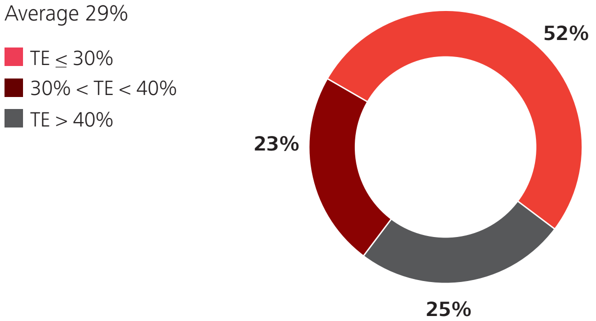
The portfolio of mortgages for property in Spain held its medium-low risk profile and had limited expectations of further deterioration:

- All mortgages pay principal from the very first day of the operation.
- The usual practice is to repay it ahead of time and so the average life of the operation is well below that of the contract.
- The borrower responds with all assets and not just the property.
- Most mortgages have variable interest rates with spreads over Euribor.
- High quality of collateral: 94% of the portfolio is financing for the first residence.
- 85% of the portfolio has a LTV of less than 80%.
- The average affordability rate remained at close to 29%.

LOAN TO VALUE



AFFORDABILITY RATE
Average 29%



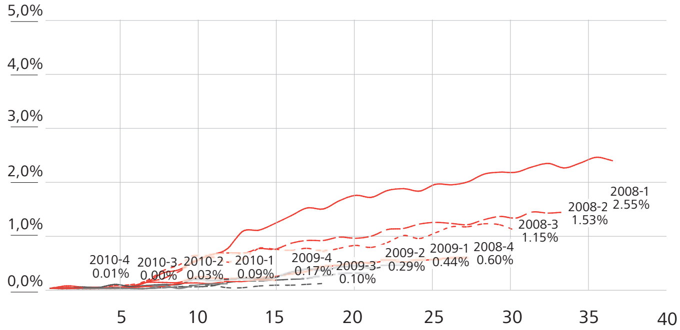
Note: The affordability rates does not include Banif.
Loan to Value: relation between the amount of the loan and the appraised value of the mortgaged property. On the basis of management criteria, the average LTV of the portfolio of mortgages for individuals to buy homes was 50.5%
Affordability rate: relation between the annual payments and the customer's net income.

Despite the economy's situation and its gradual deterioration during 2010, which reduced the demand for loans in 2009 and in 2010, the measures taken in admission produced an increasingly better evolution of vintages. For new loans between 2008 and 2010 in the Santander Branch Network in Spain, the maturity of vintages is shown below:

LOAN TO VALUE RANGES. TOTAL
Million euros

	LTV < 50%	50% < LTV < 80%	80% < LTV < 100%	LTV > 100%
Gross amount	20,583	31,519	8,299	986
Of which: doubtful	247	638	440	33

EVOLUTION OF THE DEFAULT RATE BY THE NUMBER OF OPERATIONS BY VINTAGES



c. Financing provided for construction and real estate development

Lending to these sectors, in line with the Bank of Spain's guidelines regarding classification by purpose, amounted in Spain to EUR 27,334 million (3.7% of the Group's total lending), 12% lower than in 2009 and 27% below 2008 using like-for-like criteria. This means a market share of around 10%, substantially lower than that of the Group's combined businesses in Spain (15%).

The reduction in risk was largely due to a strict policy in admitting new loans with the consequent amortisation of the credit operations of the portfolio outstanding and proactive management of existing risks.

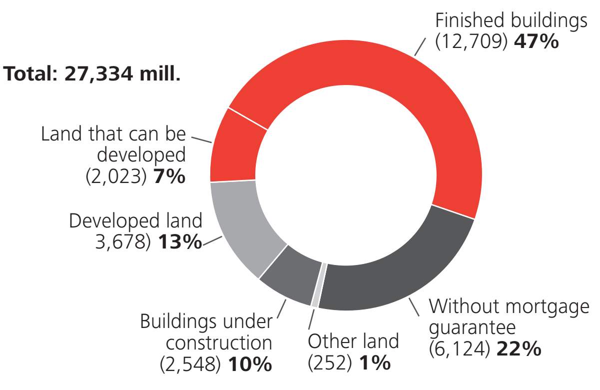
The non-performing loan ratio of this portfolio at the end of 2010 was 17%, underscoring the deterioration in this sector. This is higher than the rest of the segments of the portfolio in Spain and shows the Group's conservative policy of anticipation in classifying bad loans. More than 75% of the EUR 9,568 million classified as doubtful and sub-standard loans was up-to-date with payments. Coverage with specific provisions was 28%, in accordance with the regulations.

FINANCING FOR CONSTRUCTION AND REAL ESTATE DEVELOPMENT: DOUBTFUL AND SUBSTANDARD LOANS
Million euros

	Risk	Coverage	
	Amount	Amount	%
Doubtful	4,636	1,321	29
Substandard	4,932	569	12
Generic coverage		768	
Total	**9,568**	**2,658**	**28**

A large part of the exposure to the construction and real estate activity sectors are loans with mortgage guarantee (EUR 21,210 million, 78% of the portfolio). Their distribution is shown below.

CREDIT EXPOSURE TO THE CONSTRUCTION AND REAL ESTATE DEVELOPMENT SECTOR
Million euros



A particularly important product in the real estate promotion portfolio is mortgage loans to real estate developers. At the end of 2010, this amounted to EUR 9,854 million and represented around 1.3% of Grupo Santander's total credit portfolio. The exposure to this product was 9.3% less than in 2009 and in 2010 it dropped a further 20%.

At the end of 2010, this portfolio of loans had a larger number of customers, with a low degree of concentration and an appropriate level of guarantees and coverage.

The situation was as follows:

- Developments completed and with the final certificate of work: 72.5% of outstanding risk.
- Developments more than 80% completed: 12.8% of outstanding risk.
- Developments between 50% and 80% completed: 3.1% of outstanding risk.
- Developments less than 50% completed: 11.5%.

Furthermore, close to 85% of this financing of real estate developments is totally completed or close to it, having overcome the risk of construction.

Policies and strategies established for management of these risks

The policies for managing this portfolio, periodically reviewed and approved by the Group's senior management, are focused on reducing and securing the current exposure, without overlooking new business identified as viable.

In order to tend to the management of this credit exposure, Grupo Santander has specialised teams that not only form part of the risk areas, but also supplement its management and cover the whole life cycle of these operations: their commercial management, juridical treatment, the eventuality of recovery management, etc.

Anticipative management of these risks has enabled the Group to significantly reduce its exposure (by 27% between 2008 and 2010), with a granular portfolio, geographically diversified and where financing of second homes accounts for a very small proportion of the portfolio. Mortgages for land that is not developed accounts for only 4.2% of the exposure to land; the rest is already classified as developed land or which can be developed.

In the case of property financing projects where the work is already completed, the significant reduction in the exposure (-20% en 2010) is backed by various actions. As well the already existing specialised channels, campaigns were conducted supported by specific managers for this function who, in the case of the Santander Branch Network, were directly supervised by the business area of recoveries, where direct management of them with real estate promoters and buyers, applying criteria of reducing sale prices and adapting the financing conditions to buyers' needs, enabled us to make subrogations of the already existing loans. These subrogations enable risk to be diversified in a business segment that has a much lower non-performing loan ratio.

The admission processes are managed by specialised teams who work in direct coordination with the commercial teams. The policies and criteria are clearly defined:

- Promoters with a comfortable solvency profile and with a proven track record in the market.
- Strict criteria of the parameters inherent in operations: exclusive financing for the cost of construction, high percentages of accredited sales, first residence financing, etc.
- Support for officially protected homes with percentages of accredited sales.
- Financing of restricted land, tied to the re-establishment of the adequate level of coverage of already existing financing or increase in guarantees.

In addition to permanent control by the Group's risk monitoring teams, there is a technical unit specialised in monitoring and controlling this portfolio with regard to the progress in the work, compliance with planning and control of sales, as well as validation and control of the disbursement of certifications. Santander has specific tools created for this function. All the mortgage loan distributions, disposal of amounts for all concepts, changes to the grace period are authorised on a centralised basis.

In the case of projects in the phase of construction that show some kind of problem, the criterion followed is to guarantee completion of the work in order to have finished buildings for sale in the market. In order to achieve this, each project is individually analysed so that for each case the most effective series of measures are adopted (structures of payment to suppliers that guarantee completion of the work, establishment of specific calendars, etc).

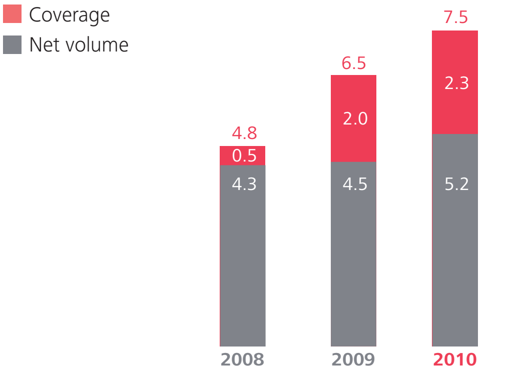
Those cases that require analysis of some type of restructuring of the exposure are carried out with the joint participation of the risk and recoveries areas, anticipating non-payment situations, with criteria centred on providing projects with a payments structure that enables the work to be completed. These operations are authorised on a centralised basis and by expert teams who ensure that the strictest criteria are applied in accordance with the Group's prudent risk management. Possible losses are recognised when identified, classifying the positions without waiting for non-payment according to the regulation established by the Bank of Spain, and with the corresponding provision that covers the expected loss of these positions.

Real estate assets on the balance sheet are managed by companies specialised in selling property (Altamira Santander Real Estate and Promodomus) and complemented by the structure of the commercial network. Sales are conducted with price reduction levels in line with the market's situation.

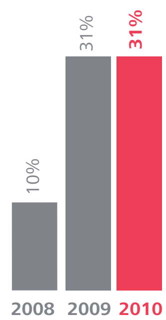
d. Real estate acquired and foreclosed

One of the mechanisms used in Spain to manage risk efficiently is the purchase and foreclosure of real estate assets. The net balance of these assets at the end of 2010 was EUR 5,195 million (gross amount of EUR 7,509 million), with coverage of 31% that was above the minimum required by the Bank of Spain and in line with the Group's usual criteria of prudence.

PROPERTIES ACQUIRED AND FORECLOSED
Billion euros



PROPERTIES ACQUIRED AND FORECLOSED: COVERAGE RATIO



The Group views acquisition as an efficient tool for resolving unpaid loans as opposed to initiating legal proceedings for the following reasons:

- The immediate availability of these assets as against the greater duration of legal processes.
- Cost savings.
- It facilitates the viability of companies as liquidity is injected into their activity.
- Reduction in the possible loss of value in the loans of these clients.
- Reduction in the exposure and of the expected loss.

The table below sets out the situation at the end of 2010 regarding acquired and foreclosed properties by the main businesses in Spain:

SPAIN: PROPERTIES ACQUIRED AND FORECLOSED
Million euros

	Gross amount	Allowance	Net amount
Finished buildings	3,098	25%	2,339
Buildings under construction	564	25%	425
Developed land	2,307	35%	1,506
Land that can be developed	1,308	40%	787
Other land	232	40%	138
Total	**7,509**	**31%**	**5,195**

The stock of this portfolio was 44% lower in 2010 than in 2009, due to the combination of lower gross entries of acquired properties (-20%) and a significant increase in sales (+31%). The property assets are managed by companies specialised in sales and aided by the structure of the commercial network which enables the assets to be placed in the market with acceptable levels of losses.

SPAIN: PROPERTIES ACQUIRED AND FORECLOSED
Billion euros

	2010	2009	
Gross entries	2.1	2.5	-20%
Sales	1.1	0.8	31%
Difference	**1.0**	**1.7**	**-44%**

Of the total amount, 41% are completed buildings available for sale and of the total land assets 95% is developed or can be developed, with an appropriate coverage level of 37%.

The information mentioned in points b, c and d under the specific formats set out by the Bank of Spain in its note of January 18, 2011 is reflected in note 54 of the audited report and consolidated financial accounts that form part of Banco Santander's 2010 annual report.

e. Refinancing

Refinancing is one of the management tools to adjust maturity structures of principal and interest payments to the new payment capacity of customers.

At Grupo Santander, these operations are restricted, on the basis of rigorous and selective criteria, to:

- viable operations, which in origin do not have very severe deterioration;
- where the customer intends to pay;
- which improve the Bank's position in terms of expected loss;
- and where the refinancing does not discourage the additional effort by the customer.

The Group's corporate policy of restructurings ensures homogeneous and rigorous application of these criteria in the various units:

- The customer's risk is assessed overall, irrespective of the situation of each individual contract, and all the risks are provided with the highest possible level of guarantees.
- The risk with the customer is not increased.
- All the alternatives to the refinancing and its effects are evaluated, ensuring that the results of it are better than what might have been obtained if nothing was done.
- Particular attention is paid to collateral and the possible future evolution of its value.
- Its use is restricted, giving precedence to the renewal of risks with additional efforts by the customer and avoiding situations that only postpone the problem.
- Monitoring of these operations is done in a special way and is maintained until the debt is totally extinguished.
- A very detailed analysis, case by case, is made of individually managed customers, where the expert view enables the most appropriate conditions to be adjusted.

In addition to close monitoring of these portfolios by the Group's risk management teams, both the various supervisory authorities to which the Group is subject as well as internal auditing pay particular attention to controlling and adequately assessing the refinanced portfolios.

Refinancing does not mean the release of provisions, maintaining the classification of risk in bad loans, unless:

- They meet the criteria in the regulations based on Bank of Spain circulars (payment of ordinary interest pending and, in any case, contribution of new effective guarantees or a reasonable certainty of payment capacity).
- They fulfil the precautions which under prudent criteria are set out in the Group's corporate policy (sustained payment for between 3 and 12 months, on the basis of the operation's features and the type of guarantees).

In the case of Spain (Santander networks plus Banesto), the balance at the end of 2010 of commercial refinancing of positions previously recorded as doubtful loans was EUR 2,258 million, of which EUR 1,675 million were company operations and EUR 583 million with individuals.

Of the total refinancing, EUR 1,313 million met the reclassification requirements set by the Bank of Spain in appendix IX of its Circular 4/2004.

At the end of 2010, a high percentage (84%) of refinancing was in a normal situation as regards compliance with obligations.

Analysis of the UK's mortgage portfolio

As well as the risk portfolio in Spain, of note in standardised risks and because of its importance in Grupo Santander's total lending is the UK mortgage portfolio.

This portfolio consists of first time buyer mortgages for properties in the UK, as there are no operations that entail second or successive charges on mortgaged real estate.

Most of the credit exposure is concentrated in Greater London, where house prices have been more stable even during the period of economic downturn.

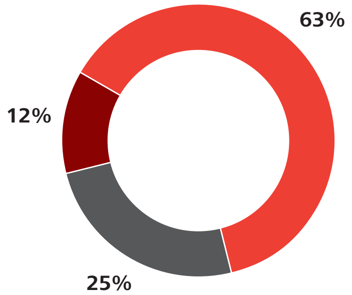
Authorised valuers assess all properties before each operation is approved, in accordance with the principles established by the Group for its risk management and in line with the methodology defined by the Royal Institution of Chartered Surveyors.

The portfolio performed favourably during 2010. Its non-performing loan ratio at the end of the year was 1.41% compared to 1.52% in 2009, the result of monitoring and constant control as well as strict lending policies which include, among other measures, maximum loan to value (LTV) criteria in relation to properties in guarantee. On the basis of these policies, no mortgages have been granted since 2009 with LTVs of more than 100% and only 0.1% of those granted during this period have an LTV of more than 90%. The average LTV is 51%.

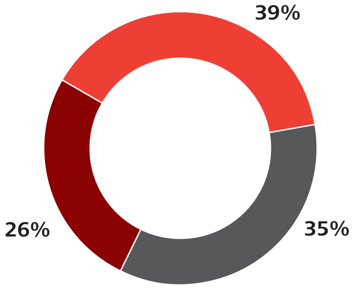
There is no risk appetite for subprime mortgages. The credit risk policies in force explicitly prohibit this type of loan and establish demanding requirements for credit quality, both regarding the operations and customers. Buy-to-let loans with a higher risk profile account for barely 1% of the total portfolio.

The following charts show the structure in LTV terms for the whole portfolio of residential mortgages and the distribution in terms of the income multiple:

LOAN TO VALUE [1]
average : 51%



INCOME MULTIPLE
average 3 times



(1) Indexed.
(*) Loan to Value: the relation between the loan and the appraised value of the mortgaged property.
Income multiple: affordability rate (relation between the customer's uncommitted net income and the annual loan payments). The figures in the chart are only for loans made in 2010.

UNITED KINGDOM: PORTFOLIO OF RESIDENTIAL MORTGAGES
Million euros

	December 2010	
	Portfolio	% of loans
Residential mortgages	192,590	78.6
First home buyer	34,666	14.2
Mover	75,110	30.7
Remortgage	82,814	33.8

First Time Buyer: customers who buy a home for the first time.
Mover: customers who change home with or without changing the bank that granted the mortgage.
Remortgage: customers who transfer their mortgage from another bank.

An additional indicator of the portfolio's good performance is the low volume of properties that have been repossessed, which at the end of 2010 amounted to EUR 143 million (a mere 0.07% of the total mortgage exposure). The 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, contribute to the good results obtained.

E. CONTROL FUNCTION

The management process is also aided during the various phases of the risk cycle by the function of control. This provides a global vision of the Group's portfolio of loans with the sufficient level of detail, enabling the current risk position and its evolution to be assessed.

The objective of the control model is to assess the risk of solvency assumed in order to detect focuses of attention and propose measures that tend to correct eventual deterioration. It is therefore vital that to the control activity in the proper sense of the word is added an analysis component that facilitates proactivity regarding early detection of problems and the subsequent recommendation of action plans.

The evolution of risk with regard to budgets, limits and standards of reference is constantly and systematically controlled and the impact assessed in the face of future situations, both exogenous and arising from strategic decisions, in order to establish measures that put the profile and volume of the portfolio of risks within the parameters set by the Group.

The control function is conducted by assessing risks from various perspectives and establishing as the main elements control by countries, business areas, management models, products and processes. This facilitates the detection of focuses of specific attention for decision-making.

One of the focuses in 2010 was to strengthen the vision of the various units from a local control standpoint, deepening their context of business, legislation, strategy, local regulations and evolution of their portfolios. The homogeneity of the control model was consolidated, setting standards for the flow of information, analysis by portfolios and monitoring of the main management metrics, which enable the risk of each business segment to be constantly assessed.

In 2006, under the corporate framework established in the Group for complying with the Sarbanes-Oxley Act, a tool was created in the Group's intranet to document and certify all sub processes, operational risks and controls that mitigate them. The Risks Division, as part of the Group, evaluates every year the efficiency of internal control of its activities.

Analysis of scenarios

As part of its management of monitoring and continuous control, the Group conducts simulations of its portfolio using adverse scenarios and stress tests in order to assess the Group's solvency in the face of certain situations in the future. These simulations cover all the Group's most relevant portfolios and are done systematically using a corporate methodology which:

- Determines the sensitivity of risk factors (PD, LGD) 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 to movements in certain macroeconomic variables.

The simulation models use the data of a complete economic cycle to measure the performance of risk factors in the face of changes in macroeconomic variables.

In the wholesale sphere, as they are low default portfolios, there is insufficient data on defaults to conduct this measurement and expert criteria are used.

The scenarios take into account the vision of each unit as well as the global vision. The macroeconomic variables include:

- The unemployment rate
- Property prices
- GDP
- Interest rates
- Inflation

The analysis of scenarios enables senior management to better understand the foreseeable evolution of the portfolio in the face of market conditions and changing situations, and it is a key tool for assessing the sufficiency of the provisions established for stress scenarios.

The analysis of the baseline and acid scenarios for the whole Group and for each unit, with a time frame of five years, shows the strength of the balance sheet in the face of different market and macroeconomic situations.

EU Stress test exercises

In order to increase the confidence in European banks and raise the degree of transparency and standardisation in the financial information supplied to the market, the Committee of European Banking Supervisors (CEBS) published the results of the stress tests conducted during the first half of 2009 on 91 banking groups accounting for at least 50% of the domestic banking system of 20 European countries.

Carried out in coordination with the European Central Bank and the European Commission, as designers of the scenarios, and countries' banking authorities, as those responsible for conducting the analysis, the stress tests of CEBS analysed the level of capital the banks would reach in 2011 and their evolution compared to the end of 2009 (the starting point) in two types of scenarios: benchmark and the other in adverse circumstances including the impact of sovereign debt shocks.

In the case of Santander, the stress tests showed the strength and validity of its business model. Even in the most adverse scenario, the Group is able to generate profits, distribute dividends and continue to generate capital, keeping its Tier 1 capital ratio intact at 10.0% (surplus of EUR 23,131 million over the 6% benchmark ratio).

These results compare very well with those of our competitors. On the basis of the like-for-like information supplied by CEBS, Santander is the European bank that would generate the highest profits before tax, and its return on risk assets and on Tier 1 capital would be the best of the 25 largest banks analysed.

STRESS TEST RESULTS
Million euros

	Benchmark scenario	Adverse scenario
Net operating income 2010-2011	49,196	43,599
Provisions at December 2009	20,779	20,779
Total	69,975	64,378
Gross deterioration 2010-2011	(40,856)	(50,288)
Taxes	(6,701)	(3,114)
Net surplus stress test	**22,419**	**10,976**
Dividends, generic provisions not used and others	(14,555)	(8,730)
Change in Tier 1 capital	**7,864**	**2,246**
Risk assets	579,621	585,346
Tier 1	**11,0%**	**10,0%**

Source: Bank of Spain

F. RECOVERY ACTIVITY

Recovery management in 2010 continued to be a strategic element in the Bank's risk management.

In order to carry out this function, which is essentially a business activity, the Bank has a corporate model of management which sets the guidelines and general rules to be applied in the countries where it operates, with the necessary adjustments on the basis of local business models and the economic situation of the respective environments.

This corporate model basically establishes procedures and management circuits on the basis of customers' features, making a distinction between massive level management with the use of multiple channels and a more personalised management with specific managers assigned.

As a result of this segmentation in management, various mechanisms were established to ensure recovery management of customers in non-payment situations from the earliest phases to the writing off of the debt. The sphere of action of the recovery function begins the very first day of non-payment of the loan and ends when it has been paid or reclassified. Preventative management is conducted in some segments before a non-payment situation arises.

Recovery activity, understood as an integral business, is supported by constant reviewing of the management processes and methodology. It is backed by all the Group's capacities and with the participation and cooperation of other areas (commercial, resources, technology, human resources) as well as the development of technology solutions to improve effectiveness and efficiency.

Santander also attaches great importance to the development of talent. We have a practical and hands on training plan which deepens knowledge, facilitates the exchange of ideas and best practices and professionally develops teams, while always striving to integrate recovery activity into the Group's ordinary and commercial activity.

All these actions in 2010 to ensure an efficient recovery process enabled us to improve the ratios for the recovery of non-performing loans and contain the entry of new ones. There was a notable reduction in net entries, a trend observed on most of the Group's business units.

The results for the recovery of written-off assets were also good in 2010, as we took actions both at the level of customers in situations of non-payment, as well as actively managing portfolios. All of this made possible a greater degree of recovery in this line of activity.

3.6 OTHER STANDPOINTS OF CREDIT RISK

There are spheres and/or specific points in credit risk that deserve specialised attention and which supplement global management.

A. RISK OF CONCENTRATION

Control of risk concentration is a vital part of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The board's risk committee establishes the policies and reviews the appropriate exposure limits for appropriate management of the degree of concentration of credit risk portfolios.

The Group is subject to the Bank of Spain regulation on large risks. In accordance with Circular 3/2008, no individual or economic group exposure, including all types of credit risks and equities, can exceed 25% of the Group's shareholders' equity. The total of large risks (those that exceed 10% of eligible equity) cannot be more than eight times higher than equity (excluded from this are exposures to OECD governments and central banks).

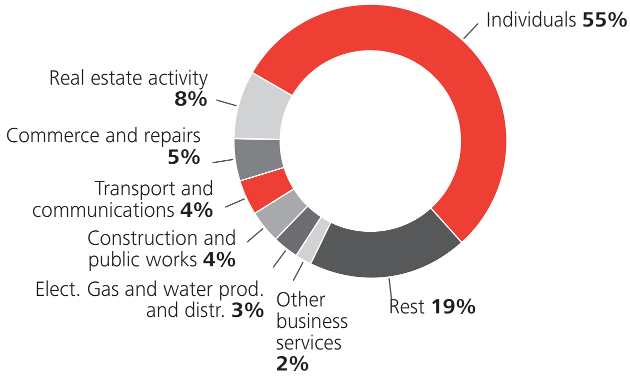
At December 31, 2010, there was only one economic group that exceeded 10% of shareholders' funds: a Spanish multinational with an internal rating equivalent to A- and which represented 11.09%. After applying risk mitigation techniques and the rules for large risks, the percentage came down to 9.28% of eligible equity.

At December 31, 2010, the 20 largest economic and financial groups, excluding AAA governments and sovereign securities denominated in local currency, represented 6.0% of the outstanding credit risk of the Group's clients (lending plus guarantees).

The distribution of the portfolio of companies by sectors is adequately diversified. The chart below shows the distribution of the credit exposure in the Group's main units.

DISTRIBUTION OF RISK BY SECTOR

%



*Rest includes sectors with concentration below 2%.

The Group's risks division works closely with the financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques such as using credit derivatives and securitisation to optimise the risk-return relation of the whole portfolio.

B. CREDIT RISK BY ACTIVITIES IN FINANCIAL MARKETS

This section covers credit risk generated in treasury activities with clients, mainly credit institutions. This is developed through financing products in the money market with different financial institutions, as well as derivatives to provide service to the Group's clients.

Risk is controlled through an integrated system and in real time which enables us to know at any moment the exposure limit available with any counterparty, in any product and maturity and in all of the Group's units.

Risk is measured by its prevailing market as well as potential value (value of risk positions taking into account the future variation of underlying market factors in contracts).
The Equivalent Credit Risk (ECR) is the Net Replacement Value plus the Maximum Potential Value of these contracts in the future. The capital at risk or unexpected loss is also calculated (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recovery).

The total exposure to credit risk from activities in the financial markets was 63.2% with credit institutions. By product type, the exposure to derivatives was 52.3%, mainly products without options, and 47.7% to liquidity products and traditional financing.

Derivative operations are concentrated in high credit quality counterparties; 62.8% of risk with counterparties has a rating equal to or more than A-. The total exposure in 2010 in terms of equivalent credit risk amounted to EUR 46,893 million.

OTC DERIVATIVES DISTRIBUTION BY NET REPLACEMENT VALUE AND EQUIVALENT CREDIT RISK

Million euros at December 31, 2010

	Total ECR			Total net replacement value		
	Trading	Hedging	Total	Trading	Hedging	Total
CDS protection acquired	663	134	798	178	210	388
CDS protection sold	55	2	57	-325	-33	-358
TRS total return swap	0	0	0	0	0	0
CDS options	0	0	0	0	0	0
Total credit derivatives	**718**	**137**	**855**	**-147**	**177**	**30**
Equity forwards	0	142	143	0	-286	-286
Equity options	522	1,013	1,535	-203	-362	-564
Equity swaps	0	513	513	0	165	165
Equity spot	0	0	0	0	0	0
Total equity derivatives	**522**	**1,669**	**2,191**	**-203**	**-483**	**-685**
Fixed-income forwards	56	38	94	30	1	31
Fixed-income options	0	1	1	0	0	0
Fixed-income spot	0	0	0	0	0	0
Total fixed income derivatives	**56**	**39**	**95**	**30**	**1**	**31**
Asset swaps	1,686	2,600	4,286	-1,688	389	-1,299
Exchange-rate options	304	140	443	-74	-303	-377
Exchange-rate swaps	4,353	12,045	16,398	603	1,805	2,408
Other exchange-rate derivatives	5	6	11	1	1	2
Total exchange rates	**6,348**	**14,791**	**21,139**	**-1,159**	**1,893**	**734**
Asset swaps	0	293	293	0	-52	-52
Call money swaps	371	20	391	-86	-8	-94
IRS	14,935	10,439	25,375	1,008	3,170	4,178
Forward interest rates	1	4	4	0	-11	-11
Other interest-rate derivatives	916	1,423	2,339	643	-1,914	-1,271
Interest rate structures	338	493	831	222	-256	-34
Total interest-rate derivatives	**16,561**	**12,673**	**29,234**	**1,787**	**929**	**2,717**
Commodities	239	13	252	164	11	175
Total commodity derivatives	**239**	**13**	**252**	**164**	**11**	**175**
Total otc derivatives	**24,444**	**29,322**	**53,766**	**473**	**2,529**	**3,002**
Collateral	**0**	**-6,873**	**-6,873**			
Total	**24,444**	**22,449**	**46,893**			

NOTIONAL OTC DERIVATIVE PRODUCTS BY MATURITY

Million euros

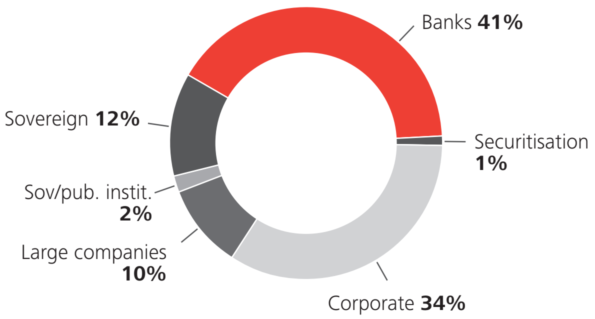
	1 year			1-5 years			5-10 years			over 10 years			Total REC		
	T	H	Total	T	H	Total	T	H	Total	T	H	Total	T	H	Total
CDS protection acquired	4	5	9	66	15	81	16	56	72	577	58	636	663	134	798
CDS protection sold	5	2	7	40	0	40	10	0	10	0	0	0	55	2	57
TRS total return swap	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CDS options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total credit derivatives	**9**	**7**	**16**	**105**	**15**	**120**	**26**	**56**	**82**	**578**	**59**	**636**	**718**	**137**	**855**
Equity forwards	0	142	143	0	0	0	0	0	0	0	0	0	0	142	143
Equity options	168	564	732	346	382	728	8	62	70	0	5	5	522	1,013	1,535
Equity swaps	0	163	163	0	301	301	0	3	3	0	47	47	0	513	513
Equity spot	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total equity derivatives	**168**	**869**	**1,038**	**346**	**683**	**1,029**	**8**	**65**	**72**	**0**	**52**	**52**	**522**	**1,669**	**2,191**
Fixed-income forwards	56	38	94	0	0	0	0	0	0	0	0	0	56	38	94
Fixed-income options	0	0	0	0	1	1	0	0	0	0	0	0	0	1	1
Fixed-income spot	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total fixed income derivatives	**56**	**38**	**94**	**0**	**1**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**56**	**39**	**95**
Asset swaps	1,121	2,234	3,356	491	284	775	26	79	105	48	2	50	1,686	2,600	4,286
Exchange-rate options	222	130	352	81	10	91	1	0	1	0	0	0	304	140	443
Exchange-rate swaps	1,539	2,142	3,681	1,649	5,649	7,297	1,163	1,925	3,088	2	2,329	2,331	4,353	12,045	16,398
Other exchange-rate derivatives	5	6	11	0	0	1	0	0	0	0	0	0	5	6	11
Total exchange rates	**2,887**	**4,512**	**7,399**	**2,221**	**5,943**	**8,164**	**1,190**	**2,004**	**3,194**	**51**	**2,331**	**2,382**	**6,348**	**14,791**	**21,139**
Asset swaps	0	1	1	0	27	27	0	48	48	0	217	217	0	293	293
Call money swaps	138	18	157	223	2	225	5	0	5	5	0	5	371	20	391
IRS	374	729	1,104	3,135	3,418	6,552	3,986	2,714	6,699	7,440	3,579	11,019	14,935	10,439	25,375
Forward interest rates	1	4	4	0	0	0	0	0	0	0	0	0	1	4	4
Other interest-rate derivatives	2	197	199	41	451	492	107	384	491	766	391	1,157	916	1,423	2,339
Interest rate structures	33	93	126	213	173	386	48	51	99	44	176	220	338	493	831
Total interest-rate derivatives	**549**	**1,042**	**1,591**	**3,612**	**4,071**	**7,683**	**4,145**	**3,197**	**7,342**	**8,256**	**4,363**	**12,619**	**16,561**	**12,673**	**29,234**
Commodities	108	0	108	119	13	132	12	0	12	0	0	0	239	13	252
Total commodity derivatives	**108**	**0**	**108**	**119**	**13**	**132**	**12**	**0**	**12**	**0**	**0**	**0**	**239**	**13**	**252**
Total otc derivatives	**3,777**	**6,469**	**10,246**	**6,403**	**10,726**	**17,129**	**5,380**	**5,322**	**10,703**	**8,884**	**6,805**	**15,689**	**24,444**	**29,322**	**53,766**
Collateral													**0**	**-6,873**	**-6,873**
Total													**24,444**	**22,449**	**46,893**

H = Hedging
T = Trading

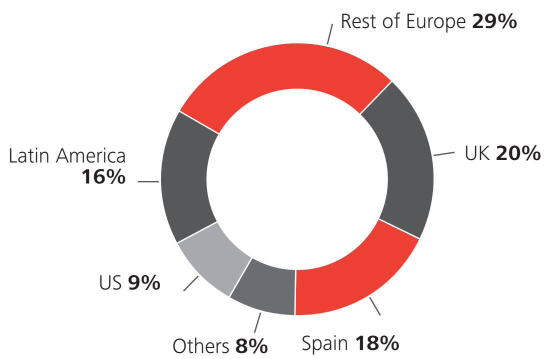
DISTRIBUTION OF RISK IN OTC DERIVATIVES BY TYPE OF COUNTERPARTY

Rating	%
AAA	11.6
AA	9.7
A	41.5
BBB	21.3
BB	13.3
B	1.6
Rest	0.9

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY TYPE OF COUNTERPARTY

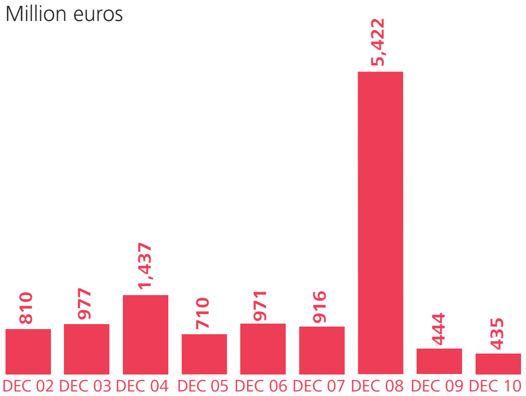


DISTRIBUTION OF RISK IN OTC DERIVATIVES BY GEOGRAPHIC AREAS



EVOLUTION OF COUNTRY-RISK SUBJECT TO PROVISIONS AND PROVISIONS ASSIGNED

Million euros



The distribution of risk in derivatives by type of counterparty is 41% with Banks, 34% with large companies and 10% with SMEs. As regards the geographic distribution of risk, 18% is with Spanish counterparties, 20% with UK ones (mainly operations by Santander UK) and among the rest of areas Eurooe (29%), the US (9%) and Latin America (16%).

ACTIVITY IN CREDIT DERIVATIVES

Grupo Santander uses credit derivatives to cover loans, customer business in financial markets and, to a lesser extent, within trading operations. The volume of this activity is small compared to that of our peers and, moreover, is subject to a solid environment of internal controls and minimising operational risk.

The risk of these activities is controlled via a broad series of limits such as VaR, nominal by rating, sensitivity to the spread by rating and name, sensitivity to the rate of recovery and to correlation. Jump-to-default limits are also set by individual name. geographic area, sector and liquidity.

At December 31, 2010, for the Group's trading activity, the sensitivity of lending to increases in spreads of one basis point was minus EUR 1.5 million, and the average VaR during the year was EUR 17.2 million. The latter was higher than in 2009 because of the greater volatility of credit spreads in the market.

In notional terms, the position in CDS incorporates EUR 89.127 million of acquired protection and EUR 79.764 million of sold protection.

C. COUNTRY RISK

Country risk is a credit risk component in all cross-border credit operations for circumstances different to the usual commercial risk. Its main elements are sovereign risk, the risk of transfer and other risks which could affect international financial activity (wars, natural disasters, balance of payments crisis, etc).

The exposure susceptible to country-risk provisions at the end of 2010 was EUR 435 million, of which EUR 37 million corresponded to intragroup operations. At the end of 2009, the total country risk in need of provisions was EUR 444 million. Total provisions in 2010 stood at EUR 69 million compared with EUR 65 million in 2009.

Country risk management principles continued to follow very prudent criteria. Risk is assumed very selectively in operations that are clearly profitable for the Group and which strengthen the global customer relation.

D. SOVEREIGN RISK

As a general criterion, sovereign risk is that contracted in transactions with a central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or the Republic (portfolio of state debt) and that arising from operations with public institutions with the following features: their funds only come from institutions directly integrated into the state sector; and their activities are of a non-commercial nature.

At December 31, 2010 Europe accounted for 56.1% of sovereign risk, Latin America 37.7%, the US 5.1% and others 1%. Of note in Europe were the UK (27.2%) and Spain (21.2%) and in Latin America Brazil (27.1%) and Mexico (6.0%). As for those countries on the periphery of Europe, the percentages of total risk are low: Portugal (2.4%), Italy (0.3%), Ireland (0.2%) and Greece (0.1%).

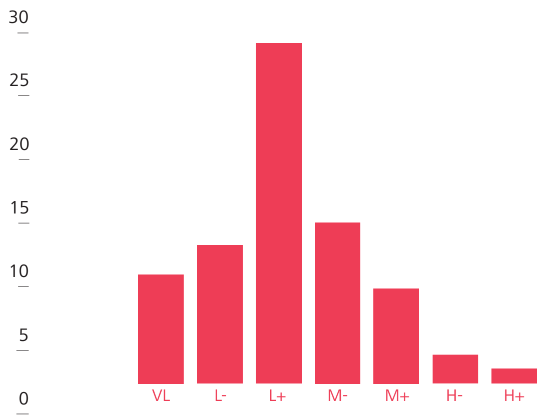
Latin America's exposure to sovereign risk mainly comes from the obligations to which subsidiary banks are subject for constituting certain deposits in the corresponding central banks as well as from fixed-income portfolios maintained as part of the structural interest rate risk management strategy. These exposures are in local currency and are financed by locally captured customer deposits, also denominated in local currency. The exposures to sovereign risk of Latin American issuers denominated in currencies other than the official one of the country of issue amounted to EUR 1,812 million (2.7% of total sovereign risk with Latin American issuers).

E. ENVIRONMENTAL RISK

Analysis of the environmental risk of credit operations is one of the main aspects of the strategic plan of corporate social responsibility. It revolves around the following two large points:

- Equator principles: this is an initiative of the World Bank's International Financial Corporation. It is an international standard for analysing the social and environmental impact of project finance operations. The assumption of these principles represents a commitment to evaluating, on the basis of sequential methodology, the social and environmental risks of the projects financed.
  - 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, of 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), 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.
- 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 2010, 41,306 companies were assessed by this tool in Spain.

ENVIRONMENTAL RISK CLASSIFICATION
Billion euros



Note: VIDA companies assessed in the retail banking network in Spain

VL: very low; L: low; M: medium and H: high.

4. MARKET RISK

4.1 ACTIVITIES SUBJECT TO MARKET RISK

The perimeter for measuring, controlling and monitoring the area of Financial Risks covers those operations where equity risk is assumed. This risk comes from the change in interest rates, exchange rates, shares, the spread on loans, raw material prices and from the volatility of these elements, as well as the liquidity risk of the various products and markets in which the Group operates.

On the basis of the finality of the risk, activities are segmented in the following way:

a) Trading: this includes financial services for customers and the buying and selling and positioning mainly in fixed-income, equity and currency products.

b) Balance Sheet Management: Interest rate and liquidity risk comes from mismatches between maturities and repricing of assets and liabilities. It also includes active management of credit risk inherent in the Group's balance sheet.

c) Structural risks:

- Structural Exchange-Rate Risk/Hedging of Results: Exchange rate risk, due to the currency in which the investment is made, both in companies that consolidate and do not consolidate (structural exchange rate) and exchange rate risk arising from the hedging of future results generated in currencies other than the euro (hedging of results).
- Structural equity: This covers equity stake investments in financial and non-financial companies that do not consolidate, generating risk in equities.

The treasury area is responsible for managing the taking of trading activity positions.

The financial management area is responsible for the centralised management of these structural risks, applying standardised methodologies, adapted to each market where the Group operates. In the area of convertible currencies (euro, sterling and the dollar), financial management directly manages the parent bank's risks and coordinates management of the rest of the units which operate in these currencies. The management decisions for these risks are taken by each country's ALCO committee and, in the last instance, by the markets committee of the parent bank.

The aim of financial management is to inject stability and recurrence into the net interest margin of commercial activity and the Group's economic value by maintaining appropriate levels of liquidity and solvency.

Each of these activities is measured and analysed with different tools in order to show in the most precise way their risk profile.

4.2 METHODOLOGIES

A. TRADING ACTIVITY

The standard methodology that Grupo Santander applied to trading activities during 2010 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 daily data from the reference date of the VaR calculation is used. Two figures are calculated every day, one applying an exponential decline factor which accords less weight to the observations furthest away in time and another with the same weight for all observations. The reported VaR is the higher of the two.

The VaR is not the only measure used. It is deployed because it is easy to calculate and is a good reference for the Group's level of risk. There are also other measures that allow greater control of risks in all the markets where the Group operates.

They include analysis of scenarios which define alternatives for the performance of different financial variables and provide the impact on results. These scenarios can replicate critical developments or circumstances that happened in the past (such as a crisis) or determine plausible alternatives that are not concerned with past events. A minimum of three types of scenario are given: plausible, severe and extreme, and a VaR is obtained as well as a much fuller picture of the risk profile.

The market risk area, at the level of each unit and globally and following the principle of independence of the business units, carries out daily monitoring of positions, through an exhaustive control of the changes that take place in the portfolios in order to detect possible new developments for immediate correction. The daily preparation of the income statement is an excellent indicator of risk levels, as it enables us to identify the impact of changes on financial variables in the portfolios.

Lastly, in order to control derivative activities and credit management, because of its atypical nature, specific measures are conducted daily. In the first case, sensitivity to the price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta) is controlled. In the second case, measures such as the spread sensitivity, jump-to-default, and concentration of positions by rating levels, etc, are systematically reviewed.

As regards the credit risk inherent in trading portfolios and in line with the recommendations of the Basel Committee on Banking Supervision and prevailing regulations, an additional measurement began to be calculated (incremental default risk, IDR), in order to cover the risk of default that is not adequately captured in the VaR, via changes in lending spreads. The controlled products are basically fixed-rate bonds, both public and private sector, derivatives on bonds (forwards, options, etc) and credit derivatives (credit default swaps, asset backed securities, etc). The method for calculating the IDR, in essence similar to that of the credit risk of positions outside trading, is based on direct measurements of the tails of the distribution of losses to the appropriate percentile (99.9%). The Monte Carlo methodology is used, applying a million simulations.

B. BALANCE SHEET MANAGEMENT

Interest rate risk

The Group analyzes the sensitivity of net interest margin and market value of equity to changes in interest rates. This sensitivity arises from gaps in maturity dates and the review of interest rates in the different asset and liability items.

On the basis of the positioning of balance sheet interest rates, as well as the situation and outlook for the market, the financial measures are agreed to adjust the positioning to that desired by the Bank. These measures range from taking positions in markets to defining the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in balance sheet management are the interest rate gap and the sensitivity of net interest margin and net worth to changes in interest rates, Value at Risk (VaR) and analysis of scenarios.

a) Interest rate gap of assets and liabilities

Interest rate gap analysis focuses on lags or mismatches between changes in the value of asset, liability and off-balance sheet items. It provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of maturities. It is also a useful tool for estimating the impact of eventual interest rate movements on net interest margin or equity.

All on- and off-balance sheet items must be disaggregated by their flows and looked at in terms of repricing/maturity. In the case of those items that do not have a contractual maturity, an internal model of analysis is used and estimates made of the duration and sensitivity of them.

b) Net interest margin sensitivity (NIM)

The sensitivity of net interest margin measures the change in the short/medium term in the accruals expected over a particular period (12 months), in response to a shift in the yield curve.

It is calculated by simulating the net interest margin, both for a scenario of a shift in the yield curve as well as for the current situation. The sensitivity is the difference between the two margins calculated.

c) Market value of equity sensitivity (MVE)

This is an additional measure to the sensitivity of the net interest margin.

It measures the interest risk implicit in net worth (equity) on the basis of the impact of a change in interest rates on the current values of financial assets and liabilities.

d) Value at Risk (VaR)

The Value at Risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: maximum expected loss under historic simulation with a confidence level of 99% and a time frame of one day. Statistical adjustments are made which incorporate effectively and quickly the latest developments that condition the risk levels assumed.

e) Analysis of scenarios

Two scenarios for the performance of interest rates are established: maximum volatility and severe crisis. These scenarios are applied to the balance sheet, obtaining the impact on net worth as well as the projections of net interest margin for the year.

Liquidity risk

Liquidity risk is associated with the Group's capacity to finance its commitments, at reasonable market prices, as well as carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used for liquidity risk control in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a certain period of time, for each of the currencies in which the Group operates. The gap measures the net need or net excess of funds at a particular date, and reflects the level of liquidity maintained under normal market conditions.

Two types of liquidity gap analysis are made, on the basis of the balance sheet item:

1. *Contractual liquidity gap:* All on-and off-balance sheet items are analysed provided they contribute cash flows placed in the point of contractual maturity. For those assets and liabilities without a contractual maturity, an internal analysis model is used, based on statistical research of the historical series of products, and which determines what we call the stability and instability impact on liquidity.

2. *Operational liquidity gap:* This is a scenario in normal conditions of liquidity profile, as the flows of the balance sheet items are placed in the point of probable liquidity and not in the point of contractual maturity. In this analysis defining the behaviour scenario —renewal of liabilities, discounts in sales of portfolios, renewal of assets— is the fundamental point.

b) Liquidity ratios

The liquidity coefficient compares liquid assets available for sale (after applying the relevant discounts and adjustments) with total liabilities to be settled, including contingencies. This coefficient shows, for currencies that cannot be consolidated, the level of immediate response to firm commitments.

Net accumulated illiquidity is defined as the 30-day accumulated gap obtained from the modified liquidity gap. The modified contractual liquidity gap is drawn up on the basis of the contractual liquidity gap and placing liquid assets in the point of settlement or repos and not in their point of maturity.

In addition, other ratios or metrics regarding the structural position of liquidity are followed:

- Loans/net assets.
- Customer deposits, insurance and medium and long-term financing/lending.
- Customer deposits, insurance and medium and long-term financing, shareholders' funds and other liabilities/the sum of credits and fixed assets.
- Short-term financing/net liabilities.

c) Analysis of scenarios/Contingency Plan

The Group's liquidity management focuses on taking all the necessary measures to prevent a crisis. Liquidity crises, and their immediate causes, cannot always be predicted. Consequently, the Group's contingency plans concentrate on creating models of potential crises by analyzing different scenarios, identifying crisis types, internal and external communications and individual responsibilities.

The contingency plan covers the sphere of activity of a local unit and of central headquarters. It specifies clear lines of communication at the first sign of crisis and suggests a wide range of responses to different levels of crisis.

As a crisis can occur locally or globally, each local unit must prepare a contingency financing plan, indicating the amount it would potentially require as aid or financing from headquarters during a crisis. Each unit must inform the central unit of its plan at least every six months so that it can be reviewed and updated. These plans, however, must be updated more frequently if market circumstances make it advisable.

Lastly, Grupo Santander is actively participating in the process opened by the Basel Committee to strengthen the liquidity of banks[1], with a two-pronged approach: on the one hand, participating in the analysis of the impact of the regulatory changes raised —basically, the introduction of two new ratios: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)— and, on the other, being present in the different forums to discuss and make suggestions on the issue (European Banking Federation, etc), maintaining in both cases close co-operation with the Bank of Spain.

C. STRUCTURAL EXCHANGE-RATE RISK/ HEDGING OF RESULTS/ STRUCTURAL EQUITY

These activities are monitored by position measures, VaR and results.

D. ADDITIONAL MEASURES

Back-testing

Back-testing is an a posteriori comparative analysis between Value at Risk (VaR) estimates and the "clean" daily results actually generated (results of the portfolios at the end of the day valued at the next day's prices). The purpose of these tests is to verify and measure the precision of the models used to calculate VaR.

The back-testing analysis carried out by Grupo Santander complies, as a minimum, with the BIS recommendations regarding the verification of the internal systems used to measure and manage market risks. In addition, back-testing includes the hypothesis test: tests of excess, normality, Spearman rank correlation, measures of excess average, etc.

The valuation models are fine-tuned and tested regularly by a specialized unit.

Coordination with other areas

Every day work is carried out jointly with other areas to offset the operational risk. This entails the conciliation of positions, risks and results.

1. "Basel III: International framework for liquidity risk measurement, standards and monitoring" (Basel Committee on Banking Supervision, December 2010)

4.3. CONTROL SYSTEM

A. DEFINITION OF LIMITS

The process of setting limits takes place after the year-end budgeting process, and is the means used by the Group to establish the level of equity that each activity has available. The process of definition of limits is dynamic, and responds to the level of risk appetite considered acceptable by senior management.

B. OBJECTIVES OF THE STRUCTURE OF LIMITS

The structure of limits require a process that takes into account the following aspects, among others:

- Identify and define, efficiently and comprehensively, the main types of risk incurred so that they are consistent with the management of business and with the strategy.
- Quantify and inform the business areas of the risk levels and profile that senior management believes can be assumed, in order to avoid undesired risks.
- Give flexibility to the business areas to build risk positions efficiently and opportunely according to changes in the market, and in the business strategies, and always within the risk levels regarded as acceptable by the entity.
- Allow the generators of business to take prudent risks but sufficient to attain the budgeted results.
- Define the range of products and underlying assets with which each treasury unit can operate, bearing in mind features such as the model and valuation systems, the liquidity of the tools used, etc.

4.4. RISKS AND RESULTS IN 2010

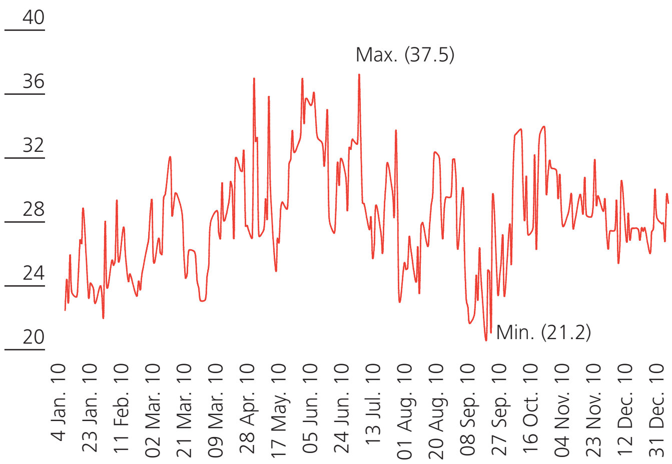
A. TRADING ACTIVITY

Quantitative analysis of VaR in 2010

The Group's risk performance with regard to trading activity in financial markets during 2010, as measured by VaR, was as follows:

EVOLUTION OF VAR DURING 2010

Million euros

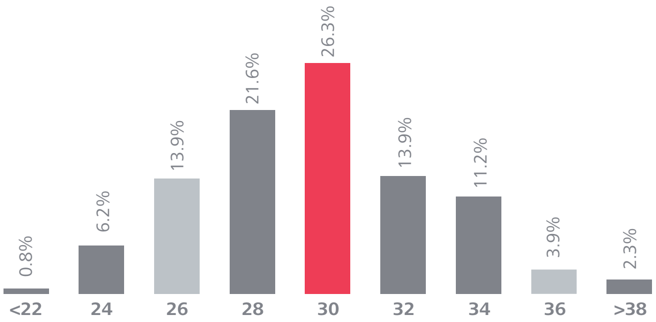


VaR during 2010 fluctuated more than 97% of the time in a range of between EUR 24 million and EUR 36 million. It exceeded EUR 36 million in three periods – at the end of April, May and June. This was due to the increase in volatility due to the sovereign debt crisis in European markets, in the first two cases, and to the higher interest rate risk in Brazil and Mexico in the third case. The VaR reached a maximum of EUR 37.5 million at the end of June and then declined because of the reduction in the credit risk spread in Madrid and interest rate and exchange rate in Mexico, to a minimum of EUR 21.2 million in the middle of September. There was a "window effect" in the fourth quarter – exit from observations of the Lehman crisis (September-December 2008) from the time range with which VaR is calculated (2 years), which would have generated a reduction in VaR- which was offset by higher volatility in sovereign credit spreads.

The average VaR of the Group's trading portfolio in 2010 (EUR 28.7 million) was slightly lower than in 2009 (EUR 30.2 million), even though 2010 was conditioned by the aforementioned periods of higher volatility over the European sovereign debt crisis. The changes in VaR in 2009 were mainly due to changes in the positions of portfolios in Brazil and Mexico. Compared to other comparable financial groups, Grupo Santander has a low trading risk profile. Dynamic management of it enables the Group to adopt changes of strategy in order to exploit opportunities in an environment of uncertainty.

The histogram below shows the distribution of average risk in terms of VaR during 2010. It was between EUR 24 million and EUR 32 million on 75.7% of days. Of note is the right tail of distribution (levels of more than EUR 38 million) mainly due to the increased volatility in markets because of the sovereign debt crisis in Europe.

VAR RISK HISTOGRAM
Number of days (%)
Million euros



In Latin America, the US and Asia the credit spread VaR and the commodities VaR factor are not shown separately because of their scant or zero materiality.

The average VaR was EUR 1.5 million lower than in 2009. The reduction was mainly in interest rate and forex, which dropped from EUR 20 million and EUR 15.5 million to EUR 16.4 million and EUR 11.4 million, respectively. The average level of VaR in equities increased a little to EUR 8 million. The main risk increase was in the credit spread, which rose from EUR 11.9 million to EUR 20.9 million because of the episodes of volatility over the sovereign debt crisis in the euro zone.

Histogram of VaR by risk factor

The VaR performance during 2010 underlined the Group's flexibility and agility in adapting its risk profile on the basis of changes in strategy caused by a different perception of expectations in the markets.

Risk by factor

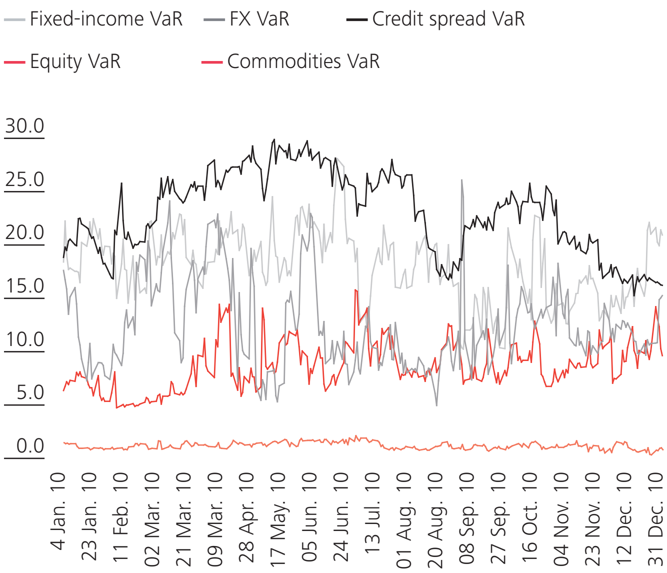
The minimum, average, maximum and year-end 2010 values in VaR terms are shown below:

VAR STATISTICS BY RISK FACTOR[2]
Million euros

	Minimum	Average	Maximum	Year-end
Total trading				
Total VaR	**21.2**	**28.7**	**37.5**	**29.6**
Diversification effect	(15.7)	(29.1)	(45.4)	(27.8)
Fixed income VaR	9.4	16.4	25.4	19.0
Equity VaR	4.4	8.0	14.4	8.8
FX VaR	4.6	11.4	23.6	13.9
Credit spread VaR	13.9	20.9	27.1	14.7
Commodities VaR	0.5	1.3	2.1	1.0
Latin America				
Total VaR	**12.5**	**18.2**	**34.8**	**13.9**
Diversification effect	(1.3)	(8.3)	(21.5)	(12.6)
Fixed income VaR	12.0	14.5	20.1	14.8
Equity VaR	1.7	5.8	15.0	5.3
FX VaR	2.8	7.1	27.6	6.5
US and Asia Total VaR	**0.7**	**1.3**	**5.9**	**0.9**
Diversification effect	(0.1)	(0.7)	(1.8)	(0.3)
Fixed income VaR	0.7	1.2	2.7	0.9
Equity VaR	0.0	0.2	1.4	0.0
FX VaR	0.3	0.6	5.5	0.3
Europe Total VaR	**9.2**	**14.8**	**31.3**	**25.1**
Diversification effect	(3.6)	(18.9)	(28.4)	(14.6)
Fixed income VaR	4.9	8.9	17.5	12.5
Equity VaR	4.0	6.7	14.5	6.5
FX VaR	2.0	9.8	15.8	9.6
Credit spread VaR	3.5	7.0	14.4	9.0
Commodities VaR	0.5	1.3	2.1	2.1

2. Total VaR of trading includes operations that are not assigned to any particular country, such as Active Credit Portfolio Management and Non-core Legacy Portfolio.

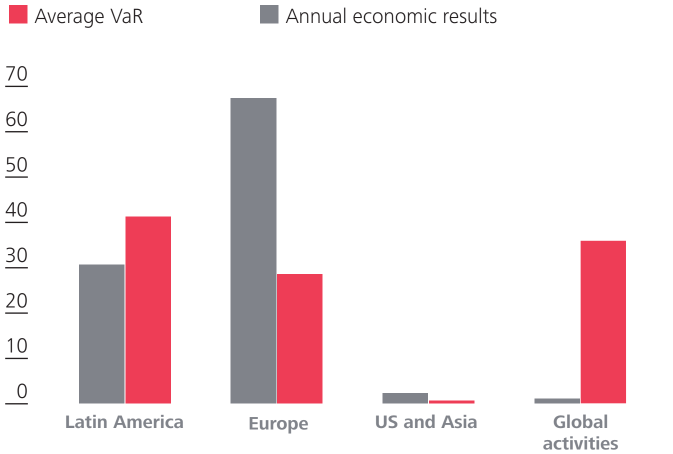
HISTOGRAM OF VAR BY RISK FACTOR
Million euros



a) Geographic distribution
Latin America contributed on average 40.8% of the Group's total VaR in trading activity and 30.2% in economic results from this activity. Europe, with 27.1% of global risk, contributed 66.7% of results, as most of its treasury activity focused on professional and institutional clients.

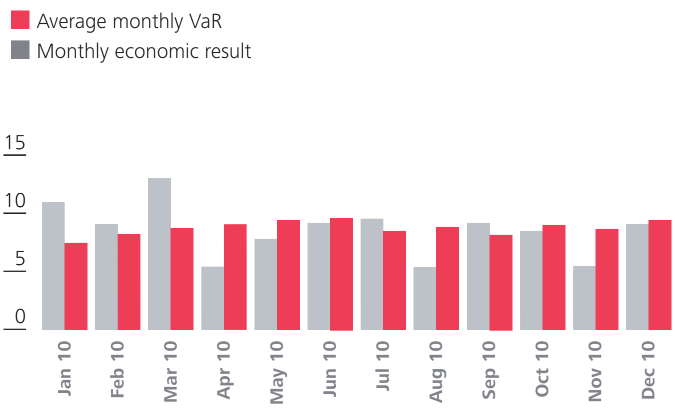
Below is the geographic contribution (by percentage), both in risks, measured in VaR terms, as well as in results (economic terms).

RISK STATISTICS 2010
%



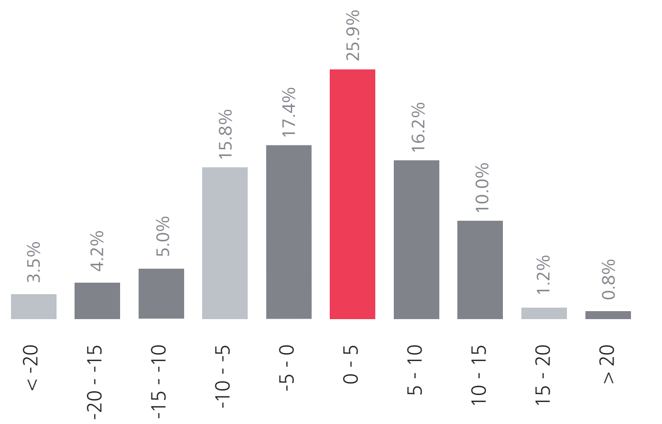
b) Monthly distribution of risks and results
The next chart shows that the risk assumption profile, in terms of VaR, followed an upward path during the first half of the year and then remained stable, while results evolved more irregularly during the year. Of note were April, August and November when the European sovereign debt crisis was clear, with a P&L lower than the yearly average, mainly in the Madrid unit and in the books of global activities.

DISTRIBUTION OF RISK BY TIME AND RESULTS IN 2010
% of annual total



The following histogram of frequencies shows the distribution of daily economic results on the basis of their size. The daily yield[3] was between -EUR 5 and +EUR 15 million on 69.5% of days of the market.

HISTOGRAM OF THE FREQUENCY OF DAILY RESULTS
Number of days (%)



3. Yields "clean" of commissions and results of intraday derivative operations.

Risk management of structured derivatives market

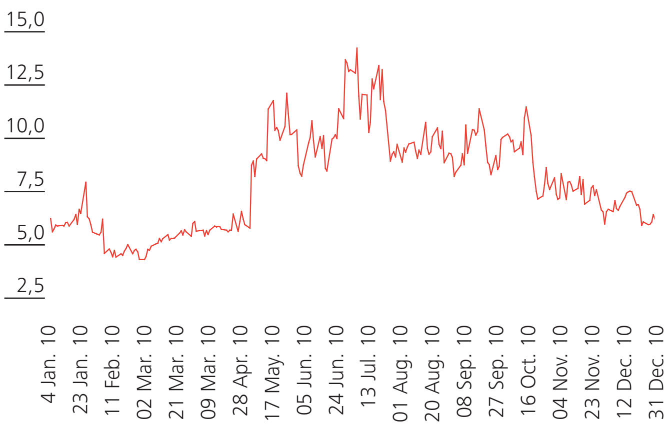
Structured derivatives activity is mainly focused on designing investment products and hedging risks for clients.

These transactions include options on equities, fixed-income and exchange rates.

The units where this activity mainly takes place are: Madrid (parent bank treasury), Banesto, Santander UK, Brazil and Mexico, and, to a lesser extent, Chile and Portugal.

The chart below shows the VaR Vega[4] performance of structured derivatives business in 2010. Most of the time risk moved in a range between EUR 5 and EUR 12.5 million. The main exception was a slight temporary increase in the middle of the year, concentrated in equity volatility of treasury in Madrid and mainly caused by the episodes of higher volatility linked to tensions over the sovereign debt crisis in countries on the periphery of the euro zone.

EVOLUTION OF RISK (VAR) OF THE STRUCTURED DERIVATIVE BUSINESS
Million euros



The following table shows the average, maximum and minimum values for each of the units where this type of transactions were carried out.

STRUCTURED DERIVATIVES RISK (VAR) IN 2010 BY UNIT.
Million euros

	Minimum	Average	Maximum	Year-end
Total VaR Vega	**4.5**	**7.9**	**13.6**	**6.2**
Madrid	1.3	4.3	11.2	2.4
Portugal	0.0	0.0	0.1	0.0
Abbey	0.9	1.2	1.9	1.0
Banesto	4.0	5.9	10.0	5.3
Brazil	0.3	0.9	2.2	0.5
Mexico	0.9	1.5	2.8	1.1

The average risk in 2010 (EUR 7.9 million) was higher than in 2009 (EUR 6.6 million), largely due to the general increase in the volatility of markets and the European sovereign debt crisis than to change in risk taking.

Regarding VaR by risk factor, the exposure, on average, was concentrated in equities, followed by interest rates, exchange rates and commodities. This is shown in the following table:

STRUCTURED DERIVATIVES RISK (VAR) IN 2010 BY FACTOR
Million euros

	Minimum	Average	Maximum	Year-end
Total VaRD Vega	**4.5**	**7.9**	**13.6**	**6.2**
Diversification impact	(2.5)	(3.8)	(8.0)	0.0
Interest rate VaR	1.7	2.4	5.8	2.1
Equity VaR	3.9	7.1	12.9	5.6
FX VaR	0.4	1.8	3.9	1.5
Commodities VaR	0.2	0.5	1.0	0.2

Gauging and contrasting measures

In accordance with the BIS recommendations on gauging and controlling the effectiveness of internal financial risk measurement and management systems, in 2010 the Group regularly carried out analysis and contrasting measures which confirmed the reliability of the model.

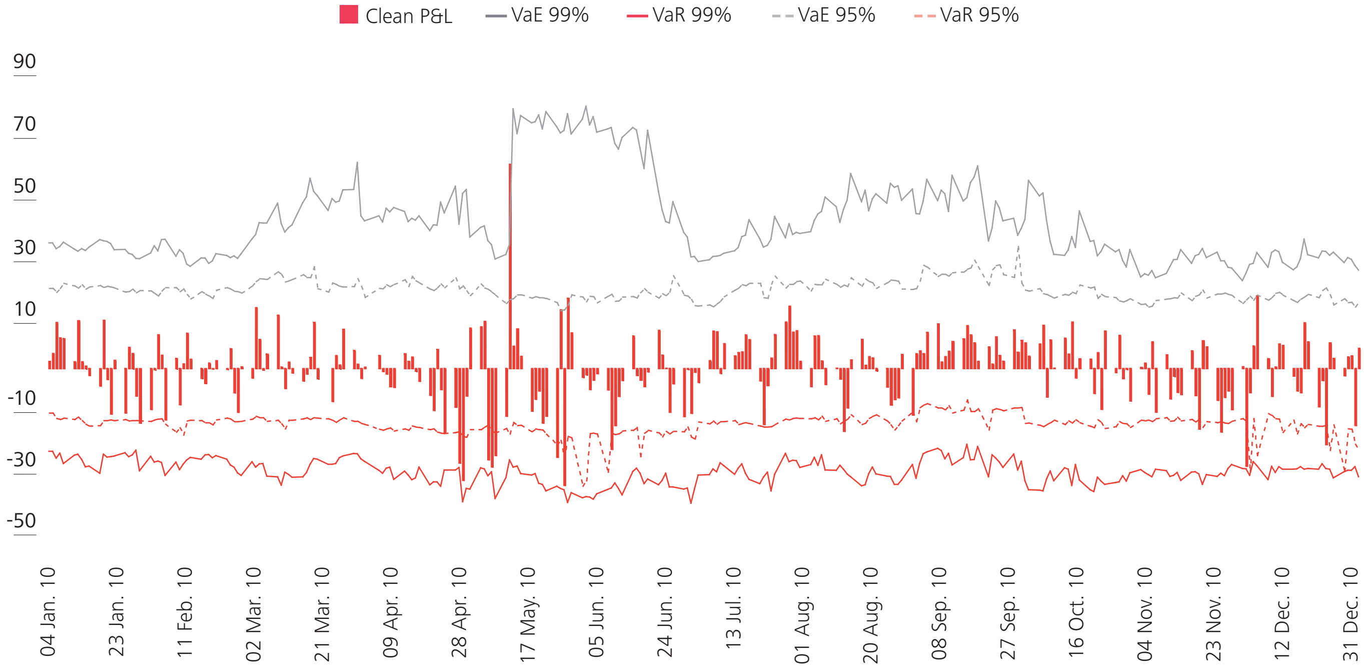
As in 2009, in 2010 there were no exceptions of VaR at 99% (days when the daily loss was higher than the VaR[5]). Of note, however, was the exit of VaE[6] at 99% (days when the daily gain was more than the VaE) on May 10, mainly due to the sharp fall in credit spreads following the agreement reached by euro zone ministers in conjunction with the European Central Bank (ECB) and the International Monetary Fund (IMF). This agreement included the launch of the European stabilisation mechanism and the announcement of public debt purchases by the ECB, in order to contain the lack of confidence in the euro and in sovereign debt.

4. Vega, a Greek term, means here the sensitivity of the value of a portfolio to changes in the price of market volatility.

5. Results in terms of "clean P&L". Excluding intraday results and those from commissions.

6. VaE is Value at Earnings and is the counterparty of VaR on the profits side.

BACKTESTING OF BUSINESS PORTFOLIOS: DAILY RESULTS VERSUS PREVIOUS DAY'S VALUE AT RISK
Million euros



Analysis of scenarios

Various scenarios were analyzed in 2010. The chart below shows the results at December 31, 2010 for a scenario of maximum volatility, applying six standard deviations in various market factors for the trading portfolios.

Maximum volatility scenario

The table below shows, at December 31, 2010, the results by rick factor of (interest rates, equities, exchange rates, spreads on loans, commodities and the volatility of each one of them), in a scenario in which a volatility equivalent to six standard deviations in a normal distribution is applied. This scenario is based on taking for each risk factor the movement that represents a greater potential loss in the global portfolio. For the year-end, this scenario involved rises in interest rate in Latin American markets and falls in core markets ("flight into quality"), declines in stock markets, the dollar's slide against all currencies except the euro, greater volatility and credit spreads.

MAXIMUM VOLATILITY STRESS TEST
Million euros

	Interest rates	Equities	Exchange rates	Credit spread	Commodities	**Total**
Total trading	**-61.2**	**-68.8**	**-76.1**	**-94.2**	**-1.6**	**-302.0**
Europe	-9.7	-16.4	-62.8	-54.6	-1.6	**-145.1**
Latin America	-51.2	-52.4	-10.9	0.0	0.0	**-114.5**
US	-0.3	0.0	-0.3	0.0	0.0	**-0.6**
Global activities	-0.2	0.0	-2.1	-39.6	0.0	**-41.8**

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the Mark to Market (MtM) result would be, if the stress movements defined in the scenario materialized, EUR 302 million, a loss that would be distributed between Europe (exchange rates and spreads on loans), Latin America (fixed income) and global activities (credit spreads).

B. BALANCE SHEET MANAGEMENT [7]

B1. Interest rate risk

a) Convertible currencies

At the end of 2010, the sensitivity of net interest margin at one year to parallel rises of 100 basis points was concentrated in the euro interest rate curve (EUR 284.1 million), with the parent bank contributing the most, and in the sterling interest rate curve (£ 330.8 million). The sensitivity of the rest of convertible currencies was not very significant.

At the same date, the sensitivity of equity to parallel rises in the yield curve of 100 basis points in the euro interest rate curve was EUR 1,265.7 million, most of it in the parent bank. As regards the curve in sterling it was £ 406.2 million.

In accordance with the current environment of low interest rates, the Bank maintains a positive sensitivity, both in net interest margin (NIM) and to interest rate rises.

b) Latin America

1. Quantitative analysis of risk

The interest rate risk of Latin America's balance sheet management portfolios, measured by the sensitivity of market value of the net interest margin (NIM) to a parallel movement of 100 basis points, remained during 2010 at low levels and within a narrow band, with a maximum of EUR 79 million[8] in April as of when it declined to a low of EUR 6 million in September, mainly due to the increased hedging in Brazil and the portfolio sale in Mexico. It then rose until the end of the year, largely because of the increase in deposits and issues in Brazil.

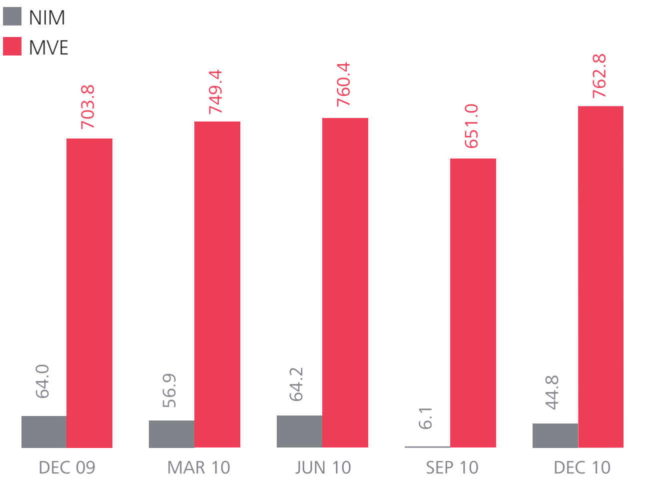
In terms of equity sensitivity, it fluctuated in a narrow range of between EUR 651 million and EUR 827 million, and increased in the fourth quarter, mainly because of the purchase of the credit portfolio in Brazil and Chile.

7. Includes all the balance sheet except the trading portfolios.

8. Sensitivity expressed as an absolute value. It is the aggregation of the sensitivity to many yield curves, grouped applying suppositions of correlation (betas) between them.

At the end of 2010, the region's risk consumption, measured by the market value of equity sensitivity to 100 basis points, was EUR 763 million (EUR 704 million in 2009), while that of the net interest margin at one year, measured by its sensitivity to 100 basis points, was EUR 45 million (EUR 64 million in 2009).

LATIN AMERICAN RISK PROFILE EVOLUTION
(Sensitivity of NIM and MVE to 100 b.p.)



MATURITY AND REPRICING GAPS AS OF DECEMBER 31, 2010
Structural gap parent bank-holding*
Million euros

	Not sensitive	Up to 1 year	1-3 years	3-5 years	> 5 years	Total
Money and securities market		41,762	1,797	1,754	14,671	**59,985**
Loans	112	116,764	10,838	1,504	1,728	**130,946**
Permanent equity stakes	65,919					**65,919**
Other assets	17,346	51,705	51	53	91	**69,247**
Total assets	**83,377**	**210,231**	**12,686**	**3,312**	**16,490**	**326,097**
Money market	—	43,125	108	1,800	—	**45,033**
Customer deposits	—	39,513	13,314	9,704	14,649	**77,180**
Debt issues and securitisations	—	77,605	13,789	14,592	10,766	**116,753**
Shareholders' equity and other liabilities	82,219	44,054	1,011	712	1,122	**129,118**
Total liabilities	**82,219**	**204,298**	**28,223**	**26,807**	**26,537**	**368,085**
Balance sheet Gap	**1,158**	**5,933**	**(15,537)**	**(23,495)**	**(10,046)**	**(41,988)**
Off-balance sheet structural Gap	—	24,104	13,067	10,630	(2,078)	**45,723**
Total structural Gap	**1,158**	**30,037**	**(2,470)**	**(12,865)**	**(12,125)**	**3,735**
Accumulated Gap	—	**30,037**	**27,567**	**14,702**	**2,577**	—

* Gap of euro-denominated assets and liabilities, excluding other currencies.

Interest rate risk profile at the end of 2010

The gap tables show the risk maturity structure in Latin America at the end of 2010.

2. Geographic distribution

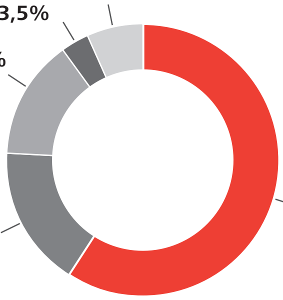
Financial margin sensitivity

For the whole of Latin America, the consumption at the end of 2010 was EUR 45 million (sensitivity of the financial margin at one year to rises of 100 b.p.). The geographic distribution is shown below.

More than 90% of the risk was concentrated in three countries: Brazil, Chile and Mexico.

NIM SENSITIVITY BY COUNTRIES

%



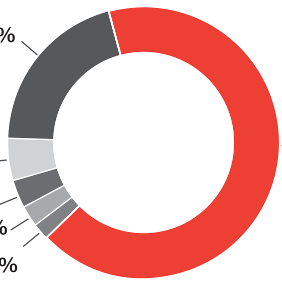
(*) Other countries: Argentina, Colombia, Panama, Santander Overseas, Peru and Uruguay

Market Value of equity sensitivity

For the whole of Latin America, the consumption at the end of 2010 was EUR 763 million (sensitivity of MVE to rises of 100 b.p in interest rates). The geographic distribution is shown below:

MVE SENSITIVITY BY COUNTRIES

%



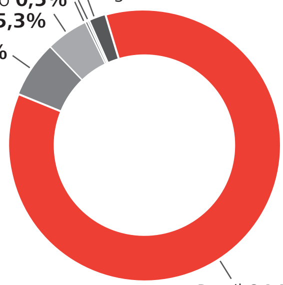
(*) Other countries: Colombia, Panama, Santander Overseas, Peru and Uruguay.

More than 90% of risk is concentrated in four countries: Brazil, Chile, Mexico and Puerto Rico.

The balance sheet management risk in Latin America, measured in VaR terms at one day and at 99%, amounted to EUR 152 million at the end of 2010. The chart shows that most of it was concentrated in Brazil.

DISTRIBUTION OF BALANCE SHEET RISK MANAGEMENT (VAR)

%



(*) Other countries: Colombia, Mexico, Santander Overseas and Uruguay.

B2. Structural management of credit risk

The purpose of structural management of credit risk is to reduce the concentrations that can naturally occur as a result of business activity through the sale of assets. These operations are offset by acquiring other assets that diversify the credit portfolio. The financial management area analyses these strategies and makes proposals to the ALCO in order to optimise the exposure to credit risk and help create value.

During 2010 and as part of the Group's liquidity management:

- EUR 26,000 million of assets were securitised, of which EUR 19,000 million were placed in the market and the rest retained by the Group's various units. These retained securitisations increased the Group's liquidity position through its discounting capacity in central banks.
- Repurchases were made in the secondary market of securitisation bonds of the higher tranches of Group issuers (around EUR 500 million).

STRUCTURAL GAP LATIN AMERICA

Million euros

Local currency	**Not sensitive**	**0-6 months**	**6-12 months**	**1-3 years**	**> 3 years**	**Total**
Assets	50,273	85,009	19,659	45,031	21,114	**221,086**
Liabilities	54,232	73,683	5,351	26,446	4,536	**164,248**
Off-balance sheet	2,637	9,829	-6,681	-5,747	-1,024	**-986**
Gap	-16,452	-1727	7,626	-1,109	15,554	**3,891**
Dollar	**Not sensitive**	**0-6 months**	**6-12 months**	**1-3 years**	**> 3 years**	**Total**
Assets	2,948	20,864	3,983	2,973	7,643	**38,411**
Liabilities	2,419	22,432	4,425	3,730	7,906	**40,912**
Off-balance sheet	-2,546	315	-433	2,181	1,469	**982**
Gap	-2,341	-1,887	-875	5	1,206	**-3,891**

B3. Management of funding and liquidity risk

Management of financing and liquidity risk, fully consolidated before the onset of the financial turbulence, has been one of the main pillars behind the success of Banco Santander's business model during this critical period.

This framework of liquidity management has not required changes to make it function correctly and has given Santander a significant competitive advantage. Specifically, it has enabled the Group and its subsidiaries to successfully tackle the business liquidity needs during the worst moments of the crisis and take advantage of growth opportunities offered by the market.

The great capacity to attract customer deposits, combined with strong issuance activity in institutional markets, has given the Group the necessary liquidity to finance the acquisition of new units in the last few years. It has also helped to bolster the Bank's capacity to create value, while at the same time further improve the diversification of financing sources.

The Group's liquidity management framework and its situation at the end of 2010 is set out below.

1. Management framework

Liquidity management is based on three fundamental pillars:

A) Organisational and governance model
A solid model of governance that ensures the involvement of senior management and the board in taking decisions and facilitating their integration with the Group's global strategy.

B) Management
Adapted to each business's liquidity needs, in accordance with the decentralised organisational model.

C) Balance sheet analysis and liquidity risk management
Profound analysis of the balance sheet and its evolution in order to support decision-taking.

A. Organisational and governance model

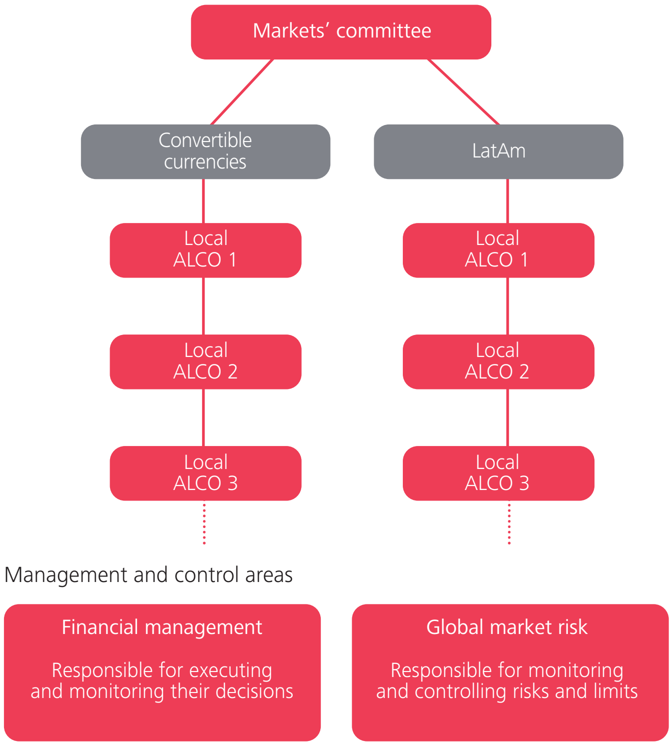
Decision-taking regarding structural risks is done by local ALCO committees in coordination with the markets committee. The latter is the highest decision-taking body and coordinates all global decisions that influence measurement, management and control of liquidity risk.

The committee is headed by the chairman of the Bank and comprises the second vice-chairman and CEO, the third vice-chairman (who is the maximum executive responsible for the Group's risks), the chief financial officer and the senior vice-president of risks and those responsible for the business and analysis units.

There are also ALCO committees for convertible currencies such as Latin American currencies.

The financial management area manages structural risks including liquidity and the global risk area is responsible for control. Both areas support the ALCO committees and present analysis and management proposals and also ensure compliance with the limits established.

ORGANISATION MODEL
Area of decision



In this way, and in line with the best practices of governance, the Group establishes a clear division between executing the financial management strategy (the responsibility of the financial management area) and monitoring and control (the responsibility of market risks).

B. Management

Structural liquidity management aims to finance the Group's recurring activity in optimum conditions of maturity and cost and avoid assuming undesired liquidity risks.

Liquidity and financing management is based on the following principles:

- Wide and very stable base of customer deposits: more than 85% are retail and are captured in the Group's core markets by various units.
- Financing via medium and long-term issues of the balance sheet's stable liquidity needs (the gap between loans and deposits), establishing a surplus of structural financing in order to be able to meet possible adverse situations.
- Diversification of financing sources to reduce the risk in relation to:
  – instruments/investors
  – markets/currencies
  – maturities
- Strict control of short-term financing needs, within the Group's policy of minimising the degree of recourse to short-term funds.
- Autonomy and responsibility of subsidiaries in managing the financing of liquidity, with no structural support from the parent bank.

In practice, and applying these principles, the Group's liquidity management consists of:

- Drawing up every year the liquidity plan based on the financing needs derived from the budgets of each business and the methodology stated in section B. On the basis of these needs and bearing in mind prudent limits on recourse to short-term markets, the year's issuance and securitisation plan is established by financial management.
- During the year the evolution of the balance sheet and financing needs is regularly monitored, giving rise to changes to the plan.
- Maintain an active presence in a wide and diversified series of financing markets. The Group has nine significant and independent issuance units, which avoid dependence on a specific market and maintain available a wide capacity of issuance in various markets.
- And backed by all this, the Group has an adequate structure of medium and long-term issues, well diversified by products (senior debt, subordinated, preferred shares, bonds, securitisation) with an average conservative maturity (4.1 years at the end of 2010), to which are added the securitisations.
- All of this results in moderate needs of recourse to short-term wholesale financing at the Group level, which, as reflected in the accompanying balance of liquidity, only represented 3% of net funds in 2010, down from 5% in 2009.

The subsidiaries have a large degree of autonomy to manage their liquidity within Grupo Santander's decentralised financing model. Each one must budget their liquidity needs and assess their own capacity of recourse to the wholesale markets in order to establish the issuance and securitisation plan in coordination with the parent bank.

Only in the case of Santander Consumer Finance does the parent bank (Banco Santander) provide the necessary liquidity and always at the market price taking into account the maturity of the finance and the rating of the relevant unit. The Group, within the strategy of optimising the use of liquidity, has followed a policy in the last few years of strongly reducing the recourse of Santander Consumer Finance to the parent bank, which is scheduled to be maintained in the coming years.

C. Analysis of the balance sheet and measurement of liquidity risk

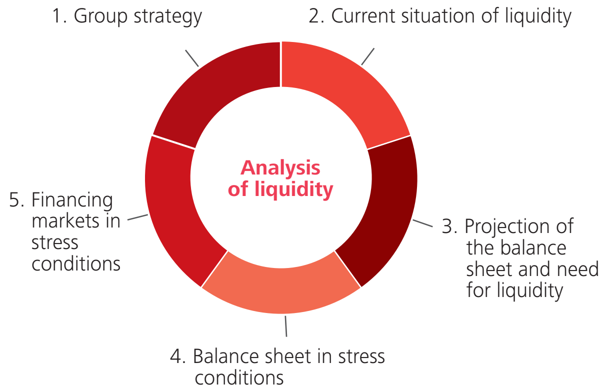
Taking decisions on financing and liquidity is based on a deep understanding of the Group's current situation (environment, strategy, balance sheet and state of liquidity), the future liquidity needs of businesses (projection of liquidity), as well as access to and the situation of financing sources in the wholesale markets.

The objective is to ensure the Group maintains optimum levels of liquidity to cover its short and long-term needs, optimising the impact of its cost on the income statement.

This requires monitoring of the structure of balance sheets, forecasting short and medium-term liquidity and establishing the basic metrics, in line with those reported in the next section.

Various stress 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



All of this enables the Group to respond to a spectrum of potential, adverse circumstances, anticipating the corresponding contingency plans.

These actions are in line with the practices being fostered from the Basel Committee in order to strengthen the liquidity of banks, whose objective is to define a framework of principles and metrics that is still being analysed and discussed.

2. Current state of liquidity

The Group has an excellent structural position, with the capacity to meet the new conditions of stress in the markets. This is underscored by:

A) The robust balance sheet.
B) The dynamics of financing.

A. Robust balance sheet

The balance sheet at the end of 2010 was solid, as befits the Group's retail nature. Lending, which accounted for 75% of net assets, was entirely financed by customer deposits and medium and long-term financing. Equally, the structural needs of liquidity, represented by loans and fixed assets, were also totally financed by structural funds (deposits, medium and long-term financing and capital).

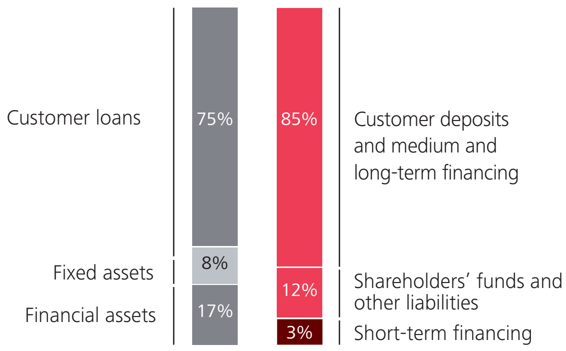
As regards financing in wholesale markets, the Group's structure is largely based on medium and long-term instruments (89% of the total).

Short-term financing is a marginal part of the structure (3% of total funds) and it amply covered by liquid assets.

Lastly, the Bank has a large capacity of recourse to central banks to obtain immediate liquidity. At the end of 2010, total eligible assets which could be discounted in the various central banks to which the Group has access via its subsidiaries amounted to close to EUR 100,000 million.

We now set out the framework of the balance of liquidity, consolidated as the main metrics for monitoring the structural position of liquidity:

GRUPO SANTANDER'S BALANCE SHEET OF LIQUIDITY AT THE END OF 2010 *
%



(*) Balance sheet for the purposes of liquidity management: total balance sheet net of trading derivatives and interbank balances.

MONITORING METRICS
%

Metrics	**2010**	2009
Loans/net assets	75%	79%
Customer deposits, insurance and medium and long-term funding/loans	115%	106%
Customer deposits, insurance and medium and long-term financing, shareholders' funds and other liabilities/total loans and fixed assets	117%	110%
Short-term financing/ net liabilities	3%	5%

As in the Group, the balance sheets of the units of convertible currencies and of Latin America maintain the same principles, within the philosophy of independence and responsibility in their financing.

A good example is that in the Group's main units customer lending is totally financed by customer deposits plus medium and long-term wholesale financing.

B. Dynamics of financing

The evolution of 2010 enabled Santander to continue to improve its structural liquidity position, backed by two management drivers, which proved to be very effective in the current recession.

The first one was that the Group was able to increase its customer deposit base very significantly: EUR 109,000 million during 2010.

This growth was due to two effects. On the one hand, the effort made to attract deposits via the branch networks, which benefited from the customers' confidence in the Group's liquidity and solvency. All of this made Santander the bank chosen by depositors in many markets: the so-called flight to quality effect.

This increase occurred in an environment of deleveraging in which deposits were spurred by the higher rate of household and corporate savings, while lending slowed down, reflecting the lower rates of consumption and investment in various countries.

The evolution of 2010 was a good example of this, with the Group's deposits growing 22% and lending rising 6%, both excluding the perimeter effect.

This capturing of stable funds coupled with the trend of moderate credit growth enabled Santander to reduce the credit/deposit ratio to 117% from 135% in 2009 and 150% in 2008.

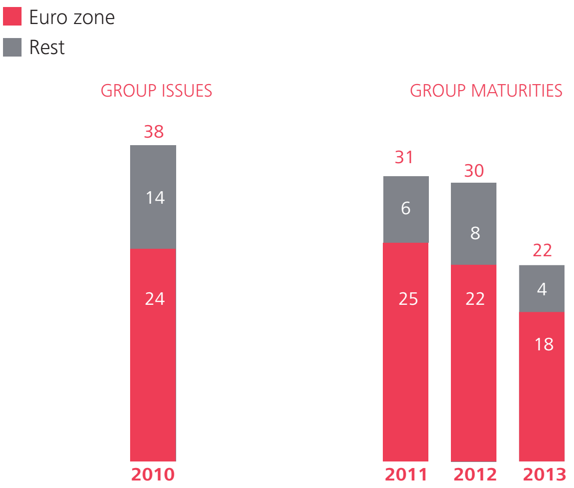
The second driver was the high capacity of access to wholesale financing markets, which the Group can access regularly via its various units. This strategy enabled Santander to access different institutional investors in a wide variety of instruments and diversity of maturities.

As a result, the Group's units captured during 2010 EUR 38,000 million in medium and long-term issue in wholesale markets of senior debt and covered bonds, a significantly higher volume than in 2009. This capacity is backed by the Group's excellent credit quality (AA from Standard & Poor's and Aa2 from Moody's). Moreover, in all cases the appetite for securities by investors is adjusted to placement prices that recognise the superior credit quality of the Group and its subsidiaries.

In short, a big rise in deposits, good access to medium and long-term wholesale markets and the generation of liquidity by businesses in scenarios such as today's explain the improvement in the Group's structural liquidity in the last 12 months. We thus began 2011 with an excellent liquidity situation and with reduced issuance needs. We have no concentration of maturities in the coming years when annual maturities will be less than in 2010 and, moreover, the dynamics of business mean it will not be necessary to cover all of them.

In any case, and while the current environment of uncertainty persists, we will continue to implement a conservative policy in issues, as we did in 2010, in order to bolster the already solid position.

GRUPO ISSUES AND MATURITIES OF MEDIUM - AND LONG - TERM DEBT*
Billion euros



(*) Excludes securitisations

C) STRUCTURAL EXCHANGE-RATE RISK/HEDGING OF RESULTS

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and the dividends of these investments.

This management is dynamic and seeks to limit the impact on equity of currency 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 2010, the largest exposures of a permanent nature (with potential impact on net worth) were concentrated in Brazilian reales, followed by sterling, Mexican pesos, US dollars and Chilean pesos. The Group covers part of these positions of a permanent nature with exchange-rate derivatives.

In addition, financial management at the consolidated level is responsible for exchange-rate management of the Group's expected results and dividends in those units whose currency is not the euro.

D) STRUCTURED FINANCE OPERATIONS

Despite the complicated economic environment, Santander achieved growth of 12% in this activity in 2010 to a committed exposure of EUR 19,445 million at the end of the year, corresponding to 673 transactions, and increased both the diversification by sectors and the internationalisation of business. Leadership in project finance was strengthened with an exposure of EUR 13,258 million (490 transactions), followed by EUR 3,526 million in acquisition finance (37 transactions), of which EUR 2,004 million related to 13 margin calls and leveraged buy-outs (*LBOs)* and other forms amounted to EUR 2,661 million (146 transactions).

After analysing the impact on the solar energy portfolio in Spain as a result of the entry into force of RDL 14 of December 23, 2010, no downward valuation adjustments in this type of lending were considered necessary beyond EUR 104.5 million of loan-loss provisions for the whole portfolio of structured finance. Santander's net exposure in project finance dropped by almost EUR 1,300 million to EUR 11,957 million at the end of 2010, as a result of three partial transfer operations of the portfolio of projects to CLOs made in the two years prior to 2010.

As a result of integrating Alliance & Leicester into the group in 2008, a portfolio of structured operations is maintained. It is a diversified portfolio of specialised financing operations. The exposure at the end of 2010 was 15.9% lower than in 2009 at £ 4,936 million (EUR 5,735 million and 241 transactions).

E) EXPOSURES RELATED TO COMPLEX STRUCTURED ASSETS

Grupo Santander continues to have a very limited exposure to instruments or complex structured vehicles, reflecting a management culture one of whose hallmarks is prudence in risk management. At the end of 2010, the Group had:

- CDOs/CLOs: the position remained not very significant at EUR 486 million, 24% lower than in 2009. Most of this was due to the integration of the portfolio of Alliance & Leicester in 2008 (32% of the portfolio has an AAA rating and 77% A or higher).
- Non-agency CMOs and pass-through with underlying mortgage alt-A[9]: exposure of EUR 639 million at the end of 2010 from the integration of Sovereign Bank in January 2009. The position was 17% lower than in 2009.
- Hedge funds: the total exposure is not significant (EUR 540 million at the end of 2010) and most of it is through financing these funds (EUR 295 million), as the rest is direct participation in portfolio. This exposure has low levels of loan-to-value of around 35% (EUR 1,543 million of collateral). The risk with this type of counterparty is analysed case by case, establishing the percentages of collateral on the basis of the features and assets of each fund. The exposure was 2% lower than in 2009.
- Conduits: no exposure. The positions inherited from buying Alliance & Leicester were integrated, at market prices, into the Group's balance sheet in the third quarter of 2010.

9. Alternative A-paper: mortgages originated in the US market which for various reasons are considered as having an intermediate risk level between prime and subprime mortgages (not having all the necessary information, loan-to-value levels higher than usual, etc).

- Monolines: Santander's exposure to bond insurance companies was EUR 274 million[10] at the end of 2010, EUR 244 million of it indirect exposure by virtue of the guarantee provided by this type of entity to various financing or traditional securitisation operations. The exposure in this case is double default, as the primary underlying assets are of high credit quality (mainly AA). The small remaining amount is direct exposure (for example, via purchase of protection from the risk of non-payment by any of these insurance companies through a credit default swap). The exposure was 31% lower than in 2009.

The exposure to this type of instrument, the result of the Group's usual operations, declined in 2010 and this was mainly due to integrating the positions of banks acquired by the Group, such as Alliance & Leicester and Sovereign (in 2008 and 2009, respectively). All these positions were known at the time of purchase, having been duly provisioned. Since integration in the Group, these positions have been reduced notably in order to eventually eliminate them from the balance sheet. The exposure emanating from A&L in CDOs, CLOs, Alt-A and conduits was reduced by around 80% in 2010.

Santander's policy for approving new transactions related to these products remains very prudent and conservative; it is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the risks division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.
- The availability in the market of the necessary inputs to be able to implement this valuation model.

And provided these two points are always met:

- The availability of appropriate systems, duly adapted to calculate and monitor every day the results, positions and risks of new operations.
- The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed opportune.

4.5 INTERNAL MODEL

The Bank of Spain approved at the end of 2010 the use of our internal market risk model for calculating regulatory capital in the trading portfolios of units in Spain, Chile and Portugal. The Group's objective is to gradually extend approval to the rest of units.

As a result of this approval, the regulatory capital of trading activity is now calculated via advanced methods. The VaR calculated for the Market Risks Area is the fundamental metric and incorporates an incremental default risk.

We closely co-operate with the Bank of Spain in order to advance in the perimeter susceptible of entering into the internal model (at the geographic and operational levels), as well as analysis of the impact of possible future changes, in line with the documents published by the Basel Committee in December 2010 to strengthen the capital of banks.[11]

10. Guarantees provided by monolines for bonds issued by US states (municipal bonds) are not considered as exposure. As a result of the acquisition of Sovereign Bank, the Group integrated a EUR 1,328 million portfolio of these bonds.

11. "Basel III: A global regulatory framework for more resilient banks and banking systems" and "Basel III: International framework for liquidity risk measurement, standards and monitoring."

5. OPERATIONAL RISK

DEFINITION AND OBJECTIVES

Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, employees or systems, or those arising from unforeseen circumstances. They are, in general, purely operational events, which makes them different from market or credit risks, although they also include external risks, such as natural disasters.

The objective in control and management of operational risk is to identify, measure/valuate, control/mitigate and monitor this risk.

The Group's priority is to identify and eliminate risk focuses, regardless of whether they produce losses or not. Measurement also helps to establish priorities in management of operational risk.

Grupo Santander opted, 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).

MANAGEMENT MODEL

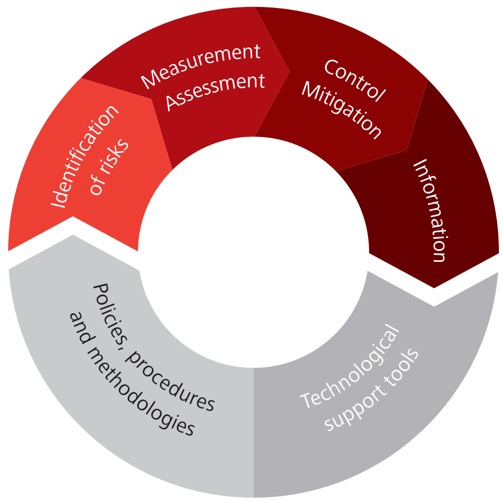
The organisational model for controlling and managing risks is the result of adapting to the new BIS II environment, which establishes three levels of control:

- First level: control functions conducted by the Group's units.
- Second level: functions carried out by the corporate areas.
- Third level: integral control functions by the risks division-integral control area and internal validation of risk.

The technology and operations division is responsible for management and control of operational risk. Within this division, the corporate area of technological and operational risk, established in 2008, defines policies as well as managing and controlling these risks. The implementation, integration and local adjustment of the policies and guidelines established by this area is the responsibility of local executives in each unit.

This structure for operational risk management is based on the knowledge and experience of executives and professionals of the Group's various units. Particular importance is attached to the role of local executives.

Management is based on the following elements:



The different phases of the technological and operational risk management model entail:

- Identify the operational risk inherent in all activities, products, processes and banking systems.
- Measure and assess the operational risk objectively, continuously and in line with the regulatory standards (Basel II, Bank of Spain) and the banking industry, establishing risk tolerance levels.
- Continuously monitor the exposure of operational risk in order to detect the levels of unassumed risk, implement control procedures, improve internal knowledge and mitigate losses.
- Establish mitigation measures that eliminate or minimise operational risk.
- Produce regular reports on the exposure to operational risk and the level of control for senior management and the Group's areas/units, as well as inform the market and regulatory bodies.
- Define and implement systems that enable operational risk exposures to be watched over and controlled and integrated into the Group's daily management, taking advantage of existing technology and seeking the maximum computerisation of applications.
- Define and document operational risk management policies, and introduce methodologies for managing this risk in accordance with regulations and best practices.

Grupo Santander's operational risk management model contributes the following advantages:

- Integral and effective management of operational risk (identification, measurement/assessment, control/mitigation and information).
- Better knowledge of existing and potential operational risks and assigning responsibility for them to the business and support lines.
- Operational risk information helps to improve the processes and controls, reduce losses and the volatility of revenues.

IMPLEMENTING THE MODEL: GLOBAL INITIATIVES AND RESULTS

The main functions, activities and global initiatives 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: continuation of best practices within the Group.
- Foster mitigation plans: ensure control of implementation of corrective measures as well as ongoing projects.
- Ensure effective management of operational and technological risk.
- Supply adequate information on this type of risk.

The corporate function strengthens management of technological risk, 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).

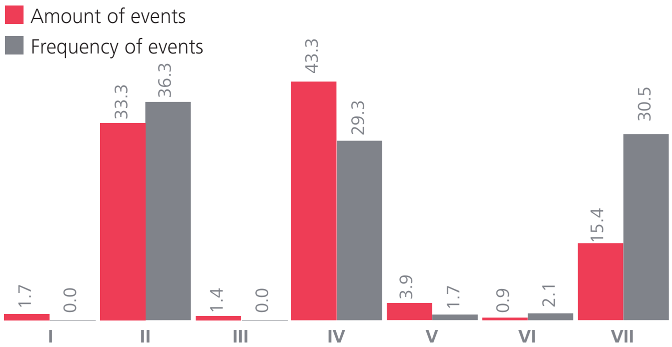
Almost all the Group's units have been incorporated to the model with a high degree of uniformity. However, due to the different pace of implementation, phases, schedules and the historical depth of the respective data bases, the degree of progress varies from country to country.

On a general basis:

- Data bases of operational incidents that are classified are received every month. The capturing of events related to operational risk are not truncated (i.e. without exclusions for reasons of amount and with both the accounting impact —including positive effects— as well as the non-accounting impact).
- Self-assessment questionnaires filled in by almost all the Group's units are received and analysed.
- A corporate system of operational risk indicators is in place. It is in continuous evolution and coordination with the internal control area.
- The main and most frequent events are identified and analysed, and mitigation measures taken which, in significant cases, are disseminated to the Group's other units as a best practices guide.
- Processes are conducted to conciliate data bases with accounting data.

By consolidating the total information received, the Group's operational risk profile is reflected in the following chart:

DISTRIBUTION OF AMOUNT AND FREQUENCY OF EVENTS BY CATEGORY (2010)
%



I. Internal fraud
II. External fraud
III. Employment, health and security practices at work
IV. Practices with clients, products and business
V. Damage in physical assets
VI. Interruption of business and failures in systems
VII. Execution, delivery and management of processes

The Group exercises supervision and control of technological and operational risk via its governance organs. The various areas of local resources hold meetings of monitoring committees with the corporate area every month and by country. In 2010, the Group's management committee included treatment of relevant aspects in the management and mitigation of operational risk on a regular basis.

This management also led to a reduction in the gross loss, which was around 3% on a like-for-like basis.

In general, combined with the control of losses, all the Group's units continued to improve aspects related to management of operational risk as can be confirmed in the annual review carried out by internal auditing.

The Group, via approval in the risk committee, formalises every year the operational risk profiles and limits. A risk appetite is also established which must be in low and medium-low profiles on the basis of the measurement of various ratios. Limits are set by country and for the Group on the basis of the gross loss/gross income ratio.

In addition, the Group's units conduct self-evaluation risk exercises in terms of frequency and severity. This enables limits to be set for the following year on the basis of the distribution and modeling of expected loss/unexpected.

ANALYSIS AND MONITORING OF CONTROLS IN MARKET OPERATIONS

The complexity of financial instruments makes it necessary for the Group to continuously strengthen operating control of this activity, enhancing the very demanding and conservative risk and operating principles that Grupo Santander has been regularly applying.

Over and above regular tracking of all aspects regarding operating control, all of the Group's units paid more attention to the following aspects, so that the review is validated every month by each unit's management committee. Of note are the following:

- Review of the valuation models and in general the valuation of portfolios.
- Capturing processes and independent validation of prices.
- Appropriate confirmation of operations with counterparties.
- Reviewing cancellations/modifications of operations.
- Reviewing and monitoring the effectiveness of guarantees, collateral and mitigation of risk.

CORPORATE INFORMATION

The corporate area of control of technological and operational risk has a system for integral management of operational risk information, which every quarter consolidates the information available from each country/unit in the operational risk sphere and gives a global vision with the following features:

- Two levels of information: one corporate and the other individualised for each country/unit.
- Dissemination of the best practices among countries/units of Grupo Santander, obtained from the combined study of the results of qualitative and quantitative analysis of operational risk.

Information is also prepared on the following aspects:

- Grupo Santander's management model for operational risk.
- Human resources and perimeter of action
- Analysis of the data base of errors and events
- Operational risk cost and accounting conciliation
- Self-assessment questionnaires
- Indicators
- Mitigating measures/asset management
- Contingency plans
- Regulatory framework: BIS II
- Insurance

This information acts as the basis for meeting the needs of reporting to the board's 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 data bases of errors and the perimeter of coverage of the insurance policies for the various operational risks.
- Close cooperation between local operational risk executives and local coordinators of insurance to strengthen mitigation of operational risk.
- Regular meetings on specific activities, states of situation and projects in both areas.
- Active participation of both areas in global sourcing of insurance, the Group's maximum technical body for defining coverage strategies and contracting insurance.

6. REPUTATIONAL RISK

Grupo Santander defines reputational risk as that linked to the perception of the Bank by its various stakeholders, both internal and external, of its activity, and which could have an adverse impact on results, capital or business development expectations. This risk relates to juridical, economic-financial, ethical, social and environmental aspects, among others.

Various of the Group's governance structures are involved in reputational risk management, depending on where the risk comes from. The audit and compliance committee helps the board to supervise compliance with the Group's code of conduct in the securities markets, the manuals and the procedures to prevent money-laundering and, in general, the Bank's rules of governance and compliance. It formulates the proposals needed for their improvement.

Management of reputational risk which might arise from an inadequate sale of products or an incorrect provision of services by the Group is mainly conducted by the following bodies and procedures:

THE RISK COMMITTEE

This committee is the responsibility of board, as part of its supervisory function. It defines the Group's risk policy.

As the maximum body responsible for global management of risk and of all types of banking operations, the committee assesses, with the support of the division of the secretary general, reputational risk in its sphere of activity and decisions.

CORPORATE COMMITTEE OF PRODUCT AND SERVICES MARKETING

This committee is chaired by the Group's secretary general and integrated by representatives of the divisions of risk, financial management, technology and operations, secretariat general, general intervention and control, internal auditing, retail banking, Santander Global Banking & Markets, private banking, asset management and insurance. It is the Group's maximum decision-making body for approving and monitoring products and services.

The committee pays particular attention to adjusting the product or service to the framework where it is going to be sold and especially to ensuring that:

- Each product or service is sold by someone who knows how to sell it.
- The client knows what he or she is investing in and the risk of each product or service and this can be accredited with the relevant documents.
- The product or service fits the customer's risk profile.
- Each product or service is sold where it can be, not only for legal or tax reasons (i.e. it fits into the legal and tax regime of each country), but also on the basis of the prevailing financial culture.
- When a product or service is approved the maximum limits for placement are set.

Marketing committees are created at the local level which channel to the corporate committee of marketing new product approval proposals, after issuing a favourable opinion, and approve products that are not new and marketing campaigns. In the respective approval processes, the marketing committees operate with a risk focus and from the double perspective of Bank/customer.

The corporate marketing committee (CMC) held 21 meetings in 2010 and the local committee of marketing (LCM) of retail banking Spain met 10 times, analysing a total of 237 products/services (197 were new products/services submitted to the CMC and 40 were approved by the LCM as they were not new products/services that fitted into those previously authorised by the CMC).

Of the 197 products/services submitted to the CMC, the number per country/unit and their share of the total was as follows: Spain 113 (57.4%); Chile: 15 (7.6%); Portugal: 14 (7.1%); Mexico: 12 (6.1%); UK: 11 (5.6%); Brazil: 11 (5.6%); US: 9 (4.6%); Argentina: 4 (2%); Colombia: 2 (1%); Puerto Rico: 2 (1%); Italy: 2 (1%); Peru: 1 (0.5%); and Uruguay: 1 (0.5%).

GLOBAL CONSULTATIVE COMMITTEE

The global consultative committee (GCC) is the advisory body for the corporate committee of marketing and comprises representatives of areas that contribute vision of regulatory and market risks. This committee meets every quarter and can recommend the review of products affected by regulatory changes, in markets, deterioration of solvency (country, sectors and companies) or by changes in the Group's vision of markets in the medium and long term.

CORPORATE OFFICE OF REPUTATIONAL RISK MANAGEMENT

Integrated in the corporate area of compliance and reputational risk, with the division of the general secretary, this office provides the corresponding organs of governance with the necessary information to:

1. adequately analyse the risk to be approved, with a two-pronged purpose: impact on the Bank and on the customer.
2. monitoring of products throughout their life cycle.

During 2010, 52 products or services not considered to be new were presented to the corporate office for reputational risk management for its approval. The office also resolved 110 consultations from various areas and countries. The products approved by the office are successive issues of products previously approved by the corporate committee of marketing or the local committee of marketing of retail banking Spain, after having delegated them this faculty in the branch.

MANUAL OF PROCEDURES FOR THE SALE OF FINANCIAL PRODUCTS

The manual, which has been used by Banco Santander since 2004 for the retail marketing of financial products in Spain, covers investment services for financial products including securities and other fixed-income or equity instruments, money market instruments, participations in collective investment institutions, savings and investment insurance, traded derivatives and OTC and atypical financial contracts. The corporate committee of marketing can also include other instruments in the sphere of the manual of procedures, as has been the case with structured deposits, savings insurance or investment and pension plans.

In 2010 90 products/services subject to the manual were submitted for approval.

7. ADJUSTMENT TO THE NEW REGULATORY FRAMEWORK

Grupo Santander participated during 2010 in impact studies promoted by the Basel Committee and CEBS, and coordinated at the local level by the Bank of Spain to calibrate the new regulations denominated Basel III and whose implementation involves establishing new standards for capital and liquidity, with stricter criteria and standardised at the international level.

Santander has very solid capital ratios, adjusted to the business model and to its risk profile and which put it in a comfortable position to amply meet Basel III. The impact analysis shows no significant affects on the Group's high solvency ratios, which benefit from a considerable organic capital generation capacity. The new capital regulations will be gradually implemented between 2013 and 2019.

Grupo Santander has proposed adopting, during the next few years, the advanced internal ratings based (AIRB) models of Basel II for almost all its banks (up to covering 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 among supervisors of the validation processes of internal models. The Group operates in countries where the legal framework between supervisors is the same as in Europe via the capital directive. However, in other areas, 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, which, in practice, means 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 in 2010 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 (close to two-thirds of its total exposure at the end of 2010). The strategy of implementing Basel in the Group is focused on achieving use of advanced models in the main institutions in the Americas and consumer banking in 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 Madrid treasury and during 2010 we obtained authorisation for the units in Chile and Portugal, thus continuing the gradual installation for the rest of the 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 the entity via the corporate guidelines and criteria established after assuming their control and which are precisely hallmarks of Santander. The Group has made many acquisitions in the last few years that make necessary a longer period of maturity to develop the internal model based on the own management experience of the various entities. However, although for the time being Grupo Santander has decided to adhere to the standard approach for calculating regulatory capital, it envisages the possibility of adopting the advanced management approach (AMA) once it has gathered sufficient information on the basis of its own management model in order to strengthen to the maximum the virtues that characterise the Group.

In 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 complemented 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 features not included in Pillar 1 (concentration, interest rate and business risks). 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, published for the first time with data at December 31, 2008, clearly shows the transparency requirements regarding Pillar III. Grupo Santander regards the requirements 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 already happens 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 levels which 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.

INTERNAL VALIDATION OF INTERNAL RISK MODELS

Internal validation is a prerequisite for supervisory validation. A specialised unit of Santander, with complete independence, obtains a technical opinion on whether the internal model is appropriate for the purposes used (internal and regulatory) and concludes on its usefulness and effectiveness.

As well as the regulatory requirement, internal validation is also a fundamental support for the board's committee of risks and local committees of risks in their responsibilities of authorising the use (management and regulatory) of models and their periodic review.

Santander's internal validation covers both credit risk and market risk models and those that set the prices of financial assets as well as the economic capital model. The scope of validation includes not only the most theoretical or methodological aspects but also the technology systems and the quality of data that make implementation effective and, in general, all relevant aspects for management of risk (controls, reporting, uses, involvement of senior management, etc).

The function of internal validation is located, at the corporate level, within the area of integral control and internal validation of risk which reports directly to the Group's third vice-chairman and chairman of the board's risk committee. The function is global and corporate in order to ensure homogeneous application. This is done via four regional centres in Madrid, London, Sao Paulo and New York. These centres report to the corporate centre, which ensures uniformity in the development of their activities. This facilitates application of a common methodology supported by a series of tools developed internally in Santander which provide a robust corporate framework for use in all the Group's units and which automate certain verifications in order to ensure the reviews are conducted efficiently.

Moreover, Grupo Santander's corporate framework of internal validation is fully aligned with the criteria for internal validation of advanced models issued by the Bank of Spain. The criterion of separation of functions is maintained between the units of internal validation and internal auditing which, as the last element of control in the Group, is responsible for reviewing the methodology, tools and work done by internal validation and giving its opinion on its degree of effective independence.

8. ECONOMIC CAPITAL

The concept of economic capital has traditionally been contrasted with that of regulatory capital, as this is the one required for the regulation of solvency. The new Basel capital framework clearly brings both concepts closer 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 quantifies the consolidated risk profile taking into account all the significant risks of activity, as well as the consubstantial diversification effect on a multinational and multi-business group like Santander. This economic capital model serves as the Group's base for preparing its self-assessment of capital report in accordance with Bank of Spain regulations under the Basel II Pillar 2 framework.

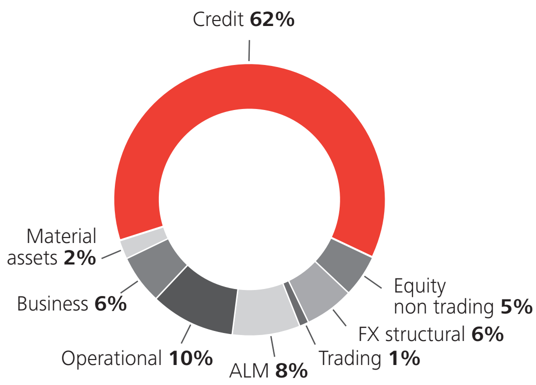
The concept of diversification is fundamental for appropriately measuring the risk profile of a global activity group. Although it is an intuitive concept and one present in risk management since banking began, we can also explain diversification as the fact that the correlation between various risks is imperfect and so the largest events of losses do not happen simultaneously in all portfolios or by types of risk. The sum of the economic capital of the different portfolios and types of risk, considered in isolation, is more than the Group's total economic capital. In other words, the Group's overall risk is less than the sum of its parts considered separately.

In addition, within the framework of the model for measurement and aggregation of economic capital, the risk of concentration for wholesale portfolios (large companies, banks and sovereigns) is also considered both in its dimension of exposure as well as concentration by sectors and countries. The existence of concentration in a country or a product in retail portfolios is captured by applying an appropriate model of correlations.

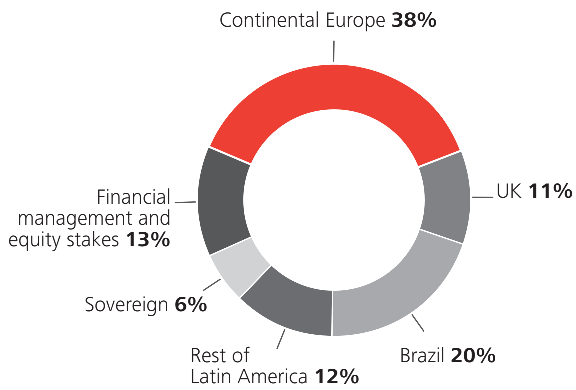
GLOBAL RISK ANALYSIS PROFILE

The Group's risk profile at December 31, 2010, measured in terms of economic capital, is distributed by types of risk and the main business units, is reflected below:

DISTRIBUTION OF ECONOMIC CAPITAL
By types of risk



DISTRIBUTION OF ECONOMIC CAPITAL
By business units



The distribution of economic capital among the main business units reflects the diversification of the Group's activity and risk. The Group's diversification is going to increase even more with the acquisitions announced in the last few months in Poland, Germany, the UK, Mexico and the US, among others.

Continental Europe accounts for almost 40% of the Group's capital, Latin America including Brazil (20%) almost one-third, the UK for 11%, and Sovereign 6%, while the corporate area of financial management and equity stakes, which assumes the risk from the structural exchange-rate position (derived from stakes in subsidiaries abroad denominated in non-euro currencies) and most of the equity stakes accounts for 13%.

The economic capital at December 31, 2010 was EUR 46,526 million, including minority interests.

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 22% at the end of 2010.

The Group also conducts capital planning with the main objective of obtaining future projections of economic and regulatory capital and so be able to assess situations of capital sufficiency in various scenarios. Each scenario incorporates the forecasts of results in a coherent way, both with their strategic objectives (organic growth, M&A, pay-out ratio, etc) as well as with the evolution of the economic situation and in the face of stress situations. Possible capital management strategies are identified that enable the Bank's solvency situation to be optimised as well as the return on capital.

RETURN ON RISK ADJUSTED CAPITAL (RORAC) AND CREATION OF VALUE

Grupo Santander has been using RORAC methodology in its credit risk management since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as segments, portfolios and customers, in order to facilitate optimum assigning of economic capital.
- Budget the capital consumption and RORAC of the Group's business units, including them in their remuneration plans.
- Analyze and set prices during the decision-taking process for operations (admission) and clients (monitoring).

RORAC methodology enables one to compare, on a like-for-like basis, the return on operations, customers, portfolios and businesses, identifying those that obtain a risk adjusted return higher than the cost of the Group's capital, aligning management of risk and business with the intention to maximise the creation of value, the ultimate aim of 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 economic profit is obtained by making the necessary adjustments to attributable profit so as to extract just the recurrent profit that each unit generates in the year of its activity.

The minimum return on capital that an operation must attain is determined by the cost of capital, which is the minimum required by shareholders. It is calculated objectively by adding to the 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 our shares in relation to the market's performance. The cost of capital in 2010 applied to the Group's various units was 13.606%.

A positive return from an operation or portfolio means it is contributing to the Group's profits, but it is not really creating shareholder value unless that return exceeds the cost of capital.

All the main business units obtained in 2010 a RORAC higher than the cost of capital. The creation of value and the RORAC for the Group's main business areas are shown below:

MAIN SEGMENTS

Million euros

Main segments	RORAC	Creation of value
Continental Europe	21.2%	1,444
UK	38.5%	1,284
Latin America	36.5%	3,549
Sovereign	14.0%	13
Subtotal of operating areas	**28.3%**	**6,290**
Financial management and equity stakes	-44.3%	-3,879
Group total	**18.5%**	**2,411**

The Group's RORAC comfortably exceeded the cost of capital estimated for 2010 and stood at 18.5%. The creation of value (i.e. the economic profit less the average cost of capital used to achieve it) amounted to EUR 2,411 million.

9. RISK TRAINING ACTIVIVIES

Santander has a corporate school of risks. Its purpose is to help to consolidate the risk management culture in Santander and ensure that all employees in the risks area are trained and developed with the same criteria.

The school, which gave a total of 26,665 hours of training to 2,849 employees in 2010 in 116 sessions, is the base for strengthening Santander's leadership in this sphere and continuously enhancing the skills of its staff.

It also trains staff from other business segments, particularly in the retail banking area, and aligns the requirements of risk management with business goals.

HOURS OF TRAINING

APPENDICES

THE COMPLIANCE FUNCTION

The compliance area is part of the General Secretariat division and is responsible for global management of the Group's reputational risks, compliance and anti-money laundering. The objectives of compliance are to minimise the probability of irregularities and to identify, report and quickly resolve those that might occur.

Compliance:

(i) provides advice to senior management on the regulations and standards of conduct applicable and their evolution;

(ii) co-operates with senior management in creating a culture of compliance within the Group and establishes written policies and procedures;

(iii) identifies and measures the risks of compliance associated with the Group's activity and assesses regularly whether the policies and procedures for managing them are adequate;

(iv) conducts the tests that are needed to verify that the activities are undertaken in accordance with the policies and procedures; and

(v) informs senior management of the conclusions.

The compliance function focuses on the operational spheres where the Group's exposure to reputational and compliance risks is the greatest:

- Conduct in the securities markets.
- Marketing of products and services.
- Prevention of money laundering and financing of terrorism.
- Relations with regulators and supervisors.
- Preparing and disseminating the Group's institutional information.

COMPLIANCE AND REPUTATIONAL RISK

Reputational risk is that arising from the perception of the Bank by its various stakeholders, both internal and external, of its activity, and which could have an adverse impact on results, capital or business development expectations. This risk relates to juridical, economic-financial, ethical, social and environmental aspects, among others.

Compliance risk is the risk of receiving sanctions, economic or otherwise, or other forms of disciplinary measures from supervisory bodies for failing to comply with laws, regulations, rules, self-regulation standards and codes of conduct applied to its activities.

Money laundering is participating in any operation whose purpose is to hide or mask the nature or origin or funds from criminal activities. Financing of terrorism is understood as providing or collecting funds, by any direct or indirect means, in order to use them or in the knowledge that they will be wholly or partly used to commit an act of terrorism.

GOVERNANCE OF THE COMPLIANCE FUNCTION

The board, the audit and compliance committee and other organs of the Group, with varying levels of responsibility and different tasks, supervise the compliance function in Grupo Santander. The board approves the corporate policy and receives information on how it is applied, while the audit and compliance committee supervises compliance with the Code of Conduct in the Securities Markets and with the manuals and procedures for preventing money laundering, and also reviews the compliance of actions and measures resulting from the reports or activities of supervisors.

Compliance management reports on an ongoing basis to the board via the audit and compliance committee. The chief compliance officer took part in 10 of the 11 meetings held by this committee in 2010.

The compliance committee, which is the organ responsible for all matters related to the compliance function that are not specific ones of marketing products and services or the prevention of money laundering and the financing of terrorism, met five times.

The corporate committee of marketing, which is responsible for establishing processes within the Group relating to the approval and monitoring of products and services offered to customers, held twenty-one meetings. The analysis and resolution committee, the most senior body specializing in anti-money laundering and terrorism financing prevention related matters, met four times.

CODES OF CONDUCT

The functions of compliance management with regard to the Code of Conduct in the Securities Markets (CCSM) are as follows:

1. Register and control sensitive information known and/or generated by the Group;

2. Maintain the lists of 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 personnel subject to the CCSM;

6. Manage failures to comply;

7. Resolve doubts on the CCSM;

8. Resolve and register, in the sphere of its responsibilities, conflicts of interest and situations that could give rise to them;

9. Assess and manage conflicts arising from the analysis activity;

10. Keep the necessary records to control compliance with the obligations envisaged in the CCSM;

11. Develop ordinary contact with regulators;

12. Organise the training and, in general, conduct the actions needed to apply the code; and

13. Analyse activities suspicious of constituting abuse of the market and, where appropriate, report them to the supervisory authorities.

At the meeting of the audit and compliance committee on 15 December, 2010, the chief compliance officer reported on the entry into force on 23 December of the Organic Law 5 of 22 June, 2010, on the reform of the penal code, considering it necessary to have in the Group a compliance programme that establishes regulations and procedures that try to prevent the risk of non-compliance in the Group and which strengthen the corporate culture of compliance that Santander has been enforcing intensely for years.

The committee was also informed of the need to modify the General Code of Conduct as it is the core element of the compliance programme and in order to give room to activities which could give rise to penal responsibilities for the Bank and which until now were not explicitly contemplated in the code.

The audit and compliance committee, at its meeting on 15 December, 2010, favourably informed on the compliance programme and on the changes to the General Code of Conduct, which were approved by the board on 20 December, 2010.

MARKETING OF PRODUCTS

The section on reputational risk in the risk management report (pages 200 to 201 of this annual report) describes the composition, functions and activities carried out in 2010 by the corporate committee of marketing. The corporate office for management of reputational risk and the global consultative committee are also dealt with.

RELATIONS WITH THE SUPERVISORY AUTHORITIES AND DISSEMINATION OF INFORMATION INTO MARKETS

Compliance management is responsible for answering the information requirements of the regulatory and supervisory bodies in Spain and in those countries where the Group operates, monitoring the implementation of measures emanating from the reports or inspection activities of these bodies and supervising the way in which the Group disseminates institutional information into markets, ensuring it is done transparently and in accordance with the requirements of regulators.

At each meeting, the audit and compliance committee is informed of the main matters.

OFF-SHORE CENTRES

In accordance with the recommendations of the Bank of Spain contained in the 2003 Report of Banking Supervision in Spain regarding subsidiaries and branches in tax havens, compliance management, in coordination with internal audit, legal affairs, tax advisory, and financial accounting and control, prepared a report on the Group's off-shore centres which was reviewed by the audit and compliance committee at its 15 March 2010 meeting.

The 2010 report of the audit and compliance committee contains more information on this issue.

OTHER COMPLIANCE ACTIVITIES

Compliance management continued to carry out other activities in 2010 inherent to its sphere, such as reviewing the Bank's internal rules (circulars and various notes) 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 proxy agencies in this area and sending periodic regulatory information to the supervisory bodies (treasury stock, significant equity stakes, opening and closing of branches, etc).

ANTI-MONEY LAUNDERING

It is a strategic objective of Grupo Santander, a socially responsible organisation, to have an advanced and effective system to prevent money laundering and the financing of terrorism, permanently adapted to the latest international regulations and with the capacity to meet the appearance of new techniques by criminal organisations.

At 31 December 2010, no unit of Grupo Santander in the world was subject to corrective measures of sanctions issued by supervision or regulatory authorities, as a result of non-compliance or weaknesses in the sphere of preventing money laundering or the financing of terrorism.

The organisation to prevent money laundering and the financing of terrorism has three pillars: the anti-money laundering central department (AMLCD), executives in charge of prevention and the analysis and resolution committee.

In 2010, 499 Group employees were involved in fighting money-laundering and the financing of terrorism, three-quarters of them full time. There were 209 units in 37 countries.

The Group's policies are set out in corporate manuals (universal, private and correspondent banking). These internal regulations are applied in all the Group's units, with the necessary local adjustments. The subsidiaries and business areas have their own procedure manuals.

During 2010 the AMLCD guided and approved the changes, adjustments and updating of the internal rules of more than half of the Group's units, in a constant and systematic process of updating. As a result, the Group's internal rules are line with the most demanding international standards.

Grupo Santander's model is based on customer acceptance policies, which establish rigorous filters, such as a ban on dealing with certain people or risk sectors and, in other cases, a strict regime of authorisation.

During 2010 the AMLCD carried out actions to fully adapt the units to the rules that transpose the third directive of the European Union, mainly regarding the requirement for customer risk segmentation in the process of contracting, and the establishment of due diligence differentiated on the basis of the risk (reinforced, standard or simplified).

During 2010 the AMLCD took action to fully adapt the units to the regulations transposing the third European Union directive, mainly with respect to the required segmentation of customers by risk in the signing-up process and the establishment of separate due diligence processes in terms of risk (enhanced, standard or simplified).

The units in Europe and in most of Latin America are participating in this work. The technological developments are important and the impact on the contracting model is high. At the same time, we are tackling, with time frames set by various legislations, complex and costly processes of updating the data of the global portfolio of customers.

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 presented to the branches of the account and/or customer relation managers. The tools are complemented by others centralised by teams of analysis from prevention units who, in accordance with 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.

The Group analysed a total of 34.6 million operations in 2010 (both by the commercial networks as well as money laundering prevention teams), of which more than one million were by the units in Spain.

Procedures have been established in all units that enable suspicious transactions to be communicated to the authorities, guaranteeing throughout the circuit the strictest confidentiality.

The rating accorded by the authorities to the Group's communications in all countries is good.

One of the Group's priorities in this sphere is to take the necessary steps so that all employees know the requirements resulting from the prevailing regulations. The aim of the training actions is to enable employees to detect these operations and instruct them in what to do.

In 2010, 84,820 employees received training on prevention of money laundering (a total of 126,863 hours).

The internal audit function is necessary in order to guarantee continuous compliance with these policies and it is responsible for ensuring the system is efficient. In addition, many units are submitted to periodic reviews by external auditors, Deloitte carried out an integral review of the parent bank's global system for the prevention of money laundering and of the rest of the units in Spain. This review also took into account aspects of coordination and global supervision of the rest of the Group's units in the world. The report issued in April 2010 revealed no weakness in the system and limited itself to formulating an eventual recommendation of the rectification suggested.

Banco Santander is a founder member of the Wolfsberg Group along with 10 other large international banks. The Wolfsberg Group's purpose is to establish international standards that increase the effectiveness of programmes to combat money-laundering and the financing of terrorism in the financial community. Various initiatives have been developed on anti-money laundering in private and correspondent banking, the financing of terrorism, among others. 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.

During 2010, the Wolfsberg Group maintained the working groups to propose the best practices regarding controls for the prevention of money laundering and the financing of terrorism in activities such as trade finance and in prepaid cards, as well as for the effective application of controls and filters on applicable lists in matters of international sanctions.

MAIN INDICATORS OF ACTIVITY
2010

Number of subsidiaries reviewed	**171**
Number of cases investigated	**70,102**
Number of reports sent to authorities	**16,830**
Number of employees trained	**84,820**

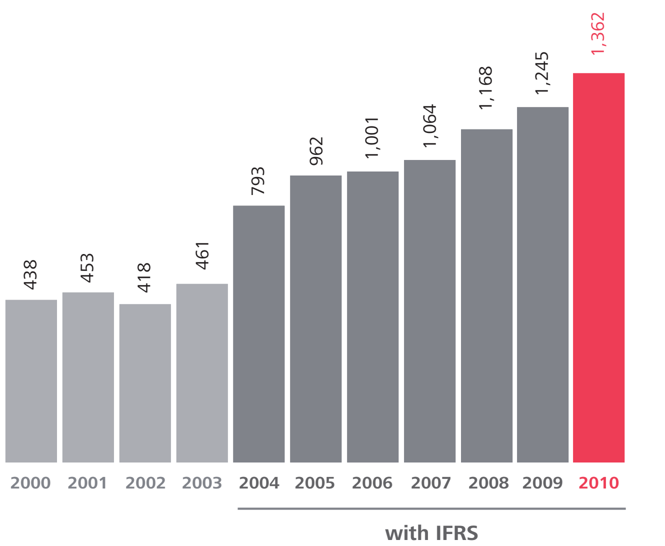
HISTORICAL DATA(1) 2000-2010

		2010	2009	2008	2007	2006
	Mill. US$	Mill. euros	Mill. euros	Mill. euros	Mill. euros	Mill. euros
BALANCE SHEET						
Total assets	1,626,824	1,217,501	1,110,529	1,049,632	912,915	833,873
Net customer loans	967,614	724,154	682,551	626,888	571,099	523,346
Customer deposits	823,601	616,376	506,976	420,229	355,407	331,223
Customer funds under management	1,316,517	985,269	900,057	826,567	784,872	739,223
Shareholders' equity	100,580	75,273	70,006	63,768	51,945	40,062
Total managed funds	1,820,291	1,362,289	1,245,420	1,168,355	1,063,892	1,000,996
INCOME STATEMENT						
Net interest income	38,658	29,224	26,299	20,945	14,443	12,480
Gross income	55,623	42,049	39,381	33,489	26,441	22,333
Net operating income	31,554	23,853	22,960	18,540	14,417	11,218
Profit before taxes	15,942	12,052	10,588	10,849	10,970	8,995
Attributable profit to the Group	10,822	8,181	8,943	8,876	9,060	7,596

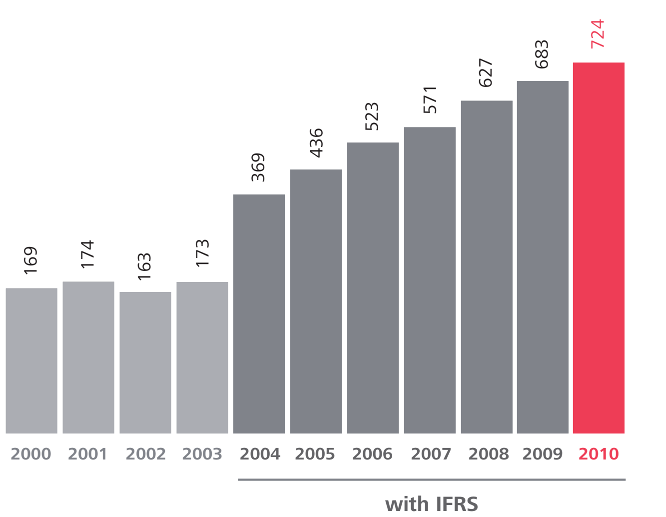
		2010	2009	2008	2007	2006
	US$	Euros	Euros	Euros	Euros	Euros
PER SHARE DATA(2)						
Attributable profit to the Group	1.2458	0.9418	1.0454	1.2207	1.3320	1.1334
Dividend	0.8017	0.6000	0.6000	0.6325	0.6068	0.4854
Share price	10.593	7.928	11.550	6.750	13.790	13.183
Market capitalisation (million)	88,234	66,033	95,043	53,960	92,501	88,436

Euro / US$ = 1.3362 (balance sheet) and 1.3228 (income statement)
(1).- Figures from 2004 on according to IFRS.
(2).- Figures adjusted to capital increases.
(3).- Compound Annual Growth Rate.

TOTAL MANAGED FUNDS
Billion euros



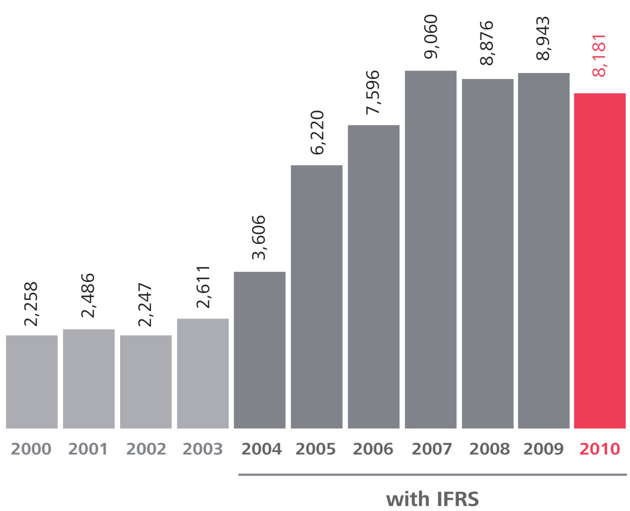
NET CUSTOMER LOANS
Billion euros



2005 Mill. euros	2004 Mill. euros	2003 Mill. euros	2002 Mill. euros	2001 Mill. euros	2000 Mill. euros	**CAGR[3]** (%)
809,107	664,486	351,791	324,208	358,138	348,928	13.3
435,829	369,350	172,504	162,973	173,822	169,384	15.6
305,765	283,212	159,336	167,816	181,527	169,555	13.8
651,360	595,380	323,901	304,893	331,379	303,098	12.5
35,841	32,111	18,364	17,594	19,128	17,798	15.5
961,953	793,001	460,693	417,546	453,384	437,576	12.0
10,659	7,562	7,958	9,359	10,257	8,290	13.4
19,076	13,999	13,128	14,004	15,564	13,005	12.5
8,765	6,431	5,721	5,566	5,944	4,689	17.7
7,661	4,387	4,101	3,509	4,237	3,774	12.3
6,220	3,606	2,611	2,247	2,486	2,258	13.7

2005 Euros	2004 Euros	2003 Euros	2002 Euros	2001 Euros	2000 Euros	**CAGR[3]** (%)
0.9293	0.6791	0.5105	0.4431	0.5079	0.5006	6.5
0.3883	0.3107	0.2824	0.2690	0.2690	0.2550	8.9
10.396	8.512	8.755	6.098	8.773	10.629	(2.9)
69,735	57,102	44,775	31,185	43,845	51,987	2.4

ATTRIBUTABLE PROFIT TO THE GROUP*
Million euros



(*).- Includes extraordinary capital gains and allowances (EUR 1,008 million in 2005, EUR 1,014 million in 2006 and EUR 950 million in 2007).

DIVIDEND PER SHARE*
Euros

(*).- Figures adjusted to capital increases and stock splits.

GENERAL INFORMATION

Banco Santander, S.A.

The parent bank of Grupo Santander was established on March 21, 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on January 14, 1875, recorded in the Mercantile Registry (Finance Section) of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank's By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on June 8, 1992, and entered in the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special registry of Banks and Bankers 0049, and its fiscal identification number is A-390000013. It is a member of the Bank Deposit Guarantee Fund.

Registered Office

The corporate by-laws and additional public information regarding the company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

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