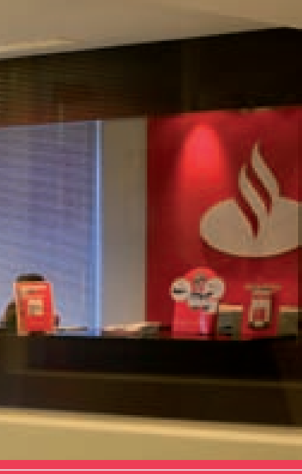


Santander

Annual Report 07

CONTENTS

KEY GROUP FIGURES

BALANCE SHEET AND INCOME STATEMENT

Million euros

	2007	2006	Var, (%)	2005
Total assets	912,915	833,873	9.5	809,107
Customer loans (net)	565,477	523,346	8.1	435,829
Managed customer funds	784,995	739,223	6.2	651,360
Shareholders' funds	51,945	40,062	29.7	35.841
Total managed funds	1,063,892	1,000,996	6.3	961,953
Net interest income (excluding dividends)	14,882	12,076	23.2	10,324
Gross operating income	27,095	22,333	21.3	19,076
Net operating income	14,842	11,218	32.3	8,765
Attributable profit to the Group without capital gains*	8,111	6,582	23.2	5,212
Attributable profit to the Group	9,060	7,596	19.3	6,220

RATIOS

%

	2007	2006	2005
Efficiency	44.22	48.56	52.94
ROA	1.09	1.00	0.91
RoRWA	1.95	1.83	1.78
ROE without capital gains*	19.61	18.54	16.64
ROE	21.91	21.39	19.86
BIS ratio	12.66	12.49	12.94
Tier 1	7.71	7.42	7.88
Non-performing loans (NPLs)	0.95	0.78	0.89
NPL coverage	150.55	187.23	182.02

THE SHARE

	2007	2006	2005
Number of shares in circulation (million)	6,254	6,254	6,254
Share price (euros)	14.79	14.14	11.15
Market capitalisation (million euros)	92,501	88,436	69,735
Attributable profit excluding capital gains* per share (euros)	1.2789	1.0534	0.8351
Attributable profit per share (euros)	1.4287	1.2157	0.9967
Diluted attributable profit ex-capital gains* p.s. (euros)	1,2657	1,0477	0,8320
Diluted attributable profit per share (euros)	1,4139	1,2091	0,9930
Dividend per share (euros)	0.6508	0.5206	0.4165
Book value per share (euros)	8.31	6.41	5.73
Price/book value per share (times)	1.78	2.21	1.95
PER (share price/attributable profit excluding capital gains* per share)	11.56	13.42	13.35

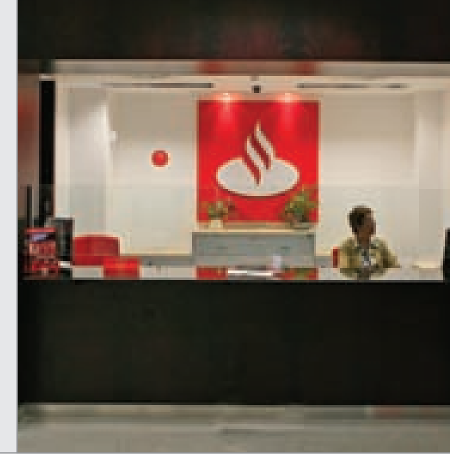
OTHER FIGURES

	2007	2006	2005
Number of shareholders	2,278,321	2,310,846	2,443,831
Number of employees	131,819	123,731	120,047
Continental Europe	47,838	44,216	43,612
United Kingdom (Abbey)	16,827	17,146	19,084
Latin America	65,628	60,871	55,889
Financial Management and Equity Stakes	1,526	1,498	1,462
Number of branches	11,178	10,852	10,201
Continental Europe	5,976	5,772	5,389
United Kingdom (Abbey)	704	712	712
Latin America**	4,498	4,368	4,100

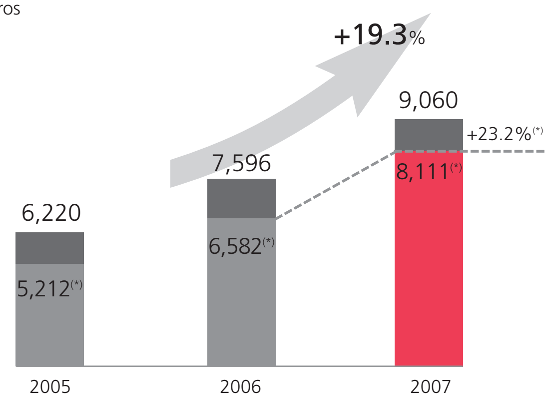
* Excluding capital gains and extraordinary writedowns/allowances.
** Including traditional branches, banking service points and service points in companies.

KEY GROUP FIGURES

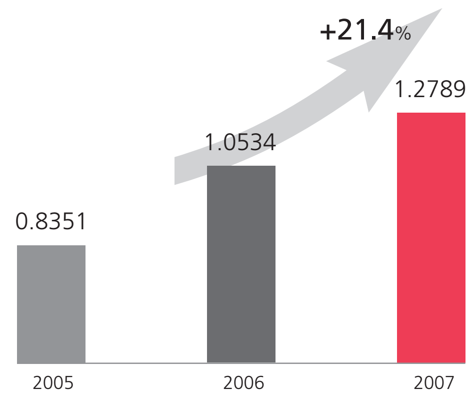
Santander is the largest bank in the euro zone and the fifth in the world by profits. In 2007, it once again exceeded its goals and generated an ordinary attributable profit of EUR 8,111 million, 23.2% more than in 2006.



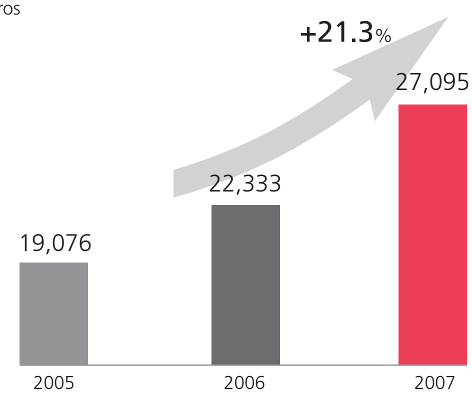
ATTRIBUTABLE PROFIT
Million euros



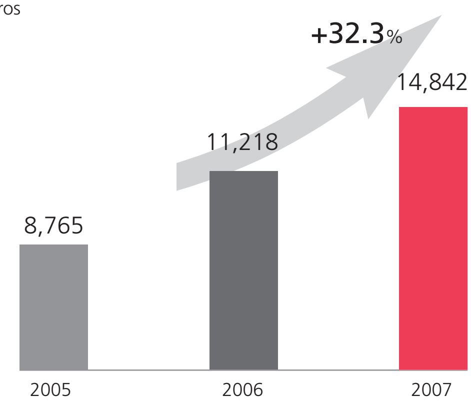
EARNINGS PER SHARE(*)
Euros



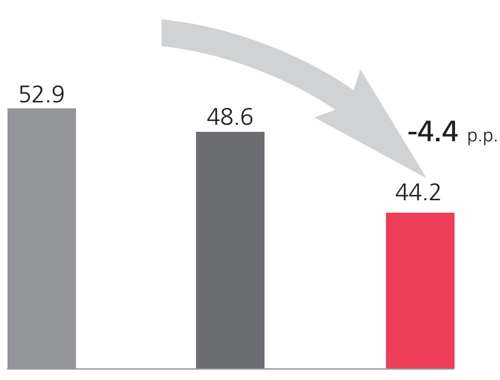
GROSS OPERATING INCOME
Million euros



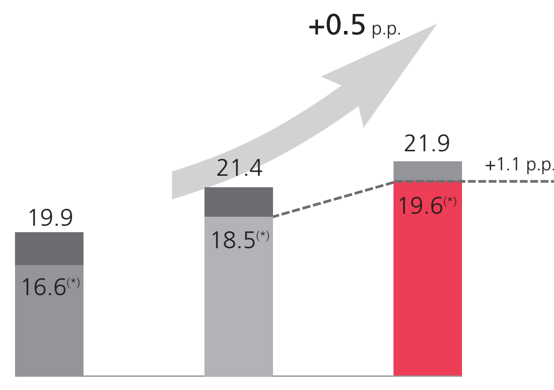
NET OPERATING INCOME
Million euros



EFFICIENCY
%



ROE
%



* Excluding extraordinary gains and extraordinary writedowns/allowances.

"Ordinary profit per share was 21.4% higher at EUR 1.28."

Emilio Botín,
Chairman

SANTANDER AGAIN EXCEEDED ITS GOALS AND GENERATED ATTRIBUTABLE PROFIT OF EUR 9,060 MILLION IN 2007

Dear Shareholders

The year 2007, in which Banco Santander celebrated its 150th anniversary, was an excellent one. The Group's performance underscored Santander's strength and validated its strategy as it achieved its best results ever both in absolute figures and in quality, in a particularly difficult market.

Net attributable profit increased 19.3% to EUR 9,060 million, making Santander the world's fifth largest bank by profits. Excluding extraordinary income, net ordinary attributable profit was 23.2% higher at EUR 8,111 million.

These results enabled our net profit to rise fourteenfold in the last 10 years (annual cumulative growth of 30%).

In 2007, Banco Santander was, yet again, among the banks whose ordinary profit per share rose at the fastest rate (+21.4% to EUR 1.28).

Given these results, and in accordance with the Bank's policy to pay out 50% of the ordinary profits in dividends, the Board will propose to the Shareholders' Meeting a total dividend of EUR 0.65 per share. Thus, for the third consecutive year, the dividend will grow 25%, which demonstrates the importance to the Board of the continuous growth of the dividend.

The financial markets recognised this excellent performance and Banco Santander finished 2007 as the world's eighth largest bank by market capitalisation. In 2007, Banco Santander was one of the three banks whose market value increased the most. The share reached a new record high and Santander was the only Eurostoxx 50 bank whose share price rose in 2007.

Although the shares of the leading international banks fell significantly during the first quarter of 2008, Santander's share behaved better than the 25 largest banks in the world, such that at the end of the first quarter of 2008, Banco Santander is the seventh bank in the world by market capitalisation.

I am convinced that investors in 2008 will continue to reward well-managed banks and those with good growth prospects. Banks like Santander, that despite the more complicated macroeconomic environment, maintains its commitment to the goals we announced to grow the earnings per share 15% annually in 2008 and 2009.

THE ABN AMRO OPERATION

Over and above the satisfactory day-to-day management of our businesses, 2007 was also noteworthy for the acquisition of ABN AMRO by Royal Bank of Scotland, Fortis and Banco Santander for EUR 71,100 million. This acquisition was the largest transaction in banking history, and was also unique as the only one ever carried out by a consortium of banks.

I would like to highlight the terrific management of this transaction by Sir Fred Goodwin, Chief Executive of Royal Bank of Scotland. His leadership was decisive for the acquisition's success.

As envisaged, the main assets of this transaction assigned to Banco Santander were Brazil's Banco Real and Italy's Antonveneta for a total amount of EUR 20,615 million. Subsequently, we received an attractive offer to sell Antonveneta, as I personally explained in a letter to shareholders on November 8. We decided to accept this offer instead of keeping the bank, which would have required significant additional investments in the Italian market.

The final result will be the incorporation to our balance sheet of an excellent asset, Banco Real, for EUR 10,000 million. This addition makes us one of the three largest financial groups in Brazil. The operation will have a positive impact on our earnings per share as of the first year and an 18% return on investment.

The ABN AMRO operation was very efficiently financed, without the need to increase capital:

- we sold property in Spain for a EUR 1,076 million net gain, excluding the sale of Grupo Santander City;
- we sold our stake in Intesa Sanpaolo Intesa and our pension business in Latin America, which generated capital gains of EUR 1,200 million;
- we sold Banca Antonveneta in Italy;
- and we issued EUR 7,000 million of bonds which will be converted into shares of the Bank. This issue, a unique transaction in world banking, was fully placed by the commercial network in Spain among 129,000 investors.

"We focus on retail banking and are prudent in risks. This produces high-quality, recurrent earnings"

MAXIMUM TRANSPARENCY IN A DIFFICULT FINANCIAL ENVIRONMENT

These results and the Group's performance were generated at a particularly difficult time for the international financial sector. Turmoil in the market, sparked in July by the meltdown in the US subprime mortgage market, intensified during the rest of the year and produced liquidity tensions, a widening of risk differentials and a significant need for asset writedowns by some banks.

These circumstances underlined the need to pay particular attention to liquidity and capital management in financial institutions and re-establish a reasonable balance between profitability and risk in loan operations.

It is at times like this when transparency is the key to restoring investors' confidence. For this reason, Banco Santander gives maximum priority to transparency when presenting its results, objectives, strategy and risks' policy.

SANTANDER'S STRATEGY IN THIS CONTEXT

In my letter in the 2006 Annual Report, I stated that "our competitive advantage, even in the face of an eventual economic slowdown, is based on the greater recurring nature of our business compared with that of many of our competitors, who are more dependent on markets whose performance is, by definition, more volatile." The year 2007 showed, with crystal clarity, the advantages of Banco Santander's strategy, based on six solid pillars:

1) The diversification of our businesses, which combine a strong presence in emerging and mature markets.

Our exposure to emerging markets has always been taken on gradually and with thorough knowledge of the markets in which we invest, such as Latin America. We combine an appropriate diversification and a leadership position in the markets where we are present. This enables us to attain the right balance between high growth in revenues, efficient management and moderate risk.

2) We focus on retail banking and are prudent when assuming risks. This translates into high-quality, recurrent earnings.

We are a retail bank which concentrates on individual customers and SMEs, focusing on closeness to customers and the highest quality of service. We have 11,178 branches (13,000 including Banco Real), which makes us the international bank with the most branches in the world. Retail banking generates 84% of Santander's earnings compared to 16% from corporate banking.

Growth in our earnings is based on recurrent businesses. The quality of our results was clear in 2007 as we were not affected by the crisis in the financial markets.

This model, combined with Santander's traditional prudence in risk management, enabled us to avoid liquidity problems seen at other institutions linked to extensive use of conduits and special vehicles; and we did not become involved in investments in securities and financial structures affected by the crisis which, because of their complex nature and difficult valuation, were particularly vulnerable.

As a result, we did not have to make any allowances other than provisions related to our lending and ordinary investments. Furthermore, our Group ended the year with EUR 6,027 million of generic provisions.

3) We strive to have the best technology as the base for our commercial success, innovation and recurrent gains in cost efficiency.

Thanks to technology, we continue to improve our efficiency ratio – from 52.9% in 2005 to 44.2% in 2007 and we expect to reach around 40% in 2009. Moreover, our cutting-edge technology has played a key role in quickly improving the cost bases of new acquisitions, as shown in the case of Abbey.

4) We create value through acquisitions and by selling non-strategic assets.

To maintain recurrent growth in earnings per share higher than that of our competitors it is vital to actively manage our portfolio of businesses, investing with price discipline in banks and markets where our management can create value. We also dispose of non-essential assets where we have little capacity to create value.

The acquisitions policy will be selective and based on strict strategic and financial criteria. The return on these investments must always exceed the cost of capital within a maximum of three years.

Banco Real's acquisition in 2007 and the sale of pension businesses in Latin America, property in Spain, and Antonveneta in Italy reflect the discipline in capital that we are imposing on all our decisions so as to maximise shareholder value.

"We create value through acquisitions and by selling non-strategic assets."

5) We know how to exploit the competitive advantages that our scale and international vision give us.

Our banks are able to achieve better levels of efficiency than those of our local competitors, taking advantage of economies of scale generated by our global "factories".

Moreover, the development of global businesses in Wholesale Banking, Cards, Asset Management, Insurance and Private Banking enables local banks to apply best practices in each market.

In this way, Banco Santander is able to contribute value to its portfolio of businesses and make the Group worth more than the sum of its parts.

6) And lastly, the sixth pillar, which I view as fundamental, Banco Santander's capacity to capture, develop and retain the best management team.

Human capital is the foundation of the "Santander model." We are able to offer opportunities to our employees to develop their careers within the Group, thereby retaining the best people. At the same time, by becoming more global, we have been able to incorporate new and more diverse talent. Developing the best team of executives has been and will continue to be the central pillar of the Bank's capacity to create shareholder value.

OUR CORPORATE GOVERNANCE AND COMMITMENT TO SOCIETY

Banco Santander continued to consolidate and apply the best practices in corporate governance matters.

We have the leadership of an exceptional Board, with Directors of the highest profile, training and experience. The Board has a balanced composition and has always shown agility and a high capacity for decision-taking.

Mr. Luis Rodríguez Durón, representing Mutua Madrileña, left the Board as a result of the Mutua's sale of its stake in the Bank. Ms. Isabel Tocino Biscarolasaga joined the Board as an independent director and Mr. Juan Rodríguez Inciarte as an executive director. I am sure their contribution to the Board will be very positive, given their personal and professional qualities.

The Bank's continued commitment to society was underlined by a EUR 119 million investment in corporate social responsibility. This commitment centres on higher education where Banco Santander has agreements with 623 universities in 15 countries. The importance we attach to universities around the world resulted in the creation of the Santander Universities Global Division.

In 2007, we completed the convergence towards the single Santander brand and enhanced its reputation and international positioning. The Bank today is globally represented by a single brand image, one that combines solidity, modernity and the internationalisation of one of the world's main financial groups with the proximity provided by leading branch networks in its local markets.

A VISION OF THE FUTURE

We are very confident about our future. Whatever the circumstances of the economies and countries where our Group operates, our banking model gives Santander a clear competitive edge.

We aspire to make further progress in this line of excellence, so that Banco Santander's earnings per share and growth in its dividend significantly outperform all our main competitors. All of this will continue the positive path of creating value for our shareholders, whom I would like to thank yet again for their confidence and support.

Emilio Botín
Chairman

"Shareholder value is created by business with customers, not by assuming more financial risk."

Alfredo Sáenz,
Second Vice-Chairman and CEO

SANTANDER'S ORDINARY ATTRIBUTABLE PROFIT WAS EUR 8,111 MILLION, DRIVEN BY GROWTH IN ALL BUSINESS AREAS

Dear shareholders,

In 2007, we generated a record attributable profit of EUR 9,060 million. Excluding net capital gains and extraordinary allowances, ordinary attributable profit was EUR 8,111 million. This figure best shows the Group's capacity to generate recurrent profits. Earnings per share, before extraordinaries, was 21.4% higher at EUR 1.28.

Despite turmoil in the financial markets, we managed to maintain our pace of growth in the second half of the year, underscoring the resilience of our business model in a difficult year.

The excellent growth in our profits resulted in a total return for shareholders of 8.5% (based on the rise in the share price and the dividend). This performance was particularly positive in the context of the difficult year for international banks. Of the 20 European and US banks that we consider peers, Santander was one of only two that had a positive return on its share.

Furthermore, we also successfully completed a very important transaction for us: the acquisition of ABN AMRO with Royal Bank of Scotland and Fortis. I will comment on this later.

OUR MANAGEMENT PRINCIPLES

The share's good performance and the excellent earnings performance were the direct result of our management principles.

In my view, the international banking sector suffered from the temptation, over the past few years, to grow more quickly by assuming more financial, market and credit risk than naturally is produced from customer relations.

We have always resisted entering this dynamic, one which results in assuming risk without knowing the customer. It has always been very clear to us that shareholder value is created in the medium and long term by adding value with our customers, not by assuming more financial risk. Risk is an inevitable component of our business which we must manage, but it can never be the main engine of our growth.

The decision not to relax our credit standards meant sacrificing some growth in the last few years compared to our more aggressive competitors. We have always been clear about the nature of the banking cycle: it is precisely when the going is good that discipline in risks (in all its forms) has to be at its firmest.

In the current environment, when many of our competitors are returning to traditional banking; we have the advantage of never having departed from it.

Our management principles and business model can be summed up as follows:

1. **Our model is based on retail banking,** backed by extensive distribution networks (branches, telephone, Internet, agents, etc).
2. **Vertical strategy in retail banking:** I believe that in the current scenario the model of universal, transactional banking has been vindicated yet again, given its stability and cross-selling possibilities. This model was questioned in recent years, when lending was the "star product."
3. **The importance of the universal banking model and of deposit franchises**. That is, strong and competitive operations in attractive markets, rather than an alternative model of being in a very large number of countries but with little critical mass in each market. Being a significant force in retail banking also means having a significant presence in each local market.
4. **Focus on commercial efficiency:** Our retail banking model enables us to generate revenue growth (based on boosting customer business) while, at the same time, keeping costs flat. This continuous improvement in productivity and efficiency is based, on the one hand, on the advantages of our technological platform and, on the other, on our culture of continuously restructuring the operating areas. This enables us to achieve a good balance between investments in the long term and surpassing our targets (and the market's expectations) in the short term.
5. **Exploit the advantages of size.** We believe our global size must represent a source of competitive advantage which all our local units must exploit.

   Our management of the banks in each country aims to meet the following criterion:

   - First, each local bank is required to attain the best local standards in efficiency, profitability and growth. In other words, to position itself by its own merits among the best banks.

"Of the 20 European and US banks that we take as our peer group, Santander was one of only two whose share had a positive return in 2007"

- Second, each local bank has the opportunity to benefit from the Group's economies of scale. For example, to share operational centres and corporate technological developments. This enables the bank to achieve gains in efficiency that are not within the reach of its local competitors.

- Third, the interaction of our local units with our global product units (insurance, cards, etc) has to be capable of impulsing growth by applying best practices to each local market, exploiting the Group's experience and economies of scale.

- Each local unit must also be capable of exploiting the existing skills and know-how of other local units. We are achieving this through corporate projects that enable us to create business models on the basis of the Group's already existing skills.

6. **And without falling into the inefficiencies of organisations that become too big.** We recognise that large institutions can fall into bad habits by becoming too big, as a result of unnecessary growth in costs resulting from too much bureaucracy, the loss of business drive and vocation for growth, and greater laxness in controlling risks.

   We know that leveraging our global scope and creating value as a group is not just an option. It is an obligation. The market will demand a "break -up" of any bank that is not able to create value as a group, thus being only a collection of businesses.

   We are therefore managing our institution to maximise the advantages of our global size and avoid possible disadvantages. In my view, we are doing this successfully. However, we should be realistic: we are just beginning. Neither we nor our international competitors have yet managed to squeeze all the potential out of being a global bank, either in terms of efficiency or the capacity to generate revenues. For this reason I believe that exploiting "global synergies" will be a very important source of growth and creation of value in the coming years.

7 **Lastly, we must ensure that we maintain the strategic flexibility** needed to continue to re-balance our Group, making acquisitions in areas of growth and high profitability and selling in less attractive areas. In 2007, we conducted both types of transactions, most strikingly the joint acquisition with our partners, The Royal Bank of Scotland and Fortis, of the Dutch bank ABN AMRO. As well as its strategic importance for Banco Santander, explained by our Chairman, I would like to single out the novel aspects:

- The acquisition was made by a consortium, something unthinkable until 2007. In the future, size will not prevent banks with mediocre results from being seen as targets by other banks also operating in a consortium.

- This purchase is excellent for Santander because it strengthens our position in Brazil (vertical strategy) enabling us to become one of the leading banks, achieving synergies with little execution risk.

- Another positive aspect is the way in which the transaction was financed: optimising the Group's balance sheet so that the acquisition could be made without having to issue shares. This means that the purchase has a positive impact on our EPS as of the first year.

OUR UNITS' RESULTS REFLECT OUR MANAGEMENT PRINCIPLES

I. Continental Europe

Attributable profit, excluding capital gains, was 27.4% higher at EUR 4,423 million. Its growth was solid and very diversified. All units' gross operating income increased by 10% or more and their efficiency ratios improved.

a. Retail Banking

In a year in which strong investments in business capacity were made, the growth differential between the rise in gross operating income and operating costs of our retail banking units in Continental Europe was 8.7 percentage points in 2007. This is what we call "managing the jaws" (maintaining the growth of gross operating income at 5-10 p.p. higher than the rise in costs).

The Santander branch network's attributable profit increased 19.9% to EUR 1,806 million. The "We Want to be your Bank" plan is yielding very good results. When we launched the plan, we took a bold step by eliminating fees for our linked customers. In 2007, it continued to produce results.

Banesto's ordinary attributable profit was 24.2% higher. This bank is achieving strong growth in key segments: SMEs, consumer credit and cards and individual customers. Lending to small companies grew 31% and to medium-sized ones 26%.

“The ABN AMRO acquisition has a positive impact on earnings per share as of the first year”

Santander Totta, in Portugal, once again combined double digit growth in gross operating income with controlled costs. Its attributable profit, excluding capital gains, rose 20.8% to EUR 511 million. We continued to invest heavily in strengthening our commercial network and in increasing the number of new and linked customers (“Comissões Zero” strategy).

b. Consumer Finance

The other important business in Continental Europe is Santander Consumer Finance, whose attributable profit was EUR 719 million, 8.2% more than in 2006 excluding the impact of the purchase of Drive (+27.1% including it). These results were achieved despite the negative effect of higher euro zone interest rates on this unit’s spreads. Drive’s performance in its first year as part of the Group was very positive, particularly bearing in mind the downturn in the US economy.

II. Abbey

Abbey’s 2007 attributable profit amounted to EUR 1,201 million, 19.8% higher than in 2006. Return on investment exceeded the cost of capital in the third year, as expected.

Abbey is progressing in line with our expectations. Its efficiency ratio improved by more than 20 percentage points in its first three years: from more than 70% in the first quarter of 2005, when we took control of the bank, to 50.1% at the end of 2007. Abbey is being successfully transformed from a mortgage bank to a fully fledged commercial bank, which is competing successfully in segments such as SMEs and cards. We have advanced a great deal, with productivity gains in the branches, as well as initiatives such as the re-launch of the cards business in the second half of 2007. We also have an ambitious plan to open more branches. However, there is still a long way to go, and fully realising Abbey’s potential is one of the Group’s main challenges.

III. Latin America

Our commitment to Latin America is based on the region’s economic and social development potential, which is enabling the development and consolidation of a strong middle class. This will continue to produce a strong rise in “bankarisation” and an exponential effect between stronger economic growth and an increase of the banking sector in the economy. We have seen this process happening in economies like Spain; it represents a very attractive environment for banks that know how to exploit it.

The region’s solid fundamentals were underscored in the recent crisis. I am, therefore, very positive about the growth potential of our business in this geographic area in the next few years.

Latin America continued its strong growth trend in business: revenues and profits generated in the region doubled between 2003 and 2006. Against a background of solid and stable economic growth, growing “bankarisation” and a larger middle class, in 2007 Santander took advantage of its unique positioning in Latin America to strongly push business with customers.

Attributable profit increased 27.3% to $3,648 million. The good growth of customer revenues absorbed the investment in boosting ground capacity (branches, telephone attention centres, etc), technology and business development, as well as the greater need for provisions resulting from the strong rise in lending and the change of business structure toward more profitable products (which also carry greater risk).

Growth was very well diversified within the region. The three large markets (Brazil, Mexico and Chile) registered strong growth in commercial revenues underpinned by a solid a increase in activity. In Brazil, lending and savings (deposits+mutual funds) increased by around 30% in local currency. In Mexico, loans managed increased by more than 20% and in Chile both credit and bank savings rose by close to 20%.

These sharp rises in revenue led to new records in attributable profit: Brazil’s was up 31.6% at $1,239 million, for the first time surpassing $1 billion; Mexico’s rose 35.2% to $894 million and Chile’s 21.1% to $743 million.

The other countries where we are present also registered significant rises in business volumes and commercial revenues. The attributable profit of these countries increased 16% in dollars, with Venezuela and Argentina growing at a faster pace than the average. I would like to highlight the recurrent improvement at our bank in Argentina, which has gained market share and consistently improved its efficiency ratio.

I have looked at the favourable performance of the main geographic areas. My comments would not be complete were I not to mention the increasing number of businesses where we are applying a global vision. Santander is an increasingly integrated Group, with global approaches that are adding more and more value to each of our local units.

"The engine of our growth has always been recurrent revenues from customer business"

Today it makes less sense to manage businesses such as wholesale banking, cards or asset management from a purely local standpoint. If the economies where we conduct business are becoming increasingly integrated and our customers' approach more and more global, then it makes sense for us to do the same.

These global approaches are producing very clear and tangible results:

1. **Global Wholesale Banking's** profit before taxes was 28.4% higher. The strength of customer revenues, which increased by more than 20%, and the recovery of generic provisions made in 2006 offset the smaller contribution from markets in the second half of the year.

2. **Means of Payment:** 2007 saw the consolidation of the global unit as revenues increased 41% and lending 40%. Although there is still a long way to go, this unit is already having a very significant impact on the growth of local units (faster growth in the cards business in Europe and Latin America).

3. **Asset Management's** profit before taxes increased 8.1%. The good performance of mutual funds in Latin America offset the slowdown in this business in Spain, where tax legislation and the higher cost of liquidity increased the attractiveness of deposits over funds.

4. **Insurance:** This segment also enjoyed an excellent year in activity and results. Gross and net operating income and profits grew by around 20% or more. The sale of insurance products in commercial networks is as much a strategic objective for the Group as the sale of other financial products. Banking networks, particularly those that adapt themselves to this end, are the logical distribution channel for some types of insurance.

5. **Santander Private Banking** was established as a global unit in 2007, a year when results were excellent: managed assets rose 8% and attributable profit 35.1% to EUR 445 million. Private banking is a strategic business for Santander. On the one hand, the strong rise in the world's wealth (the fruit, to some extent, of globalisation) is generating high potential for this segment. On the other, we believe that at this moment the strategic importance of the wealth management business has increased, both on-balance sheet (deposits) and off-balance sheet (funds, securities). Our ambition is to have dominant positions in private banking in the European and Latin American markets where we are the leading retail bank.

In short, 2007 was a year when all our units were able to maintain a brisk pace of growth.

We managed to achieve a good balance between results in the short term, which exceeded the market's expectations, and investing in the future of our businesses. We continued to strengthen our distribution networks in Europe and Latin America, Abbey's transformation is proceeding apace and we made further progress in developing global business units.

PRIORITIES FOR 2008

2008 will be a complicated year for international banks. The turmoil in the financial sector (less liquidity and credit squeeze) is likely to have an impact on the economy as a whole. Indeed, economic growth forecasts are gradually being revised downwards.

We, however, are confident about 2008:

- Our business is based on retail banking (84% of attributable profit) and our exposure is very diversified by markets. This gives us a more solid base for growth.

- We did not lose our heads during the "exuberant" phase of the economic cycle. We are facing the downturn with a healthy balance sheet, a core capital ratio of 6.25% and one of the highest levels of coverage by an international bank of non-performing loans (EUR 6,000 million of generic provisions).

- The income statement of the Bank is very high quality because the engine of our growth has always been recurrent revenues from customer business. This is a good starting point from which to keep on growing.

- We are actively managing operating costs. I can assure you that this year, once again, we will enjoy good operational leverage and wide "jaws" (the growth differential between gross operating income and costs).

- We expect the investments made in expanding commercial networks, integrating technological platforms and developing global structures to continue to bear fruit in 2008.

"Economic growth forecasts are gradually being revised downwards. We, however, are confidently facing 2008"

- As I have already mentioned, we still have clear opportunities to deepen our global approach and to continue to squeeze the most out of our size, both in terms of costs and new revenue-generating opportunities.
- Moreover, we have a portfolio of businesses with many high-growth potential units: we are the largest banking group in Latin America. The acquisition of ABN AMRO's bank in Brazil makes us the only big international banking group with a significant presence in a BRIC market (Brazil, Russia, India and China).
- One of the main challenges facing us this year is to ensure the success of our investment in Brazil, which will begin to contribute close to one quarter of the Group's net profit. We have a very clear plan and the experience needed to do this successfully.

CONCLUSION

We grew at a faster pace than the sector in years when some of our competitors expanded by taking on a high level of risk in financial, credit and liquidity terms. In an environment in which these sources of growth will not be available, we believe our growth differential with the sector will increase. It is in the less easy times of the economic cycle where the difference between solid business models and the rest becomes clearer. As we said at our Investors' Day in September 2007, we believe we can grow at rates of at least 5 percentage points more than the average of our competitors.

Maintaining a strong pace of growth will depend, to a large extent, on our ability to react to new challenges as a global bank. I sincerely believe that we are very well positioned to respond to these challenges, in a way that meets our very demanding criteria. We are very aware that only an outstanding performance will satisfy you, our shareholders. We are ready to continue presenting results that meet your standards and to continue giving you positive surprises.

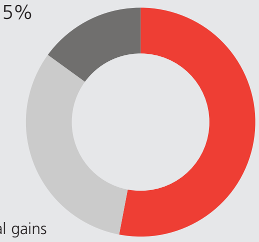
Furthermore, I believe that this capacity to keep on growing at a brisk pace, creating value as a Group, is not currently reflected in our share price, which is trading at similar or lower multiples than those of other international banks whose growth expectations are much lower than ours. Traditionally, the low multiple at which the banking sector traded reflected the cyclical nature of its growth. In my view, however, a bank like ours, committed to a low risk profile and growth based on distribution (i.e. on customer relations), merits, in the medium term, a higher multiple.

This, and our top notch management team, capable of responding to changes in the environment, continues to make me optimistic about the future and about the outlook for your investment.

Alfredo Sáenz
Second Vice-Chairman and CEO

A GEOGRAPHICALLY WELL DIVERSIFIED BANK

ATTRIBUTABLE PROFIT*
BY GEOGRAPHIC AREAS



* Excluding extraordinary capital gains

CONTINENTAL EUROPE

Santander is the euro zone's largest bank

Branches (number)	5,976
Employees (number)	47,838
Customer lending*	310,618
Managed customer funds*	323,602
Attributable profit*	4,423

* Million euros

UNITED KINGDOM

Abbey's goal is to be the UK's best commercial bank

Branches (number)	704
Employees (number)	16,827
Customer lending*	184,086
Managed customer funds*	216,672
Attributable profit*	1,201

* Million euros

LATIN AMERICA

Santander is Latin America's leading financial group

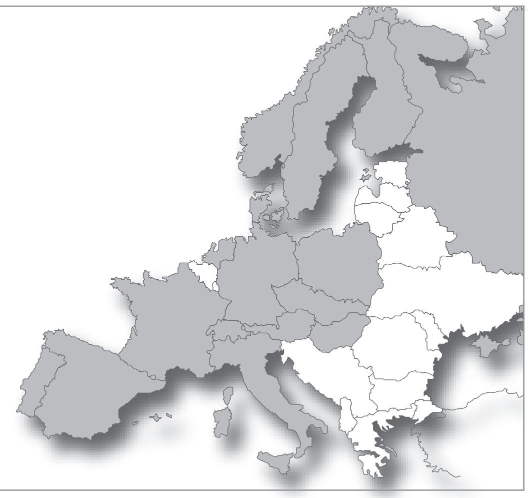
Branches** (number)	4,498
Employees (number)	65,628
Customer lending*	68,854
Managed customer funds*	137,682
Attributable profit*	2,666

* Million euros
** Including traditional branches, banking service points and service points in companies.

FORMULA 1™ SANTANDER BRITISH GRAND PRIX - Silverstone, UK. July 8th 2007.

Banco Santander is present in 16 countries in Continental Europe and is the euro zone's largest bank by market capitalisation. It is Spain's retail and private banking leader and Portugal's third biggest private-sector commercial bank by profits. It also has high market shares in consumer finance in Spain, Germany, Italy and Poland.

Santander's business model in Europe focuses on retail banking and has a solid technological platform, enabling it to generate recurrent revenues with controlled costs. Profit growth quickened in 2007, profitability was higher and the cost/income (efficiency) ratio was below 40%.



Abbey is the UK's third largest mortgage lending bank. It strengthened its range of products for individual customers in 2007, particularly in savings and current accounts, insurance, personal loans and enhanced the quality of service. It is also strengthening in corporate, investment and private banking, cards and asset management, generating synergies and taking advantage of the Group's global reach and experience.

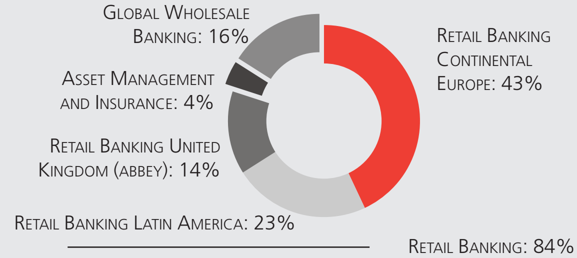
Abbey has made excellent progress in achieving the targets of its plan since becoming part of Grupo Santander in 2004. Its attributable profit was more than EUR 1,200 million in 2007 and its efficiency ratio continued to improve to below 50%.

Banco Santander has been firmly committed to Latin America for more than 60 years. It is present in nine countries and has positions in the region's three main economies: Brazil, Mexico and Chile.

Santander doubled its presence in Brazil in 2007 with the acquisition of Banco Real. This purchase will bring the total number of Santander branches and banking service points in the country to 4,000 and will make us the third largest bank by loans and the second by customer deposits. Furthermore, the Bank continues to invest in expanding its distribution capacity in the region, with more branches, ATMs and staff at the service of our customers.

THE SANTANDER BUSINESS MODEL: A GLOBAL, EFFICIENT, PROFITABLE BANK, CLOSE TO ITS CUSTOMERS

PROFIT BEFORE TAXES*
BY BUSINESSES



*Excluding extraordinary gains and extraordinary writedowns/allowances.

The pillars of Banco Santander's business model are retail banking, geographic diversification, prudent risk management, efficiency and capital discipline.

RETAIL BANKING

The international bank with the most branches

Retail banking generates 86% of Banco Santander's revenue; this makes its results very stable and recurrent.

Santander has the largest retail banking network among international banks. Its 11,178 branches (more than 13,000 including Banco Real in Brazil), provide 65 million customers with innovative products and services tailored to meet the needs of different markets. The objective is to provide excellent service to increase levels of customer satisfaction and linkage. This, in turn, enables us to establish lasting relationships.

The Bank has more than 131,000 employees. Its human resources policy is aimed at attracting, motivating, training and retaining the best international talent.

DIVERSIFICATION

Balanced between mature and emerging markets

Banco Santander is present in over 40 countries, balanced between mature and high-growth emerging markets. This combination enables us to achieve high revenue and profit growth throughout the whole economic cycle.

The Bank has high market shares in Europe and Latin America's main markets. Furthermore, the global business areas and their capacity to generate synergies amoung countries ensure that the Group is worth more than the sum of its parts.

PRUDENT RISK MANAGEMENT AND MAXIMUM TRANSPARENCY

A Bank with a low, predictable risk profile

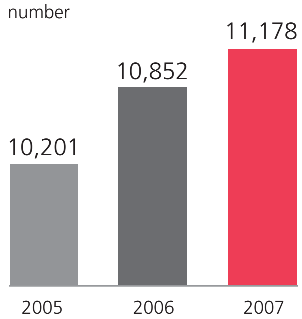
Grupo Santander's risk policy is prudent and strict. It uses the most advanced models which, together with its focus on retail banking, give it a low and predictable risk profile.

Retail banking accounts for 91% of Santander's total credit risk and the volume of high-risk operations or those outside its main markets is marginal.

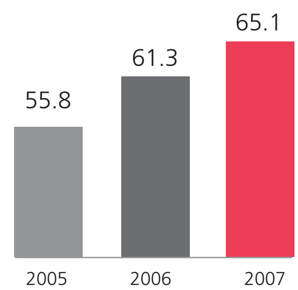
The Bank also informs the market about its strategy, results and objectives with transparency and in a timely fashion.

Branch in Calle Hernani 73, Madrid, Spain

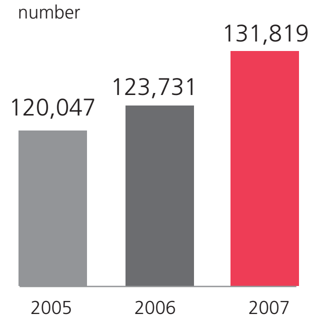
BRANCHES
number



CUSTOMERS
million



EMPLOYEES
number



EFFICIENCY

Cutting-edge technology at the service of business efficiency

Santander is on the cutting edge of technology, constantly improving business and operational efficiency. Its strategic banking platforms (Partenón in Europe and Altair in Latin America), already present in over 10 countries, provide a full picture of customers and enables the bank to anticipate the financial needs of individual and corporate clients.

Our global model of technology and operations allows operations, systems and processes to be transferred and shared between countries. Thanks to this, the bank's global areas (wholesale banking, private banking, asset management, insurance and means of payment) are able to achieve significant cost savings.

As a result, Grupo Santander's efficiency ratio (44.2% in 2007) is one of the best among international banks.

DISCIPLINED USE OF CAPITAL

High solvency and solid capital ratios

The Group has a BIS capital ratio of 12.7%, Tier 1 of 7.7% and core capital of 6.25%. In 2007, Standard & Poor's and Moody's upgraded their long-term rating of the Group to AA and Aa1, respectively.

The Bank's use of capital is geared towards the most profitable businesses. The priority objective is to create sustainable value, with the focus on earnings per share, for our 2.3 million shareholders.

Santander applies strict financial and strategic criteria when considering acquisitions. They are conducted in markets or countries that the Bank knows well and must have a positive impact on earnings per share as of the third year of the purchase. The Bank also has a policy of disposing of non-strategic businesses.

BANCO SANTANDER GENERATED RECORD ATTRIBUTABLE PROFIT OF EUR 9,060 MILLION IN THE YEAR WHEN IT CELEBRATED ITS 150TH ANNIVERSARY

Profits are growing on a sustained basis, spurred by a strong revenue-generating capacity in countries and business segments. The high recurrence of profits is underscored by the big increases in gross operating income

RECORD PROFITS IN 2007

Banco Santander carried out its business in a varied environment, in which the good economic performance of the main markets where it operates was affected by the volatility of financial markets sparked by the crisis in the US subprime mortgage market.

Despite this, Banco Santander achieved a record attributable profit of EUR 9,060 million. Excluding the capital gains from the sale of the stake in Intesa Sanpaolo, from the pension fund management institutions in Latin America and property in Spain, ordinary attributable profit was 23.2% higher than in 2006 at EUR 8,111 million.

These earnings were backed by high growth in both geographic areas and business segments.

- Continental Europe's attributable profit was EUR 4,423 million, due to strong growth in revenue and contained costs.
- In the UK, Abbey's profit amounted to EUR 1,201 million, thanks to a broader range of products and a significant improvement in efficiency.
- In Latin America, attributable profit was EUR 2,666 million, the fruit of the business effort with individual customers, SMEs and companies.

Retail Banking generated EUR 9,339 million in profit before taxes, the largest contribution to earnings, injecting stability and recurrence. The other segments also increased their contributions. Particularly striking was Global Wholesale Banking (+28.4% in profit before taxes to EUR 1,830 million).

The Group continued to improve its profitability (ROE excluding capital gains rose 1.1 p.p. to 19.6%) and efficiency (costs as a percentage of gross operating income stood at 44.2%, 4.4 p.p. better than in 2006). The ratio of non-performing loans remained a low (0.95%) and coverage was 151%.

ABN AMRO ACQUISITION

In 2007 the consortium of Banco Santander, Royal Bank of Scotland and Fortis successfully completed the takeover of the Dutch bank ABN AMRO, the largest banking transaction ever of its kind.

The acquisition met Banco Santander's financial and strategic criteria: we know the target market – Brazil – well, it will have a positive impact on earnings per share from the onset, and the return on the investment will exceed the Bank's capital cost in the third year.

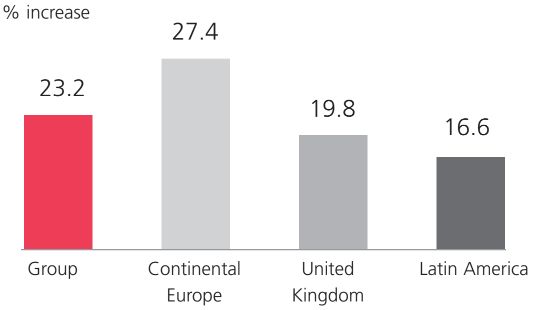
This operation bolsters Santander's presence in Brazil with the acquisition of Banco Real. Our network of 4,000 branches and service points (2,000 of Banco Real and 2,000 of Santander Brazil) make Santander the third largest bank by loans and the second by deposits in Brazil, a country where we have much experience and excellent prospects.

Banco Real will be fully integrated into Grupo Santander during 2008.

Italian bank Antonveneta was also initially allotted to Banco Santander, which then sold it to Monte dei Paschi di Siena for EUR 2,400 million more than the amount assigned at the time of the offer.

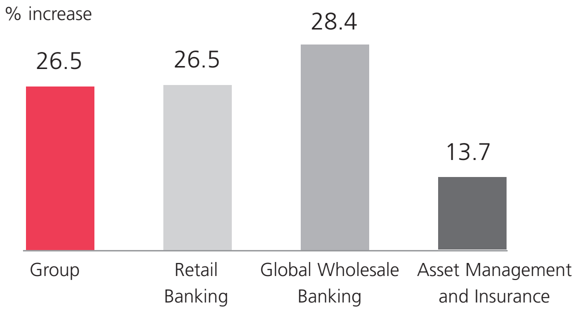
The acquisition of ABN AMRO was financed in the most efficient manner for our shareholders.

ATTRIBUTABLE PROFIT* 2007
BY GEOGRAPHIC AREAS
% increase



* Excluding capital gains and extraordinary writedowns/allowances.

PROFIT BEFORE TAXES* 2007
BY BUSINESS AREAS
% increase



150TH ANNIVERSARY

THE 150th ANNIVERSARY IN FIGURES

- Every employee received **100** Santander shares
- **421 million** people around the world saw the international campaign, "Santander: More branches than any other international bank"
- **59** special events for shareholders, customers, investors and employees
- Attended by **691,678** people
- **132,000** employees were involved in "Santander eres tú," a human resources project to enhance the corporate culture
- **173,000** copies of the book "1857-2007, Banco Santander, 150 Years of History" were distributed

THE SANTANDER BRAND

Coinciding with Santander's 150th anniversary, Banco Santander is identified as a single brand and corporate image in the countries where it is present. Centralised management of large sponsorships (Formula 1, Copa Libertadores and the America's Cup) helped to promote the Bank's reputation and international recognition.

SANTANDER GENERATED IN CONTINENTAL EUROPE ATTRIBUTABLE PROFIT OF EUR 4,423 MILLION AND CONSOLIDATED ITSELF AS THE LARGEST BANK IN THE EURO ZONE BY MARKET CAPITALISATION

In Continental Europe, Banco Santander has almost 23 million customers in 16 european countries. It conducts business through 5,976 branches. Its results in 2007 were of high quality, the fruit of strong growth in customer business and gains in efficiency and productivity in its commercial networks.

Banco Santander is the leading commercial and private bank in Spain and the third- largest private sector commercial bank in Portugal on the basis of profits.

It also conducts wholesale banking, asset management and insurance activities in Continental Europe, and Santander Consumer Finance has businesses in 16 countries.

Continental Europe's attributable profit of EUR 4,423 million was 27.4% more than in 2006. The four big business units (Santander branch network, Banesto, Santander Totta and Santander Consumer Finance) achieved double-digit profit growth. These results were driven by a sharp rise in commercial revenues and by cost control. The cost/income (efficiency) ratio, in a year when the number of branches rose by 204, was 2 p.p. better at 38.8%. Also noteworthy was the rise in ROE (excluding capital gains) to 21.3%.

RETAIL BANKING IN SPAIN

Santander has two retail banking networks in Spain: the Santander branch network and Banesto.

SANTANDER BRANCH NETWORK

This network has 2,887 branches and 19,392 employees. It focuses on providing its more than 8 million customers with high-quality commercial management, maximum service quality and the most innovative products. This is combined with prudent management of credit risks and strict control of costs. With a cost/income ratio of 38.7%, the Santander branch network is one of the main benchmarks in efficiency in the Spanish banking sector.

Its attributable profit in 2007 was 19.9% higher at EUR 1,806 million.

The "We Want to be your Bank" strategic plan continues to be the main growth driver in business with individual customers. This plan was broadened in 2007 to include shareholders, shops, professionals, the self-employed, university students and immigrants. Service fees have been eliminated for the 4 million customers benefiting from the Plan, who are also offered a wide range of products and associated services.

Thanks to "We Want to be your Bank", the number of customers captured doubled, customer defection was halved and customer linkage increased fourfold. At the same time, customer satisfaction and operating margin per customer rose and the number of complaints declined.

The Santander Branch Network also has an ambitious strategy for the specialised segments of companies and private and personal banking, two markets with very strong growth potential.

With regard to funds, the Santander branch network carried out an unprecedented operation in the Spanish banking sector. It distributed EUR 7,000 million of "Valores Santander" (Santander Securities), to 129,000 investors, which were used to finance in part the acquisition of ABN AMRO.

GOALS

- Increase the number of customers to 10 million in 2010.
- Step up customer linkage through cross-selling to achieve in 2010 more than 5 million beneficiaries of the "We Want to be your Bank" plan.
- Improve the quality of service.
- Faster revenue growth than the market's.
- Maintain risk quality and boost efficiency.

Santander Totta branch, Rua do Ouro, nº 75, Lisbon, Portugal.

Million euros	SANTANDER BRANCH NETWORK	BANESTO	PORTUGAL
Customers (millions)	8.4	2.4	1.9
Branches (number)	2,887	1,946	763
Employees (number)	19,392	10,776	6,405
Customer lending	116,798	74,034	30,119
Managed customer funds	101,483	96,034	33,766
Net operating income	2,863	1,312	672
Attributable profit	1,806	668*	511
Efficiency (%)	38.72	41.20	44.0

* The attributable profit, as in other areas, is calculated with the criterion indicated in page 82 of the Annual Report, and corresponds with the attributable percentage of Grupo Santander. Without their impact the public profit of Banesto is 765 million euros.

BANESTO

Banesto continued to combine profitable, efficient and diversified growth with excellent quality of risk. The Bank surpassed its goals for 2007 (+24.2% in ordinary attributable profit and a gain in market share).

The main focus of the business strategy is companies, SMEs, the self-employed and shops, as well as improving customer linkage and the transactions of individual customers.

The bank's technological advantage provides it with constant improvements in business productivity and innovation. The Q10 Quality Model enables Banesto to continuously enhance the quality of service and customer satisfaction.

In 2007, Banesto completed its Expansion Plan with the opening of 300 new branches in two years for a total of 1,946 and strengthened the multiple channel network. All of these elements made the bank closer to its customer base: 366,341 companies and more than two million individual customers.

GOALS FOR 2008

- Increase the market share by 0.25 p.p.
- Improve ROE and the efficiency ratio by 1 p.p. and 2 p.p., respectively.
- Keep the ratio of non-performing loans below the banking sector's average.
- In the medium-term, Banesto aims to be Europe's best retail bank in terms of profitability and efficiency.

SANTANDER IN PORTUGAL

Santander Totta is Portugal's most profitable and efficient bank and has the highest rating among the country's banks.

Attributable profit excluding capital gains was EUR 511 million, most of it due to the increase in commercial revenues.

Santander Totta's business strategy is very customer-focused: the number of customers has risen, linkage levels are higher, cross-selling is greater and innovative products and services have been launched.

GOALS FOR 2008

- Greater push in business with SMEs.
- Grow in the market for individual customers, taking advantage of the opening of new branches and the larger number of linked customers.
- Remain the leader in productivity and efficiency.

SANTANDER CONSUMER FINANCE'S ATTRIBUTABLE PROFIT ROSE TO EUR 719 MILLION IN 2007 AS IT EXPANDED INTO NEW MARKETS

Better management of products and strict cost control offset the adverse economic environment for business

Santander Consumer Finance is present in Germany, Spain, Italy, Portugal, Poland, Norway, Sweden, the UK, Finland, the Netherlands, Austria, Denmark, Hungary, the Czech Republic, Russia, the US, Chile, Mexico and France

Santander Consumer Finance is the Group's area that specialises in consumer finance.

Its main businesses are auto finance and personal loans, which, together, account for 77% of the portfolio and contribute around 80% of profit before taxes.

The strategy is based on providing finance at the point-of-sale; Santander Consumer Finance has a large network of distributors (mainly auto dealerships) with whom it reaches agreements to provide finance for automobiles and other consumer goods. Once a relation is started with final customers, Santander Consumer Finance strives to increase customer linkage and loyalty by directly offering them other products such as credit cards.

The Division also includes Openbank, the Group's online bank.

BUSINESS IN 2007

Santander Consumer faced an adverse economic climate in 2007, because of higher interest rates in Europe, growing competition and stagnant car sales in European countries.

Santander Consumer Finance USA, in its first year as part of Grupo Santander, produced exceptional results in a challenging market caused by the US sub-prime mortgage crisis.

As a result of these factors. Santander Consumer Finance managed to maintain good growth and profitability rates. Attributable profit was EUR 719 million.

Also of note was the expansion into new markets such as Russia, Mexico, Chile, France and Finland, either by acquiring small consumer finance companies, forming joint ventures with local operators or creating start-ups.

SANTANDER CONSUMER FINANCE

Million euros

Countries	19
Customers (millions)	9.9
Branches (number)	285
Employees (number)	7,221
Customer lending	45,731
Managed customer funds	32,953
Net operating income	1,867
Attributable profit	719
Efficiency (%)	29.64

Santander Consumer Finance Headquarters in Mönchengladbach, Germany.

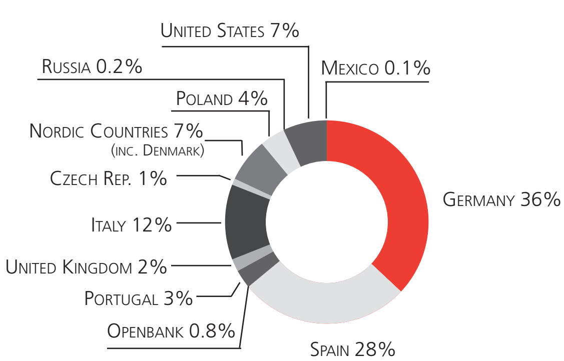
ACHIEVEMENTS IN 2007

- Business diversification
- Entry into new European and Latin American countries
- Expectations exceeded in the United States
- Significant growth in new lending
- Cost control
- Better Openbank results

GOALS FOR 2008

- Faster revenue growth than the market, maintaining controlled NPLs
- Further integration of Santander Consumer Finance's units
- Selective extension of the product range
- Development of the latest investments in new markets

SANTANDER CONSUMER FINANCE LENDING BY COUNTRIES



ABBEY GENERATED ATTRIBUTABLE PROFIT OF EUR 1,201 MILLION AND CONTINUED TO PROGRESS TOWARDS ITS GOAL OF BEING THE UK'S BEST RETAIL BANK

In a very competitive market, Abbey increased its revenues at a faster pace than the market and continued to cut costs

Abbey exploited during 2007 the Group's global scope and experience to impulse businesses such as insurance, private banking, asset management and financial markets

Santander conducts retail banking in the UK through Abbey.

Abbey's attributable profit in 2007 was 19.8% higher at EUR 1,201 million. Total gross operating income grew 6.4%, well above the market's average pace, while costs declined 3.2%.

Abbey has made excellent progress, since forming part of Grupo Santander, in meeting the financial objectives set in its strategic plan. It has cut costs by £300 million, earlier than initially envisaged, and its efficiency ratio improved to 50%, 20 percentage points better than three years ago. As had been envisaged, the return on the investment in acquiring Abbey surpassed the cost of capital in 2007.

Abbey has a low risk business mix; only 2.3% of retail banking balances are unsecured loans. Its ratio of non-performing loans of 0.6% underscores the low risk of its mortgages.

A UNIVERSAL COMMERCIAL BANK

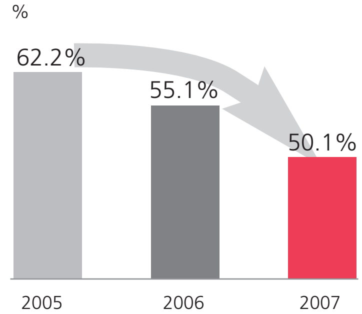
Abbey continues to make progress in becoming a universal commercial bank able to provide a broad range of innovative products and high quality services.

The Bank has an ambitious strategy to capture current and savings accounts. It is also strengthening its capacity to sell mortgages, with the objective of remaining among the Top 3 in the UK.

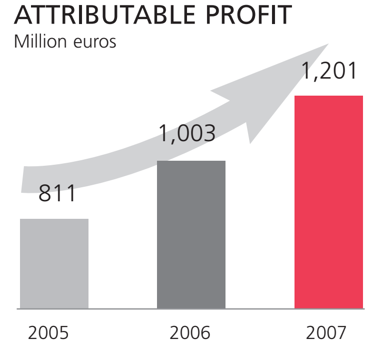
Of note in 2007 was the launch in record time of the credit card business. The first initiatives were well received in the market. The goal is to attain a market share of 4% in cards by 2010.

Abbey also took advantage during 2007 of the Group's global scope and experience to push businesses such as insurance, private banking, asset management and financial markets.

EFFICIENCY
%



ATTRIBUTABLE PROFIT
Million euros



Branch, Gracechurch Street, London, UK.

UNITED KINGDOM-ABBEY

Million euros

Customers (millions)	16.4
Branches (number)	704
Employees (number)	16,827
Customer lending	184,086
Managed customer funds	216,672
Net operating income	1,913
Attributable profit	1,201
Efficiency (%)	50.08

MORE CUSTOMER-FOCUSED

The Partenón technological platform continued to be rolled out on schedule.

Partenón reduces manual labour, allows for a greater business focus and enhances the quality of service.

In addition, Abbey has a branch-opening plan for 2009-2012 in order to better serve its customers.

POSITIONING AND RECOGNITION

Santander's positioning and recognition in the UK has risen thanks to a successful and effective corporate marketing campaign.

Abbey benefited from linking the launch of new products to the UK Formula 1 sponsorship (English team McLaren Mercedes and Santander British Grand Prix in Silverstone) and the image of the racing driver Lewis Hamilton.

GOALS FOR 2008

- Maintain revenue growth at around 5-10%, with flat costs.
- Continue to improve the efficiency ratio and move it closer to the Group's average.
- Full functioning of Partenón in 2008, enhancing the quality of customer service.
- Maintain its leadership position in mortgages and step up its presence in other segments or products, such as current and savings accounts, corporate banking, consumer credit and insurance.
- Increase its geographic presence over the medium term, with new branch openings.

SANTANDER INCREASED ITS PROFIT IN THIS REGION TO EUR 2,666 MILLION AND IT STRENGTHENED ITS PRESENCE IN BRAZIL

Under its Plan América 20.10 Santander aims to double its revenues in Latin America and be the best retail bank in all countries where it is present

Banco Santander has leadership positions in Brazil, Mexico and Chile. It is also present in Argentina, Venezuela, Puerto Rico, Colombia, Uruguay and Peru

Banco Santander redoubled its commitment to Latin America in 2007 with the acquisition of Banco Real in Brazil. This acquisition makes Santander the third largest bank in Brazil by loans and the second by deposits, with 4,000 branches and banking service points. Banco Real will be fully integrated into Grupo Santander during 2008.

The outlook for Latin America over the next few years is positive. The main countries have made great efforts to stabilise their economies and increase the rate of sustainable economic growth, enabling them to robustly face the recent turmoil in the international financial markets.

"Bancarisation" in the region continues, enabling growing segments of the population to access banking credit and savings. Santander estimates that in 2010 there will be 60 million Latin American households with more than $12,000 annual income.

Santander is well prepared to take advantage of Latin America's considerable demographic and economic growth potential.

The region generated attributable profit of EUR 2,666 million in 2007 (+16.6% in 2006 and +27.3% in dollars, its operating currency), driven by strong growth in lending, particularly to individual customers and SMEs, and by a rise in deposits and mutual funds.

The Bank continued to achieve the objectives set in the Plan América 20.10:

- Customer lending grew 20% and deposits plus mutual funds 21%.
- The number of branches increased by almost 300 on a like-for-like basis.
- The Santander brand is now installed in all countries.
- Investments have been made in technology to improve the business and operational efficiency of local banks.

At the end of 2007, Santander became the title sponsor of the Copa Libertadores, the biggest international football club competition in Latin America. The cup will bear the name of Copa Santander Libertadores until 2012.

GOALS

- Double business and customer revenues in three years.
- Reach more than 30 million individual customers in 2009.
- Improve the efficiency ratio by 10 p.p. in three years.
- Integrate Banco Real into the Group

Branch, Sao Paulo. Brazil

	Brazil	Mexico	Chile	Argentina	Venezuela	Puerto Rico	Colombia
Million euros							
Customers (millions)	8.3	8.5	2.8	2.4	3.0	0.5	0.4
Branches* (number)	2,104	1,088	494	276	283	137	74
Employees (number)	21,923	13,743	13,025	6,621	5,415	2,243	1,298
Customer lending	19,998	14,124	17,103	2,713	4,001	4,797	1,352
Managed customer funds	45,772	32,441	21,744	4,068	7,899	9,818	1,917
Net operating income	2,533	1.506	894	204	379	115	30
Attributable profit**	905	654	543	188	179	1	15
Efficiency (%)	39.58	37.71	39.22	54.79	40.22	64.63	71.19

* Including traditional branches, banking service points and service points in companies.
** In 2007 net profit before minority interests is EUR 3,071 million in Latin America. Net profit amounted to EUR 919 million in Brazil, EUR 875 million in Mexico, EUR 682 millionin Chile and EUR 212 million in Argentina.

BRAZIL

Brazil is one of the countries with the highest economic growth potential in the world and Banco Santander's main focus in emerging markets.

Santander Brazil made progress in 2007 in its main objectives: capturing, linking and retaining more customers; growth in distribution businesses such as auto finance, loans or credit cards linked to payroll; and development of business with SMEs and companies. It also continued to consolidate its leadership position in wholesale banking.

The Bank continued to register strong growth in lending to individual customers and in savings, particularly mutual funds. This resulted in double digit growth in all margins, improving the efficiency ratio by 6.8 p.p. to 39.6%.

Attributable profit increased 20.5% to EUR 905 million, and ROE reached 28.5%.

MEXICO

Santander is the country's third largest financial group, with market shares of 15.1% in lending and 16.2% in deposits and mutual funds. The Bank added 49 branches to its network in 2007 to meet the needs of 8.5 million customers.

The strategy in Mexico focuses on developing and linking customers and on profitable growth in businesses. The two anchor products for capturing new customers are credit cards (5 million issued) and the depositing of payroll cheques (2 million paid into accounts). The Bank uses consumer loans (net increase of 76,000 loans in 2007) and credit cards to achieve customer linkage. It also has very competitive mortgages and is developing businesses with SMEs, companies and Global Wholesale Banking.

Revenues grew strongly and attributable profit was 23.8% higher at EUR 654 million.

CHILE

Santander Chile is the country's largest financial group in terms of customers, distribution network and net profit.

Its strategy centres on increasing the number and linkage of customers, growth in business with individuals and SMEs and greater development of global businesses (wholesale banking, asset management, means of payment and insurance).

The larger branch network (net rise of 97 branches in 2007) and improvements in the quality of service helped to increase the customer base by 14% in 2007.

Greater customer business resulted in an 11% rise in attributable profit to EUR 543 million.

OTHER COUNTRIES

- In **Argentina**, Santander Río is one of the country's main banks with a market share of 9.6% in lending. Margins and attributable profit grew strongly in 2007.
- In **Puerto Rico**, profits fell 97.4% because of the island's recession and allowances made by the bank.
- In **Venezuela**, management focused on greater lending to individual customers, transaction deposits and high value-added services.
- In **Colombia**, the Bank concentrated on developing retail business and in 2007 gained market share in mortgages and consumer credit.
- In **Uruguay**, the Bank moved into a position of leadership after acquiring ABN AMRO's businesses in the country.
- In **Peru**, the Bank oriented its activity toward retail banking for businesses and to serving the Group's global clients.

SANTANDER GLOBAL BANKING & MARKETS' PROFIT BEFORE TAXES OF EUR 1,830 MILLION WAS 28.4% HIGHER THAN IN 2006, DESPITE AN ADVERSE MARKET ENVIRONMENT

Of note was the strong growth in customer business (77% of the Division's revenue)

The Bank's zero position in credit derivatives affected by the financial turmoil and a strict risk policy meant the impact of the liquidity crisis was minimal

Santander Global Banking & Markets offers products and services to large companies, institutional investors and international financial institutions. Its sophisticated and innovative solutions cover all the financing, investment and hedging needs of its customers, through specialised units in Spain and 20 other countries.

Santander Global Banking & Markets has teams that operate internationally and global processes and infrastructure for business, human resources and technology.

Activity revolves around the following six elements:

Corporate and Investment Banking (CIB), which integrates coverage, at the global level, of financial institutions and large corporations, as well as teams for Mergers and Acquisitions, Asset and Capital Structuring.

Global Transaction Banking (GTB), which embraces Cash Management and Trade and basic financing services for institutions and companies with an international presence.

Credit Markets, which includes all the origination units, risk management and distribution of all structured credit and debt products.

Rates, which covers all trading activities in financial markets involving interest rates and exchange rates.

Equity, which groups all the equities, Equity Derivatives and Commodities, Equity Capital Markets, Organised Markets, Custody, Short-Term Markets and Cash Equities businesses.

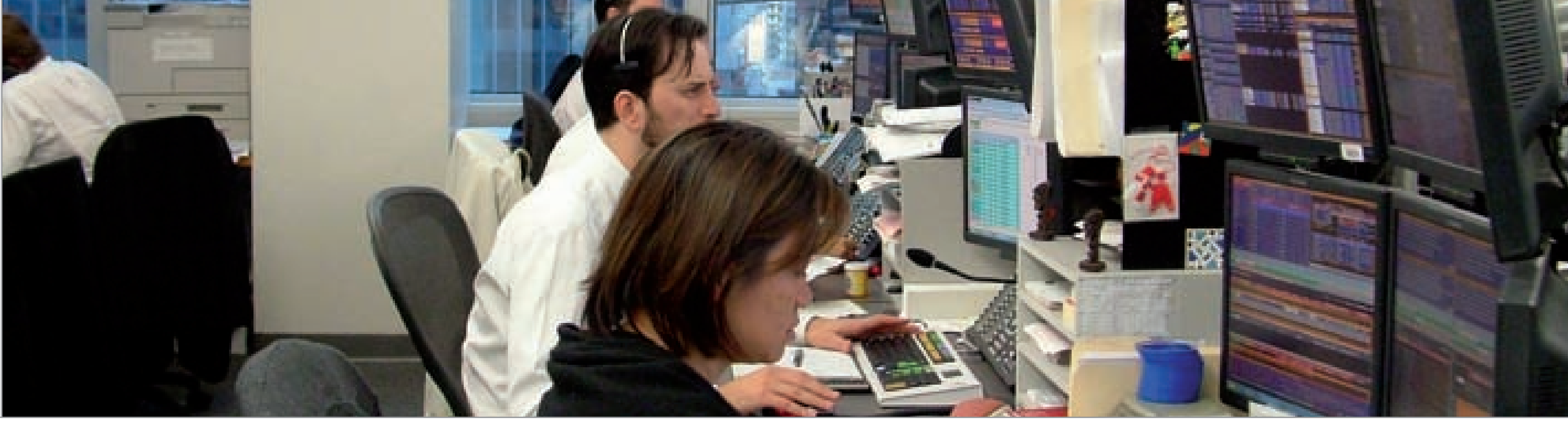
Proprietary trading, which manages the Group's short- and long-term discretionary positions in the various fixed-income and equity markets.

BUSINESS IN 2007

Santander Global Banking & Markets conducted its business in 2007 in a highly volatile market environment. However, the Bank's zero position in credit derivatives affected by the crisis and a strict policy of risks meant that it was hardly affected by the liquidity crisis, unlike other international investment banks.

Profit before taxes notched up a new record of EUR 1,830 million, 28.4% more than in 2006. Revenues have more than doubled in three years.

Santander Global Banking & Markets participated in the main corporate transactions in Spain and Latin America in 2007. Santander always applies strict risk distribution criteria in these operations by syndicating the loans granted, thereby not jeopardising the Bank's balance sheet.



ACHIEVEMENTS IN 2007

- Leading big corporate transactions:
  - In Europe, the takeover bid by ENEL and Acciona of Endesa. Financing of Imperial Tobacco's takeover of Altadis.
  - In Latin America: FARAC (the largest financing of Mexico's network of motorways). Privatisation of Ecogas in Colombia, the country's largest. Arcelor Mittal's takeover in Brazil.
- Equity origination:
  - Capital increases of Fortis, Fersa, La Seda and Zeltia.
  - Listing of Criteria, Fluidra and Almirall in Spain and Dufry and Providencia in Brazil.

GOALS FOR 2008

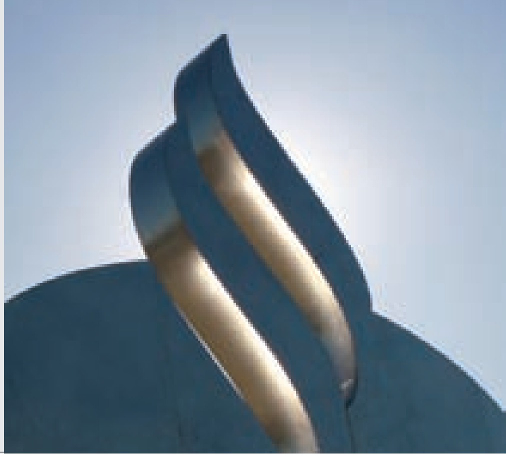
- Maintain the pace of revenue growth at more than 20% in customer businesses.
- Keep the efficiency ratio at around 30%.
- Continue to progress toward becoming the wholesale banking leader in the markets where the Group has a strong presence in retail banking.

GLOBAL WHOLESALE BANKING

Million euros

Customer lending	52,975
Customer deposits	45,082
Net operating income	1,928
Profit before taxes	1,830
Efficiency (%)	32.54

GLOBAL PRIVATE BANKING HAS EUR 109,000 MILLION OF MANAGED ASSETS AND GENERATED EUR 445 MILLION OF PROFIT BEFORE TAXES



Santander launched the Global Private Banking Division, which has 2,500 employees, 65,000 clients and a large international presence (offices in 18 countries).

Banco Santander aims to become one of the main global players in the high growth business of private banking

The new Global Private Banking Division, specialises in financial advice and managing the wealth of high income customers.

Banco Santander is exploiting the Group's global reach and experience for the benefit of private banking, supporting local units in attaining stronger growth rates.

The following units form part of this Division:

- Banif (Spain).
- Santander Private Banking (the international private banking unit).
- Santander Private Banking Italy.
- Cater Allen, James Hay and Abbey Sharedealing in the UK.

The domestic private banking units in Portugal and Latin America are also being managed on a shared basis between Global Private Banking and local banks.

The Division has created a business model based on excellence in customer service. Moreover, it "exports" the business intelligence garnered in its most proven units, such as Banif in Spain, to units in an earlier phase of development, such as Italy or Latin America.

The aim is to turn Banco Santander into one of the main global players in the high growth business of private banking.

ACHIEVEMENTS IN 2007

- Installing a new organisational structure and creating the new global Division.
- The unit in Italy is fully operational.

GOALS FOR 2008

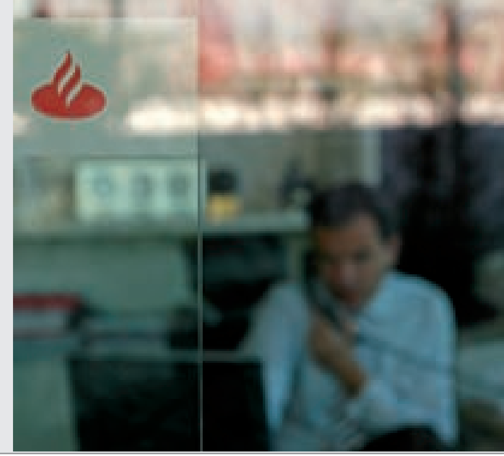
- 18% growth in managed assets.
- Profit before taxes of 20%.
- Progress in integration of the Division, which will be completed in 2009.

GLOBAL PRIVATE BANKING

Million euros

Assets under management	109,000
Gross operating income	879
Profit before taxes	445
Efficiency (%)	45.92

WITH EUR 131,163 MILLION OF ASSETS UNDER MANAGEMENT, SANTANDER ASSET MANAGEMENT'S PROFIT BEFORE TAXES ROSE TO EUR 243 MILLION



Global and integrated management of assets enables synergies in revenues and costs between different countries and businesses to be exploited

Santander Asset Management provides local commercial networks with a wide range of investment products which enable them to anticipate clients' needs

Santander Asset Management embraces the Group's asset management activities, both in securities and real estate. It is organised around four business areas:

- Santander Asset Management, for mutual and pension funds, companies and discretionary portfolios.
- Santander Real Estate, for real estate products.
- Optimal for funds of hedge funds.
- Santander Private Equity for venture capital.

Santander Asset Management, as a global unit, provides local banks with a wide range of investment products, keeping efficiency and innovation as its main competitive advantages.

It consolidated its leadership position in 2007 in asset management in Spain and Portugal and became one of the top players in Brazil, Mexico and Chile thanks to significant growth in business in these countries.

ACHIEVEMENTS IN 2007

- Santander Asset Management: operational integration in the UK, gain in market share in Latin America and launch of innovative products, such as Santander Beneficio and Santander Special Situations.
- Santander Real Estate: integration of real estate activity in Portugal and Chile and new real estate products for Private Banking clients.
- Optimal: launch of the first funds of hedge funds in Spain.
- Santander Private Equity: launch of three new products: Santander Private Equity II, Santander Renewable Energies and Santander Infrastructure II.

GOALS FOR 2008

- Drive in selling products to institutional and private banking clients.
- Become the benchmark bank in Spain for Alternative Management business.
- Consolidate the expansion of institutional business in Europe and Latin America.

ASSET MANAGEMENT

Million euros

Assets under management	131,163
Gross operating income	410
Profit before taxes	243
Efficiency (%)	41.72

SANTANDER CARDS GROSS OPERATING INCOME ROSE 41% TO EUR 2,129 MILLION

Corporate model debit card

Santander Cards aims to be the best payment specialist integrated into a global retail bank

Santander Cards exploits its global area position to generate economies of scale and transmit best practices among countries, reducing the time needed to launch products and cutting costs

Santander Cards is the Group's Division covering all businesses related to means of payment, both issuance of cards (debit and credit) as well as the supplier of points-of-sale services to shops, with the exceptions of Banesto and Santander Consumer Finance. Santander Cards manages 48.2 million cards (out of a total of 60.4 million for the whole Group) in 11 countries.

In order to attain the maximum value from its business, Santander Cards' management model is structured in various segments, combining in each one the business and risk perspectives.

The initial objective is for customers to acquire cards and activate them. Once this is done, the focus is on maximising their use and financing balances, thereby achieving greater customer linkage and loyalty. Lastly, Santander Cards minimises the number of cancellations via retention units.

The corporate technology model fosters business management and produces optimum risk management. Santander Cards exploits its global area position to generate economies of scale and transmit best practices among the different countries. This reduces the time needed to launch products and reduces costs.

In private cards, the Bank has many shared brand programmes with big companies that entrust it with the management of these cards. For example, in Spain's case, there are more than 200 private card programmes with companies from various sectors.

ACHIEVEMENTS IN 2007

- In Spain, net interest income rose 68.5%, driven by the strong rise of the financed portfolio.
- Credit card business re-launched in the UK, directly operated by Abbey.
- High growth in Latin America, particularly Brazil (significant gain in market share following the success of the Light and Free cards).

GOALS FOR 2008

- Revenue growth of around 25-30%.
- Strengthen the leadership position in Mexico and Chile.
- Strengthen and promote business in the UK, Spain and Brazil.

SANTANDER CARDS*

Lending (million euros)	8,251
Gross operating income (million euros)	2,129
Credit cards (million)	15.6
Debit cards (million)	32.6

* Santander Cards perimeter

SANTANDER INSURANCE SPEEDS UP REVENUE GROWTH AND GENERATES EUR 294 MILLION OF PROFIT BEFORE TAXES

Santander Insurance's profit before taxes and commissions was 21.5% more than in 2006 and five times higher than five years ago

Insurance business complements the Bank's offer of products and services throughout the world and helps to boost customer linkage and loyalty

Santander's bancassurance business concentrates on covering risks and on savings-insurance products for households and individuals.

Integrated management of insurance generates economies of scale for the Group and enables countries to exploit the synergies and advantages of specialised management. Standardisation of products and processes significantly reduces the time needed to market insurance and prepare the channels.

Santander Insurance is well diversified by geographic areas and balanced in revenue contributions: 34% from Spain and Portugal, 17% from the UK, 23% from consumer business and 26% from Latin America.

It also has a low risk profile, as most of its technical reserves are in insurance savings products (the holder takes the risk).

In Spain, Santander Seguros and Reaseguros is the leader in life insurance for the third year running. In Portugal, Santander is the leader in insurance savings products.

ACHIEVEMENTS IN 2007

- Of note in Spain was the marketing of products with a high degree of financial innovation and life risk insurance combining coverage of death, incapacity and unemployment.
- The UK developed innovative products which the market received well.
- In Latin America, all countries registered high growth in business, particularly Brazil, Chile and Mexico. Successful sale of insurance via telemarketing in Brazil, Mexico and Venezuela.

GOALS FOR 2008

- Greater penetration of the Group's customer base.
- Exploiting the business opportunities resulting from the ageing of the population in developed countries.
- Drive in new businesses and distribution channels.

SANTANDER INSURANCE

Million euros

Contribution to the Group PBT + Commissions	1,674
Gross operating income	404
Profit before taxes	294

SANTANDER UNIVERSITIES: A FIRM COMMITMENT TO HIGHER EDUCATION

One of the hallmarks of Banco Santander and the main focus of its corporate social responsibility policy is its institutional commitment to universities.

Banco Santander invested EUR 119 million in Corporate Social Responsibility in 2007, more than 75% of which went to universities.

Banco Santander is convinced that higher education is the most effective tool for fostering social and economic progress in the countries where we are present.

The Santander Universities Global Division fosters, develops and coordinates the Group's commitment to higher education through a unique alliance with universities in Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, Puerto Rico, Uruguay, Venezuela, Portugal, the UK, Russia the US and Morocco.

It also actively cooperates with the commercial networks of the countries where the Group is present, in order to provide the best products and innovative and specialised financial services in preferential conditions, so as to meet the needs of university students, teachers and staff.

The five main areas of Santander Universities are:

- bilateral agreements of cooperation;
- scholarships;
- Universia, the largest online network of university cooperation;
- cooperation with international academic networks;
- and dissemination of Spanish and Hispanic culture through initiatives such as the Miguel de Cervantes Virtual Library.

HIGHLIGHTS

Agreements with **623** universities in **15** countries

2,507 projects a year jointly conducted with universities

12,460 scholarships for study, research and the first professional experience

1,056 universities are part of Universia

93,921 university students found their first job via Universia in 2007

290 start-ups by universities supported

175 Internet rooms

190 innovation projects and to foster the entrepreneurial culture

400 technological innovation initiatives

3.1 million intelligent university cards in **170** universities

ACHIEVEMENTS IN 2007

- Cooperation agreements with universities in the UK, Russia and the US.
- Enlarging and developing programmes of scholarships for international travel, such as "Becas 150 aniversario," which enabled 1,500 students to spend a term in another country.
- Support for entrepreneurs in universities, giving rise to the Latin American University Network of Company Incubation.
- Universia's consolidation as a meeting point and the world's leading university portal, which brings together 1,056 universities from 11 countries and forms an alliance of 11 million students.
- Cooperation with science parks at universities.

GOALS FOR 2008

- Sign new agreements with Latin American universities, increase the presence in the UK, Russia and the US and open relations with universities in China.
- Foster cooperation between Latin American and US universities.
- Increase the provisions of the Intelligent University Card among the university community.
- Strengthen university projects related to innovation, the transfer of technology and developing an entrepreneurial culture.
- Promote and enlarge national and international mobility programmes
- Create a community of Santander scholars.

* The 2007 Sustainability Report provides detailed information on the full scope of Banco Santander's Corporate Social Responsibility.

SANTANDER'S CORPORATE GOVERNANCE MODEL IS BASED ON FULL EQUALITY OF SHAREHOLDERS' RIGHTS AND MAXIMUM TRANSPARENCY

By making this a priority and staying ahead of the curve, Santander has been able to to adapt the market's highest corporate governance standards to the Group's specific circumstances

A clear example of Banco Santander's striving to be in the vanguard in this sphere is the process of adapting to the Unified Code of Good Governance published in Spain in May 2006.

Banco Santander took this Code as a benchmark in its 2006 Annual Report on Corporate Governance, anticipating its entry into effect by a year.

Most of the Code's recommendations have been part of Banco Santander's procedures and practices for some time. In other cases, the appropriate changes have been made to the Rules and Regulations of the Board; in other cases all that was needed was to include in internal rules practices that were already followed.

The Board has duly explained its reasons for not wholly assuming a small number of the Code's recommendations, in line with the criteria of "fulfil or explain."

FULL EQUALITY OF SHAREHOLDERS' RIGHTS

Banco Santander has 2.3 million shareholders, which provide stability and solidity to the Group, but also represent a large responsibility. Conscious of this, Banco Santander has taken a series of steps over the last few years to guarantee equal treatment of all shareholders. For example, it was the first Spanish company to eliminate all measures in its By-laws protecting it from takeovers.

This decision, together with that adopted by the AGM in 2004 eliminate the minimum number of shares (100) needed to attend Meetings, reaffirmed the principle of one share, one vote.

In recent years, the Board has strengthened the channels of dialogue with shareholders and, above all, fostered and facilitated their informed participation in Meetings.

To this effect, it took measures such as the annual letter which the Chairman has been sending for the past four years encouraging shareholders to make suggestions and ask questions that they would like to be dealt with at Meetings.

The Board has also introduced online attendance and voting at Meetings, delegating votes in someone who is not a shareholder, voting on issues separately and requesting the Chairmen of the Audit and Compliance and Appointments and Remuneration Committees to address Meetings.

MAXIMUM TRANSPARENCY

Transparency is a key factor for Santander in generating confidence and security in the markets. The full information provided through various channels and publications is the best example of our transparency.

The Bank was the first company in Spain to provide, as long ago as 2002, the remuneration of Directors, including executive Directors.

In 2007, Santander was again ahead of the market when it provided the remuneration of each Director, itemised by concepts, not only for 2006 but also for the year underway.

Banco Santander's corporate governance model is recognised by international institutions, as underscored by the Bank's continuation in indices such as the FTSE4Good and the DJSI since 2003 and 2000, respectively. In the latter, Santander has noteworthy positions in the criteria of corporate governance (74%), codes of conduct/compliance/corruption & bribery (75%) and anti-crime policy/measures (94%), which compare favourably with the main international companies.

IN THE VANGUARD OF CORPORATE GOVERNANCE

Full equality of shareholders' rights:

- Principle of "one share, one dividend, one vote."
- No anti-takeover measures in the corporate By-laws.
- Fostering the informed participation of shareholders in Meetings.

Maximum transparency:

- The Board promotes the maximum transparency, particularly in matters of remuneration.

A balanced Board:

- Almost half of its members (47%) are non-executive independent Directors.

IN 2007 SANTANDER INCREASED ITS VALUE BY 4.6% AGAINST A 16.9% FALL IN THE DOW JONES STOXX BANKS

Banco Santander is an investment with a high return: the share rose 100% in the last 10 years and the dividend by 261%.

The dividend that Banco Santander will distribute is EUR 0.6508 per share, 25% higher for the third year running

Stock markets were much more volatile in 2007 as a result of the meltdown in the US subprime mortgage market. The financial turmoil particularly hit the share prices of the main international banks, most of whom ended the year with sharp falls in market capitalisation.

In this environment, the Santander share increased 4.6% to EUR 14.79 compared to a fall of 16.9% in the Dow Jones Stoxx Banks, the European index for the banking sector. The share, however, declined in early 2008 in line with the market because of the worsening international economic outlook.

Santander's capitalisation of EUR 92,501 million made it the largest bank in the euro zone and the eighth in the world.

SHAREHOLDER RETURN

If the proposal to be submitted by the Board to the AGM in June is approved, the dividend per share charged to 2007 profits will be EUR 0.6508 per share, 25% more than in 2006.

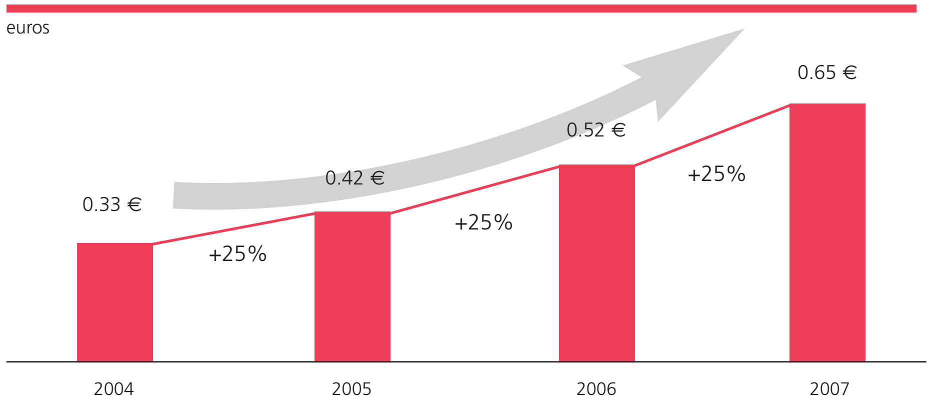
Dividends are distributed in four quarterly payments. The first three of EUR 0.1229 gross per share have already been paid (August and November 2007 and February 2008) and the fourth of EUR 0.2819 will be paid in May 2008.

The return on the Santander share – including reinvestment of dividends and capital increases – is one of the market's highest in the last 10 years. The table on the next page shows that EUR 100 invested in 1997 produced EUR 266.9 at the end of 2007, an accumulated return of 166.9% (annual cumulative of 10.31%).

Our goal for the medium term is to be one of the world's leading banks in terms of growth in earnings per share and in total shareholder return.

DIVIDEND PER SHARE

euros



Investors' Day held in Santander City on the 14th September 2007

ADVANTAGES FOR SHAREHOLDERS

Banco Santander's shareholders have access to various financial and non-financial products and exclusive services.

As well as the Shareholder card and a leasing service with advantageous conditions, there are savings plans in Santander shares: Dividend Reinvestment Plan, Young Shareholder Plan and the Shareholder Account in Spain, the Santander Shareholder Account in the United Kingdom, the "Conta Accionista" in Portugal and the Reinvestment Plan in Mexico. Close to 547,000 shareholders are already enjoying these plans.

The Group has other non-financial products with special conditions, such as health insurance, life, household and accident insurance and other advantages.

SHAREHOLDER BASE

The number of shareholders at the end of 2007 was 2,278,321. The Board of Directors held 3.91% of the capital stock, individuals 32.59% and institutional investors owned the rest.

By geographic areas, Europe has 84.89% of the capital stock, the Americas 14.84% and the rest of the world 0.27%.

Chase Nominees Limited, with 10.80%, State Street Bank & Trust, with 8.13%, and EC Nominees Limited, with 5.85%, are the only holders of more than 3%. These are customer accounts; the bank has not been made aware of any individual holdings among them of 3% or more.

RETURN ON THE SHARE

	5 years	10 years	15 years
Total return	166.2%	166.9%	1,047.3%
Rise in share price	126.1%	97.3%	600.6%
Dividend growth	125.6%	260.9%	409.8%

Source Bloomberg

CAPITAL STOCK OWNERSHIP DISTRIBUTION

	Shareholders	Shares	%
The Board of Directors	18*	244,522,996	3.91%
Institutional Investors	4,135	3,971,684,356	63.50%
Individuals	2,274,168	2,038,089,227	32.59%
Total	**2,278,321**	**6,254,296,579**	**100.00%**

* Corresponds to the number of members of the Board of Directors at the end of 2007 which does not include Mutua Madrileña Automovilista which ceased on December 19. At the date of publication of this Annual Report, there were 19 Board members including the appointment at its meeting on January 28, 2008 of Mr. Juan Rodríguez Inciarte, by cooption, to fill the vacancy produced by Mutua Madrileña Automovilista.

HIGHLIGHTS

2007:
AN EXCELLENT YEAR

JANUARY

- Extending the “We Want to be your Bank” strategic plan to university students, shareholders, the self-employed and small shops.
- Creation of Santander Asset Management UK, which unifies and brings together Santander’s various asset management companies in the UK via Abbey.

FEBRUARY

- Payment of the third interim dividend of EUR 0.1069 charged to 2006 earnings, 15% more than in 2006.
- Presentation of the Group’s results for 2006. Attributable profit was 22% higher at EUR 7,596 million.
- Santander and Bank of America reach agreement to transfer the private banking clients of the US bank to Santander Private Banking.
- Strategic agreement between Santander Consumer Finance and the Bergé Group to set up a consumer finance company in Chile, 51% owned by Santander.

MARCH

- Standard & Poor’s lifts its long-term rating of Santander from A+ to AA and confirms its short-term rating of A1+.

APRIL

- First quarter results published. The attributable profit was 21% more than in the same period of 2006.
- Moody’s upgrades its long-term rating from AA to Aa1.

MAY

- Payment of the fourth dividend of EUR 0.1999 charged to 2006 earnings. This brought the total payment to EUR 0.5206 per share, 25% higher than in 2005.
- Banco Santander, the Royal Bank of Scotland and Fortis announce they will make an offer for ABN Amro.

JUNE

- Announcement of the sale of 1.79% of the Italian bank Intesa Sanpaolo for EUR 1,206 million (capital gain of EUR 566 million).
- The AGM is held and approves the change of name to Banco Santander.

MAIN PRIZES AND RECOGNITIONS

- Euromoney, Latin Finance and Global Finance prizes for the Best Bank of the year in Latin America, Latin Finance also awards Santander the prize for Best Bank in Chile and Argentina
- In Spain, "We want to be your bank" won prizes from EFMA, Ausbanc, La Gaceta de los Negocios and Mi Cartera de Inversión
- Euromoney rates Santander Totta the Best Bank in Portugal for the sixth year running
- Santander Consumer Bank in Germany the best bank for auto finance by Mark Intern
- Gold medal from the regional government of Cantabria, the Town Hall of Santander and the Chamber of Commerce of Cantabria
- Best company in Spain in Investor Relations, according to Institutional Investor

JULY

- Santander, RBS and Fortis proceed formally, via RFS Holdings B.V., to launch an offer for all the ordinary shares, ADSs and previously convertible preferred shares of ABN Amro.
- First half results released (attributable ordinary profit grows 21.0%).
- Santander closes the sale of its pension fund management companies (AFPs) in Mexico, Chile, Colombia and Uruguay to the ING Group for $1,314 million.
- Extraordinary Shareholders' Meeting held to approve the issue of capital instruments to partly finance the acquisition of ABN Amro, in accordance with the offer presented by the Consortium.

AUGUST

- Payment of the first interim dividend of EUR 0.1229 (+15% compared to the previous year) charged to 2007 earnings.

SEPTEMBER

- Investors' Day attended by more than 200 investors, at which the performance of the Group and its various units was explained and the outlook for the next two years presented.
- Creation of the Global Private Banking Division, to further develop the strategy for high income clients.

OCTOBER

- Placement of EUR 7,000 million of "Valores Santander" (Santander Securities), to be converted into share of the Bank after the acquisition of ABN Amro and distributed among almost 129,000 investors.
- The offer for ABN Amro presented by Banco Santander, the Royal Bank of Scotland Group and Fortis is declared unconditional. During October acceptance of the offer reached 95% of the capital stock.
- Third quarter results presented. Santander's attributable profit for the first nine months was 21% higher than in the same period in 2006.

NOVEMBER

- Payment of the second interim dividend of EUR 0.1229 charged to 2007 earnings (+15% compared to the previous year).
- Agreement reached with Monte dei Paschi di Siena to sell Banca Antonveneta, one of the businesses assigned to Banco Santander in the takeover of ABN Amro. The transaction generated a gain of EUR 2,400 million above the value assinged to Antonveneta under the aquisition. The operation meant Interbanca, Antonveneta's corporate banking arm, was not included in the operation.
- Agreement with ING Group to sell Origenes, the Argentine pension fund management companies, for $166 million. The net capital gain on all the pension businesses sold in 2007 was EUR 622 million.
- Sale and subsequent renting of various properties and 1,152 branches in Spain (net capital gain of EUR 1,076 million).

DECEMBER

- Santander ends 2007 with a market capitalisation of EUR 92,501 million, making it the world's eighth largest bank on this basis.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

"With a model based on the principle of self-regulation, Santander is on the international cutting edge of corporate governance."

Emilio Botín, Chairman
General Shareholders' Meeting, 23 June 2007

1. Ownership structure

1. Number of shares. Distribution and significant interests

- Number and distribution

The Bank's share capital at 31 December 2007 was represented by 6,254,296,579 shares, whose value per the listing price on Spain's Electronic Trading System (Continuous Market) [Sistema de Interconexión Bursátil (Mercado Continuo)] at such date was 92.5 billion euros. No transaction was made during fiscal year 2007 that affected the number of shares or the Bank's share capital.

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

Page 38 of this Annual Report provides a breakdown of the Bank's share capital according to the category of our shareholders. The breakdown shows the wide distribution of the Bank's share capital.

- Significant interests

No shareholder held significant interests (of more than 3% of the share capital[1] or interests that would permit a significant influence on the Bank) at 31 December 2007.

The interests held by Chase Nominees Limited, of 10.80%, State Street Bank & Trust, of 8.13%, and EC Nominees Ltd., of 5.85%, the only ones in excess of 3%, were held by them for the account of their clients. The Bank is not aware of any of them holding individual stakes of 3% or more of its share capital.

Bearing in mind the current number of Board members (19), the percentage of capital needed to exercise the right to appoint a Director —in accordance with Article 137 of the Spanish Companies Law— is 5.26%, a percentage not reached by any shareholder.

2. Shareholders' agreements and other significant agreements

Page 332 of the Annual Report describes the shareholders' agreement 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.

3. Treasury Stock

- Key data

At 31 December 2007, the Bank held 212,822 treasury shares, representing 0.003% of its share capital, down from 7,478,837 at 31 December 2006, which represented 0.120% of the share capital as of such date.

The following table sets out the monthly average percentages of treasury stock in 2006 and 2007.

MONTHLY AVERAGE TREASURY STOCK

Month	2007	2006
January	0.225%	0.091%
February	0.205%	0.071%
March	0.248%	0.069%
April	0.255%	0.112%
May	0.225%	0.156%
June	0.134%	0.060%
July	0.393%	0.065%
August	0.186%	0.051%
September	0.392%	0.363%
October	0.092%	0.073%
November	0.063%	0.089%
December	0.089%	0.113%

Note: pages 331 and 332 of this Annual Report provide more information in this respect.

[1] The limit set, for purposes of the Annual Corporate Governance Report, in Royal Decree 1362/2007, of 19 October.

- Authorisation

The current authorisation for treasury stock transactions arises from resolution No. 5 adopted by the shareholders acting at the General Shareholders' Meeting held on 23 June 2007, of which item II) reads as follows:

"To grant express authorisation for the Bank and the Subsidiaries belonging to the Group to acquire shares representing the share capital of the Bank for valuable consideration in any manner permitted by Law, within the limits of the Law and subject to all legal requirements, up to a maximum amount –including the shares they already hold– of 312,714,828 shares or, as appropriate, the number of shares that is equal to 5 per cent of the share capital existing at any given time. Such shares shall be fully paid-in at a minimum price per share equal to the par value thereof and a maximum price of up to 3% over the listing price on the Continuous Market of the Spanish stock exchanges (including the block market) on the date of acquisition. This authorisation may only be exercised within 18 months from the date of the General Shareholders' Meeting. The authorisation includes the acquisition of shares, if any, that must be delivered directly to the employees and managers of the Company, or that must be delivered as a result of the exercise of the options held by them."

- Treasury stock policy

The Board of Directors adopted the current resolution on treasury stock policy at its meeting of 23 June 2007.

Such policy, which governs certain aspects of treasury stock transactions such as the purposes thereof, persons authorised to carry out treasury stock transactions, general guidelines, prices, time limits and reporting obligations, is contained on the Group's website (www.santander.com).

In any event, treasury stock transactions are not used as a defensive mechanism.

4. Dividend policy

The Bank intends to continue its policy of maintaining a pay-out on ordinary consolidated net income of around 50%, with quarterly dividend payments.

Page 38 of this Annual Report includes information on the direct remuneration to shareholders in the form of dividends on account of 2007 earnings.

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

The additional authorised capital amounts to EUR 1,563,574,144.5 pursuant to the authorisation of the shareholders acting at the extraordinary General Shareholders' Meeting held on 27 July 2007. The period available to Directors to carry out and make capital increases up to such limit expires on 27 July 2010.

Included within the limit available at any time are the amounts of capital increases, if any, made in order to accommodate the conversion of debentures, pursuant to the provisions of resolution No. 10 adopted by the shareholders acting at the Annual General Shareholders' Meeting of 21 June 2003. Such resolution gives the Board the power to exclude pre-emptive rights in whole or in part, pursuant to the provisions of Article 159.2 of the Spanish Companies Law.

In addition, under item No. 8 of the agenda of the General Shareholders' Meeting held on 23 June 2007, the shareholders resolved to increase the Bank's capital by EUR 375 million and delegate full powers to the Board such that the Board may, within one year of the date of such General Shareholders' Meeting, set the date and terms of such increase. Should the Board fail to exercise the powers delegated to it within such period, such powers will be null and void.

The above-mentioned resolutions are available on the websites of the Group (www.santander.com) and the CNMV (National Securities Market Commission) (www.cnmv.es).

2. SANTANDER'S BOARD OF DIRECTORS (*)

Mr. EMILIO BOTÍN-SANZ DE SAUTUOLA Y GARCÍA DE LOS RÍOS (1)

Chairman
Executive Director
Born in Santander (Spain) in 1934
Joined the Board in 1960
Graduate in Economics and Law
Other significant positions: Non-executive Director of Shinsei Bank Limited.

Mr. ALFREDO SÁENZ ABAD (3)

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 and Chairman of Banesto. At present, he is also a non-executive Vice-Chairman of Compañía Española de Petróleos (CEPSA) and non-executive Director of France Telecom España.

Mr. MANUEL SOTO SERRANO (5)

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: currently non-executive Vice-Chairman of Indra Sistemas and non-executive Director of Corporación Financiera Alba. He is a former Chairman of Arthur Andersen's Global Board and Manager for EMEA (Europe, Middle East and Africa) and India for the same firm.

Mr. FERNANDO DE ASÚA ÁLVAREZ (2)

First Vice-Chairman and Chairman of the Appointments and Remuneration Committee
Non-executive (independent) Director
Born in Madrid (Spain) in 1932
Joined the Board in 1999
Graduate in Economics, Information Technology, Business Administration and Mathematics
Other significant positions: former Chairman of IBM Spain, of which he is currently Honorary Chairman. He is currently a non-executive Director of Compañía Española de Petróleos (CEPSA). He is non-executive Vice-Chairman of Técnicas Reunidas S.A.

Mr. MATÍAS RODRÍGUEZ INCIARTE (4)

Third Vice-Chairman and Chairman of the Risk Committee
Executive Director
Born in Oviedo (Spain) in 1948
Joined the Board in 1988
Graduate in Economics and State Economist
Other significant positions: Former Minister of the Presidency of the Spanish Government (1981-1982). At present, he is also a non-executive Director of Banesto and a non-executive Director of Financiera Ponferrada.

(*) 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 (6)

Non-executive (independent) Director
Born in Madrid (Spain) in 1942
Joined the Board in 1999
Graduate in Law
Other significant positions: he is non-executive Vice-Chairman of Faes Farma, non-executive Director of Pescanova and Member of the External Advisory Committee of A.T. Kearney. He is a former Chairman of Unión Fenosa.

Ms. ANA PATRICIA BOTÍN-SANZ DE SAUTUOLA Y O'SHEA (7)

Executive Director
Born in Santander (Spain) in 1960
Joined the Board in 1989
Main activity: Chairwoman of Banesto
Graduate in Economics
Joined the Bank after a period at JP Morgan (1981-1988).
Executive Vice President of Banco Santander since 1992 and Executive Chairwoman of Banesto since 2002.
Other relevant positions: non-executive Board member of Assicurazioni Generali S.p.A., member of the International Advisory Board of the New York Stock Exchange, and of Insead and Georgetown University.

Mr. GUILLERMO DE LA DEHESA ROMERO (8)

Non-executive (independent) Director.
Born in Madrid (Spain) in 1941
Joined the Board in 2002
State Economist and Office Manager of Banco de España (on leave of absence).
Main activity: International Advisor of Goldman Sachs.
Other significant positions: former State Secretary of Economy, General Secretary of Trade and Chief Executive Officer of Banco Pastor. He is currently a non-executive Director of Campofrío Alimentación, Chairman of the Centre for Economic Policy Research in London, member of the Group of Thirty in Washington and Chairman of the Board of Trustees of Instituto de Empresa.

Mr. RODRIGO ECHENIQUE GORDILLO (9)

Non-executive Director
Born in Madrid (Spain) in 1946
Joined the Board in 1988
Graduate in Law and State Attorney
Other significant positions: former Chief Executive Officer of Banco Santander (1988-1994) and current Chairman of the Social Economic Council of Universidad Carlos III in Madrid. He is also a non-executive Director of Inversiones Inmobiliarias Lar, S.A.

Mr. ANTONIO ESCÁMEZ TORRES (10)

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, non-executive Chairman of Open Bank Santander Consumer, non-executive Vice-Chairman of Attijariwafa Bank and non-executive Chairman of Arena Media Communications.

Mr. FRANCISCO LUZÓN LÓPEZ (11)

Executive Director
Born in Cañavate –Cuenca– (Spain) in 1948
Joined the Board in 1997
Graduate in Economics and Business.
Other significant positions: former Chairman of Argentaria and member of the Board of Directors of BBV. He is a non-executive Director of Industria de Diseño Textil (Inditex), Global Vice-Chairman of Universia and Chairman of the Social Council of Universidad de Castilla-La Mancha.

ASSICURAZIONI GENERALI S.P.A.

Non-executive (proprietary) Director
Joined the Board in 1999. Represented by:

Mr. ANTOINE BERNHEIM (12)

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

Mr. JAVIER BOTÍN-SANZ DE SAUTUOLA Y O'SHEA (13)

Non-executive (proprietary) Director
Born in Santander (Spain) in 1973
Joined the Board in 2004
Graduate in Law
Main activity: Director and Managing Partner of M&B Capital Advisers, Sociedad de Valores, S.A.

LORD BURNS (TERENCE) (14)

Non-executive Director
Born in Durham (United Kingdom) in 1944.
Joined the Board in 2004
Graduate in Economics
Main activity: Non-executive Chairman of Abbey National plc and of Marks and Spencer Group plc.
Other significant positions: he is non-executive Chairman of Glas Cymru Ltd (Welsh Water) and non-executive Director of Pearson Group plc. He has been: Permanent Secretary of the UK Treasury, Chairman of the UK Parliamentary Committee (Financial Services and Markets Bill Joint Committee) and a non-executive Director of British Land plc and of Legal & General Group plc.

Mr. ABEL MATUTES JUAN (15)

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

Mr. JUAN RODRÍGUEZ INCIARTE (16)

Executive Director
Born in Oviedo (Spain) in 1952
Joined the Board in 2008
Graduate in Economics
Joined the Bank in 1985 as Director and Executive Vice President of Banco Santander de Negocios. In 1989 he was appointed Executive Vice President of Banco Santander S.A. From 1991 to 1999 he was a Director of Banco Santander, S.A.
Other significant positions: he is Vice-Chairman of Abbey National plc and Santander Consumer Finance, S.A. and a Director of Compañía Española de Petróleos. S.A. (CEPSA), RFS Holdings and Sovereign Bancorp.

Mr. LUIS ALBERTO SALAZAR-SIMPSON BOS (17)

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.
Other significant positions: Non-executive Director of Mutua Madrileña Automovilista.

Mr. LUIS ÁNGEL ROJO DUQUE (18)

Non-executive (independent) Director
Chairman of the Audit and Compliance Committee
Born in Madrid (Spain) in 1934
Joined the Board in 2005
Graduate in Law, Doctor in Economics and State Economist. He also holds honorary doctorates from the Universities of Alcalá 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.

Ms. ISABEL TOCINO BISCAROLASAGA (19)

Non-executive independent Director
Born in Santander (Spain) in 1949
Joined the Board in 2007
Main activity: Full-time Professor at the 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 European Affairs and of the Foreign Affairs Committees 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, non-executive Director of Climate Change Capital and Vice-Chairwoman of the International Association of Women Lawyers and of the Federal Congress of the European Movement.

Mr. IGNACIO BENJUMEA CABEZA DE VACA (20)

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. State Attorney.
Other significant positions: he is Executive Vice President of Banco Santander, S.A., non-executive Director of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and La Unión Resinera Española, S.A.

Re-election of Directors at the Annual General Shareholders' Meeting of 2008

Pursuant to Article 30 of the Bylaws, Directors are appointed for five-year terms (the maximum term is six years under Spanish law) and one-fifth of the Board is renewed every year.

At the next General Shareholders' Meeting, scheduled for 20 and 21 June 2008, on first and second call, respectively, the following Directors will stand for re-election: Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr. Luis Ángel Rojo Duque and Mr. Luis Alberto Salazar-Simpson Bos. Their résumés are provided on the preceding pages of this Annual Report.

At the Board meeting held on 28 January 2008, and at the proposal of the Appointments and Remuneration Committee, Mr. Juan Rodríguez Inciarte was designated as Director by interim appointment (co-option) to fill the vacancy resulting from the resignation of Mutua Madrileña Automovilista as a Director. His appointment will be submitted for ratification by the shareholders at the next General Shareholders' Meeting.

Such ratification, as well as the re-election of the Directors mentioned above, will be submitted separately to the vote of the shareholders acting at the General Shareholders' Meeting (Article 21.2 of the Rules and Regulations for the General Shareholders'

Composition and structure of the Board of Directors

				Committees		
		Executive	Non-executive	1. Executive Committee	2. Risk Committee	3. Audit and Compliance Committee
Chairman	Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos			C		
First Vice-Chairman	Mr. Fernando de Asúa Álvarez		I		V	
Second Vice-Chairman and	Mr. Alfredo Sáenz Abad					
Chief Executive Officer	Mr. Matías Rodríguez Inciarte (5)				C	
Third Vice-Chairman	Mr. Manuel Soto Serrano		I			
Fourth Vice-Chairman	Assicurazioni Generali S.p.A.		P			
Members	Mr. Antonio Basagoiti García-Tuñón		I			
	Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea					
	Mr. Javier Botín-Sanz de Sautuola y O'Shea		P			
	Lord Burns (Terence)		N			
	Mr. Guillermo de la Dehesa Romero		I			
	Mr. Rodrigo Echenique Gordillo		N			
	Mr. Antonio Escámez Torres		I			
	Mr. Francisco Luzón López					
	Mr. Abel Matutes Juan		I			
	Mr. Luis Ángel Rojo Duque		I			C
	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					
Assistant General Secretary and Assistant Secretary of the Board	Mr. Juan Guitard Marín					

1. In 2008, the Board of Directors of Banco Santander, at its meeting of 28 January, resolved to designate Mr. Juan Rodríguez Inciarte as Director of the Bank by interim appointment (co-option) to fill the vacancy resulting from the resignation of Mutua Madrileña Automovilista as Director. As of 31 December 2007, Mr. Juan Rodríguez Inciarte held 577,740 shares (direct interest) of the Bank. In addition, on 24 March 2008 Mr. Rodrigo Echenique Gordillo withdrew as member of the Risk Committee. He was replaced for such position by Mr. Juan Rodríguez Inciarte.

2. Note 5 of the Notes, appearing on pages 208 to 217 of this Annual Report, includes a detailed breakdown of the Bank's stock options held by the Directors as of 31 December 2007.

3. Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos has the right to vote, at the General Shareholders' Meeting, 90,715,628 shares owned by Fundación Marcelino Botín (1.45% of the share capital), 8,096,742 shares owned by Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos, 96,047 shares owned by Ms. Paloma O'Shea Artiñano, 9,041,480 shares owned by Mr. Emilio Botín-Sanz de Sautuola y O'Shea, 9,001,559 shares owned by Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea and 11,093,481 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 Company, 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.

Meeting). In view of the fact that this election practice has been followed since the 2005 Annual General Shareholders' Meeting, with the submission of the proposal for appointment of these candidates, all 19 of the current Directors will have been submitted to a separate vote of the shareholders acting at a General Shareholders' Meeting.

1. General Information on the Board

The table on pages 48 and 49 of this Annual Report provides information on the composition, positions and structure of the Board and its Committees, as well as on the dates of appointment of the Directors and the dates of expiration of their terms of office, together with the interests in the Bank's share capital that they own or represent.

2. Powers and duties

The basic responsibility of the Board is to supervise the Group, delegating the ordinary management thereof to the appropriate executive bodies and the various management teams.

The Rules and Regulations (Article 3) reserve for the Board the power to approve general policies and strategies and, in particular, strategic plans, management objectives and the annual budget, corporate governance, corporate social responsibility and dividend and treasury stock policies, the overall risk policy, and the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion, none of which can be delegated.

The Board also reserves for itself, and likewise cannot delegate, decisions regarding the acquisition and disposition of substantial

Committees			Shareholding as of 31 December 2007 (1)(2)								
4. Appointments and Remuneration Committee	5. International Committee	6. Technology, Productivity and Quality Committee	Direct	Indirect	Shares Represented	Total	% of Share Capital	Date of first appointment	Date of last appointment	Expiration date (*)	Date of last proposal of the Appointments and Remuneration Committee
	C	C	1,638,812	27,042,993	107,949,897	136,631,702	2.506[3]	4.07.1960	18.06.2005	H1 2010	20.04.2005
C			25,616	40,000	-	65,616	0.001	17.04.1999	17.06.2006	H1 2011	18.04.2006
			365,163	1,243,532	-	1,608,695	0.026	11.07.1994	17.06.2006	H1 2011	18.04.2006
			555,617	65,300	61,444	682,361	0.011	7.10.1988	18.06.2005	H1 2010	20.04.2005
			-	250,000	-	250,000	0.004	17.04.1999	18.06.2005	H1 2010	20.04.2005
			13,885,264	67,847,477	-	81,732,741	1.307	17.04.1999	23.06.2007	H1 2012	19.03.2007
			530,000	-	-	530,000	0.008	26.07.1999	23.06.2007	H1 2012	19.03.2007
			4,977,423	4,024,306	-	9,001,729	0.000[3]	4.02.1989	17.06.2006	H1 2011	18.04.2006
			4,793,481	6,300,000	-	11,093,481	0.000[4]	25.07.2004	18.06.2005	H1 2010	20.04.2005
			100	27,001	-	27,101	0.000	20.12.2004	17.06.2006	H1 2011	18.04.2006
			100	-	-	100	0.000	24.06.2002	18.06.2005	H1 2010	20.04.2005
			651,598	7,344	-	658,942	0.011	7.10.1988	17.06.2006	H1 2011	18.04.2006
			559,508	-	-	559,508	0.009	17.04.1999	23.06.2007	H1 2012	19.03.2007
			44,195	1,298,544	-	1,342,739	0.021	22.03.1997	23.06.2007	H1 2012	19.03.2007
			99,809	86,150	-	185,959	0.002	24.06.2002	18.06.2005	H1 2010	20.04.2005
			1	-	-	1	0.000	25.04.2005	25.04.2005	H1 2010	20.04.2005
			131,312	19,464	-	150,776	0.002	17.04.1999	19.06.2004	H1 2009	22.04.2004
			1,545	-	-	1,545	0.000	26.03.2007	26.03.2007	H1 2011	19.03.2007
			28,259,544	**108,252,111**	**108,011,341**	**244,522,996**	**3.910**				

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

4. Mr. Javier Botín-Sanz de Sautuola y O'Shea is a proprietary Director because on the Board of Directors he represents 2.506% 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.

5. Mr. Matías Rodríguez Inciarte has the right to vote 61,444 shares owned by two of his children.

(*) However, and pursuant to the provisions of Article 30 of the Bylaws, one-fifth of the Board will be renewed every year, based on length of service and according to the date and order of their respective appointment.

assets and major corporate transactions; the determination of the compensation 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 compensation to which they are entitled for the performance thereof; the appointment, compensation 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 domiciled in countries or territories regarded as tax havens. On the matters mentioned in this paragraph, the Executive Committee may make decisions whenever reasons of urgency require it.

The Rules and Regulations (Article 4) provide that the Board of Directors must ensure that the Bank faithfully complies with applicable law, observes usage and good practices of the industries or countries where it does business and observes the social responsibility principles that it has voluntarily accepted.

3. Size of the Board

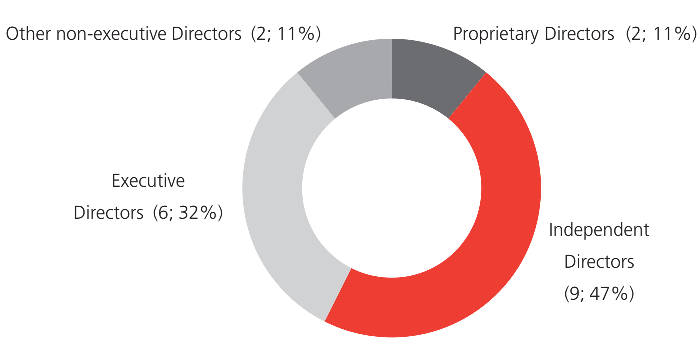
The Bank has gradually reduced the size of its Board of Directors from 27 members in 2001 to the current 19. This reduction was reflected in internal regulations through the amendment, approved by the shareholders acting at the General Shareholders' Meeting of 17 June 2006, of Article 30 of the Bylaws, whereby the maximum number of Directors is reduced to 22 from the former 30, with the minimum of 14 remaining unchanged.

There are currently 19 Directors sitting on the Board. This size is believed to be appropriate to ensure adequate representation on the Board and the efficient operation thereof, thus complying with the provisions of its Rules and Regulations.

4. Composition

Pursuant to the provisions of Article 5.5 of the Rules and Regulations of the Board, the Appointments and Remuneration Committee, at its meeting of 12 March 2008, verified the status of each Director. Its proposal was submitted to the Board, which approved it at its meeting of 24 March 2008, establishing the composition of the Board as follows:

COMPOSITION OF THE BOARD



Of the 19 Directors currently sitting on the Board of Directors, 6 are executive and 13 are non-executive. Of the 13 non-executive Directors, 9 are independent, 2 are proprietary and 2 are, in the opinion of the Board, neither proprietary nor independent.

Pursuant to Article 5.2 of the Rules and Regulations of the Board, 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.

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 5.3 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 Company itself exercising its powers of self-regulation, and is not, and does not need to be, the same as that set in Article 137 of the Companies Law (see Significant Interests section on page 43). 1% is the percentage that the Company regards as sufficiently significant to consider that Directors holding or representing an interest equal to or in excess of such percentage can be classified as proprietary by the Board, while the percentage set in Article 137 of the Companies Law is used to determine the threshold percentage interest that gives the holder thereof the legal right to appoint a director.

The Board, taking into account the circumstances of each case, and upon the prior report of the Appointments and Remuneration Committee, considers the following Directors to be non-executive proprietary Directors: Assicurazioni Generali S.p.A. and Mr. Javier Botín-Sanz de Sautuola y O'Shea.

Article 5.4 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 non-executive independent Directors: Mr. Fernando de Asúa Álvarez, Mr. Manuel Soto Serrano, Mr. Antonio Basagoiti García-Tuñón, Mr. Guillermo de la Dehesa Romero, Mr. Antonio Escámez Torres, Mr. Abel Matutes Juan, Mr. Luis Ángel Rojo Duque, Mr. Luis Alberto Salazar-Simpson Bos and Ms. Isabel Tocino Biscarolasaga.

As of 31 December 2007, the average length of service in the position of Board member of non-executive independent Directors was 6.4 years, and the longest was 8.7 years.

Non-executive independent Directors currently represent 47% of the Board.

Mr. Rodrigo Echenique Gordillo is a non-executive, non-proprietary Director. Since up to 31 December 2006 he rendered remunerated professional services to the Bank other than the management and collective oversight duties inherent in his position as Director, and he currently receives a remuneration as member of the Board of Directors of a subsidiary of the Group, Banco Banif, in the opinion of the Board of Directors and upon the prior report of the Appointments and Remuneration Committee, he cannot be classified as an independent Director.

The same applies to Lord Burns, who, in his capacity as non-executive Chairman of Abbey National, receives compensation in addition to his compensation as a Director of Banco Santander.

5. 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.

A clear separation of duties between the executive Chairman, the Chief Executive Officer, the Board and its Committees and appropriate checks and balances ensure the proper balance in the Company's corporate governance structure.

The Chairman of the Board is the highest-ranking officer of the Company (Articles 34 of the Bylaws and 7.1. 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 Company'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 purviews.

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 in the Company.

The structure of the collective and individual bodies of the Board is such that it allows for balanced actions by all of them, including the Chairman. 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 a non-executive independent Director, is the Chairman of the Appointments and Remuneration Committee and acts as coordinator of non-executive Directors.

- The powers delegated to the Chief Executive Officer are the same as those delegated to the Chairman, which powers do not include, in either case, the powers reserved solely for the Board.

6. Succession Plans for the Chairman and the Chief Executive Officer

Article 23 of the Rules and Regulations of the Board provides as follows:

Article 23

"In the cases of withdrawal, announcement of renunciation or resignation, legal incapacitation or death of the members of the Board of Directors or its Committees or withdrawal, announcement of renunciation or resignation of the Chairman of the Board of Directors or of the Chief Executive Officer, as well as from other positions on such bodies, at the request of the Chairman of the Board of Directors or, in his absence, at the request of the highest-ranking Vice Chairman, the Appointments and Remuneration Committee will be convened in order for such Committee to examine and organise the process of succession or replacement in an orderly manner and to present the corresponding proposal to the Board of Directors. Such proposal shall be communicated to the Executive Committee and subsequently submitted to the Board of Directors on the following meeting scheduled to be held by the Board's annual calendar of meetings or on another extraordinary meeting which, if deemed necessary, is called."

Spanish law does not allow the nominal appointment of successors to take office if vacancies occur. However, Article 33 of the Bylaws sets out interim replacement rules for the temporary performance (in cases of absence, inability to act or illness) of the duties of the Chairman of the Board in the absence of the Vice-Chairmen.

The Board determines every year the numerical sequence for such purpose on the basis of the length of service in the position of Board member. In this regard, the Board of Directors, at its meeting of June 23, 2007, resolved unanimously to assign to the current Directors the following order of priority for the temporary performance of the duties of Chairman in the absence of the Vice-Chairmen:

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. Francisco Javier Botín-Sanz de Sautuola y O'Shea
11) Lord Burns
12) Mr. Luis Ángel Rojo Duque
13) Ms. Isabel Tocino Biscarolasaga

7. Secretary of the Board

The Rules and Regulations of the Board (Article 10) expressly include among the duties of the Secretary of the Board —assisted, where appropriate, by the Assistant Secretary— the task of ensuring the formal and substantive legality of the activities of the Board, ensuring that its procedures and governance rules are observed and regularly reviewed.

The Rules and Regulations also call for the Secretary to assist the Chairman in his work and to see to the proper operation of the Board, for which purpose the most important duties of the Secretary shall be to provide Directors with the necessary information and advice, to keep custody of the corporate documents, to duly record proceedings at meetings in the respective minutes, including those statements which are requested to be recorded in the minutes, and to attest to the resolutions of the Board.

The consistency between the work of the Board as described above and the work of the Committees of the Board is strengthened by the provision of the Rules and Regulations of the Board to the effect that the General Secretary of the Company shall serve, in every case, as the Secretary of the Board of Directors and of all the Committees thereof.

Article 16.4.d) of the Rules and Regulations of the Board provides that in the event of appointment or withdrawal of the Secretary of the Board, the Appointments and Remuneration Committee must report on the respective proposals prior to submission thereof to the Board.

8. Operation of the Board

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 18.1 of the Rules and Regulations). Thirteen meetings were held in fiscal year 2007.

Directors may delegate their voting rights by granting a proxy to another Director, for each meeting and in writing. Pursuant to Article 19.1 of the Rules and Regulations of the Board, such proxy shall be granted with instructions.

The Chairman endeavours to ensure that the Directors receive sufficient information prior to the meetings and directs debate at Board meetings.

Any Director may propose the inclusion of new items on the draft agenda proposed by the Chairman (Article 18.3 of the Rules and Regulations of the Board), which is approved by the Board at the same meeting.

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

Resolutions are adopted by absolute majority of the Directors present, except for decisions that require a qualified majority, such as the appointment of the Chairman and the Chief Executive Officer, the permanent delegation of powers to the Executive Committee and resolutions appointing the members thereof, all of which legally require the affirmative vote of two-thirds of the members of the Board. In the event of a tie when a vote is taken, the Chairman has a tie-breaking vote.

9. Conduct of meetings

The Board is kept permanently and fully informed of the running of the various business areas of the Group through the reports submitted at its meetings by the Chief Executive Officer and, on the basis of the list of matters to be dealt with agreed by the Board for each year, through the reports submitted by executive Directors and other business area managers who are not Directors, including the managers of the Group's units abroad.

The Second Vice-Chairman and Chief Executive Officer reported on the running of the Group at nine of the thirteen meetings held by the Board in 2007 and the Third Vice-Chairman and head of Risk did so on eight occasions. Also worthy of note is the participation at some of the Board meetings of the Head of Financial Accounting and of the managers of External and Internal Audit.

In 2007, the Board addressed some specific aspects of the Group's business, such as the following: the acquisition of ABN AMRO (twice), Banesto, Santander Consumer USA (Drive), Abbey, the Group's liquidity, Global Wholesale Banking, Asset Management and Latin America (several times during the year).

Other aspects were also reviewed, such as the process of adjustment to the Unified Code, the plan to prepare for the Financial Instruments Market Directive (MiFID), the Universities Programme, a report on the Sarbanes-Oxley Act and the New Basel Capital Accord (BIS II), the human resources of the Group, the Management pension plan and the definition of the structure of the Group and off-shore centres.

10. Strategy meeting

In addition to the sessions described above, the Board held on 22-23 September 2007 a meeting to discuss the Group's strategy. At such meeting, the Board thoroughly explored concrete actions aimed to maintain and increase the growth differential of the Group versus its competitors.

The agenda of the meeting were divided into four modules:

- The context of the global financial industry
- Business management. I-10 Plan
- Infrastructure management. I-10 Plan
- Capital and the business portfolio

Among its conclusions, and apart from those related to the different markets where the Group is present and its position in those markets, the Board highlighted the importance for Santander of an appropriate management of liquidity as well as the advisability of holding a solid level of core capital. Both aspects require a detailed analysis of the capital consumption of all the businesses and underline the importance of balance sheet optimisation.

11. Training

As a result of the self-assessment of the Board in 2005, an on-going Director training programme was put in place. Nine meetings were held in 2007, where regulatory and business aspects were reviewed. The former included the benefits for the Group of the internal controls required under the Sarbanes-Oxley Act or the effects of the Basel II Accord. The latter included a review of the business of Santander Global Markets, structured financing, the hedge-fund industry, asset-backed securities, standardised risks, market risks and company rating systems.

Attendance of Directors at these training sessions was high again this year, with an average of eight Directors who devoted approximately one hour and a half to each session.

12. Orientation programme for new Directors

The Rules and Regulations (Article 20.7) provide that the Board shall make available to new Directors an information programme providing quick and adequate knowledge of the Bank and its Group, including its governance rules. This programme was thus made available to new Directors.

13. Self-assessment by the Board

The 2007 self-assessment, performed, as in the prior year, with the support of Spencer Stuart, on the basis of a questionnaire and personal interviews with the Directors, has, for the second consecutive year —in line with the recommendation of the Unified Code and the provisions of Article 18.5 of the Rules and Regulations of the Board— included a special section for the individual assessment of the Chairman, the Chief Executive Officer and the other Directors.

14. Appointment, re-election and renewal of Directors

The Appointments and Remuneration Committee is responsible, regardless of the status of each Director, for making proposals for the appointment and re-election of Directors to be submitted to the shareholders acting at a General Shareholders' Meeting following a resolution of the Board.

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.

All current Directors have been appointed or re-elected at the proposal of the Appointments and Remuneration Committee. Page 49 of this Annual Report specifies, for each Director, the date of the last proposal for appointment or re-election made by the Appointments and Remuneration Committee.

15. Compensation

- Compensation system

Pursuant to the provisions of Article 38 of the Bylaws, the Directors shall receive, in consideration for the performance of their duties and as a joint share in the profits for each fiscal year, an amount equivalent to 1% (5% until 2006) of the net profit of the Bank, although the Board could agree to reduce said percentage. Such amount was 0.126% in 2007 (0.143% in 2006 and 0.152% in 2005). The same Article also provides that the Directors are entitled to receive attendance fees as well as such compensation as may be applicable to the performance of duties within the Company other than those of a Director.

The Appointments and Remuneration Committee's report, which is distributed together with this Annual Report, contains a detailed description of such compensation systems.

The compensation of Directors is approved by the Board at the proposal of the Appointments and Remuneration Committee, except for such compensation as consists of the delivery of shares or options thereon, or that is paid under other compensation 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 Rules and Regulations of the Board (Article 28.3.) provide that only executive Directors may be beneficiaries of compensation systems consisting of the delivery of shares or rights thereon.

- Report on the Director Compensation Policy

Pursuant to Article 27 of its Rules and Regulations, the Board of Directors annually approves a report on the Director compensation policy, which must set forth the standards and grounds that determine the compensation for the current fiscal year and, if appropriate, for future fiscal years, submitting it, if appropriate, to the shareholders at the Annual General Shareholders' Meeting for information purposes.

The submission of the 2007 report to the last Annual General Shareholders' Meeting was a pioneer initiative in Spain. The 2008 report, which this year is again published as part of the Report of the Appointments and Remuneration Committee, also includes a description of the standards used by the Appointments and Remuneration Committee to propose to the Board the fixed compensation for 2008 and the variable compensation for fiscal year 2007 of the Chairman and the Chief Executive Officer and the other executive Directors.

-Transparency

Article 29 of the Rules and Regulations of the Board of Directors provides that the Appointments and Remuneration Committee and the Board of Directors shall take the necessary measures for the Annual Report to contain a breakdown of all items of compensation paid to each Director, including executive Directors.

Note 5 of the Notes (pages 208 through 217 of this Annual Report) sets forth all such information.

16. 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 specify the duties of diligent management, fidelity in furtherance of the Bank's interests, loyalty and secrecy, as well as the duty of inactivity with respect to confidential information.

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

-Related-party transactions

Except as otherwise provided in the following paragraph, no member of the Board of Directors, no person represented by a Director and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders has, in fiscal year 2007 and to the date of publication of this Report, to the best of the Bank's knowledge, carried out unusual or significant transactions with the Bank.

At its meeting of 8 November 2007, the Appointments and Remuneration Committee was informed, pursuant to Article 33.1 of the Rules and Regulations of the Board, of the decision of Mutua Madrileña Automovilista —then a Director of the Company— to sell its interest in the share capital of the Bank which, as of such date, totalled 73,100,000 shares (1.17% of the share capital) at the beginning of January of 2008. In order to set the sale price of the shares at such time, Mutua Madrileña Automovilista would procure a financial hedge product from another institution. At such meeting, the Committee also evaluated two equity swap transactions that the Bank would carry out, on an arm's length basis, to hedge the positions to be assumed by the financial institution with which Mutua Madrileña Automovilista intended to contract to hedge its divestiture. The aggregate amount of the above-mentioned equity swap transactions was EUR 1,101,039,510, which was the result of valuing each of the shares to be sold at a price of EUR 15.0621. Having verified that the proposed transaction observed the principles of non-discrimination among shareholders and arm's length basis, the Committee reported favourably on the transaction, which was approved by the Executive Committee at a meeting held on the same date. The Board, in the absence of the representative of Mutua Madrileña Automovilista, who did not attend the meeting, ratified such decision at its meeting of 26 November 2007.

Notwithstanding the foregoing, Note 55, on page 290 of this Annual Report, refers to information in connection with the transactions described in Article 200.13 of the Spanish Companies Law and rule 32 of the Bank of Spain's Circular 5/1993.

- Control mechanisms

The situations of conflict of interest that may apply to the Directors are governed by Article 30 of the Rules and Regulations of the Board, which establishes the duty of Directors to notify the Board of Directors of any direct or indirect conflict with the interests of the Bank in which Directors may be involved.

If the conflict arises from a transaction, the Director shall not be allowed to carry it out unless the Board approves it, following a report from the Appointments and Remuneration Committee.

The Director involved shall abstain from participating in the discussion and voting on the transaction to which the conflict refers.

- Conflict settlement bodies

The Board of Directors.

- Specific situations of conflict

In fiscal year 2007 there were 50 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 50 cases is as follows: on 22 occasions, the conflicts arose from proposals for appointment and re-election, delegation of powers or revocation of delegated powers including, on one occasion, appointment to a Committee of the Board; on 11 occasions, the matter under consideration was the approval of the terms of compensation of some Directors; on 5 occasions, the annual verification of the status of the Directors made by the Appointments and Remuneration Committee at its meeting of 19 March 2007 pursuant to Article 5.5 of the Rules and Regulations of the Board, and on 12 occasions the conflicts arose when proposals were discussed for the purchase or sale of equity interests or for financing to companies related to various Directors.

None of the 50 cases mentioned above involved the representatives on the Board of the Bank of Assicurazioni General S.p.A. or Mutua Madrileña Automovilista.

17. 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.

Below is a more detailed description of the Executive Committee, the Audit and Compliance Committee, the Appointments and Remuneration Committee and the Risk 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 39) and in the Rules and Regulations of the Board (Article 13).

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 13.5 of the Rules and Regulations of the Board), among other ways of reporting.

COMMITTEES OF THE BOARD

Committees	Executive Committee	Risk Committee	Audit and Compliance Committee	Appointments and Remuneration Committee	International Committee	Technology, Productivity and Quality Committee
No. of members	10	5	5	5	8	8
Executive	5	1	-	-	4	3
Non-executive	5	4	5	5	4	5
No. of meetings	55	98	13	11	2	2
Hours*	275	250	60	30	4	4

* Estimated hours of average dedication per Director.

- Risk Committee

The Rules and Regulations of the Board (Article 14) determine the composition and duties of the Risk Committee, and include within its purview the risk control and management responsibilities provided for in the Unified Code.

It currently consists of five Directors, of whom two are executive and three independent.

Since risk management is closely linked to the business of the Group, the Board has deemed it appropriate for the Chairman of the Risk Committee to be an executive Director, who is also the Third Vice-Chairman of the Group.

Pages 119 through 157 of this Annual Report provide full information relating to the Risk Committee and the Group's risk policies, responsibility for which (Article 3 of the Rules and Regulations of the Board) is part of the overall supervisory duties of the Board.

- Audit and Compliance Committee

Pursuant to the Rules and Regulations of the Board (Article 15), 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 non-executive independent Directors only.

Its duties, listed in the Rules and Regulations of the Board (Article 15) conform to the recommendation of the Unified Code for audit committees and the internal audit function.

The Committee has also supervised the Group's Compliance and Money Laundering Prevention activities, as described on pages 345 through 347 of this Annual Report.

The Audit and Compliance Committee has issued a report on its activities during the fiscal year, which is distributed together with this Annual Report.

- Appointments and Remuneration Committee

The Rules and Regulations of the Board (Article 16) also provide that this Committee is 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 non-executive independent Directors except one, who is a non-executive Director that is neither independent nor proprietary.

During fiscal year 2007, 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 such Committee including those recommended by the Unified Code.

Since 2004 the Appointments and Remuneration Committee publishes an activities report which, since 2006, also includes the above-mentioned report on Director compensation policy.

The Appointments and Remuneration Committee has issued a report on its activities during 2007, which is distributed together with this Annual Report.

18. International Advisory Board

The International Advisory Board, established in 1997 and governed by Article 17 of the Rules and Regulations of the Board of Directors, cooperates with the Board in the design, development and, if applicable, implementation of the overall business strategy by contributing ideas and suggesting business opportunities.

It is made up of leading Spanish and foreign personalities who are not members of the Board.

Following the arrival of Mr. Rodrigo Rato in 2008, the International Advisory Board is currently composed of the following 9 members, representing 6 nationalities.

Chairman:

Mr. Antonino Fernández, former Chairman of Grupo Modelo in Mexico

Members:

Mr. Bernard de Combret, Chairman of Total Trading Geneve

Mr. Carlos Fernández González, Chairman and Director General of Grupo Modelo in Mexico

Mr. Santiago Foncillas, former Chairman of Grupo Dragados

Mr. Richard N. Gardner, former US Ambassador in Spain

Mr. Francisco Pinto Balsemâo, former Portuguese Prime Minister

Sir George Mathewson, former Chairman of the Royal Bank of Scotland

Mr. William J. McDonough, former Chairman of the Federal Reserve Bank of New York

Mr. Rodrigo Rato, former Managing Director of the International Monetary Fund

Secretary:

Mr. Ignacio Benjumea

In 2007 the International Advisory Board held two meetings, at which its members provided their view on relevant aspects for the Santander Group in the conduct of its business, such as the Spanish economy and its main challenges, reforms and progress in the European Union under the Portuguese presidency, and the economic situation in the United States and the United Kingdom, to mention only a few examples.

19. Attendance at meetings of the Board of Directors and its Committee in 2007

The average attendance rate at Board of Directors' meetings in fiscal year 2007 was 90.2%. The average attendance rate at the meetings of Committees of the Board is shown in the following table:

Directors	Board	Committees					
		decision-making		reporting			
		Executive	Risk	Audit and Compliance	Appointments and Remuneration	Technology, Productivity and Quality	International
Average attendance:	*90.2%*	*90.5%*	*87.1%*	*86.2%*	*87.3%*	*81.3%*	*87.5%*
Individual attendance:							
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	*13/13*	*49/55*	---	---	---	*2/2*	*2/2*
Mr. Fernando de Asúa Álvarez	*13/13*	*49/55*	*93/98*	*11/13*	*10/11*	*1/2*	---
Mr. Alfredo Sáenz Abad	*13/13*	*50/55*	---	---	---	*2/2*	*2/2*
Mr. Matías Rodríguez Inciarte	*13/13*	*54/55*	*94/98*	---	---	---	---
Mr. Manuel Soto Serrano	*13/13*	---	---	*13/13*	*11/11*	*2/2*	---
Assicurazioni Generali S.p.A. (1)	*3/13*	---	---	---	---	---	---
Mr. Antonio Basagoiti García-Tuñón	*13/13*	*55/55*	*87/98*	---	---	*2/2*	---
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (2)	*13/13*	*46/55*	---	---	---	*1/2*	*1/2*
Mr. Javier Botín-Sanz de Sautuola y O'Shea	*13/13*	---	---	---	---	---	---
Lord Burns (Terence)	*10/13*	--	---	---	---	---	---
Mr. Guillermo de la Dehesa Romero	*13/13*	*51/55*	---	---	*10/11*	---	*2/2*
Mr. Rodrigo Echenique Gordillo	*13/13*	*48/55*	*71/98*	---	*9/11*	---	*2/2*
Mr. Antonio Escámez Torres	*13/13*	*54/55*	*82/98*	---	---	*2/2*	*2/2*
Mr. Francisco Luzón López	*13/13*	*42/55*	---	---	---	---	*2/2*
Mr. Abel Matutes Juan	*13/13*	---	---	*9/13*	---	---	*1/2*
Mutua Madrileña Automovilista (3)	*8/13*	---	---	---	---	---	---
Mr. Luis Ángel Rojo Duque	*7/13*	---	---	*13/13*	*8/11*	---	---
Mr. Luis Alberto Salazar-Simpson Bos	*13/13*	---	---	*10/13*	---	*1/2*	---
Ms. Isabel Tocino Biscarolasaga (4)	*11/11*	---	---	---	---	---	---

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

(1) Represented on the Board of the Bank by Mr. Antoine Bernheim.

(2) Member of the Technology, Productivity and Quality Committee since 23 April 2007.

(3) Represented on the Board of the Bank by Mr. Luis Rodríguez Durón. Mutua Madrileña withdrew as a Director on 19 December 2007.

(4) Appointed by the Board as Director on an interim basis (co-option) at its meeting of 26 March 2007, took office at the meeting of 23 April 2007. Her appointment was ratified by the shareholders acting at the Annual General Shareholders' Meeting held on 23 June 2007.

3. Rights of the Shareholders and General Shareholders' Meeting

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

The Bylaws of Banco Santander provide for only one class of shares (common 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 or qualified majorities other than those established by law.

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

2. Encouragement of informed participation of shareholders at Shareholders' Meetings

In recent years, the Bank has been making significant efforts to facilitate informed participation of shareholders at Shareholders' Meetings.

Measures such as the following have been put in place, all of which are currently included in our internal regulations:

- Attendance at Meetings of owners of a single share.

- Absence of a share blocking system to identify the persons who are entitled to attend Shareholders' Meetings. The requirement is for any number of shares to be registered in the name of the shareholder five days prior to the date of the Meeting.

- Remote attendance by means of data transmission and exercise of voting rights by postal correspondence, physical means and electronic communication.

- Minimum 30-day prior notice of the Shareholders' Meeting.

- Publication on the Group's website of all relevant information, including proposed resolutions to be submitted to the shareholders at the Shareholders' Meeting from the date of notice of call to the Shareholders' Meeting.

- Convening of the Meeting by shareholders representing not less than 5% of the capital of the Bank, who may request that a supplement to the notice of the Meeting be published (which supplement must also be available on the Bank's website) including one or more items on the agenda.

- Separate voting on matters such as the appointment of directors and on articles or groups of articles which are substantially independent in the event of amendments to the Bylaws or the Rules and Regulations for the General Shareholders' Meeting.

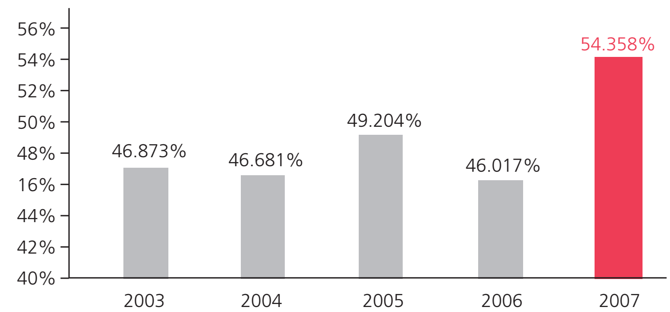
- Fractional voting by financial intermediaries.

- Granting of proxy to any person, whether or not a shareholder.

- Attendance of a notary to prepare the minutes of the Meeting.

Quorum at Annual General Shareholders' Meetings has evolved favourably from 46.873% at the 2003 Shareholders' Meeting to 54.358% at the last annual General Shareholders' Meeting despite the increase in the number of shareholders of the Bank from just over one million at the end of 2003 to over 2.2 million by the end of 2007.

ANNUAL GENERAL SHAREHOLDERS' MEETINGS



To defend the rights of its shareholders, the Bank has also taken care to resolve any possible conflicts of interest that may arise in proxy-granting by establishing the required mechanisms on the proxy cards.

3. Information provided to the shareholders and communication with them

On the occasion of the 2007 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 the rights to receive information and make proposals.

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

The legal right to receive information is provided for in Article 26 of the Bylaws and in Articles 7 and 18 of the Rules and Regulations for the General Shareholders' Meeting.

Shareholders may communicate generally with the Bank by postal and electronic correspondence, as well as on the shareholder service line.

Pursuant to the provisions of the Rules and Regulations of the Board, there is a department that manages the regular exchange of information with institutional investors who are shareholders of the Bank, although the Bank has taken the necessary precautions to ensure that relations between the Board and institutional shareholders in no case entail the delivery to such institutional shareholders of information that would put them in a privileged position or give them an advantage over the other shareholders.

511 meetings with investors were held in 2007, and the Bank maintained an on-going relationship with analysts and rating agencies. The Group's first Investor Day was organised in September to mark the 150th anniversary of the Bank, where outlooks, trends and Santander's strategic and financial vision in its main business units were reviewed. There were over 200 attendees. This transparency effort was well received by investors and analysts, as shown by the positive response given in reports following the event and the favourable relative performance of Santander shares vis-à-vis the financial sector since the Investor Day and to the end of fiscal year 2007.

The Shareholder Area is responsible for relationships with the over 2.2 million shareholders of the Bank worldwide. It prepares the global loyalty programmes and is responsible for the implementation of exclusive products and services for shareholders.

The following communication channels are available to shareholders:

- Service Lines in Spain, the United Kingdom and Mexico, which this year have replied to 261,353 questions and which operate as a Contact Centre that is innovative in the financial sector because of its proactive approach.

- The Shareholder's Mailbox, increasingly used and through which any new developments in the Group are reported to over 173,537 shareholders. 16,526 e-mails from shareholders were answered this year. Its commercial version was very well received since its creation. Since the third quarter of 2006, it has replied to more than 14,000 e-mails.

- The Shareholder's Forum, consisting of periodic meetings to make information on the Group and its prospects available to shareholders, reply to all kinds of questions and receive suggestions. 87 Fora were held this year, attended by 9,083 shareholders, in Spain, the United Kingdom, France, Switzerland and Mexico.

- In addition, 174,511 letters from our shareholders were answered individually by the Shareholder Area.

- As an innovation in 2008, shareholders who so wish will have an information service via mobile phone.

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

4. General Shareholders' Meetings held in 2007

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

Annual General Shareholders' Meeting of 23 June 2007

Notice of the call to the 2007 Annual General Shareholders' Meeting was published on 11 May, 43 days prior to the date of the Meeting. A total of 249,705 shareholders attended, in person and by proxy, with 3,399,685,998 shares. Quorum was thus 54.358% of the share capital of the Bank. The members of the Board of Directors present attended with 96,493,047 shares of their own and as proxies for 1,768,786,085 shares, representing 29.824% of the share capital of the Bank.

The average percentage of affirmative votes upon which the proposals submitted by the Board were approved was 98.567%.

The resolutions adopted include certain amendments to the Bylaws and the Rules and Regulations for the General Shareholders' Meeting, basically intended to reflect express compliance with the recommendations of the Unified Code.

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

Attendance data	Shareholders' Meeting of 23.06.2007
Physically present	1.867% (1)
By proxy	35.813% (2)
Remote votes	16.677% (3)
Total	54.358%

(1) Of such percentage (1.867%), 0.00017% is the percentage of the share capital that attended by remote means through the Internet.

(2) The percentage of the share capital that granted proxies through the Internet was 0.006%.

(3) Of such percentage (16.677%), 16.672% is the percentage of votes cast by postal mail and 0.005% the percentage of electronic votes.

Extraordinary General Shareholders' Meeting of 27 July 2007

Notice of the call to this extraordinary General Shareholders' Meeting was published on 25 June 2007, 32 days prior to the date of the Meeting. A total of 149,900 shareholders attended, including shareholders present in person and by proxy, with 2,924,654,294 shares, the quorum thus being 46.762% of the share capital of the Bank. The members of the Board of Directors present attended with 23,393,047 shares of their own and as proxies for 1,854,859,293 shares, representing 30.031% of the share capital of the Bank.

The shareholders acting at such Shareholders' Meeting, which was convened on the occasion of the acquisition of ABN AMRO, approved by an average of 96.427% affirmative votes the measures proposed by the Board for the partial financing thereof.

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

Attendance data	Shareholders' Meeting of 27.07.2007
Physically present	0.650% (1)
By proxy	31.712% (2)
Remote votes	14.400% (3)
Total	46.762%

(1) Of such percentage (0.650%), 0.00012% is the percentage of share capital that attended through the Internet.

(2) The percentage of share capital that granted proxies through the Internet was 0.011%.

(3) Of such percentage (14.400%), 14.397% voted by postal mail and 0.004% cast an electronic vote.

* * *

Resolutions adopted at the Shareholders' Meetings held in 2007

The full text of the resolutions adopted at the 2007 Shareholders' Meetings, a summary of which is provided below, is available on the websites of both the Group and the CNMV.

ANNUAL GENERAL SHAREHOLDERS' MEETING OF 23 JUNE 2007

Resolutions	Votes For	Against	Abstained	Blank
1. Review and approval, if appropriate, of the annual financial statements (balance sheet, profit and loss statement, statements of changes in shareholders' equity and cash flows and notes to the financial statements) and of the management of Banco Santander Central Hispano, S.A. and its consolidated Group for the Fiscal Year ended 31 December 2006.	98.679%	0.026%	0.008%	1.287%
2. Allocation of profits for Fiscal Year 2006.	99.060%	0.017%	0.007%	0.916%
3. Board of Directors: ratification and re-election of directors:				
A) Ratification of the appointment of Ms. Isabel Tocino Biscarolasaga.	98.448%	0.591%	0.032%	0.929%
B) Re-election of Assicurazioni Generali S.p.A.	97.207%	1.696%	0.035%	1.062%
C) Re-election of Mr. Antonio Basagoiti García-Tuñón.	98.271%	0.606%	0.035%	1.087%
D) Re-election of Mr. Antonio Escámez Torres.	98.383%	0.574%	0.033%	1.009%
E) Re-election of Mr. Francisco Luzón López.	98.230%	0.622%	0.033%	1.115%
4. Re-election of the Auditor for Fiscal Year 2007.	98.769%	0.280%	0.009%	0.942%
5. Authorisation for the Bank and its Subsidiaries to acquire treasury shares pursuant to the provisions of Article 75 and the first additional provision of the Companies Law, depriving of effect the authorisation granted by the shareholders acting at the Annual General Shareholders' Meeting of 17 June 2006 to the extent of the unused amount.	98.832%	0.223%	0.009%	0.936%
6. Bylaws: amendment of the first paragraph of Article 1 (name), Article 28 (powers of the shareholders acting at the General Shareholders' Meeting), paragraph two of Article 36 (holding of Board of Directors' meetings), the last paragraph of Article 37 (powers of the Board of Directors) and the first paragraph of Article 40 (Audit and Compliance Committee).				
A) Amendment of the first paragraph of Article 1.	98.763%	0.068%	0.018%	1.151%
B) Amendment of Article 28.	98.773%	0.053%	0.018%	1.156%
C) Amendment of paragraph two of Article 36.	98.774%	0.050%	0.019%	1.157%
D) Amendment of the last paragraph of Article 37.	98.769%	0.055%	0.019%	1.157%
E) Amendment of the first paragraph of Article 40.	98.759%	0.068%	0.018%	1.155%
7. Rules and Regulations for the General Shareholders' Meeting: amendment of the Preamble, of Article 2 (powers of the shareholders acting at a General Shareholders' Meeting), Article 21 (voting on proposed resolutions) and sub-section 1 of the current Article 22 (adoption of resolutions) and insertion of a new Article 22 (fractional voting), re-numbering the current Article 22 *et seq.*:				
A) Amendment of the Preamble.	98.785%	0.046%	0.019%	1.150%
B) Amendment of Article 2.	98.778%	0.048%	0.019%	1.155%
C) Amendment of Article 21 and related amendment of sub-section 1 of the current Article 22.	98.780%	0.047%	0.019%	1.154%
D) Addition of a new Article 22 and re-numbering of the current Article 22 *et seq.*	98.766%	0.061%	0.019%	1.153%
8. Delegation to the Board of Directors of the power to implement the resolution to be adopted by the shareholders acting at the Shareholders' Meeting to increase the share capital pursuant to the provisions of Article 153.1.a) of the Companies Law.	97.920%	0.878%	0.009%	1.193%
9. Delegation to the Board of Directors of the power to issue fixed income securities not convertible into shares.	98.566%	0.486%	0.010%	0.938%
10. Authorisation to deliver, free of charge, 100 Santander shares to each of the employees of Group companies complying with the conditions established in the resolution to be adopted by the shareholders acting at the Shareholders' Meeting, expressly authorising as well delivery thereof to executive Directors and Executive Vice Presidents of the Bank who also comply with such conditions.	98.339%	0.419%	0.034%	1.208%

ANNUAL GENERAL SHAREHOLDERS' MEETING OF 23 JUNE 2007

Resolutions	Votes For	Against	Abstained	Blank
11. Amendment of the incentive plan for Abbey managers through delivery of Santander shares approved by the Annual General Shareholders' Meeting of 17 June 2006 and linked to the achievement of income and profit targets of the above-mentioned British entity.	98.483%	0.376%	0.034%	1.106%
12. Approval, in connection with the long-term Incentive Policy approved by the Board of Directors, of several plans for delivery of Santander shares, for implementation thereof by the Bank and by companies belonging to the Santander Group and linked to certain permanence requirements or to total shareholder return and the earnings per share of the Bank.	98.488%	0.367%	0.012%	1.133%
13. Authorisation to the Board of Directors to interpret, correct, supplement, implement and further develop the resolutions adopted by the shareholders acting at the Shareholders' Meeting, as well as, and to substitute the powers granted to it by the shareholders, and granting of powers to have such resolutions converted into public instruments.	98.998%	0.060%	0.009%	0.933%

EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING OF 27 JULY 2007

Resolutions	Votes For	Against	Abstained	Blank
1. Authorisation to the Board of Directors, pursuant to the provisions of Article 153.1.b) of the Companies Law, to increase the share capital on one or more occasions and at any time, within three years, through cash contributions and in the maximum nominal amount of EUR 1,563.574,144.5, all on the terms and conditions it deems appropriate, depriving of effect the authorisation granted by means of resolution Seven.II) of the Annual General Shareholders' Meeting of 18 June 2005. Delegation of the power to exclude pre-emptive rights pursuant to the provisions of Article 159.2 of the Companies Law.	96.441%	1.168%	2.378%	0.012%
2. Issuance of debentures mandatorily convertible into shares of Banco Santander in the amount of 5,000,000,000 euros. Provision for incomplete subscription and exclusion of pre-emptive rights. Determination of the basis and terms for conversion and increase of the share capital by the amount required to accommodate the requests for conversion. Delegation to the Board of Directors of the power to carry out the issuance and to set all such terms thereof as have not been provided for by the shareholders acting at the Shareholders' Meeting.	95.665%	1.820%	2.504%	0.012%
3. Authorisation to the Board of Directors to interpret, correct, supplement, implement and further develop the resolutions adopted by the shareholders at the Shareholders' Meeting, as well as to substitute the powers granted to it by the shareholders, and granting of powers to have such resolutions converted into public instruments.	97.175%	0.334%	2.476%	0.015%

4. Santander's Senior Management

1. Composition

The Bank is managed at the highest level through the Executive Vice Presidents, under the control of the Chairman and the Chief Executive Officer. Accordingly, the Chairman, the Chief Executive Officer and the following Executive Vice Presidents make up the Bank's Senior Management, regardless of their positions, if any, on the Board of Directors:

Abbey

Mr. Antonio Horta Osorio

America

Mr. Francisco Luzón López
Mr. Marcial Portela Álvarez
Mr. Jesús Mª Zabalza Lotina

Internal Audit

Mr. David Arce Torres

Global Wholesale Banking

Mr. Adolfo Lagos Espinosa
Mr. Jorge Maortua Ruiz-López
Mr. Gonzalo de las Heras Milla

Global Private Banking

Mr. Javier Marín Romano

Banesto

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

Communication, Corporate Marketing and Research

Mr. Juan Manuel Cendoya Méndez de Vigo

Strategy

Mr. Juan Rodríguez Inciarte

Asset Management

Mr. Joan David Grimà Terré

Financial Management and Investor Relations

Mr. José Antonio Álvarez Álvarez

Financial Accounting and Control

Mr. José Manuel Tejón Borrajo

Human Resources

Mr. José Luis Gómez Alciturri

Santander Branch Network - Spain

Mr. Enrique García Candelas

Risk

Mr. Matías Rodríguez Inciarte
Mr. Javier Peralta de las Heras
Mr. José María Espí Martínez

Santander Consumer Finance

Ms. Magda Salarich Fernández de Valderrama

Santander Totta

Mr. Nuno Manuel Da Silva Amado

General Secretariat

Mr. Ignacio Benjumea Cabeza de Vaca
Mr. Juan Guitard Marín
Mr. César Ortega Gómez

Insurance

Mr. Jorge Morán Sánchez

Technology and Operations

Mr. José María Fuster Van Bendegem
Mr. Fermín Colomés Graell

2. Compensation

Information on the compensation of Executive Vice Presidents is provided in Note 5 to the Accounts, appearing on pages 208 through 217 of this Annual Report.

3. Related-party transactions and conflicts of interest

- Related-party transactions

To the best of the Bank's knowledge, no member of Senior Management who is not a Director, no person represented by a member of Senior Management who is not a Director, and no company in which such persons or persons with whom they act in concert or who act through nominees therein are directors, members of senior management or significant shareholders, has made any unusual or significant transaction with the Bank during fiscal year 2007 and through the date of publication of this Report.

- Conflicts of interest

The control mechanisms and the bodies designed to resolve this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's website.

5. Transparency and independence

- Financial information

Pursuant to the provisions of its Rules and Regulations (Article 34.2.), the Board has taken the necessary actions to ensure that the quarterly and semi-annual financial information and the other information made available to the markets is prepared following the same principles, standards and professional practices as are used to prepare the Annual Financial Statements. To such end, the aforementioned information is reviewed by the Audit and Compliance Committee prior to the release thereof.

As regards the Annual Financial Statements, they are reported on by the Audit and Compliance Committee and certified by the Head of Financial Accounting prior to the preparation thereof by the Board.

- Other significant information

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

Such communication shall always be simultaneous to the release of the 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, in real time and, whenever practicable, such information shall be quantified.

In fiscal year 2007, the Bank published 119 items of material information, which are available on the websites of the Group and the CNMV.

2. Relationship with the auditor

- Independence of the auditor

The shareholders acting at the General Shareholders' Meeting of 23 June 2007 resolved to re-elect Deloitte, S.L. as Auditor for one year, upon the affirmative vote of 98.8% of the capital present or represented.

The Board has expressly entrusted the duty of ensuring the independence of the Auditor to the Audit and Compliance Committee, which channels the relations of the Board with the Auditor.

The Bank has mechanisms in place, established in the Rules and Regulations of the Board (Article 35), to preserve the independence of the Auditor; worth noting is the fact that the Board shall not hire audit firms in which the fees intended to be paid to them for any and all services are equal to or more than two per cent of the total income thereof during the last fiscal year.

In addition, the Rules and Regulations of the Board establish limits upon hiring the audit firm for the provision of services other than audit services that could jeopardise the independence thereof. In this connection, the Audit and Compliance Committee approves non-audit services provided to the Group by the Auditor, which, in 2007, related mainly to securitisation, tax advice and the preparation of financial studies.

The Rules and Regulations impose on the Board the duty to make public the overall fees paid by the Company to the Auditor for services other than audit services.

Pages 163 and 280 of this Annual Report provide detailed information on the compensation paid to the Auditor for both audit and other services, as well as a comparison between the fees paid for both kinds of services and the percentage of the total fees invoiced by the auditor that each such compensation represents.

The Rules and Regulations determine the mechanisms to be used to prepare the financial statements such that there is no room for qualifications in the auditor's report. Nevertheless, the Rules and Regulations also provide that, whenever the Board believes that its opinion must prevail, it shall provide an explanation, through the Chairman of the Audit and Compliance Committee, of the content and scope of the discrepancy and shall endeavour to ensure that the Auditor likewise discloses its considerations in this regard.

The Annual Financial Statements of the Bank and of the consolidated Group for fiscal year 2007 are submitted without qualifications.

3. Intra-group transactions

There were no intra-group transactions in fiscal year 2007 that were not eliminated in the consolidation process and that are not part of the ordinary course of business of the Company or of the companies of its Group as regards the purpose and conditions thereof.

Notwithstanding the foregoing, based upon a resolution of the Executive Committee held on 11 June 2007, Banco Santander purchased a 51% stake in the share capital of the company Ingeniería de Software Bancario, S.L. (ISBAN) from Banesto. The transaction was reported in the Public Periodic Information which the Company filed with the CNMV on 3 August 2007.

The purchase price was 39.7 million euros and was determined on the basis of an estimation of reasonable value prepared by a third party unrelated to the Group.

4. Website

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

The 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 résumés 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 for 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 as a result of recommendation 2 of the Unified Code.

The corporate website has a specific section for Institutional Investors and another for Shareholders, and is available in Spanish, English and Portuguese.

In 2007, users were able to access close to 14,000 items of content and 5,000 new documents published throughout the year.

The notice of call to the Annual General Shareholders' Meeting of 2008, together with the information relating thereto, including proposed resolutions and mechanisms for the exercise of the rights to receive information, to grant proxies and to vote, as well as an explanation of the mechanisms for the exercise of such rights by means of data transmission, will be available as from the date of publication of such notice.

6. Unified Good Governance Code

In 2007, Banco Santander carried out a process of adjustment to the Unified Good Governance Code, approved by the CNMV on 22 May 2006, based on the principle of self-regulation.

During such process, the Board determined that a very high percentage of the recommendations included in the Unified Code were already being followed by the Bank. Some of these had not been explicitly included in the Bank's internal regulations (Bylaws and Rules and Regulations for the General Shareholders' Meeting and of the Board of Directors) but were already part of the corporate governance practices followed by the Bank. As part of the process of adjusting to the Unified Code, it has been deemed appropriate to formally reflect such recommendations in the Bank's internal regulations, which has accounted for a large part of the amendments made thereto.

Banco Santander currently follows a large majority of the recommendations of the Unified Code, and does not follow (i.e., does not adopt in full) a small number thereof (7 out of 58). Such recommendations from which the Bank departs are described below, together with the rationale for the Board's position:

1.- Number of members of the Board of Directors

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

2.- Executive Committee

Given that the Executive Committee is a collective decision-making body, the Board considers it appropriate to make the standard of efficiency provided for in Article 13.1 of the Rules and Regulations of the Board paramount, and therefore includes 5 executive Directors in such Committee, without neglecting the participation of non-executive Directors and particularly of independent Directors, seeking to have the composition of the Committee reflect the guidelines on composition of the Board as far as possible.

The Board believes the composition of the Executive Committee to be balanced, although numerically, it differs from the application of recommendation 42 since the percentage of independent Directors sitting thereon (40%) is lower than on the Board (47%).

3.- 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 Company 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 does not believe it appropriate for the proposals made by the Appointments and Remuneration Committee to the Board for the interim appointment (co-option) of new independent Directors to fill vacancies, or for the Board, in turn, to propose the appointment or re-election of independent Directors to the shareholders acting at a General Shareholders' Meeting, to be binding (recommendation 27), because this would also entail calling into question a power that is to be exercised by the Board sitting as a full body.

It would likewise 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.

Finally, the Board believes it is not appropriate to adopt the part of recommendation 17 which advises granting an independent Director the power to request that a meeting of the Board be called or that items be included in the agenda for such meeting as well as the power to direct the assessment of the Chairman since, in the opinion of the Board, that would contravene the principle of unity of the Board and of absence of blocs within the Board. However, the Rules and Regulations provide that the Chairman shall call a meeting of the Board at the request of at least three Directors, and that any Director may propose the inclusion of new items on the agenda submitted to the Board by its Chairman (Article 18, sub-sections 1 and 3).

4.- Submission of the report on Director compensation policy to consultative vote at the General Shareholders' Meeting (recommendation 40)

The Board believes that in matters relating to compensation, and as has been its policy for years, the utmost transparency is required with respect to shareholders and the market at large.

Nonetheless, the adoption of this recommendation is not considered adequate, given that its implementation thereof would affect the necessary precision and clarity in the distribution of powers between the Board and the shareholders acting at a General Shareholders' Meeting, which could lead to undesirable situations of legal uncertainty, particularly because a consultative vote at a General Shareholders' Meeting or the effects of a possible negative outcome thereof are not provided for or regulated by Spanish law.

The Report on the remuneration policy for Directors is presented at the General Shareholders´ Meeting for informational purposes.

Santander

FINANCIAL REPORT

FINANCIAL REPORT

SUMMARY OF 2007

Grupo Santander conducted its business against a background of strong growth in the global economy (+5.2%), but the year ended with greater uncertainties. The instability of financial markets coupled with higher oil prices and the downturn in the US economy reduced the pace of world growth in the fourth quarter of 2007. However, the buoyancy of emerging economies enabled their growth to be more than 4% and offset the weakening of the most developed economies, particularly the US.

US economic growth in the fourth quarter of 0.6% reduced growth for the whole year to 2.2%. The unfavourable financial and property environment and high oil prices suggest the slowdown will continue. The Federal Reserve, in a bid to counter this situation, sharply cut its interest rate in the second half of 2007 (from 5.25% in 2006 to 4.25% at the end of 2007) and in March 2008 (to 2.25%) and the government announced a packet of tax measures. Despite high inflation, the economic activity trends give the Fed leeway for further cuts.

Latin America, thanks to its solid financial position, high prices for its raw materials, links with Asian economies and strong domestic demand, was not sucked into the crisis in the markets. Its GDP growth remained sligthly above 5%. The rise in inflation, which reduces the margin for manoeuvre in monetary policies, and the slowdown in developed economies could slightly affect the region's growth in 2008, but Latin America will still grow by more than 4%.

The region's three main economies continued to grow strongly. Only Mexico's growth eased (to 3%) because of the US influence, but its domestic demand is solid and rising. The faster pace of growth in Brazil and Chile (more than 5%) intensified inflationary pressures, particularly in Chile, and led its central bank to raise its key rate to 6%. Exchange rates, however, remained firm.

The Eurozone grew 2.7% and decelerated in the fourth quarter (+2.3%). The private sector's more solid financial position made the zone more resistant to the financial turbulence in the US. Inflation rose to 3.1%, above the 2% target, limiting the leeway of the European Central Bank, which has held its rate at 4% since the middle of 2007. In this context, the euro remained strong (at $1.47).

Spain's economy continued to grow strongly (+3.8%) with a lower last quarter (3.5%). The main driver was still domestic demand although it is slowing down, more so in investment in construction, and the external sector did not drag down growth so much. Inflation increased in the last part of 2007 and ended the year at more than 4%.

The UK economy grew 3.1%, above its potential growth rate, despite an easing in the fourth quarter (+2.9%). The reduction in the Bank of England's base rate in December and January (to 5.25%) sought to counter this trend. Inflation above its 2% target, however, could limit the room for manoeuvre in monetary policy. In this environment, sterling weakened and fell 8% against the euro (to £0.73).

The evolution of the dollar, sterling and the other currencies in which Santander operates had a slight negative impact on the Group's revenues and expenses of around 2-3 percentage points. The impact on the balance sheet was negative (around 5 p.p.).

Despite this more complex environment, than in previous years Grupo Santander was one of the winning banks in its peer group for four reasons:

- by profits, being among the Top 5 in the world;
- by the strong growth in earnings per share, well above the average rise of its peers.
- by the shareholder return, the second largest among the group of 20 comparable banks for the purpose of long-term incentive plans.
- lastly, and from a strategic point of view because of the successful acquisition of ABN AMRO by the consortium of Santander, Royal Bank of Scotland and Fortis. This operation fits perfectly into the Group's strategy, making us the only international bank with a noteworthy presence in a BRIC country (the group whose growth will be the strongest in coming years), and giving us the potential to boost our profits. Furthermore, the acquisition was carried out in the most efficient way for shareholders as there was no need for the initially envisaged capital increase.

Our results in 2007 once again proved the effectiveness of the Group's business model, which is adapted to different markets to achieve solid growth in revenues and profits at the local level and, by aggregation, at the global level. The pillars are the focus on customers and on retail business, the potential of Santander's business portfolio and the continued efforts to improve commercial and operational efficiency.

Another factor is the Group's excellent capital position, the low level of NPLs and the high level of NPL coverage compared to international standards, the very marginal exposure to complex structured products, which had no impact on earnings, and the competitive advantage which, in an environment of liquidity tensions, gives us a structurally liquid balance sheet, favoured by the Group's eminently retail nature.

The highlights of 2007 were:

- **A new record in attributable profit** of EUR 9,060 million, 19.3% more than in 2006. On a recurrent basis, excluding extraordinary capital gains and allowances (EUR 950 million in 2007 and EUR 1,014 million in 2006), attributable profit was EUR 8,111 million in 2007 (+23.2%). This figure includes a net contribution of EUR 60 million from the businesses acquired from ABN AMRO.

- **Strong rise in earnings per share** to EUR 1.43, or EUR 1.28 excluding capital gains (+17.5% and +21.4%, respectively). The figure for 2007 includes in the denominator the total number of shares into which the "Valores Santander" will be compulsorily converted, weighted by the period in which they were issued.

- In line with these results, the **dividend per share** charged to the earnings in 2007 which the Board proposes to the Shareholders' Meeting is EUR 0.650781. This dividend, for the third year running, is 25% higher and keeps the pay-out at around 50% of profits before extraordinary capital gains and allowances, and represents a return of 4.7% on the share's average price in 2007.

- **Income statement: solid, recurrent and high quality**

  - The growth in profit is based on a strong rise in gross operating income (+21.3%), backed by the most recurrent revenues (net interest income, fees and insurance activity) which together accounted for more than 80% of the total rise in gross operating income. The recurrence is reflected in a solid quarterly trend over the last three years.

  - Total operating expenses increased 10.5%, half the increase in gross operating income, which opened the "jaws" (the difference between growth in gross operating income and expenses) by almost 10 percentage points and improved the efficiency ratio by 4.4 p.p. to 44.2%.

  - Net loan-loss provisions increased 40.6%. Eliminating the impact of Drive's entry, the rise was 24.2%, consistent with the Group's growth strategy and the change of mix in some units. Growth in net operating income net of provisions was almost 30% (very much in line with the 32.3% increase in net operating income).

  - All areas' results were much higher. Europe generated profits excluding capital gains of EUR 5,624 million (68% of the total of the operating areas) and Latin America EUR 2,666 million (32%).

- **Further improvement in profitability** (excluding capital gains). ROE was 19.6% (+1.1 p.p.) and RoRWA 1.76% (+16 b.p.).

- **Notable quality of credit risk**: the NPL ratio ended 2007 at 0.95%, after rising a little during the last quarters, and coverage was 151% (with generic provisions of EUR 6,027 million).

- **Solid capital ratios**: the BIS ratio was 12.66% and core capital 6.25%. This high level of solvency was due to Santander's capacity to generate ordinary profits, active management of our businesses and continued optimisation of our balance sheet.

- **Further upgrading of ratings**: In 2006 Standard & Poor's and Fitch upgraded the Group's ratings. In March 2007 Standard & Poor's again lifted its long-term rating from A+ to AA and in April Moody's from AA to Aa1 and it held its financial strength rating.

RATING AGENCIES

	Long term	Short term	Financial strength	Outlook
Standard & Poor's	AA	A1+		Stable
Fitch Ratings	AA	F1+	A/B	Stable
Moody's	Aa1	P1	B	Stable
DBRS	AA	R1(high)		Stable

We will first look at the principal segments or geographic areas (Continental Europe, UK and Latin America) and Financial Management and Equity Stakes.

The three large geographic areas, accounting for the whole of the Group's businesses in those areas, performed well in 2007: Continental Europe earnings continued to be solid and well diversified; Abbey accomplished in 2007 the targets set within the 3-year Plan; and Latin America continued growing strongly in activity and results, mainly in customer businesses.

- **Continental Europe** contibuted 53% of total operating areas attributable profit. Gross operating income rose 19.9%, well above that of expenses and absorbed a rise in provisions that was in line with the growth in this income. Net operating income was 24.2% higher and attributable profit excluding capital gains grew 27.4% to EUR 4,423 million. All retail banking units (Santander Branch Network, Banesto, Santander Consumer Finance and Portugal) and the global areas made significant contributions.

- In the **UK**, Abbey met its targets for revenues and expenses. Its attributable profit was EUR 1,201 million. Of note was a 6.7% rise (in sterling) in total revenues as it was achieved in an environment more difficult than initially envisaged, and a further reduction (-2.9%) in expenses. As a result the efficiency ratio was 5.0 p.p. better than in 2006 and net operating income and profits grew by around 20%. Abbey generated 15% of total operating areas attributable profit.

There were three drivers behind the growth in profits. First, the greater focus on profitability rather than on volume, which produced an improvement in spreads. Second, the high quality of lending; mortgages in the highest quality sector of the market and reduction in the less profitable balances of UPLs were reflected in lower needs for provisions. Third, the rolling out of the Partenón platform which improves the global view of customers and enhances the range of products to retail customers.

- Latin America's attributable profit was EUR 2,666 million (32% of the Group's total from its operating areas), 16.6% higher. This growth occurred in a region that expanded robustly in 2007 and is experiencing a strong process of "bankarisation".

  In this environment, the Group continued to focus on developing its commercial franchise and on greater linkage of customers, mainly individuals and SMEs. The result was a strong push in business, with loans and customer funds rising by around 20% in local currency, and a notable increase in revenues well above the growth in expenses (which grew in line with each country's business expansion plans).

  This combination produced a rise of 37.1% in net operating income and absorbed the larger provisions resulting from the growth in lending and the change of business mix. In dollars, its management currency attributable profit was 27.3% higher at EUR 3,648 million.

The secondary level (business areas) comprises Retail Banking, Global Wholesale Banking and Asset Management and Insurance. The sum of these three areas is the same as that of the geographic segments. All of them also performed well, within their varied environments.

- In Retail Banking, which generated 86% of the total gross operating income and 80% of profit before tax from its operating areas, gross operating income rose 20.5%, net operating income 32.1% and profit before tax 26.5%. Continental Europe's profit before tax rose 20.1%, Abbey Retail's 31.6% and Latin America's 37.2% (all of them in euros), spurred by growth in linked customers, higher volumes, good management of spreads and selective control of costs.

- Global Wholesale Banking generated EUR 1,830 million of profit before taxes (16% of the Group's total from its operating areas), 28.4% more than in 2006. This increase was aided by growth in customer revenues (+24%) and by lower needs for generic provisions. The contribution from own account positions was lower because of the markets' performance in the second half of 2007.

- The profit before tax of Asset Management and Insurance was EUR 537 million (4% of the of the Group's total from its operating areas total), 13.7% higher than in 2006 and 13.5% more in net operating income (on a like-for-like basis, incorporating the results of the pension fund management institutions into the item "discontinued operations"). Their composition reflects the good performance of insurance and pension fund business in Europe, and a worse performance in mutual funds, mainly in Spain, because of the greater tax and financial attractiveness of other savings products.

  This area only covers a small part of the revenues generated by the Group, given that it only shows the net difference between the gross revenue for the Group and the cost of distribution which is paid to the networks that sold the products on the basis of the agreements made. Total revenues from the products managed in this area amounted to EUR 3,643 million (13% of the total revenues of the operating areas), 13% more than in 2006.

In short, the performance of the Group and of the business areas in 2007 underscores Grupo Santander ability to maintain the path of growth of its earnings in a complex environment for the banks and financial markets. A close look at the Group's businesses shows the efforts made to boost revenues and improve the efficiency of all areas, strengthening customer activity in the countries and businesses where we operate, while bolstering the solvency of the balance sheet and improving ROE and ROA.

The Group combined these efforts to grow and generate results today with policies that make it possible to produce higher results in the future: it continued to invest in commercial networks (on a like-for-like basis close to 500 branches and more than 1,500 ATMs were opened in 2007) and to capture and link customers. Abbey is increasingly being transformed into a universal bank with a wider range of products, the Group is becoming more global and, lastly, ABN AMRO assets were acquired, which enhance the potential for further growth.

GRUPO SANTANDER RESULTS

Grupo Santander's attributable profit of EUR 9,060 million was 19.3% higher than the EUR 7,596 million generated in 2006 (+EUR 1,464 million).

Excluding in both years the figure net of taxes of extraordinary capital gains and allowances (EUR 950 million in 2007 and EUR 1,014 million in 2006), ordinary attributable profit was 23.2% higher at EUR 8,111 million. This figure is the best reflection of the Group's capacity to generate results, and should be taken as the starting point for the future.

The 2007 earnings include the net impact of the incorporation of ABN AMRO from the date of acquisition (on October 17, 2007) of EUR 60 million. This consists of a positive impact of EUR 141 million from Banco Real profits and a financing cost after tax of EUR 81 million (EUR 13,000 million cost). Antonveneta's profits are not included.

The capital gains of EUR 2,348 million (net of tax) come from the sale of property in Spain, still not concluded at the end of the year (EUR 1,076 million), from pension funds management institutions in Latin America (EUR 622 million), from 1.79% of Intesa Sanpaolo (EUR 566 million) and from 5.87% of Banco Portugues do Investimento (EUR 84 million). Of this amount, EUR 1,398 million, also net of tax, was assigned to allowances and extraordinary allocations: EUR 737 million to the adjustment in the value of the stake in Sovereign, EUR 351 million to writedowns for intangible assets (generated in the aquisition of payrolls in Brazil), EUR 242 million to special funds for retirement plans and EUR 68 million to writedowns in Portugal.

INCOME STATEMENT

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Net interest income (w/o dividends)	14,882	12,076	2,806	23.2	10,324
Dividends	413	404	9	2.3	336
Net interest income	**15,295**	**12,480**	**2,815**	**22.6**	**10,659**
Income from companies accounted for by the equity method	441	427	15	3.4	619
Net fees	8,040	7,024	1,016	14.5	6,061
Insurance activity	319	253	66	26.2	201
Commercial revenue	**24,096**	**20,184**	**3,912**	**19.4**	**17,541**
Gains (losses) on financial transactions	2,998	2,149	849	39.5	1,534
Gross operating income	**27,095**	**22,333**	**4,761**	**21.3**	**19,076**
Income from non-financial services	152	119	33	27.9	156
Non-financial expenses	(78)	(70)	(8)	11.7	(91)
Other operating income	(119)	(119)	(0)	0.0	(89)
Operating expenses	(12,208)	(11,045)	(1,162)	10.5	(10,288)
General administrative expenses	(10,940)	(9,899)	(1,041)	10.5	(9,274)
Personnel	*(6,510)*	*(5,926)*	*(584)*	*9.9*	*(5,555)*
Other administrative expenses	*(4,430)*	*(3,973)*	*(457)*	*11.5*	*(3,719)*
Depreciation and amortisation	(1,268)	(1,147)	(121)	10.6	(1,014)
Net operating income	**14,842**	**11,218**	**3,624**	**32.3**	**8,765**
Impairment loss on assets	(3,549)	(2,551)	(998)	39.1	(1,802)
Loans	(3,470)	(2,467)	(1,002)	40.6	(1,615)
Goodwill	(14)	(13)	(2)	13.1	—
Other assets	(65)	(70)	6	(8.3)	(187)
Other income	(383)	(45)	(337)	—	(265)
Profit before taxes (w/o capital gains)	**10,910**	**8,622**	**2,288**	**26.5**	**6,698**
Tax on profit	(2,392)	(1,947)	(444)	22.8	(1,287)
Net profit from ordinary activity	**8,518**	**6,674**	**1,844**	**27.6**	**5,411**
Net profit from discontinued operations	112	470	(357)	(76.1)	331
Net consolidated profit (w/o capital gains)	**8,631**	**7,144**	**1,487**	**20.8**	**5,742**
Minority interests	520	562	(41)	(7.4)	530
Attributable profit to the Group (w/o capital gains)	**8,111**	**6,582**	**1,528**	**23.2**	**5,212**
Net extraordinary capital gains and allowances	950	1,014	(64)	(6.3)	1,008
Attributable profit to the Group	**9,060**	**7,596**	**1,464**	**19.3**	**6,220**
Pro memoria:					
Average total assets	877,682	814,235	63,447	7.8	740,225
Average shareholders' equity	41,352	35,505	5,847	16.5	31,326

In addition, and in line with the criteria established in the International Financial Reporting Standards (IFRS), the results obtained from the pension funds businesses in Latin America were discontinued in 2007 and were consolidated by global integration and eliminated from various parts of the income statement and shown in "net profit from discontinued operations". The financial statements of prior years were drawn up again in accordance with the same criterion, both at the Group level as well as the areas affected. This enables the Group's management of recurrent businesses to be more appropriately monitored.

The income statement is now set out on a like-for-like basis, excluding extraordinary capital gains and allowances and incorporating the results of businesses sold in "discontinued operations".

All the percentage changes are in euros. These changes, both for revenues and costs, were negatively affected by the combined performance of the average exchange rates of Latin American currencies, sterling and the dollar against the euro. The impact was 2/3 percentage points.

The incorporation of Drive in the US generated a small positive perimeter effect which, in terms of attributable profit, was 1.6 p.p. The net impact of the incorporation of ABN AMRO is less than 1%.

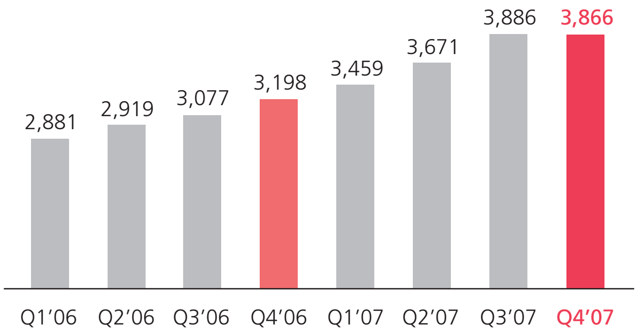
Net interest income was 22.6% higher at EUR 15,295 million. Of note was the growth at Santander Branch Network, Banesto, Brazil, Mexico and Chile. Abbey's net interest income rose 11%. Moreover, the growth was solid and sustained as, excluding dividends and the cost of financing the acquisition of ABN AMRO in the fourth quarter of 2007 (whose revenues are not included here, as they are accounted for by the equity method), net interest income has increased every quarter over the last three years.

QUARTERLY

	2006				2007			
Million euros	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Net interest income (w/o dividends)	2,881	2,919	3,077	3,198	3,459	3,671	3,886	3,866
Dividends	50	187	98	69	48	236	74	56
Net interest income	**2,931**	**3,106**	**3,175**	**3,267**	**3,507**	**3,907**	**3,960**	**3,922**
Inc. from companies accounted for by the equity method	131	110	145	41	60	100	89	193
Net fees	1,681	1,708	1,800	1,835	2,034	2,015	1,972	2,019
Insurance activity	56	72	64	62	79	87	83	70
Commercial revenue	**4,798**	**4,996**	**5,184**	**5,206**	**5,681**	**6,108**	**6,103**	**6,203**
Gains (losses) on financial transactions	398	511	617	623	488	709	856	945
Gross operating income	**5,196**	**5,507**	**5,801**	**5,829**	**6,168**	**6,818**	**6,960**	**7,149**
Income from non-financial services	38	10	43	28	34	43	33	42
Non-financial expenses	(15)	(17)	(14)	(24)	(18)	(22)	(15)	(23)
Other operating income	(21)	(19)	(24)	(55)	(34)	(36)	(42)	(7)
Operating expenses	(2,713)	(2,677)	(2,754)	(2,902)	(2,915)	(2,990)	(3,084)	(3,219)
General administrative expenses	(2,434)	(2,401)	(2,470)	(2,593)	(2,609)	(2,675)	(2,749)	(2,907)
Personnel	*(1,464)*	*(1,448)*	*(1,469)*	*(1,545)*	*(1,530)*	*(1,592)*	*(1,639)*	*(1,749)*
Other administrative expenses	*(970)*	*(954)*	*(1,001)*	*(1,049)*	*(1,079)*	*(1,083)*	*(1,110)*	*(1,158)*
Depreciation and amortisation	(279)	(275)	(284)	(308)	(307)	(315)	(334)	(312)
Net operating income	**2,485**	**2,804**	**3,052**	**2,877**	**3,236**	**3,812**	**3,852**	**3,942**
Impairment loss on assets	(512)	(621)	(710)	(708)	(683)	(838)	(898)	(1,130)
Loans	(501)	(599)	(692)	(675)	(670)	(827)	(890)	(1,082)
Goodwill	—	(5)	—	(8)	—	—	—	(14)
Other assets	(11)	(17)	(18)	(25)	(13)	(11)	(8)	(33)
Other income	(11)	24	(32)	(26)	(88)	(134)	(153)	(7)
Profit before taxes (w/o capital gains)	**1,962**	**2,207**	**2,310**	**2,143**	**2,465**	**2,839**	**2,801**	**2,805**
Tax on profit	(421)	(457)	(630)	(440)	(567)	(655)	(580)	(589)
Net profit from ordinary activity	**1,541**	**1,750**	**1,681**	**1,703**	**1,898**	**2,184**	**2,220**	**2,216**
Net profit from discontinued operations	115	141	159	55	30	33	36	13
Net consolidated profit (w/o capital gains)	**1,655**	**1,891**	**1,840**	**1,758**	**1,927**	**2,217**	**2,257**	**2,230**
Minority interests	162	169	109	123	125	143	143	109
Attributable profit to the Group (w/o capital gains)	**1,493**	**1,723**	**1,731**	**1,635**	**1,802**	**2,074**	**2,113**	**2,121**
Net extraordinary capital gains and allowances	—	—	—	1,014	—	582	—	368
Attributable profit to the Group	**1,493**	**1,723**	**1,731**	**2,649**	**1,802**	**2,656**	**2,113**	**2,488**
EPS w/o capital gains (euros)	**0.2390**	**0.2757**	**0.2770**	**0.2617**	**0.2887**	**0.3323**	**0.3390**	**0.3189**
Diluted EPS w/o capital gains (euros)	**0.2380**	**0.2750**	**0.2753**	**0.2594**	**0.2874**	**0.3307**	**0.3375**	**0.3101**

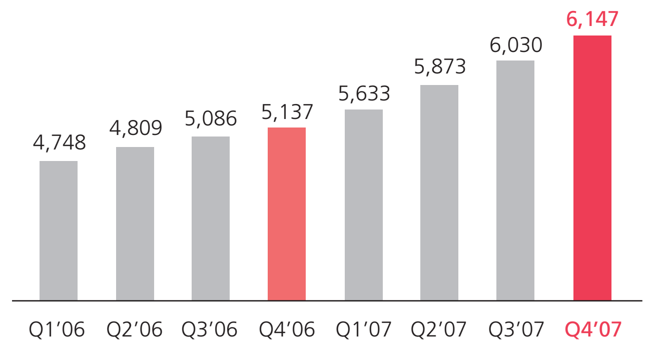
NET INTEREST INCOME (W/O DIVIDENDS)

Million euros



COMMERCIAL REVENUE (W/O DIVIDENDS)

Million euros



Excluding dividends and the cost of preferred shares and securities, growth in net interest income was very similar (+23.3%) and was largely due to larger business volumes, as well as the improvement in customer spreads in some of our main units.

Net fees rose 14.5% to EUR 8,040 million. Particularly noteworthy was the 21.6% rise in Latin America. More modest was the 13.3% increase in Continental Europe, which was strongly conditioned by the impact on fees of the services of the Santander Branch Network as a result of the inclusion of new collectives in the "We Want to be your Bank" plan and the launch in Portugal of the "Comissões Zero" strategy to increase customer capturing and linkage. The higher growth in fees was registered by Santander Consumer Finance, Global Wholesale Banking and Banif. Meanwhile, Abbey's fee income dropped 1.8% because of lower revenue from commissions related to current accounts (affected by regulatory aspects that are impacting on the UK financial system) which was almost fully offset by a wider range of products and improvements in cross-selling.

By products, of note were the rises in fees from cards (+28.5%), securities (+26.1%) and insurance (+20.9%). Also positive was the evolution of guarantees and other contingent liabilities.

As well as fees from insurance already mentioned, this activity also generated revenues of EUR 319 million (+26.2%). Of note was Latin America (+42.6%).

Income from companies accounted for by the equity method increased 3.4% to EUR 441 million. Excluding ABN AMRO's contribution, the figure was 29.7% lower at EUR 300 million because of the smaller contribution from Cepsa. Part of this reduction was due to the accounting change resulting from the shareholder restructuring in 2006, and was offset by lower minority interests. This item also includes profits from our stake in Sovereign Bancorp (EUR 43 million).

Commercial revenue amounted to EUR 24,096 million (+19.4%).

Net gains on financial transactions rose 39.5% to EUR 2,998 million, due to strong results in 2007 from euro/dollar and euro/sterling positions, and the negative impact in 2006 of the writedown of portfolios of structural interest rate risk hedging.

NET FEES AND INSURANCE BUSINESS

Million euros	**2007**	2006	Variation Amount	Variation (%)	2005
Commissions for services	3,736	3,276	460	14.0	2,855
Credit and debit cards	853	664	189	28.5	620
Account management	571	555	17	3.0	545
Commercial bills	225	232	(6)	(2.8)	218
Guarantees and other contingent liabilities	350	302	48	15.8	253
Other transactions	1,737	1,524	213	14.0	1,219
Mutual & pension funds	1,891	1,785	106	5.9	1,645
Securities services	980	778	203	26.1	637
Insurance	1,432	1,185	247	20.9	924
Net fees	**8,040**	**7,024**	**1,016**	**14.5**	**6,061**
Insurance activity	319	253	66	26.2	201
Net fees and insurance business	**8,360**	**7,277**	**1,082**	**14.9**	**6,263**

OPERATING EXPENSES

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Personnel expenses	6,510	5,926	584	9.9	5,555
General expenses:	4,430	3,973	457	11.5	3,719
Information technology	487	417	70	16.9	418
Communications	417	346	70	20.3	390
Advertising	561	472	89	18.9	387
Buildings and premises	846	845	1	0.1	758
Printed and office material	138	122	16	13.0	117
Taxes (other than income tax)	277	226	51	22.4	178
Other expenses	1,705	1,545	160	10.3	1,472
Personnel and general expenses	**10,940**	**9,899**	**1,041**	**10.5**	**9,274**
Depreciation and amortisation	1,268	1,147	121	10.6	1,014
Total operating expenses	**12,208**	**11,045**	**1,162**	**10.5**	**10,288**

Gross operating income grew 21.3% to EUR 27,095 million.

Total operating expenses (+10.5%) increased at half the pace of gross operating income, with a good performance in the retail business areas and growth somewhat higher in global businesses associated with expansion projects.

In Continental Europe, whose expenses increased 13.6%, the commercial networks registered moderate growth in real terms and absorbed the business expansion. The Santander Branch Network, Banesto and Portugal opened 193 branches in net terms, with limited or zero real growth in expenses. The rise in Santander Consumer Finance's costs was largely due to the consolidation of Drive in 2007 (although its impact on the Group's growth in expenses was less than 1 p.p., and 12 p.p. on Santander Consumer Finance) and the launch of expansion projects, such as start-ups in France, Denmark and Russia. Abbey continued to streamline its expenses (-3.2% in euros).

Lastly, Latin America's expenses rose 10.8% (+15.0% excluding the exchange-rate impact) and, as in Europe, their growth was due to expansion plans and the launch of new products. On a like-for-like basis, at the end of 2007 we had 292 branches and 1,618 ATMs more than in 2006.

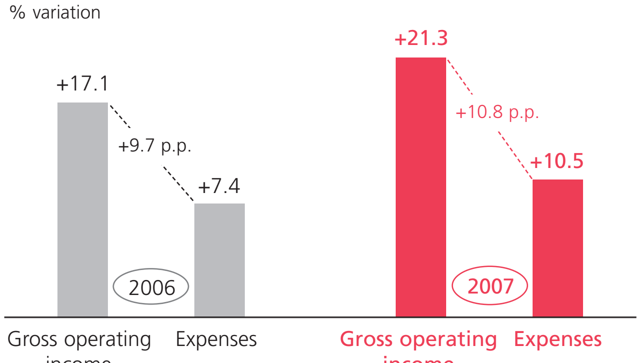
The rise in expenses incurred by Financial Management and Equity Stakes was due to spending on corporate projects, investment in technology and our single brand, as well as expenses related to the Bank's 150th anniversary celebration.

Appropriate management of revenues and expenses improved the Group's efficiency ratio to 44.2%, 4.4 p.p. better than in 2006 (a year when it improved by more than 4 p.p.). All geographic areas did better: Continental Europe by 2.0 p.p., Abbey by 5.0 p.p. and Latin America by 5.2 p.p.

Net operating income was 32.3% higher at EUR 14,842 million (+EUR 3,624 million). All geographic areas contributed growth in their net operating income of around 20% or more. This growth is solid, recurrent and very diversified.

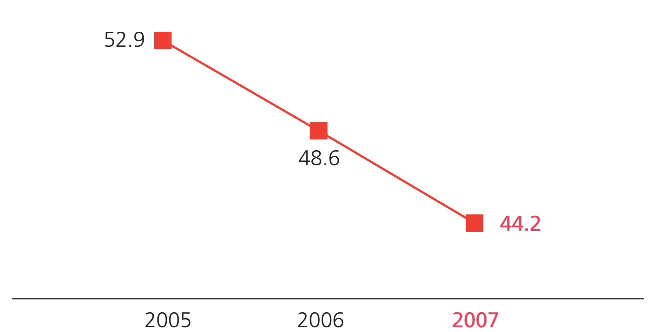
GROSS OPERATING INCOME AND EXPENSES

% variation



EFFICIENCY RATIO

%



NET LOAN LOSS PROVISIONS

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Non performing loans	4,194	3,123	1,071	34.3	2,013
Country-risk	(100)	(103)	3	(3.3)	88
Recovery of written-off assets	(624)	(553)	(72)	12.9	(486)
Total	**3,470**	**2,467**	**1,002**	**40.6**	**1,615**

The **net impairment loss on assets** was EUR 3,549 million, up 39.1%. Most of this (EUR 3,470 million) corresponded to net loan-loss provisions (+40.6%).

This increase was largely due to the net difference between more provisions for Latin America (+EUR 760 million) and the impact of the consolidation of Drive (+EUR 407 million), on the one hand, and, on the other, a lower volume of generic provisions than in 2006 (-EUR 434 million), mostly in Global Wholesale Banking.

Other income was EUR 383 million negative (EUR 45 million negative in 2006), because of the larger provisions for possible contingencies that enhance the quality of the balance sheet.

Profit before taxes (excluding capital gains) was 26.5% higher at EUR 10,910 million.

The item on discontinued operations (EUR 112 million in 2007 and EUR 470 million in 2006) is below profit before taxes. This includes the net results from discontinued activities (in 2007, the sale of pension funds management institutions in Latin America and in 2006 the sale of Abbey's insurance business, the stake in Urbis, and the disposals of Banco de Santa Cruz in Bolivia and AFP Union Vida in Peru).

Attributable profit (excluding extraordinary capital gains and allowances and after corporate tax and minority interests) increased 23.2% to EUR 8,111 million (+EUR 1,528 million). Excluding ABN AMRO's net contribution (EUR 60 million), growth was 22.3% (+EUR 1,468 million).

Total **attributable profit** (including extraordinary capital gains and allowances) was EUR 9,060 million.

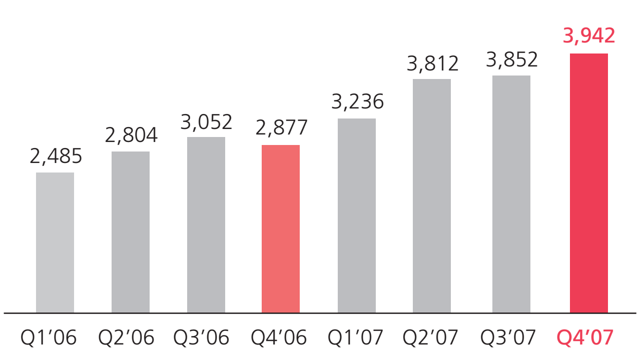
Total earnings per share were EUR 1.43, 17.5% more than in 2006, and excluding capital gains EUR 1.28 per share (+21.4%). This calculation, in accordance with international accounting rules, includes in the denominator the total number of shares needed to compulsorily convert the "Valores Santander".

ROE was 21.9%, up from 21.4% in 2006 (19.6% and 18.5%, respectively, excluding capital gains).

Both the **ROA** and the **RoRWA** also improved, from 0.88% to 0.98% and from 1.60% to 1.76%, respectively (excluding extraordinary capital gains and allowances).

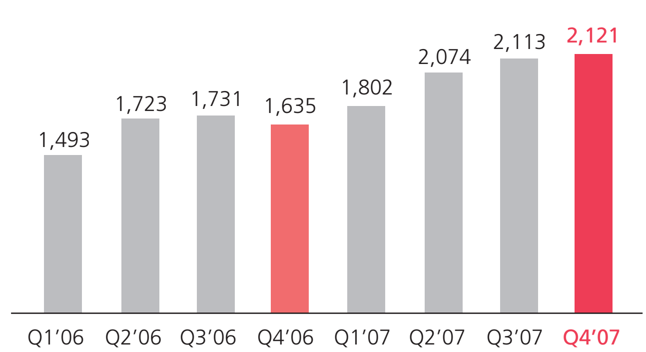
NET OPERATING INCOME

Million euros



ATTRIBUTABLE PROFIT TO THE GROUP*

Million euros



(*) w/o extraordinary capital gains and allowances

BALANCE SHEET

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Assets					
Cash on hand and deposits at central banks	31,063	13,835	17,228	124.5	16,086
Trading portfolio	158,800	170,423	(11,622)	(6.8)	154,208
Debt securities	*66,331*	*76,737*	*(10,406)*	*(13.6)*	*81,742*
Customer loans	*23,704*	*30,583*	*(6,879)*	*(22.5)*	*26,480*
Equities	*9,744*	*13,491*	*(3,746)*	*(27.8)*	*8,078*
Other	*59,021*	*49,612*	*9,409*	*19.0*	*37,908*
Other financial assets at fair value	24,829	15,371	9,459	61.5	48,862
Customer loans	*8,022*	*7,973*	*49*	*0.6*	*6,431*
Other	*16,808*	*7,398*	*9,410*	*127.2*	*42,431*
Available-for-sale financial assets	44,349	38,698	5,651	14.6	73,945
Debt securities	*34,187*	*32,727*	*1,460*	*4.5*	*68,054*
Equities	*10,162*	*5,971*	*4,191*	*70.2*	*5,891*
Loans	579,530	544,049	35,481	6.5	459,784
Deposits at credit institutions	*31,760*	*45,361*	*(13,601)*	*(30.0)*	*47,066*
Customer loans	*533,751*	*484,790*	*48,961*	*10.1*	*402,918*
Other	*14,019*	*13,897*	*122*	*0.9*	*9,801*
Investments	15,689	5,006	10,683	213.4	3,031
Intangible assets and property and equipment	11,661	12,555	(894)	(7.1)	12,204
Goodwill	13,831	14,513	(682)	(4.7)	14,018
Other	33,162	19,423	13,739	70.7	26,968
Total assets	**912,915**	**833,873**	**79,042**	**9.5**	**809,107**

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Liabilities and shareholders' equity					
Trading portfolio	122,754	123,996	(1,242)	(1.0)	112,466
Customer deposits	*27,992*	*16,572*	*11,420*	*68.9*	*14,039*
Marketable debt securities	*17,091*	*17,522*	*(431)*	*(2.5)*	*19,821*
Other	*77,671*	*89,902*	*(12,231)*	*(13.6)*	*78,607*
Other financial liabilities at fair value	33,156	12,411	20,744	167.1	11,810
Customer deposits	*10,669*	*273*	*10,396*	—	—
Marketable debt securities	*10,279*	*12,138*	*(1,859)*	*(15.3)*	*11,810*
Other	*12,208*	—	*12,208*	—	—
Financial liabilities at amortized cost	652,952	605,303	47,649	7.9	565,652
Due to central banks and credit institutions	*77,434*	*73,345*	*4,089*	*5.6*	*116,659*
Customer deposits	*317,043*	*314,377*	*2,666*	*0.8*	*291,727*
Marketable debt securities	*206,265*	*174,409*	*31,855*	*18.3*	*117,209*
Subordinated debt	*35,670*	*30,423*	*5,247*	*17.2*	*28,763*
Other financial liabilities	*16,540*	*12,749*	*3,792*	*29.7*	*11,293*
Insurance liabilities	13,034	10,704	2,329	21.8	44,672
Provisions	16,571	19,227	(2,656)	(13.8)	19,823
Other liability accounts	16,368	14,491	1,877	13.0	10,748
Preferred securities	523	668	(146)	(21.8)	1,309
Minority interests	2,358	2,221	138	6.2	2,848
Equity adjustments by valuation	722	2,871	(2,149)	(74.8)	3,077
Capital stock	3,127	3,127	—	—	3,127
Reserves	43,828	32,595	11,233	34.5	29,098
Attributable profit to the Group	9,060	7,596	1,464	19.3	6,220
Less: dividends	*(1,538)*	*(1,337)*	*(201)*	*15.0*	*(1,744)*
Total liabilities and shareholders' equity	**912,915**	**833,873**	**79,042**	**9.5**	**809,107**

CUSTOMER LOANS

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Public sector	5,633	5,329	305	5.7	5,243
Other residents	227,512	199,994	27,518	13.8	153,727
Commercial bills	18,248	17,276	972	5.6	15,371
Secured loans	123,371	110,863	12,508	11.3	81,343
Other loans	85,893	71,854	14,039	19.5	57,013
Non-resident sector	341,027	326,187	14,840	4.5	284,468
Secured loans	199,316	191,724	7,592	4.0	174,117
Other loans	141,711	134,463	7,247	5.4	110,352
Gross customer loans	**574,172**	**531,509**	**42,663**	**8.0**	**443,439**
Loans-loss allowances	8,695	8,163	532	6.5	7,610
Net customer loans	**565,477**	**523,346**	**42,131**	**8.1**	**435,829**
Pro memoria: Doubtful loans	6,070	4,613	1,457	31.6	4,356
Public sector	1	18	(17)	(95.5)	3
Other residents	1,812	1,212	600	49.6	1,027
Non-resident sector	4,257	3,383	874	25.8	3,326

CONSOLIDATED BALANCE SHEET

Total managed funds at the end of 2007 amounted to EUR 1,063,892 million, 6.3% more than in 2006. Of this amount, 86% (EUR 912,915 million) were on-balance sheet and the rest mutual and pension funds and managed portfolios.

In order to correctly interpret this information, it is necessary to take into account two factors, both of them negative. On the one hand, a perimeter effect on customer funds under management of the sale of pension funds management institutions in Latin America and, on the other, a negative exchange-rate impact from the depreciation of the dollar, sterling and Latin America's main currencies (except Brazil's real) against the euro. The impact of both factors on the changes in customer balances was 4 p.p. negative on loans and 6 p.p. negative on customer funds.

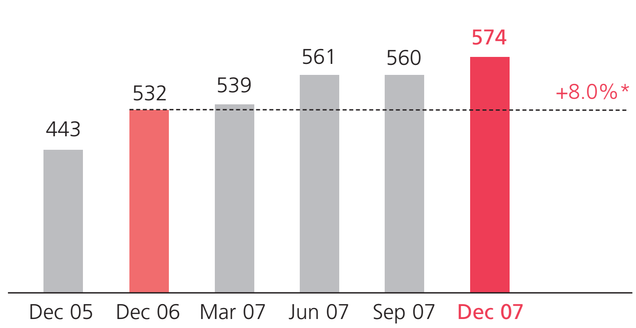
The Group's **gross lending** amounted to EUR 574,172 million, 8% higher than in 2006 (+12% excluding the exchange-rate effect). The year-on-year growth trend was downward, but maintaining a soft rise, as shown in the chart.

Lending to the public sector increased 6%, that to "other resident sectors" 14%, commercial bills 6% and secured loans 11%, with a deceleration compared to 2006, and the rest of credits 20%. These growth rates reflect the good performance of balances with individual customers and SMEs. Lastly, loans to the non-resident sector rose 5% (4% secured loans and 5% other credits). All were affected by exchange rates (by around 6 p.p.).

Continental Europe's total lending increased 14%. In Spain, the Santander Branch Network's loans grew 11% and Banesto's

GROSS CUSTOMER LOANS

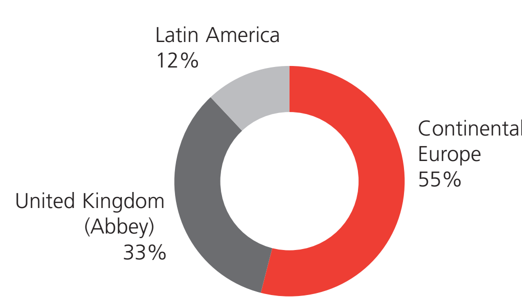
Billion euros



(*) Exchange rate effect excluded: +11.8%

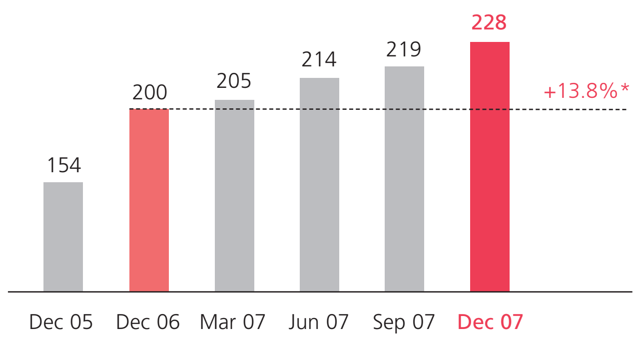
GROSS CUSTOMER LOANS

December 2007. % o/ operating areas



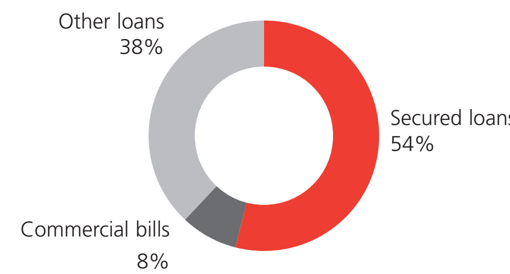
CUSTOMER LOANS TO OTHER RESIDENTS

Billion euros



CUSTOMER LOANS TO OTHER RESIDENTS

December 2007. % o/ total



21%, with lower growth in mortgages and the good performance of credits to SMEs and shops.

As regards the other units in Europe, Santander Consumer Finance increased its balances by 16%. In Europe, the increase was 14%, with new lending growing at a moderate +6% due to the fall in car sales and higher VAT in Germany.

Lastly, lending grew 6% in Portugal because of the fall in the balances of wholesale banking as loans to individuals increased 9% and those to SMEs 21%.

Abbey's balances were 3% lower in euros, because of the big impact of the exchange rate (close to 10 p.p.). In sterling terms, mortgages, which account for 97% of lending, rose 9%, while UPLs, following the Group's strategy, declined 24%.

Latin America's lending increased 14% in euros and 20% in local currency (about the same or higher in Brazil, Mexico – in manageable credit - and Chile). Growth was also significant in Argentina and Venezuela. The increases were particularly sharp in loans to individual customers, mainly consumer credit and credit cards, and to SMEs.

MEMORANDUM ACCOUNTS

Million euros	2007 Balance (nominal value)	2007 Equival. assets	2007 Risk weighted assets	2006 Balance (nominal value)	2006 Equival. assets	2006 Risk weighted assets
Contingent liabilities:						
Financial guarantees	76,316	46,513	33,940	58,205	32,341	26,175
Endorsements and other guarantees	69,797	43,106	31,236	52,697	29,570	24,266
Irrevocable letters of credit	5,811	2,698	1,996	5,029	2,292	1,431
Credit derivatives sold	708	708	708	478	478	478
Other financial guarantees	—	—	—	—	—	—
Assets asigned to sundry obligations	—	—	—	—	—	—
Other contingent liabilities	608	394	278	564	372	103
Subtotal contingent liabilities	**76,925**	**46,907**	**34,218**	**58,769**	**32,713**	**26,278**
Contingent Commitments:						
Balances drawable by third parties	102,216	20,783	16,843	91,690	17,549	13,645
By credit entities	1,880	284	81	1,712	129	29
By Public Administrations	3,009	539	84	2,621	428	62
By other sectors	97,327	19,960	16,678	87,357	16,991	13,554
Other contingent commitments	12,461	5,546	1,304	11,559	5,546	1,304
Subtotal commitments	**114,677**	**26,329**	**18,146**	**103,249**	**23,095**	**14,949**
Total memorandum accounts	**191,601**	**73,236**	**52,365**	**162,019**	**55,808**	**41,227**

CREDIT RISK MANAGEMENT (*)

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Non-performing loans	6,179	4,608	1,571	34.1	4,342
NPL ratio (%)	0.95	0.78	0.17 p.		0.89
Loans-loss allowances	9,302	8,627	675	7.8	7,902
Specific	3,275	2,960	315	10.6	3,177
General-purpose	6,027	5,667	360	6.4	4,725
NPL coverage (%)	150.55	187.23	(36.68 p.)		182.02
Credit cost (%) **	0.50	0.32	0.18 p.		0.22
Ordinary non-performing and doubtful loans ***	4,335	3,243	1,092	33.7	3,132
NPL ratio (%) ***	0.67	0.55	0.12 p.		0.64
NPL coverage (%) ***	214.58	266.00	(51.42 p.)		252.28

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

At the end of 2007, Continental Europe accounted for 55% of the Group's total lending, Abbey for 33% and Latin America 12% (the respective figures in 2006 were 52%, 36% and 12%).

The Group also has other non-lending risks (guarantees and documentary credits), as well as various commitments and contingencies contracted in the course of its operations. The nominal value, the amount of equivalent risk and the risk-weighted figure (calculated in accordance with rules regulating BIS capital ratio requirements) are shown in the table.

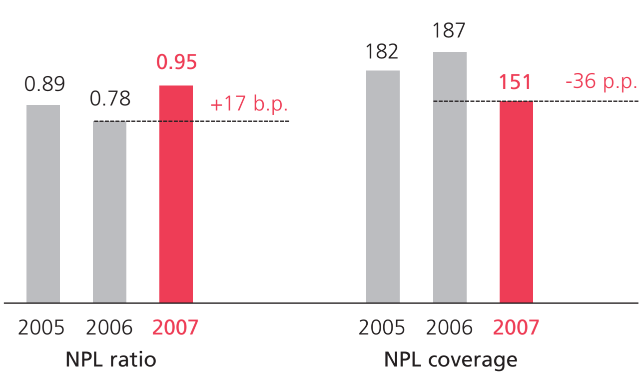
Regarding credit quality **non-performing loans** amounted to EUR 6,179 million at the end of 2007. Total loan-loss allowances were EUR 9,302 million, 65% of which (EUR 6,027 million) were generic provisions (+EUR 360 million during 2007).

The Group's NPL ratio was 0.95%, 17 b.p. more than in 2006 (+13 b.p. in like-for-like terms, excluding Portugal's change of criterion), while coverage was 151% (187% in 2006 and 179% on a like-for-like basis). These figures compare very well with international standards, as the average of European banks included in our peer group is double in NPLs and almost half in coverage.

Excluding mortgage guarantees, the NPL ratio stood at 0.67% and coverage 215%.

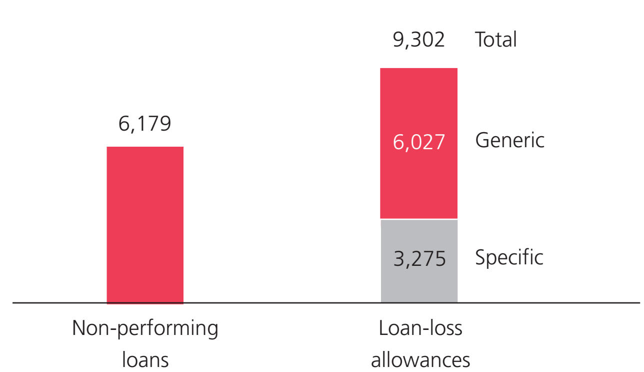
NPL RATIO AND NPL COVERAGE

%



NPL'S AND LOAN-LOSS ALLOWANCES

December 2007. Million euros



NON-PERFORMING LOANS EVOLUTION

Million euros	2007	2006	2005
Balance at beginning of period	4,608	4,342	4,115
+ Net additions	4,891	2,636	1,738
- Write-offs	(3,320)	(2,370)	(1,511)
Balance at period-end	**6,179**	**4,608**	**4,342**

Spain's NPL ratio, in line with the upward market trend, was 10 b.p. higher at the end of 2007 at 0.63%. Coverage remained very high at 264%.

Santander Consumer Finance's NPL ratio was 2.84%, up 27 b.p. Coverage was 96%, 18 p.p. lower than in 2006.

Portugal's NPL ratio was 1.25% and coverage 117%. On a like-for-like basis with 2006, the NPL ratio was the same and coverage was 13 p.p. lower.

In the UK, Abbey's NPL ratio was 0.60%, exactly the same as in 2006 and coverage 66%, 20 p.p. lower in the year as a result of the lower share of personal loans.

Latin America's NPL ratio was 1.87%, 49 b.p. higher, the result of the growth strategy in retail segments in all countries. Coverage was 134%, 33 p.p. lower.

More information on credit risk, control and monitoring systems and internal risk models for calculating provisions is set out in the section on Risk Management in this Annual Report.

Total customer funds under management by Grupo Santander at the end of 2007 were 6% higher at EUR 784,995 million.

As regards on-balance sheet funds, deposits, excluding REPOs, rose 3%, marketable debt securities 14% and subordinated debt 17%, while the balance of mutual funds declined slightly and pension funds by 59% and savings-insurance products increased 41%.

All these percentage rates were conditioned, on the one hand, by the exchange-rate impact and, on the other, by the sale of pension funds management institutions in Latin America and, in addition, the placement of a EUR 7,000 million issue of "Valores Santander", which came from customer funds and are incorporated as shareholders' equity. On a like-for-like basis and eliminating the exchange-rate impact, pension funds increased 5% and total customer funds under management 13%, a figure that better measures the management of funds than the aforementioned 6%.

Regarding the geographic distribution of balances (main segments), Continental Europe's total managed funds increased 8% (+17% in on-balance sheet and -7% in other customer funds).

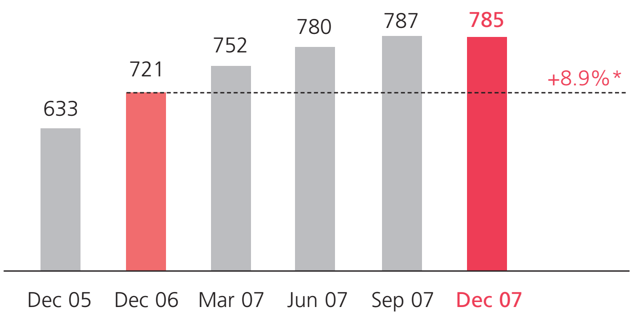
CUSTOMER FUNDS UNDER MANAGEMENT

			Variation		
Million euros	2007	2006	Amount	(%)	2005
Public sector	15,239	15,266	(27)	(0.2)	14,366
Other residents	103,772	94,750	9,022	9.5	83,392
Demand deposits	53,779	55,050	(1,271)	(2.3)	50,124
Time deposits	31,007	24,670	6,337	25.7	18,799
REPOs	18,986	15,030	3,956	26.3	14,470
Non-resident sector	236,693	221,206	15,487	7.0	208,008
Demand deposits	117,699	119,861	(2,162)	(1.8)	113,603
Time deposits	78,287	72,258	6,029	8.3	77,195
REPOs	37,538	26,343	11,195	42.5	14,366
Public Sector	3,168	2,744	424	15.5	2,844
Customer deposits	**355,704**	**331,223**	**24,482**	**7.4**	**305,765**
Marketable debt securities	233,634	204,069	29,565	14.5	148,840
Subordinated debt	35,670	30,423	5,247	17.2	28,763
On-balance-sheet customer funds	**625,009**	**565,715**	**59,294**	**10.5**	**483,369**
Mutual funds	119,211	119,838	(628)	(0.5)	109,480
Pension funds	11,952	29,450	(17,498)	(59.4)*	28,619
Managed portfolios	19,814	17,835	1,979	11.1	14,746
Savings-insurance policies	9,009	6,385	2,624	41.1	15,146
Other customer funds under management	**159,986**	**173,509**	**(13,522)**	**(7.8)**	**167,991**
Customer funds under management	**784,995**	**739,223**	**45,772**	**6.2 ***	**651,360**

(*).- W/o impact of the sale of pension funds management institutions in Latin America, pension funds: +4.9%; customer funds under managament: +8.9%

CUSTOMER FUNDS UNDER MANAGEMENT

Billion euros

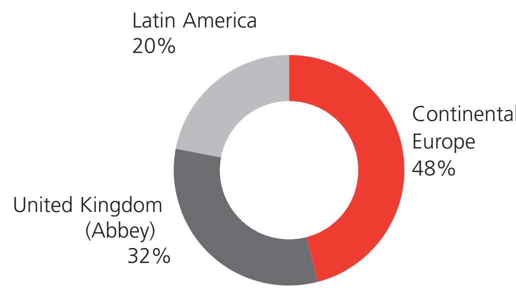


(*) Exchange rate effect excluded: +12.6%

Note: Previous quarters adjusted with the impact of the sale of pension funds management institutions in Latin America

CUSTOMER FUNDS UNDER MANAGEMENT

December 2007. % o/ total



In Spain, the deposits of the Santander Branch Network increased 12% (eliminating the impact of the issue of "Valores Santander"), while Banesto's rose 18%, spurred by the rise in time deposits. Mutual funds declined 13%, due, on the one hand, to customers' preference during 2007 for time deposits and, on the other, by the issue of "Valores Santander". The Group remained the leader in mutual funds with a market share of 22.6%.

Pension funds in Spain increased 5%, with individual and associated plans rising at the same pace and employment ones by 7%. The market share in individual pension funds was 15.4%.

In Portugal, managed customer funds grew by a moderate 4% as a result of combining growth with defence of spreads. On-balance sheet funds increased moderately, offset by the fall in mutual funds. This moderate increase was affected by the lower balances with large companies.

Abbey's deposits excluding REPOs declined 3% in euros, affected by exchange rates. They grew 6% in sterling terms. Mutual funds rose 34%.

Latin America's managed customer funds (-1% in euros) were strongly conditioned, as already indicated, by exchange rates and by the sale of pension funds management institutions. On a like-for-like basis (i.e. excluding both factors), total customer funds increased 18%.

Deposits, excluding REPOs, increased 27% in Colombia, 22% in Brazil, 20% in Argentina and 16% in Chile. In Mexico, they only rose 6% because of lower financing needs resulting from the amortisation of Fobaproa notes.

The region's total mutual funds grew 29%. Of note was 41% growth in Colombia, 36% in Brazil, 24% in Mexico and Chile and 10% in Argentina (all exclude the exchange rate impact).

At the end of 2007, Continental Europe accounted for 48% of managed customer funds, Abbey for 32% and Latin America 20% (the respective figures in 2006 were 47%, 32% and 21%).

As part of its global financing strategy the Group also issued EUR 6,800 million of mortgage bonds, senior debt issues with a countervalue of EUR 23,067 million and EUR 7,357 million of subordinated debt. There were also three placements of preferred shares (EUR 1,100 million).

MUTUAL FUNDS

			Variation		
Million euros	**2007**	2006	Amount	(%)	2005
Spain	67,246	77,526	(10,280)	(13.3)	75,126
Portugal	5,698	6,040	(342)	(5.7)	5,858
United Kingdom (Abbey)	10,225	8,307	1,918	23.1	5,999
Latin America	36,041	27,965	8,076	28.9	22,497
Total	**119,211**	**119,838**	**(628)**	**(0.5)**	**109,480**

PENSION FUNDS

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Spain	10,464	9,950	514	5.2	8,913
Individuals	9,061	8,638	423	4.9	7,780
Collective plans	267	255	12	4.8	224
Group employee plans	1,136	1,058	78	7.4	909
Portugal	1,488	1,448	40	2.8	1,011
Latin America	—	18,052	(18,052)	(100.0)	18,695
Total	**11,952**	**29,450**	**(17,498)**	**(59.4)***	**28,619**

(*) Without impact of the sale of pension funds management institutions in Latin America: +4.9%

Senior debt issues that matured according to schedule during 2007 amounted to EUR 14,557 million, mortgage bonds to EUR 3,865 million and subordinated debt with a countervalue of EUR 1,950 million. Moreover, the Group exercised the option of early amortisation of preferred shares with a countervalue of EUR 444 million.

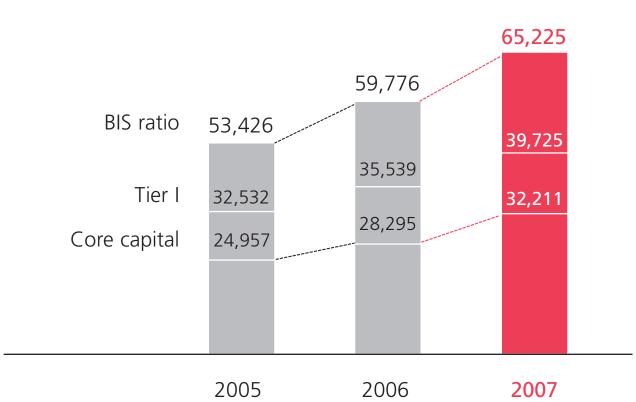
On balance sheet **goodwill** (pertaining to the entities which are consolidated by global incorporation) at the end of 2007 stood at EUR 13,831 million, of which EUR 1,773 million corresponded to Latin America and EUR 11,594 million to Europe. Goodwill declined by EUR 682 million in 2007, due to the exchange rate impact.

In accordance with the criteria of the Bank for International Settlements (BIS), Grupo Santander's **shareholders' equity** amounted to EUR 65,225 million, 9% more than in 2006 (+EUR 5,448 million). The surplus above the minimum requirement was EUR 24,021 million.

The BIS ratio was 12.66%, with Tier I of 7.71% and core capital of 6.25%. This high level of solvency gives Santander a competitive advantage over banks affected by the eroded value of their assets and is due to three factors: active management of our businesses, optimisation of the balance sheet, which enables capital to be used in the most efficient way, and our capacity to generate ordinary profits. We also have other sources of capital such as unrealised capital gains and generic provisions.

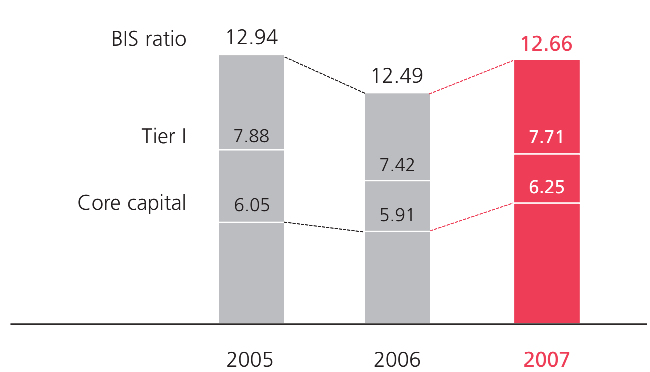
COMPUTABLE CAPITAL

Million euros



CAPITAL RATIOS

%



SHAREHOLDERS' EQUITY AND MINORITY INTERESTS

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Capital stock	3,127	3,127	—	—	3,127
Additional paid-in surplus	20,370	20,370	—	—	20,370
Reserves	23,458	12,352	11,107	89.9	8,781
Treasury stock	(0)	(127)	127	(99.8)	(53)
On-balance-sheet shareholders' equity	**46,955**	**35,722**	**11,233**	**31.4**	**32,225**
Attributable profit	9,060	7,596	1,464	19.3	6,220
Interim dividend distributed	(1,538)	(1,337)	(201)	15.0	(1,163)
Shareholders' equity at period-end	**54,478**	**41,981**	**12,497**	**29.8**	**37,283**
Interim dividend not distributed	(2,532)	(1,919)	(613)	32.0	(1,442)
Shareholders' equity	**51,945**	**40,062**	**11,884**	**29.7**	**35,841**
Valuation adjustments	722	2,871	(2,149)	(74.8)	3,077
Minority interests	2,358	2,221	138	6.2	2,848
Preferred securities	523	668	(146)	(21.8)	1,309
Preferred securities in subordinated debt	7,261	6,837	425	6.2	6,773
Shareholders' equity and minority interests	**62,810**	**52,658**	**10,151**	**19.3**	**49,848**

COMPUTABLE CAPITAL AND BIS RATIO

Million euros	2007	2006	Variation Amount	Variation (%)	2005
Computable basic capital	39,725	35,539	4,186	11.8	32,532
Computable supplementary capital	25,500	24,237	1,262	5.2	20,894
Computable capital	**65,225**	**59,776**	**5,448**	**9.1**	**53,426**
Risk-weighted assets	515,050	478,733	36,317	7.6	412,734
BIS ratio	**12.66**	**12.49**	**0.17**		**12.94**
Tier 1	**7.71**	**7.42**	**0.29**		**7.88**
Core capital	**6.25**	**5.91**	**0.34**		**6.05**
Shareholders’ equity surplus	24,021	21,478	2,543	11.8	20,407

EXCHANGE RATES: 1 EURO / CURRENCY PARITY

	2007 Period-end	2007 Average	2006 Period-end	2006 Average
US$	1.4721	1.3683	1.3170	1.2535
Pound sterling	0.7334	0.6840	0.6715	0.6818
Brazilian real	2.5963	2.6607	2.8118	2.7273
New Mexican peso	16.0740	14.9504	14.2881	13.6552
Chilean peso	733.0322	714.7656	700.3148	664.8583
Venezuelan bolivar	3,161.0403	2,937.9793	2,827.9941	2,691.6451
Argentine peso	4.6684	4.2997	4.0679	3.8742
Colombian peso	2,969.5937	2,837.1209	2,949.7508	2,953.5990
Uruguayan peso	31.7238	32.0565	32.1348	30.0777

INFORMATION OF THE SEGMENTS

Grupo Santander maintained in 2007 the general criteria used in 2006, with two exceptions:

- The Global Customer Relation Model, which includes 121 new clients, mainly from Latin America, was expanded. This does not mean any changes in the geographic segments, but it does affect the figures for Retail Banking (from where they come) and Global Wholesale Banking (where they are incorporated).

- Some adjustments were made between the results of Retail Banking and Asset Management and Insurance, for two reasons:

  — In Abbey, the distribution of revenues between Retail Banking and Asset Management and Insurance was changed in order to adapt it to the Group's corporate criteria. This means an increase in Retail Banking and a decline in Asset Management and Insurance, but does not change Abbey's overall total.

  — The business generated by the Group's insurance brokers is no longer reflected in Retail Banking but in Insurance. This modification is due to recent changes in regulations and the search for greater efficiency in distribution.

None of these changes is significant for the Group and do not alter its figures nor those of the principal segments (geographic). The figures for 2006 have been reformulated and include the changes.

In addition, and in line with the criteria in the International Financial Reporting Standards (IFRS), the results of businesses discontinued in 2007 (pensions funds in Latin America) and 2006 (Abbey's insurance, Urbis, Peru's pensions and Bolivia) which consolidated by global integration, are in "net profit from discontinued operations." This enables management of the Group's recurrent businesses to be better tracked.

The financial statements of each business area have been drawn up by adding up 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 used.

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

Principal level (or geographic). The activity of the Group's operating units is segmented by geographical areas. This coincides with the Group's first level of management and reflects our positioning in the world's three main currency areas. 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 Abbey. Given the importance of some of these units, the financial information of the Santander Branch Network, Banesto, Santander Consumer Finance (Drive included) and Portugal is also set out.

- United Kingdom (Abbey). This only covers all of Abbey's business, mainly retail banking in the UK.

- Latin America. This embraces all the Group's financial activities conducted via its subsidiary banks and subsidiaries. It also includes the specialised units in 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.

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 the relative importance of this business in total activity, details are provided by both geographic areas (Continental Europe, United Kingdom-Abbey and Latin America) 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. This business reflects the revenues from Global Corporate Banking, Investment Banking and Markets worldwide including all treasuries managed globally, both for trading as well as 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 different units to the Group for the design and management of mutual and pension funds and insurance. Except for pension fund management entities in Latin America, which have their own distribution networks, the Group uses, and remunerates through agreements, the retail networks which place these products. This means that the result recorded in this business is net (i.e. deducting the distribution cost from gross income).

As well as these operating units, which cover everything by geographic area and by businesses (their totals are the same), the Group continues to maintain the area of Financial Management and Equity Stakes. 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, it manages all capital and reserves and allocations of capital and liquidity. It also incorporates amortisation of goodwill but not the costs related to the Group's central services except for corporate and institutional expenses related to the Group's functioning.

1. PRINCIPAL SEGMENTS OR GEOGRAPHIC AREAS

KEY DATA BY PRINCIPAL SEGMENTS

	Net operating income				Attributable profit to the Group			
			Variation				Variation	
	2007	2006	Amount	(%)	2007	2006	Amount	(%)
Income statement (Million euros)								
Continental Europe*	**7,786**	**6,270**	**1,516**	**24.2**	**4,423**	**3,471**	**952**	**27.4**
o/w: Santander Branch Network	2,863	2,429	435	17.9	1,806	1,505	300	19.9
Banesto*	1,312	1,060	252	23.7	668	585	83	14.2
Santander Consumer Finance	1,867	1,201	666	55.5	719	565	153	27.1
Portugal	672	570	102	17.8	511	423	88	20.8
United Kingdom (Abbey)	**1,913**	**1,620**	**293**	**18.1**	**1,201**	**1,003**	**198**	**19.8**
Latin America	**5,808**	**4,236**	**1,572**	**37.1**	**2,666**	**2,287**	**379**	**16.6**
o/w: Brazil	2,533	1,727	806	46.7	905	751	154	20.5
Mexico	1,506	1,066	440	41.3	654	528	126	23.8
Chile	894	769	125	16.3	543	489	54	11.0
Operating areas*	**15,507**	**12,125**	**3,381**	**27.9**	**8,290**	**6,760**	**1,530**	**22.6**
Financial management and equity stakes*	(665)	(908)	243	(26.8)	(180)	(178)	(1)	0.8
Total Group*	**14,842**	**11,218**	**3,624**	**32.3**	**8,111**	**6,582**	**1,528**	**23.2**
Net extraordinary capital gains and allowances					950	1,014	(64)	(6.3)
Total Group	**14,842**	**11,218**	**3,624**	**32.3**	**9,060**	**7,596**	**1,464**	**19.3**

(*) w/o extraordinary capital gains and allowances

	Efficiency ratio		ROE*		NPL ratio		NPL coverage	
	2007	2006	2007	2006	2007	2006	2007	2006
Ratios (%)								
Continental Europe	**38.76**	**40.79**	**21.31**	**20.41**	**0.90**	**0.73**	**188.08**	**244.91**
o/w: Santander Branch Network	38.72	40.95	22.71	21.29	0.65	0.57	248.11	295.80
Banesto	41.20	45.27	18.26	20.61	0.47	0.42	332.92	396.13
Santander Consumer Finance	29.64	34.65	34.12	35.60	2.84	2.57	95.69	114.10
Portugal	44.00	47.33	28.55	24.07	1.25	0.53	117.39	305.06
United Kingdom (Abbey)	**50.08**	**55.10**	**32.26**	**32.79**	**0.60**	**0.60**	**65.84**	**85.88**
Latin America	**41.83**	**47.02**	**29.10**	**26.57**	**1.87**	**1.38**	**134.41**	**167.29**
o/w: Brazil	39.58	46.42	28.45	28.42	2.74	2.38	101.46	102.78
Mexico	37.71	44.02	26.48	23.08	1.20	0.64	192.25	279.19
Chile	39.22	41.53	43.81	32.15	2.11	1.59	118.45	152.62
Operating areas	**41.54**	**45.35**	**24.64**	**23.58**	**0.94**	**0.76**	**149.32**	**185.03**
Total Group*	**44.22**	**48.56**	**19.61**	**18.54**	**0.95**	**0.78**	**150.55**	**187.23**

(*).- w/o extraordinary capital gains and allowances. Including, ROE 2007: 21.91%; ROE 2006: 21.39%.

	Employees		Branches	
	2007	2006	2007	2006
Operating means				
Continental Europe	**47,838**	**44,216**	**5,976**	**5,772**
o/w: Santander Branch Network	19,392	19,027	2,887	2,832
Banesto	10,776	10,545	1,946	1,844
Santander Consumer Finance	7,221	5,401	285	282
Portugal	6,405	6,114	763	727
United Kingdom (Abbey)	**16,827**	**17,146**	**704**	**712**
Latin America*	**65,628**	**60,871**	**4,498**	**4,368**
o/w: Brazil	21,923	21,681	2,104	2,026
Mexico	13,743	12,993	1,088	1,039
Chile	13,025	11,537	494	397
Operating areas	**130,293**	**122,233**	**11,178**	**10,852**
Financial management and equity stakes	1,526	1,498		
Total Group	**131,819**	**123,731**	**11,178**	**10,852**

* Including traditional branches, banking services points and companies service points.

CONTINENTAL EUROPE

Million euros	2007	2006	Variation Amount	Variation (%)
Income statement				
Net interest income	**7,894**	**6,206**	**1,688**	**27.2**
Income from companies accounted by equity method	9	6	3	56.6
Net fees	4,137	3,653	484	13.3
Insurance activity	148	137	11	8.3
Commercial revenue	**12,188**	**10,002**	**2,187**	**21.9**
Gains (losses) on financial transactions	655	708	(53)	(7.5)
Gross operating income	**12,843**	**10,710**	**2,133**	**19.9**
Income from non-financial services (net) and other operating income	30	39	(9)	(23.8)
Operating expenses	(5,087)	(4,479)	(608)	13.6
General administrative expenses	(4,529)	(3,957)	(572)	14.4
Personnel	*(3,015)*	*(2,685)*	*(330)*	*12.3*
Other administrative expenses	*(1,513)*	*(1,272)*	*(242)*	*19.0*
Depreciation and amortisation	(559)	(522)	(37)	7.0
Net operating income	**7,786**	**6,270**	**1,516**	**24.2**
Net loan loss provisions	(1,524)	(1,312)	(212)	16.2
Other income	40	(31)	71	—
Profit before taxes (w/o capital gains)	**6,302**	**4,927**	**1,375**	**27.9**
Tax on profit	(1,773)	(1,416)	(357)	25.2
Net profit from ordinary activity	**4,529**	**3,511**	**1,018**	**29.0**
Net profit from discontinued operations	—	143	(143)	(100.0)
Net consolidated profit (w/o capital gains)	**4,529**	**3,654**	**876**	**24.0**
Minority interests	107	183	(76)	(41.7)
Attributable profit to the Group (w/o capital gains)	**4,423**	**3,471**	**952**	**27.4**
Net extraordinary capital gains and allowances	16	674	(658)	(97.6)
Attributable profit to the Group	**4,439**	**4,144**	**294**	**7.1**
Balance sheet				
Customer loans*	310,618	271,687	38,931	14.3
Trading portfolio (w/o loans)	44,846	33,831	11,015	32.6
Available-for-sale financial assets	10,149	13,126	(2,978)	(22.7)
Due from credit institutions*	53,204	67,061	(13,857)	(20.7)
Intangible assets and property and equipment	5,373	4,558	816	17.9
Other assets	25,876	18,583	7,293	39.2
Total assets/liabilities & shareholders' equity	**450,067**	**408,846**	**41,221**	**10.1**
Customer deposits*	149,167	140,231	8,935	6.4
Marketable debt securities*	70,344	47,632	22,711	47.7
Subordinated debt	2,379	2,362	17	0.7
Insurance liabilities	10,907	8,547	2,360	27.6
Due to credit institutions*	66,025	89,016	(22,991)	(25.8)
Other liabilities	130,972	103,090	27,882	27.0
Shareholders' equity	20,274	17,967	2,307	12.8
Other customer funds under management	**101,713**	**108,850**	**(7,137)**	**(6.6)**
Mutual funds	72,944	83,566	(10,622)	(12.7)
Pension funds	11,952	11,398	554	4.9
Managed portfolios	7,865	7,501	364	4.9
Savings-insurance policies	8,951	6,385	2,566	40.2
Customer funds under management	**323,602**	**299,076**	**24,526**	**8.2**

(*).- Includes all stock of concept classified in the balance sheet

CONTINENTAL EUROPE

Continental Europe includes all activities carried out in this area: retail banking, global wholesale banking, asset management and insurance.

Attributable profit was EUR 4,439 million including the EUR 16 million of extraordinary profits from Portugal (EUR 674 million of capital gains were included in 2006 from the sale of Urbis). Excluding the extraordinary capital gains and allowances in both years, attributable profit was EUR 4,423 million (53% of the Group's total operating areas), 27.4% higher. Excluding Drive, which was incorporated to the results of Santander Consumer Finance in 2007, the rise was 24.3%.

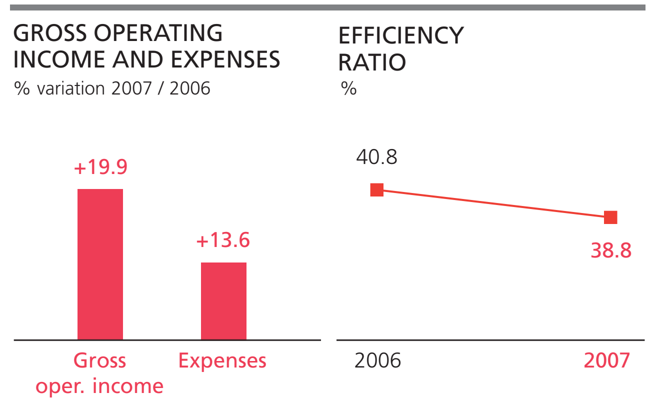
This growth was due to the rise in commercial revenues and selective control of expenses. The "jaws" (the difference between the growth in gross operating income and expenses) opened up 6.3 p.p., and the efficiency ratio was 38.8%, 2 p.p. better than in 2006. All the big units improved.

The growth in profits was also diversified: the four large commercial units all registered double digit growth and the global areas also increased significantly, particularly Global Wholesale Banking.

Net interest income was 27.2% higher than in 2006 at EUR 7,894 million (after rising for 11 straight quarters). This was due to the entry of Drive, increased business volumes and the improvement in the customer spreads of the Santander Branch Network and Banesto. Of note was the Santander Branch Network, whose net interest income increased again in the fourth quarter (+5.0%) and brought year-on-year growth to 21.7%, while Banesto's rose 3.5% in the quarter and 17.9% in the year as a whole. Portugal, in a more difficult environment, rose 8.8% in 2007 and Santander Consumer Finance 51.2%, this time strongly supported by Drive.

Revenues from net fees and insurance activity increased 13.1% to EUR 4,286 million. Of note was the 37.0% rise at Santander Consumer Finance, because of greater efforts in cross-selling, 22.2% at Banif, 9.2% at Asset Management and Insurance and 59.1% at Global Wholesale Banking (greater activity with customers). The performance of the Santander Branch Network was almost flat because of the inclusion of other collectives in "We Want to be your Bank" and Portugal (launch of the "Comissões Zero" strategy).

CONTINENTAL EUROPE



The lower gains on financial transactions were largely due to reduced revenue from proprietary trading, which in 2006 benefited from a more positive environment than in 2007.

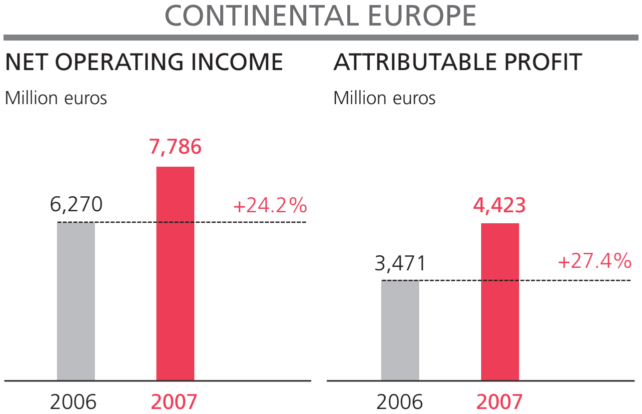
Gross operating income rose 19.9%, well above the 13.6% increase in expenses, which includes a small perimeter effect, spending on development projects by global areas, expenses related to the opening of 204 branches and those linked to the launch of start-ups in consumer business. Net operating income was 24.2% higher at EUR 7,786 million.

Net loan-loss provisions increased 16.2%, for two main reasons: the entry of Drive which was not consolidated in 2006 and which assigned EUR 407 million to provisions and lower needs for generic provisions in Global Wholesale Banking (EUR 288 million less than in 2006). Excluding these factors, provisions grew by less than 10% and below the rise in balances and revenues. The ratio of non-performing loans was 0.90% and coverage 188%.

Profit before tax was 27.9% higher. After deducting corporate tax, discontinued operations and minority interests, attributable profit rose 27.4%.

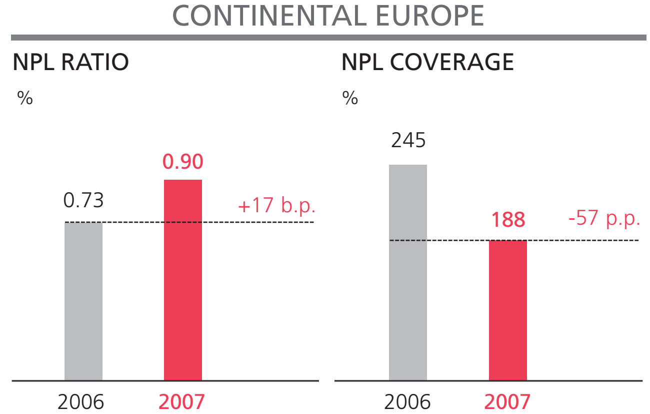
Lending rose 14%, a slower pace than in 2006 because of mortgages. Customer funds increased 8%, affected by the fall in mutual funds and the EUR 7,000 million issue of "Valores Santander", which were recorded as shareholders' equity. Excluding this, deposits rose 11%.

CONTINENTAL EUROPE



Note: w/o extraordinary capital gains and allowances.

CONTINENTAL EUROPE



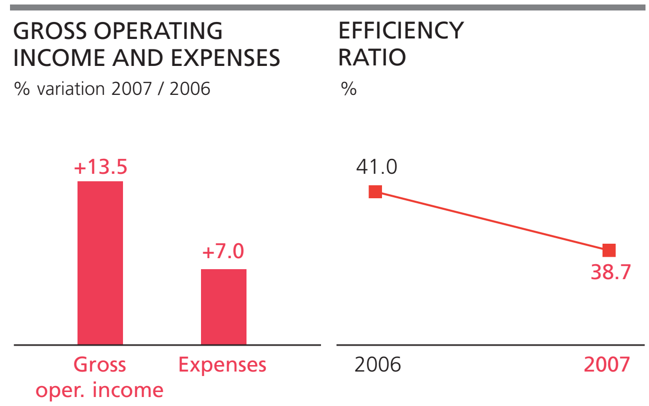
CONTINENTAL EUROPE. MAIN UNITS

Million euros	Santander Branch Network 2007	(%)	Banesto 2007	(%)	Santander Consumer Finance 2007	(%)	Portugal 2007	(%)
Income statement								
Net interest income	**2,876**	**21.7**	**1,455**	**17.9**	**2,085**	**51.2**	**718**	**8.8**
Income from companies accounted by equity method	—	—	1	—	8	33.2	—	—
Net fees	1,654	3.9	626	6.7	538	37.0	364	(0.7)
Insurance activity	—	—	53	25.6	—	—	25	38.6
Commercial revenue	**4,529**	**14.5**	**2,135**	**14.6**	**2,631**	**48.0**	**1,107**	**6.0**
Gains (losses) on financial transactions	218	(4.4)	147	18.3	7	(84.7)	107	85.1
Gross operating income	**4,747**	**13.5**	**2,282**	**14.8**	**2,638**	**44.5**	**1,214**	**10.1**
Income from non-financial services (net) and other operating income	3	(69.2)	9	(13.0)	31	4.1	(8)	(23.1)
Operating expenses	(1,887)	7.0	(978)	4.4	(803)	22.6	(534)	2.4
General administrative expenses	(1,655)	8.1	(861)	5.0	(736)	24.2	(464)	1.4
Personnel	*(1,232)*	*6.6*	*(659)*	*6.0*	*(345)*	*27.1*	*(300)*	*2.2*
Other administrative expenses	*(423)*	*12.6*	*(203)*	*1.8*	*(391)*	*21.8*	*(164)*	*0.1*
Depreciation and amortisation	(232)	(0.1)	(117)	0.2	(67)	7.3	(70)	9.2
Net operating income	**2,863**	**17.9**	**1,312**	**23.7**	**1,867**	**55.5**	**672**	**17.8**
Net loan loss provisions	(343)	1.6	(233)	22.9	(842)	112.0	(21)	(47.7)
Other income	(11)	37.1	5	(79.5)	26	347.4	(21)	184.6
Profit before taxes (w/o capital gains)	**2,509**	**20.4**	**1,083**	**21.3**	**1,051**	**29.9**	**630**	**20.6**
Tax on profit	(703)	21.7	(329)	15.3	(314)	33.8	(118)	20.0
Net profit from ordinary activity	**1,806**	**20.0**	**754**	**24.2**	**737**	**28.3**	**512**	**20.8**
Net profit from discontinued operations	—	—	—	(100.0)	—	—	—	—
Net consolidated profit (w/o capital gains)	**1,806**	**20.0**	**754**	**(0.4)**	**737**	**28.3**	**512**	**20.8**
Minority interests	1	—	86	(50.0)	18	95.7	1	11.3
Attributable profit to the Group (w/o capital gains)	**1,806**	**19.9**	**668**	**14.2**	**719**	**27.1**	**511**	**20.8**
Net extraordinary capital gains and allowances	—	—	—	(100.0)	—	—	16	—
Attributable profit to the Group	**1,806**	**19.9**	**668**	**(46.9)**	**719**	**27.1**	**527**	**24.6**
Balance sheet								
Customer loans*	116,798	10.7	74,034	21.2	45,731	15.9	30,119	6.2
Trading portfolio (w/o loans)	—	—	4,563	(12.1)	21	116.5	973	18.7
Available-for-sale financial assets	9	201.2	5,024	(46.2)	192	299.6	1,103	53.3
Due from credit institutions*	136	17.2	19,668	(6.8)	2,912	(46.7)	4,397	(52.9)
Intangible assets and property and equipment	2,191	0.0	1,342	34.3	839	30.5	484	10.9
Other assets	646	(2.1)	5,440	(3.2)	1,568	21.7	4,923	6.3
Total assets/liabilities & shareholders' equity	**119,780**	**10.5**	**110,071**	**6.5**	**51,263**	**9.3**	**42,001**	**(5.2)**
Customer deposits*	50,195	(2.7)	51,894	17.2	13,883	3.3	12,225	0.9
Marketable debt securities*	—	—	28,568	19.6	18,080	73.4	10,242	17.5
Subordinated debt	—	—	1,470	4.0	557	(3.7)	352	(4.9)
Insurance liabilities	—	—	—	(100.0)	—	—	4,077	8.5
Due to credit institutions*	259	201.6	15,483	(22.4)	14,493	(25.8)	11,813	(26.3)
Other liabilities	61,028	23.9	8,953	(9.2)	2,170	61.7	1,814	3.7
Shareholders' equity	8,297	10.8	3,704	35.5	2,079	29.6	1,477	(5.2)
Other customer funds under management	**51,288**	**(7.8)**	**14,103**	**(16.5)**	**433**	**13.0**	**10,947**	**(3.6)**
Mutual funds	40,840	(14.2)	10,605	(18.3)	360	11.3	5,698	(5.7)
Pension funds	6,802	6.0	1,626	1.0	73	22.5	1,488	2.8
Managed portfolios	—	—	680	(32.3)	—	—	288	(23.5)
Savings-insurance policies	3,646	126.3	1,191	(7.2)	—	—	3,473	(0.5)
Customer funds under management	**101,483**	**(5.4)**	**96,034**	**11.1**	**32,953**	**32.7**	**33,766**	**3.7**

(*).- Includes all stock of concept classified in the balance sheet

SANTANDER BRANCH NETWORK

SANTANDER BRANCH NETWORK



The Santander Branch Network maintained its model of profitable growth, combining greater business, earnings, investment in the network and more customers. Attributable profit was EUR 1,806 million, 19.9% more than in 2006.

The quality growth was due to recurrent revenues (backed by a sustained rise in net interest income), control of expenses (whose increase was mainly due to invetsments in programmes to strengthen the business capacity) and to the moderate rise in net loan-loss provisions, given the high credit risk quality.

Of note was the rise in net interest income which was 21.7% higher at EUR 2,876 million, after rising every quarter in 2006 and 2007. This was due to the combined effect of greater business and efficient management of customer spreads, which increased from 3.24% in 2006 to 3.77% in 2007.

Net fees and gains on financial transactions with customers increased 2.9% to EUR 1,871 million. Net fees (+3.9%) reflected a performance consistent with the strategy followed in the "We Want to be your Bank" plan. Fees from services declined 4% and those from mutual funds were also lower, in line with the market's downward trend. Fees from pension plans were up 15%, from securities 10%, insurance 31% and commercial bills 32%.

Gross operating income was EUR 4,747 million, 13.5% more than in 2006 and with an appropriate structure, by segments and products. Banking for individual customers contributed 42% of the total, personal and private banking 13%, SMEs and businesses 29% and companies and institutions 16%.

As regards products, their respective shares have evened out over the last few years. Loans, deposits and net fees contribute almost the same proportion. Revenue from lending accounted for 29% (only 9% directly from mortgages), deposits 28% and fees from business 29%. The rest was divided between fees from services, whose proportion has halved since 2005, and trading gains on financial transactions with customers, whose share rose because of greater activity.

Operating expenses continued to be controlled. Their 7.0% rise was largely due to projects of the I09 strategic plan, such as the opening of branches, the development of means of payment and consumer credit and strengthening of the segments for companies and businesses –professionals, the self-employed and shops).

Even with higher expenses the "jaws" remained wide open (6.5 p.p.), which enabled the efficiency ratio to improve by 2.3 p.p. and improve to below 40% (38.7% at the end of 2007).

Net operating income rose 17.9% to EUR 2,863 million.

Net loan-loss provisions amounted to EUR 343 million (+1.6%), reflecting, among other things, the reduced need for generic provisions because of lower growth in lending. Even with this decline, generic provisions were still the main component of provisions (66%) and specific provisions, net of loan-loss recoveries, barely represented 0.09% of total risk.

Profit before tax was EUR 2,509 million, 20.4% more than in 2006 and almost the same rise as that in attributable profit (EUR 1,806 million; +19.9%).

As regards business activities, the main element revolved around the strategic "We Want to be your Bank", which was extended to new collectives at the beginning of 2007. Its main objectives are to capture and link customers and enhance the quality of service, and both were achieved in 2007.

Capturing and linkage growth was above that of 2006. The number of beneficiary customers is close to 4 million, about half of the more than 8 million customers of Santander Branch Network. At the time of launching the capturing and linkage strategy, in January 2006 the number of customers was 2.4 million.

The customer segments included in 2007 showed good indicators: 13,000 more active point-of-sale terminals, 130,000 new immigrant customers and 600,000 remittances made, more than 50,000 new university students captured and incorporation to the plan of 160,000 shareholders (for reaching 500 or more shares).

The increased customer activity enabled us to achieve significant business in key products. Around 360,000 more customers had their payroll cheques paid into their accounts, 76,000 with mortgages and 121,000 with pension plans, figures that clearly reflect the efforts made to improve cross-selling ratios. Also noteworthy in other products and services was the issue of close to 800,000 cards, the granting of 250,000 new consumer credits and more than 200,000 life and household insurance policies.

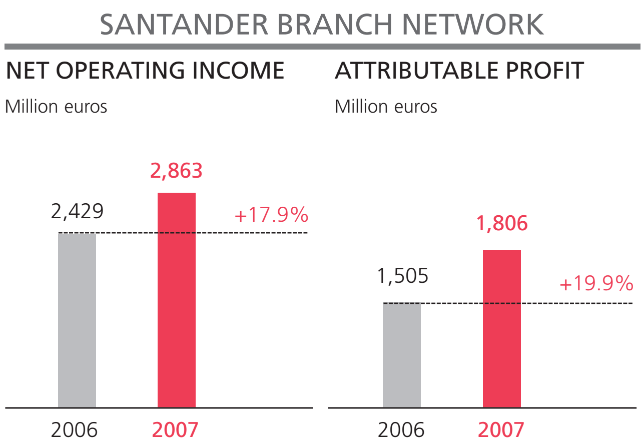
Lending increased 11%, slowing down during the year (mainly in mortgages, +10%). The balance of lending to SMEs and stores, however, increased 18%, reflecting the aforementioned strategy.

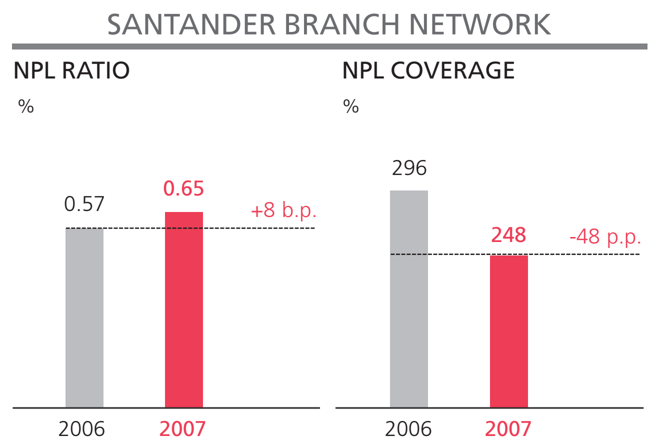
Credit risk quality remained high. The NPL ratio was 0.65%, only 8 b.p. more than in 2006, and within the sector's slightly upward trend one of the best of our peer group. Coverage was 248%.

The most striking development on the funding side, and one underscoring the business capacity of the Santander Branch Network, was the placement among more than 125,000 investors of a EUR 7,000 million issue of "Valores Santander", recorded in October.

This impact, however, is not shown in the unit’s liabilities as the issue is recorded in Financial Management given its nature as shareholders’ equity. As a result, the Network’s balance of deposits dropped 3% (including the "Valores Santander" total on-balance sheet customer funds would have risen 12%). Mutual funds declined, in line with the rest of the market, while pension funds rose 6% and the balance of savings-investment insurance products doubled to EUR 3,646 million.

The second basic objective of the strategy is to improve the quality of service. "We Want to be your Bank" acted as a catalyst for a general improvement in customer satisfaction. On the one hand, the percentage of satisfied customers benefiting from the plan reached 94% and, on the other, customer complaints were at all time lows. The reduction in them in 2007 was more than 60%, and they also fell in 2006.





BANESTO

Attributable profit was EUR 668 million. No extraordinary income was recorded in 2007, unlike in 2006 which included the capital gains from the sale of Urbis (EUR 1,181 million before tax) and an extraordinary allocation for an early retirement plan (EUR 256 million). On a like-for-like basis, excluding extraordinary capital gains and allowances, as well as the results of Urbis (recorded under discontinued operations), net profit from ordinary activity was 24.2% higher. Gross operating income was 14.8% higher and net operating income 23.7%.

Like other segments, Banesto’s figures were drawn up again in accordance with the criteria set out on page 82 of this report. The figures presented here, therefore, do not coincide with those published by Banesto itself.

Key factors for overcoming the strong competition and the tensions in the financial markets in the second half of the year were the high level of business, active management of the balance sheet and of customer spreads. This produced notable growth in the balance sheet and in results and in meeting the objectives set for market share, profitability, efficiency and non-performing loans.

Banesto completed its branch expansion plan, begun in 2006, which saw the opening of 300 branches and a strengthening of its business capacity.

The business model, based on profitable, efficient and diversified growth, strict control of expenses and excellent risk quality, was also deepened, and more strategic projects were developed:

- The plan for SMEs, shops and the self-employed was consolidated. This increased, in line with the year’s targets, the proportion of business in SMEs and companies and offset the downturn in the property market.

- The consumer unit, which groups the businesses of cards, dealers and direct financing, has become in just two years an important centre of innovation and driver of cross-selling of products, via the branch network and new distribution channels.

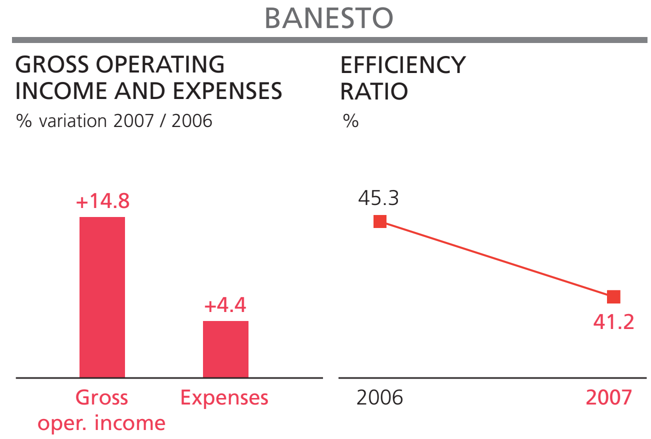
- In the segment for individual customers, we continued to develop a strategy centred on offering greater value. The launch of new products focused on campaigns which, as well as covering the needs of financial services, enables customers to acquire the latest generation consumer goods in advantageous conditions.

- The Menara Plan, launched in Janaury 2007 and conceived as an Efficiency Plan with the triple objective of optimising business processes, maximising commercial efficiency and improving the quality of service, began to yield its first results: significant rises in business volumes per employee and freeing up back-office staff for business tasks.

Net interest income increased 17.9% to EUR 1,455 million. The drivers were efficient management of the balance sheet, which produced sustained and quality growth in business, especially with SMEs and companies, and management of prices and spreads.

Net fees and insurance activity rose 7.9% to EUR 678 million. Those from services increased 7.3% to EUR 513 million, with larger rises in the revenue lines related to transactional business and linkage. Fees from mutual and pension funds, despite the drop in balances, amounted to EUR 192 million, 1.0% more than in 2006 thanks to the improvement in the average commission. Fees paid, linked to greater activity, grew 6.8%. Lastly, revenue from insurance activity was 25.6% higher at EUR 53 million.

Gains on financial transactions amounted to EUR 147 million (+18.3%). The main engine was the distribution of treasury products to customers.



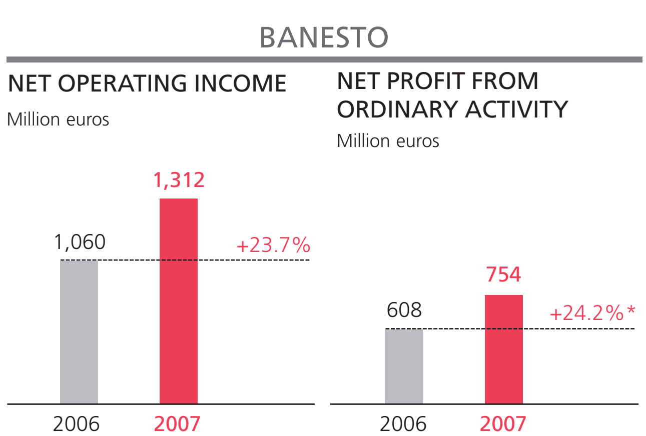
Gross operating income increased 14.8% to EUR 2,282 million.

The Group's disciplined control of costs meant that operating expenses only rose by 4.4%, meeting the objectives of efficiency set in the expansion plan for the branch network started in 2006. This increase, significantly lower than the growth in gross operating income, produced a further improvement in the efficiency ratio from 45.3% in 2006 to 41.2% in 2007.

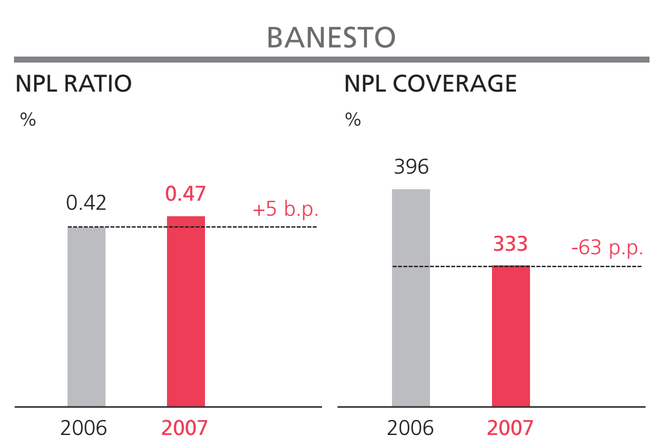
Net operating income amounted to EUR 1,312 million, up 23.7%.

The net loan-loss provisions of EUR 233 million was 22.9% more than in 2006. The main component were generic provisions (70%), resulting from increased lending. Credit quality control meant that specific provisions, net of recoveries, were only EUR 72 million (0.09% of total risk).

Profit before tax was 21.3% higher at EUR 1,083 million. Net profit from ordinary activity increased 24.2% to EUR 754 million.



(*) w/o extraordinary capital gains and allowances. Attributable profit, after discontinued operations: +14.2%



Lending, including securitisations, amounted to EUR 75,369 million at the end of 2007 (+21%). That to the private sector also increased 21%, with a balanced evolution by segments. Loans to SMEs and companies offset the lower growth in mortgages. Commercial bills rose 14%, secured loans 15% and other lending 32%.

Lending went hand in hand with rigorous control of credit risk quality. The NPL ratio was 0.47% at the end of 2007, only 5 b.p. higher than in 2006 and coverage was 333% (396% a year earlier).

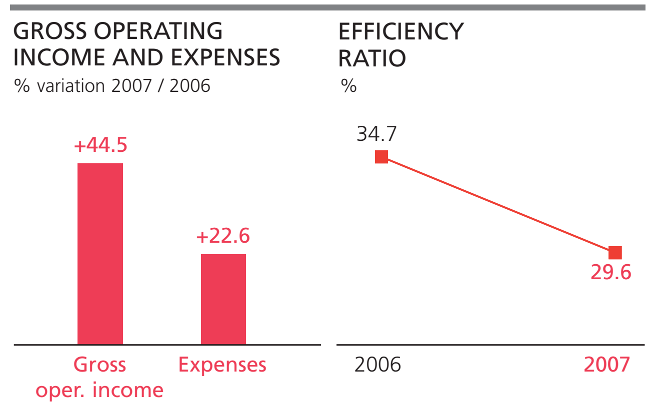
On-balance sheet managed funds amounted to EUR 81,932 million, 18% more than in 2006. Off-balance sheet ones, affected by the markets, were 16% lower, bringing total managed funds to EUR 96,034 million (+11%).

SANTANDER CONSUMER FINANCE

Santander Consumer Finance had a good year, due to the combination of three factors:

- Moderate growth in results in its traditional European platforms in a more complex environment for consumer finance business.
- Successful integration of Drive in the US whose results surpassed the initial goals in a slowing economy. Drive's consolidation in 2007 had a big impact on growth in lending and results.
- Expansion into new business platforms in order to foster future business growth.

SANTANDER CONSUMER FINANCE



The combination enabled Santander Consumer Finance to increase its gross operating income by 44.5%, as the increase in the portfolio and the high spread on business in the US offset the lower return in Europe resulting from higher Eurozone interest rates.

The 22.6% rise in operating expenses reflects the enlarged perimeter and the launch of new business platforms. But the increase was much lower than the growth in gross operating income, as a result of which net operating income grew 55.5% and the efficiency ratio improved from 34.7% in 2006 to 29.6% in 2007.

The positive combination of revenues and expenses absorbed the higher loan-loss provisions (+112%), basically due to Drive's incorporation. Net operating income excluding provisions was 27.5% higher and fed through to attributable profit which increased 27.1% to EUR 719 million.

Lending (including securitisations) amounted to EUR 48,000 million (+15%). Two-thirds of this was auto finance (38% for new vehicles and 28% for used ones), and 17% to consumer-dealer, cards and direct credit, as the most profitable products. The three large countries accounted for 76% of total lending (Germany 36%, Spain 28% and Italy 12%), followed by the Nordic countries and the US (both with 7%).

On-balance sheet customer funds stood at EUR 33,000 million at the end of 2007 (+33%) and represented almost 70% of gross lending (60% in 2006). Growth was strongly backed by balances in marketable securities.

Santander Consumer Finance Europe

Despite the unfavourable market conditions (stagnant sales of cars with a 9% fall in Germany because of the rise in VAT, and increasing pressure on spreads from higher interest rates and tougher competition), Santander Consumer Finance's attributable profit was 8.2% higher at EUR 612 million. This was due to a good relative performance of business and appropriate management of revenues-expenses-provisions.

New loans rose 6% as a result of a mixed trend: on the one hand, a slight fall in auto finance (-1%), in line with the European market's sales; on the other, stronger growth in the most profitable products, the result of business diversification. Of note was the 18% increase in cards and 20% in direct credit.

On the funding side, Openbank's good performance in business volumes (+14% in deposits) and spreads almost tripled its contribution, albeit moderate, to the area.

Gross operating income rose 7.4% with a higher contribution from fees linked to cross-selling (+34.1%) than from net interest income (+2.9%). The latter reflects, on one side, the net effect of the growth in the managed portfolio (+14%) and the reduction in the spread due to the rise in interest rates and, on the other, the better mix of more profitable products.

Operating expenses were 10.3% higher because of the expansion into new markets, as without them mature platforms' expenses increased more or less in line with inflation. The efficiency ratio improved to 35.8% and net operating income was 5.7% higher at EUR 1,269 million.

Net loan-loss provisions, stable in previous quarters, were 9.9% higher but below the rise in the average managed portfolio. Credit quality ratios, however, remained within the standards of consumer finance business in Europe (NPL ratio of 2.77% and coverage of 97%).

Santander Consumer Finance USA (Drive)

In an environment of economic slowdown and tensions in US financial markets, Drive showed its capacity to grow profitably. Revenues reached a new high at the end of the year (the fourth quarter's were 24% higher than the first's).

The efficient business model and management of expenses improved the efficiency ratio by 3 p.p. between the first and fourth quarters to 11.9% in 2007. This improvement helped to push up net operating income in the fourth quarter by 28% over the first quarter.

This increase absorbed the higher provisions resulting from lending and the deterioration in the environment, in accordance with its demanding internal risk models. Drive's NPL ratio was 3.83% at the end of 2007, down from 3.88% in 2006 and despite a 40% rise in lending to EUR 3,130 million.

With all, Drive's attributable profit showed a solid quarterly trend and at EUR 107 million was higher than initially envisaged.

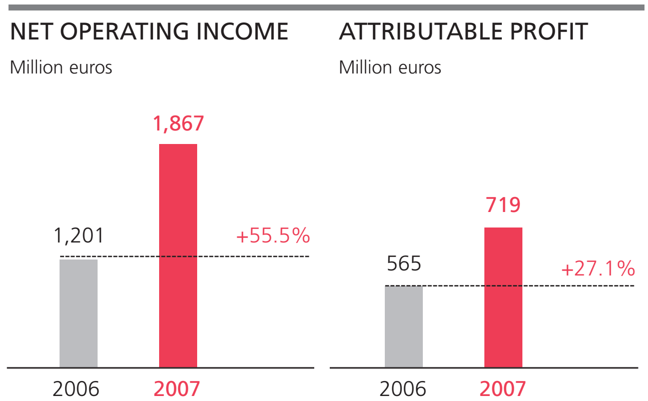
Our growth platforms

Santander Consumer Finance made a great effort in 2007 to expand into high potential markets by acquiring small finance companies, setting up joint venures with local operators and/or creating start-ups.

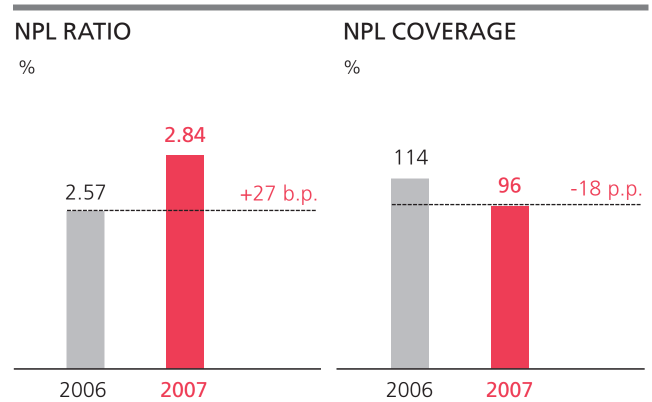
An example of the latter was the launch of our businesses in Denmark and Finland. They joined the one already in the UK, which in its second full year met its plans with notable growth in business (+39% in the managed portfolio).

In Russia, the acquisition of Extrobank accelerated the launch of our start-up. In Mexico, the purchase of Alcanza finance company enabled us to begin to operate in auto finance. Lastly, we set up joint ventures with local partners in Chile (Bergé) and France (Banque Accord). They are due to start operating in the first half of 2008.

SANTANDER CONSUMER FINANCE



SANTANDER CONSUMER FINANCE



Santander Totta enjoyed a year of profitable growth. Its attributable profit rose by more than 20%, the efficiency ratio improved by 3.3 p.p. and ROE was 4.5 p.p. higher at 28.6%.

Attributable profit, including extraordinary income from the sale in the second quarter of a stake in the bank BPI, was EUR 527 million, 24.6% more than in 2006. Part of the capital gain was used for internal restructuring, long-term incentive plans and establishing a fund for possible contingencies. The net effect on profits was EUR 16 million. Eliminating this impact, attributable profit was 20.8% higher at EUR 511 million.

The Portuguese economy continued to recover moderately, based on still strong growth in exports, a small rise in investment and the stabilisation of private consumption. Lending to companies accelerated and to individual customers decelerated.

From the financial standpoint, 2007 was a very competitive year, characterised by regulatory changes (with a direct impact on the profitability of banks in 2007, particularly in the second quarter, and in future years) and the lack of liquidity in financial markets, which produced sharp rises in interest rates.

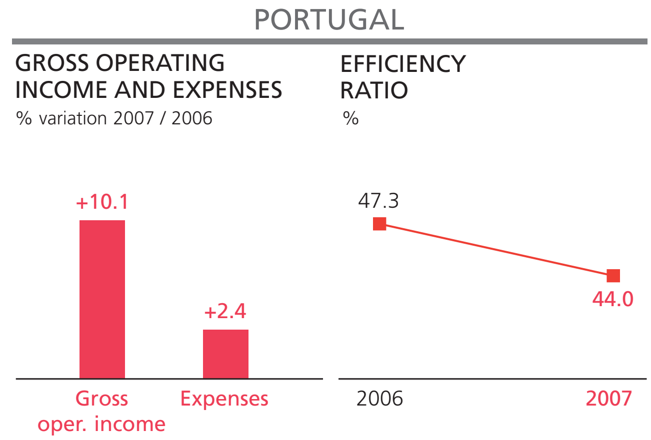
In this environment, the Group continued to focus on its customer-centred business model. The number of customers increased, linkage levels rose and best practices in cross-selling were used.

The start of the year was marked by a strong institutional campaign to launch Santander Totta's single brand known as "O Meu Banco". Other campaigns followed this, including "Comissões Zero", and the branch network was further expanded. The number of linked customers rose by 9% and the ratio of products per customer improved.

We will now look at the income statement, but without taking into account the extraordinary results.

Net interest income was 8.8% higher at EUR 718 million. In an environment of regulatory changes (particularly the rounding of interest rates in loans and greater facility of transfer and mobility of mortgages) and tough competition in funds, Santander Totta combined defence of spreads and dynamic activity.

Net fees and revenue from insurance activity amounted to EUR 389 million, 1.2% higher and the result of the initial impact of the launch of the "Comissões Zero" campaign, lower revenues from investment banking and the mentioned regulatory changes.



Gains on financial transactions (+85.1%) reflected the greater demand for treasury products and higher revenues from wholesale banking operations.

Gross operating income increased 10.1% to EUR 1,214 million.

Santander Totta had another excellent year in expenses, which only rose 2.4% despite the opening of 39 branches (+5%).

Thanks to "jaws" of 8 p.p., the efficiency ratio improved 3.3 p.p. to 44.0% and net operating income was 17.8% higher.

Net losses from the deterioration of assets and other results amounted to EUR 42 million, 12.7% lower than in 2006. This was due to recoveries and sales of portfolios of bad debts.

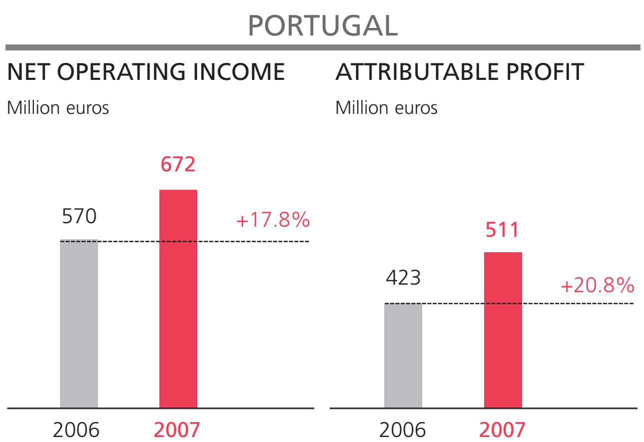
As a result, profit before taxes was 20.6% higher at EUR 630 million and attributable recurrent profit increased 20.8% to EUR 511 million.

Total lending stood at EUR 30,119 million at the end of 2007 (+6%). The focus was on individual customers (+9%) and on SMEs/businesses (+21%). In order to increase the customer base and linkage in the segment of SMEs/businesses, the "Zero Euros" campaign was launched with a varied offer of solutions. Lending to companies and large companies declined 4%, mainly because of the latter whose balance dropped 10% (reflecting careful management of the Group's balance sheet and capital).

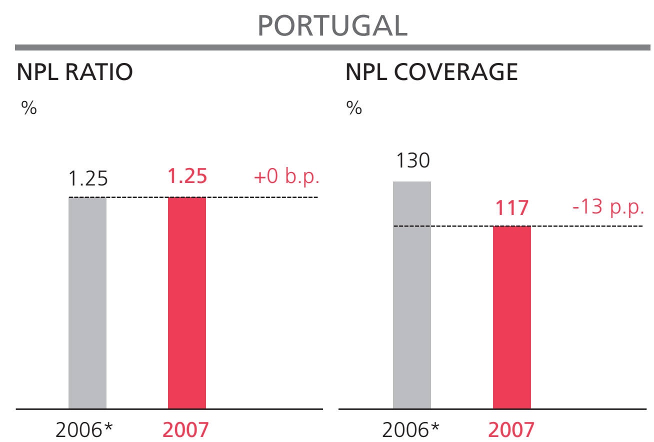
Control of risk quality went hand in hand with growth in lending. The criteria for recording non-performing loans were changed at the beginning of 2007 and brought into line with the rest of the Group. On the basis of the same methodology for both years, the NPL ratio was 1.25% at the end of 2007, the same as a year earlier, and coverage was 117% (130% in 2006).

Total customer funds increased 4% to EUR 33,766 million, as a result of growth combined with defence of spreads. The liquidity crisis in the markets and hence the greater aversion to risk had an impact on mutual funds which was offset by increases in on-balance sheet funds. Capitalisation insurance remained virtually flat. By segments, the growth rates for funds were similar to those for assets: +6% from individual customers, +13% SMEs/businesses and a fall from large companies.

The magazine Euromoney named Santander Totta the "Best bank in Portugal" for the sixth year running. This prize is for the



Note: w/o extraordinary capital gains and allowances



(*) 2006 data restated based on 2007 criteria

OTHERS

The rest of businesses (Wholesale Banking, Asset Management, Insurance and Banif) generated attributable profit of EUR 719 million, 83.4% more than in 2006. Global Wholesale Banking's increased 143.7%, Asset Management 14.1%, Insurance 13.6% and Banif 41.0%.

The three main aspects of the income statement were:

- Gross operating income was 21.7% higher at EUR 1,962 million and was spread across the units.

  Global Wholesale Banking (strongly backed by fees, which rose 59.1% because of those from investment banking and securities) and Asset Management and Insurance increased their gross operating income by around 20%. Banif's rose 32.5%, with net interest income up 69.2% and fees 22.2%, reflecting its expansion policy which continued in 2007 with the opening of three new branches and an increase of 11% in managed balances.

- Expenses also rose strongly (by more than 30%) and in all cases due to spending on expansion projects by all the units included here.

- Net loan-loss provisions were 75.5% lower. This sharp fall was due to lower needs for generic provisions in wholesale banking (EUR 20 million in 2007 compared to EUR 308 million in 2006).

  This fall of EUR 288 million was due to the fact that the results for the second half of 2006 included large generic provisions for big corporate operations which, at the end of that year, had still not reached their definitive structure. In 2007, on the other hand, and more specifically in the first two quarters, there were partial releases of these provisions as the definitive structure was attained. Banif's provisions only rose 7.2%.

UNITED KINGDOM (ABBEY)

Million euros	2007	2006	Variation Amount	Variation (%)
Income statement				
Net interest income	**2,335**	**2,108**	**227**	**10.8**
Income from companies accounted by equity method	2	3	(1)	(32.4)
Net fees	1,007	1,026	(18)	(1.8)
Insurance activity	0	0	0	—
Commercial revenue	**3,345**	**3,137**	**208**	**6.6**
Gains (losses) on financial transactions	436	423	12	2.9
Gross operating income	**3,780**	**3,560**	**220**	**6.2**
Income from non-financial services (net) and other operating income	51	42	9	20.6
Operating expenses	(1,918)	(1,983)	64	(3.2)
General administrative expenses	(1,816)	(1,877)	61	(3.2)
Personnel	*(1,037)*	*(1,062)*	*25*	*(2.4)*
Other administrative expenses	*(780)*	*(816)*	*36*	*(4.4)*
Depreciation and amortisation	(102)	(105)	3	(3.0)
Net operating income	**1,913**	**1,620**	**293**	**18.1**
Net loan loss provisions	(312)	(387)	75	(19.3)
Other income	22	(0)	23	—
Profit before taxes (w/o capital gains)	**1,622**	**1,232**	**390**	**31.7**
Tax on profit	(421)	(343)	(78)	22.9
Net profit from ordinary activity	**1,201**	**889**	**312**	**35.1**
Net profit from discontinued operations	—	114	(114)	(100.0)
Net consolidated profit (w/o capital gains)	**1,201**	**1,003**	**198**	**19.8**
Minority interests	—	—	—	—
Attributable profit to the Group (w/o capital gains)	**1,201**	**1,003**	**198**	**19.8**
Net extraordinary capital gains and allowances	—	—	—	—
Attributable profit to the Group	**1,201**	**1,003**	**198**	**19.8**
Balance sheet				
Customer loans*	184,086	190,512	(6,426)	(3.4)
Trading portfolio (w/o loans)	53,782	61,507	(7,725)	(12.6)
Available-for-sale financial assets	44	23	21	87.9
Due from credit institutions*	19,810	18,185	1,625	8.9
Intangible assets and property and equipment	4,685	5,059	(373)	(7.4)
Other assets	9,458	8,691	767	8.8
Total assets/liabilities & shareholders' equity	**271,865**	**283,977**	**(12,112)**	**(4.3)**
Customer deposits*	122,514	115,194	7,321	6.4
Marketable debt securities*	76,056	72,857	3,199	4.4
Subordinated debt	7,876	9,430	(1,554)	(16.5)
Insurance liabilities	6	71	(65)	(91.6)
Due to credit institutions*	38,688	51,020	(12,332)	(24.2)
Other liabilities	23,549	32,076	(8,527)	(26.6)
Shareholders' equity	3,177	3,328	(152)	(4.6)
Other customer funds under management	**10,225**	**8,307**	**1,918**	**23.1**
Mutual funds	10,225	8,307	1,918	23.1
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**216,672**	**205,788**	**10,883**	**5.3**

(*).- Includes all stock of concept classified in the balance sheet

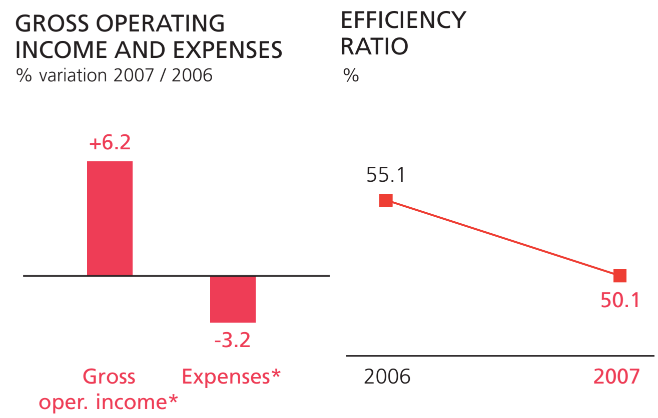
UNITED KINGDOM (ABBEY)

Abbey continued to make progress in 2007 in becoming a universal bank providing all services. The rolling out of the Partenón platform improved the information on customers, the Bank strengthened its range of products and cooperation with the Group's global areas was stepped up.

The goals set for revenues, costs and profits were met. Attributable profit was EUR 1,201 million, 19.8% more than in 2006 (+20.2% in sterling). Of particular note was the growth in gross operating income in a worse than envisaged environment.

Like the other segments, Abbey's figures have been restated in accordance with the criteria on page 82 of this report. This means that the figures given below do not coincide with those published by Abbey in the UK.

UNITED KINGDOM (ABBEY)



(*) Exchange rate effect excluded: Gross operating income: +6.5%; expenses: -2.9%

The changes in the figures are expressed in sterling. The figures are very similar to those of euros in results, as the average exchange rate hardly changed during 2007, but they vary much more in the balance sheet as sterling at the end of 2007 had fallen 8% against the euro.

Total revenues increased 6.7%, largely due to the significant rise in net interest income (+11.1%). This increase reflected the increase in business volumes and, above all, very active management of spreads, the main focus in 2007. This management was applied to both loans, where the fall in spreads on mortgages was limited and in personal loans it rose strongly, as well as customer deposits and investment products, where it increased notably. The result was a rise of 14 b.p. in the customer spread.

Net fees decreased 1.5%, with a positive trend in the sale of investment and protection products and in new business from cards, which was offset by reduced revenue from fees related to current accounts and mortgages.

Gains on financial operations increased 3.2%, affected by worse conditions in markets in the second half of 2007.

Operating expenses continued their excellent performance and for the third straight year the synergies envisaged at the time of the acquisition were exceeded. Expenses were 2.9% lower in 2007, largely due to the savings resulting from the reduction in the headcount in 2006.

Lower expenses and higher revenues produced a significant improvement in the efficiency ratio from 55.1% in 2006 to 50.1% in 2007. This ratio is 20 p.p. better than when Santander acquired Abbey (70%).

Net loan-loss provisions were 19.1% lower than in 2006. This reflected the continued good quality of mortgages and lower exposure in UPLs, especially those granted via Internet.

The NPL ratio remained virtually unchanged at 0.60%, while coverage dropped from 86% to 66%. This reduction was mainly due to the change of mix in NPLs, as the strategy of lower activity in UPLs, which have higher coverage, produced a decline in their relative share in total lending, while the share of mortgage loans increased (lower percentage of coverage as mortgages have greater guarantees).

Customer loans (in local criterion) stood at £116,600 million, 8% more than in 2006. This increase was almost the same as the rise in the stock of mortgages (+9%), as the stock of personal loans fell 24% (from a very small base as they only accounted for 2% of the portfolio).

Gross mortgage lending rose 9%, while cancellations were 8% higher, despite the sharp rise in 2007 in incentive period maturities.

The market share in net lending was 8.1%, higher than our initial goal set for 2007 of between 6% and 7%. Abbey, however, is maintaining its strategy of achieving an appropriate balance between the return on new mortgage loans and market share. In the last part of 2007, Abbey took advantage of conditions in the market and lifted its market share of net lending, while improving the spreads on new operations.

Gross UPLs declined 54%, reflecting reduced online lending. The focus in 2007 was on business via branches.

As regards funds, the net flow of deposits during 2007 was £3,200 million, almost three times more than the £1,100 million in 2006. This growth was backed by a wider range of products including saivngs accounts linked to investment products. New business was also spurred by a new range of savings accounts including 50+ Saver and Direct ISA, and the family of Super accounts including the Super Bond launched in July.

The sale of investment products also rose notably (+36%), thanks to a greater focus on retention and better processes together with the business drive through various commercial campaigns. The sale of structured growth products was particularly strengthened by Super savings and other strategic products, which were recognised by Moneyfacts awarding Abbey its prize for "Best Structured Products".

The significant rises in deposits and investment products were combined with higher spreads, favoured by the evolution of interest rates. The spread stock was 12 b.p. higher than in 2006.

Abbey also continued to capture more customers. The number of accounts opened in 2007 in this segment increased by 8%, backed by the Formula 1 campaign launched at the end of June and the launch of the 8% Account in November.

Abbey also continued to show strong development of commercial banking, reflected in an appropriate mix of retail financing (close to 60% based on deposits and only 10% on short-term financing).

Another key factor in 2007 was the rolling out of the Partenón technological platform in accordance with the schedule, and which is beginning to provide business and productivity advantages.

The sale and services portals implemented in 2007 simplified and improved sales processes. Information on balances and movements in accounts and a new application for cash management migrated to the platform. A total of 18.5 million contracts migrated to a new platform of personal accounts for all sales and services. This made possible the launch of new credit cards in the second half of 2007.

Abbey will continue to optimise use of the Partenón platform in order to enhance the quality of service, increase customer loyalty and continue moving Abbey's efficiency ratio closer to the Group's standards. To achieve this, it will continue to train its staff to obtain the maximum yield from this powerful platform.

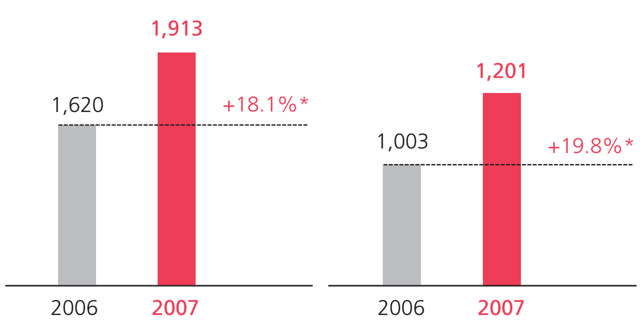
Lastly, we should point out the measures taken to attain greater integration of the Group's global units, both in wholesale banking as well as in insurance and private banking. For example, Banif joined Abbey to develop private banking business in the UK and the cards business mentioned before was launched in record time and with good initial results, taking advantage of the Group's scope and experience.

In short, Abbey continued to make progress in becoming a universal bank providing all services, exploiting the competitive advantages of belonging to Grupo Santander.

UNITED KINGDOM (ABBEY)

NET OPERATING INCOME — Million euros

ATTRIBUTABLE PROFIT — Million euros



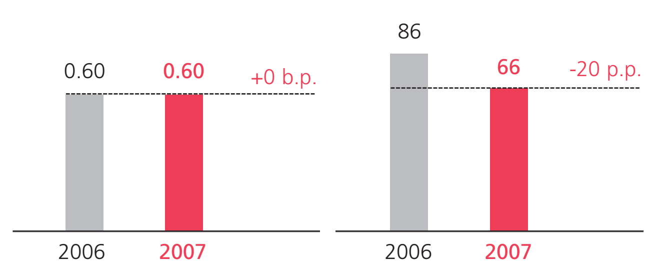
(*) Exchange rate effect excluded: +18.5%

(*) Exchange rate effect excluded: +20.2%

UNITED KINGDOM (ABBEY)

NPL RATIO — %

NPL COVERAGE — %



LATIN AMERICA

Million euros	2007	2006	Variation Amount	(%)
Income statement				
Net interest income	**6,654**	**5,272**	**1,381**	**26.2**
Income from companies accounted by equity method	4	7	(3)	(45.7)
Net fees	2,866	2,357	509	21.6
Insurance activity	171	120	51	42.6
Commercial revenue	**9,694**	**7,757**	**1,938**	**25.0**
Gains (losses) on financial transactions	691	604	88	14.5
Gross operating income	**10,386**	**8,360**	**2,025**	**24.2**
Income from non-financial services (net) and other operating income	(141)	(119)	(22)	18.2
Operating expenses	(4,437)	(4,005)	(431)	10.8
General administrative expenses	(4,089)	(3,700)	(388)	10.5
Personnel	*(2,222)*	*(1,975)*	*(247)*	*12.5*
Other administrative expenses	*(1,867)*	*(1,725)*	*(142)*	*8.2*
Depreciation and amortisation	(348)	(305)	(43)	14.1
Net operating income	**5,808**	**4,236**	**1,572**	**37.1**
Net loan loss provisions	(1,619)	(859)	(760)	88.4
Other income	(408)	(256)	(152)	59.4
Profit before taxes (w/o capital gains)	**3,781**	**3,120**	**660**	**21.2**
Tax on profit	(822)	(669)	(153)	22.9
Net profit from ordinary activity	**2,958**	**2,451**	**507**	**20.7**
Net profit from discontinued operations	112	124	(12)	(9.7)
Net consolidated profit (w/o capital gains)	**3,071**	**2,575**	**495**	**19.2**
Minority interests	404	289	116	40.1
Attributable profit to the Group (w/o capital gains)	**2,666**	**2,287**	**379**	**16.6**
Net extraordinary capital gains and allowances	—	—	—	—
Attributable profit to the Group	**2,666**	**2,287**	**379**	**16.6**
Balance sheet				
Customer loans*	68,854	60,172	8,681	14.4
Trading portfolio (w/o loans)	22,846	27,846	(5,000)	(18.0)
Available-for-sale financial assets	12,628	17,943	(5,315)	(29.6)
Due from credit institutions*	11,146	20,310	(9,165)	(45.1)
Intangible assets and property and equipment	1,805	1,695	110	6.5
Other assets	24,707	16,842	7,865	46.7
Total assets/liabilities & shareholders' equity	**141,985**	**144,809**	**(2,823)**	**(1.9)**
Customer deposits*	82,054	75,301	6,752	9.0
Marketable debt securities*	5,039	5,258	(220)	(4.2)
Subordinated debt	2,540	2,383	157	6.6
Insurance liabilities	2,121	2,086	35	1.7
Due to credit institutions*	19,017	32,403	(13,386)	(41.3)
Other liabilities	22,626	19,529	3,097	15.9
Shareholders' equity	8,588	7,847	741	9.4
Other customer funds under management	**48,048**	**56,352**	**(8,303)**	**(14.7)**
Mutual funds	36,041	27,965	8,076	28.9
Pension funds	—	18,052	(18,052)	(100.0)
Managed portfolios	11,949	10,334	1,615	15.6
Savings-insurance policies	58	—	58	—
Customer funds under management**	**137,682**	**139,295**	**(1,613)**	**(1.2)**

(*).- Includes all stock of concept classified in the balance sheet

(**).- Without impact of the sale of pension funds management institutions: +EUR 16,439 million; +13.6%

LATIN AMERICA

Grupo Santander generated attributable profit of EUR 2,666 million in 2007, 16.6% more than in 2006 (+22.1% excluding the exchange rate impact). This figure was affected by changes to the perimeter in 2006 (sale of the pension fund management institution in Peru, the bank in Bolivia and placement in the market of 7.23% of Banco Santander Chile) and 2007 (sale of pension fund management institutions in Chile, Argentina, Colombia, Mexico and Uruguay). Excluding this, net profit from ordinary activity increased 20.7% (+26,7% without the exchange rate effect).

Retail Banking continued to be the engine of the Group's growth in the region. Its profit before tax rose 37.2% (+45.6% excluding the exchange rate effect). This performance reflected the strategic focus on developing banking with individuals, SMEs and companies.

These results were achieved in a good economic environment, despite the slowdown in the US and the recent turmoil in markets around the world.

The region's economy continued to grow robustly in 2007 (average growth sligthly above 5%). This was the fourth straight year of expansion and the outlook for 2008 is also solid.

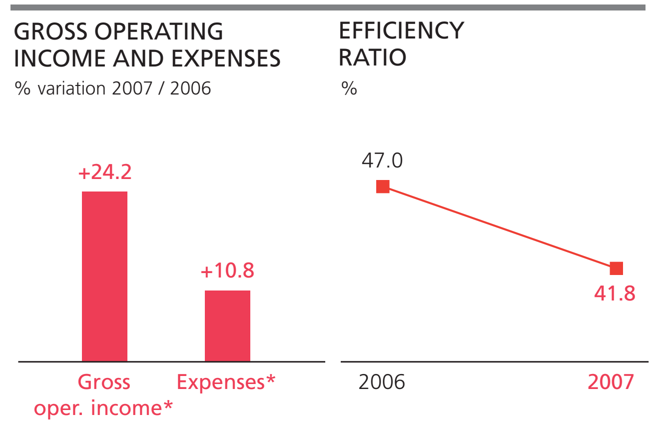
Sustained economic growth and a stable macroeconomic environment have produced significant social progress. Inequality declined thanks to the uninterrupted creation of jobs and less volatility in the income levels of medium and low wage earners.

Another key factor that improved the level of well being was control of inflation. The average inflation in 2007 remained low at around 5%, although it rose in some countries, and in the three main ones (Brazil, Mexico and Chile) it was below 4.5% on average. The rise in inflation was due to the region's strong growth as well as higher world food, energy and industrial commodity prices. The region's average inflation could increase to 6% in 2008 and below 4% in the three main countries, thanks to lower inflation in Chile and Mexico and around the same level in Brazil.

Against this background, central banks tightened monetary policy (rises in Chile, Mexico and Colombia). In Brazil, the central bank ended, for the time being, its cycle of cuts in the SELIC rate begun in September 2005, even though inflation is still below the goal of 4.5%.

Fiscal policy continued to be rigorously managed, with an average primary surplus of around 3% of GDP for the region and an overall general government deficit of less than 1% of GDP. Today, this is one of the main economic strengths of Latin America and it is producing a clear downward trend in the public debt/GDP ratio. Governments are very actively managing indebtedness, improving its structure through a considerable reduction in foreign currency debt, and extending the maturity of domestic debt. Several countries, including Brazil, Chile, Mexico and Peru, have issued long-term bonds in local currencies, even in international markets, which have been well received by investors.

LATIN AMERICA



(*) Exchange rate effect excluded: Gross operating income: +29.2%; expenses: +15.0%

The external sector is also in a good position. The region's current account was in surplus in 2007, for the fifth year running, although the surplus was smaller (0.7% of GDP). The terms of trade continued to be favourable and exports performed well, although imports rose as a result of strong domestic demand. Although inflows of portfolio investment were significant in some countries, foreign direct investment continued to be the main source of capital inflows. The current account surplus coupled with net inflows of foreign capital boosted the international reserves of central banks ($375,000 million at the end of 2007 for the region).

Lending rose 28%, excluding the exchange-rate effect, and deposits and mutual funds 19%. The pace of lending to individuals slowed in the last quarters while that to companies and institutions accelerated. The process of "bankarisation", which is enabling increasingly large swathes of the population to obtain loans and deposit their savings, continues.

In order to fully benefit from the advantages of the region's more intense process of "bankarisation", the Group continued to invest in distribution channels under its "América 20.10" programme. The number of points-of-sale rose by 130 in 2007, bringing the total to 4,498 branches and 16,422 ATMs.

The Group's strategy in Latin America continued to focus on developing the commercial franchise, and particularly on business growth and recurrent revenues from individual customers and SMEs. The main drivers of retail banking have been development and linkage of customers, growth in anchor products, the drive in global businesses of individuals and lending.

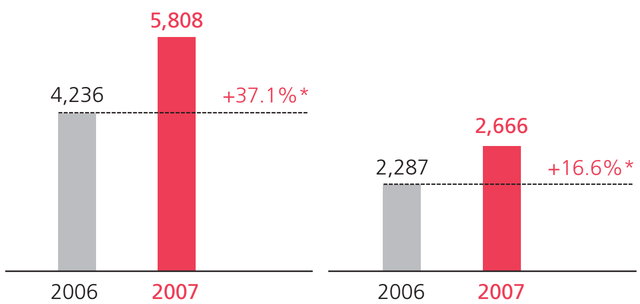
- The number of individual customers rose by 2.6 million to 24.9 million, 22% of whom are "linked" (i.e. Santander is their main bank). The number of SME clients increased by 79,000 to 893,000.

- The anchor products, key elements for capturing customers and linkage, continued to grow at a fast pace. At the end of 2007 the stock of payroll cheques deposited in accounts stood at 5.6 million, and the number of issued credit cards increased by 2.3 million to 13.3 million. The number of consumer loans reached

LATIN AMERICA

NET OPERATING INCOME Million euros

ATTRIBUTABLE PROFIT Million euros



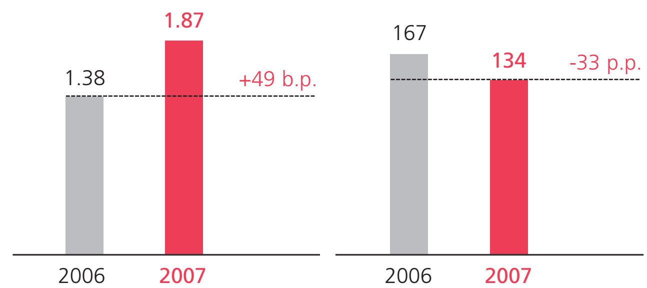
(*) Exchange rate effect excluded: +42.5%

(*) Exchange rate effect excluded: +22.1%

LATIN AMERICA

NPL RATIO %

NPL COVERAGE %



7.7 million (+900,000 since the end of 2006) and the number of insurance policies rose by 3.0 million to 11.7 million.

- The global businesses of individuals, means of payment, bancassurance and asset management also did well, taking advantage of the Group's capacities for product innovation, transmission of best practices and global synergies. The commercial revenue from means of payment businesses and bancassurance increased 55% and 45%, respectively, while that of asset management, discounting the impact of pension businesses sold, rose 18%.

- Loans to individuals and SMEs grew 27% (excluding the exchange-rate impact) and now account for 49% of total Group lending in Latin America. This growth produced a further gain of 30 b.p. (to 9.6%) in the market share of consumer credits and lending via credit cards. However, the larger share of the retail segment (individuals and SMEs) increased the risk premium, but this was offset by higher revenues. At the end of 2007, the risk premium was 2.24%, up from 1.58% in 2006.

The main developments of the Group's activity in Latin America in 2007 (all percentage changes exclude the exchange-rate impact) were:

- Strong growth in lending (+20%), particularly to individuals (+27%) and SMEs (+29%). By products, consumer loans grew +26%, cards +41% and mortgages +21%. The market share in lending in those countries where the Group operates is 9.8% (excluding IPAB paper in Mexico). Bank savings rose 21%, with deposits up 18% and mutual funds 29%. Our market share of bank savings is 8.1%.

- The market share of banking business (loans, deposits and mutual funds) was 8.7%. In line with the Group's strategy, market shares were increased in retail products (consumer credit, cards, mortgages), while the focus in wholesale businesses was concentrated more on providing services and generating fees than on boosting loans. In savings, the Group concentrated on capturing "cheap" funds and managed to slightly increase the spread.

- Net interest income, backed by the strong expansion of retail business, particularly loans to individuals and SMEs, rose 31.9%. Spreads – with differences among countries – ended the year slightly higher for the Group's banks as a whole, both in loans and savings (spreads in deposits plus commissions in mutual funds). In those countries where sharp falls in interest rates compressed spreads (for example, Brazil), the impact was offset by the reduction in the cost of financing portfolios of securities.

- The focus on strengthening the most recurrent revenues and, specifically, developing fee-generating products and services (credit cards, cash management, foreign trade, mutual funds and insurance) was reflected in the 26.2% rise in fees. Particularly striking was the growth in fees from credit cards (+39.6%) and insurance (+34.6%). Also noteworthy was the rise in fees from investment banking (+36.8%).

- Net gains on financial transactions increased 14.7% because of customer activity and capital gains in portfolios, favoured by the increase in value from the fall in interest rates, particularly in Brazil.

- Gross operating income grew 29.2% and operating expenses 15.0% (average inflation of 5%). Expenses grew because of investments and spending (increase in installed capacity, technology, implementing Santander's single brand, promotions) incurred in specific business expansion programmes.

- The efficiency ratio improved by 5.2 percentage points to 41.8% and net operating income was 42.5% higher.

- Net loan-loss provisions grew 93.5%, because of the growth in lending and the greater focus on the more profitable segments, but also with a higher risk premium. The NPL ratio was 1.87% at the end of 2007 (1.38% in 2006), while coverage was 134% (167% in 2006).

- In line with the Group's strategic focus, Retail Banking's net operating income increased 57.3% and its profit before tax 45.6%. Global Wholesale Banking and Asset Management and Insurance registered variations of -7.4% and +24.9%, respectively.

The Group sold in the second half of 2007 its pension funds management intitutions in Mexico, Colombia, Uruguay, Argentina and Chile, generating a capital gains of EUR 622 million (recorded in Financial Management and Equity Stakes).

The following factors regarding the impact of interest rates and exchange rates on business and converting figures into euros should be taken into account when analysing the financial information:

- Average short-term interest rates, for the region as a whole, declined a little between 2006 and 2007, although the movements varied from country to country. They dropped in Brazil (-3.3 p.p.) and Puerto Rico (-0.1 p.p.) and rose in Mexico (+0.2 p.p.), Chile (+0.3 p.p.), Argentina (+0.9 p.p.), Colombia (+2.3 p.p.) and Venezuela (+2.4 p.p.).

- Earnings in euros were negatively affected by exchange rates. Latin American currencies, overall, appreciated against the dollar (significantly so against the Brazilian real and less so the Chilean peso, while the Mexican peso remained virtually stable), but the dollar, the currency used to manage business in Latin America, depreciated 9% against the euro in 2007. The average exchange rate of the Brazilian real strengthened against the euro from 2.73 to 2.66, while the Chilean peso slid from 665 to 715 and the Mexican peso from 13.7 to 15.0.

The performance by countries was as follows:

LATIN AMERICA. RESULTS

	Gross operating income		Net operating income		Attributable profit to the Group	
Million euros	**2007**	Var. (%)	**2007**	Var. (%)	**2007**	Var. (%)
Brazil	4,385	30.5	2,533	46.7	905	20.5
Mexico	2,488	21.8	1,506	41.3	654	23.8
Chile	1,506	12.8	894	16.3	543	11.0
Puerto Rico	313	0.6	115	10.6	1	(97.4)
Venezuela	724	50.4	379	57.6	179	22.6
Colombia	107	51.6	30	248.0	15	(36.8)
Argentina	459	11.2	204	7.5	188	27.1
Rest	79	(0.7)	(42)	46.9	18	(48.2)
Subtotal	**10,060**	**24.3**	**5,619**	**37.9**	**2,503**	**16.6**
Santander Private Banking	326	20.8	189	18.1	163	17.1
Total	**10,386**	**24.2**	**5,808**	**37.1**	**2,666**	**16.6**

LATIN AMERICA. MAIN UNITS

	Brazil		Mexico		Chile	
Million euros	2007	Var. (%)	2007	Var. (%)	2007	Var. (%)
Income statement						
Net interest income	**2,439**	**31.1**	**1,893**	**21.9**	**1,112**	**22.1**
Income from companies accounted by equity method	1	(22.0)	—	—	(3)	—
Net fees	1,249	24.6	588	24.3	317	8.6
Insurance activity	72	25.9	38	63.5	49	34.0
Commercial revenue	**3,761**	**28.7**	**2,519**	**22.9**	**1,475**	**18.9**
Gains (losses) on financial transactions	624	42.7	(32)	273.0	31	(67.7)
Gross operating income	**4,385**	**30.5**	**2,488**	**21.8**	**1,506**	**12.8**
Income from non-financial services (net) and other operating income	(33)	422.1	(37)	(50.3)	(21)	83.6
Operating expenses	(1,819)	11.8	(945)	4.8	(590)	6.5
General administrative expenses	(1,680)	11.2	(865)	3.9	(536)	6.3
Personnel	*(878)*	*11.9*	*(440)*	*11.5*	*(327)*	*3.1*
Other administrative expenses	*(802)*	*10.4*	*(425)*	*(2.9)*	*(209)*	*11.6*
Depreciation and amortisation	(139)	20.3	(80)	14.8	(54)	8.8
Net operating income	**2,533**	**46.7**	**1,506**	**41.3**	**894**	**16.3**
Net loan loss provisions	(792)	80.0	(459)	122.2	(203)	86.1
Other income	(349)	64.1	(16)	—	55	—
Profit before taxes (w/o capital gains)	**1,393**	**29.6**	**1,030**	**19.9**	**746**	**14.2**
Tax on profit	(473)	51.4	(163)	(14.9)	(100)	(8.0)
Net profit from ordinary activity	**919**	**20.7**	**868**	**29.8**	**645**	**18.6**
Net profit from discontinued operations	—	—	7	(71.6)	36	18.2
Net consolidated profit (w/o capital gains)	**919**	**20.7**	**875**	**26.1**	**682**	**18.6**
Minority interests	14	31.2	221	33.2	139	61.9
Attributable profit to the Group (w/o capital gains)	**905**	**20.5**	**654**	**23.8**	**543**	**11.0**
Net extraordinary capital gains and allowances	—	—	—	—	—	—
Attributable profit to the Group	**905**	**20.5**	**654**	**23.8**	**543**	**11.0**
Balance sheet						
Customer loans*	19,998	42.9	14,124	(9.7)	17,103	13.2
Trading portfolio (w/o loans)	5,903	(33.9)	10,779	(28.5)	2,189	45.2
Available-for-sale financial assets	3,685	(42.0)	3,929	(41.2)	1,353	75.3
Due from credit institutions*	2,062	(21.3)	5,684	(27.5)	1,727	(45.2)
Intangible assets and property and equipment	628	(3.3)	455	23.3	338	5.8
Other assets	14,045	93.1	4,525	2.8	2,222	3.9
Total assets/liabilities & shareholders' equity	**46,321**	**16.3**	**39,495**	**(21.1)**	**24,931**	**8.4**
Customer deposits*	21,484	24.3	21,830	(6.8)	14,566	10.2
Marketable debt securities*	1,079	32.2	1,301	(41.3)	2,242	45.9
Subordinated debt	1,622	13.4	51	(10.3)	680	(3.4)
Insurance liabilities	1,930	37.2	98	11.8	77	33.3
Due to credit institutions*	7,849	(8.1)	8,292	(46.5)	4,365	5.0
Other liabilities	9,556	20.7	5,354	(17.7)	1,926	(4.6)
Shareholders' equity	2,801	15.4	2,569	14.5	1,075	(17.5)
Other customer funds under management	**21,588**	**47.1**	**9,259**	**(20.8)**	**4,257**	**(63.7)**
Mutual funds	20,618	47.4	9,259	10.3	4,252	18.6
Pension funds	—	—	—	(100.0)	—	(100.0)
Managed portfolios	917	33.7	—	—	—	—
Savings-insurance policies	53	—	—	—	5	—
Customer funds under management**	**45,772**	**33.8**	**32,441**	**(13.2)**	**21,744**	**(20.0)**

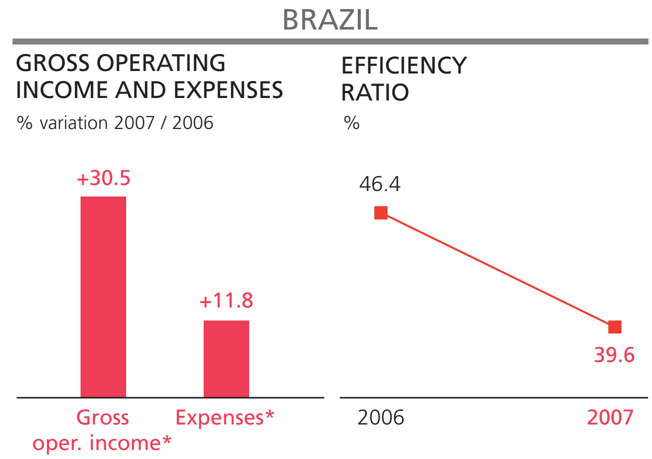
(*).- Includes all stock of concept classified in the balance sheet

(**).-Without impact of the sale of pension funds management institutuions, Mexico: -4.8%; Chile: +14.2%

Santander Brazil is one of the main franchises in the country. It has a market share of 4%-6% for the country as a whole and double that in the south-southeast of Brazil, particularly in the state of São Paulo. The Group has 2,104 branches (including traditional branches, services points and companies service points) and 8.3 million customers.

The purchase in the country of Banco Real will bring the total number of branches and services points to 4,000 and make Grupo Santander the third financial entity in Brazil by total lending and second by customer funds.

All the figures mentioned here are for Santander Brazil and do not include Banco Real.



(*) Exchange rate effect excluded: Gross operating income: +27.4%; expenses: +9.1%

The economy grew 5.4% in 2007, spurred by a 13% rise in investment and close to 6.5% in private consumption. The level of employment and wages evolved positively, in an environment of growing job creation. The central bank, committed to controlling inflation, ended its cycle of cuts in the SELIC rate and left it at 11.25%, as inflation was rising although it was still in line with the target (4.5% year-on-year).

In line with the economy's positive performance, the financial system grew strongly. Lending to individuals grew 24%, mainly spurred by auto finance, credits linked to the depositing of payroll cheques in accounts and credit cards. Mutual funds increased 22%, a faster pace than deposits (+12%).

In this scenario, Santander Brasil is very well positioned: in 2006, the brand was unified, IT integrated and the banks in Brazil were merged into one. In 2007 the Group continued to focus on expanding its retail businesses: capturing, linkage and retention of individual customers, growth in distribution businesses (auto finance, loans linked to deposit of payroll, credit cards), development of business with SMEs and companies and leveraging the Group's global reach to consolidate a dominant position in global wholesale banking.

The number of customers rose by 800,000 in 2007 (+10%), while linked ones increased by 23% (+380,000).

The Group also reached agreements in 2007 to manage the payroll of, among others, the police prefecture of Curitiba, the Universidad Paulista (UNIP) and the police prefecture of Nova Iguazu. The number of payroll customers rose by 357,000 to 1.3 million. Customers were also captured through organic growth and channels for non-current account holders.

The number of credit cards was 830,000 higher at 3.8 million, 729,000 of which were Santander Light cards (all issued since August 2006), while the number of Santander Free cards (issued since June 2007) stood at 621,000.

During 2007 491,000 consumer loans were granted (stock of 4.9 million), and the number of insurance policies reached 3.1 million. Of note were the Super Casa 30 and Cheque Essencial products.

Total lending rose 32%. That to individuals (+28%) increased at a faster pace than the market average. Of note was lending via credit cards (+55%), +30% via loans linked to payroll deposit and +26% in auto finance. Loans to SMEs and companies increased 41%. These growth rates gave us a market share of 5.2% in total lending and 5.4% in the segment of individuals (+0.2 p.p.).

Deposits and mutual funds increased 30%. As in the rest of the market, the strongest growth was in mutual funds (+36%), against a background of interest rate cuts which encouraged the shift from time deposits to mutual funds. The market share in mutual funds in retail segments was 7.6% compared with a total share in mutual funds of 4.6%.

As regards the income statement, and always in local currency, commercial revenue increased 25.6%, aided by the rise in business volumes (particularly retail loans) and the growth in fees and revenue from insurance (+21.7%). Spreads, however, declined because of lower interest rates.

Gains on financial transactions were 39.2% higher, while growth in expenses was controlled (+9.1%) but higher than inflation (4.5%) due to the expenses incurred in ongoing business development plans and increasing installed capacity. Net operating income rose 43.1%.

Net loan-loss provisions increased 75.6%, as a result of greater lending and, especially, focusing on products and segments with a higher risk, but with a greater return. The risk premiums of individual customers and SMEs, however, tended to stabilise during 2007 (they dropped 0.4 p.p.), after rising in 2006.

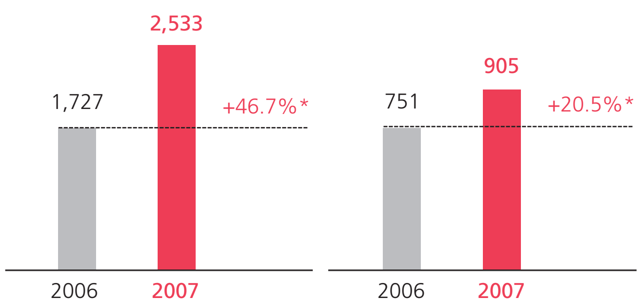
Attributable profit was 17.6% higher at EUR 905 million (+20.5% in euros). Retail Banking, which accounted for 57% of the region's total profits, increased its profit before taxes by 84.7%, that of Asset Management and Insurance was 6.6% higher and Global Wholesale Banking's 13.6% lower.

The efficiency ratio was 39.6% (6.8 p.p. better than in 2006), the recurrence ratio was 74.3% (improvement of 8.0 p.p.) and ROE was 28.5%. The NPL ratio stood at 2.74% and NPL coverage was 101%.

BRAZIL

NET OPERATING INCOME
Million euros

ATTRIBUTABLE PROFIT
Million euros



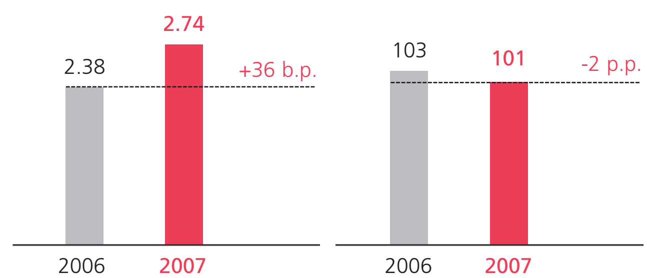
(*) Exchange rate effect excluded: +43.1%

(*) Exchange rate effect excluded: +17.6%

BRAZIL

NPL RATIO
%

NPL COVERAGE
%



MEXICO

Santander is the third largest banking group in Mexico by business volume, with a market share in loans of 15.1% and 16.2% in deposits and mutual funds. It has 1,088 branches (net rise of 49 in 2007) and 8.5 million customers.

The economy performed positively in 2007, although growth slowed to just below 3.5%, as a result of the impact of the US downturn. Domestic demand, however, remained buoyant at more than 4%, private consumption grew close to 4.5% and investment 6%.

Inflation was affected by supply-side disruptions and in some months was running at more than 4% year-on-year. It ended the year slightly lower. The Bank of Mexico twice raised its key rate by a total of 50 b.p. to prevent oil and certain basic food price pressures feeding through to the rest of the economy and to move toward its long-term inflation target of 3%.

Standard & Poor's upgraded its long-term sovereign rating of both foreign currency debt (to BBB+) and local currency (to A+), reflecting the strength of fiscal revenues and a renewed political dynamism that reduced the fears of paralysis at the policy level.

Lending by the whole financial system grew at a much faster pace (+24%) than savings (+14%). The strong rise in loans to individuals slackened and ended the year at 24%, while growth in other credits accelerated to 24% (27% excluding loans to the public sector).

The strategic focus in 2007 continued to be on developing and linking customers, and profitable growth in business, with a multi channel and highly segmented model.

The number of customers rose by 474,000 and linked ones by 180,000 (+16%). A linkage programme ("Relación Integral") was launched, which gives benefits to customers who deposit their payroll cheque in their account, have a credit card (or another type of credit) and long-term investment product or mutual fund.

The two main engines for increasing the number of customers were payment of payrolls into accounts and credit cards, while linkage enhancement was achieved through Santander's own credit card and consumer lending ("Crédito Efectivo," "Crédito Nómina" and "Crédito Restitución"). In mortgages, very focused on medium and high income segments, growth was leveraged on a very competitive product, an efficient "factory" and a quick response. Lastly, businesses were developed with SMEs and transactional ones strengthened for companies and in Global Wholesale Banking.

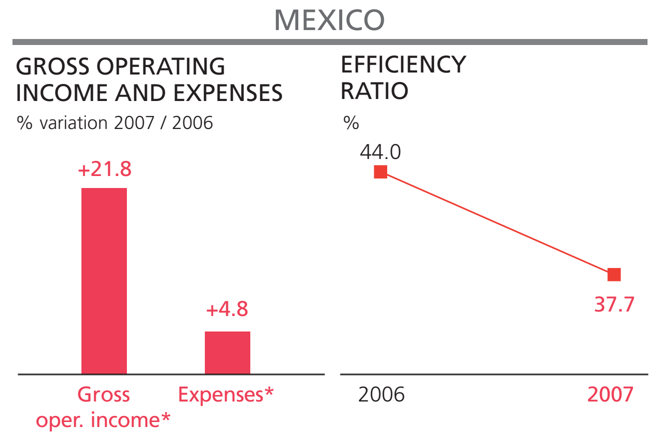
During 2007 393,000 new credit cards were issued for a total of 5.1 million. The already diversified range of credit cards (Santander Light, Santander Black) was further broadened with the launch of the Santander Click Mexicana card. The number of new consumer credits granted was 76,000 and 2.3 million customers have their payroll cheques paid into their account. The number of insurance policies stood at 2.7 million (net rise of 706,000, with two new products: Safe and IFS).

Manageable credits (excluding the IPAB paper, the former mortgage portfolio and restructured credits) increased sharply in local currency. Of note were products for individual customers. Consumer credit plus loans via credit cards increased 30%, faster than the market average and producing a gain of 39 b.p. in market share. The market share in new mortgages was 21% and loans rose 56%. Lending to SMEs increased 64%, above the market. Of note was the growth in the "Crédito Agil" and "e-Pyme" products.

Deposits and mutual funds grew 12%. Demand deposits increased 15%. Mutual funds rose 24%. Of note was the launch of the "Inversión Máxima" product. The market share in bank savings reached 16.2%.

Turning to the income statement, and always on the basis of local currency, commercial revenue increased 34.5%. Net interest income was up 33.4%, reflecting the strong growth in lending, especially to individuals, and the higher spread on loans, as a result of appropriate management of prices and the higher share of more profitable loans in total lending.

Net fees and insurance revenue grew 38.1%. Of note was the growth in those from insurance, cards and mutual funds. Gains on financial transactions, as in 2006, remained negative. Operating expenses were 14.7% higher (inflation of 3.8%) because of the increase in installed capacity and programmes to develop



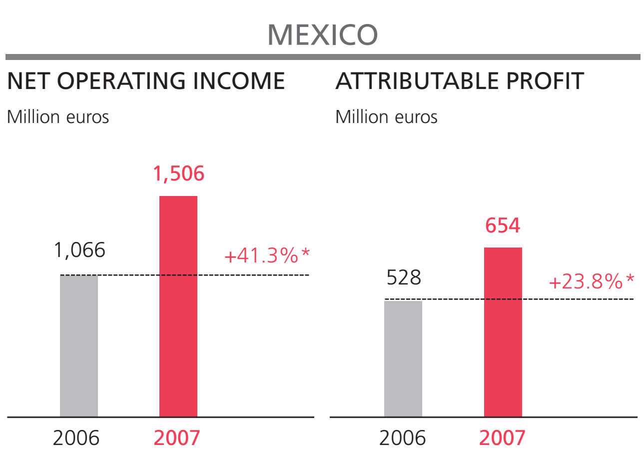
(*) Exchange rate effect excluded: Gross operating income: +33.4%; expenses: +14.7%

businesses. Net operating income, thanks to gross operating income growing much faster than expenses, increased 54.7%.

Net loan-loss provisions rose 143.3%, as a result of the strong growth in lending, the shift in lending towards products with a higher spread but also a greater risk, and the deterioration of the risk premium of credit cards which, despite this, continued to have an NPL ratio lower than that of its competitors. Attributable profit was 35.6% higher (+23.8% in euros) at EUR 654 million.

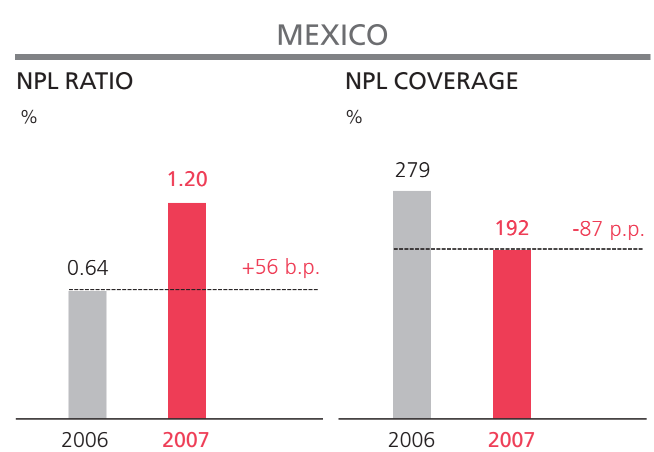
By segments, Retail Banking increased its profit before tax by 44.4% and contributed 78% of the total PBT in Mexico in 2007. Global Wholesale Banking's profit before tax was 6.2% lower and Asset Management and Insurance's 32.4% higher.

The efficiency ratio improved 6.3 p.p. to 37.7%, the recurrence ratio was 67.9% and ROE 26.5%. The NPL ratio (1.20%) and coverage (192%) continued to underline the high credit risk quality.



(*) Exchange rate effect excluded: +54.7%

(*) Exchange rate effect excluded: +35.6%



CHILE

Santander Chile is the largest financial group in Chile (in terms of customers, distribution network and net profit). Its market shares are: 21.2% in loans and 21.5% in deposits and mutual funds. It has 494 branches and 2.8 million customers.

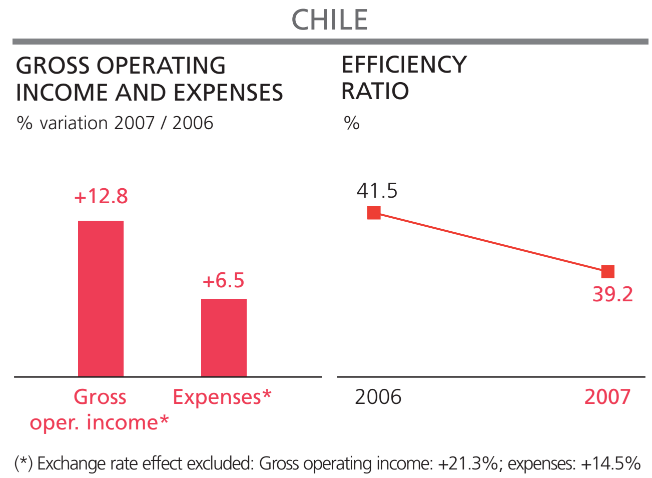
In 2007 the economy expanded slightly above 5%. Implementation of a counter-cyclical fiscal policy pushed up the primary surplus to 9% of GDP. The central bank began the year with a rise of 75 b.p. in its key rate in the face of a spurt in inflation, of more than 5 p.p. to more than 7.8% at the end of 2007. Inflation is expected to come down in 2008, as a result of higher interest rates.

Standard & Poor's upgraded its sovereign rating to A+ (higher than the rest of the region). This reflected the capacity of the Chilean economy to withstand potential adverse shocks.

Lending by the financial system increased 21%. The most noteworthy aspect was the slower growth in loans other than mortgages to individuals (consumer and cards), which grew 15% year-on-year according to the latest figure. Commercial bills (67% of the total) tended to quicken their growth rates.

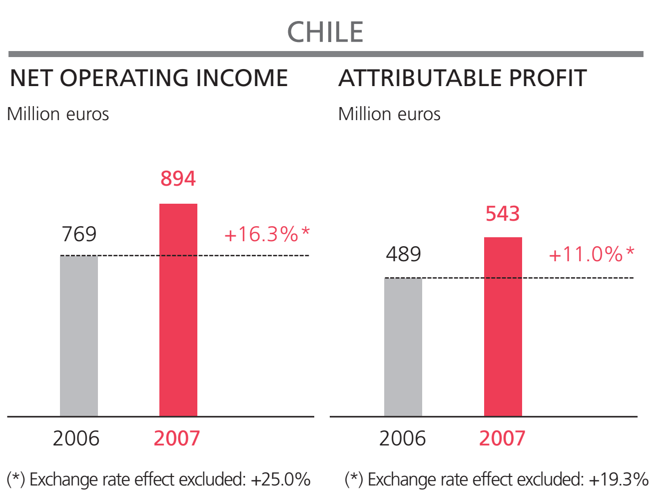
Bank savings rose 23% year-on-year, with mutual funds offering the highest increase (+28%) and deposits up 22%.

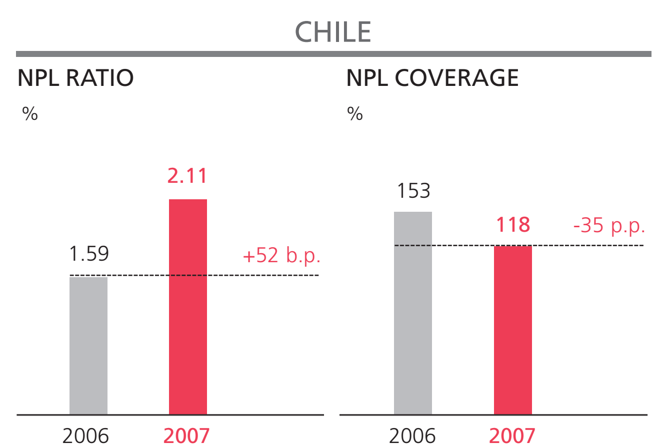
Santander Chile continued to focus on increasing the number of customers and their degree of linkage and on growth in activity with individuals and SMEs, as well as developing global businesses (wholesale banking, asset management, means of payment and insurance). The denser distribution network (net rise of 97 branches in 2007) and improvements in the quality of service helped to increase the number of customers by 345,000 to 2.8 million, and the number of linked ones by 16%.



The franchise's development can also be gauged from the increase in the number of credit cards (+14% to 1.4 million), the 79,000 consumer loans granted in 2007 and growth in the number of payrolls paid into accounts (+30%) and in insurance policies (+28%), while we also captured more than 35% of the new current accounts opened in Chile during 2007.

Loans to individual customers increased 15%. Of note was the 14% rise in consumer credits and loans via credit cards. The market share of lending to individuals reached 25.3%, higher than the Group's total market share. Loans to SMEs rose 19%.





Deposits and mutual funds increased 18%, and the market share was 21.5%.

In results (and always in local currency), gross operating income increased 21.3%. Net interest income was up 31.3%, driven by higher volumes and better spreads, while revenue from fees plus insurance activity grew 19.8%.

Operating expenses increased 14.5% (inflation of 7.8%), due to the growth in business infrastructure. Net operating income was 25.0% higher.

Net loan-loss provisions doubled because of generic provisions in 2007 and recoveries in 2006.

Attributable profit was 19.3% higher at EUR 543 million, (+11.0% in euros). Net profit (before minority interests, which were higher because of the placement of 7.23% of Banco Santander Chile in the fourth quarter of 2006) increased 27.5%.

Retail Banking's profit before tax rose 31.7% (75% of the total in Chile), Asset Management and Insurance's 47.5% and Global Wholesale Banking's was 10.7% lower.

The efficiency ratio was 2.3 p.p. better at 39.2%. The recurrence ratio was 59.1% and ROE 43.8%. The NPL ratio was 2.11% and coverage 118%.

OTHER COUNTRIES

Argentina

Santander Río is one of the country's leading banks, with market shares of 9.6% in loans and 9.4% in deposits and mutual funds. The Group has 276 branches (30 more than in 2006 on a like-for-like basis) and 2.4 million customers (+500,000 and +32% in linked customers).

The economy grew by more than 8% in 2007, a similar pace to 2006 and continuing the expansive phase begun in 2003. Consumption and investment still led the upturn. The investment/GDP ratio of 23% was at the highest level since the early 1980s. Inflation was lower than in 2006 at around 8.5%.

The financial system continued to improve the quality of its assets, reducing loans to the public sector and increasing it to the private sector. Lending grew 39% and deposits plus mutual funds 27%.

The Group's strategy was focused on developing retail business and on strengthening its balance sheet, following the cleaning up of the portfolio of government securities in 2005 and 2006. Exposure to the public sector was 7.8% of assets.

Lending rose 32%, mainly to individuals (+55%) and SMEs (+75%). The bank has been particularly active in consumer loans and credit cards (market share of 11.0%). More than 210,000 loans were granted in 2007 and 307,000 cards. Of note was the "Super Préstamo 1000/30 loan".

Deposits and mutual funds rose 18% (deposits; +20% and mutual funds +10%).

Attributable profit amounted to EUR 188 million, (+41.0% excluding the exchange rate impact and +27.1% in euros). Commercial revenue increased 30.4% and net operating income 19.3%. The latter's growth was dented by the 61.1% fall in gains on financial transactions, hit by turmoil in the financial markets in the second half of the year which affected Argentina more than other Latin American countries.

The efficiency ratio was 54.8% and the recurrence ratio 88.5%. The NPL ratio stood at 1.24% and coverage was 236%.

Puerto Rico

Santander Puerto Rico is one of the island's largest financial institutions. It has 137 branches, 506,000 customers and market shares of 11.5% in loans, 12.4% in deposits and 23.3% in mutual funds. Since February 28, 2006 the figures incorporate Island Finance.

The economy was in recession, affecting both the pace of banking business, which slowed down, and profitability, under pressure from lower activity and the rise in risk premiums. In this environment, the Group continued to focus on developing business with individual customers and companies. Lending rose 4% and deposits plus mutual funds 5%.

Attributable profit was EUR 1 million (EUR 26 million in 2006), due to higher net loan-loss provisions and, in the fourth quarter of 2007, impairment of the investment in Island Finance, as net operating income rose 20.7%.

The efficiency ratio was 64.6% and the recurrence ratio 37.5%. The NPL ratio was 3.17% and coverage 102%.

Venezuela

Banco de Venezuela is one of the country's largest banks, with market shares of 12.2% in loans and 11.3% in deposits. It has 283 branches and 3.0 million customers (+500,000).

In 2007 the economy grew strongly (8.4%), propelled by high oil prices. Strong domestic demand, however, led to a spurt in inflation (23%).

The focus in 2007 was on boosting recurrent revenues, through growth in lending to individuals, transactional deposits and fee-generating services. As a result of this strategy, lending grew 56% (stronger in the consumer credits "Crediauto" and "Credinómina" and to SMEs).

Bank savings rose 8% (+5% in demand deposits and higher in time deposits).

Attributable profit was EUR 179 million, 33.8% more excluding the exchange-rate impact (+22.6% in euros). This increase, lower than the pace of business growth, was impacted by higher loan-loss provisions and the effect of some regulatory measures that came into force in 2007.

The efficiency ratio was 40.2% and the recurrence ratio 64.0%. ROE was 44.0%, the NPL ratio stood at 0.98% and coverage was 371%.

Colombia

The Group's market shares in Colombia are 2.8% in loans and 2.5% in deposits plus mutual funds, and we have 74 branches.

Against a positive environment in terms of economic and financial stability, the Group focused on developing its franchise and on selective business growth, particularly in retail segments. Lending to individual customers and SMEs rose 60% (gain of 74 b.p. in the market share of mortgages and 39 b.p. in consumer loans), while deposits and mutual funds rose 4%.

Attributable profit was EUR 15 million, 39.3% lower than in 2006 excluding the exchange-rate impact. This was because net operating income surged 234.2%, but was not reflected in the bottom line because of the comparison impact caused by extraordinary results generated in 2006. The NPL ratio was 1.21% and coverage 217%.

Uruguay

The Group has 19 branches in Uruguay and 115,000 customers. Attributable profit was EUR 23 million.

SANTANDER PRIVATE BANKING

Attributable profit was 27.9% higher at $223 million, thanks to the 31.9% rise in gross operating income which absorbed the strong investments made. The efficiency ratio remained at around 40% and net operating income was 28.9% higher.

Managed assets amounted to $42,000 million, 28% more than in 2006 and largely due to the integration of the portfolio of customers acquired from Bank of America. As part of this operation, five new offices were opened. Other management priorities were the continued strengthening of the business model to adapt it to clients' needs with a high and consistent quality of service.

FINANCIAL MANAGEMENT AND EQUITY STAKES

Million euros	2007	2006	Variation Amount	Variation (%)
Income statement				
Net interest income (w/o dividends)	(1,771)	(1,269)	(502)	39.5
Dividends	183	162	21	12.8
Net interest income	**(1,588)**	**(1,106)**	**(481)**	**43.5**
Income from companies accounted by equity method	427	411	16	3.8
Net fees	30	(11)	41	—
Insurance activity	—	(4)	4	(100.0)
Commercial revenue	**(1,131)**	**(711)**	**(420)**	**59.2**
Gains (losses) on financial transactions	1,217	414	803	194.0
Gross operating income	**86**	**(297)**	**382**	**—**
Income from non-financial services (net) and other operating income	15	(33)	47	—
Operating expenses	(765)	(578)	(187)	32.3
General administrative expenses	(506)	(364)	(142)	38.9
Personnel	*(236)*	*(204)*	*(32)*	*15.8*
Other administrative expenses	*(270)*	*(160)*	*(110)*	*68.4*
Depreciation and amortisation	(259)	(214)	(45)	20.9
Net operating income	**(665)**	**(908)**	**243**	**(26.8)**
Net loan loss provisions	(14)	91	(105)	—
Other income	(116)	159	(275)	—
Profit before taxes (w/o capital gains)	**(795)**	**(658)**	**(137)**	**20.8**
Tax on profit	624	481	144	29.9
Net profit from ordinary activity	**(171)**	**(177)**	**7**	**(3.9)**
Net profit from discontinued operations	(0)	89	(89)	—
Net consolidated profit (w/o capital gains)	**(171)**	**(88)**	**(82)**	**92.9**
Minority interests	9	90	(81)	(90.0)
Attributable profit to the Group (w/o capital gains)	**(180)**	**(178)**	**(1)**	**0.8**
Net extraordinary capital gains and allowances	934	340	594	174.6
Attributable profit to the Group	**754**	**162**	**592**	**365.8**
Balance sheet				
Trading portfolio (w/o loans)	1,328	2,029	(701)	(34.6)
Available-for-sale financial assets	21,528	7,605	13,923	183.1
Investments	15,604	4,897	10,707	218.6
Goodwill	13,827	14,508	(681)	(4.7)
Liquidity lent to the Group	80,450	67,138	13,312	19.8
Capital assigned to Group areas	32,039	29,120	2,919	10.0
Other assets	55,381	35,539	19,841	55.8
Total assets/liabilities & shareholders' equity	**220,156**	**160,836**	**59,319**	**36.9**
Customer deposits*	1,969	496	1,473	297.1
Marketable debt securities*	82,196	78,321	3,875	4.9
Subordinated debt	22,874	16,247	6,627	40.8
Preferred securities	—	—	—	—
Other liabilities	66,161	30,073	36,088	120.0
Group capital and reserves	46,955	35,699	11,256	31.5
Other customer funds under management	**—**	**—**	**—**	**—**
Mutual funds	—	—	—	—
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**107,040**	**95,064**	**11,976**	**12.6**

(*).- Includes all stock of concept classified in the balance sheet

FINANCIAL MANAGEMENT AND EQUITY STAKES

This area is responsible for a series of centralised activities and acts as the Group's holding entity, managing all capital and reserves and assigning capital and liquidity to the other businesses on the basis of the criteria set out on page 82 of this report. The cost of liquidity, via the transfer of funds to various businesses, is done at the short-term market rate, which was 4.06% in 2007 (2.96% in 2006).

The area made a profit of EUR 754 million including ABN AMRO's net contribution of EUR 60 million and a net figure for extraordinary capital gains and allowances of EUR 934 million.

The EUR 934 million is the result of the capital gains net of tax from the sale of property (EUR 1,076 million), of pensions business in Latin America (EUR 622 million) and 1.79% of Intesa Sanpaolo (EUR 566 million), and extraordinary allowances of EUR 737 million due to the valuation adjustment of Sovereign, EUR 242 million to special allowances for retirement plans and EUR 351 million to the writedown of intangible assets (generated in the purchase of customers in Brazil).

ABN AMRO's incorporation to the Group's financial statements had the following effects: revenue of EUR 141 million, recorded in income from the equity method, and financing costs of EUR 121 million, recorded in net interest income which, net of tax, was EUR 81 million, making the total net contribution, EUR 60 million.

Excluding capital gains and ABN AMRO's net contribution, this area, ordinary profit as usual, made a loss of EUR 239 million (EUR 178 million in 2006). The comments from now onwards are based on excluding both these factors.

Gross operating income was EUR 65 million positive (EUR 297 million loss in 2006), largely due to the various positive and negative net impacts.

The main positive impact was on trading gains which increased EUR 803 million, to EUR 1,217 million (EUR 414 million in 2006). This increase was basically due to the positive effect of the euro/dollar and euro/sterling position (which covers the negative impact of the depreciation of the respective currencies on the results in Latin America and the UK), and the larger contribution of the portfolios of interest rate risk hedging, which in 2006 registered losses because of the writedowns, and which in 2007 offered a slightly positive contribution.

The negative effects were: the impact on net interest income that the rise in interest rates had on the cost of financing, the higher cost from the larger volume of securitizations and lower profits by the equity accounted method from Cepsa (part of this decline was offset in minority interests).

Operating expenses were EUR 187 million higher (+32.3%), due to the greater expenses incurred by the development of the single brand and those associated with sponsorship and Santander's 150th anniversary, as well as an increase in the amortisation due to intangibles (+EUR 45 million).

Net loan-loss provisions were EUR 14 million in 2007 (release of EUR 91 million in 2006), basically because of the release of country-risk provisions for intragroup transactions.

"Other income" covers various provisions and allowances recorded here. It was EUR 116 million negative compared with EUR 159 million positive in 2006.

As regards the area's sub segments:

- Equity Stakes: this sub segment centralises the management of equity stakes in financial and industrial companies.

  The main developments between the two periods were: the sale of 4.8% of Sanpaolo IMI at the end of 2006 and of 1.79% of Intesa Sanpaolo in the second quarter of 2007 (the latter generating a capital gain of EUR 566 million).

  At the end of 2007, the unrealised capital gains in listed financial and industrial stakes were estimated at around EUR 4,000 million.

- Financial Management: this area carries out the global functions of managing the structural exchange rate position, the structural interest rate risk of the parent bank and the liquidity risk. The latter is conducted through issues and securitisations. It also manages shareholders' equity.

  The cost of hedging the capital of the Group's non-euro denominated investments is another activity. The current hedging policy is aimed at protecting the capital invested and the year's results through various instruments that are deemed to be the most appropriate for their management. The main units with exchange rate risk continued to be hedged in 2006 and 2007.

  This sub segment also manages shareholders' equity, the allocation of capital to each business unit, and the cost of financing investments. This means that the contribution to earnings is usually negative.

2. SECONDARY SEGMENTS OR BY BUSINESS

RETAIL BANKING

The Group's Retail Banking generated 86% of the operating areas' total gross operating income in 2007 and 80% of profit before tax (EUR 9,339 million, +26.5%). This figure excludes the extraordinary capital gains from the sale in 2007 of a stake in Banco Portugués do Investimento and in 2006 from Urbis. Continental Europe, Abbey and Latin America all performed well.

Gross operating income was 20.5% higher at EUR 23,293 million. Net interest income increased 24.6%, spurred by greater business and better customer spreads, while net fees rose 11.8%.

Operating expenses grew 8.1%, well below the rise in gross operating income. As a result, the efficiency ratio for the whole of Retail Banking improved by 4.9 p.p. to 43.0%.

Net operating income increased 32.1% to EUR 13,026 million.

Net loan-loss provisions were 50.6% higher than in 2006 because of the greater volume of lending and the entry into more profitable segments and products, but with a greater risk premium, as well as the incorporation of Drive which, given its business structure, has a relatively larger impact on this item than on others.

Customer lending rose 8% and customer deposits 7% in the year, the latter impacted by the issuance of "Valores Santander" which are recorded as shareholders' equity.

- **Retail Banking in Continental Europe** continued the growth trends in volume and earnings of the last two years. Net interest income rose 26.9%, net operating income 25.7% and profit before tax 20.1%. All units (Santander Branch Network, Banesto Retail, Santander Consumer Finance, Portugal Retail and Banif) grew at a brisk pace.

  Excluding the results of Drive, incorporated to the Group in 2007, profit before tax was 15.0% higher.

  As in 2006, the drivers in 2007 continued to be: business growth, with lending up 15% and deposits 7% (affected by

INCOME STATEMENT AND BUSINESS VOLUMES SECONDARY SEGMENTS

Million euros	Operating business areas 2007	(%)	Retail Banking 2007	(%)	Global Wholesale Banking 2007	(%)	Asset Management and Insurance 2007	(%)
Income statement								
Net interest income	**16,883**	**24.3**	**15,339**	**24.6**	**1,492**	**20.2**	**52**	**49.6**
Income from companies accounted by equity method	15	(7.0)	15	(7.0)	—	—	—	—
Net fees	8,010	13.9	6,668	11.8	919	42.2	423	0.1
Insurance activity	319	24.4	0	—	—	—	319	24.3
Commercial revenue	**25,227**	**20.7**	**22,022**	**20.4**	**2,411**	**27.8**	**795**	**11.2**
Gains (losses) on financial transactions	1,782	2.7	1,272	22.2	491	(28.9)	19	349.8
Gross operating income	**27,009**	**19.4**	**23,293**	**20.5**	**2,902**	**12.6**	**814**	**13.2**
Income from non-financial services (net) and other operating income	(60)	59.8	(29)	647.8	(29)	(12.0)	(1)	551.4
Operating expenses	(11,442)	9.3	(10,238)	8.1	(944)	23.1	(260)	12.4
General administrative expenses	(10,433)	9.4	(9,339)	8.3	(853)	22.2	(241)	12.3
Personnel	*(6,274)*	*9.6*	*(5,603)*	*8.4*	*(543)*	*21.6*	*(128)*	*17.6*
Other administrative expenses	*(4,160)*	*9.1*	*(3,736)*	*8.2*	*(310)*	*23.2*	*(113)*	*6.8*
Depreciation and amortisation	(1,009)	8.2	(899)	6.1	(91)	33.0	(19)	14.3
Net operating income	**15,507**	**27.9**	**13,026**	**32.1**	**1,928**	**8.5**	**553**	**13.5**
Net loan loss provisions	(3,456)	35.1	(3,390)	50.6	(65)	(78.8)	(0)	—
Other income	(346)	20.2	(296)	30.3	(33)	(25.4)	(16)	3.9
Profit before taxes (w/o capital gains)	**11,705**	**26.1**	**9,339**	**26.5**	**1,830**	**28.4**	**537**	**13.7**
Business volumes								
Total assets	863,917	3.1	678,867	1.5	166,979	9.1	18,071	15.3
Customer loans	563,558	7.9	510,561	7.7	52,975	10.5	22	(87.1)
Customer deposits	353,735	7.0	308,653	7.0	45,082	6.8	1	—

RETAIL BANKING. RESULTS

Million euros	Gross operating income 2007	Var. (%)	Net operating income 2007	Var. (%)	Profit before taxes 2007	Var. (%)
Continental Europe*	**10,906**	**19.4**	**6,552**	**25.7**	**5,074**	**20.1**
o/w: Spain*	7,757	14.2	4,572	19.2	3,867	20.6
Portugal*	1,061	8.8	556	16.5	515	20.3
United Kingdom (Abbey)	**3,771**	**7.2**	**1,915**	**18.2**	**1,622**	**31.6**
Latin America	**8,616**	**29.0**	**4,559**	**50.5**	**2,643**	**37.2**
o/w: Brazil	3,486	37.1	1,840	68.6	797	89.3
Mexico	2,151	28.0	1,275	58.4	802	31.9
Chile	1,248	15.6	697	21.4	556	22.5
Total Retail Banking*	**23,293**	**20.5**	**13,026**	**32.1**	**9,339**	**26.5**

(*).- w/o extraordinary capital gains and allowances

the issue of "Valores Santander"), good management of prices in an environment of rising interest rates and selective control of expenses. The efficiency ratio improved from 42.2% in 2006 to 39.3% in 2007.

- Net operating income generated by **Abbey's Retail Banking** was 18.2% higher, partly thanks to the 7.2% rise in gross operating income and containment of operating expenses (-1.7%). The combined effect was an improvement in the efficiency ratio of 4.7 p.p. to 49.9% As a result of lower net loan-loss provisions (-19.9%), profit before tax was 31.6% higher (+32.1% in sterling).

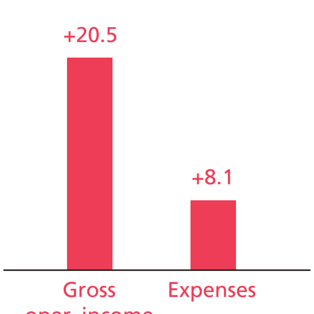
- The continued strong earnings performance of **Retail Banking in Latin America** was due to strong growth in customer business, the good performance of net interest income and net fees, and control of expenses compatible with business development. Commercial revenue increased 26.4% in euro terms, net operating income 50.5% and profit before tax 37.2%. The efficiency ratio was 7.6 p.p. better at 44.7%. The respective increases, excluding the exchange rate impact, were 32.0%, 57.3% and 45.6%.

The growth strategy was based on increasing the number of individual customers and SMEs, developing anchor products, such as payroll and credit cards, and focusing on more profitable products in all countries.

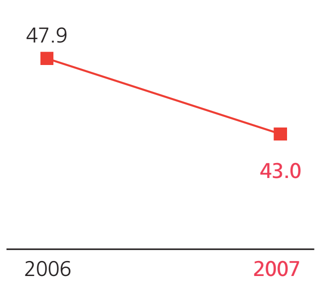
The performance of the three main countries (Brazil, Mexico and Chile) was very good. Their commercial revenue (in euros) grew 27.0%, a pace which reached 54.3% in net operating income and 45.3% in profit before tax. Excluding the exchange rate impact, the growth rates were 31.1%, 59.6% and 52.9% respectively.

RETAIL BANKING

GROSS OPERATING INCOME AND EXPENSES
% variation 2007 / 2006

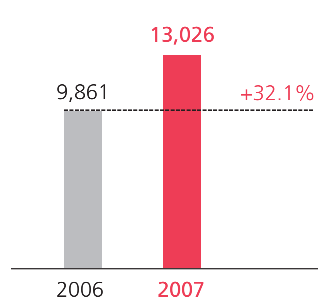


EFFICIENCY RATIO
%

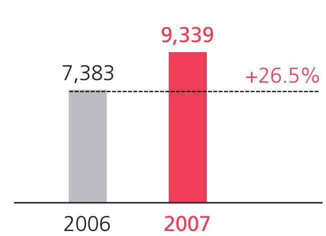


RETAIL BANKING

NET OPERATING INCOME
Million euros



PROFIT BEFORE TAXES
Million euros



Note: w/o extraordinary capital gains and allowances.

GLOBAL WHOLESALE BANKING

This segment, managed by Santander Global Banking & Markets, contributed 11% of operating areas total gross operating income and 16% of profit before tax (EUR 1,830 million, 28.4% more than in 2006).

These good results were due to three factors:

- First, the strong growth in customer revenues (+24%), which accounted for more than 77% of total revenues, as a result of the increasing contribution of greater value-added businesses (markets, investment banking and cash management). Of note was the 42.2% year-on-year rise in fees, driven by corporate finance activities, structured financing and trading of securities.

  The increased revenues were the result of the investments made to strengthen the global management capacities of the product and business areas, applied to markets very active in corporate operations, particularly in the first half of the year, as well as extending Santander Global Connect.

- Second, the small contribution of the results of trading activity in the second half of the year, affected by instability in markets, compared with the first half's excellent results. These revenues for the whole year were lower than in 2006.

- Third, lower generic provisions in 2007 compared with large allocations in 2006, generated by certain operations.

These factors were reflected in the income statement. Gross operating income grew 12.6%, backed by commercial revenue which increased 27.8% as gains on financial transactions were 28.9% lower because of the lower contribution from trading.

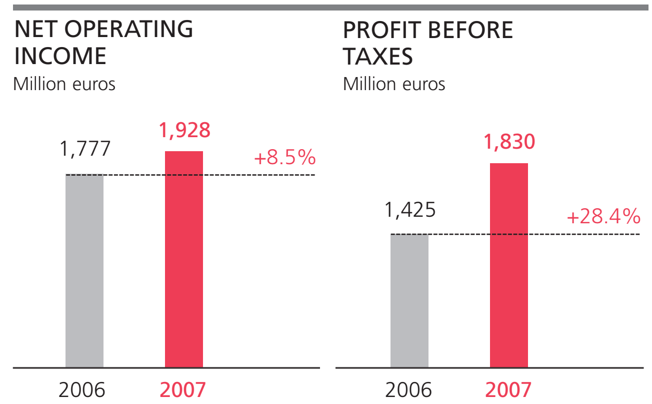
Operating expenses (+23.1%) continued to reflect the investment made in developing markets and global transactional banking. The efficiency ratio was 32.5%.

Net operating income was 8.5% higher at EUR 1,928 million and profit before tax increased at a much faster pace (+28.4%) because of lower needs for generic provisions.

Santander Global Banking & Markets combined this solid contribution to the Group in 2007 with an intensified global business focus, which, structured in a double (customer-product) vector, strengthens the base for future growth and widens its capacity to extract synergies from the Group's commercial positioning.

In the customer vector, the Global Customer Relationship Model, which manages the main corporate and institutional customers, continued. The incorporation since the beginning of 2007 of new customers (121, mostly from Latin America), the restructuring of the coverage area and the development of specialised units, as well as stronger links with product areas, particularly global investment banking in a period of strong corporate activity, pushed up the Model's revenues to EUR 1.243 million, 27% more than in 2006 on a like-for-like basis. All countries registered growth.

GLOBAL WHOLESALE BANKING



Of note was the better composition of revenues, with a greater share in the Model of higher value-added activities and, consequently, a lower one of basic financing (from 18% in 2006 to 16%).

The product vector's three areas also registered significant progress in line with their strategic priorities:

1. Global Transaction Banking

In this area, which comprises various corporate products (global cash management, trade finance, basic finance and global securities – custody), the Group continued to strive to attain leadership in its natural markets. Gross operating income grew 16% for the whole year, a faster year-on-year pace than in previous quarters.

Of note by products was cash management, which embraces the families of transactional products (payments to and by suppliers, payroll), financing (discounting, advances, factoring, confirming) and funds. Its gross operating income, which accounted for more than one-third of the total, increased 20% year-on-year, spurred by Brazil and Argentina (+38% and +46%, respectively).

2. Global Investment Banking.

This area covers corporate finance (mergers and acquisitions, equity capital markets), structured finance (project finance, acquisition finance and syndicated loans) and asset and capital structuring. Its objective is to consolidate our leadership in Spain and Portugal and in Latin America and continue to accompany our clients in other markets. All these businesses performed well in 2007: revenues where 66% higher.

In Corporate Finance, Santander participated in the intermediation and advisory services for 150 operations, 53% of them outside of Spain. Total revenues more than doubled, with a good contribution from all activities.

Of note in Mergers and Acquisitions were the following operations:

- In Europe, the acquisition of stakes in Endesa and Repsol by Acciona and Sacyr-Vallehermoso, respectively the sale of Ferrovial Inmobiliaria, the sale by Repsol of 10% of CLH, the purchase of Endemol by the consortium including Telecinco and other takeover bids of Acciona/Enel for Endesa, Nefinsa for Uralita and Imperial Tobacco for Altadis.

- In Latin America, of note was the privatisation of Ecogas, Colombia's largest privatisation, in which Santander advised the Colombian government; the sale in Costa Rica of assets of Grupo Pujol-Martí; the acquisition of Gas de Atacama by Southern Cross in Chile; the sale of assets by Petribú in Brazil; the purchase of INCO by CVRD; the acquisition by grupo Gerdau of Mexico's Siderurgia Tutitlan; the takeover bid of Arcelor for its subsidiary Arcelor Brasil and in Mexico advising the consortium of ICA/Goldman Sachs on the privatisation of FARAC.

In Equity Capital Markets, there was a great deal of activity in primary markets in Europe and Latin America, particularly in Brazil. Of note in Europe was Santander's participation in the listing in Spain of Iberdrola Renovables, Fluidra, Laboratorios Almirall, Criteria and Realia and the capital increases of La Seda, Fersa and Zeltia; and in Portugal the placement of REN. In Latin America, we participated in the capital increase of Grupo ICA in Mexico and the listings in Brazil of Dufry South América, MPX Energía and Providencia, and the capital increases of Hering and Paranapanema.

In Structured Finance, all products and geographic areas performed well. Of note among the 106 operations were:

- In Europe, financing Enel's takeover bid for shares of Endesa (bookrunner, as well as leading the issue and underwriting the guarantees before the National Securities Market Commission), Imperial Tobacco's takeover of Altadis (mandated lead arranger, as well as participating in the issue and underwriting of the guarantee), Iberdrola's acquisition of Scottish Power, FCC's purchase of Waste Recycling Group, Vodafone's purchase of Hutchinson Essar, the sale of Ferrovial Inmobiliaria, the acquisition of Caprabo by Eroski (structuring and underwriting the whole operation) and the acquisition of Avanza.

  We also led various financings such as those of FCC and Abengoa (bookrunner). Other noteworthy operations were: mandated lead arranger (MLA) in the financing of Porsche's acquisition of a stake in Volkswagen, MLA in the revolving credit lines of PSA, Casino, Telecom Italia, Volkswagen, Merck and Holcim; and sub-underwriter in the financing of Rio Tinto's purchase of Canada's Alcan and in the financing of Continental's purchase of VDO.

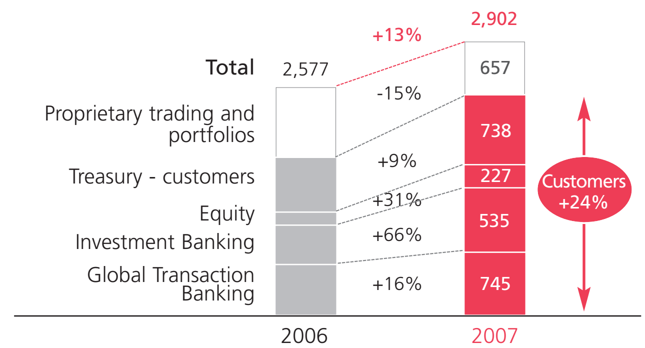
- In Latin America, Santander Mexico was the financial advisor and underwriter of the FARAC project, the largest privatisation of roads in Latin America in recent years (600 km for more than $4 billion). It also acted as adviser and financer of the consortium that won the tender to build a hydroelectric plant in Brazil, and in Colombia's privatisation of Ecogas.

  Several prizes were awarded in 2007 including one for Best Bank in Project Finance in Latin America and Best Deal of the Year (FARAC).

GLOBAL WHOLESALE BANKING

GROSS OPERATING INCOME BREAKDOWN

Million euros



In Asset & Capital Structuring, focused on innovation and the design of structures for financing assets and optimization of capital, the Group strengthened its international position with specialised units in Brazil, Mexico and Chile. Of note was the structuring of the leasing of two LNG ships for Gas Natural and Repsol (EUR 500 million), and completion of the first operations to acquire carbon emission rights in Latin America associated with the development and financing of clean energy projects.

3. Markets

This area, which covers the Group's treasury activities and distribution of equities, made progress in its two objectives: on the one hand, leverage the Group's commercial networks to distribute risk management solutions for companies and individuals; and, on the other, develop additional product capacities in order to expand the franchise with corporate and institutional clients in core markets,

This produced sustained growth in revenues generated by customers (+14% including equity business), which partly offset the weak performance of trading activity in the second half of the year. For 2007 as a whole, the revenue of the markets area was 5% lower than in 2006.

The focus in global treasury on business with customers, whose revenues (+9%) already account for two-thirds of the total, produced a good relative performance, as it limited the impact of instability in the financial markets and enabled opportunities arising from this situation to be taken advantage of.

The two main revenue generators are Santander Global Markets and Santander Global Connect. The first one, for corporate and institutional customers, leveraged its performance on increasing participation in operations with wholesale customers and more value-added solutions together with the synergies of crossed transactions between treasuries in Europe and Latin America. The second, for retail customers in cooperation with the retail banks of various countries, increased its gross revenues (including those recorded by the networks) as a result of extending its products to other Group treasuries and the strength of Spain's market.

Of note in Spain and Portugal was the good performance of Santander Global Markets whose revenue from sales to clients registered high double digit growth, backed by participation in major operations with wholesale clients. Santander Global Connect's contribution remained solid, with stronger growth in Portugal. The increased volatility in the second half, however, meant a less good performance in management of flows and books associated with customer activity.

In Latin America, where Santander is the region's benchmark in treasury, activity was affected by the impact on trading positions of tensions in the financial markets. This hid the good performance of customer revenues (+21% in euros). Extending Santander Global Connect to new markets, combined with an increasing participation in wholesale operations, were the main drivers behind this growth.

Brazil, the main source of our revenues in Latin America, comfortably met its targets in all areas. Of note was stronger business with corporate and institutional customers, which resulted in customer revenues rising 35% in euros, and the correct positioning of proprietary trading taking advantage of the market's performance to partially offset the tensions of the second half of the year.

Mexico's customer revenues rose 32% in euros and were the main source as the contribution of trading was weak. These revenues were mainly generated by the institutional segment and growth in sales of structured products to retail customers, particularly SMEs, companies and private banking, via Santander Global Connect.

In Chile, Santander Global Connect was also one of the main drivers in treasury revenues, both in volume (gross revenues were triple those of its first full year and made a significant contribution to the total) and in quality terms (emphasis on higher value-added products).

Lastly, revenues from equity distribution remained strong (+31%), due to our leadership in brokerage business in Spain (market share of 13.9% including Banesto Bolsa) and participation in significant operations, already mentioned, in primary and secondary markets.

RANKINGS 2007

	Activity	Concept	Country / Region	Source
Nº 1	Project Finance Loans	MLA	Latin America	Dealogic
Nº 2	Trade Finance Loans	MLA	Latin America	Dealogic
Nº 5	Project Finance Loans	MLA	Global	Dealogic
Nº 2	Interest Rate Products	Volume	Spain	Risk Spain Awards
Nº 2	Currency Products	Volume	Spain	Risk Spain Awards
Award	Equity Research		Spain and Portugal	Thomson Extel Surveys
Award	Equity Research		Spain and Portugal	Institutional Investors
Award	Exchange Trade Derivatives		Spain	MEFF (Trading and Clearing)
Award	Bank of the Year in Project Finance		Latin America	PFI Awards
Award	Santander Best Arrenger of Spanish Loans		Spain	Euroweek Awards
Award	Best at Treasury Management in Latin America		Latin America	Euromoney

MLA: Mandated Lead Arranger

ASSET MANAGEMENT AND INSURANCE

This segment accounted for 3% of operating areas total gross operating income and 4% of profit before tax (EUR 537 million, +13.7%).

Gross operating income rose 13.2%, mainly driven by insurance activity (+24.3%) as fee income was virtually unchanged. The main reasons for the latter were the slowdown in mutual funds business in Spain and the strong impact of exchange rates on Latin America's gross operating income (in Chile and Mexico growth was between 8 and 12 p.p lower when converted into euros). Operating expenses, which reflect the investment in building up these global businesses, increased 12.4%, below the growth in gross operating income. Net operating income rose 13.5% and the efficiency ratio improved slightly to 32.0%.

Taking a broader look, based on revenues generated for the Group by asset management and insurance, including those recorded by the distribution networks, gross operating income amounted to EUR 3,643 million, 13% more than in 2006.

These figures, like the others in this section, do not include the contribution of pensions business in Latin America sold in 2007. Its results were discontinued in both years. The sale of these businesses in Colombia, Uruguay, Mexico, Chile and Argentina, the result of a strategic review, generated net capital gains of EUR 622 million (recorded in Financial Management and Equity Stakes).

Asset Management

Santander Asset Management's global business generated EUR 1,891 million of fees in 2007 (+5.9%). Profit before tax, after deducting operating expenses and fees paid to the networks, was 8.1% more at EUR 243 million. Total managed assets amounted to EUR 130,000 million after excluding the assets of the pension units that were sold.

Business was conducted in the second half of the year in an environment of strong preference for on-balance sheet funds and a widespread lack of confidence in the markets, particularly in mortgage-backed structured products.

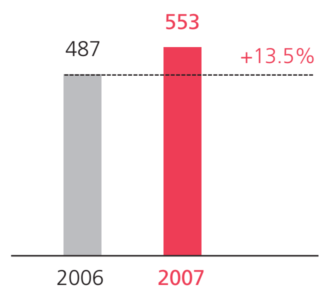
The credit quality of Santander Asset Management's portfolios suffered no problems of solvency, not even at moments of liquidity squeeze.

The strategy continued to focus on developing platforms for transnational investment, improving the product mix, creating innovative products and optimising efficiency in order to improve operating margins.

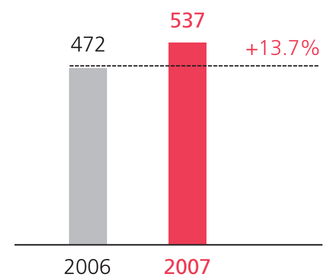
Of note was the streamlining and concentration of UK structures, with the creation of a single fund management institution under the brand of Santander Asset Management UK, enabling it to assume direct management of UK mutual funds and improve their return. In its first year we met our commercial and business targets and are laying the foundations for a significant improvement in operational efficiency.

ASSET MANAGEMENT AND INSURANCE

NET OPERATING INCOME
Million euros



PROFIT BEFORE TAXES
Million euros



In an environment of strong growth in Latin America and a downturn in Europe, we continued to streamline our range of products and gradually use the platform in Luxembourg to unify products that can be distributed in the two continents.

In the fourth quarter, the Group sold its pension fund management institutions in Latin America. This was because of the growing pressure on margins in this business, coupled with the need for higher investment, which reduced the possibility of attaining synergies and improving their contribution to the Group.

All these movements and strict management of expenses enabled Santander Asset Management to absorb the investment in developing its global platform and it ended the year with the sector's best efficiency levels at the international level: operating expenses only represented 0.13% of assets under management.

The performance of business in the two management units was as follows:

Traditional management of assets

This covers mutual funds and pension plans, but not alternative investment funds. Assets stood at EUR 120,000 million (92% of the total assets under management).

In Spain, assets under traditional management in mutual funds and investment companies amounted to EUR 55,000 million, consolidating us as the sector's leader with a market share of 22% according to Inverco.

Their evolution in 2007 was determined by the financial markets' greater liquidity needs which gave rise to very aggressive offers to capture bank deposits. This tougher competition for deposits, coupled with putting them on the same tax level as mutual funds, reduced the relative attractiveness of funds for savers.

In addition, and affecting the Santander Branch Network, the launch of "Valores Santander" reduced the attractiveness of mutual funds as investors were lured by the new product.

Growth in pension plans in Spain was lower at both Group and market level because of tax changes to the year's contributions. At the end of 2007, Santander Asset Management managed EUR 10,500 million (+5%), 87% of which were individual plans.

In Portugal, management of mutual and pension funds continued the policy of improving the mix of products, which pushed up the average commission further. Managed assets amounted to EUR 7,200 million.

The UK benefited from the restructuring within the global model and Abbey's drive in structured products. Managed assets amounted to more than EUR 10,000 million (+34% in sterling).

Latin America's mutual funds under management rose 29%, excluding the exchange-rate impact, to EUR 36,000 million.

Brazil, which accounts for 57% of the region's assets, ended 2007 with almost EUR 21,000 million under management (+36% in local currency). Mexico, where we are the second largest in this business, and Chile both did well. Managed assets in both markets rose 24% in local currency, and there were significant improvements in average commissions thanks to the better product mix.

Following the sale of the pension units in Latin America that took obligatory contributions, Santander Asset Management will continue to develop activity but focus on voluntary business. This will be backed by distribution networks and fund management institutions.

Alternative management

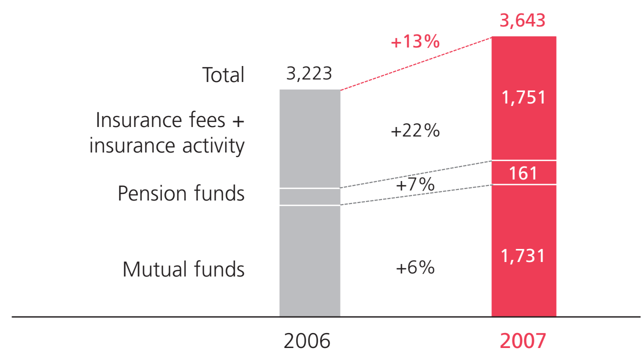
Santander Asset Management also strengthened its presence in various segments of alternative management, where it manages more than EUR 11,000 million. Of note were:

- In funds of hedge funds, Optimal performed well in international business, both in terms of the volume managed (close to EUR 6,000 million, +16% on a like-for-like basis and excluding the exchange-rate impact) and the return.

  In Spain, Optimal Alternative Investment launched its first funds, albeit still with small volumes.

ASSET MANAGEMENT AND INSURANCE

TOTAL GROUP REVENUES
Million euros



- In real estate funds and investment companies, Santander Asset Management also had a good year, ending it with EUR 4,700 million under management and leaders in Spain (market share of 47% according to Inverco). New measures were taken to broaden the range of products (basically aimed at European real estate markets) and foster the creation and management of real estate investment companies for private banking customers in Spain.

- In venture capital funds, we launched a new infrastructure fund. Santander Private Equity manages EUR 317 million.

Insurance

The global business of Santander Insurance generated gross operating income (fees and revenues from insurance) of EUR 1,751 million (+21.8%), 6.5% of the operating areas' total. Its total contribution to the Group's results, the sum of profit before tax of the insurance companies and brokers (EUR 294 million) and fees received by networks, was EUR 1,674 million (+21.5%).

Santander Insurance made further progress in installing the global business model in all the Group's insurance units.

Of note was the launch of a new commercial structure than integrates the various geographic areas and distribution channels.

Its objective is to achieve global management of business at the level of product development and linkage (lending products, structured savings) as well as developing basic capacities (marketing-CRM, retaining customers, transfers and local application of best practices in processes and distribution channels).

A good example of its first results was the strong drive by the telemarketing channel which at the end of 2007 had sold more than 1.6 million policies in all our markets, making it the leading channel in Brazil by number of policies (60% of new ones) and making our insurer in Mexico the leader in this channel.

A key role here was played by the transfer of best practices, which resulted in significant improvements in the time to market of channels and products. It only took two months to start up telemarketing in Brazil, taking advantage of the experience in Mexico (12 months). A similar improvement in time to market occurred in Portugal with the launch of savings products compared to Spain.

All these developments aided the performance of the various units in 2007. These, in turn, helped to strengthen the competitiveness of the Group's commercial networks, generating strong rises in revenues that absorbed the higher costs resulting from the creation of the global insurance platform. Continental Europe contributed 57% of the total continuation and all units grew briskly.

Spain's contribution was 24.6% higher at EUR 465 million, due to the broadening and improvement in the range of products and intensive marketing. Of note was the good performance of new products, particularly insurance savings products at the Santander Branch Network, and extending coverage of death, incapacity and unemployment to products that do not include it such as direct deposit of payroll cheques and direct debits. Premium income rose strongly (to around EUR 2,900 million).

In Portugal insurance linked to loans and capitalisation-savings products grew strongly. The total contribution to the Group was 32.8% higher at EUR 102 million.

Santander Consumer Finance kept up a strong pace of growth in credit-linked insurance. Its contribution increased 21.0% to EUR 381 million.

The UK's total contribution was EUR 286 million, virtually unchanged in sterling. This was due to the slower pace of business in the last part of 2007 and the cancellation of the distribution agreement with intermediaries, in contrast to the positive impact of new life-protection products sold via Abbey's branches.

Latin America generated 26% of the area's total contribution, that is EUR 441 million, offering the fastest growth (+40.8% without the exchange-rate impact). The drive in marketing products via banking networks and other channels such as telemarketing, together with development of streamlined and transparent life-risk products, increased the results of the region's five countries by more than 30%. Of note was Mexico, which doubled its contribution, although still far from its potential, and Brazil which contributed almost half the region's total. Its solid growth was based on the sale of more products and development of the telephone channel.

ASSET MANAGEMENT AND INSURANCE. RESULTS

	Gross operating income		Net operating income		Profit before taxes	
Million euros	**2007**	Var. (%)	**2007**	Var. (%)	**2007**	Var. (%)
Mutual funds	385	2.7	222	1.5	227	4.1
Pension funds	25	30.0	15	50.9	15	152.8
Insurance	404	24.4	316	22.2	294	18.7
Total Asset Management and Insurance	**814**	**13.2**	**553**	**13.5**	**537**	**13.7**

RISK MANAGEMENT

RISK MANAGEMENT

INTRODUCTION:
CORPORATE PRINCIPLES OF RISK MANAGEMENT

The vital importance of appropriate risk management for financial institutions was highlighted in 2007.

For Grupo Santander, quality management of risk is one of its hallmarks and thus a priority in its activity. Throughout its 150 years, Santander has combined prudence in risk management with use of advanced risk management techniques, which has proven to be decisive in generating recurrent and balanced earnings and, in short, the creation of shareholder value.

The importance attached to the quality of risk is a hallmark of Santander's corporate culture and style of management. The markets clearly perceive this and see it as a clear competitive advantage.

The turmoil affecting financial markets since July 2007 has put the effectiveness of Santander's risk management policies to the test. Applying these policies has resulted in a very limited exposure to the type of instruments, exposure and operations that are the most affected by the ongoing financial crisis. Grupo Santander has zero risk in the subprime segment of mortgages and little activity in structured products. Its exposure to hedge funds, asset-backed securities, monoliners, conduits, etc is also very limited. In conclusion, Santander's risk management policy has meant there has been no negative impact on the Group's results related to this type of risks.

In this complicated environment, the Group's management of structural liquidity has been conducted with the utmost care. In the same way, the turmoil and the increasing complexity of financial instruments make it necessary to continuously strengthen the efforts regarding analysis and monitoring control of operations in the financial markets, thereby enhancing the demanding principles of risk which the Group has been regularly applying.

Santander's risk management 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 Risks Committee, reports directly to the CEO and to the Board.

- Vocation of support for business, without eroding the principle of independence, in achieving commercial goals by maintaining the quality of risk. Consequently, the organisational structure is adapted to the commercial structure and business and risk managers cooperate.

- Collective decisions (including at the branch) which ensures different opinions and do not make results dependent on decisions by individuals.

- Longstanding tradition of using tools for internal rating and scoring, return on risk adjusted capital (RORAC), Value at Risk (VaR), economic capital, analysis of extreme scenarios, etc.

- Global focus, through integral treatment of all risk factors in all business units and using economic capital as the homogeneous metric of the risk assumed and the basis for measuring management.

- Desire to maintain medium-low risk profiles as a target, accentuating their low volatility and predictable nature through:

  - the search for a high degree of diversification of risks, limiting concentrations in customers, groups, sectors, products and geographic areas;

  - maintaining a low degree of complexity in markets activity;

  - continuous tracking of risks to prevent sufficiently far ahead possible deterioration of portfolios.

Risk management and control at Santander is structured around the following phases:

- Risk policies are set that reflect Santander's risk management principles.

- Risks are identified by constantly reviewing and monitoring exposures, assessing new products and analysing particular operations.

- Risks are measured using methodologies and models that have been widely tested and proven.

- The Group's appetite for risks is quantified by setting global and specific limits for different types of risks, products, customers, groups, sectors and geographic areas.

- A complete series of reports is drawn up and distributed which are reviewed on a daily basis by those responsible for the management of Santander at all levels.

- A system of risks control is executed which verifies every day the extent to which Santander's risks profile is in line with the risk policies approved and the limits established.

The Group has been using a series of techniques and tools for many years, which are mentioned in other parts of this report. Of note among them, given that Santander implemented them ahead of time and for being in line with BIS II, are:

- Internal qualitative and quantitative ratings and scorings; with valuation of the different components which, by client and facility, enable the probabilities of failure to be estimated and then the expected loss on the basis of historical data.

- Economic capital, as the homogeneous metric of the risk assumed and the basis for measuring management.

- Return on Risk Adjusted Capital (RORAC), for pricing operations (bottom up) and analysis of portfolios and units (top down).

- Value at Risk (VaR) as an element of control and for setting the market risk limits of the different trading portfolios.

- Stress testing to complement the analysis of market and credit risk, in order to assess the impact of alternative scenarios, including on provisions and capital.

For these reasons, Santander fully identifies with BIS II, as it recognises from the regulatory sphere the banking industry's most advanced practices which we have been anticipating. The entry into effect of the Capital Accord will enable Santander, yet again, to reflect its strength in this field and enable the Advanced Internal Ratings Based (AIRB) approaches in global management of the Group to be quickly applied.

As the entry into force of the new BIS II regulatory framework was on the horizon, 2007 was characterised by reviews conducted by the Bank of Spain and the Financial Services Authority (FSA) of the AIRB models of Santander, Banesto and Abbey, whose portfolios account for around 70% of the Group's total exposure. The publication by the Bank of Spain of the necessary regulations expected soon will make it possible, as of then, to use these internal models for determining regulatory capital. Given the medium-low risk profile of Santander's businesses, very focused on retail banking (SMEs and individual customers), Bank of Spain authorisation is expected to generate significant capital savings in Pillar 1 which establishes the capital requirements for covering credit, market and operational risks. The global savings which will materialise for Santander from installing Basel II will depend on the result of the Capital Self-assessment Proposal (which develops Pillar II) in which the impact of the risks considered in Pillar II is taken into account as well as the benefits related to diversification by risks, businesses and geographic areas.

Grupo Santander will continue to make the necessary efforts in human and technological resources to be able to satisfy the demanding requirements of the new capital agreement in a reasonable period, with a clear commitment to continue dedicating the necessary resources for its continuation in the security of the beneficial results it will bring.

1. CORPORATE GOVERNANCE OF THE RISKS FUNCTION

The main responsibilities of the Board's Risks Committee are:

- Propose to the Board the risk policy for the Group, which must, in particular, identify:

  - The different types of risk (operational, technological, financial, legal and reputational, among others) facing the Entity;

  - The internal information and 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..

- Resolve operations beyond the powers delegated to bodies immediately below, as well as the global limits of pre-classification of economic groups or in relation to exposures by classes of risk

The Board's Risks Committee delegates some of its powers in Risk Committees which are structured by geographic area, business and types of risk. Banesto, which is autonomously managed within Grupo Santander, manages its risks in coordination with the Group's policies as defined in the Executive Committee.

The Committee is headed by Grupo Santander's third Vice-Chairman and has a minimum of four and a maximum of six members of the Board. It usually meets twice a week.

We will now look at the main types of risk: credit, market, operational and reputational.

2. CREDIT RISK

Credit risk is the possibility of losses stemming from the failure of our clients or counterparties to meet their financial obligations with the Group.

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, 2007.

Spain accounts for 50% of the nominal credit risk exposure, similar to the figure in 2006 (+16% in absolute terms). The sharp rise in customer business in Spain (+12% in the balance) was accompanied by a fall in the portfolio of sovereign fixed income. Of particular note in the rest of Europe, which represents more than one-third of the credit exposure, was the presence in UK, via Abbey (22% of the exposure). Overall, Europe accounts for 84% of the credit exposure.

Latin America contributed 15% of the credit exposure, also similar to 2006. Investment-grade countries accounted for more than half of the exposure in the region, while countries with a lower rating only accounted for 5% of the Group's exposure.

GRUPO SANTANDER. GROSS EXPOSURE TO CREDIT RISK

	Outstanding to customers	Commitments to customers	Sovereign fixed income (excluding trading)	Private fixed income (excluding trading)	Out-standing to credit entities	Commit-ments to credit entities	Derivatives and Repos	Total	%	Var, o/ Dec, 06
SPAIN	298,281	56,290	14,460	8,334	24,092	1,008	13,135	415,600	49.6%	15.9%
Parent bank	179,476	38,604	10,895	3,613	18,142	670	9,545	260,945	31.1%	20.6%
Banesto	83,648	11,100	3,002	2,302	2,903	136	3,422	106,514	12.7%	6.4%
Others	35,157	6,586	563	2,419	3,047	201	168	48,141	5.7%	14.4%
Rest of Europe	246,283	20,342	1,021	3,870	3,723	1	10,142	285,382	34.0%	8.8%
Germany	17,195	2,181	100	60	388	0	5	19,931	2.4%	13.6%
Portugal	23,017	6,431	794	290	1,046	1	1,845	33,423	4.0%	1.9%
UK	165,158	6,961	0	3,227	975	0	8,199	185,521	22.0%	2.2%
Others	40,913	4,769	127	293	1,313	0	93	47,508	5.5%	50.6%
Latin America	70,858	22,130	8,330	1,841	16,704	2,001	5,710	127,574	15.2%	9.0%
Brazil	22,653	7,537	2,334	418	9,036	0	2,031	44,010	5.2%	41.8%
Chile	18,291	3,448	704	550	936	1	2,027	25,959	3.1%	12.2%
Mexico	14,134	7,384	4,165	0	3,123	2,000	1,440	32,444	3.8%	-17.1%
Others	15,780	3,761	1,126	872	3,609	0	212	25,361	3.0%	6.0%
Rest of world*	4,967	444	327	1,412	2,954	0	46	10,151	1.2%	30.2%
TOTAL GROUP	620,389	99,206	24,138	15,458	47,473	3,009	23,093	838,708	100%	12.5%
%o/Total	74.0%	11.8%	2.9%	1.8%	5.7%	0.4%	3.5%	100.0%		
%Change, o/ Dec-06	11.9%	10.3%	-4.0%	61.0%	49.9%	75.8%	-13.1%	12.5%		

Data at December 31, 2007, drawn up on the basis of legal company criteria,
Derivatives and repos expressed in equivalent credit risk (ECR),
Balances with customers exclude repos (EUR 28,960 million),
Balances with credit entities (excluding repos and trading) include EUR 27,770 million of deposits in central banks,
* It includes Drive's assets (Santander Consumer Finance), among others.

GRUPO SANTANDER: RISK, NPLS, COVERAGE, PROVISIONS AND COST OF CREDIT

	Credit risk with customers* (million euros)		NPL ratio (%)		Coverage (%)		Spec, prov net of recovered write-offs (million euros)		Credit cost (% of risk)	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Continental Europe	358,933	319,861	0.90	0.73	188,1	244,9	1,042	388	0.30	0.13
Santander Branch Network	131,676	120,161	0.65	0.57	248.1	295.8	116	58	0.09	0.05
Banesto	86,601	72,714	0.47	0.42	332.9	396.1	72	3	0.09	0.00
Santander Consumer Finance	32,178	30,417	2.84	2.57	95.7	114.1	837	312	1.88	0.87
Portugal	47,556	40,742	1.25	0.53	117.4	305.1	(12)	16	0.04	0.06
UK (Abbey)	203,225	203,554	0.60	0.60	65.8	85.9	474	379	0.23	0.20
Latin America	84,073	70,582	1.87	1.38	134.4	167.3	1,527	934	1.99	1.47
Brazil	26,414	17,998	2.74	2.38	101.5	102.8	787	532	3.78	3.49
Mexico	15,012	16,598	1.20	0.64	192.3	279.2	452	182	2.91	1.26
Chile	19,198	16,741	2.11	1.59	118.5	152.6	121	182	0.67	1.07
Puerto Rico	5,067	5,467	3.17	1.67	101.7	161.7	111	46	2.08	0.85
Venezuela	4,452	3,238	0.98	0.98	371.3	435.5	21	6	0.53	0.24
Colombia	1,464	1,431	1.21	0.58	217.1	396.4	12	4	0.80	0.31
Argentina	2,898	2,565	1.24	1.25	235.9	258.2	20	(10)	0.68	(0.44)
Rest	3,110	(5,625)					90	(1)		
Total Group	649,342	588,372	0.95	0.78	150.6	187.2	3,132	1,700	0.50	0.32
Memo item:										
Spain	276,313	249,072	0.63	0.53	264.5	328.4	335	149	0.12	0.07

* Includes gross loans to customers, guarantees and documentary credits.
Data based on management criteria.

Evolution in 2007

The Group's ratio of non-performing loans stood at 0.95% at the end of 2007, 17 b.p. higher than a year earlier. Coverage was 150.6%, down from 187.2% at the end of 2006.

Specific provisions for loan losses, net of recoveries, amounted to EUR 3,132 million, 0.50% of the average credit exposure with customers (the year's average lending plus financial guarantees), up from 0.32% in 2006.

The NPLs, the cost of credit and the degree of coverage are at levels that underscore Santander's excellent risk quality, its high level of provisions and controlled evolution of the cost of credit.

Lending

The Group's risks function organisation is customer-focused. Customers are classified for the purposes of risk management into two large groups or segments: firms under individualised management and standardised.

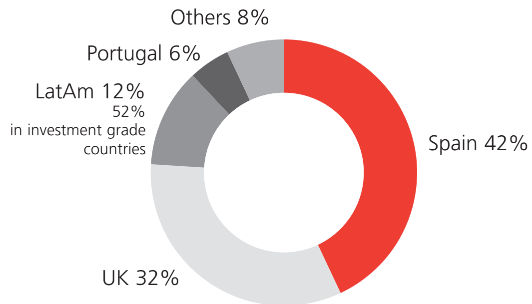
- Firms under individualised management: those customers who have been assigned, explicitly or implicitly, a risk analyst (attached to a Company Analysis Unit, Corporate Banking Risks or Risks with Financial Institutions). This category includes the segments of Corporate Banking, Financial Institutions, Sovereigns and part of Retail Banking Companies.
- Standardised: a customer who has not been assigned a specific risk analyst and whose actual or potential risk is less than a pre-determined amount. These customers include Individuals, Individual Businessmen and Retail Banking Companies that are not segmented.

The Wholesale Banking and Companies Risks Area treats customers on a global basis (large corporates, multinational financial groups).

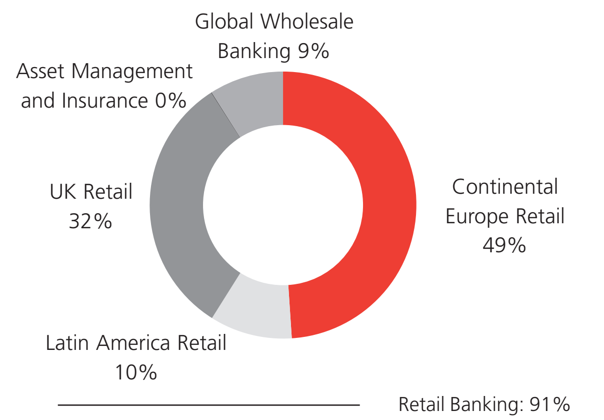
There is a pre-classification model for large corporates (setting of a maximum internal risk limit), based on a system of measurement and monitoring of economic capital.

The charts below show the high degree of diversification of Santander's loans, both from the geographic standpoint as well as by the customer segments where activity is concentrated and the high level of guarantees.

DISTRIBUTION OF LENDING BY GEOGRAPHIC AREAS. GROUP TOTAL



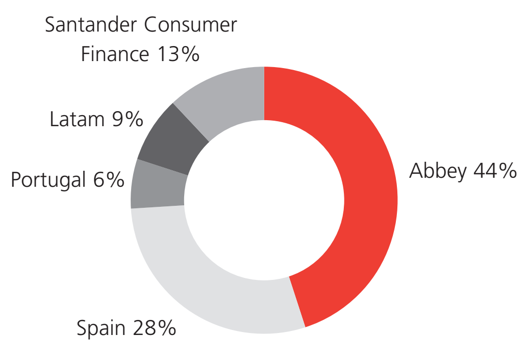
DISTRIBUTION OF LENDING BY TYPE OF RISK. GROUP TOTAL



The distribution by geographic area and product of lending in the segment of standardised risks is set out below.

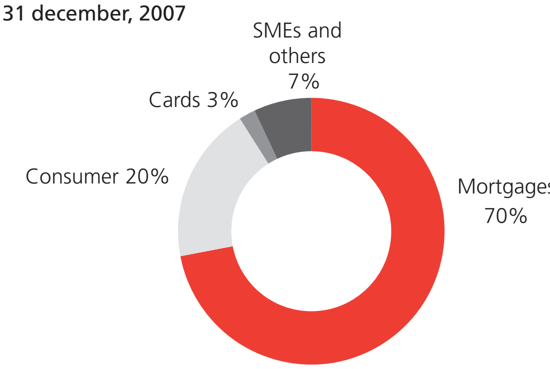
DISTRIBUTION OF LENDING BY GEOGRAPHIC AREAS. STANDARDISED

31 december, 2007



DISTRIBUTION OF LENDING BY PRODUCT. STANDARDISED

31 december, 2007



Monitoring of Risks

In order to control credit quality, as well as the tasks conducted by the Internal Auditing Division, the Directorate General of Risks has a specific function to monitor risks, for which resources and executives are identified. This function is based on permanent attention to ensure there is a timely reimbursement of operations and anticipating circumstances that could affect a smooth outcome and normal development.

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 negative circumstances (extinguish, secure, reduce, monitor). The inclusion in these levels means automatically reducing the delegated powers. 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 change in the rating assigned, a review conducted by internal auditing or the entry into functioning of the automatic warning system.

RATINGS OF RISK BALANCES ACCORDING TO THE FEVE MONITORING SYSTEM

Million euros at December 2007.

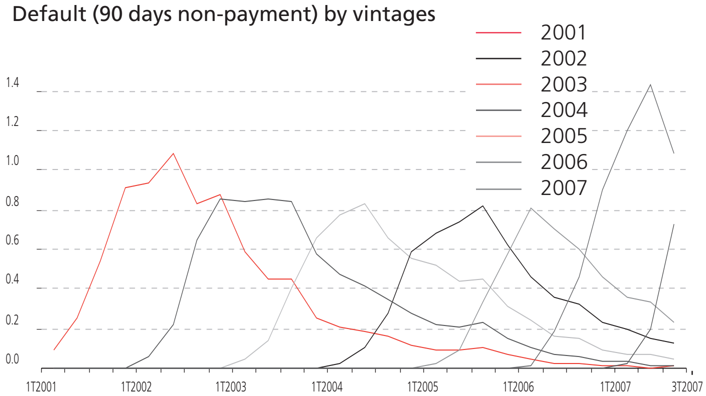
	Extinguish	Secure	Reduce	Monitor	Total FEVE
Spain-parent bank	635	263	2,716	7,570	11,184
Portugal	154	54	203	1,337	1,748
Latin America	287	48	496	2,472	3,303

Ratings are reviewed at least every year, but if weaknesses are detected, or on the basis of the rating, it is done more regularly.

The following charts show the NPLs, expressed as a percentage of balances, of operations to individuals granted in Spain each year (vintages) until maturity. The pattern of evolution enables future performances to be simulated.

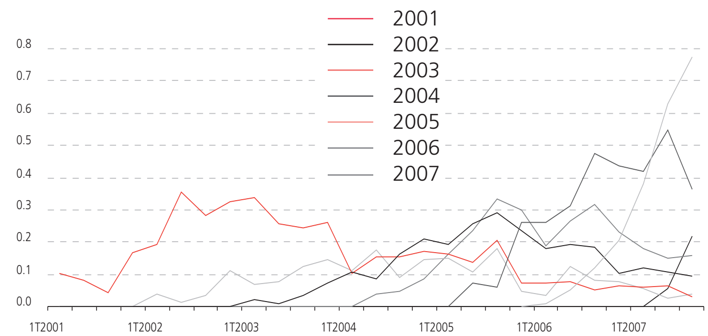
SAN SPAIN: INDIVIDUAL CONSUMER LOANS

Default (90 days non-payment) by vintages



SAN SPAIN: MORTGAGES OF INDIVIDUAL CUSTOMERS

Default (90 days non-payment) by vintages



Analysis of the group's main mortgage portfolios

Mortgages account for 35% of total credit risk in Spain, with a Loan to Value (LTV) lower than 80% for 90% of the portfolio of mortgages for homes.

In Abbey the mortgage portfolio is focused on first residence mortgages, with a high quality of risk in Loan to Value terms (average value of 46.3%).

In order to track and control the portfolio, regular stress testing of the portfolio is conducted. Analysing crisis scenarios is an additional and fundamental tool for risk measurement whose purpose is to measure the changes in the value of a portfolio. The integrity of the management models is strengthened when least probable situations are examined, but potentially more damaging.

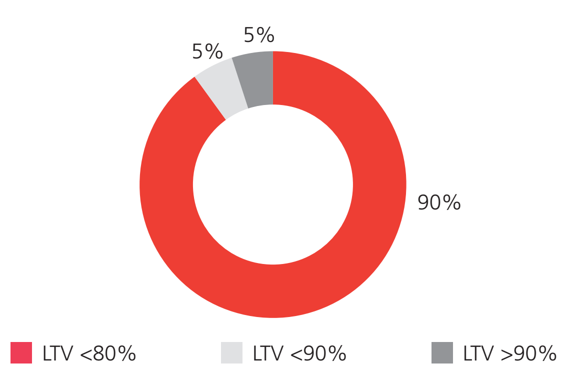
MORTGAGE PORTFOLIO SPAIN

Million euros. December 2007

	Portfolio	% of loans
Mortgages for homes	66,737	27.9%
First residence	63,818	95.6%
Second residence	2,920	4.4%
Real estate development loans	16,569	6.9%
Total	83,306	34.9%

LOAN TO VALUE*-SPAIN

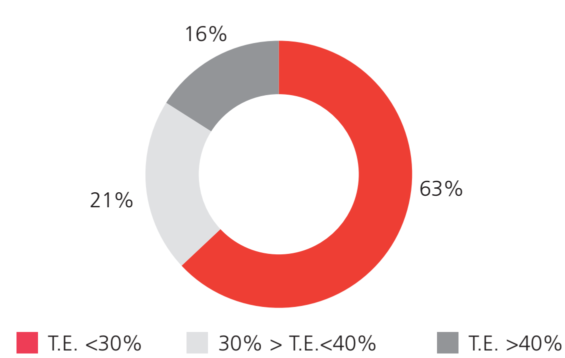
(average 49.8%)



* Loan to value: Relation between the amount of the loan and the expert valuation of the mortgaged property.

AFFORDABILITY RATIO*– SPAIN

(average 29.4%)



* Affordability ratio: The relation between annual mortgage payments and the customer's net income.

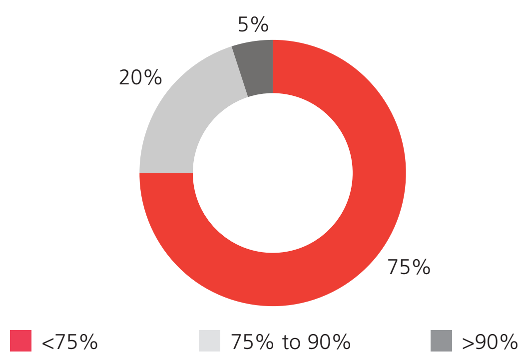
MORTGAGE PORTFOLIO UNITED KINGDOM

Million euros. December 2007

	Portfolio	% of loans
Mortgages for homes	143,004	86.3%
First Home Buyers	141,085	98.7%
Others	1,919	1.3,%
Social Housing	7,861	4.7%
Total	150,865	91.1%

LOAN TO VALUE* - UK

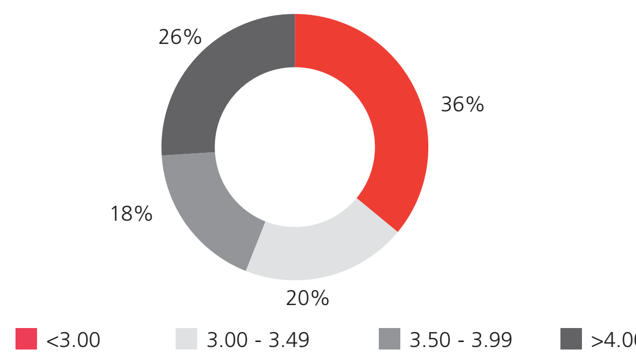
(average 46.3%)



* Loan to value: Relation between the amount of the loan and the expert valuation of the mortgaged property.

INCOME MULTIPLE* - UK

(average 3.1 times)



* Income multiple: Relation between the mortgage loan size and the annual customer's income net of unsecured commitments

2.1 Rating Tools

The Group has been using since 1993 its own models for assigning solvency and internal ratings, which measure the degree of risk of a client or transaction. Each rating corresponds to a certain probability of default or non-payment, the result of the Entity's past experience, except for some termed low default portfolios. The Group has around 200 internal rating models for risk admission and monitoring.

Global rating tools are used for the segments of Sovereign risk, Financial Institutions and Global Wholesale Banking. Their management is centralised in the Group, both for determining their rating as well monitoring the risk. These tools provide a rating for each customer, which is a combination of the results of a quantitative or automatic model, a qualitative model or one of expert adjustment by an analyst, and a series of final adjustments:

- The quantitative rating is calibrated with the market price of credit derivatives, specifically credit default swaps, and with balance sheet information, giving rise to a statistical model based on the financial statements which can also be used for institutions that do not have a liquid price in these instruments.

- There is then a review of the rating which has been automatically calculated by the analysts, producing a final rating.

- Lastly, in the case of global wholesale banking the rating is adjusted when the customer belongs to a group from whom explicit support is received.

In the case of Financial Institutions and Global Wholesale Banking, ratings can be changed on the basis of the country where the transaction is conducted, so that there is a local rating and a cross-border rating for each customer.

As regards Private Companies and Institutions under Individualised Management, the parent company of Grupo Santander has defined a single methodology for formulating a rating in each country, based on the same models as the previous ratings: quantitative or automatic (in this case analysing the credit performance of a selection of customers and the correlation with their financial statements), qualitative or review by the analyst, and final adjustments. Each unit contributes their own customer data, the financial statements of these customers, and examines the most statistically representative ratios. Once the specific rating for each country is created, its application is decentralised in each country, and there are various groups of analysts distributed to ensure their proximity to the customer.

In all cases, during the tracking phase, the ratings are regularly reviewed, at least once a year, and new financial information and the experience in the development of the banking relationship taken into account. 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.

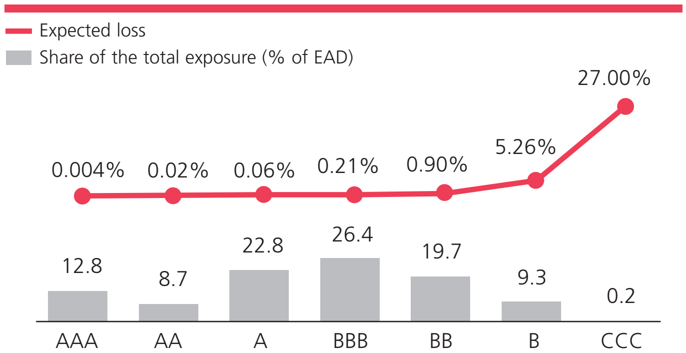
In the case of Standardised Risks, both for transactions with companies (micro firm, businesses) as well as individuals, there are different scoring systems which automatically assess the proposals on the basis of the segment, product and channel.

These admission systems for new operations are complemented by performance assessment models which are predictive, on the basis of the available information in the Group on the performance of clients in their banking relationship (balances maintained, movements, fulfilment of quotas, etc). The information from these scorings plays a key role in risk management. Of note is their use in pre-authorised commercial campaigns.

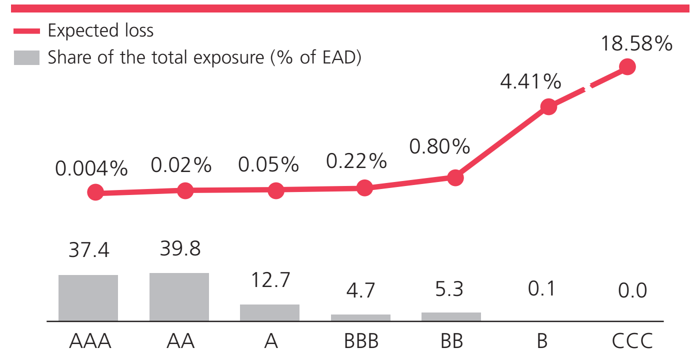
The following charts show the distribution of exposure at December 31, 2007, once adjusted in terms of Exposure at Default (EaD), that is after applying conversion factors to the off-balance sheet exposures, according to the rating and expected loss for each of the main groupings of credit risk: customers, counterparty (including positions with financial institutions and fixed-income positions, derivatives and repos with all types of counterparties), and sovereigns.

The rating distribution in the portfolio of clients corresponds to a typical profile of commercial banking. Most of the ratings below BBB are the portfolios of SMEs, consumer loans, cards and part of the Group’s mortgage portfolios. They have a high degree of granularity, lower proportional consumption of capital and levels of expected loss comfortably covered by the spread on the operations.

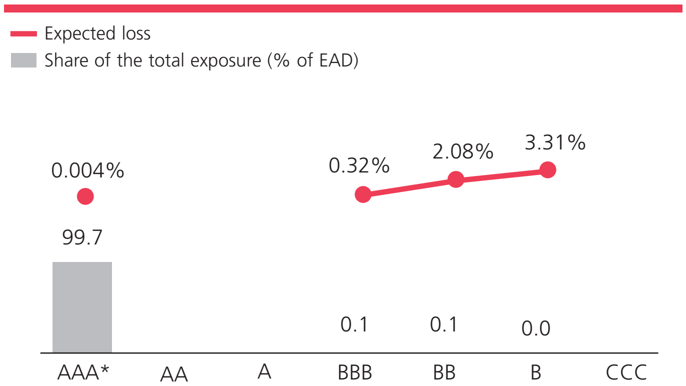
CUSTOMERS



COUNTERPARTY

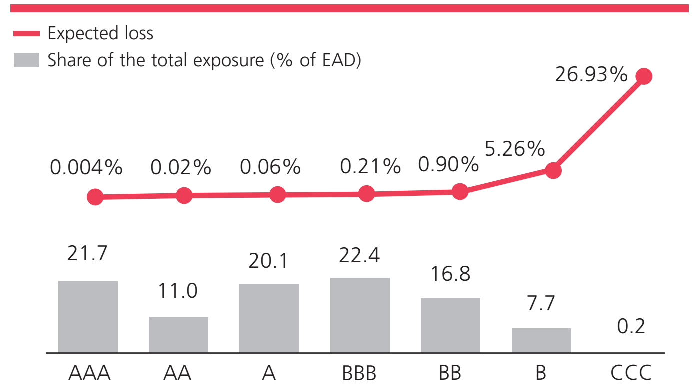


SOVEREIGN



Including sovereign positions in local currencies.

TOTAL



Concept of Expected Loss

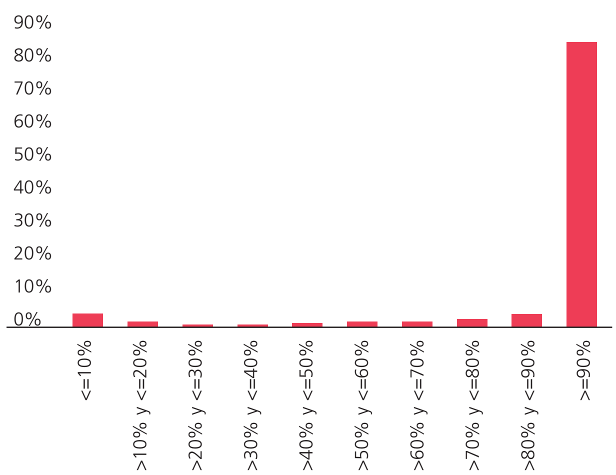
As well as assessing the client, the analysis of transactions includes aspects such as the maturity, the type of product and the collaterals that exist, which helps to adjust the initial rating. As a result, not only is the Probability of Default (PD) taken into account, but also the Exposure at Default (EaD) and the Loss Given Default (LGD).

By estimating these three factors the expected loss of each operation can be calculated. Its correct calculation is very important so that the price adequately reflects the resulting risk premium, and the expected loss is reflected as one more cost of the activity.

The following charts, reflecting data on non-performing loans in Spain, include the distribution of delinquent consumer and mortgage loans since 2001, according to the percentage of recoveries, after deducting all costs – including financial and opportunity – incurred in the process of recovery.

SANTANDER SPAIN

Mortgages: distribution according to the percentage recovered



SANTANDER SPAIN

Consumer loans: distribution according to the percentage recovered

In the international sphere, the new Basel Capital Accord (BIS II) also uses the expected loss concept. Regulatory capital is determined by the difference between the unexpected loss and the expected loss. Meanwhile, the expected loss is compared with the loan-loss provisions that have actually been made and if the result is higher than these then the difference must be removed from eligible shareholders' funds. On the other hand, if the provisions are higher than the expected loss then the difference can, with certain limits, be computed as shareholders' funds. Our long experience in internal rating models and measurement of expected loss puts Grupo Santander in a privileged position to assume the new regulatory environment.

Master Scale of Ratings

In order to make the internal ratings of the various models – corporate, sovereign, financial institutions, etc – comparable and so be able to make comparisons with the ratings of external rating agencies, the Group has a Master Ratings Scale.

The comparisons are established via the probability of default associated with each rating. These internally estimated probabilities are compared with the rates of default associated with external ratings, which are regularly published by rating agencies.

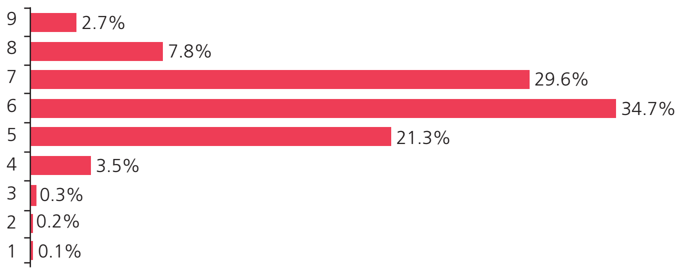
MASTER SCALE OF RATINGS

		Equivalence with:	
Internal Rating	Probability of default	Standard & Poor's	Moody's
9.3	0.017%	AAA	Aaa
9.2	0.018%	AA+	Aa1
9.0	0.022%	AA	Aa2
8.5	0.035%	AA-	Aa3
8.0	0.06%	A+	A1
7.5	0.09%	A	A2
7.0	0.14%	A-	A3
6.5	0.23%	BBB+	Baa1
6.0	0.36%	BBB	Baa2
5.5	0.57%	BBB-	Baa3
5.0	0.92%	BB+	Ba1
4.5	1.46%	BB	Ba2
4.0	2.33%	BB/BB-	Ba2/Ba3
3.5	3.71%	BB-/B+	Ba3/B1
3.0	5.92%	B+/B	B1/B2
2.5	9.44%	B	B2
2.0	15.05%	B-	B3
1.5	24.00%	CCC	Caa1
1.0	38.26%	CC/C	Caa1/Caa2

The following table shows Santander Spain's portfolio of companies by rating:

RISK WITH COMPANIES BY RATING

Spain-Parent Bank



2.2. Customer segmentation for credit risk management

The table below sets out the distribution by segments of the credit exposure to customers in terms of EaD. Approximately 83% of total risk with clients (excluding sovereign and counterparty risks) pertains to SMEs and loans to individuals, underlining the commercial focus of business and of Santander's risks. The expected loss from customer exposure is 0.81%, or 0.68% of the Group's total loan exposure, which can be considered as a medium-to-low risk profile.

SEGMENTATION OF CREDIT RISK EXPOSURE

BY SEGMENTS. Million euros

	EAD	%	PD Average	LGD Average	EL
Sovereign	56,827	7.6%	0.03%	25.3%	0.01%
Counterparty	69,887	9.4%	0.19%	41.2%	0.08%
Public sector	1,635	0.2%	0.65%	21.3%	0.14%
Corporate	101,383	13.6%	0.67%	40.4%	0,27%
Companies	154,076	20.6%	2.27%	29.3%	0.67%
Mortgages	257,001	34.4%	2.72%	7.1%	0.19%
Consumer	89,072	11.9%	6.10%	45.1%	2.75%
Cards	13,553	1.8%	8.30%	62.1%	5.15%
Rest	3,302	0.4%	2.40%	57.0%	1.37%
Memo item customers	620,022	83.0%	2.88%	28.0%	0.81%
Total Group	**746,737**	**100.0%**	**2.41%**	**28.1%**	**0.68%**

SEGMENTATION OF THE CREDIT RISK EXPOSURE

BY BUSINESS UNIT. Million euros

	EAD	%	PD Average	LGD Average	EL
Santander Branch Network Spain	146,117	19.6%	2.25%	18.2%	0.41%
Banesto	80,489	10.8%	1.23%	22.3%	0.28%
Abbey	213,275	28.6%	2.61%	14.0%	0.37%
Portugal	38,390	5.1%	1.71%	26.9%	0.46%
SCF	48,596	6.5%	4.58%	40.1%	1.83%
Latin America	130,663	17.5%	3.63%	47.1%	1.71%
Others (vertical)	89,205	11.9%	0.56%	29.9%	0.17%
Global Wholesale*	94.352	12.6%	0.51%	42.4%	0.22%
Total Group	**746,737**	**100.0%**	**2.41%**	**28.1%**	**0.68%**

*Transversal measurement: some clients of Global Wholesale Banking are in other segments of the portfolio.

Measurements of Expected Loss by Credit Risk

The Group's expected credit risk loss (average of the economic cycle) at the end of 2007 was 0.68% of the credit exposure (0.63% in 2006 with figures adjusted by methodological changes to make them comparable with those of 2007), measured in terms of adjusted exposure (EaD). The Group's retail portfolios grew particularly in 2007, in line with the objective of strengthening the predictable nature of the Group's risk. This meant a small rise in expected loss, which, however, was offset by a higher financial margin and produced a higher risk adjusted return (RORAC).

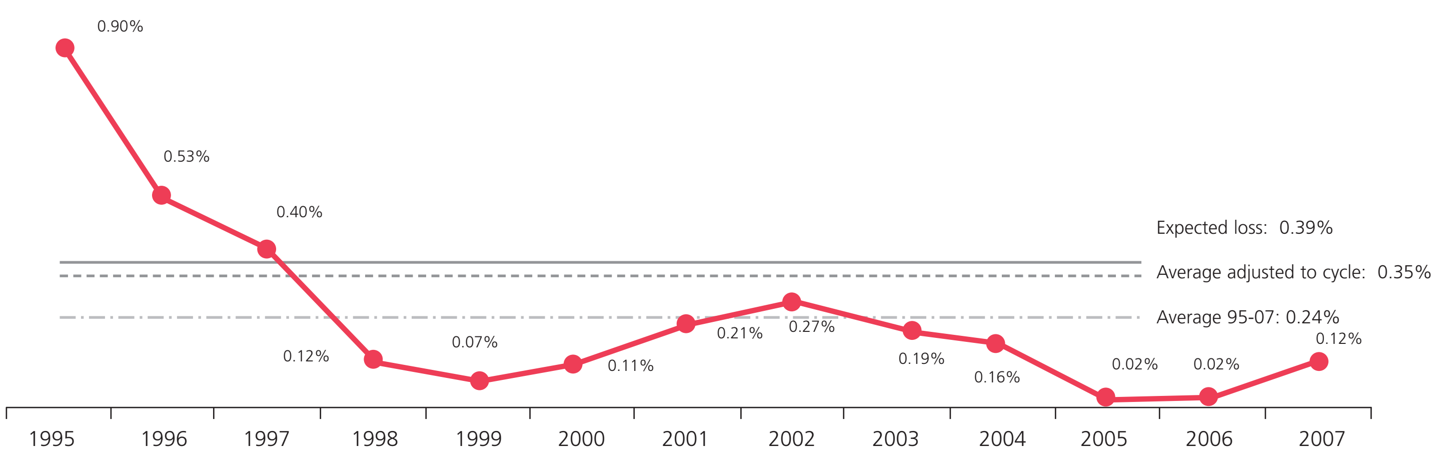
When estimating expected loss and the economic capital needed, the Group's methodology makes an adjustment to the economic cycle of losses observed, with very a rigorous criterion, as it takes into account the losses produced in the worst years of the cycle.

2.3 Test of reasonableness in expected loss of the parent bank

To test the calculation model for the expected loss of the parent Bank in Spain, the following table compares the specific provisions, net of recoveries, allocated on the average portfolio of customers with the estimated expected loss.

Loan-loss provisions fell substantially during 1995-99, grew again in the following years as a result of the slowdown in the Spanish economy, thereby reflecting their cyclical nature, and declined again as of 2003. The average losses must be adjusted to the effect of the economic cycle; the corrected average for the cycle of 0.35% is close to the 0.39% envisaged in the internal model in the case of the parent bank.

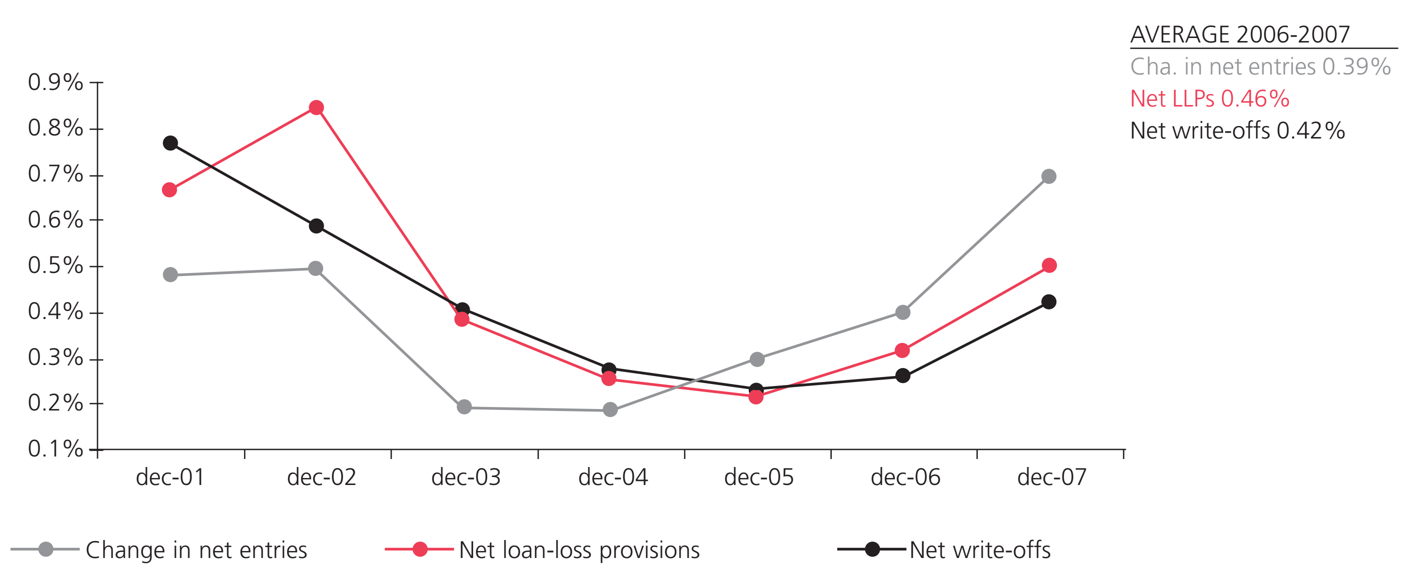
NET LOAN LOSS PROVISIONS (% OF AVERAGE CUSTOMER RISK) AND EXPECTED LOSS



2.4 Quantifying the cost of credit (observed loss)

Grupo Santander's cost of credit is measures 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). The three approaches measure the same concept and are close to one another in the long term.

GRUPO SANTANDER'S TOTAL COST OF CREDIT



The three indicators represent successive moments in measuring the cost of credit: entry in NPLs, coverage of NPLs and becoming write-offs. Although in the long term the three converge, at times they show differences because of the various moments at which the losses are calculated, which are 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 and in its main areas of activity in 2007 and prior years, measured in various ways:

NET WRITE-OFFS*

(% of average balances)

* Change in doubtful loans plus net write-offs

NET LOAN-LOSS PROVISIONS*

(% of average balances)

* Net specific provisions less recovered write offs

NET ENTRIES*

(% of average balances)

* Write-offs less recovery of write-offs

The general trend over the past few years has been to maintain the cost of Santander's credit at historically very low levels and ones difficult to repeat in the future. In 2007, there was a rise in the cost of credit due to stronger growth in retail profiles which, with a higher expected loss, have higher levels of direct return (financial margin less cost of provisions) and indirect return (induced business) and greater attractiveness because of the more predictable nature of this type of risk. This strategy explains the rise in the cost of credit, particularly in Latin America.

2.5 Monitoring and control systems

A solid environment of control is paramount in order to ensure appropriate management of credit risk and maintain the Entity's risk profile within the parameters set by the Board and senior management. At the same time, from the regulatory standpoint (Sarbanes-Oxley, BIS II), financial institutions are required to have a control system that is adequate for the dimension and complexity of each organisation.

During 2006, within the corporate framework established in the Group for complying with the Sarbanes Oxley law, a corporate tool was developed in the Group's intranet to document, manage and certify all the sub-processes, operational risks and controls for mitigating them. The Risks Division, as part of the Group, assessed the efficiency of the internal control of activities.

As a result, these assessments represent a constant strengthening of the elements of control and discipline of processes with regard to those already existing.

2.6 Risk Concentration

Risk concentration, within the sphere of credit risk, is a fundamental element of management. The Group continuously tracks the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors, products and groups of clients.

The Board's Risks Committee establishes the policies and reviews the appropriate exposure limits for appropriate management of the degree of concentration of credit risk portfolios.

The Group is subject to the Bank of Spain regulation on "large risks" (those that exceed 10% of eligible shareholders' equity). In accordance with Circular 5/93, no individual exposure, including all types of credit risks and equities, can exceed 25% of the Group's shareholders' equity. Also, the total of "large risks" cannot be more than eight times higher than equity (excluding exposures to OECD governments). At December 31, 2007, the client with the largest risk 17.4% of eligible shareholders' equity in accordance with the regulatory criteria was a Spanish company with an internal rating equivalent to "A-". Another four groups, as well as this company, reached the large risk classification. They were: two Spanish companies with a rating equivalent to "A-" and two European banks with a rating equivalent to "AA".

At December 31, 2007, the 20 largest economic and financial groups, excluding AAA governments and sovereign securities denominated in local currency, represented 5.0% of the outstanding credit risk of the Group's clients (lending plus guarantees).

The 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 in order to optimise the risk-return relation of the whole portfolio

2.7 Counterparty risk

Counterparty risk is a variant of credit risk. This area includes all types of exposure with credit entities as well as the risk of solvency in treasury operations (bonds and derivatives) with other types of clients.

Control is carried out in real time through an integrated system which provides information on the available credit line of any counterparty, in any product and maturity and at any branch of the Group.

Risk is measured by both the current as well as potential market value (value of risk positions taking into account the future variation of the underlying market factors in contracts). The Equivalent Credit Risk (ERC) is the sum of the Net Replacement Value plus the Maximum Potential Value of these contracts in the future. In 2007 it amounted to EUR 20,269 million.

Derivatives transactions continued to be carried out with counterparties that enjoy excellent credit quality; 75.8% of counterparty risk has a rating equal to or superior to A-.

As regards the geographic distribution of counterparty risk, 27.0% is with Spanish counterparties, 23.9% with UK ones (mainly operations by Abbey), 16.6% the rest of Europe, 12.7% the US and 19.0% Latin America.

The distribution of the risk by type of counterparty shows 54% in banks, 30% in large corporations and 16% in SMEs.

The notional and/or contractual value of the contracts in the table below are net positions in these instruments, the result of both compensations as well as combinations among them, and by risk criteria given their use in calculating risk.

NOTIONAL OTC DERIVATIVE PRODUCTS BY MATURITY*

Million euros at December 31, 2007

					Notional values		
	< 1 year	1-5 years	5-10 years	>10 years	Trade	Hedge	Total
CDS protection acquired	5,706	85,472	12,555	5	100,199	3,539	103,738
CDS protection sold	4,601	73,564	11,471	0	85,259	4,377	89,636
CDS options	0	0	0	0	0	0	0
TOTAL CREDIT DERIVATIVES	10,307	159,036	24,026	5	185,458	7,916	193.374
Equity forwards	2,256	97	0	0	323	2,030	2.353
Equity options	11,379	11,380	3,413	11	21,611	4,574	26.184
Equity swaps	2,721	7,784	4,268	0	12,767	2,006	14.773
TOTAL EQUITY DERIVATIVES	16,356	19,261	7,681	11	34,700	8,610	43.310
Fixed-income forwards	809	65	0	0	565	310	874
Fixed-income options	973	0	0	0	68	905	973
Fixed-income spot	1,236	0	0	0	294	942	1.236
TOTAL FIXED INCOME DERIVATIVES	3,018	65	0	0	927	2,157	3.083
Asset swaps	31,973	4,362	277	189	488	36,312	36.801
Exchange-rate options	41,609	4,296	633	11	25,312	21,237	46.548
Exchange-rate swaps	61,950	27,534	22,300	5,139	22,286	94,637	116.923
Other exchange-rate derivatives	171	82	0	0	211	41	253
TOTAL EXCHANGE RATES	135,703	36,274	23,209	5,339	48,297	152,227	200.525
Asset swaps	131	551	230	1,740	0	2,652	2.652
Call money swaps	40,821	4,472	2,686	0	45,240	2,740	47.980
IRS	474,211	678,418	302,562	125,459	1,053,906	526,745	1.580.651
Forward interest rates	324,302	250	281	0	324,833	0	324.833
Other interest-rate derivatives	80,629	114,309	35,170	53,692	68,824	214,976	283.800
Interest rate structures	1,551	16,664	417	346	18,763	215	18.977
TOTAL INTEREST-RATE DERIVATIVES	921,646	814,664	341,347	181,237	1,511,565	747,328	2.258.893
Commodities	245	602	638	0	654	832	1.486
TOTAL COMMODITY DERIVATIVES	245	602	638	0	654	832	1.486
TOTAL OTC DERIVATIVES	1,087,275	1,029,903	396,901	186,592	1,781,601	919,070	2.700.671

* Banesto not included

ACTIVITY IN CREDIT DERIVATIVES

The main reason why Grupo Santander uses credit derivatives is to cover lending operations and, to a limited extent, as part of trading.

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 sensitivity to correlation. Jump-to-default limits are also set by geographic area, sector and liquidity.

At December 31, 2007, for the Group's trading activity, the sensitivity of net positions of credit derivatives to increases in the spread of one basis point was only EUR 710,000 and the average VaR in the year in these instruments was $9.5 million.

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY TYPE OF COUNTERPARTY

	%
Banks	53,7
Corporates	30,0
SMEs	15,6
Public bodies	0,7

OTC DERIVATIVES DISTRIBUTION BY NET REPLACEMENT VALUE AND EQUIVALENT CREDIT RISK*

Million euros, December 31, 2007

	TOTAL NET NRV			TOTAL ECR		
	Trade	Hedge	Total	Trade	Hedge	Total
CDS protection acquired	742	6	748	793	-19	774
CDS protection sold	127	9	136	-697	33	-663
CDS options	0	0	0	0	0	0
TOTAL CREDIT DERIVATIVES	868	15	883	97	14	111
Equity forwards	0	27	27	0	-33	-33
Equity options	947	1,258	2,205	-104	276	173
Equity swaps	0	252	252	0	60	60
TOTAL EQUITY DERIVATIVES	947	1,537	2,485	-104	303	200
Fixed-income forwards	4	0	4	0	1	1
Fixed-income options	2	0	2	0	0	0
Fixed-income spot	0	0	0	0	0	0
TOTAL FIXED INCOME DERIVATIVES	6	0	6	1	1	2
Asset swaps	33	1,789	1,823	5	127	131
Exchange-rate options	209	232	441	32	293	325
Exchange-rate swaps	1,739	3,037	4,776	274	-1,654	-1,380
Other exchange-rate derivatives	44	1	45	25	0	26
TOTAL EXCHANGE RATES	2,025	5,060	7,085	336	-1,234	-898
Asset swaps	0	304	304	0	-9	-9
Call money swaps	62	25	87	-38	0	-38
IRS	6,609	2,382	8,990	-723	-298	-1,022
Forward interest rates	117	0	117	114	0	114
Other interest-rate derivatives	1,576	738	2,313	880	-721	159
Interest rate structures	989	5	994	332	1	333
TOTAL INTEREST-RATE DERIVATIVES	9,353	3,454	12,807	565	-1,028	-463
Commodities	6	17	23	0	7	7
TOTAL COMMODITY DERIVATIVES	6	17	23	0	7	7
TOTAL OTC DERIVATIVES	13,206	10,083	23,288	895	-1,937	-1,041
CASH COLLATERAL	-1,853	-1,136	-2,989			
BOND COLLATERAL	0	-30	-30			
EQUITY COLLATERAL	0	0	0			
COLLATERALES	-1,853	-1,166	-3,019			
TOTAL	11,353	8,916	20,269			

* Banesto not included

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY COUNTERPARTY RATING

Data at December 31, 2007

	%
AAA	0.9
AA	46.8
A	28.1
BBB	16.8
BB	3.9
B	0.2
Without rating	3.4

DISTRIBUTION OF RISK IN OTC DERIVATIVES BY GEOGRAPHIC AREAS

	%
Spain	27.0%
UK	23.9%
Rest of Europe	16.6%
Latin America	19.0%
US	12.7%
Others	0.8%

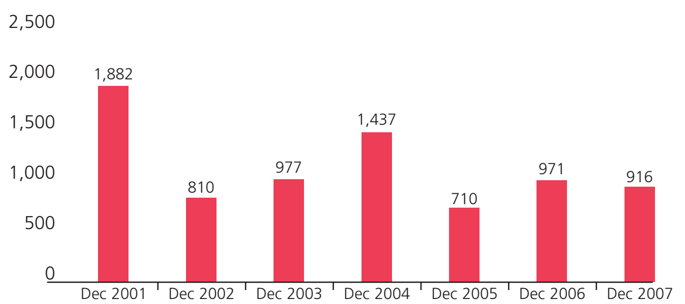
2.8 Country-Risk

Country risk is a credit risk component in all cross-border credit operations. Its main elements are sovereign risk, transfer risk and the risk of sharp fluctuation of local currencies.

The Group's regulatory country-risk exposure stood at EUR 916 million at the end of 2007, EUR 55 million lower than in 2006. Provisions assigned at the end of 2007 amounted to EUR 124 million (EUR 233.5 million in 2006). This decline was mainly due to the change of composition in the country-risk position.

EVOLUTION OF PROVISIONABLE COUNTRY-RISK

Million euros



The principles of country risk management continued to follow prudent criteria; country risk is assumed very selectively in operations that are clearly profitable for the Bank and which enhance the global relation with customers.

2.9 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 (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, 2007 Latin America accounted for 56% of total risk (Brazil and Mexico represented 45% of the total). The rest was mainly in the euro zone (43% of the total), mostly in Spain (30% of the total). The increase over the end of 2006 was around 24%, as a result of the rise in positions in the euro zone.

Latin America's exposure to sovereign risk mainly comes from the obligations to which our subsidiary banks are subject to for constituting certain deposits in the corresponding central banks as well as from fixed-income portfolios maintained within 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 3,110 million (less than 10% of total sovereign risk with issuers).

2.10 Environmental Risk

Analysis of the environmental risk of credit operations is one of the commitments of the Strategic Plan of Corporate Social Responsibility.

Since the beginning of 2004, the Group has been using an Environmental Risks Valuation System (VIDA), developed in cooperation with the Spanish Export Credit Insurance Company (CESCE) and Garrigues Medioambiental. It evaluates the environmental risk inherent in each company, whether they are current or future clients.

This system gives us an environmental risk map of the portfolio of evaluated companies (very low, low, medium and high) which, if necessary, provides the option of new and more in-depth specific reviews.

3. MARKET RISK

3.1 Activities subject to market risk

The perimeter for measuring, controlling and monitoring the area of Financial Risks covers those operations where equity risk is assumed. This risk comes from the change in risk factors - interest rates, exchange rates, shares, and the volatility of these – as well as the solvency and 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 in fixed-income, equity and currency products.

b) Balance Sheet Management: Interest rate and liquidity risk comes from mismatches between maturities and repricing of assets and liabilities. It also includes active management of credit risk inherent in the Group's balance sheet.

c) Structural risks:

- Structural Exchange-Rate Risk/Hedging of Results: Exchange rate risk, due to the currency in which the investment is made, both in companies that consolidate and do not consolidate (Structural Exchange Rate) and exchange rate risk arising from the hedging of future results generated in currencies other than the euro (Hedging of Results).
- Structural Equity Activity: This covers equity stake investments in financial and non-financial companies that do not consolidate, generating risk in equities.

The Treasury area is responsible for managing trading activity positions.

The Financial Management area is responsible for the centralised management of these structural risks, applying standardised methodologies, adapted to each market where the Group operates. In the area of convertible currencies, Financial Management directly manages the parent bank's risks and coordinates management of the rest of the units which operate in these currencies. The management decisions for these risks are taken by each country's ALCO committee and, ultimately, 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.

3.2 Methodologies

A. Trading Activity

The standard methodology that Grupo Santander applied to trading activities during 2007 was Value at Risk (VaR), based on historic simulation with a confidence level of 99% and a time frame of one day. Statistical adjustments were applied enabling us to incorporate effectively and quickly the most recent developments that condition the levels of risk assumed. A time frame of two years or at least 520 days from the reference date of the VaR calculation was 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 of risk. It has been used for its ease in calculation and for its accurate reflection of the Group's level of risk. There are also other measures that allow us greater control of risks in all the markets where the Group operates.

They include analysis of scenarios which set out the performance of different financial variables and obtain the impact on results. These scenarios can replicate critical developments or circumstances that happened in the past (such as a crisis) or determine plausible scenarios that are not concerned with the past. A minimum of three types of scenario are given: plausible, severe and extreme, and a VaR is obtained as well as a much fuller picture of the risk profile.

At the same time, the Group carries out daily monitoring of positions, through an exhaustive control of changes that take place in the portfolio, with the goal of detecting possible new developments that may need correction. The daily preparation of the income statement is an excellent indicator of risk levels, as it highlights the impact of changes in financial variables or in portfolios.

Lastly, in order to control derivative activities and credit management, because of its atypical nature, specific measures are evaluated daily. First, we look at the sensitivity to price movements of the underlying asset (delta and gamma), volatility (vega) and time (theta). Second, measures such as the spread sensitivity, jump-to-default, concentration of positions by rating levels are monitored.

B. Balance Sheet Management[1]

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 review of interest rates in the different asset and liability accounts.

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 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 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. Gap analysis 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 and equity.

All on- and off-balance sheet items must be broken down 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 scenario. 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 of the impact of a change in interest rates on the current values of financial assets and liabilities.

1. Measures also applicable to proprietary treasury

d) Value at Risk (VaR)

The Value at Risk for balance sheet activity and investment portfolios is calculated with the same standard as for trading: historic simulation with a confidence level of 99% and a time frame of one day. Statistical adjustments are made which incorporate effectively and quickly the latest developments that condition the risk levels assumed.

e) Analysis of scenarios

Two scenarios for the performance of interest rates are established: maximum volatility and severe crisis. These scenarios are applied to the balance sheet, obtaining the impact on net worth as well as the projections of net interest margin for the year.

LIQUIDITY RISK

Liquidity risk is associated with the Group's capacity to finance its commitments, at reasonable market prices, as well as to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

In section 3.4 Risks and Results in 2007, sub item B.3. Management of Structural Liquidity, which comes later in this report, the main actions taken during 2007 in this sphere are set out.

The measures used for liquidity risk control in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a certain period of time, for each of the currencies in which the Group operates. The gap measures the net need or excess of funds at a particular date, and reflects the level of liquidity maintained under normal market conditions.

Two types of liquidity gap analysis are made, on the basis of the balance sheet item:

1-Contractual liquidity gap: All on-and off-balance sheet items are analysed provided they contribute cash flows placed in the point of contractual maturity. For those assets and liabilities without a contractual maturity, an internal analysis model is used, based on statistical research of the historical series of products, and which determines what we call the stability and instability impact on liquidity.

2. Operational liquidity gap: This is a scenario in normal conditions of liquidity profile as the flows of the balance sheet items are placed in the point of probable liquidity and not in the point of contractual maturity. In this analysis 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 of the entity 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.

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 the 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 headquarters (Madrid) 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.

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 daily results actually generated. 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 comply, 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 implies fundamentally the conciliation of positions, risks and results.

Benchmarking

Depending on the regularity of publication of information by local regulators, a comparative study of the Bank's position compared with that of its main competitors and the system is carried out.

Debt maturity profile

Every two weeks the maturity profile of the securities in the portfolio (trading and investment) is examined so as to know in which maturities there is a greater concentration of cash flows

3.3 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 senior management's risk acceptance level.

B. Objetives 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.
- Establish investment alternatives, by limiting equity consumption.
- Define the range of products and underlying assets with which each unit of Treasury can operate, bearing in mind features such as the model and valuation systems, the liquidity of the tools used, etc.

3.4 RISKS AND RESULTS IN 2007

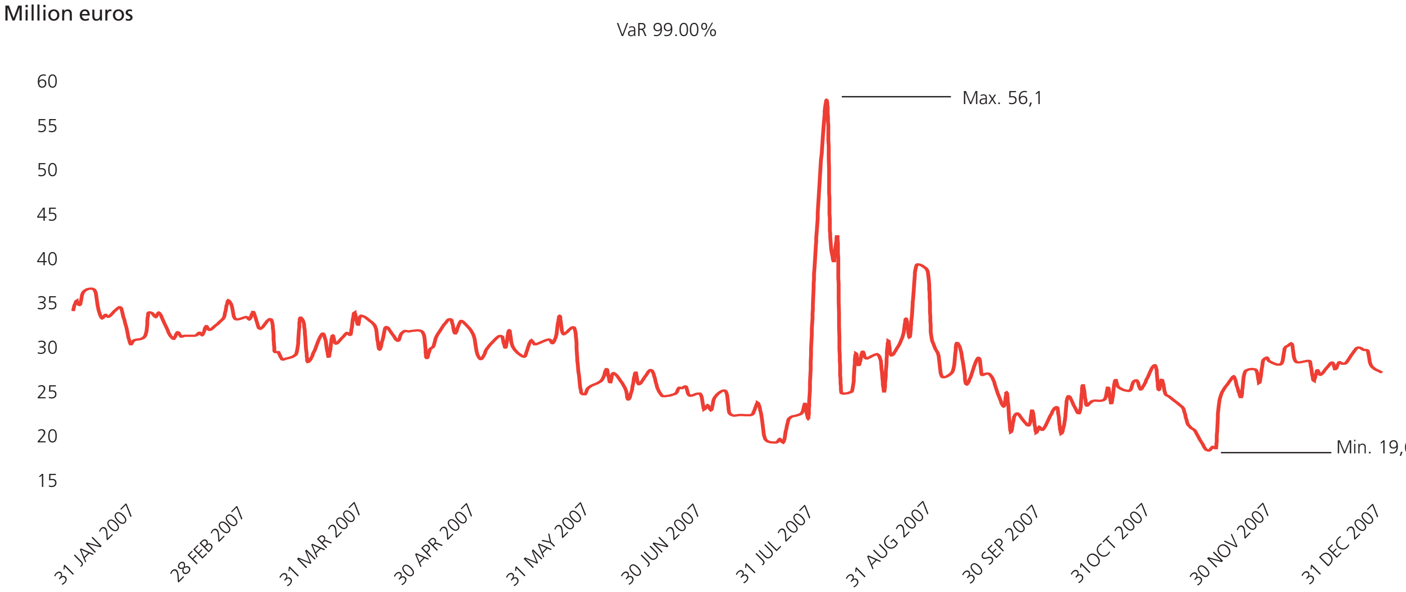
A. Trading activity

Quantitative analysis of VaR in 2007

The Group's[1] risk performance with regard to trading activity in financial markets during 2007, as measured by VaR, was as follows:

VaR PERFORMANCE IN 2007

Million euros



1 Excluding Banesto.

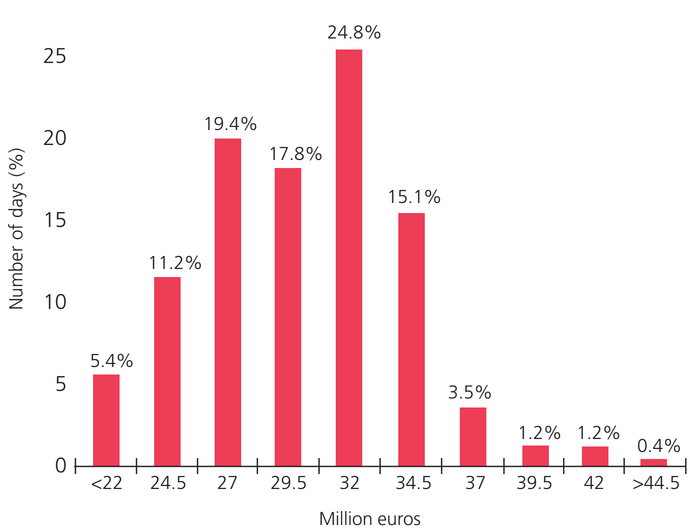
VaR during 2007 fluctuated 90% of the time in a range between EUR 20 million and EUR 35 million, with two exceptions. The first, in the middle of July, was due to the greater volatility in Brazil's markets. The subsequent decline in VaR was because of reduced positions, particularly fixed income and exchange and currency in Brazil. The temporary rise at the end of August was due to the increased volatility in all financial markets, which particularly affected Brazil. The minimum VaR for the year of EUR 19.6 million was reached on November 19, as a result of the reduced positions in the treasuries of Madrid and Mexico.

As the VaR calculation is affected by market volatility and this increased significantly during the second half of 2007, the average assumption of risk (i.e., the taking of net open positions) was considerably less in that period than in the first half of the year.

The average VaR of the Group's trading portfolio in 2007 (EUR 28.9 million) was lower than in 2006, despite the higher volatility. Compared to other financial groups, Grupo Santander has a medium/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 2007. It was between EUR 24.5 million and EUR 34.5 million on 88.4% of days and between EUR 27 million and EUR 32 million on 62%.

VaR RISK HISTOGRAM



Risk by factor

The minimum, average, maximum and year-end 2007 values in VaR terms are shown below:

VaR STATISTICS BY FACTOR

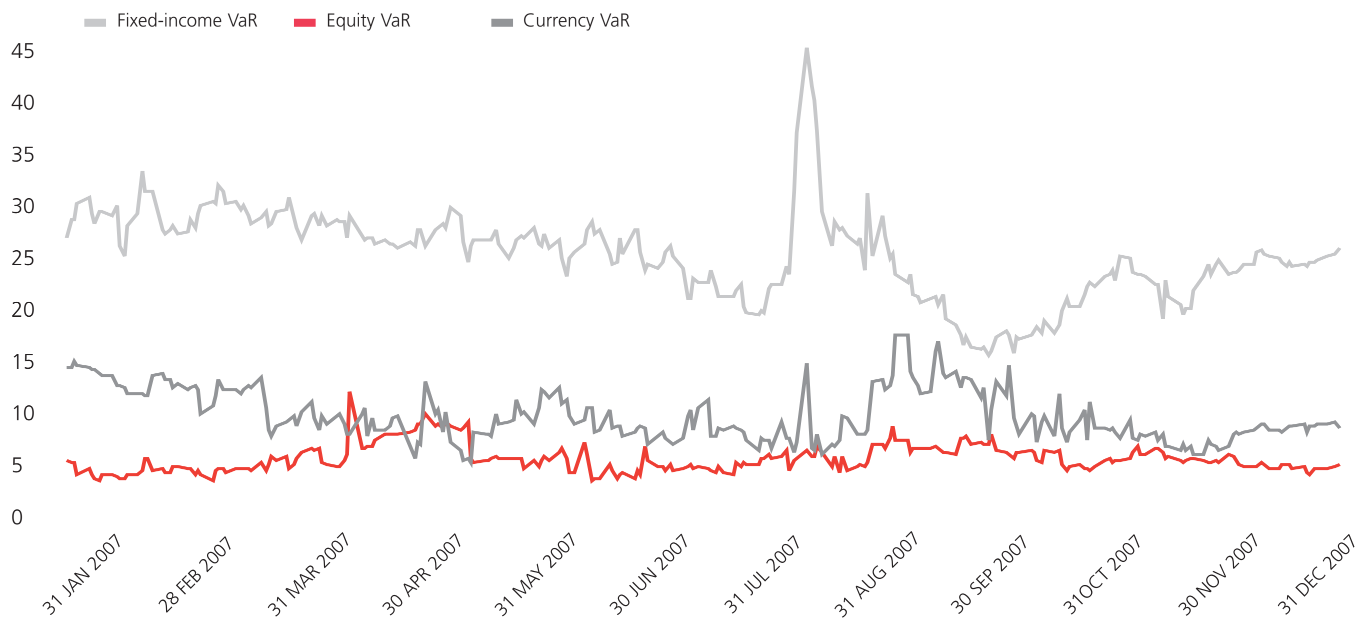
	Minimum	Average	Maximum	Year-end
Total trading				
Total VaR	19.6	28.9	56.1	27.7
Diversification effect	(3.1)	(11.1)	(17.3)	(10.5)
Fixed income VaR	15.4	24.3	44.1	26.0
Equity VaR	3.7	5.8	12.1	4.6
Currency VaR	5.4	9.8	17.4	7.6
Latin America				
Total VaR	12.9	22.3	48.4	15.2
Diversification effect	(0.1)	(8.6)	(15.1)	(10.0)
Fixed income VaR	11.2	20.1	38.9	16.9
Equity VaR	2.0	4.0	11.3	3.5
Currency VaR	3.4	6.8	13.7	4.7
US				
Total VaR	0.6	1.7	3.3	0.9
Diversification effect	0.0	(0.6)	(2.6)	(0.8)
Fixed income VaR	0.5	1.5	3.3	0.8
Equity VaR	0.0	0.2	1.6	0.3
Currency VaR	0.1	0.5	2.5	0.5
Europe				
Total VaR	6.3	12.0	23.2	18.3
Diversification effect	(3.1)	(6.0)	(13.1)	(4.6)
Fixed income VaR	4.7	9.3	18.0	15.6
Equity VaR	2.7	4.1	7.2	3.0
Currency VaR	1.0	4.7	14.9	4.2

The average VaR was EUR 6.8 million lower than in 2006, due to the decline in fixed-income risk which dropped from EUR 32.5 million to EUR 24.3 million. The average risk in the two other main factors – equities and exchange rates (EUR 5.8 million and EUR 9.8 million, respectively) – increased slightly (EUR 4.0 million and EUR 9.2 million, respectively, in 2007). The reduction of fixed-income risk mainly took place in Latin America, where its average VaR was EUR 20.1 million, down from EUR 26.0 million in 2006.

Due to the still scant relative exposure of credit risk, this is still included in the fixed-income factor. It will be shown separately to the extent that its level of activity or risk requires it.

HISTOGRAM OF VaR BY RISK FACTOR

Million euros



The VaR performance during 2007 underlined the Group's flexibility and agility in adapting its risk profile on the basis of changes in strategy caused by a different perception of expectations in the markets.

Distribution of risks and economic results

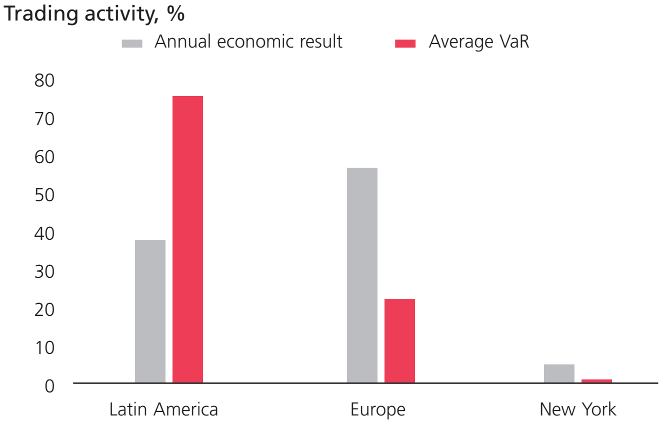
a) Geographic distribution

Latin America contributed 77.3% of the Group's total VaR in trading activity and 37.8% in economic results. Europe, with 22.3 % of global risk, contributed 58.6% of results, as most of its treasury activity focused on professional clients. New York contributed 3.6% of results and 0.4% of VaR.

The geographic contribution (in %), both in risks (measured in VaR terms) as well as in results (in economic terms) is shown below.

CONTRIBUTION OF RISK BY UNIT

Trading activity, %



Contribution of risk by unit

The minimum, average, maximum and year-end risk values in VaR terms, by geographic area, in 2007 are shown below.

RISK STATISTICS (VaR) 2007

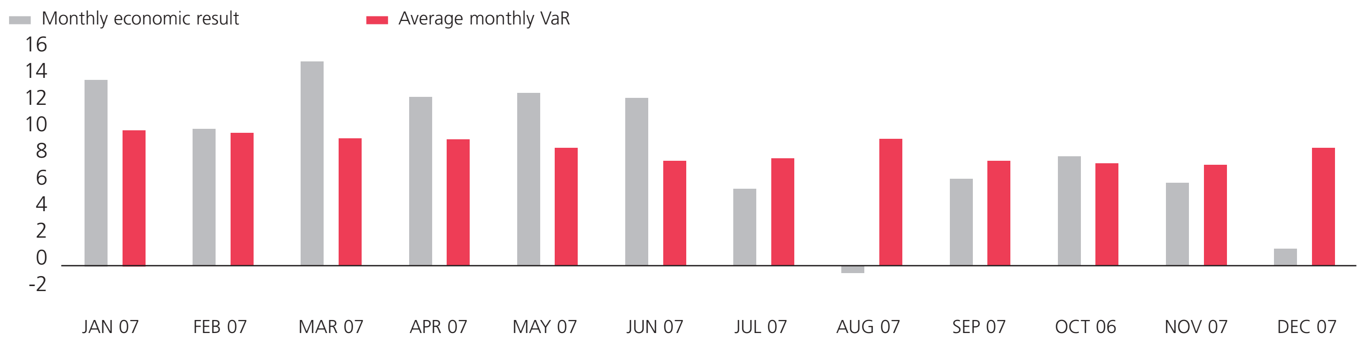
Million euros

	Minimum	Average	Maximum	Year-end
Total	**19.6**	**28.9**	**56.1**	**27.7**
Europe	6.3	12.0	23.2	18.3
US	0.6	1.7	3.3	0.9
Latin America	12.9	22.3	48.4	15.2

b) Monthly distribution of risks and results

The next chart shows that the risk assumption profile, in terms of VaR, was relatively constant. The profile by months, on the other hand, was much more erratic, with the months with the highest profits in the first half of 2007, before the subprime crisis in August, after which activity in many financial markets, particularly primary ones, was substantially reduced. The two months with the worst results, August and December, coincide with periods of global turbulence in the financial markets.

DISTRIBUTION OF RISK BY TIME AND RESULTS

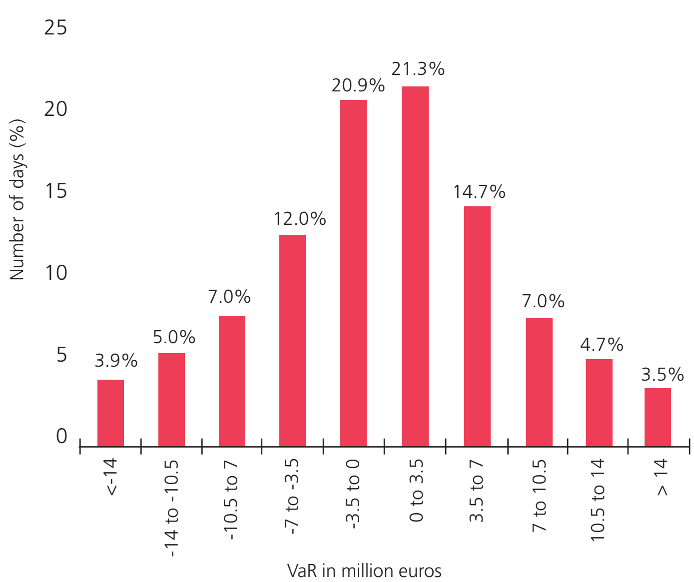


Histogram of daily Mark-to-Market (MtM) results

The following histogram of frequencies shows the distribution of daily economic results on the basis of size. The daily yield was between -EUR 7 and +EUR 7 million on 258 days (69% of the days of the market).

HISTOGRAM OF THE FREQUENCY OF DAILY RESULTS

(MtM)



Risk management of structured derivatives

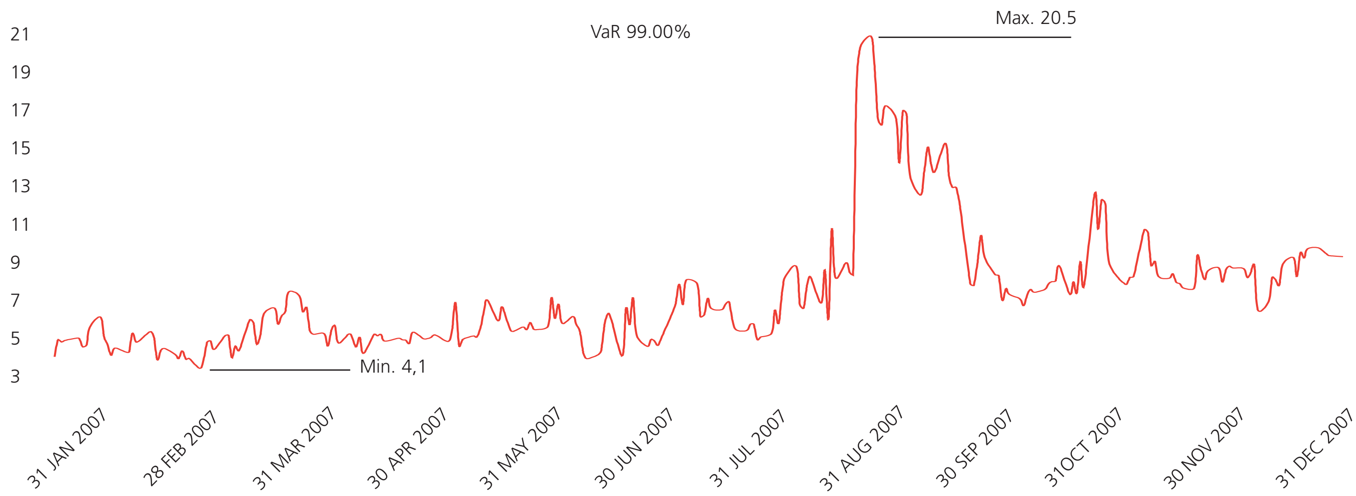
The structured derivatives activity is mainly focused on designing investment products and hedging for clients.

These transactions include options on equities, fixed-income and currencies.

The units where this activity mainly takes place are: Madrid, Abbey, Brazil and Mexico, and, to a lesser extent, New York, Chile and Portugal.

The chart below shows the VaR performance of structured derivatives business in 2007. Most of the time risk moved in a range between EUR 5 and 11 million. The main exception was between the end of July and the end of September, because of the rise in risk resulting from the general increase in volatility in global financial markets

EVOLUTION OF RISK (VAR) OF THE STRUCTURED DERIVATIVE BUSINESS



The maximum risk, for these reasons, was reached on August 20 (EUR 20.5 million) and the minimum on February 12 (EUR 4.1 million), in a context of low volatility. The following table shows the average, maximum and minimum values for each of the units where these transactions were carried out.

STRUCTURED DERIVATIVES RISK (VaR) IN 2007 BY UNIT

Million euros

	Minimum	Average	Maximum	Year-end
Total VaR	**4.1**	**7.8**	**20.5**	**9.6**
Madrid	0.0	3.8	12.9	4.0
Portugal	0.1	0.2	0.5	0.2
Abbey	1.8	3,8	7.0	7.0
Brazil	0.0	4.7	21.6	4.6
Chile	0.2	0.5	1.3	0.6
Mexico	0.0	2.5	3.5	2.7

Although the average risk in 2007 (EUR 7.8 million) was higher than in 2006 (EUR 6.9 million), the proportion of structured derivatives in the Group continues to be relatively low.

Regarding VaR by risk factor, on average, exposure was similar in fixed income, equities and currencies. Nonetheless, fixed-income and exchange-rate risk had a wider range than equity risk, as shown in the following table:

STRUCTURED DERIVATIVES. RISK (VaR) IN 2007 BY FACTOR

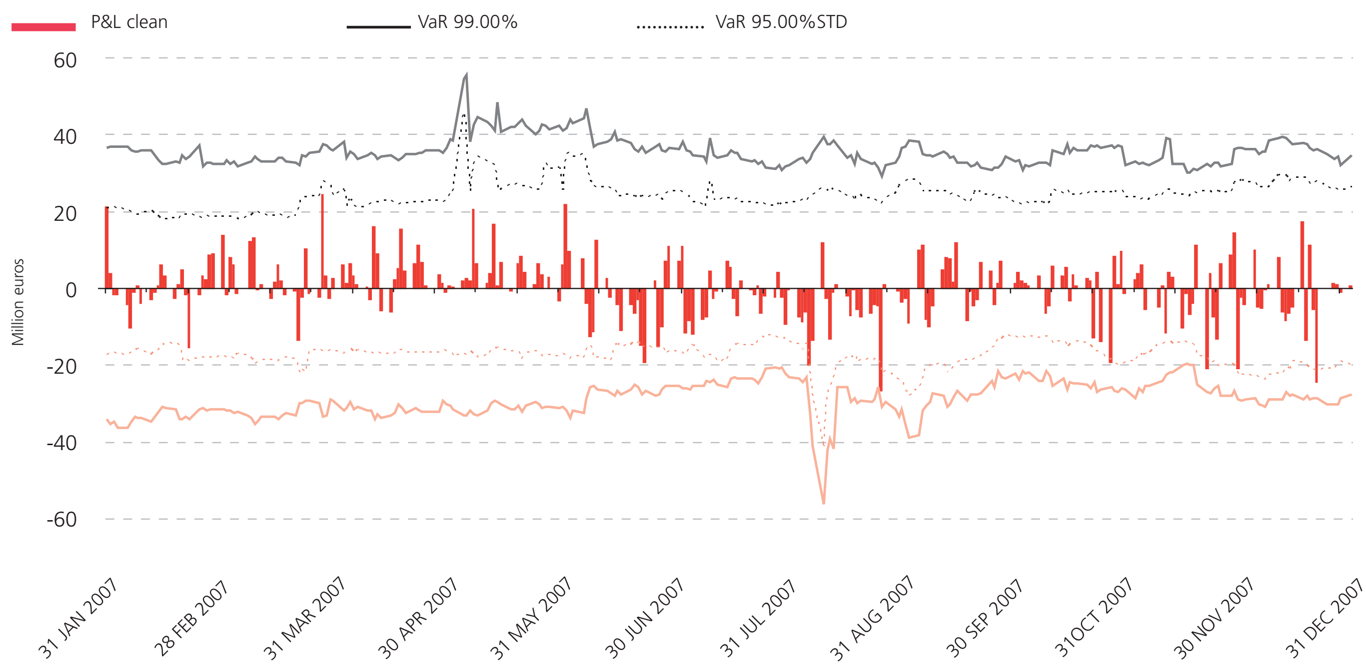
Million euros

	Minimum	Average	Maximum	Year-end
Total VaR	**4.1**	**7.8**	**20.5**	**9.6**
VaR diversification	(1.9)	(4.5)	(11.7)	(4.4)
Fixed income VaR	1.7	4.2	15.8	5.9
Equity VaR	2.2	4.0	8.7	3.2
Currency VaR	1.0	4.1	12.1	4.9

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 2007 the Group carried out regular analysis and contrasting measures which confirmed the reliability of the model.

BACKTESTING OF BUSINESS PORTFOLIOS: DAILY RESULTS VERSUS PREVIOUS DAY'S VALUE AT RISK



Analysis of scenarios

Various scenarios were analyzed in 2007. The chart below shows results for December 31, 2007 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, 2007, the results of each product (fixed-income, equities and currencies), in a scenario in which a volatility equivalent to six standard deviations in a normal distribution is applied (interest rate rises, falls in stock markets, the dollar's slide and the rise in volatility).

MAXIMUM VOLATILITY STRESS TEST

Million euros

	Fixed income	Equities	Exchange rate	Volatility	Total
Total trading	**-19.2**	**-5.7**	**-35.4**	**7.4**	**-52.9**
Europe	14.9	0.4	-2.6	7.3	20.0
Latin America	-36.2	-5.5	-34.1	0.1	-75.7
US (New York)	2.0	-0.5	1.4	0.0	2.9

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the MtM result would be, if this scenario materialized in the market, EUR 52.9 million and concentrated in Latin American fixed-income and exchange-rate positions.

B. BALANCE SHEET MANAGEMENT[1]

B1. Interest Rate Risk

a) Convertible currencies

At the end of 2007, the sensitivity of net interest margin at one year, to a parallel rise of 100 basis points in the euro yield curve , was EUR 362 million negative, almost all corresponding to the parent bank. The sensitivity of the net interest margin of other convertible currencies was insignificant.

In addition, at the end of 2007 the sensitivity of net worth to parallel rises of 100 basis points in the most main interest rate curves was concentrated in the euro curve (EUR 161million negative), with Banesto the main contributor, and in the sterling curve (£197 million negative).

Generally speaking, during the second half of 2007 balances were positioned to protect them from a scenario of interest rate cuts.

1 Includes the total balance sheet except for the trading portfolios.

MATURITY AND REPRICING GAPS

Structural gap parent bank-holding. As of December 31, 2007

	Not sensitive	Up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Money and securities market		28,444	111	2,723	8,824	40,102
Loans	----	114,366	24,309	3,048	2,380	144,103
Permanent equity stakes	71,956					71,956
Other assets	6,120	33,105	----	----	----	39,225
Total assets	**78,076**	**175,915**	**24,420**	**5,771**	**11,204**	**295,386**
Money market	----	28,253	10	2	----	28,266
Customer deposits	----	16,601	10,139	12,562	13,121	52,423
Debt issues and securitisations	----	120,565	113	1,107	245	122,231
Shareholders' equity and other liabilities	59,931	38,527	1,089	831	1,695	102,074
Total liabilities	**59,931**	**203,946**	**11,552**	**14,502**	**15,062**	**304,994**
Balance sheet Gap	**18,144**	**(28,032)**	**12,869**	**(8,732)**	**(3,858)**	**(9,608)**
Off-balance sheet structural Gap	**----**	**10,172**	**2,465**	**731**	**(494)**	**12,873**
Total structural Gap	**18,144**	**(17,859)**	**15,333**	**(8,001)**	**(4,352)**	**3,265**
Accumulated Gap	**----**	**(17,859)**	**(2,526)**	**(10,527)**	**(14,879)**	**----**

b) Latin America

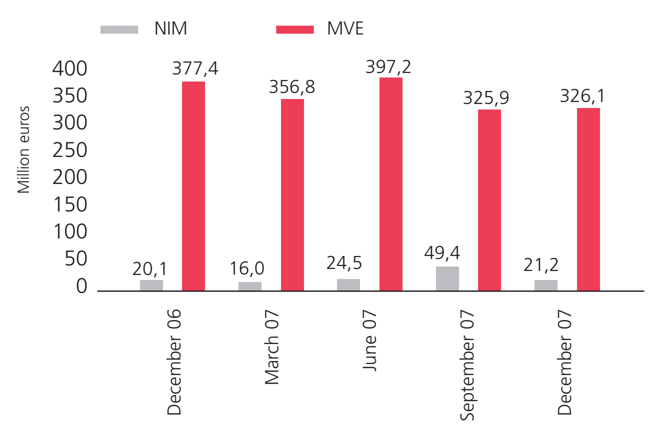
(1) Quantitative analysis of risk

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 2007 at low levels and moved within a narrow band (maximum of EUR 54 million in October). In terms of equity sensitivity, it fluctuated in a wider range of between EUR 300 million and EUR 400 million, with a downward path in the second half of the year mainly because of reduced positions of the portfolio in Mexico. The aim of this portfolio of government securities in local currencies and interest rate swaps is to cover possible future losses in net interest margin.

At the end of 2007, the risk consumption for the region, measured by the market value of equity sensitivity to 100 basis points, was EUR 326 million (EUR 377 million in 2006), while that of the net interest margin at one year, measured by its sensitivity to 100 basis points, was EUR 21 million (EUR 20 million in 2006).

LATIN AMERICAN RISK PROFILE EVOLUTION

(Sensitivity of NIM and MVE to 100 b.p.)



Interest rate risk profile at the end of 2007

The gap tables show the risk maturity structure in Latin America at the end of 2007.

STRUCTURAL GAP LATIN AMERICA

Million euros

	Total	0-6 months	6-12 months	1-3 years	Over 3 years	Not sensitive
Local currency						
Assets	104,788	57,014	3,957	14,557	14,937	14,208
Liabilities	105,690	66,334	4,285	12,320	2,841	19,910
Off-balance sheet	77	-806	6,047	-7,125	1,435	526
Gap	**-825**	**-10,232**	**7,096**	**-5,381**	**12,967**	**-5,274**
Foreign currency						
Assets	23,636	13,984	2,165	1,985	3,504	1,998
Liabilities	22,734	14,041	3,497	1,807	2,680	708
Off-balance sheet	-77	-1,330	-11	221	1,262	-219
Gap	**825**	**-1,387**	**-1,343**	**399**	**2,086**	**1,071**

(2) Geographic distribution

Financial margin sensitivity

For the whole of Latin America, the consumption at the end of 2007 was EUR 21 million (sensitivity of the financial margin at one year to rises of 100 b.p.). The geographic distribution is shown below.

NIM SENSITIVITY BY COUNTRIES

	%
Puerto Rico	36.1%
Brazil	20.5%
Chile	19.0%
Venezuela	16.0%
Mexico	3.7%
Argentina	3.5%
Other countries	1.2%

Other countries: Colombia, Panama, Santander Overseas and Uruguay

More than 90% of the risk was concentrated in four countries, Puerto Rico, Brazil, Chile, and Venezuela.

Market Value of Equity sensitivity

For the whole of Latin America, the consumption at the end of 2007 was EUR 326 million (sensitivity of MVE to rises of 100 b.p in interest rates). The geographic distribution is shown below.

MVE SENSITIVITY BY COUNTRIES

	%
Chile	36.9%
Brazil	26.3%
Puerto Rico	16.9%
Mexico	10.9%
Argentina	6.4%
Venezuela	1.5%
Other countries	1.1%

Other countries: Colombia, Panama, Santander Overseas and Uruguay

More than 90%of the risk is concentrated in four countries: Chile, Brazil, Puerto Rico and Mexico.

The table below shows the average risk in VaR terms of balance sheet management in Latin America at the end of 2007 (EUR 79.4 million) was mainly concentrated in Chile.

DISTRIBUTION OF BALANCE SHEET RISK MANAGEMENT (VaR)

	%
Chile	59.6%
Venezuela	12.6%
Mexico	8.9%
Argentina	7.7%
Brazil	7.5%
Puerto Rico	3.7%

B2. Structural management of credit risk

Structural management of credit risk aims to reduce the concentrations which naturally occur as a result of commercial activity, through the sale of assets. These operations are financed by the acquisition of other assets which enable the lending portfolio as a whole to be diversified. The Financial Management Area analyses these strategies and makes management proposals to the Assets and Liabilities Committee in order to optimise exposure to credit risk and help to create value.

During 2007:

- EUR 44,500 million of loans were securitised, of which EUR 30,250 million were placed in the market. In the secondary market EUR 1,000 million of securitisation bonds (AAA and AA), EUR 96.5 million (BBB) and EUR 14.6 million (BB) were sold
- Hedging of securitisation bonds (EUR 2,400 million value).
- In the second half of 2007, and due to the deterioration in the credit market, EUR 2,500 million of AAA securitisation bonds were re-bought, as the high spreads did not justify their underlying risk.

B3. Management of structural liquidity

Structural liquidity management aims to finance the Group's recurring activity in optimum conditions of maturity and cost and avoid assuming undesired risks.

Santander manages its liquidity on the basis of a comfortable structural liquidity position because of its retail banking nature and **its management principles based on prudence and anticipation.** They are the following:

- Comfortable structural liquidity position. Santander is fundamentally a retail bank and so customer deposits are the main source in its financing structure of liquidity. These deposits added to capital and the rest of similar instruments enable us to cover most of the Group's liquidity needs, making financing in the wholesale markets small.

In Latin America, the larger volume of deposits than loans means that financing in the wholesale markets is in practice residual, and basically for reasons of presence and diversification. For the rest of the Group (denominated as "area of convertible currencies"), the deposits added to the permanent funds in the balance sheet (capital and similar liabilities) cover around three-quarters of loans net of securitisations. In convertible currencies, only one-quarter of unsecuritised loans are financed via the wholesale markets with medium- and long-term debt with an adequate structure.

- Ample access to the wholesale liquidity markets on the basis of high short- and long-term ratings. In the last two years, all the rating agencies have upgraded Santander's long-term rating, bringing it at the end of 2007 to AA or higher (Moody's rating is Aa1, equivalent to AA+; the other three put it at AA), and all of them with stable outlook.

- Diversification of markets and instruments to obtain liquidity. The Group has an active presence in a broad and diversified series of financing markets, limiting dependence on specific markets and maintaining available a comfortable capacity of recourse to the markets.

  This enables us to have an adequate structure of medium- and long-term issues, with reduced recourse to short-term wholesale financing (at the end of 2007, commercial paper and notes only accounted for 7% of total wholesale financing). This structure is based on securitisations (around one-third of the total) and a portfolio of medium- and long-term issues (around 60% of the total), well diversified by products and with an average maturity of 4.4 years.

- High capacity to obtain liquidity in the balance sheet. The Group maintains in its balance sheet a diversified portfolio of liquid assets or those that are so in the short time appropriate to its positions. In addition, the Group has a large amount of assets available in the European Central Bank that can be discounted (around EUR 30,000 million on average in the first quarter of 2008).

- Independence of the subsidiaries in financing within a centralised management. The most important subsidiaries, except for Santander Consumer Finance, must obtain its financing in wholesale markets in accordance with its needs, establishing its own liquidity plans and contingencies, without recourse to lines from the parent bank to finance its activity.

  The Group, as a holding, carries out the functions of control and management, which means planning the funding needs, structuring the financing sources, optimising their diversification by maturities, instruments and markets, as well as defining the contingency plans.

In practice, the Group's liquidity management consists of the following:

- A liquidity plan is drawn up every year, based on the financing needs resulting from the business budgets. On the basis of these needs, and bearing in mind the limits on recourse to short-term markets, the year's issuance and securitisation plan is established.

- During the year the evolution of financing needs is regularly monitored, giving rise to changes to the plan.

- Control and analysis of liquidity risk is also very important. Its first objective is to ensure the Group maintains acceptable levels of liquidity to cover its financing needs in the short- and long-term under normal market situations. Various measures are used to control the balance sheet such as the liquidity gap and liquidity ratios.

  Various scenarios are also analysed (stress scenarios) in which additional needs are considered that could arise because of different events of extreme but plausible features. By doing this, all eventualities are covered which, with a greater or lesser probability, could affect the Group and enable it to prepare the corresponding contingency plans.

  The analysis conducted in the last four months of 2007 showed that the Group, even in a scenario of scant demand for medium- and long-term issues, maintained a comfortable liquidity situation.

The main aspects of structural liquidity management in 2007 were as follows.

The Group's units in convertible currency areas captured during the whole of the year EUR 44,000 million in medium- and long-term issues in the wholesale markets and securitised assets for another EUR 44,500 million.

The Group was particularly active in the first half of 2007 in capturing medium- and long-term funds in the capital markets, at a time when these markets showed a very positive situation in terms of liquidity as well as costs. This enabled us to face the deterioration in the markets in the second half of the year in a very comfortable position.

As of the summer of 2007, the Group only made some one-off operations via transactions placed at a very reasonable cost bearing in mind the markets' situation. Of note was the issue of EUR 7,000 million of bonds to finance the acquisition of ABN AMRO assets (to be converted into shares of the Bank), which were placed among Santander Branch Network customers in Spain ("Valores Santander").

The Group also took advantage of the second half of the year to develop short-term financing markets (commercial paper, CDs). Thanks to our conservative liquidity management policies, the Group maintained a very small recourse to short-term institutional financing, enabling us to go to these sources when there are tensions in the longer maturity markets.

The Group's structural liquidity situation (with 75% of its needs covered via deposits and permanent funds of the balance sheet in the area of convertible currencies and more than 100% in the Latin American banks) and the quantity and quality of our liquid assets have enabled and enable us to maintain normal lending activity.

C. Structural exchange-rate risk/hedging of results

Structural exchange rate risk arises from Group operations in currencies, mainly related to permanent financial investments, and the results and the dividends of these investments.

This management is dynamic and seeks to limit the impact on equity of currency devaluations and optimise the financial cost of hedging.

As regards the exchange-rate risk of permanent investments, the general policy is to finance them in the currency of the investment provided the depth of the market allows it and the cost is justified by the expected depreciation. One-off hedging is also done when a local currency could weaken against the euro significantly more quickly than the market is discounting.

At the end of 2007, the Group had hedged through options structures all its significant stakes in its foreign subsidiaries (including Banco Real). This protected the Group from the impact on its capital as of a certain level of currency devaluation.

In addition, the expected exchange rate risk of the Group's results and dividends in those units whose base currency is not the euro is managed. In Latin America, local units manage the exchange rate risk between the local currency and the dollar, the currency used to manage the region. Financial Management at the consolidated level is responsible for its part of the risk management between the euro and the rest of convertible currencies.

D. Exposures related to assets or special businesses

Grupo Santander's exposure to instruments and complex structured vehicles is very limited:

- No exposure to subprime mortgages;
- No material exposure subject to Mark-to-Model;
- Limited exposure to hedge funds, asset-backed securities, monoliners, conduits, etc;

This policy meant that this type of activity had no negative impact on the Group's results.

Santander's policy regarding the approval of new operations has traditionally been very prudent and conservative, as it is subject to strict supervision by the Group's senior management. Before giving the green light to a new operation, product or underlying asset, the Risks Division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: Mark-to-Market, Mark-to-Model or Mark-to-Liquidity.
- The availability in the market of the necessary inputs to be able to apply this valuation model.

The two previous points must always be met,

- The availability of appropriate systems and 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.

Without detriment to the Group's limited exposure to businesses or special vehicles, this is currently specified in:

- CDOs and other complex credit instruments: the Group's total exposure to these instruments is small (less than EUR 25 million).
- Hedge funds: the main exposure is via the financing to these funds (counterparty risk). This exposure, however, is not significant (EUR 1,906 million at the end of the year, of which EUR 101 million was in trading portfolios and the rest in investment portfolios) and with low levels of Loan-to-Value of around 45% (collateral of EUR 4,227 million at the end of the year).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.
- Investments in structured investment vehicles (SIV), SIV-Lites and other investment vehicles with high leverage: no exposure.
- Conduits: at the end of 2007, the Group had two conduits promoted in the past, which have always been in the Group's perimeter of consolidation:
  - Altamira: at the end of 2007 it had total assets of EUR 276 million, none of them related to mortgage operations. At that date, it was in the process of being wound down and integrated into the Group's standard structure.
  - Cantabric: at the end of 2007 total assets amounted to EUR 183 million. The underlying asset is short-term commercial paper generated by retail banking activity in Spain, with a high degree of diversification and small nominal amounts.
- Monolines: Santander's exposure to these bond insurance companies at the end of 2007 was less than EUR 350 million, mainly concentrated in the indirect exposure (EUR 342 million), by virtue of the guarantee provided for this type of entity to various financing operations or traditional securitisation. The exposure in this case is double default; the primary underlying assets are of high credit quality (mostly AA). The small remainder is direct exposure (for example, via purchase of protection against the risk of non-payment by some of these insurers through a credit default swap).

E. Structured Financing Operations

Grupo Santander, in this sphere, has a low exposure and activity diversified by products, sector and number of operations. The exposure at the end of 2007 for 351 transactions was EUR 16,926 million, as follows: EUR 10,060 million (103 transactions) in acquisition finance; EUR 5,524 million (213 transactions) in project finance; and the rest in leveraged buy-outs (LBOs) and other modalities. Writedowns were not necessary in the investment portfolio. There has been no significant LBO since July 2007.

4. 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 purely operational events, which makes them different from market or credit risks.

The objective is to identify, valuate, mitigate and monitor this risk.

The Group's greatest need, therefore, is to identify and eliminate risk focuses, regardless of whether they produce losses or not. Measurement also helps management as it enables priorities to be established and the creation of a decision-making hierarchy.

Grupo Santander opted, in principle, to use the standard method for calculating regulatory capital by operational risk, envisaged in the BIS II rules. The Group is weighing up the best moment to adopt the focus of Advanced Models (AM), bearing in mind that a) the short-term priority centres on its mitigation; and b) most of the regulatory requirements established for being able to adopt the AM must already be incorporated into the Standard Model and this has already been done in the case of Grupo Santander's operational risk management model.

Management model

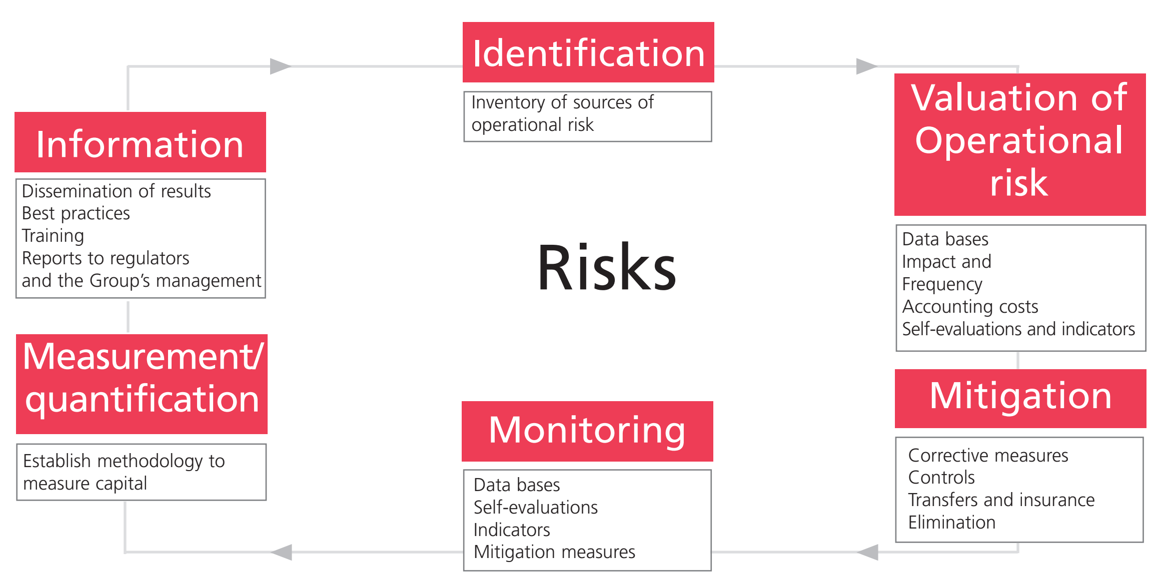
The Central Unit, which supervises operational risks and is responsible for the Group's global corporate programme, assesses and controls this type of risk.

The management structure of operational risk is based on the knowledge and experience of executives and experts in the different areas and units. Particular importance is attached to the role of operational risk coordinators, who are the key figures in the organisational framework.

Grupo Santander has adopted the following framework for the phases of the process for managing operational risk:

The main advantages of the Group's management structure are:

- Integral and effective management of operational risk (identification, evaluation, monitoring, control/mitigation and report).
- Provides better knowledge of existing and potential operational risks and the responsibility for them by managers of the business and support lines.
- Drawing up of data on losses, enabling operational risk to be quantified for calculating both the economic and the regulatory capital.
- Operational risk information helps to improve the processes and controls, reduce losses and the volatility of revenues.



Implementing the model: global initiatives and results

The Corporate Department of Management and Control of Operational Risk, part of the Risks Division, has been operating since 2001. Its main functions, activities developed and global initiatives can be summed up as follows:

- Foster mitigation plans: controlling implementation of corrective measures as well as projects underway.
- Presentations to senior management and development of internal rules.
- Designation of coordinators and the creation of operational risk departments.
- Training and exchange of experiences: communicating the best practices within the Group.
- Design and putting into effect qualitative and quantitative operational risk tools.
- Conciliation of data bases of losses - accounting.
- Developments for the automatic capturing of events through accounting systems.
- Development of the corporate operational risk tool in a web-based environment.
- Collaboration with the procurement area regarding its function in managing banking insurance related to operational risk (BBB policies, damage, civil responsibility and life).
- Fostering contingency and business continuity plans.

The project began to be installed in the Group's different entities in 2002. Almost all the Group's units are already incorporated to the project with a high degree of uniformity. Nonetheless, due to different paces of adoption, stages, schedules and the historical depth of the relevant data bases, the degree of implementation varies from country to country.

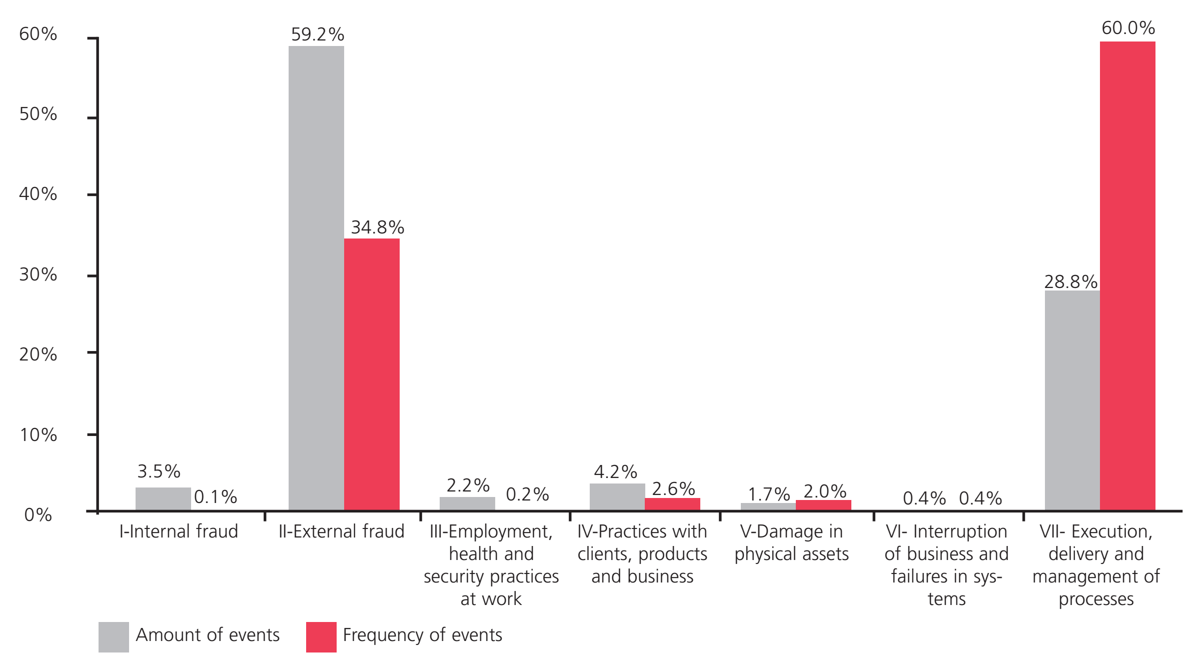
On a general basis:

- Data bases of losses classified by errors and operational types are received every month. The Group's data base shows events (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.
- Operational risk indicators are available, regularly defined and updated by the main management units.
- There are always a sufficient number of coordinators in the business and back-up areas.
- The main events are identified and analysed, and mitigation measures taken which, in significant cases, are disseminated to the Group's other units as a Best Practices guide.
- Processes are conducted to conciliate data bases with accounting.

By consolidating the total information received, the Group's operational risk profile is reflected in the following charts:

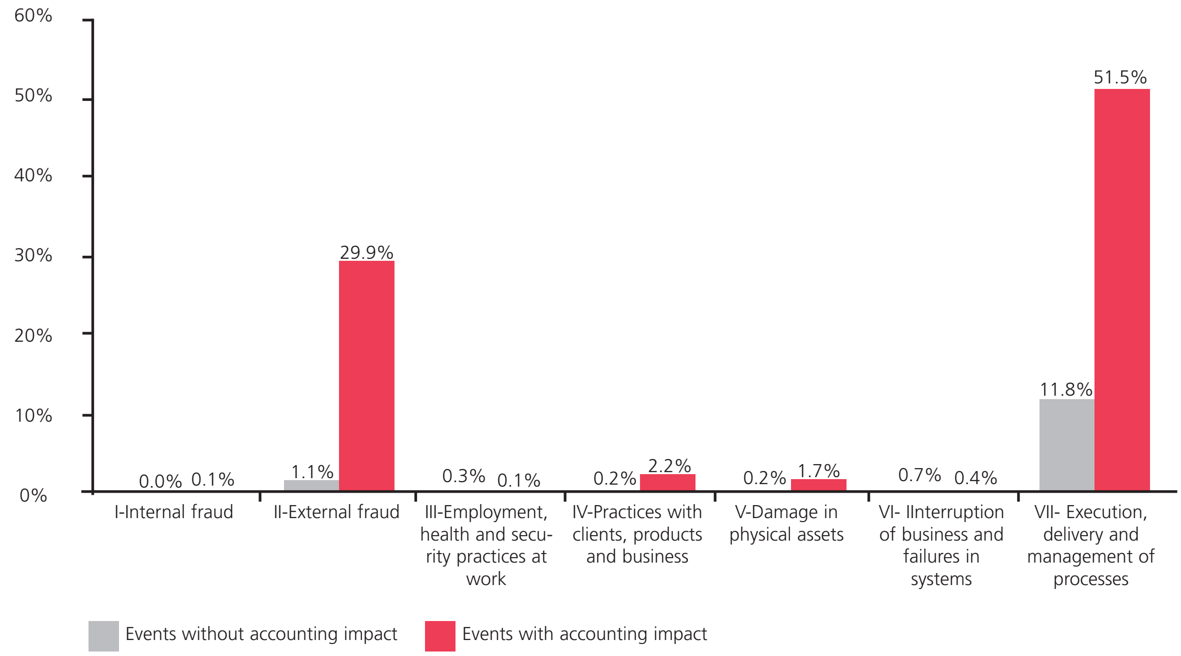
GRUPO SANTANDER: DISTRIBUTION OF AMOUNT AND FREQUENCY OF EVENTS BY TYPE

2007



GRUPO SANTANDER: DISTRIBUTION OF THE NUMBER OF EVENTS BY TYPE

2007



GRUPO SANTANDER: DISTRIBUTION OF AMOUNT AND FREQUENCY OF EVENTS BY AMOUNTS

2007

The following is an example of the self-assessment questionnaires used in Grupo Santander and shows the consolidated results for the main management units:

GRUPO SANTANDER: OPERATIONAL RISK SELF-ASSESSMENT QUESTIONNAIRES

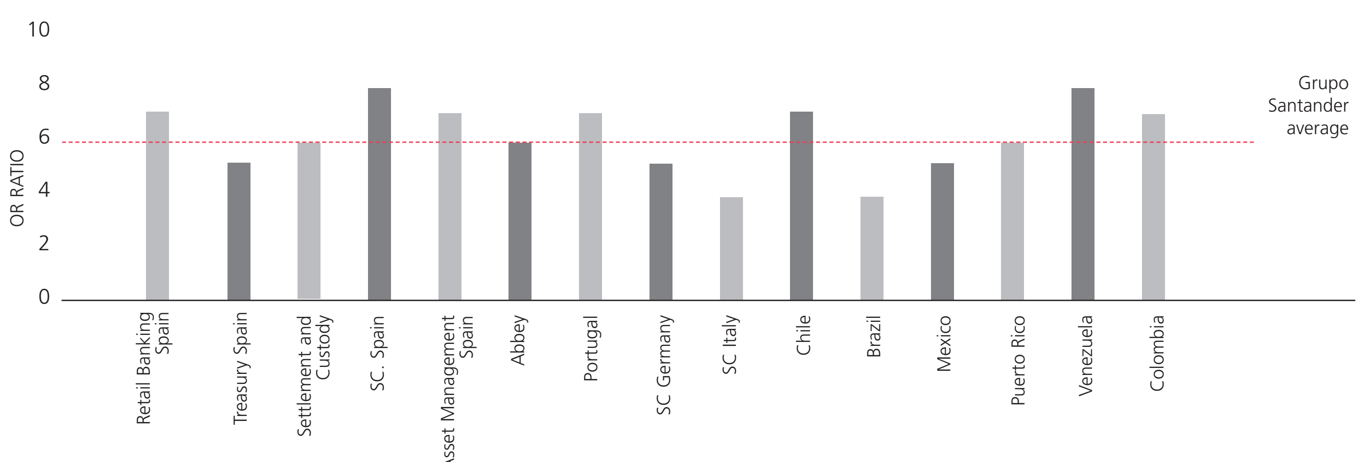
2007

General questionnaires	Average of all areas		Average of business areas		Average of support areas		Product Total	Product Business Areas	Product Support Areas
	Impact OR	Coverage	Impact OR	Coverage	Impact OR	Coverage			
I- Internal fraud	3.2	2.2	3.0	2.1	3.0	2.2	6.8	6.5	6.7
II- External fraud	3.0	2.0	3.2	1.9	2.8	2.1	6.0	5.9	6.0
III- Employment practices, health and security at work	2.8	2.0	2.8	2.0	2.5	2.0	5.5	5.6	5.0
IV- Practices with clients, products and business	3.0	1.9	3.1	1.9	2.9	2.0	5.7	5.9	5.7
V- Damage to physical assets	3.1	2.2	2.8	2.1	3.1	2.3	6.8	5.9,	7.2
VI- Interruption in business and systems failure	3.4	2.1	3.2	2.0	3.2	2.2	7.0	6.5	6.9
VII- Execution, delivery and management of processes	3.1	1.9	3.2	2.0	2.9	2.0	6.0	6.5	5.8
Total average	**3.1**	**2.0**	**3.1**	**2.0**	**2.9**	**2.1**	**6.3**	**6.1**	**6.2**

Notes:
Impact on OR: 1- without impact; 2- small impact; 3- medium impact; 4- high impact; 5-maximum impact
Hedging of OR: 1- maximum; 2- high; 3- medium; 4- small; 5- zero.
The total result comes from multiplying the impact classification by the coverage classification.

There is also a chart comparing the average results obtained by Group Santander in each of the areas/units that filled out the questionnaire:

GRUPO SANTANDER: OPERATIONAL RISK SELF-ASSESSMENT QUESTIONNAIRES



Analysis and monitoring of controls in market operations

The turbulence in financial markets during 2007 and the increase in operational risk derived from the increasing complexity of financial instruments make it necessary to continuously strengthen the operating control efforts of activity in financial markets in the Group, enhancing the very demanding and conservative risk and operating principles that Grupo Santander already regularly applied.

Over and above regular tracking of all aspects regarding operating control, in all the Group's units more attention was paid to the following aspects, so that the review is validated every month by the Management Committee of each unit. Of note, among other factors, 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 risk mitigating.

Corporate Reporting

The Corporate Department of Operational Risk developed during 2005 a system for Integral Management of Operational Risk Information, updated every quarter, which consolidates the information available from each country/unit in the operational risk sphere, so that there is an integral vision with the following features:

- Two levels of information: one corporate and the other individualised for each country/unit.
- It enables, via maintaining a data base of events and mitigating measures, the best practices to be disseminated among countries/Grupo Santander units.

This tool collects information on:
- 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 base for meeting the reporting needs to the Board's Risks Committee, senior management, regulators, rating agencies, etc.

Insurance in the management of operational risk

Grupo Santander has been a pioneer in using 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 activities that entail improvements in both areas. For example:

- Cooperation in the exposure of the Group's operational risk control and management model with insurance and reinsurance companies.
- Analysis and monitoring of recommendations and suggestions to improve operational risks made by insurance companies, via prior audits conducted by specialised companies, as well as their subsequent implementation.
- Exchange of information generated in both areas in order to strengthen the quality of data bases of errors and the perimeter of coverage of insurance policies on different operational risks.
- Close cooperation between local coordinators of operational risk and local coordinators of insurance, in order to enhance mitigation of operational risk.
- Regular meetings on specific activities, states of situation and projects in both areas.
- Active participation of both areas in the unit for Global Sourcing of Insurance, the Group's maximum technical body for setting coverage strategies and contracting insurance.

As a result of this cooperation, Grupo Santander has insurance policies catalogued by type of operational risk according to internal and BIS II classification. At the end of 2007, 90% of banking business was catalogued.

GRUPO SANTANDER: TYPES OF COVERAGE

Object of protection	Type of coverage / BIS II category covered	Policy
Protection of the activity	Financial / I Internal fraud and II external fraud	Integral Banking Policy (BBB)
		Cash and securities
		Safes
	Assets/ V Material damages	Material damages
		Cars
	Civil responsibility / IV Practices with clients, products and business and V Damage to physical assets	Civil responsibility
		Professional indemnity
		Directors & Officers
Protection of employees	Employees / III Employment practices, health and safety at work	Life and personal accident
		Health
Product support	Products / I Internal fraud and II external fraud	Cards
		Current accounts

The BBB policy protects us, for example, from disasters such as internal fraud, theft, electronic crime, forgery and fraudulent mortgages.

5. BASEL II CORPORATE PROJECT

Santander has been firmly committed right from the start to the principles behind the Revised Framework of International Convergence of Capital Measures and Rules (Basel II). This framework will enable institutions to conduct internal estimates of capital to ensure solvency in the event of circumstances caused by different types of risk. As a result of this commitment, Grupo Santander has assigned all the human and material resources needed to ensure Basel II is successfully implemented. Several years ago a Basel II team was formed from the Group's different areas (mainly, Risks, Technology, Financial Controller, Operations, Financial, Internal Auditing – verifying the whole process, as the last element of control of the entity – and Business – above all in everything to do with advanced integration of internal models in management). Furthermore, specific teams have been put together to tackle various specific events so that the project's most complex aspects are appropriately managed.

As well as this Basel II operational team, senior management has been very involved from the onset. The Corporate Supervision Committee, chaired by the Group's third Vice-Chairman and head of the Risks Division, supervises at the highest level the launch of initiatives in the Basel II corporate project, controlling their milestones of compliance, assigning staff and approving budgets, as well as assuming institutional representation of the Group for these purposes. The Management Committee and the Board were also informed of the progress made in the project and the implications for the Group of the New Capital Accord.

In the specific case of credit risk, Basel II means recognising, for regulatory capital purposes, the internal models that have been used for management purposes for some time, and which led in their day to their approval, by our regulator, for calculating statistical provisions (known as FONCEI) in certain segments of risk.

Santander has proposed adhering to the Advanced Internal Ratings Based (AIRB) models of Basel II for exposures which represent close to 95% of the Group's total. The institutions which plan to install this new system for calculating regulatory capital as of January 2008 (the first year allowed by the Bank of Spain) are: Santander (parent bank), Banesto and Abbey whose portfolios account for around 70% of exposure. The rest of the most significant units will gradually adopt the AIRB focus in accordance with the schedule sent to the Bank of Spain and to the various local regulators.

During 2007 supervisory validation was conducted by both the Bank of Spain as well as the Financial Services Authority (FSA). At the end of 2007 the FSA authorised local use of Abbey's models for the requested segments (portfolios of financial institutions, social housing, retail, including mortgages). In the case of Santander (parent bank) and Banesto, the decision is pending for the entry into force of the relevant regulation which will empower the Spanish supervisor to grant this kind of authorisation.

Given the medium-low risk profile characteristic of Santander's businesses, very focused on retail banking (SMEs and individual customers), Bank of Spain authorisation is expected to generate significant capital savings in Pillar 1 which establishes the capital requirements for covering credit, market and operational risks. The global savings that will materialise for Santander from implementing Basel II will depend on the result of the Proposal of Self-Assessment of Capital (which develops Pillar II) which takes into account the impact of the risks not considered in Pillar I as well as the benefits related to diversification by risks, businesses and geographic areas.

Aside from the supervisory validation process, Santander also completed in 2007 the necessary internal technological developments which envisage for all business units a common structure of data bases and engine of calculation supporting the processes for estimating the parameters (PD, LGD and EaD) and calculating capital at the local and corporate levels. This focus achieved the triple objective of installing in each unit the corporate criteria established, covering the existing local requirements and attaining a synergy in costs through global definitions and developments.

In addition, and although the internal models of risk have been actively deployed for some time in many of the Entity's processes (setting limits, admission, tracking, pricing and/or calculating risk adjusted returns, according to portfolios), work continued on various initiatives identified for advancing in integrating these models into active management of the Entity in order to extend this practice to all portfolios and further their effects.

As regards the rest of risks explicitly envisaged in Pillar I of Basel II, in Market Risk we continued the lines of work defined some time ago in the Group for authorisation of the internal model – based on calculating VaR – for regulatory purposes (one should remember that Basel I includes recognition of the internal model of Market Risk). In Operational Risk, the Group decided to adopt the standard focus for calculating regulatory capital insofar as the objective of mitigation of this risk is appropriately articulated through all the requirements of this focus. With this objective in mind, work continued on identifying and mitigating this risk in the Group; progress was made in developing corporate tools for self-assessment, setting and tracking of indicators, capturing events, etc.

Pillar II is another important line of work of the Basel II Corporate Project. As well as reviewing the methodology of the Economic Capital model (supported by the Integral Framework of Risks tool), a technological approach to the platform supporting Pillar I is being made so that all the information related to Credit Risk comes from the same source. The Group's Economic Capital model has already been presented to the European regulators in the countries where Santander conducts activity (Supervisory College). The model is due to be profoundly reviewed by regulators during 2008.

Internal validation of internal risk model

Internal validation is an unavoidable prerequisite for authorisation from the supervisory body, and consists of a specialised and sufficiently independent unit within the institution obtaining a technical opinion on whether the internal model is appropriate for the purposes used (internal and regulatory) and concluding on its usefulness and effectiveness. Moreover, it must evaluate whether the risk management and control procedures are appropriate for the entity's strategy and risk profile.

Internal validation also constitutes 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, as senior management must ensure the Entity has the appropriate procedures and systems for monitoring and controlling credit risk.

The model covers systems and strategies for classifying clients and operations, estimating the parameters of risk (PD, LGD and EaD), technological systems that make implementation effective and, in general, all relevant aspects for the advanced management of risk (controls, reporting, uses, involvement of senior management, etc). The purpose of internal validation is thus to review quantitative, qualitative and technological aspects and those related to corporate governance.

The function of Internal Validation is located, at the corporate level, within the Area of Integral Control and Internal Validation of Risk which reports directly to the Group's Third Vice-Chairman and Chairman of the Board's Risks Committee. This global function in the Group requires the internal validation of around 160 internal models of Credit Risk, in 13 different units and with nine local regulators. This makes it necessary to apply a common methodology for internal validation, ensuring coherence and consistency in the use of IRB models for calculating capital, both from the internal standpoint as well as the Bank of Spain's, independent of the degree of decentralisation of its execution, in the face of meeting the requirements of local regulators or because of the very nature of the tests.

This corporate methodology is supported by a series of tools developed internally in Santander which provide a robust framework for its application in all the Group's units and which automates some verifications so that the revisions are done effectively and efficiently.

Grupo Santander's corporate framework of internal validation is fully aligned with the criteria for internal validation of advanced models recently issued by the Bank of Spain. The criterion of separation of functions is maintained between Internal Validation and Internal Auditing which, as the last element of control in the Group, is responsible for reviewing the methodology, tools and work done by Internal Validation and to give its opinion on its degree of effective independence.

All the models of Spain-parent bank, Banesto and Abbey UK (36 in all) were internally validated during 2007 so that they could be authorised for regulatory use at the beginning of 2008.

6. ECONOMIC CAPITAL

Traditionally, the concept of economic capital has been contrasted with that of regulatory capital, as this is the one required for the regulation of solvency and which, until formal adoption of the new Basel II capital regulations, has been suffering from an insufficient sensitivity to risk. The new Basel II capital framework is undoubtedly going to bring both concepts closer together.

When calculating economic capital the Bank must decide the level of losses it wants to cover with economic capital (i.e. the level of confidence with which it wants to ensure the continuation of its business). In Grupo Santander's case, the desired confidence level to be attained with economic capital is 99.97%, above the 99.90% assumed by the regulatory capital formulas proposed in the New Basel Capital Accord. The difference between both levels means assuming a default probability for the Group of 0.03% instead of 0.1%, three times lower than the proposal of BIS II.

In terms of external rating, a confidence level of 99.97% requires having sufficient capital to attain a solvency level equivalent to an AA rating, while 99.90% would only allow a rating of A-, given the higher probability of default associated.

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 such as Santander. This economic capital model serves as the Group's base for preparing its Proposal of Self-assessment of Capital in accordance with Bank of Spain regulations under the Basel II Pillar II framework.

Within the framework of the model for the measurement and aggregation of economic capital, the risk of concentration for wholesale portfolios (large companies, banks and sovereigns) is particularly considered.

Global risk anaysis profile

The Group's risk profile at December 31, 2007, measured in terms of economic capital, is distributed by types of risk and the main business units, is reflected below.

Credit activity, which required 48% of the Group's economic capital, continued to be the main source of risk, followed by the market risk of the equity portfolio, more so as of the end of 2007 because of the treatment provided in the capital model to the stake in RFS Holding (Banco Real).

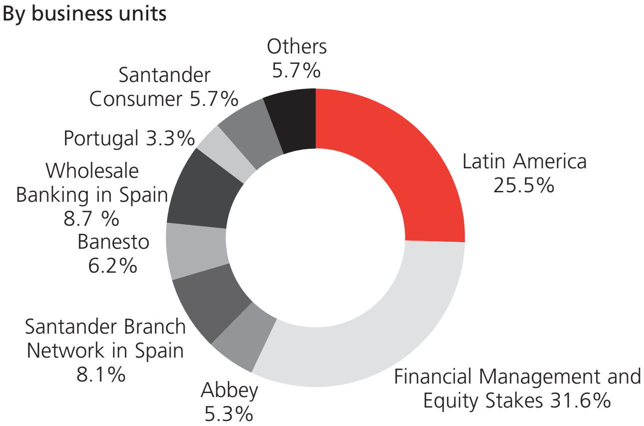
The distribution of economic capital among the main business units reflects the diversification of the Group's business. Latin America's share (25.5%) was lower than in 2006.

The Group's geographic diversification represents a profit of 23% on the consolidated economic capital and 18% the diversification between different types of risk.

The Group's risk adjusted return in 2007 was 28.9%. Some methodological aspects of the internal model of economic capital were reviewed during 2007. Bearing in mind these changes, the net variation over 2006 in the global RORAC was +4.6 p.p.

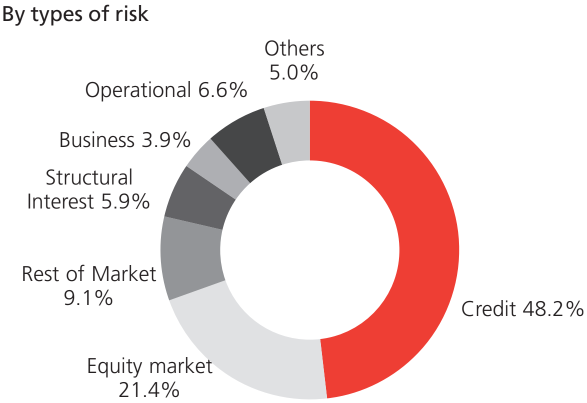
DISTRIBUTION OF ECONOMIC CAPITAL

By business units



DISTRIBUTION OF ECONOMIC CAPITAL

By types of risk



The Group periodically assesses the level and evolution of the creation of value (CV) and the risk adjusted return (RORAC) of its main business units. The CV is the profit generated above the cost of capital employed, and is done so by the following formula:

Creation of value = Economic profit – (average EC x cost of capital)

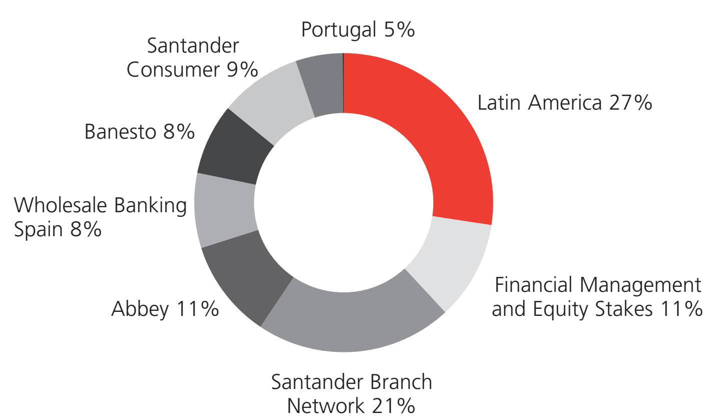
The economic profit is obtained by making the necessary adjustments to attributable profit so as to extract just the recurrent profit that each unit generates in the year of its activity. The cost of capital, which is the minimum remuneration required by shareholders, can be calculated objectively by adding to the risk-free return the premium that shareholders require to invest in our Group. This premium will essentially depend on the degree of volatility in the price of our shares in relation to the market's performance. The cost of capital calculated for 2007 is 9.7%.

All the main business units obtained in 2007 a RORAC higher than the cost of capital. The relative share of each business unit in the total value created (as previously defined, the value created represents the economic profit that exceeds the cost of capital) by the Group at December 31, 2007 is shown below.

The Group also conducts capital planning with the main objective of obtaining future projections of economic and regulatory capital and so assess situations of sufficiency of capital. Results' forecasts for the Entity are incorporated to the various scenarios in a coherent way, both with their strategic objectives (organic growth, M&A, pay-out ratio, etc) as well as the economic picture and in the face of stress situations, and possible capital management strategies are identified that enable the Bank's solvency situation to be optimised as well as the return on capital.

DISTRIBUTION OF THE CREATION OF VALUE

By business units



Grupo Santander's capital planning framework gives a global vision of the capital sufficiency situation for various time periods and stress scenarios, which, in turn, complement some aspects in the PAC guide, drawn up by the Bank of Spain in compliance with the objectives set in Pillar II of Basel II.

If one compares the economic capital results with available capital one can conclude that the Group is sufficiently capitalised to support the risk of its activity with a confidence level equivalent to an objective rating of AA.

Return On Risk Adjusted Capital methodology (RORAC)

Grupo Santander has been using RORAC methodology in its credit risk management since 1993, with the following purposes:

- To analyze and set prices during the decision-taking process for operations (admission) and clients (monitoring).
- To estimate the capital consumption of each client, portfolio or business segment, in order to facilitate the optimal allocation of economic capital.
- To calculate the level of provisions that correspond to average expected losses.

If one looks at each operation, the economic capital calculation is based on the same variables needed to calculate the expected loss (i.e. the client's rating, the maturity and the guarantees of the operation). By aggregation, the economic capital of the rest of the operations of this client can be calculated and, bearing in mind the appropriate factors of diversification/correlation, of a portfolio of clients, a business unit and the Bank as a whole.

The spread on operations must not only cover costs, including the expected loss or the cost of risk, but also be sufficient for an adequate return on the economic capital consumed by them.

As a result. RORAC methodology enables one to assess whether the return on a transaction covers costs of the risk – expected loss – and the cost of the capital invested in the transaction.

The minimum return on capital which a transaction must obtain is determined by the cost of capital. If an operation or portfolio obtains a positive return, it is contributing to the Group's profits, but it is not really creating value for the shareholder if the return does not cover the cost of capital.

RORAC methodology enables the return on operations, clients, portfolios and businesses to be made on a homogeneous basis, identifying those that obtain a risk adjusted return higher than the cost of the Group's capital, and so aligning risk and business management with the overall objective of maximising the creation of value.

7. REPUTATIONAL RISK

All areas of Grupo Santander regard management of the reputational risk of their activities as a key part of their business. The mains instruments for managing this risk in the sphere of marketing products and services are as follows:

Global Committee of New Products (GCNP)

All new products or services that any institution of Grupo Santander wants to market must be first submitted to this committee for approval.

The committee held 14 meetings in 2007 (two of them by writing and without meeting) at which 186 products or families of products were analysed.

A Local Committee of New Products is established in each country where there is a Grupo Santander institution. Once a new product or service is ready, this Committee must request permission from the Global Committee for it to be marketed. In Spain, the Local Committee falls within the Global Committee.

The areas that participate in the Global Committee of New Products, chaired by the Secretary General, are: Tax Advice, Legal Advice, Customer Service, Internal Auditing, Retail Banking, Global Corporate Banking, Santander Private Banking, Compliance, Financial Control and Management Control, Financial Operations and Markets, Operations and Services, Global Wholesale Banking Risks, Corporate Risks and IFIs, Credit Risks, Financial Risks, Risks-Methodology, Processes and Infrastructure, Operational Risks, Technology, Global Treasury, Universities and, lastly, the unit proposing the new product or a representative of the Local Committee of New Products.

Before a new product or service is launched, these areas, as well as, where applicable, other independent experts considered necessary in order to correctly evaluate the risks incurred (for example, Prevention of Money-laundering) , exhaustively analyse the aspects that could affect the process, stating their opinion on each product or service.

The Global New Products Committee, in the light of the documentation received, and after checking that all the requirements for approving the new product or service have been met and bearing in mind the risk guidelines set by the Board's Risks Committee approves, rejects or sets conditions for the new product or service.

The Global Committee gives particular consideration to the suitability of the new product or service to the framework where it is going to be marketed. Particular importance is attached to:

- Each product or service is sold by those who know how to sell it.
- The client knows what he or she is investing in and the risk of each product or service and this can be accredited with documents.
- The product or service is adjusted to 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 financial culture.
- When a product or service is approved, maximum placement limits are set.

Manual of Procedures for the Marketing of Financial Products

This manual, which has been used by Banco Santander since 2004 for the retail marketing of financial products in Spain, was profoundly reviewed in 2007, as a result of the entry into force on November 1 of Directive 2004/39 on Markets in Financial Instruments Directive (MiFID), which establishes new requirements for selling financial products.

The objective of the Manual is to guarantee: (i) the appropriate valuation of financial products before their commercial use; (ii) adequate development of commercial activities in accordance with the features of the service, product and client; and (iii) compliance with the regulations applicable to the marketing of financial products, including the MiFID.

The Manual covers the provision of 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 Global Committee of New Products can include other instruments in the sphere of the Manual of Procedures.

The Manual segments customers and products, and establishes different regimes of business treatment largely depending on the type of service being provided. The combination of these elements (category of client, type of product and commercial treatment) produces a matrix which determines the type of mechanism to be applied (test of advisability and suitability) in order to assess the adaptation of the client to the product, and the type of warnings to be issued to the client.

Customer and product segmentation comes from crossing the internal classification already applied by Santander before the MiFID to the classification established by the MiFID, with which a level of protection above the minimum required by the MiFID is attained.

The different types of commercial treatment, graded on the basis of greater to lesser involvement of the Bank, are: (i) advised sale, including, portfolio advice and management; and (ii) unadvised sale, which covers marketing and execution.

In 2007 120 products covered by the manual were submitted for approval. Most of them were mutual funds, but other categories such as warrants, hedging products, preferred shares and public offerings and/or subscription to securities were also authorised.

Of the 120 products, 68 were new ones submitted to the Global Committee and 52 were not new and were submitted to the Office of the Manual, created to ensure enforcement of the manual and part of Compliance Management. The 120 products were categorised as follows: 36 were classified as green (30%), 49 yellow (41%) and 32 red (27%). Three products were not assigned a colour: two because they are generic and a colour will be assigned for each issue and the other because its approval depended on a further review. The colour red, yellow or green is assigned not only on the basis of the risk of loss in each product, but also reflects the greater or lesser difficulty for customers to understand their features.

Of the 28 products approved as of November 1, 19 were catalogued as complex (under the MiFID) and nine as not complex.

The Board's Risks Committee, as the maximum body responsible for global management of risk and all types of banking transactions, assesses, with the support of the General Secretary Division, reputational risk in its sphere of action and decisions.

The Audit and Compliance Committee supervises the Group's reputational risk and monitors, among other functions, compliance with the Group's Code of Conduct in the Securities Markets, with the manuals and procedures to prevent money laundering and, in general, with the Bank's rules of governance and compliance. It also makes the necessary proposals for improvements.

The appendices of this Annual Report (pages 345 to 357) set out the Group's main activities in the sphere of Compliance and Prevention of Money-laundering. The Report of the Audit and Compliance Committee, issued by the Committee and distributed together with this Annual Report, contains a full description of its activities in 2007.

8. TRAINING ACTIVITIES IN RISKS

Santander has a Corporate School of Risks, which helps to consolidate the risk management culture in the Bank and guarantees the training and development of all risk professionals with homogeneous criteria.

The school, which gave 32,872 hours of classes to 3,032 employees during 2007, is the base for strengthening the Bank's leadership in this sphere by continuously enhancing the skills of all those working in the risks area.

The school also trains employees in other business segments, particularly the commercial area, aligning the demands of risk management with business objectives.

INTERNAL CONTROL MODEL AND AUDITOR'S REPORT

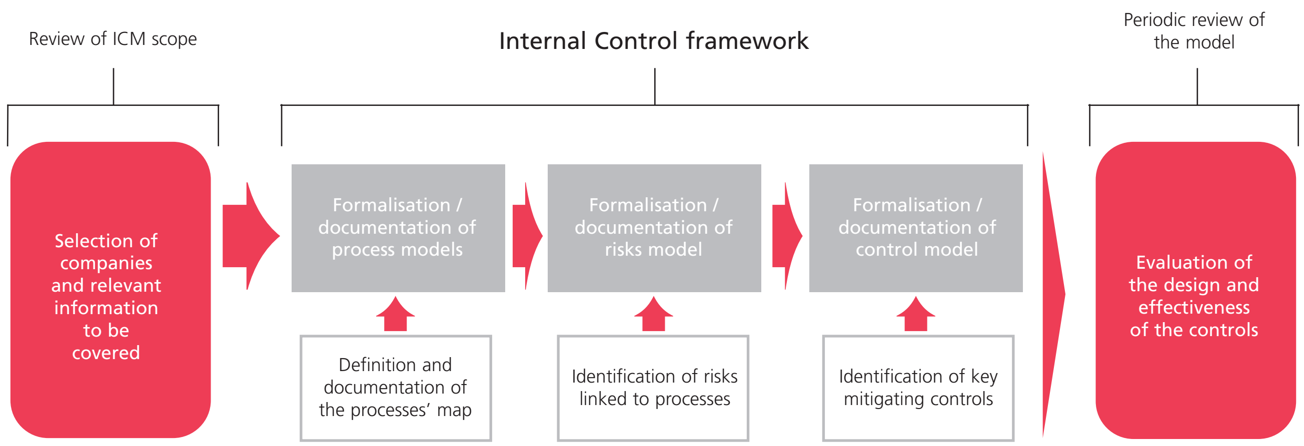
GRUPO SANTANDER'S INTERNAL CONTROL MODEL

DESCRIPTION

Grupo Santander's Internal Control Model (ICM) covers a series of processes and procedures made by management and other personnel and is designed to provide reasonable security in achieving the Group's control objectives.

In this context, the ICM meets the most exacting international standards and complies with the guidelines set by the Committee of Sponsoring Organisations of the Treadway Commission in its latest published form (Enterprise Risk Management Integrated Framework). This covers the control objectives regarding corporate strategy, effectiveness and efficiency of operations, reliability of financial reports and compliance with applicable laws and regulations.

GENERAL ICM FRAMEWORK



The ICM's scope has been installed in the Group's main companies using a common and homogeneous methodology, ensuring the inclusion of relevant controls and coverage of the accounting risks associated with financial statements and significant breakdowns included in them.

Identifying the potential risks that need to be covered by the ICM is done on the basis of management's knowledge and understanding of the business, taking into account qualitative criteria and the probability of occurrence, as well as qualitative criteria associated with the size, complexity and the very nature of the business.

Of note among the main features of Grupo Santander's ICM are the following:

- It is a corporate model which involves the entire organisational structure, through a direct framework of individually-assigned responsibilities.
- ICM management is decentralised in the Group's units, while coordination and monitoring is done by the Corporate Area of Internal Control, which facilitates criteria and general guidelines in order to homogenise and standardise procedures, validation tests, classification criteria and adapting to regulations.
- It is a broad model, with a global scope, which in order to ensure the integrity of its structure includes not only the activities linked to the generation of consolidated financial information – the main objective – but also those other procedures developed in the support areas of each entity, which while not directly impacting on accounting can cause possible losses or contingencies in the event of incidents, errors, non-compliance with regulations and/or fraud.

- It is dynamic, evolving continuously in order to reflect the reality of the Group's business, the risks affecting it and the controls mitigating the risks.

- It provides full documentation on the processes included in the scope, incorporating detailed descriptions of the transactions, the evaluation criteria and the reviewing of the ICM.

All the ICM documentation for each of the Group's companies is contained in a corporate technological tool, wholly developed by the Group's Technology Area, where more than 3,800 employees work with different levels of responsibility in the framework of Grupo Santander's internal control.

The system enables the user to analyse, consult and update the processes, risks and controls in real time, as well as, following authorisation, enabling external auditors or supervisory bodies to review it. This tool also supports the model's certification process, automatically ensuring its integrity.

Lastly, the ICM is examined by the Group's auditing firm, which informs the Audit Committee and issues its opinion on the effectiveness of the internal controls on generating the financial information in the Group's consolidated annual financial statements at December 31, 2007.

CONSOLIDATION OF GRUPO SANTANDER'S INTERNAL CONTROL MODEL

Grupo Santander has consolidated its ICM as a key factor in efficient management of risk, securing it as one of the pillars of its culture and management style. Management has taken advantage of all the efforts made by units to improve the quality of the already existing processes and strengthen the mechanisms for generating financial reports.

This consolidation process enabled the ICM to be adequately maintained during 2007, and, in turn, adapt it to the changing reality of business as well as to the changes in matters of methodology and best practices in internal control.

The ICM was a key element for Grupo Santander in covering the risks associated with critical aspects of the current corporate strategy such as the outsourcing of operations in Group companies, processes of technological convergence or internal organisational restructuring. At the same time, it was able to adapt the ICM to new methodological trends which arose during 2007 such as the Audit Standard Number 5, "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements" issued by the PCAOB as well as the "Commission Guidance Regarding Management´s Report on Internal Control Over Financial Reporting" issued by the SEC.

Grupo Santander also made a big effort to ensure application of a common and homogeneous methodology throughout the ICM sphere, incorporating corporate standards defined by the Corporate Area of Internal Control Sox only the models of those sub-groups with their own prior models.

The corporate sphere of the Group's ICM makes it necessary to constantly ensure an adequate level of updating, coordination and training of all levels of the Group involved in the model. In addition to the continuous renewal of the information in the Corporate Portal of Internal Control Sox, a communication channel between the various ICM users, in 2007 we developed on-line training courses and practical manuals on the methodology and functioning of the tool supporting the ICM, and corporate seminars on internal control were held. These were attended by more than 100 people from various countries in order to stimulate an exchange of experiences and best practices, as well as develop working groups on the main aspects of the ICM.

Deloitte.

Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
+34 915 56 74 30
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with Spanish professional Standards. In the event of a discrepancy, the Spanish-language version prevails.

To the Board of Directors of
Banco Santander, S.A.:

We have examined the effectiveness of Banco Santander, S.A. (the Bank) internal controls over financial reporting as included in the Santander Group's consolidated financial statements for the year ended 31 December 2007, prepared in conformity with International Financial Reporting Standards as adopted by the European Union. The aim of these controls is to contribute to the faithful recognition of the transactions performed, in accordance with the accounting principles and standards applicable thereto, and to provide reasonable assurance in relation to the prevention or detection of errors that might have a material impact on the consolidated financial statements. These controls are based on the policies and criteria defined by Bank management, which is responsible for ensuring that they remain effective. Our responsibility is confined to expressing an opinion on their effectiveness on the basis of the work we have performed.

Our examination was conducted in accordance with Spanish professional standards and, accordingly, included: obtaining an understanding of the internal controls over financial reporting as included in the consolidated financial statements; testing and evaluating the design and operating effectiveness of these controls; and performing such other procedures as we considered necessary. We believe that our examination provides a reasonable basis for our opinion.

The limitations inherent in any internal control system can give rise to errors, irregularities and fraud that may not be detected. Similarly, future projections of any evaluation of the internal control are subject to risks, including the risk that the internal controls may become inadequate as a result of the future changes in the applicable conditions or that the degree of compliance with the policies or procedures established may deteriorate in the future.

In our opinion, at 31 December 2007, the Bank, in all material respects, maintained effective internal controls over financial reporting as included in the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, based on the policies and criteria defined by Bank management.

DELOITTE, S.L.

Germán de la Fuente
24 March 2008

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

Santander

AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE INFORMATION

The Bank's Board of Directors expressly undertakes the general function of supervision of the Group's operations and discharges its duties in this respect directly and on a non-delegation basis. Its Audit and Compliance Committee is entrusted, inter alia, with the following duties in the areas of information, accounting control and assessment of the compliance system:

1. To report, through its Chairman or Secretary, to the Annual General Meeting on any matters raised thereat by the shareholders on which the Committee has authority.
2. To propose the appointment of the auditors, the terms of their engagement, the scope of their services and, if appropriate, their revocation or non-renewal.
3. To revise the Bank's financial statements and the Group's consolidated financial statements, monitoring compliance with legal requirements and the proper application of generally accepted accounting principles.
4. To serve as a communication channel between the Board of Directors and the auditors, and assess the findings of each audit and the replies of the management team to their recommendations.
5. To be familiar with the financial reporting process and the internal control systems.
6. To monitor any situations which might involve risk for the independence of the auditors and, specifically, to check the percentage that the fees paid to them in all connections represents with respect to the auditors' total revenue. The fees paid must be disclosed publicly.
7. To review, before public disclosure, the periodic financial information furnished by the Bank and the Group to the markets and to their supervisory bodies, making sure that this information is prepared in accordance with the same principles and practices as the financial statements.
8. To examine compliance with the Group's Code of Conduct in connection with the securities markets, with the anti-money laundering manuals and procedures and, in general, with the rules of governance of the Bank, and to make the required proposals for improvement.

For these purposes, the Audit and Compliance Committee must meet whenever it deems it appropriate (at least four times a year) with the persons in charge of the Group's business areas and with those in charge of the support and risk management areas, particularly with the Controller and with Internal Audit of the Bank and the Group, and with the external auditors to analyse their reports and recommendations.

Our external auditors, the Deloitte worldwide organisation, examine each year the financial statements of nearly all the companies composing the Santander Group to issue their professional opinion thereon. The external auditors are regularly informed of our controls and procedures, define and perform their audit tests with full freedom and have free access to the Chairman, Second Deputy Chairman and CEO and to the other Deputy Chairmen of the Bank's Board of Directors, to set forth their conclusions and discuss their recommendations for improving the efficiency of the internal control systems.

The Chairman of the Audit and Compliance Committee meets periodically with the external auditors to ensure the effectiveness of their audit and to analyse the possible situations which might jeopardise their independence. In this connection, following the most advanced practices in shareholder information transparency, Notes to the consolidated financial statements detail the fees paid to our auditors in all connections, of which the audits of financial statements performed by the Deloitte worldwide organisation for the Group companies amounted to EUR 15.9 million in 2007 (2006: EUR 15.6 million; 2005: EUR 15.8 million).

To facilitate analysis of the situations which might jeopardise the independence of our auditors from the quantitative and qualitative standpoints, we set forth below significant information on the criteria established by the "O'Malley Panel" and in other relevant international documents for the purpose of evaluating the effectiveness of the external audit function:

1. The ratio of the amount billed by our main auditor for non-attest work (EUR 5.3 million in 2007) to the fees for financial statement audit and other statutory reports plus the fees for due diligence review work and other corporate transactions, including business combinations, was 0.18 times in 2007 (2006: 0.19 times; 2005: 0.2 times).

   The information available on the main UK and US financial institutions whose shares are listed on organised markets shows that, on average, the annual fees paid by these entities to their auditors for non-attest work in 2006 were around 0.51 times the fees they paid for audit services.

   The services engaged from our auditors meet the independence requirements stipulated by Law 44/2002, of 22 November, on Financial System Reform Measures, by the Sarbanes-Oxley Act of 2002 adopted by the Securities and Exchange Commission (SEC) and by the Regulations governing the Bank's Board of Directors.

2. The relative importance of fees generated by a client with respect to the total fees of the audit firm: the Group has adopted the policy not to engage audit firms if the fees to be paid to them for all services would amount to more than 2% of their total revenue.

The Deloitte worldwide organisation billed the Group for less than 0.14% of its total revenue. In the case of Spain, this ratio was less than 1.5% of our main auditors' net revenue.

Based on the foregoing, the Audit and Compliance Committee considers that there are no objective reasons to question the independence of our auditors.

* * * * *

The consolidated financial statements included in this Annual Report are presented in accordance with International Financial Reporting Standards as adopted by the European Union and were obtained from those prepared by the directors of Banco Santander, S.A. from the accounting records of the Bank and of its subsidiaries and associates. These consolidated financial statements differ from those authorised for issue by the directors in that Appendixes I, II and III contained in this Annual Report include the most significant companies composing the Group, whereas the Appendixes to the consolidated financial statements made available to all the shareholders from the Annual General Meeting call date include a detail of all the Group companies. The consolidated financial statements authorised for issue by the directors will be submitted for approval by the shareholders at the Annual General Meeting.

Deloitte.

Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
+34 915 56 74 30
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (Notes 1-b and 57). In the event of a discrepancy, the Spanish-language version prevails

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Banco Santander, S.A.:

1. We have audited the consolidated financial statements of Banco Santander, S.A. ("the Bank") and of the companies composing, together with the Bank, the Santander Group ("the Group"), which consist of the consolidated balance sheet at 31 December 2007 and the related consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Bank's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Bank's directors present, in addition to the 2007 figures for each item in the consolidated financial statements, the figures for 2006. Additionally, also for comparison purposes, the Group presents the consolidated financial statements for the year ended 31 December 2005. Our opinion refers only to the consolidated financial statements for 2007. On 26 March 2007 and 27 March 2006, we issued our auditors' reports on the 2006 and 2005 consolidated financial statements, in which we expressed unqualified opinions.

3. In our opinion, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Santander Group at 31 December 2007 and the consolidated results of its operations, the changes in consolidated recognised income and expense and its consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union, which were applied on a basis consistent with that used in the preparation of the consolidated financial statements for prior years presented for comparison purposes.

4. The accompanying directors' report for 2007 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the Group entities.

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

Germán de la Fuente
24 March 2008

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

Santander Group
Consolidated balance sheets at 31 december 2007, 2006 and 2005 (notes 1 to 4)

Thousands of Euros

Assets	Note	2007	2006 (*)	2005 (*)
Cash and balances with central banks		31,062,775	13,835,149	16,086,458
Financial assets held for trading:		158,800,435	170,422,722	154,207,859
Loans and advances to credit institutions	6	12,294,559	14,627,738	10,278,858
Loans and advances to customers	10	23,704,481	30,582,982	26,479,996
Debt instruments	7	66,330,811	76,736,992	81,741,944
Other equity instruments	8	9,744,466	13,490,719	8,077,867
Trading derivatives	9	46,726,118	34,984,291	27,629,194
Other financial assets at fair Value through profit or loss:		24,829,441	15,370,682	48,862,267
Loans and advances to credit institutions	6	6,865,073	185,485	2,428,663
Loans and advances to customers	10	8,021,623	7,972,544	6,431,197
Debt instruments	7	7,072,423	4,500,220	9,699,237
Other equity instruments	8	2,870,322	2,712,433	30,303,170
Available-for-sale financial assets:		44,348,907	38,698,299	73,944,939
Debt instruments	7	34,187,077	32,727,454	68,054,021
Other equity instruments	8	10,161,830	5,970,845	5,890,918
Loans and receivables:		579,530,145	544,048,823	459,783,749
Loans and advances to credit institutions	6	31,759,867	45,361,315	47,065,501
Money market operations through counterparties		-	200,055	-
Loans and advances to customers	10	533,750,907	484,790,338	402,917,602
Debt instruments	7	1,668,339	621,770	171,203
Other financial assets	24	12,351,032	13,075,345	9,629,443
Held-to-maturity investments		-	-	-
Changes in the fair value of hedged Items in portfolio hedges of				
Interest rate risk	36	297,131	(259,254)	-
Hedging derivatives	11	3,063,169	2,987,964	4,126,104
Non-current assets held for sale:		10,156,429	327,384	336,324
Loans and advances to credit institutions		5,596	-	-
Loans and advances to customers		14,499	-	-
Debt instruments		20,321	-	-
Equity instruments	12	9,025,936	-	-
Tangible assets	12	1,061,743	327,384	336,324
Other assets		28,334	-	-
Investments:		15,689,127	5,006,109	3,031,482
Associates	13	15,689,127	5,006,109	3,031,482
Insurance contracts linked To pensions	14	2,525,550	2,604,535	2,676,365
Reinsurance assets	15	309,774	261,873	2,387,701
Tangible assets:		9,459,033	10,110,996	9,993,207
Property, plant and equipment for own use	16	4,287,612	5,284,177	5,204,931
Investment property	16	460,725	374,547	667,449
Other assets leased out under an operating lease	16	4,710,696	4,452,272	4,120,827
Memorandum item: Acquired under a finance Lease		394,187	200,838	83,459
Intangible assets:		16,033,042	16,956,841	16,229,271
Goodwill	17	13,830,708	14,512,735	14,018,245
Other intangible assets	17	2,202,334	2,444,106	2,211,026
Tax assets:		12,698,072	9,856,053	10,127,059
Current		1,845,310	699,746	1,217,646
Deferred	27	10,852,762	9,156,307	8,909,413
Prepayments and accrued income	18	1,749,193	1,581,843	2,969,219
Other assets:		2,362,748	2,062,696	4,344,910
Inventories		231,734	143,354	2,457,842
Other	19	2,131,014	1,919,342	1,887,068
Total assets		912,914,971	833,872,715	809,106,914
Contingent liabilities:		76,924,835	58,769,309	48,453,575
Financial guarantees	35	76,316,446	58,205,412	48,199,671
Assets earmarked for third-party obligations	35	3	4	24
Other contingent liabilities	35	608,386	563,893	253,880
Contingent commitments:		114,676,563	103,249,430	96,263,262
Drawable by third parties	35	102,215,927	91,690,396	77,678,333
Other commitments	35	12,460,636	11,559,034	18,584,929

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 57 and Appendixes are an integral part of the consolidated balance sheet at 31 December 2007.

Santander Group

Consolidated balance sheets at 31 december 2007, 2006 and 2005 (notas 1 a 4)

Thousands of Euros

Liabilities and equity	Note	2007	2006 (*)	2005 (*)
Financial liabilities held for trading		**122,753,987**	**123,996,445**	**112,466,429**
Deposits from credit institutions	20	23,254,111	39,690,713	31,962,919
Customer deposits	21	27,992,480	16,572,444	14,038,543
Marketable debt securities	22	17,090,935	17,522,108	19,821,087
Trading derivatives	9	48,803,227	38,738,118	29,228,080
Short positions	9	5,613,234	11,473,062	17,415,800
Other financial liabilities at fair Value through profit or loss		**33,155,674**	**12,411,328**	**11,809,874**
Deposits from credit institutions	20	*12,207,579*	-	-
Marketable debt securities	22	*10,279,037*	*12,138,249*	*11,809,874*
Customer deposits	21	*10,669,058*	*273,079*	-
Financial liabilities at fair value Through equity		-	-	-
Financial liabilities at amortised cost:		**652,952,005**	**605,302,821**	**565,651,643**
Deposits from central banks	20	*28,748,079*	*16,529,557*	*22,431,194*
Deposits from credit institutions	20	*48,686,254*	*56,815,667*	*94,228,294*
Money market operations through counterparties		-	-	-
Customer deposits	21	*317,042,764*	*314,377,078*	*291,726,737*
Marketable debt securities	22	*206,264,524*	*174,409,033*	*117,209,385*
Subordinated liabilities	23	*35,670,179*	*30,422,821*	*28,763,456*
Other financial liabilities	24	*16,540,205*	*12,748,665*	*11,292,577*
Changes in the fair value of hedged Items in portfolio hedges of interest Rate risk	36	**(516,725)**	-	-
Hedging derivatives	11	**4,134,571**	**3,493,849**	**2,310,729**
Liabilities associated with non-Current assets held for sale:		**63,420**	-	**7,967**
Other liabilities		*63,420*	-	*7,967*
Liabilities under insurance contracts	15	**13,033,617**	**10,704,258**	**44,672,300**
Provisions:		**16,570,899**	**19,226,513**	**19,822,990**
Provisions for pensions and similar obligations	25	*11,819,748*	*14,014,305*	*14,172,961*
Provisions for contingent liabilities and commitments	25	*636,316*	*598,735*	*487,048*
Other provisions	25	*4,114,835*	*4,613,473*	*5,162,981*
Tax liabilities:		**6,156,365**	**4,539,051**	**3,867,795**
Current		*2,412,133*	*761,529*	*1,100,567*
Deferred	27	*3,744,232*	*3,777,522*	*2,767,228*
Accrued expenses and deferred income	18	**4,050,992**	**2,999,080**	**3,048,733**
Other liabilities:		**2,479,457**	**3,458,740**	**1,512,908**
Other	19	*2,479,457*	*3,458,740*	*1,512,908*
Equity having the substance of a Financial liability	26	**522,558**	**668,328**	**1,308,847**
Total liabilities		**855,356,820**	**786,800,413**	**766,480,215**
Minority interests	28	**2,358,269**	**2,220,743**	**2,848,223**
Valuation adjustments:		**722,036**	**2,870,757**	**3,077,096**
Available-for-sale financial assets	29	*1,418,966*	*2,283,323*	*1,941,690*
Cash flow hedges	29	*(58,655)*	*49,252*	*70,406*
Hedges of net investments in foreign operations	29	*638,474*	*(173,503)*	*(384,606)*
Exchange differences	29	*(1,276,749)*	*711,685*	*1,449,606*
Shareholders' equity:	30	**54,477,846**	**41,980,802**	**36,701,380**
Issued capital	31	*3,127,148*	*3,127,148*	*3,127,148*
Share premium	32	*20,370,128*	*20,370,128*	*20,370,128*
Reserves		*16,371,430*	*12,289,480*	*8,703,789*
Accumulated reserves	33	*15,475,993*	*11,491,670*	*8,100,140*
Reserves of entities accounted for using the Equity method:		*895,437*	*797,810*	*603,649*
Associates	33	*895,437*	*797,810*	*603,649*
Other equity instruments:	34	*7,086,881*	*62,118*	*77,478*
Equity component of compound financial Instruments		-	*12,118*	*34,977*
Other		*7,086,881*	*50,000*	*42,501*
Treasury shares	34	*(192)*	*(126,801)*	*(53,068)*
Profit attributed to the Group	30	*9,060,258*	*7,595,947*	*6,220,104*
Dividends and remuneration	30	*(1,537,807)*	*(1,337,218)*	*(1,744,199)*
Total equity		**57,558,151**	**47,072,302**	**42,626,699**
Total liabilities and equity		**912,914,971**	**833,872,715**	**809,106,914**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 57 and Appendixes are an integral part of the consolidated balance sheet at 31 December 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (Notes 1-b and 57). In the event of a discrepancy, the Spanish-language version prevails.

Santander Group
Consolidated income statements for the years ended 31 december 2007, 2006 and 2005 (notes 1 to 4)

Thousands of Euros		(Debit) Credit		
	Note	2007	2006 (*)	2005 (*)
Interest and similar income	38	45,803,354	36,832,823	33,088,647
Interest expense and similar charges:	39	(30,921,470)	(24,757,027)	(22,764,846)
Return on equity having the substance of a financial liability		*(47,290)*	*(85,229)*	*(118,389)*
Other		*(30,874,180)*	*(24,671,798)*	*(22,646,457)*
Income from equity instruments	40	413,242	404,000	335,576
Net interest income		15,295,126	12,479,796	10,659,377
Share of results of entities accounted for using the equity method:	41	441,457	426,921	619,157
Associates		441,457	426,921	619,157
Fee and commission income	42	9,479,986	8,288,580	7,153,947
Fee and commission expense	43	(1,439,811)	(1,264,385)	(1,092,751)
Insurance activity income	44	319,353	253,084	201,466
Insurance and reinsurance premium income		*5,377,949*	*4,664,812*	*2,214,344*
Reinsurance premiums paid		*(197,490)*	*(137,129)*	*(98,610)*
Claims paid and other insurance-related expenses		*(2,862,786)*	*(2,049,620)*	*(1,408,361)*
Reinsurance income		*152,038*	*101,229*	*88,452*
Net provisions for insurance contract liabilities		*(2,738,701)*	*(2,948,083)*	*(1,199,112)*
Finance income		*597,503*	*840,838*	*735,830*
Finance expense		*(9,160)*	*(218,963)*	*(131,077)*
Gains/losses on financial assets and liabilities (net):	45	2,321,624	2,052,539	1,457,847
Held for trading		*1,396,349*	*1,807,380*	*990,722*
Other financial instruments at fair value through profit or loss		*115,702*	*(119,860)*	*6,879*
Available-for-sale financial assets		*1,051,914*	*338,263*	*532,310*
Loans and receivables		*(141,995)*	*78,519*	*70,645*
Other		*(100,346)*	*(51,763)*	*(142,709)*
Exchange differences (net)	46	650,734	96,635	76,513
Gross income		27,068,469	22,333,170	19,075,556
Sales and income from the provision of non-financial services	47	771,027	734,602	565,525
Cost of sales	47	(618,955)	(615,689)	(409,347)
Other operating income	48	351,097	323,900	256,123
Personnel expenses	49	(6,551,201)	(5,967,873)	(5,611,308)
Other general administrative expenses	50	(4,467,128)	(4,001,298)	(3,753,100)
Depreciation and amortisation:		(1,267,880)	(1,146,547)	(1,013,943)
Tangible assets	*16*	*(621,271)*	*(628,537)*	*(618,109)*
Intangible assets	*17*	*(646,609)*	*(518,010)*	*(395,834)*
Other operating expenses	51	(469,736)	(442,525)	(344,829)
Net operating income		14,815,693	11,217,740	8,764,677
Impairment losses (net):		(5,078,513)	(2,550,570)	(1,801,934)
Available-for-sale financial assets	*8*	*(6,546)*	*2,869*	*110,977*
Loans and receivables	*10*	*(3,496,058)*	*(2,483,862)*	*(1,747,900)*
Non-current assets held for sale	*12*	*(27,299)*	*(48,796)*	*(10,536)*
Investments	*13*	*(363,637)*	*(380)*	*-*
Tangible assets	*16*	*(1,444)*	*(6,457)*	*(15,090)*
Goodwill	*13 and 17*	*(599,989)*	*(12,811)*	*-*
Other intangible assets	*17*	*(562,883)*	*-*	*(130,977)*
Other assets		*(20,657)*	*(1,133)*	*(8,408)*
Provisions (net)	25	(706,621)	(1,079,337)	(1,807,381)
Finance income from non-financial activities		4,617	7,386	2,846
Finance expenses of non-financial activities		(3,184)	(5,553)	(10,709)
Other gains:	52	2,631,570	1,672,944	2,760,566
Gains on disposal of tangible assets		*1,859,383*	*147,763*	*151,043*
Gains on disposal of investments		*17,408*	*273,656*	*1,306,357*
Other		*754,779*	*1,251,525*	*1,303,166*
Other losses:	52	(488,321)	(267,224)	(247,168)
Losses on disposal of tangible assets		*(55,275)*	*(58,869)*	*(70,424)*
Losses on disposal of investments		*(1,020)*	*(1,695)*	*(7,422)*
Other		*(432,026)*	*(206,660)*	*(169,322)*
Profit before tax		11,175,241	8,995,386	7,660,897
Income tax	27	(2,335,686)	(2,254,598)	(1,241,830)
Profit from ordinary activities		8,839,555	6,740,788	6,419,067
Profit from discontinued operations (net)	37	796,595	1,504,965	330,703
Consolidated profit for the year		9,636,150	8,245,753	6,749,770
Profit attributed to minority interests	28	(575,892)	(649,806)	(529,666)
Profit attributed to the group		9,060,258	7,595,947	6,220,104
Earnings per share:				
From ordinary activities and discontinued operations				
Basic earnings per share (euros)		*1.4287*	*1.2157*	*0.9967*
Diluted earnings per share (euros)		*1.4139*	*1.2091*	*0.9930*
From ordinary activities				
Basic earnings per share (euros)		*1.3170*	*1.0127*	*0.9599*
Diluted earnings per share (euros)		*1.3033*	*1.0072*	*0.9563*

(*) Included for comparison purposes only.

The accompanying Notes 1 to 57 and Appendixes are an integral part of the consolidated income statement for the year ended 31 December 2007.

Santander Group
Consolidated statements of changes in equity (consolidated statements of recognised income and expense) for the years ended 31 december 2007, 2006 and 2005 (notes 1 to 4)

Thousands of Euros

	2007	2006 (*)	2005 (*)
Net income recognised directly in equity:	**(2,148,721)**	**(206,339)**	**1,299,532**
Available-for-sale financial assets-	(864,357)	341,633	4,872
Revaluation gains/losses	*825,812*	*1,663,713*	*911,814*
Amounts transferred to income statement	*(1,583,126)*	*(1,177,308)*	*(883,474)*
Income tax	*(107,043)*	*(144,772)*	*(23,468)*
Cash flow hedges-	(107,907)	(21,154)	72,193
Revaluation gains/losses	*(156,313)*	*9,087*	*83,216*
Amounts transferred to income statement	*(14,227)*	-	-
Income tax	*62,633*	*(30,241)*	*(11,023)*
Hedges of net investments in foreign operations-	811,977	211,103	(1,022,833)
Revaluation gains/losses	*811,977*	*211,103*	*(1,022,833)*
Exchange differences-	(1,988,434)	(737,921)	2,245,300
Translation gains/losses	*(2,048,430)*	*(741,085)*	*2,411,831*
Amounts transferred to income statement	*59,996*	*3,164*	*(166,531)*
Consolidated profit for the year:	**9,636,150**	**8,245,753**	**6,749,770**
Published consolidated profit for the year	*9,636,150*	*8,245,753*	*6,749,770*
Total income and expense for the year:			
Parent	*6,911,537*	*7,389,608*	*7,519,636*
Minority interests (**)	*575,892*	*649,806*	*529,666*
Total (**)	**7,487,429**	**8,039,414**	**8,049,302**

(*) Presented for comparison purposes only.

(**) In addition, in 2007 and 2006 the net revenue recognised directly in equity relating to minority interests amounted to EUR (175) million and EUR (121) million, respectively.

The accompanying Notes 1 to 57 and Appendixes are an integral part of the consolidated statement of changes in equity (consolidated statement of recognised income and expense) for the year ended 31 December 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (Notes 1-b and 57). In the event of a discrepancy, the Spanish-language version prevails.

Santander Group

Consolidated cash flow statements for the years ended 31 december 2007, 2006 and 2005 (notes 1to 4)

Thousands of Euros

	2007	2006 (*)	2005 (*)
1. Cash flows from operating activities			
Consolidated profit for the year	9,636,150	8,245,753	6,749,770
Adjustments to profit-	*9,952,115*	*8,183,303*	*5,065,489*
Depreciation of tangible assets	*621,271*	*628,537*	*618,109*
Amortisation of intangible assets	*646,609*	*518,010*	*395,834*
Impairment losses (net)	*5,702,733*	*2,550,570*	*1,801,934*
Net provisions for insurance contract liabilities	*2,738,701*	*2,948,083*	*1,199,112*
Provisions (net)	*706,621*	*1,079,337*	*1,807,381*
Gains/losses on disposal of tangible assets	*(1,804,108)*	*(88,894)*	*(80,619)*
Gains/losses on disposal of investments	*(16,388)*	*(271,961)*	*(1,298,935)*
Share of results of entities accounted for using the equity method	*(294,809)*	*(426,921)*	*(619,157)*
Other non-monetary items	*(684,201)*	*(1,008,056)*	-
Taxes	*2,335,686*	*2,254,598*	*1,241,830*
Of which paid	*3,181,098*	*949,050*	*1,036,379*
Adjusted profit	**19,588,265**	**16,429,056**	**11,815,259**
Net increase/decrease in operating assets:	**(48,589,631)**	**(72,431,214)**	**(142,040,315)**
Financial assets held for trading-	11,289,111	(17,673,307)	(42,451,923)
Loans and advances to credit institutions	*2,333,179*	*(4,346,626)*	*2,599,313*
Loans and advances to customers	*6,878,501*	*(4,120,763)*	*(8,972,411)*
Debt instruments	*10,180,799*	*5,004,952*	*(25,872,315)*
Other equity instruments	*3,640,211*	*(5,412,852)*	*(3,658,529)*
Trading derivatives	*(11,743,579)*	*(8,798,018)*	*(6,547,981)*
Other financial assets at fair value through profit or loss-	3,578,501	(1,385,171)	(3,103,172)
Loans and advances to credit institutions	*6,471,028*	*(662,145)*	*4,095,407*
Loans and advances to customers	*(49,079)*	*(1,541,615)*	*(1,139,646)*
Debt instruments	*(2,572,203)*	*(1,487,469)*	*9,933,721*
Other equity instruments	*(271,245)*	*2,306,058*	*(15,992,654)*
Available-for-sale financial assets-	(6,424,418)	35,824,761	(28,558,595)
Debt instruments	*(1,507,435)*	*35,324,083*	*(31,237,853)*
Other equity instruments	*(4,916,983)*	*500,678*	*2,679,258*
Loans and receivables-	(53,673,405)	(85,625,778)	(67,542,207)
Loans and advances to credit institutions	*357,129*	*1,063,273*	*(8,087,968)*
Money market operations through counterparties	*200,055*	*(200,055)*	*3,907,905*
Loans and advances to customers	*(53,908,199)*	*(82,610,198)*	*(58,557,032)*
Debt instruments	*(1,046,569)*	*(461,403)*	*(171,203)*
Other financial assets	*724,179*	*(3,417,395)*	*(4,633,909)*
Other operating assets	(3,359,420)	(3,571,719)	(384,418)
Net increase/decrease in operating liabilities:	**23,791,209**	**3,861,319**	**95,919,375**
Financial liabilities held for trading-	(9,059,282)	15,327,711	14,736,090
Deposits from credit institutions	*(16,436,602)*	*7,727,794*	*6,738,176*
Customer deposits	*11,420,036*	*2,533,901*	*(6,502,682)*
Marketable debt securities	*(8,247,997)*	*1,498,716*	*1,825,604*
Trading derivatives	*10,065,109*	*9,510,038*	*3,984,312*
Short positions	*(5,859,828)*	*(5,942,738)*	*8,690,680*
Other financial liabilities at fair value through profit or loss-	(3,021,055)	(5,381,405)	555,299
Deposits from credit institutions	*(6,071,507)*	*822,550*	-
Customer deposits	*3,050,452*	*282,806*	-
Marketable debt securities	-	*(6,486,761)*	*555,299*
Financial liabilities at amortised cost-	41,805,727	(4,453,117)	82,195,979
Deposits from central banks	*12,218,526*	*(5,901,637)*	*14,363,334*
Deposits from credit institutions	*10,149,673*	*(36,075,478)*	*43,770,558*
Money market operations through counterparties	-	-	*(2,499,000)*
Customer deposits	*10,011,213*	*22,733,508*	*29,056,346*
Marketable debt securities	*5,619,970*	*13,337,020*	*(7,925,063)*
Other financial liabilities	*3,806,345*	*1,453,470*	*5,429,804*
Other operating liabilities	(5,934,181)	(1,631,870)	(1,567,993)
Total net cash flows from operating activities (1)	**(5,210,157)**	**(52,140,839)**	**(34,305,681)**
Of which:			
Interest and similar income collected (Note 38)	45,237,669	36,412,213	31,326,727
Interest expense and similar charges paid (Note 39)	(29,436,256)	(23,915,708)	(18,819,373)

Santander Group

Consolidated cash flow statements for the years ended 31 december 2007, 2006 and 2005 (notes 1 to 4)

Thousands of Euros

	2007	2006 (*)	2005 (*)
2. Cash flows from investing activities			
Investments-	(26,303,306)	(7,546,963)	(2,465,956)
Subsidiaries, jointly controlled entities and associates (Note 13)	*(12,285,132)*	*(2,693,849)*	*(18,479)*
Tangible assets (Note 16)	*(2,797,760)*	*(3,380,790)*	*(1,986,595)*
Intangible assets (Note 17)	*(1,862,422)*	*(1,472,324)*	*(451,089)*
Other financial assets (Note 12)	*(9,066,352)*	-	-
Other assets	*(291,640)*	-	*(9,793)*
Divestments-	5,159,250	10,050,174	6,613,439
Subsidiaries, jointly controlled entities and associates (Note 13)	*978,584*	*7,477,594*	*1,750,126*
Tangible assets (Note 16)	*3,496,430*	*1,957,246*	*2,479,579*
Other financial assets	-	-	*1,814,418*
Other assets	*684,236*	*615,334*	*569,316*
Total net cash flows from investing activities (2)	**(21,144,056)**	**2,503,211**	**4,147,483**
3. Cash flows from financing activities			
Acquisition of own equity instruments (**)	*(8,473,038)*	*(73,733)*	-
Disposal of own equity instruments (**)	*8,599,647*	-	*73,432*
Issuance/Redemption of other equity instruments (Note 34)	*7,024,763*	*(15,360)*	*(16,089)*
Redemption of equity having the substance of a financial liability	*(94,912)*	*(472,925)*	*(944,968)*
Issuance of subordinated liabilities (Note 23)	*8,329,817*	*5,896,301*	*2,507,872*
Redemption of subordinated liabilities (Note 23)	*(2,339,981)*	*(2,739,743)*	*(2,410,288)*
Issuance of other long-term liabilities (Note 22)	*122,530,232*	*78,851,479*	*52,669,694*
Redemption of other long-term liabilities (Note 22)	*(85,674,400)*	*(30,510,388)*	*(14,269,479)*
Increase/Decrease in minority interests	*(438,366)*	*(124,026)*	*233,241*
Dividends paid (Note 30)	*(3,456,732)*	*(2,779,334)*	*(2,208,518)*
Other items related to financing activities	*(2,253,661)*	*(767,419)*	*1,500,947*
Total net cash flows from financing activities (3)	**43,753,369**	**47,264,852**	**37,135,844**
4. Effect of exchange rate changes on cash and cash equivalents (4)	**(171,530)**	**121,467**	**307,400**
5. Net increase/decrease in cash and cash equivalents (1+2+3+4)	**17,227,626**	**(2,251,309)**	**7,285,046**
Cash and cash equivalents at beginning of year	**13,835,149**	**16,086,458**	**8,801,412**
Cash and cash equivalents at end of year	**31,062,775**	**13,835,149**	**16,086,458**

(*) Presented for comparison purposes only. See Note 37.

(**) The acquisitions and disposals of own equity instruments were presented at their net amount in 2006 and 2005. The acquisitions made in 2006 and 2005 amounted to EUR 5,723 million and EUR 5,073 million, respectively, and the disposals amounted to EUR 5,649 million and EUR 5,146 million, respectively.

The accompanying Notes 1 to 57 and Appendixes are an integral part of the consolidated cash flow statement for the year ended 31 December 2007.

SANTANDER GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. INTRODUCTION, BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The bylaws and other public information on the Bank can be consulted on the website of the Bank (www.santander.com) and at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Santander Group ("the Group" or "the Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own individual financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Group's consolidated financial statements for 2005 were approved by the shareholders at the Bank's Annual General Meeting on 17 June 2006. The Group's consolidated financial statements for 2006 were approved by the shareholders at the Bank's Annual General Meeting on 23 June 2007. The 2007 consolidated financial statements of the Group and the 2006 financial statements of the Bank and of substantially all the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Basis of presentation of the consolidated financial statements

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

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

The Group's consolidated financial statements for 2007 were prepared by the Bank's directors (at the Board Meeting on 24 March 2008) in accordance with International Financial Reporting Standards as adopted by the European Union and with Bank of Spain Circular 4/2004, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 and, accordingly, they present fairly the Group's equity and financial position at 31 December 2007, and the consolidated results of its operations, the changes in consolidated recognised income and expense and the consolidated cash flows in 2007. These consolidated financial statements were prepared from the individual accounting records of the Bank and of each of the companies composing the Group, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases applied by the Group.

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

All accounting policies and measurement bases with a material effect on the consolidated financial statements were applied in their preparation.

i. Adoption of new standards and interpretations

Standards and interpretations in force in 2007

In 2007 the Group adopted IFRS 7 Financial Instruments: Disclosure, which entered into force on 1 January 2007 for years beginning on or after that date, and the amendments to IAS 1 Presentation of Financial Statements in relation to capital disclosures.

Additionally, four IFRIC Interpretations became effective for the first time this year: IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these interpretations did not have an impact on the consolidated financial statements.

Standards and interpretations issued but not in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet entered into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union. The entry into force of these standards and interpretations will not have a material effect on the consolidated financial statements.

Standards		Obligatory Application in the Years Beginning on or after:
IFRS 8	Operating Segments	1 January 2009
Revision of IAS 23 (*)	Borrowing Costs	1 January 2009
Revision of IAS 1 (*)	Presentation of Financial Statements	1 January 2009
Revision of IFRS 3 (*)	Business Combinations	1 July 2009
Amendment to IAS 27 (*)	Consolidated and Separate Financial Statements	1 July 2009
Amendment to IFRS 2 (*)	Share-based Payments	1 January 2009
IFRIC 11	IFRS 2-Group and Treasure Share Transactions	1 March 2007
IFRIC 12 (*)	Service Concession Arrangements	1 January 2008
IFRIC 13 (*)	Customer Loyalty Programmes	1 July 2009
IFRIC 14 (*)	IAS 19 - Defined Benefit Asset	1 January 2008

(*) Standards and interpretations not adopted by the European Union at the date of preparation of these consolidated financial statements.

IFRS 8 Operating Segments

This standard replaces IAS 14. It requires an entity to disclose information on the financial performance of its business segments on the basis of the information used internally by management to assess the profit or loss of these segments.

Revision of IAS 23 Borrowing Costs

The option of the immediate recognition as an expense of the borrowing costs relating to assets that take a substantial period of time to get ready for use or sale is eliminated.

Review of IAS 1 Presentation of Financial Statements

This review affects mainly the presentation and disclosure requirements.

Revision of IFRS 3 Business Combinations and Amendment to IAS 27 Consolidated and Separate Financial Statements

The revised IFRS 3 and the amendments to IAS 27 give rise to significant changes in several matters relating to the accounting for business combinations, which generally place more emphasis on the use of fair value. Since the changes are significant, set forth below are certain of these changes, merely for illustration purposes: acquisition costs, which will be expensed rather than be considered as an increase in the cost of the business combination as per the current accounting treatment; step acquisitions, in which the acquirer revalues the investment at fair value on the date on which control is obtained; or the option to measure at fair value the minority interests of the acquiree rather than measure them as the proportional part of the fair value of the net assets acquired as per the current accounting treatment. Since the standard will be applied prospectively, the business combinations already effected will not have any impact.

Amendment to IFRS 2 Share-based Payment

The objective of the amendment is to clarify the concepts of vesting conditions and cancellations in share-based payments.

IFRIC 11 IFRS 2 Group and Treasure Share Transactions

Treasury or group share-based payment transactions will be accounted for as equity-settled, regardless of how the equity instruments needed are obtained.

IFRIC 12 Service Concession Arrangements and IFRIC 13 Customer Loyalty Programmes

Given the nature of these interpretations, their entry into force will not have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how pension assets or liabilities can be affected when there is a statutory or contractual minimum funding requirement and establishes that the entity needs to recognise an additional liability if it has a contractual obligation to make additional contributions to the plan and its capacity to recover them is restricted. The interpretation will standardise the practice and ensure that the entities recognise an asset in relation to a surplus on a consistent basis.

c) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior executives of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets (Notes 6, 7, 8, 10, 12, 13, 16 and 17);

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (Note 25);

- The useful life of the tangible and intangible assets (Notes 16 and 17);

- The measurement of goodwill arising on consolidation (Note 17); and

- The fair value of certain unquoted assets (Notes 8, 9 and 11).

d) Other matters

i. Disputed corporate resolutions

The directors of the Bank and their legal advisers consider that the objection to certain resolutions adopted by the Bank's shareholders at the General Meetings on 18 January 2000, 4 March 2000, 10 March 2001, 9 February 2002, 24 June 2002, 21 June 2003, 19 June 2004 and 18 June 2005 will have no effect on the financial statements of the Bank and the Group.

On 25 April 2002, the Santander Court of First Instance number 1 dismissed in full the claim contesting the resolutions adopted by the shareholders at the General Meeting on 18 January 2000. The plaintiff filed an appeal against the judgment. On 2 December 2002, the Cantabria Provincial Appellate Court dismissed the appeal. A cassation appeal has been filed against the judgment of the Cantabria Provincial Appellate Court.

On 29 November 2002, the Santander Court of First Instance number 2 dismissed in full the claims contesting the resolutions adopted at the General Meeting on 4 March 2000. The plaintiffs filed an appeal against the judgment. On 5 July 2004, the Cantabria Provincial Appellate Court dismissed the appeal. One of the appellants prepared and filed an extraordinary appeal on grounds of procedural infringements and a cassation appeal against the judgment, which were not given leave to proceed by order of the Supreme Court of 31 July 2007.

On 12 March 2002, the Santander Court of First Instance number 4 dismissed in full the claims contesting the resolutions adopted at the General Meeting on 10 March 2001. The plaintiffs filed an appeal against the judgment. On 13 April 2004, the Cantabria Provincial Appellate Court dismissed the appeals. One of the appellants prepared and filed an extraordinary appeal on grounds of procedural infringements and a cassation appeal against the judgment, which were not given leave to proceed by order of the Supreme Court of 6 November 2007.

On 9 September 2002, the Santander Court of First Instance number 5 dismissed in full the claim contesting the resolutions adopted at the General Meeting on 9 February 2002. The plaintiff filed an appeal against the judgment. On 14 January 2004, the Cantabria Provincial Appellate Court dismissed the appeal. The appellant prepared and filed an extraordinary appeal on grounds of procedural infringements and a cassation appeal against the judgment, which were not given leave to proceed by order of the Supreme Court of 8 May 2007.

On 29 May 2003, the Santander Court of First Instance number 6 dismissed in full the claim contesting the resolutions adopted at the General Meeting on 24 June 2002. The plaintiffs filed an appeal against the judgment. On 15 November 2005, the Cantabria Provincial Appellate Court dismissed the appeal in full. The appellants have prepared and filed an extraordinary appeal on grounds of procedural infringements and a cassation appeal against the judgment.

On 23 November 2007, the Santander Court of First Instance number 7 dismissed in full the claims contesting the resolutions adopted at the General Meeting on 21 June 2003. An appeal has been filed against the judgment. The Court has been notified of the recent death of one of the appellants and the appeals are currently being held in abeyance until his heirs have been identified.

On 28 October 2005, the Santander Court of First Instance number 8 dismissed in full the claims contesting the resolutions adopted at the General Meeting on 19 June 2004. The plaintiffs filed an appeal against the judgment, but the appeal was dismissed in full by the Cantabria Provincial Appellate Court. Against this judgment the plaintiffs have prepared and filed a cassation appeal and an extraordinary appeal on the grounds of procedural infringements. The cassation and extraordinary appeals for procedural infringement filed by one of the appellants were not given leave to proceed due to the death of the appellant and then non-appearance of his heirs. However, this decision has been appealed against by the legal representative of the late appellant.

On 13 July 2007, the Santander Court of First Instance number 10 dismissed in full the claims contesting the resolutions adopted at the General Meeting on 18 June 2005. An appeal has been filed against the judgment.

ii. Credit assignment transactions

Following the investigations carried out since 1992 by the Madrid Central Examining Court number 3, and despite the fact that the Government Lawyer, as the representative of the Public Treasury, and the Public Prosecutor's Office have repeatedly applied to have the case against the Bank and its executives dismissed and struck out, a decision was rendered on 27 June 2002 to turn the preliminary court proceedings into an "abbreviated" proceeding. The Public Prosecutor's Office, the Bank and its executives have appealed against this decision.

On 23 June 2003, Panel Two of the Criminal Chamber of the National Appellate Court partially upheld these appeals, and explicitly recognised that the assignments of naked credit ownership were lawfully marketed and reduced the proceedings from 138 to 38 customer transactions (it should be noted that the Government Lawyer and the Public Prosecutor's Office had also requested dismissal and strike-out of the case on grounds that no offence had been committed) with respect to which the Bank's possible involvement continued to be alleged.

Following the submissions phase, in which the Public Prosecutor's Office and the Government Lawyer reiterated their petition to have the proceedings dismissed and struck out, based on the class accusation filed by the Association for the Defence of Investors and Customers, on 6 October 2004 the Court ordered commencement of a trial against the Chairman of the Bank and three executives.

Once the trial had commenced at Panel One of the Criminal Chamber of the National Appellate Court and after the debate on preliminary issues was held at the end of November 2006, without the appearance of the Government Lawyer, in which the Public Prosecutor's Office reiterated its appeal to set aside the trial and interrupt the proceedings, on 20 December 2006, the Criminal Chamber of the National Appellate Court ordered the dismissal of the proceedings, as requested by the Public Prosecutor's Office and the private prosecution.

A cassation appeal was filed against the aforementioned order by the Association for the Defence of Investors and Customers and "Iniciativa per Catalunya Verds" and, following the opposition by the Public Prosecutor's Office, the Government Lawyer and the remaining appearing parties, it was dismissed by a Supreme Court Decision handed down on 17 December 2007.

A decision has not yet been handed down by the Supreme Court on the ancillary suit for nullity of proceedings filed by the Association for the Defence of Investors and Customers.

e) Information relating to 2006 and 2005

The information relating to 2006 and 2005 contained in these notes to the consolidated financial statements is presented with the information relating to 2007 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2006 and 2005.

f) Capital management

The Group's capital management is performed at regulatory and economic levels.

Regulatory capital management is based on the analysis of the capital base and the capital ratios (core capital, TIER 1, etc.) using Basel ("BIS") and Bank of Spain criteria. The aim is to achieve a capital structure that is as efficient as possible in terms of both cost and compliance with the requirements of regulators, ratings agencies and investors. Active capital management includes securitisations, sales of assets, and preference and subordinated issues of equity securities and hybrid instruments.

From an economic standpoint, capital management seeks to optimise value creation at the Group and at its different business units. To this end, the economic capital, RORAC and value creation data for each business unit are generated, analysed and reported to the Management Committee on a quarterly basis.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on reference to the budgetary information (balance sheet, income statement, etc.) and on macroeconomic scenarios defined by the Economic Research Service. These estimates are used by the Group as a reference to plan the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables, GDP, interest rates, stock market indexes, etc. that mirror historical crises that could happen again.

It should be noted that the regulations governing compliance with minimum capital requirements for credit institutions, both as individual entities and as consolidated groups, came into force through the publication of Law 13/1992, of 1 June, and of Bank of Spain Circular 5/1993 and subsequent amendments thereto.

At 31 December 2007, the Group's eligible capital exceeded the minimum requirements by EUR 14,517 million (31 December 2006: EUR 11,172 million; 31 December 2005: EUR 10,384 million).

Royal Decree 216/2008, of 15 February, on the capital of financial institutions was published on 16 February 2008. Also, a series of amendments were introduced to Law 13/1985, of 25 May, on investment ratios, capital and reporting requirements of financial intermediaries. The main purpose of these new regulations is to transpose into Spanish law Directive 2006/48/EC and Directive 2006/49/EC which, in turn, transpose into Community law the New Basel Capital Accord ("Basel II"- BIS II).

Accordingly, in 2008 the Bank and its Group must calculate their capital requirements in accordance with the aforementioned regulations, which change the way entities must calculate their minimum capital, including new risks that require the use of capital, such as operational risk, and introduce new calculation methodologies and models to be applied by the entities, and new requirements in terms of validation mechanisms and public information to be disclosed to the market.

The new regulations permit the use of internal parameters for the calculation of minimum capital requirements, which will become effective from 30 June 2008.

The Group intends to use, from the outset, advanced internal models to calculate the capital requirements for credit risk of the units with the largest credit risk exposure (the Parent Bank and Banco Español de Crédito -Banesto- in Spain and Abbey in the UK), and plans to extend these models to its other main units in the next few years. The use of advanced internal models is subject to stringent internal validation and supervisory approval requirements. Internal validation and supervisory review and approval of the models are not confined to the quantitative model, but also encompass qualitative requirements relating to the technological environment and the integration of the models into management. In the case of the Group, this has entailed the review and approval by the Bank of Spain and the FSA of 36 credit risk models applicable to the various business segments.

The calculation of the minimum capital requirements under the new regulations, the so-called Pillar 1, is supplemented by an internal capital adequacy assessment process (ICAAP) and supervisory review, also referred to as Pillar 2. In the case of the Group, this ICAAP is based on an internal model which is used to quantify the economic capital required, given the Group's global risk profile, to maintain a target AA rating. Lastly, BIS II regulations establish, through the so-called Pillar 3, strict standards of transparency in the disclosure of risk information to the market.

We consider that the new regulations will give rise to significant savings with respect to the regulatory capital requirements as from their effective implementation on 30 June 2008.

g) Environmental impact

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

h) Events after the balance sheet date

It should be noted that from 1 January 2008 to the date on which these financial statements were authorised for issue, the following significant events occurred in the Santander Group:

- Banco Santander entered into an agreement with the consortium led by Propinvest for the sale of the Santander business campus and the subsequent leaseback thereof for a period of 40 years, whereby the Bank also reserves a purchase option at the end of this period.

  This transaction is performed within the framework of the restricted private bid organised by Banco Santander for the sale and subsequent leaseback of a portfolio of properties owned by it in Spain, of which it is the last part. The price agreed upon for the Santander business campus is EUR 1,900 million (Note 12).

- Santander and Fortis entered into an agreement whereby Santander will acquire from Fortis the asset management activities of ABN AMRO in Brazil, which Fortis purchased as part of the ABN AMRO acquisition performed by the Consortium (RBS, Fortis and Santander).

  This transaction, which is valued at EUR 209 million, is expected to be closed in the second quarter of 2008 and will be subject to the normal closing conditions and to the relevant regulatory approvals.

i) Comparative information

The accompanying consolidated income statement for 2006 differs from the consolidated income statement approved by the Bank's Annual General Meeting in that, as a result of the Group's divestment of the pensions business in Latin America, the results arising from the consolidation of these companies (EUR 116 million) were reclassified for comparison purposes, as stipulated by the accounting standards, from the headings under which they were recorded in the approved consolidated financial statements for 2005 to "Profit from discontinued operations" in the accompanying consolidated income statement for 2006 (Note 37).

Also, the results arising from the consolidation of the divested companies in the pensions business in Latin America (EUR 106 million) and the results relating to the investments disposed of in 2006 –most notably Inmobiliaria Urbis, S.A. (Urbis) and Abbey's insurance business (EUR 238 million)- were reclassified in 2005 from the related headings in the consolidated income statement to "Profit from discontinued operations" in the accompanying consolidated income statement (Note 37).

The gains arising in 2007 on the disposal of the investment in Intesa Sanpaolo and of the properties in Spain (EUR 566 million and EUR 1,620 million, respectively, recognised under "Other gains" - Note 52), the proceeds from the divestment of the pensions business in Latin America (EUR 831 million, recognised under "Discontinued operations" - Note 37) and the gains on the disposal of the investment in Banco Portugués do Investimento (EUR 107 million, recognised under "Gains/losses on financial assets and liabilities" - Note 45) were used to write down the investment in Sovereign (EUR 1,053 million - Note 13-c), to write down intangible assets (EUR 542 million - Note 17), to recognise special provisions for retirement and pension plans (EUR 317 million - Note 52) and to recognise other provisions and write-downs (EUR 117 million). Therefore, the gross gains realised in 2007 (EUR 3,124 million) contributed EUR 950 million, after the aforementioned uses and net of tax and minority interests, to "Profit attributed to the Group".

The gains arising in 2006 on the disposal of the investments in Banco Santander Chile, San Paolo Iml, S.p.A. (San Paolo) and Antena 3 (EUR 270 million, EUR 705 million and EUR 294 million, respectively, recognised under "Other gains" - Note 52) and on the divestment of Urbis (EUR 1,218 million recognised under "Discontinued operations" - Note 37) were used to fund a significant portion of the retirement plans detailed in Note 25-c (EUR 716 million), to re-estimate the deferred tax assets and liabilities detailed in Note 2-y as a result of the reduction in the standard tax rate for income tax purposes in Spain (EUR 491 million) and to recognise the expense relating to the delivery of 100 Bank shares to each Group employee (EUR 179 million). Accordingly, the gains realised in 2006 (EUR 2,487 million, before tax) contributed EUR 1,014 million, after the aforementioned uses and net of tax and minority interests, to the profit attributable to the Group.

In 2005, the gains on the disposal of the investments in Unión Fenosa, S.A., Royal Bank of Scotland Group Plc and Auna Operadores de Telecomunicaciones, S.A. (EUR 1,157 million, EUR 717 million and EUR 355 million, respectively, recognised under "Other gains" - Note 52) were partially used to fund early retirement plans and to amortise early restructuring costs. Therefore, the realised gains (EUR 2,229 million before tax) contributed EUR 1,008 million, after the aforementioned uses and net of tax, to the profit attributed to the Group for 2005.

2. ACCOUNTING POLICIES AND MEASUREMENT BASES

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

a) Foreign currency transactions

i. Functional currency

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

ii. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency (currency of the main economic environment in which the Group operates), and

- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in EMU countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

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

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

- Income and expenses are translated at the average exchange rates for the period for all the transactions performed during the year.

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

Translation of functional currencies to euros

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

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

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

The exchange differences arising on the translation to euros of the financial statements in functional currencies other than the euro are recognised under "Valuation adjustments - Exchange differences" in the consolidated balance sheet until the related item is derecognised, when they are recognised in the consolidated income statement.

iv. Entities located in hyperinflationary economies

None of the functional currencies of the consolidated entities and associates located abroad relate to hyperinflationary economies as defined by the International Financial Reporting Standards as adopted by the European Union. Accordingly, at 2007, 2006 and 2005 year-end it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

v. Exposure to foreign currency risk

At 31 December 2007, the Group's largest exposures on temporary positions (with a potential impact on the income statement) were concentrated, in descending order, on the US dollar and the pound sterling. At that date, its largest exposures on permanent positions (with a potential impact on equity) were concentrated, in descending order, on the Brazilian real, the pound sterling, the Mexican peso and the Chilean peso. The Group hedges a portion of these permanent positions using foreign exchange derivative financial instruments (Note 36-a).

At 31 December 2006, the Group's largest exposures on temporary positions (with a potential impact on the income statement) were concentrated, in descending order, on the US dollar, the pound sterling and the Chilean peso. At that date, its largest exposure on permanent positions (with a potential impact on equity) were concentrated, in descending order, on the pound sterling, the Brazilian real, the Mexican peso and the Chilean peso. The Group hedges a portion of these permanent positions using foreign exchange derivative financial instruments (Note 36-a).

At 31 December 2005, the Group's largest exposures on more temporary positions (with a potential impact on the income statement) were concentrated, in descending order, on the US dollar, the Chilean peso, the pound sterling and the Mexican peso. At that date, its largest exposures on more permanent positions (with a potential impact on equity) were concentrated, in descending order, on the Brazilian real, the pound sterling, the Mexican peso and the US dollar. The Group hedges a portion of these permanent positions using foreign exchange derivative financial instruments (Note 36-a).

The following tables show the sensitivity of consolidated profit and consolidated equity to changes in the Group's financial instruments due to 1% variations in the various foreign currencies in which the Group had material balances.

The estimated effect on the Group's consolidated equity and consolidated profit of a 1% appreciation of the euro against the related currency is as follows:

Millions of Euros

	Effect on Consolidated Equity			Effect on Consolidated Profit		
Currency	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
US dollar	-	0.1	(10.1)	20.1	30.2	18.7
Chilean peso	(13.7)	(9.8)	(1.0)	-	2.2	-
Pound sterling	(4.3)	(49.0)	(32.6)	12.2	23.2	13.4
Mexican peso	(16.3)	(20.5)	(19.5)	-	5.2	1.9
Brazilian real	(68.5)	(25.4)	(27.5)	-	-	-

Similarly, the estimated effect on the Group's consolidated equity and consolidated profit of a 1% depreciation of the euro against the related currency is as follows:

Millions of Euros

	Effect on Consolidated Equity			Effect on Consolidated Profit		
Currency	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
US dollar	-	(0.1)	10.3	(20.5)	(30.8)	(19.1)
Chilean peso	14.5	10.9	1.0	-	(6.0)	-
Pound sterling	8.5	33.1	30.3	(12.5)	(16.7)	(0.5)
Mexican peso	16.5	24.7	18.3	-	(7.3)	(1.3)
Brazilian real	69.4	26.0	28.0	-	-	-

The foregoing data were obtained by calculating the possible effect of a variation in the exchange rates on the various asset and liability items and on other foreign currency-denominated items, such as the Group's derivative instruments, considering the offsetting effect of the various hedging transactions on these items. This effect was estimated using the exchange difference recognition methods set forth in Note 2-a-iii above.

The estimates used to obtain the foregoing data were performed taking into account the effects of the exchange rate fluctuations isolated from the effect of the performance of other variables, the changes in which would affect equity and profit, such as variations in the interest rates of the reference currencies or other market factors. Accordingly, all variables other than the exchange rate fluctuations remained unchanged with respect to their positions at 31 December 2007, 2006 and 2005.

b) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise control; this capacity is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and transactions between consolidated entities are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognised at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (Note 17). Negative differences are charged to income on the date of acquisition.

Additionally, the share of third parties of the Group's equity is presented under "Minority interests" in the consolidated balance sheet (Note 28) and their share of the profit for the year is presented under "Profit attributed to minority interests" in the consolidated income statement.

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

The Appendixes contain significant information on these entities.

ii. Interests in joint ventures (jointly controlled entities)

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

The financial statements of investees classified as joint ventures are proportionately consolidated with those of the Bank and, therefore, the aggregation of balances and subsequent eliminations are made only in proportion to the Group's ownership interest in the capital of these entities.

The Appendixes contain significant information on these entities.

iii. Associates

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting power of the investee.

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

The Appendixes contain significant information on these entities.

iv. Other matters

The companies less than 50% owned by the Group that constituted a decision-making unit at 31 December 2007 and which, therefore, were accounted for as subsidiaries are: (i) Inmuebles B de V 1985 C.A., (ii) Luri 1, S.A. and (iii) Luri 2, S.A. and (iv) Luri Land, S.A., in which the Group held ownership interests of 35.63%, 5.58%, 4.81% and 5.15%, respectively, at that date (Appendix I).

The companies less than 20% owned by the Group over which it exercises significant influence and which, therefore, were accounted for as associates at 31 December 2007 are: (i) Attijariwafa Bank Société Anonyme and (ii) Sociedad Operadora de la Cámara de Compensación de Pagos de Alto Valor, S.A., in which the Group held ownership interests of 14.55% and 13.94%, respectively, at that date (Appendix II).

v. Business combinations

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

Business combinations performed on or after 1 January 2004 whereby the Group obtains control over an entity are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets given, the liabilities incurred and the equity instruments issued, if any, by the entity, plus any cost directly attributable to the business combinations, including the fees paid to the auditors, legal advisers, investment banks and other consultants. The amount recognised as an increase in the cost of the business combinations effected in 2007 (see the transaction described in Note 3-b), which required reports to be issued by our auditors, amounted to EUR 5.8 million.

- The fair values of the assets, liabilities and contingent liabilities of the acquiree, including any intangible assets which might have not been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet.

- Any negative difference between the net fair value of the assets, liabilities and contingent liabilities of the acquiree and the business combination cost is recognised as discussed in Note 2-m; any positive difference is recognised in "Other gains" in the consolidated income statement.

vi. Acquisitions and disposals

Note 3 provides information on the most significant acquisitions and disposals in 2007, 2006 and 2005.

c) Definitions and classification of financial instruments

i. Definitions

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

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

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

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

"Compound financial instruments" are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

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

- Investments in subsidiaries, jointly controlled entities and associates (Note 13).

- Rights and obligations under employee benefit plans (Note 25).

- Rights and obligations under insurance contracts (Note 15).

- Contracts and obligations relating to employee remuneration based on own equity instruments (Note 34).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as "Non-current assets held for sale" or they relate to "Cash and balances with central banks", "Changes in the fair value of hedged items in portfolio hedges of interest rate risk" (asset side), "Hedging derivatives" and "Investments", which are reported separately.

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

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Other financial assets at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are managed jointly with "Liabilities under insurance contracts" measured at fair value or with derivative financial instruments whose purpose and effect is to significantly reduce exposure to variations in fair value, or that are managed jointly with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk.

  Financial instruments included in this category (and "Other financial liabilities at fair value through profit or loss") are permanently subject to an integrated and consistent system of measuring, managing and controlling risks and returns that enables all the financial instruments involved to be monitored and identified and allows the effective reduction of risk to be checked.

- Available-for-sale financial assets: this category includes debt instruments not classified as "Held-to-maturity investments" or as "Financial assets at fair value through profit or loss", and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as "Financial assets held for trading" or as "Other financial assets at fair value through profit or loss".

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

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

- Held-to-maturity investments: this category includes debt instruments with fixed maturity and with fixed or determinable payments.

iii. Classification of financial assets for presentation purposes

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

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

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

- Money market operations through counterparties: amount of the money market operations conducted through central counterparties.

- Loans and advances to customers: all credit granted by the Group, other than that represented by marketable securities, money market operations through central counterparties, finance lease receivables and loans and advances to credit institutions.

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

- Other equity instruments: financial instruments issued by other entities, such as shares and non-voting equity units, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units and shares are included in this item.

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

- Other financial assets: other debit balances in favour of the Group in respect of transactions which do not have the nature of credit (such as cheques drawn on credit institutions, the amounts receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, and fees and commissions receivable for financial guarantees).

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

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

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

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as "Liabilities associated with non-current assets held for sale" or they relate to "Hedging derivatives", "Changes in the fair value of hedged items in portfolio hedges of interest rate risk" (liability side) and "Equity having the substance of a financial liability", which are reported separately.

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

- Financial liabilities held for trading (at fair value through profit or loss): this category includes the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed ("short positions").

- Other financial liabilities at fair value through profit or loss: this category includes all hybrid financial liabilities not held for trading that have to be measured entirely at fair value, including life insurance linked to investment funds that does not expose the issuer of the contract to a significant insurance risk, when the financial assets to which they are linked are also measured at fair value through profit or loss.

- Financial liabilities at fair value through equity: financial liabilities associated with available-for-sale financial assets arising as a result of transfers of assets in which the consolidated entities as transferors neither transfer nor retain substantially all the risks and rewards of ownership of the assets.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the funding-taking activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

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

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

- Money market operations through counterparties: amount of the money market operations conducted through central counterparties.

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

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

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

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

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets purchased under reverse repurchase agreements or borrowed.

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

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items.

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

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

- Equity having the substance of a financial liability: amount of the financial instruments issued by the consolidated entities that, although equity for legal purposes, do not meet the requirements for classification as equity.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price, and are subsequently measured at each period-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The “fair value” of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market (“quoted price” or “market price”).

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

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in "Gains/losses on financial assets and liabilities" in the consolidated income statement. Specifically, the fair value of standard financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

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

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

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

The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under leasing and renting agreements, assets acquired under repurchase agreements, securities loans and derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under "Financial liabilities held for trading", "Other financial liabilities at fair value through profit or loss" and "Financial liabilities at fair value through equity" and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table summarizes the recorded fair values at each of the dates set forth for the asset and liability classes below, broken down by valuation methodology used by the Group to determine their fair value:

In Millions of Euros	2007			2006			2005		
	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total	Published Price Quotations in Active Markets	Internal Models (*)	Total
Financial assets held for trading	76,310	82,490	158,800	84,009	86,414	170,423	85,558	68,650	154,208
Other financial assets at fair value through profit or loss	6,945	17,884	24,829	4,543	10,828	15,371	39,020	9,842	48,862
Available-for-sale financial assets	37,908	6,441	44,349	32,111	6,587	38,698	72,909	1,036	73,945
Hedging derivatives (assets)	-	3,063	3,063	-	2,988	2,988	-	4,126	4,126
Financial liabilities held for trading	24,447	98,307	122,754	30,657	93,339	123,996	35,156	77,310	112,466
Other financial liabilities at fair value through profit or loss	117	33,039	33,156	259	12,152	12,411	-	11,810	11,810
Hedging derivatives (liabilities)	110	4,024	4,135	-	3,494	3,494	-	2,311	2,311
Liabilities under insurance contracts	5,678	7,356	13,034	5,760	4,944	10,704	13,076	31,596	44,672

(*) In substantially all cases, the principal variables that are input into these models are derived from observable market data.

Financial instruments carried at fair value and determined on the basis of published price quotations in active markets include government debt securities, private-sector debt securities, asset-backed securities, equity securities, short securities positions and fixed-income securities issued.

In the absence of published price quotations for a particular financial instrument, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimates, various techniques are employed, including extrapolation from observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the value of the instrument can be evidenced by comparison with other observable market transactions involving the same or similar instruments or measured by using a valuation technique where variables include only observable market data, mainly interest rates. Under IFRS, any difference between the transaction price and the fair value based on valuation techniques is not initially recognized in the income statement.

Set forth below are the main valuation techniques employed in our internal models, which are principally used to measure the fair value of derivative financial instruments at December 31, 2007:

- In the valuation of financial instruments permitting static hedging (basically, forwards and swaps) the "present value" method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data.

- In the valuation of financial instruments requiring dynamic hedging (principally structured options and other structured instruments), the Black-Scholes model is generally used. Certain observable market inputs are used in the Black-Scholes model to generate variables such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity, as appropriate.

- In the valuation of financial instruments exposed to interest rate risk (such as interest rate futures, caps and floors), the present value method (futures) and Black-Scholes model (plain vanilla options) are used. For more structured instruments that require dynamic hedging, the Heath-Jarrow-Morton model is employed. The main inputs used in these models are principally observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates.

- In the case of linear instruments (for example, bonds and fixed-income derivatives), credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if they are exposed to portfolio credit risk (for example, credit derivatives), the joint probability of default is determined using the Standard Gaussian Copula model. The main inputs used in the Standard Gaussian Copula model are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads, and the correlation between individual issuers' quoted credit derivatives.

The estimates thus obtained could vary if other methods or assumptions were used for interest rate risk, credit risk, market risk and foreign currency risk spreads, or for their related correlations and volatilities. Nevertheless, management considers that the financial assets and liabilities recognized at fair value in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The fair values of the financial instruments arising from the aforementioned internal models take into account, among other things, contract terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of raw materials and equity securities, volatility and prepayments. The valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities. Set forth below are the financial instruments at fair value where measurement is based on internal models at December 31, 2007, and the potential effect on fair value as of such date to changes to more or less favorable assumptions that are not based on observable market data:

In Millions of Euros

	Fair Value Calculated Using Internal Models	Valuation Techniques	Main Assumptions (*)	Reasonable assumptions (***) More Favorable	Reasonable assumptions (***) Less Favorable
ASSETS:					
Financial assets held for trading	**82,490**			**103**	**(88)**
Loans and advances to credit institutions	12,295	Present Value Method	Observable market data	-	-
Loans and advances to customers	23,704	Present Value Method	Observable market data	-	-
Debt and equity interests	2,087	Present Value Method	Observable market data	-	-
Trading derivatives	44,404			103	(88)
Swaps (**)	*28,312*	Present Value Method	Models	61	(46)
Exchange rate options	*375*	Black-Scholes Model	Models	1	(1)
Interest rate options	*8,683*	Black-Scholes Model HJM Model	Models, Correlation	24	(16)
Interest rate futures	*1,039*	Present Value Method	Observable market data	-	-
Index and securities options	*3,799*	Black-Scholes Model	Dividend, Correlation, Models	17	(25)
Investment futures	*28*	Present Value Method	Observable market data	-	-
Other	*2,168*	N/A	N/A	-	-
Hedging derivatives	**3,063**			-	-
Swaps	*2,614*	Present Value Method	Observable market data	-	-
Exchange rate options	*359*	Black-Scholes Model	Observable market data	-	-
Interest rate options	*86*	Black-Scholes Model	Observable market data	-	-
Other	4	N/A	N/A	-	-
Other financial assets at fair value through profit or loss	**17,884**				
Loans and advances to credit institutions	6,865	Present Value Method	Observable market data	-	-
Loans and advances to customers	8,022	Present Value Method	Observable market data	-	-
Debt and equity interests	2,997	Present Value Method	Observable market data	-	-
Available-for-sale financial assets	**6,441**				
Debt and equity interests	6,441	Present Value Method	Observable market data	-	-
LIABILITIES:					
Financial liabilities held for trading	**98,307**			**108**	**(90)**
Deposits from credit institutions	23,254	Present Value Method	Observable market data	-	-
Customer deposits	27,992	Present Value Method	Observable market data	-	-
Trading derivatives	47,061			108	(90)
Swaps (**)	*39,204*	Present Value Method	Models	90	(69)
Exchange rate options	*907*	Black-Scholes Model	Models	2	(2)
Interest rate options	*1,325*	Black-Scholes Model HJM Model	Models, Correlation	4	(2)
Index and securities options	*2,527*	Black-Scholes Model	Dividend, Correlation, Models	12	(17)
Forward purchase and sale contracts	*1,411*	N/A	N/A	-	-
Interest rate and investment futures	*1,100*	Present Value Method	Observable market data	-	-
Other	*587*	N/A	N/A	-	-
Hedging derivatives	**4,024**			-	-
Swaps	*3,924*	Present Value Method	Observable market data	-	-
Exchange rate options	*27*	Black-Scholes Model	Observable market data	-	-
Interest rate options	*73*	Black-Scholes Model	Observable market data	-	-
Other financial liabilities at fair value through profit or loss	**33,039**	Present Value Method	Observable market data	-	-
Liabilities under insurance contracts	**7,356**	**Note 15**		-	-
TOTAL	**252,604**			**211**	**(178)**

(*) The use of observable market data assumes that the markets in which the Group operates are operationally efficient and, hence that such data is meaningful. The following are the principal assumptions used in the valuation of the financial instruments listed in the table above that are measured by means of internal models in which non-observable market data is utilized:

- Correlation: assumptions regarding the correlation between the value of market-traded assets and those non-traded assets are based on the historical correlation between the impact of adverse movements in market data and the corresponding valuation of the associated non-traded assets. The valuation will vary depending on whether a more or less conservative degree of correlation scenario is selected.
- Dividend: estimates of the dividends used as inputs in internal models are based on the expected dividend distributions from the issuer companies. Since the expected dividend may change or differ depending on the source of the dividend data (generally either historic data or market consensus for option pricing), and the dividend policy of companies may vary, the measurement is adapted to arrive at the best estimate of a reasonable level of expected dividend within more or less conservative scenarios.
- Models: assumptions include estimates based on market liquidity and other factors. For example to take into account market liquidity or where the financial instrument is part of a new or developing market where the standard calculation methodology and estimates available may result in a less accurate valuation of the instrument at that time.

(**) Includes credit risk derivatives with a fair value of EUR 2.5 million (for assets) and EUR 3.3 million (for liabilities) recognized on the consolidated balance sheet. These are measured by means of the Standard Gaussian Copula model, discussed above.

(***) Reflects the potential effect on the valuation of financial instruments of a change in the principal assumptions for non-observable market data (correlation, dividend, models) to other reasonable assumptions if one percentage point more (or less) favorable assumptions are used.

As detailed in the table above, the potential effect of a change in the principal assumptions (models, correlations and dividends) to other reasonable assumptions that are less favorable by one percentage point would be to decrease gains, or increase losses, by EUR 178 million (2006: EUR 141 million; 2005: EUR 140 million). The effect of the use of reasonable assumptions that are more favorable by one percentage point than those used by the Group would increase gains, or decrease losses, by EUR 211 million (2006: EUR 183 million; 2005: EUR 155 million).

The total loss recognized in the consolidated income statement for 2007 arising from the aforementioned valuation models amounted to EUR 479 million (2006: total loss of EUR 1,005 million; 2005: total gain of EUR 762 million).

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the consolidated income statement, distinguishing between those arising from the accrual of interest and similar items -which are recognised under “Interest and similar income” or “Interest expense and similar charges”, as appropriate- and those arising for other reasons, which are recognised at their net amount under “Gains/losses on financial assets and liabilities”.

Adjustments due to changes in fair value arising from:

- “Available-for-sale financial assets” are recognised temporarily in equity under “Valuation adjustments - Available-for-sale financial assets”, unless they relate to exchange differences, in which case they are recognised in “Valuation adjustments - Exchange differences” (exchange differences arising on monetary financial assets are recognised in “Exchange differences” in the consolidated income statement).

- Items charged or credited to “Valuation adjustments - Available-for-sale financial assets” and “Valuation adjustments - Exchange differences” remain in the Group's consolidated equity until the related assets are derecognised, whereupon they are charged to the consolidated income statement.

- Unrealised gains on available-for-sale financial assets classified as “Non-current assets held for sale” because they form part of a disposal group or a discontinued operation are recognised in “Valuation adjustments - Non-current assets held for sale”.

- “Financial liabilities at fair value through equity” are recognised in “Valuation adjustments - Financial liabilities at fair value through equity”.

v. Hedging transactions

The consolidated entities use financial derivatives for the purpose of trading with customers who request these instruments in order to manage their own market and credit risks and for investment purposes; for the purpose of managing the risks of the Group entities' own positions and assets and liabilities (“hedging derivatives”); or for the purpose of obtaining gains from changes in the prices of these derivatives.

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

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

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

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

b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (“cash flow hedge”);

c. The net investment in a foreign operation (“hedge of a net investment in a foreign operation”).

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

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

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

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

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

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

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

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in equity under "Valuation adjustments - Cash flow hedges" until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recognised directly in the consolidated income statement.

c. In hedges of a net investment in a foreign operation, the gains and losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Valuation adjustments - Hedges of net investments in foreign operations" until the gains or losses on the hedged item are recognised in the consolidated income statement.

d. The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation are recognised directly under "Gains/losses on financial assets and liabilities" in the consolidated income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a trading derivative.

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

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

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as "Other financial assets/liabilities at fair value through profit or loss" or as "Financial assets/liabilities held for trading".

e) Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

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

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

f) Offsetting of financial instruments

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

g) Impairment of financial assets

i. Definition

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

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

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

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

Balances are deemed to be impaired, and the interest accrual is suspended, when there are reasonable doubts as to their full recovery and/or the collection of the related interest for the amounts and on the dates initially agreed upon, after taking into account the guarantees received by the consolidated entities to secure (fully or partially) collection of the related balances. Collections relating to impaired loans and advances are used to recognise the accrued interest and the remainder, if any, to reduce the principal amount outstanding. The amount of the financial assets that would be deemed to be impaired had the conditions thereof not been renegotiated is not material with respect to the Group's financial statements taken as a whole.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

ii. Debt instruments measured at amortised cost

The amount of an impairment loss incurred on a debt instrument measured at amortised cost is equal to the difference between its carrying amount and the present value of its estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted.

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

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

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

- The circumstances in which collections will foreseeably be made.

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

Specifically as regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

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

- When country risk materialises: country risk is considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

* * * * *

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

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

With respect to the allowance for loss arising from credit risk, the Group makes the following distinction:

1. Specific credit risk allowance:

a. Specific allowance:

The impairment of debt instruments not measured at fair value through profit or loss that are classified as doubtful are generally recognised in accordance with the criteria set forth below:

i. Assets classified as doubtful due to counterparty arrears:

Debt instruments, whoever the obligor and whatever the guarantee or collateral, with amounts more than three months past due are assessed individually, taking into account the age of the past-due amounts, the guarantees or collateral provided and the financial situation of the counterparty and the guarantors.

The allowance percentages applied to unsecured transactions, based on the age of the past-due amounts, are as follows:

- Less than 6 months: between 4.5% and 5.3%.

- More than 6 months and less than 12 months: between 27.4% and 27.8%

- More than 12 months and less than 18 months: between 60.5% and 65.1%

- More than 18 months and less than 24 months: between 93.3% and 95.8%

- More than 24 months: 100%

The allowance percentages applied to loans secured by mortgage on completed homes, based on the age of the past-due amounts, are as follows:

- Less than 3 years, provided that the outstanding loan does not exceed 80% of the appraisal value of the home: 2%

- More than 3 years and less than 4 years: 25%

- More than 4 years and less than 5 years: 50%

- More than 5 years and less than 6 years: 75%

- More than 6 years: 100%

The allowance percentages applied to loans secured by real property, when the Group has initiated procedures to foreclose such assets, based on the age of the past-due amounts, are as follows:

- Less than 6 months: between 3.8% and 4.5%

- More than 6 months and less than 12 months: between 23.3% and 23.6%

- More than 12 months and less than 18 months: between 47.2% and 55.3%

- More than 18 months and less than 24 months: between 79.3% and 81.4%

- More than 24 months: 100%

ii. Assets classified as doubtful for reasons other than counterparty arrears:

Debt instruments which are not classifiable as doubtful due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are assessed individually, and their allowance is the difference between the amount recognised in assets and the present value of the cash flows expected to be received.

b. General allowance for inherent losses:

The Group covers its losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods, that have not yet been allocated to specific transactions.

The Group uses the expected loss concept to quantify the cost of the credit risk and include it in the calculation of the risk-adjusted return of its transactions. The parameters necessary for this calculation are also used to calculate economic capital and, in the future, to calculate BIS II regulatory capital under internal models (Note 1-f).

Expected loss is the expected cost, on average in a complete business cycle, of the credit risk of a transaction, considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The expected loss is calculated by multiplying three factors: “exposure at default”, “probability of default” and “loss given default”.

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

  PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year. The definition of default used includes past-dues by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective doubtful assets).

- Loss given default (LGD) is the loss arising in the event of default. It depends mainly on the guarantees associated with the transaction.

The calculation of the expected loss also takes into account the adjustment to the cycle of the aforementioned factors, especially PD and LGD.

The approach described above is used as a general rule. However, in certain cases, as a result of its particular characteristics, this approach is not applied and alternative approaches are used:

1. Low default portfolios

In certain portfolios (sovereign risk, credit institutions or large corporations) the number of defaults observed is very small or zero. In these cases, the Group opted to use the data contained in the credit derivative spreads to estimate the expected loss discounted by the market and break it down into PD and LGD.

2. Top-down units

In the cases in which the Group does not have sufficient data to construct a sufficiently robust credit risk measurement model, the expected loss on the loan portfolios is estimated based on a top-down approximation in which the historically observed average cost of the loan portfolios is used as the best estimate of the expected loss. As the credit models are developed and bottom-up measurements are obtained, the top-down measurements used for these units are gradually replaced.

* * * * *

However, by express requirement of the Bank of Spain, until the Spanish regulatory authority has verified and approved these internal models (which are currently under review), the general allowance must be calculated as set forth below.

Based on its experience and on the information available to it on the Spanish banking industry, the Bank of Spain has established various categories of debt instruments and contingent liabilities, classified as standard risk, which are recognised at Spanish entities or relate to transactions performed on behalf of residents in Spain which are recognised in the accounting records of foreign subsidiaries, and has applied a range of required allowances to each category.

- Negligible risk: 0%

- Low risk: 0.20% - 0.75%

- Medium-low risk: 0.50% - 1.88%

- Medium risk: 0.59% - 2.25%

- Medium-high risk: 0.66 - 2.50%

- High risk: 0.83% - 3.13%

Our internal models produce a range of allowances that include the allowances required by the Bank of Spain.

2. Country risk allowance:

Country risk is considered to be the risk associated with counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk and risks arising from international financial activity). Based on the countries' economic performance, political situation, regulatory and institutional framework, and payment capacity and record, the Group classifies all the transactions performed with third parties into six different groups, from group 1 (transactions with ultimate obligors resident in European Union countries, Norway, Switzerland, Iceland, the United States, Canada, Japan, Australia and New Zealand) to group 6 (transactions the recovery of which is considered remote due to circumstances attributable to the country), assigning to each group the credit loss allowance percentages resulting from the aforementioned analyses.

However, due to the size of the Group and to the proactive management of its country risk exposure, the allowances recognised in this connection are not material with respect to the credit loss allowances recognised.

iii. Debt or equity instruments classified as available for sale

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

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognised in equity under "Valuation adjustments - Available-for-sale financial assets" and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurred (or in equity under "Valuation adjustments - Available-for-sale financial assets" in the case of equity instruments).

iv. Equity instruments measured at cost

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

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

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial assets under a non-optional resale (repurchase) agreement at a fixed price ("repos") are recognised in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under "Loans and advances to credit institutions" or "Loans and advances to customers" ("Deposits from credit institutions" or "Customer deposits").

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

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

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

"Liabilities associated with non-current assets" includes the credit balances arising from assets or disposal groups and from discontinued operations.

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

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under "Impairment losses - Non-current assets held for sale" in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

j) Reinsurance assets and Liabilities under insurance contracts

Insurance contracts involve the transfer of a certain quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group's cash flow will arise from a deviation in the payments forecast and/or an insufficiency in the premium set.

The Group controls its insurance risk as follows:

- By applying of a strict methodology in the launch of products and in the assignment of value thereto.
- By using deterministic and stochastic models for measuring commitments.
- By using reinsurance as a risk mitigation technique as part of the credit quality guidelines in line with the Group's general risk policy.
- By establishing an operating framework for credit risks.
- By actively managing asset and liability matching.
- By applying security measures in processes.

"Reinsurance assets" includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated insurance entities.

At least once a year these assets are reviewed for impairment (if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the consolidated income statement and the assets are derecognised.

"Liabilities under insurance contracts" includes the technical provisions recorded by the consolidated entities to cover claims arising from insurance contracts in force at year-end.

Insurers' results relating to their insurance business are recognised under "Insurance activity income" in the consolidated income statement.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the consolidated income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof. Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At least at each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequately measured. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and
- The value recognised in the consolidated balance sheet for insurance liabilities (Note 15), net of any related deferred acquisition costs or related intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this deficiency is charged to the consolidated income statement. When unrealised gains or losses on assets of the Group's insurance companies affect the measurement of liabilities under insurance contracts and/or the related deferred acquisition costs and/or the related intangible assets, these gains or losses are recognised directly in equity. The corresponding adjustment in the liabilities under insurance contracts (or in the deferred acquisition costs or in intangible assets) is also recognised in equity.

k) Tangible assets

"Tangible assets" includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use:

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

For this purpose, the acquisition cost of foreclosed assets is the carrying amount of the financial assets settled through foreclosure.

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognised in the consolidated income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	2
Furniture	7.5 – 10
Fixtures	6 – 10
Office and IT equipment	10 - 25
Leasehold improvements	5 – 10

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

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

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred.

ii. Investment property

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

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

iii. Other assets leased out under an operating lease

"Other assets leased out under an operating lease" reflects the net values of the tangible assets, other than land and buildings, leased out by the Group under an operating lease.

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

l) Accounting for leases

i. Finance leases

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

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

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

In both cases, the finance income and finance expense arising from these contracts is credited and debited, respectively, to “Interest and similar income” and “Interest expense and similar charges” in the consolidated income statement so as to achieve a constant rate of return over the lease term.

ii. Operating leases

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

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under “Tangible assets” (Note 16). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use and income from operating leases is recognised on a straight-line basis under “Other operating income” in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to “Other general administrative expenses” in their consolidated income statements.

iii. Sale and leaseback transactions

In the case of sale at fair value and operating leasebacks, the profit or loss generated is recognised at the time of sale. In the case of finance leasebacks, the profit or loss generated is amortised over the lease term.

m) Intangible assets

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

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

i. Goodwill

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

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the balance sheets of the acquirees.
- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within 12 months following the date of acquisition can be measured reliably.
- The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units (a cash generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

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

At the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to “Impairment losses - Goodwill” in the consolidated income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

“Other intangible assets” includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

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

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

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortisation charge is recognised under “Depreciation and amortisation - Intangible assets” in the consolidated income statement.

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

Internally developed computer software

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

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

n) Prepayments and accrued income and Accrued expenses and deferred income

These items include all the balances of prepayments and accrued income and of accrued expenses and deferred income, excluding accrued interest.

ñ) Other assets and Other liabilities

“Other assets” in the consolidated balance sheet includes the amount of assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. “Inventories” includes land and other property held for sale in the property development business.

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

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

  The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised. This expense is included under “Cost of sales” in the accompanying consolidated income statements (Note 47) when it relates to activities of the non-financial entities that do not form part of the consolidable group of credit institutions or under “Other operating expenses” in all other cases.

- Other: this item includes the amount of the difference between pension plan obligations and the value of the plan assets with a debit balance for the entity, when the net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

“Other liabilities” includes the payment obligations having the substance of liabilities and not included in any other category.

o) Provisions and contingent assets and liabilities

The directors of the consolidated entities, in preparing their respective financial statements, made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing; and

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

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

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the consolidated financial statements, but must rather be disclosed in the notes. In this respect, the financial statements of Abbey disclose the contingent liability arising from the claims made by the customers of the main UK financial institutions in relation to certain fees and commissions charged by them.

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

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to early retirees and similar obligations.

- Provisions for taxes: includes the amount of the provisions made to cover tax contingencies.

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

- Other provisions: includes the amount of other provisions made by the consolidated entities. This item includes, inter alia, provisions for restructuring costs and litigation (Note 25).

p) Litigation and/or claims in process

In addition to the disclosures made in Note 1, at the end of 2007 certain litigation and claims were in process against the consolidated entities arising from the ordinary course of their operations (Note 25).

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer’s own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are deducted from equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments are directly added to or deducted from equity.

r) Equity-instrument-based employee remuneration

Equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Group recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees, irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) Recognition of income and expenses

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

i. Interest income, interest expenses and similar items

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

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

ii. Commissions, fees and similar items

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

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

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

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

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

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

v. Loan arrangement fees

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

t) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the entity, insurance and credit derivatives.

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

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

The provisions made for these transactions are recognised under "Provisions - Provisions for contingent liabilities and commitments" in the consolidated balance sheet (Note 25). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions (net)" in the consolidated income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under "Accrued expenses and deferred income" in the consolidated balance sheet are reclassified to the appropriate provision.

u) Assets under management and investment and pension funds managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in “Fee and commission income” in the consolidated income statement. Note 36-b contains information on the third-party assets managed by the Group.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services) are recognised under “Fee and commission income” in the consolidated income statement.

v) Post-employment benefits

Under the collective labour agreements currently in force and other arrangements, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, the benefits and indemnity payments payable, the contributions to employee welfare systems for early retirees and the post-employment welfare benefits.

The Group's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions (recognised in “Personnel expenses” in the consolidated income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as “defined benefit plans” (Note 25).

Defined contribution plans

The contributions made in this connection in each year are recognised under “Personnel expenses” in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under “Provisions - Provisions for pensions and similar obligations” on the liability side of the consolidated balance sheet.

Defined benefit plans

The Group recognises under “Provisions - Provisions for pensions and similar obligations” on the liability side of the consolidated balance sheet (or under “Other assets - Other” on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets and of the net unrecognised cumulative actuarial gains and/or losses disclosed in the valuation of these obligations, which are deferred using a corridor approach, and net of the past service cost, which is deferred over time, as explained below.

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

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

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

If the Group can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement as an asset item in the consolidated balance sheet under “Insurance contracts linked to pensions”, which, in all other respects, is treated as a plan asset.

“Actuarial gains and losses” are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions. The Group uses, on a plan-by-plan basis, the corridor method and recognises in the consolidated income statement the amount resulting from dividing by five the net amount of the cumulative actuarial gains and/or losses not recognised at the beginning of each year which exceeds 10% of the present value of the obligations or 10% of the fair value of the plan assets at the beginning of the year, whichever amount is higher. The maximum five-year allocation period, which is required by the Bank of Spain for all Spanish financial institutions, is shorter than the average number of remaining years of active service relating to the employees participating in the plans, and is applied systematically.

The “past service cost” -which arises from changes to current post-employment benefits or from the introduction of new benefits- is recognised on a straight-line basis in the consolidated income statement over the period from the time the new commitments arise to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognised in the consolidated income statement as follows:

- Current service cost -defined as the increase in the present value of the obligations resulting from employee service in the current period-, under "Personnel expenses".

- Interest cost -defined as the increase during the year in the present value of the obligations as a result of the passage of time-, under "Interest expense and similar charges". When obligations are presented on the liability side of the consolidated balance sheet, net of the plan assets, the cost of the liabilities recognised in the income statement relates exclusively to the obligations recognised as liabilities.

- The expected return on plan assets and the gains or losses on the value of the plan assets, less any plan administration costs and less any applicable taxes, under "Interest and similar income".

- The actuarial gains and losses calculated using the corridor approach and the unrecognised past service cost, under "Provisions (net)" in the consolidated income statement.

w) Other long-term employee benefits

"Other long-term employee benefits", defined as obligations to early retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognised immediately (Note 25).

x) Termination benefits

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

y) Income tax

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

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the consolidated income statement.

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

"Tax assets" includes the amount of all tax assets, which are broken down into "current" -amounts of tax to be recovered within the next twelve months- and "deferred" -amounts of tax to be recovered in future years, including those arising from unused tax losses or tax credits.

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

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

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit or accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilised.

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

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

Law 35/2006, of 28 November, on personal income tax and partially amending the Spanish Corporation Tax, Non-resident Income Tax and Wealth Tax Laws, establishes, inter alia, a reduction over two years of the standard tax rate for Spanish corporation tax purposes, which until 31 December 2006 was 35%, as follows:

Tax Periods Beginning on or after	Tax Rate
1 January 2007	32.5%
1 January 2008	30.0%

Accordingly, in 2006 the Group estimated the deferred tax assets and liabilities and the tax credit and tax loss carryforwards recognised in the consolidated balance sheet, taking into account the year in which the related reversal will foreseeably take place. As a result, a net charge of EUR 491 million relating to 2006 was recognised under "Income tax" in the consolidated income statement (Note 27).

z) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets and the average interest rates at 2007, 2006 and 2005 year-end is provided in Note 53

aa) Consolidated cash flow statements

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

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

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

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

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

In preparing the consolidated cash flow statement, short-term highly liquid investments that are subject to an insignificant risk of changes in value were classified as "Cash and cash equivalents". Accordingly, the Group classifies as cash and cash equivalents the balances recognised under "Cash and balances with central banks" in the consolidated balance sheet.

3. SANTANDER GROUP

a) Banco Santander, S.A. and international Group structure

The growth of the Group in the last decade has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At international level, the various banks and other subsidiaries, jointly controlled entities and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendixes provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) ABN AMRO Holding N.V. ("ABN AMRO")

On 20 July 2007, having obtained the regulatory authorisations required to publish the documentation on the takeover bid for ABN AMRO, the Bank, together with the Royal Bank of Scotland

Group plc, Fortis N.V. and Fortis S.A./N.V. (together, “the Banks”) formally launched, through RFS Holdings B.V., the offer for all the ordinary shares, ADSs and previously convertible preference shares of ABN AMRO. The initial acceptance period of this offer (“the Offer”) ended on 5 October.

On 10 October the Banks declared the Offer to be unconditional. At that date, the owners of 86% of the ordinary share capital of ABN AMRO had accepted the Offer (including certain shares that the Banks already owned and had undertaken to contribute to RFS Holdings B.V.).

On this same date the commencement of an additional offer period was announced, during which the holders of ordinary shares and ADSs of ABN AMRO could sell them, under the same terms and conditions as those of the Offer, until 31 October 2007.

Once the aforementioned additional offer period had ended, the owners of 98.8% of the ordinary share capital of ABN AMRO (excluding its treasury shares) had definitively accepted the Offer.

The investment made by the Bank amounts to EUR 20,615 million and, at 31 December 2007, consisted of the Bank’s 27.9% ownership interest in the share capital of RFS Holdings B.V., the holding entity of the shares of ABN AMRO.

Following all these actions, the spin-off of the business lines of ABN AMRO commenced with a view to their subsequent integration into each of the Banks. The following correspond to Santander: the Latin American Business Unit of ABN AMRO -basically Banco ABN AMRO Real S.A. ("Banco Real") in Brazil-, the Banca Antoniana Popolare Veneta Spa Banking Group ("Antonveneta"), the cash relating to the sale of the consumer banking unit of ABN AMRO in the Netherlands -Interbank and DMC Consumer Finance-, plus 27.9% of the assets that were not allocated to any of the Banks of the consortium and which are intended to be disposed of. The finalisation of the asset spin-off and integration process is subject to approval, among other regulators, by the Dutch Central Bank, which is expected to be obtained in the first half of 2008.

On 15 November 2007, ABN AMRO sold the aforementioned consumer finance units located in the Netherlands for EUR 98 million. Additionally, on 8 November 2007, the Bank entered into an agreement with Monte dei Paschi di Siena for the sale, at the earliest possible date and no later than September 2008, of Antonveneta (excluding Interbanca, the corporate banking division of Antonveneta, whose net investment value amounts to approximately EUR 800 million) for EUR 9,000 million. The transaction is subject to the approval of the competent authorities (Note 12).

Accordingly, once the sale of Antonveneta to Monte dei Paschi di Siena has been authorised, the net investment made by the Bank, basically in Banco Real and Interbanca, will amount to approximately EUR 11,615 million (Note 13).

Banco Real

Banco Real is the fourth-largest bank in Brazil in terms of volume of loans, deposits and income. It has an extensive distribution network (1,900 branches and 8,700 ATMs), which enables it to carry on in full the retail and wholesale banking activities throughout Brazil, catering for over 13 million customers. It also has entities specialising in private banking and vehicle financing, the last-mentioned business activity being related to more than 15,000 car dealers.

Owing to the potential and the geographical and business complementarity of Santander Brazil and Banco Real, their combination grants them a banking leadership in all of Brazil, with a market share and an infrastructure equal to those of the two leading private banks, and gives rise to the second-largest bank in terms of deposits, the third-largest in terms of lending and network size, and the fourth-largest in terms of income.

At 31 December 2006, Banco Real had assets amounting to BRL 120,830 million (EUR 50,000 million), equity amounting to BRL 9,779 million (EUR 4,000 million) and attributed profit amounting to BRL 2,480 million (EUR 1,000 million).

c) Acquisitions and disposals

The other main equity investments acquired and sold by the Group in 2007, 2006 and 2005 and other significant corporate transactions were as follows:

i. Abbey National plc (Abbey)

On 25 July 2004, the respective Boards of Directors of the Bank and Abbey approved the terms on which the Board of Directors of Abbey recommended to its shareholders the takeover bid launched by Banco Santander for all the ordinary share capital of Abbey under a Scheme of Arrangement subject to the UK Companies Act. After the related Annual General Meetings of Abbey and the Bank were held in October 2004, and the other conditions of the transaction were met, on 12 November 2004 the acquisition was completed through the delivery of one new Banco Santander share for every Abbey ordinary share. The capital increase performed to cater for the purchase amounted to EUR 12,541 million, equal to 1,485,893,636 new shares of EUR 0.5 par value each and a share premium of EUR 7.94 each.

ii. Abbey’s insurance business

In June 2006 Abbey entered into an agreement with Resolution plc (“Resolution”) to sell its life insurance business to the latter for EUR 5,340 million (GBP 3,600 million). The transaction did not give rise to any gains for the Group.

The main insurance companies sold were Scottish Mutual Assurance plc, Scottish Provident Limited and Abbey National Life plc, including their subsidiaries Scottish Mutual International plc (Dublin) and Scottish Provident International Life Assurance Limited (Isle of Man).

iii. Interbanco, S.A. (Interbanco)

In September 2005 the Group and the Portuguese company SAG (Soluções Automóvel Globlais) reached an agreement to jointly provide consumer finance and vehicle financing services in Portugal and operate the vehicle "renting" business in Spain and Portugal.

In January 2006 the Group paid EUR 118 million for a 50.001% interest in the share capital of Interbanco.

At the beginning of 2007 the Group acquired an additional 9.999% of Interbanco through the integration in the latter of the branches of Santander Consumer E.F.C., S.A. and Santander Consumer Finance, S.A. located in Portugal. As a result of this acquisition Interbanco changed its name to Banco Santander Consumer Portugal. Following this transaction, by virtue of the initial purchase agreements, the Group acquired the remaining 40% of this entity for EUR 138 million. These transactions gave rise to goodwill of EUR 74 million. At 31 December 2007, the Group owned all the shares of Banco Santander Consumer Portugal.

iv. Elcon Finans AS (Elcon) and Bankia Bank ASA (Bankia)

In September 2004 the Group acquired all the shares of Elcon (a leading Norwegian vehicle financing company) for NOK 3,440 million (EUR 400 million). Subsequently, the Group resolved to sell Elcon's leasing and factoring businesses for EUR 160 million. The resulting goodwill amounted to EUR 120 million.

In 2005 the Group acquired all the shares of the Norwegian bank Bankia for EUR 54 million. The goodwill arising on this investment amounted to EUR 45 million.

The merger of these two companies in 2005 gave rise to Santander Consumer Bank AS (Note 17).

v. Compañía Española de Petróleos, S.A. (Cepsa)

In 2003 the Bank launched a takeover bid for up to 42,811,991 Cepsa shares, and the offer was accepted for 32,461,948 shares, representing an investment of EUR 909 million.

Total, S.A. considered that the takeover bid breached historical side agreements between it (or its subsidiary, Elf Aquitaine, S.A.-Elf) and the Bank in relation to Cepsa and, accordingly, filed a request for arbitration at the Netherlands Court of Arbitration.

On 3 April 2006, the partial award rendered by the Arbitral Tribunal which, in the framework of the Netherlands Arbitration Institute, resolved the request for arbitration filed by Total, S.A. against the Bank was notified to the parties. The Tribunal considered that the side agreements contained in the agreements relating to Cepsa between the Bank and Total, S.A. (or its subsidiary, Elf) were rendered invalid by application of Transitional Provision Three of Law 26/2003, of 17 July. However, the fact that the Bank launched the aforementioned takeover bid without prior consultation with Total, S.A. caused, in the opinion of the Tribunal, an insurmountable disagreement between the two parties which, in application of the part of the agreements that was not rendered invalid, entitled Total, S.A. to repurchase from the Bank a 4.35% ownership interest in Cepsa at the price established in the agreements.

Also, the aforementioned partial award ordered the dissolution of Somaen-Dos, S.L. (Sole-Shareholder Company), the sole company object of which was the holding of ownership interests in Cepsa, with a view to each shareholder recovering direct ownership of their respective Cepsa shares, in accordance with the agreements entered into between the Bank and Total, S.A. (or its subsidiary, Elf). To this end, on 2 August 2006, Banco Santander, S.A. and Riyal, S.L. entered into two agreements with Elf Aquitaine, S.A. and Odival, S.A., on the one hand, and with Unión Fenosa, S.A., on the other, to enforce the partial award and separate the ownership interests that they each held in Cepsa through Somaen-Dos, S.L.

On 13 October 2006, Elf received notification from the European Commission communicating the authorisation of the concentration resulting from the acquisition by Elf of shares representing 4.35% of the share capital of Cepsa. Consequently, the Group sold 11,650,893 Cepsa shares to Elf for EUR 53 million. This disposal gave rise to a loss of EUR 158 million which was covered by a provision recognised for this purpose.

At 31 December 2007, Banco Santander's holding in Cepsa was 31.64%.

vi. Unión Eléctrica Fenosa, S.A. (Unión Fenosa)

In 2002 several purchases of shares of Unión Fenosa were made for a total amount of EUR 465 million. In 2004 the Group sold 1% of its holding in Unión Fenosa, leaving an ownership interest of 22.02% at 31 December 2004.

The investment in Unión Fenosa was sold in 2005 at a price of EUR 2,219 million and the gain on this disposal, which amounted to EUR 1,157 million, was recognised in "Other gains" (Note 52).

vii. Sovereign Bancorp Inc. (Sovereign)

In October 2005 the Group reached an agreement with Sovereign, a US entity based in Philadelphia, for the acquisition of a 19.8% stake in the US bank.

Under this agreement the Group subscribed to a USD 1,931 million capital increase and purchased treasury shares amounting to approximately USD 464 million, in both cases at USD 27 per share, giving rise to a total investment of USD 2,395 million (approximately EUR 1,883 million) and goodwill amounting to USD 760 million.

This agreement entitled the Group to increase its ownership interest to 24.99% through the purchase of shares in the market, but, unless expressly authorised otherwise by the shareholders of Sovereign at an Annual General Meeting, the shares purchased for the purpose of this increase had to be deposited in a voting trust and its votes exercised in the same proportion as the votes of the shareholders of Sovereign other than Santander and its shareholders. On 3 May 2007, Sovereign's shareholders approved an amendment to the entity's bylaws which, inter alia, authorises Santander to exercise the vote relating to the shares held in the voting trust and any other Sovereign shares that Santander might acquire in the future. On 16 May 2007, the voting trust held 4.9% of the voting shares of Sovereign. Santander and Sovereign have taken the appropriate steps to terminate the voting trust and to transfer the shares held therein to Santander. As from 6 June 2007, Santander can exercise the voting right on 24.7% of Sovereign shares. Except with the consent of the Board of Directors of Sovereign or through the procedures described below, Santander cannot increase its percentage of ownership to over 24.99% until the end of the period established by the Investment Agreement (1 June 2010, unless a takeover bid is launched by the Group or by a third party before that date).

Additionally, from 1 June 2008 to 31 May 2011 Santander will have the option of launching an offer for all the shares of Sovereign, subject to compliance with certain conditions and limitations agreed upon by both parties. If such an offer is made by Santander, the Board of Directors of Sovereign could resist it by means of a bidding process or competitive valuation procedure. If these procedures determine that there is no higher offer, the Board of Directors of Sovereign must accept this offer, taking into account the fact that, from 1 June 2008 to 31 May 2009 any offer made by Santander must involve a price of, at least, USD 38 per share (the amount resulting from the application of adjustments to the figure of USD 40 per share established under the Investment Agreement to take account of the dilutive effect of a dividend paid by Sovereign in the form of shares). Even if the Board of Directors of Sovereign accepts the offer, Santander will not be permitted to complete the acquisition of Sovereign unless the majority of the shareholders, other than Santander itself, by means of a vote at Sovereign's Annual General Meeting, approve the acquisition. Additionally, until 31 May 2011, Santander will have the pre-emptive right in any negotiation and may match any offer by third parties to acquire Sovereign. Lastly, with certain exceptions, Santander has agreed that, until 31 May 2011, it will not sell or dispose of in any manner the shares of Sovereign.

At 31 December 2007, the Group's ownership interest in Sovereign stood at 24.43%. The acquisition cost of this holding amounted to EUR 2,300 million. In 2007, the Group assessed its ownership interest in Sovereign and adjusted the value of the investment by EUR 1,053 million (Note 13).

viii. Island Finance

In January 2006 the Group's subsidiary in Puerto Rico (Santander BanCorp) and Wells Fargo & Company entered into a definitive agreement for the acquisition from the latter of the assets and operations of Island Finance in Puerto Rico. At 31 December 2005, Island Finance's loans in Puerto Rico amounted to approximately USD 627 million.

The deal provided for the acquisition by the Group of all the operations of Island Finance, except for its debt and the remaining liabilities.

The deal was completed in the first quarter of 2006 for USD 742 million, giving rise to goodwill of USD 114 million (Note 17-a). In 2007, the Group assessed its ownership interest in Island Finance and adjusted the value of the investment by EUR 14 million (Note 17).

Island Finance provides consumer and mortgage lending to approximately 205,000 customers through its 70 branch offices in Puerto Rico, as well as instalment sales through retail businesses. Island Finance belongs to Wells Fargo Financial, the consumer finance subsidiary of Wells Fargo & Company.

ix. Drive Consumer USA, Inc. (Drive)

In 2006 the Group entered into an agreement to acquire 90% of Drive for USD 637 million in cash (approximately EUR 494 million), which is 6.8 times the estimated profit for 2006.

The transaction gave rise to goodwill of USD 544 million.

The agreement established that the price paid by the Group could be increased by up to USD 175 million if the company meets certain profit targets for 2007 and 2008. In July 2007, an agreement was entered into to advance this payment in exchange for a reduction from USD 175 million to USD 135 million (EUR 97 million), giving rise to additional goodwill for the amount disbursed (Note 17-q).

Drive is one of the leading vehicle financing entities in the subprime segment in the United States. Its headquarters are located in Dallas (Texas), it is present in 35 states and close to 50% of its business activities are concentrated in the states of Texas, California, Florida and Georgia. It has approximately 600 employees and its products are distributed through more than 10,000 car dealers with which it has commercial agreements.

Drive was 64.5%-owned by HBOS and 35.5%-owned by management. Following the acquisition, the current Chairman and COO of Drive will perform the functions of CEO and hold an ownership interest in the company of 10%, a percentage on which there are certain purchase and sale options which might lead to the Group acquiring a further 10% stake between 2009 and 2013 at prices linked to the performance of the company's profit.

x. Banco Santander Chile

In 2006 the Group placed 7.23% of the share capital of Banco Santander Chile through a takeover bid registered with the US Securities and Exchange Commission, giving rise to gross gains of EUR 270 million (Note 52) which are recognised under "Other gains".

xi. Merger

At the Extraordinary General Meeting of Banco Santander, S.A. held on 23 October 2006, the shareholders approved the merger of Riyal, S.L., Lodares Inversiones, S.L., Sole-Shareholder Company, Somaen-Dos, S.L., Sole-Shareholder Company, Gessinest Consulting, S.A., Sole-Shareholder Company, and Carvasa Inversiones, S.L., Sole-Shareholder Company (the absorbed entities) into Banco Santander, S.A. (the absorbing entity), through the dissolution without liquidation of the five absorbed entities and the transfer en bloc, by universal succession, of their assets and liabilities to Banco Santander , S.A.

xii. Inmobiliaria Urbis, S.A. (Urbis)

On 27 July 2006, the Group and Construcciones Reyal, S.A.U. (Reyal) entered into an agreement whereby Reyal undertook to launch a takeover bid for all the share capital of Urbis, at a price of EUR 26 per share, provided that at least 50.267% of the share capital of Urbis was accepted. The Group undertook to transfer to Reyal all its ownership interest in Urbis and not to accept any competing offers. Upon completion of the terms stipulated by current legislation, on 15 December 2006, the Spanish National Securities Market Commission (CNMV) announced that the takeover bid was valid, since it had been accepted by 96.40% of the shares of Urbis. The transaction was definitively settled on 21 December 2006 and gave rise to pre-tax gains of EUR 1,218 million (Note 37).

xiii. Unifin S.p.A. (Unifin)

In May 2006 the Group acquired 70% of the Italian consumer finance entity Unifin for EUR 44 million, giving rise to goodwill of EUR 37 million.

xiv. Banco Portugués de Investimento (BPI)

The Santander Group announced in January 2007 that it had entered into a definitive agreement with Banco Comercial Portugués (BCP) for the sale to this bank of 44.6 million shares of the Portuguese bank BPI, representing 5.87% of its share capital, at EUR 5.70 per share, equal to that offered by BCP in the takeover bid launched by it on BPI, or at the higher price resulting from any upward revision of the offer price. The transaction was conditional upon the relevant regulatory authorisations being obtained.

The takeover bid was closed in May 2007 and was unsuccessful since the minimum acceptance level upon which it was conditional was not reached. The Bank of Portugal had established certain limits on BCP's ownership interest in BPI in the event that the takeover bid failed. Ultimately, 35.5 million shares of BPI were sold to BCP, giving rise to gains of EUR 107 million for the Group.

xv. Santander Consumer Chile

Santander Consumer Finance and the Bergé Group, through its Chilean subsidiary SKBergé, a company formed by Sigdo Koppers and Bergé (SKB), reached a strategic agreement to set up a finance company in Chile, whereby Santander Consumer Finance will subscribe to between 90% and 51% of the share capital and SKBergé will subscribe to between 10% and 49% of the share capital. The new company, which will operate under the name of Santander Consumer Chile, will engage in consumer finance, focussing both on the automotive and other durable consumer goods industry and on the credit cards business. At 31 December 2007, Santander Consumer Finance had subscribed to 89% of the share capital of Santander Consumer Chile (with a disbursement of EUR 13 million), the remaining 11% corresponding to SKBergé.

xvi. Orígenes AFJP and Orígenes Seguros de Retiro

In 2007 the Group entered into an agreement with ING Groep NV for the sale to the latter of the Group's ownership interest in the pension fund manager Orígenes AFJP and in Orígenes Seguros de Retiro, in Argentina, for USD 166 million (EUR 112 million), giving rise to gross gains of EUR 84 million for the Group (Note 37-b).

xvii. Pension fund managers

In 2007 the Group completed the sale of its obligatory pension fund managers in Latin America to ING Groep NV for USD 1,314 million (EUR 906 million), giving rise to a gross gain of EUR 747 million (Note 37-b). This transaction includes the pension fund managers in Mexico (Afore Santander), Chile (AFP Bansander), Colombia (AFP Cesantías Santander) and Uruguay (Afinidad AFAP).

xviii. CB Extrobank

In 2007, the Group acquired all the shares of the Russian bank CB Extrobank for EUR 48 million, giving rise to goodwill of EUR 37 million.

* * * * *

The cost, total assets and gross income of the other consolidated companies acquired and disposed of in the last three years were not material with respect to the related consolidated totals.

d) Off-shore entities

At 31 December 2007, the Group had ownership interests in the share capital of 19 subsidiaries resident in tax havens, excluding Abbey subsidiaries, which are dealt with at the end of this note.

The individual results of these subsidiaries, calculated in accordance with local accounting principles, are shown in the Appendixes to these consolidated financial statements together with other data thereon.

It should be noted that the individual results include transactions performed with other Group companies, such as dividend collection, recognition and reversal of provisions and corporate restructuring results which, in accordance with accounting standards, are eliminated on consolidation in order to avoid the duplication of profit or the recognition of intra-Group results. Individual results also include the profit attributable to the holders of preference shares. Therefore, they are not representative of the Group's operations in these countries or of the results contributed to the Santander Group.

These banks and companies, whose activities are detailed below, contributed EUR 146 million to the Group's consolidated profit.

These Group entities operate mainly in the Bahamas and have a total of 137 employees.

The business activities of these entities are classified into four categories, namely:

i. Operating subsidiaries engaging in banking or financial activities

The subsidiaries engaging in banking or financial activities at 2007 year-end were as follows:

- Santander Bank and Trust, Ltd., a bank resident in the Bahamas which engages mainly in international private banking for foreign customers. It also handles investments in bonds and equities and financing transactions.

- Banco Santander Bahamas International, Ltd., an entity resident in the Bahamas which engages mainly in financing transactions and equities trading.

- Santander Investment Limited, a company resident in the Bahamas which is managed from the New York branch. It performs brokerage and investment activities in the US market, mainly related to Latin American fixed-income securities.

- Santander Trade Services, Ltd. (Hong Kong), an intermediary in export documentary credits

- Banco Santander (Panamá), S.A. performs a limited banking activity.

ii. Inactive or mere asset holding subsidiaries

At 2007 year-end, the following companies were inactive, mere asset holding companies or in liquidation:

- Santander Merchant Bank, Ltd., (Bahamas), inactive.

- Santander Investment Bank, Ltd., (Bahamas), a mere asset holding company.

- Pan American Bank, Ltd., a Bahamas-resident bank which is inactive.

- Serfin International Bank and Trust, Ltd. (Cayman Islands), a bank which is virtually inactive.

- Larix Limited, an Isle of Man-resident property and marketable securities holding company.

iii. Holding companies

The two holding companies (Holbah, Ltd. and Holbah II, Ltd.), which are resident in the Bahamas, are mainly holders of investments in other Group companies abroad.

These companies do not perform any kind of business activity other than equity investment management. Their assets consist mainly of permanent equity investments, cash and accounts receivable from other Group companies. They are funded through their own funds and Group loans.

iv. Issuing companies

The Group has seven issuing companies located in the following jurisdictions:

1. Issuers of preferred securities:

   - Banesto Holdings, Ltd. (Guernsey)

   - Totta & Açores Financing, Limited (Cayman Islands)

   - Pinto Totta International Finance, Limited (Cayman Islands): its last issue expired in August 2007 and, accordingly, it is expected to be liquidated in 2008.

2. Issuers of debt:

   - Banesto Issuances, Ltd. (Cayman Islands)

   - Santander Central Hispano Financial Services, Ltd. (Cayman Islands)

   - Santander Central Hispano International, Ltd. (Cayman Islands)

   - Santander Central Hispano Issuances, Ltd. (Cayman Islands)

The preferred securities and subordinated debt issues launched by the aforementioned issuers were authorised by the Bank of Spain or the Bank of Portugal as computable for eligible capital calculation purposes.

The results contributed to the Group in 2007 by the main subsidiaries described above, including those arising from their financial position, are detailed below:

Unit	Location	Millions of Euros
Santander Bank & Trust, Ltd.	Bahamas	219
Santander Investment Limited	Bahamas	(30)
Banco Santander Bahamas International, Ltd.	Bahamas	45
Santander Trade Services, Ltd.	Hong Kong	7
Holbah, Ltd.	Bahamas	(87)
Holbah II, Ltd.	Bahamas	(13)

Additionally, the Santander Group, excluding Abbey subsidiaries, has three financial investments in which it has no voting rights: The HSH Coinvest in the Cayman Islands, Asiabridge Fund I LLC in Mauritius and Olivant Limited in Guernsey. It also has an ownership interest in Algebris Global Financials Fund and control over a securitisation vehicle, both in the Cayman Islands.

The Group also has three branches, one located in the Bahamas, one in the Netherlands Antilles and one in the Cayman Islands. In 2007 the Bank of Spain and the local supervisors approved the opening of a branch in Hong Kong, which will commence operations in 2008. These branches report to, and consolidate their balance sheets and income statements with, their respective parents.

As a result of the acquisition of the Portuguese Interbanco Group by Consumer Finance, in 2006 the Group acquired a holding in two entities located in Malta which are currently in liquidation.

Also, at 2007 year-end Abbey had 19 subsidiaries resident in tax havens. These companies contributed an aggregate amount of EUR 53 million to the Group's consolidated profit. The individual results of these entities are shown in the Appendixes to these consolidated financial statements.

These Abbey entities operate mainly in Jersey and have a total of 141 employees.

Their grouping by line of business is as follows:

- Insurance, carried on by two subsidiaries: James Hay Insurance Company Limited in Jersey and Baker Street Risk and Insurance (Guernsey) Limited in Guernsey.

- Issuance, carried on by two subsidiaries in Jersey: Abbey National GP (Jersey) Limited and AN Structured Issues Limited.

- Banking, performed by one subsidiary in Jersey: Abbey National International Limited.

- Four portfolio or asset holding companies, of which three are located in Jersey –Abbey National Offshore Holdings Limited, Abbey National Jersey International Limited and Brettwood Limited– and one in Gibraltar –Abbey National (Gibraltar) Limited (which was virtually inactive at year-end).

- US equities trading, performed by Abbey National Financial and Investment Services (Jersey) Limited.

- Services, mainly administrative services, performed by Abbey National Secretariat Services (Jersey) Limited.

- Also, eight subsidiaries continued to be inactive at 2007 year-end and their possible liquidation is being assessed. Six are located in Jersey –Whitewick Limited, Cater Allen Trust Company (Jersey) Limited, Sandywick Limited, Cater Allen Nominees (Jersey) Limited, Cater Allen Registrars Limited and Abbey National Financial Investments No. 2 Limited–, one in the Isle of Man –Abbey National Treasury International (IOM) Limited–, and one in Guernsey –Carfax (Guernsey) Limited.

Additionally, Abbey has two financial investments in Guernsey (Guaranteed Investment Product 1 PCC, Ltd and FTSE Commercial Property Index Fund) and three branches –one located in the Cayman Islands and two in the Isle of Man–, one of which ceased operations in 2006 but has not yet been deregistered. The balance sheets and income statements of these branches are consolidated with those of their respective parents.

*   *   *   *   *

The Group has established the proper procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk arising at these entities. Also, the Group has continued to implement its policy, as in recent years, to reduce the number of off-shore units. The financial statements of the Group’s off-shore units are audited by member firms of the Deloitte worldwide organisation.

4. DISTRIBUTION OF THE BANK'S PROFIT AND EARNINGS PER SHARE

a) Distribution of the Bank's profit

The distribution of the Bank's net profit for 2007 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting is as follows:

Thousands of Euros

Interim dividends	4,070,179
Of which:	
Distributed at 31 December 2007 (*)	*1,537,807*
Third interim dividend	*768,903*
Fourth interim dividend	*1,763,469*
Voluntary reserves	68
Net profit for the year	**4,070,247**

(*) Recognised under "Shareholders' equity - Dividends and remuneration".

The provisional accounting statements prepared by the Bank pursuant to legal requirements evidencing the existence of sufficient funds for the distribution of the interim dividends were as follows:

Millions of Euros

	31/05/07	30/09/07	31/12/07	31/12/07
	First	Second	Third (*)	Fourth (*)
Profit after tax	1,252	2,600	4,070	4,070
Dividends paid	-	(769)	(1,538)	(2,307)
	1,252	1,831	2,532	1,763
Interim dividends	**769**	**769**	**769**	**1,763**
Accumulated interim dividends	769	1,538	2,307	4,070
Gross dividend per share (euros)	0.12294	0.12294	0.12294	0.28196
Date of payment	01/08/07	01/11/07	01/02/08	01/05/08

(*) Dividends not distributed at 31 December 2007.

b) Earnings per share in ordinary activities and discontinued operations

i. Basic earnings per share

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

Accordingly:

	2007	2006	2005
Net profit for the year (thousands of euros)	9,060,258	7,595,947	6,220,104
Weighted average number of shares outstanding	6,241,049,030	6,248,375,663	6,240,611,051
Assumed conversion of convertible debt	100,721,755	-	-
Adjusted number of shares	6,341,770,785	6,248,375,663	6,240,611,051
Basic earnings per share (euros)	**1.4287**	**1.2157**	**0.9967**

ii. Diluted earnings per share

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

Accordingly, diluted earnings per share were determined as follows:

Thousands of Euros	2007	2006	2005
Net profit for the year	9,060,258	7,595,947	6,220,104
Dilutive effect of changes in profit for the year arising from			
potential conversion of ordinary shares	-	-	-
	9,060,258	7,595,947	6,220,104
Weighted average number of shares outstanding	6,241,049,030	6,248,375,663	6,240,611,051
Dilutive effect of:			
Assumed conversion of convertible debt (Note 34)	100,721,755	-	-
Options	66,362,931	34,052,536	23,325,614
Adjusted number of shares	6,408,133,716	6,282,428,199	6,263,936,665
Diluted earnings per share (euros)	**1.4139**	**1.2091**	**0.9930**

5. REMUNERATION AND OTHER BENEFITS PAID TO THE BANK'S DIRECTORS AND SENIOR MANAGERS

a) Remuneration of directors

i. Bylaw-stipulated directors' emoluments and attendance fees

Article 38 of the Bank's bylaws provides that the share in the Bank's profit for each year to be received by the members of the Board of Directors for discharging their duties will be up to 1% of the Bank's net profit for the year.

The Board of Directors, making use of the powers conferred on it, set the related amount at 0.126% of the Bank's net profit for 2007 (2006: 0.143%; 2005: 0.152%).

The Board of Directors, also under the powers conferred on it, resolved to allocate this amount as follows (assigning the respective proportional amounts to any directors who did not sit on the Board for the whole year): each Board member received a gross emolument of EUR 118.1 thousand (2006: EUR 107.4 thousand; 2005: EUR 89.5 thousand) and, additionally, each member of the following Board Committees received the following gross emoluments: Executive Committee, EUR 236.9 thousand (2006: EUR 215.4 thousand; 2005: EUR 179.5 thousand); Audit and Compliance Committee, EUR 55 thousand (2006 and 2005: EUR 50 thousand); Appointments and Remuneration Committee, EUR 33 thousand (2006 and 2005: EUR 30 thousand). Also, the First Deputy Chairman and the Fourth Deputy Chairman received a gross amount of EUR 39.6 thousand each (2006 and 2005: EUR 36 thousand).

Furthermore, in 2007 the directors received fees for attending Board and Committee meetings (excluding Executive Committee meetings).

The gross amounts for attending Board meetings, which were agreed upon by the directors at the Board meeting held on 15 December 2004, are as follows: Board meetings: EUR 2,310 for resident directors and EUR 1,870 for non-resident directors (EUR 2,310 thousand and EUR 1,870 thousand, respectively, in both 2006 and 2005).

At the meeting held on 18 December 2006, the Board of Directors approved the proposal of the Appointments and Remuneration Committee made at its meeting on 31 December 2006 to modify the amount of fees received for attending the meetings of the Standing Risk Committee and the Audit and Compliance Committee, which it set at EUR 1,500 effective from 1 January 2007, without changing the amounts received in this connection by members of the Board of Directors and the other Committees –the Appointments and Remuneration Committee, the International Committee and the Technology, Productivity and Quality Committee-, excluding the Executive Committee, since no attendance fees are received for this Committee. The agreed-upon gross amounts are as follows:

- Standing Risk Committee and Audit and Compliance Committee: EUR 1,500 for resident directors and EUR 1,212 for non-resident directors.

- Other Committees: EUR 1,155 for resident directors and EUR 935 for non-resident directors.

The amounts received by directors for attending Board Committee meetings amounted to EUR 1,155 for resident directors and EUR 935 for non-resident directors in both 2006 and 2005.

ii. Salaries

The detail of the salaries received by the Bank's executive directors, who at 31 December 2007, 2006 and 2005 were Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr. Alfredo Sáenz Abad, Mr. Matías Rodríguez Inciarte, Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea and Mr. Francisco Luzón López, is as follows:

Thousands of Euros

	2007	2006	2005
Total salaries	**24,315**	**20,970**	**18,494**
Of which: variable remuneration	*16,088*	*13,666*	*11,412*

iii. Detail by director

The detail, by director, of the remuneration earned by the Bank's directors in 2007 is as follows:

Thousands of Euros

	2007											2006	2005
	Bylaw-Stipulated Emoluments				Attendance Fees		Salary of executive Directors (1)						
Directors	Board	Executive Committee	Audit and Compliance Committee	Appointments and Remuneration Committee	Board	Other Fees	Fixed	Variables (a)	Total	Other Remuneration	Total	Total	Total
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	118	237	-	-	25	5	1,187	2,337	3,524	1	3,910	3,459	3,035
Mr. Fernando de Asúa Álvarez	158	237	55	33	25	169	-	-	-	-	677	590	519
Mr. Alfredo Sáenz Abad	118	237	-	-	25	5	3,126	5,582	8,708	511	9,604	8,099	7,161
Mr. Matías Rodríguez Inciarte	118	237	-	-	25	141	1,510	2,945	4,455	178	5,154	4,501	3,970
Mr. Manuel Soto Serrano	158	-	55	33	25	35	-	-	-	-	306	271	246
Assicurazioni Generali, Spa.	137	-	-	-	6	-	-	-	-	-	143	136	110
Mr. Antonio Basagoiti García Tuñón	118	237	-	-	25	133	-	-	-	10	523	3,477 (4)	414
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	118	237	-	-	25	2	1,133	1,985	3,118	17	3,517	3,084	2,733
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea (2)	118	-	-	-	25	-	-	-	-	-	143	128	106
Lord Terence Burns (***)	118	-	-	-	17	-	-	-	-	-	135	122	105
Mr. Guillermo de la Dehesa Romero	118	237	-	33	25	14	-	-	-	-	427	381	326
Mr. Rodrigo Echenique Gordillo	118	237	-	33	25	119	-	-	-	30	562	1,388	1,329
Mr. Antonio Escámez Torres	118	237	-	-	25	128	-	-	-	42	550	1,329	1,337
Mr. Francisco Luzón López	118	237	-	-	25	2	1,271	3,239	4,510	728	5,620	4,601	4,003
Mr. Luís Ángel Rojo Duque (****)	118	-	55	33	14	29	-	-	-	-	249	232	113
Mr. Abel Matutes Juan	118	-	55	-	25	15	-	-	-	-	213	189	172
Mutua Madrileña Automovilista (3)	137	-	-	-	16	-	-	-	-	-	153	148	122
Mr. Luis Alberto Salazar-Simpson Bos	118	-	55	-	25	16	-	-	-	-	214	192	173
Mr. Jay S. Sidhu (b)	-	-	-	-	-		-	-	-	-	-	58	-
Mr. Emilio Botín-Sanz de Sautuola y O'Shea (**)	-	-	-	-	-	-	-	-	-	-	-	-	98
Mr. Elías Masaveu Alonso del Campo (**)	-	-	-	-	-	-	-	-	-	-	-	-	47
Ms. Isabel Tocino Biscarolasaga (*)	82	-	-	-	21	-	-	-	-	-	103	-	-
Total 2007	2,324	2,370	275	165	424	813	8,227	16,088	24,315	1,517	32,203	-	-
Total 2006	2,092	2,150	250	150	386	630	7,304	13,666	20,970	5,757	-	32,385	-
Total 2005	1,795	1,800	256	148	315	607	7,082	11,412	18,494	2,704	-	-	26,119

(*) Appointed by co-optation by the Board of Directors at its meeting on 26 March 2007, Ms. Isabel Tocino Biscarolasaga took office at the meeting held on 23 April 2007. Her appointment was ratified by the shareholders at the Annual General Meeting held on 23 June 2007.
(**) Directors who were Board members for some months in 2005 but ceased to be directors prior to 31 December 2005.
(***) Appointed as member of the Bank's Board of Directors on 20 December 2004 and subsequently ratified by the shareholders at the Annual General Meeting on 18 June 2005.
(****) Appointed as member of the Bank's Board of Directors on 25 April 2005 and subsequently ratified by the shareholders at the Annual General Meeting on 18 June 2005.
(a) Accrued in 2007.
(b) Appointed by the shareholders at the Annual General Meeting on 17 June 2006 and ceased to discharge his duties on 31 December 2006.
(1) Recognised under "Personnel expenses" in the income statement of the Bank, except for the salary of Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, which is recognised at Banco Español de Crédito, S.A.
(2) Amounts contributed to Fundación Marcelino Botín.
(3) Ceased to be a director on 19 December 2007.
(4) Includes EUR 3 million for duties discharged on the Board of Directors of Unión Fenosa during the period in which he belonged to this Board at the proposal of the Bank. At the proposal of the Appointments and Remuneration Committee, this remuneration was approved by the Bank's Board of Directors at its meeting on 6 February 2006.

iv. Other remuneration

The amounts recorded under “Other remuneration” in the foregoing table include, inter alia, the life and medical insurance costs borne by the Group.

b) Remuneration of the Board members as representatives of the Bank

By resolution of the Executive Committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake (at the expense of those companies) and which relates to appointments made after 18 March 2002, will accrue to the Group. The remuneration received in respect of representation duties of this kind, relating to appointments agreed upon before 18 March 2002, was as follows:

Thousands of Euros	Company	2007	2006	2005
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Shinsei Bank, Ltd.	50.1	59.9	58.7
Mr. Fernando de Asúa Álvarez	Cepsa	97.2	95.6	89.9
Mr. Antonio Escámez Torres	Attijariwafa Bank Société Anonyme	9.9	5.0	5.1
		157.2	**160.5**	**153.7**

In 2007 Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos also received options to acquire 10,000 shares of Shinsei Bank, Ltd. (Shinsei) at a price of JPY 555 each. Previously, in 2006 and 2005, Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos had received options to acquire 25,000 Shinsei shares in each year at a price of JPY 825 each for those received in 2006 and JPY 601 each for those received in 2005. At 31 December 2007, the market price of the Shinsei share was JPY 408 and, therefore, regardless of the stipulated exercise periods, the options granted in 2007, 2006 and 2005 would not have given rise to any gains had they been exercised.

Furthermore, other directors of the Bank earned a total of EUR 750 thousand in 2007 as members of the Boards of Directors of Group companies (2006: EUR 732 thousand; 2005: EUR 739 thousand), the detail being as follows: Lord Burns (Abbey), EUR 682 thousand; Mr. Rodrigo Echenique (Banco Banif, S.A.), EUR 36 thousand; and Mr. Matías Rodríguez Inciarte (U.C.I., S.A.), EUR 32 thousand.

c) Post-employment and other long-term benefits

The total balance of supplementary pension obligations assumed by the Group over the years to its current and retired employees, which amounted to EUR 11,820 million (covered mostly by in-house provisions) at 31 December 2007, includes the obligations to those who have been directors of the Bank during the year and who discharge (or have discharged) executive functions. The total pension obligations to these directors, together with the total sum insured under life insurance policies and other items, amounted to EUR 264 million at 31 December 2007 (31 December 2006: EUR 234 million; 31 December 2005: EUR 182 million).

The following table provides information on: (i) the pension obligations assumed and covered by the Group; and (ii) other insurance -the premiums of which are paid by the Group, the related cost being included in the “Other remuneration” column in the table in Note 5-a.iii-, in both cases in respect of the Bank's executive directors:

Thousands of Euros	2007		2006		2005	
	Accrued Pension Obligations	Other Insurance	Accrued Pension Obligations	Other Insurance	Accrued Pension Obligations	Other Insurance
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	22,926	-	21,068	-	11,785	-
Mr. Alfredo Sáenz Abad	68,070	9,378	55,537	8,155	45,444	7,917
Mr. Matías Rodríguez Inciarte	44,226	4,529	39,390	4,117	28,953	3,997
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	17,975	1,403	15,045	1,402	12,232	1,373
Mr. Francisco Luzón López	45,468	7,624	39,187	6,571	39,188	6,380
	198,665	22,934	170,227	20,245	137,602	19,667

The amounts in the “Accrued pension obligations” column in the foregoing table relate to the present actuarial value of the accrued future annual payments to be made by the Group which the beneficiaries are not entitled to receive in a single payment. These amounts were obtained using actuarial calculations and cover the obligations to pay the respective calculated pension supplements. In the case of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Mr. Alfredo Sáenz Abad, Mr. Matías Rodríguez Inciarte and Ms. Ana Patricia Botín-Sanz de Sautuola y O’Shea, these supplements were calculated as 100% of the sum of the fixed annual salary received at the date of effective retirement plus 30% of the arithmetical mean of the last three variable salary payments received. In addition, in the case of Mr. Francisco Luzón López, to the amount thus calculated will be added the amounts received by him in the year before retirement or early retirement in his capacity as a member of the Board of Directors or the Committees of the Bank or of other consolidable Group companies.

On 17 December 2007 and 24 March 2008, the Board of Directors of the Bank resolved to authorise a change in the contracts of the executive directors and the other members of the Bank’s senior management -the senior executives-granting them the right, on the date of retirement -or pre-retirement, as appropriate- to opt to receive accrued pensions -or amounts similar thereto- in the form of income or capital -i.e. in one single payment- in full but not in part. In order to maintain the financial neutrality for the Group, the amount to be received in the form of capital by the commitment beneficiary at the date of the retirement must be the aliquot part of the market value of the assets assigned to cover the mathematical provisions to cater of the policy instrumenting these commitments to senior executives. The senior executives who are still in service on reaching the age of retirement –or who at the date of the contract entered into have passed the age of retirement- must state whether they wish to opt for this form of benefit. Should the senior executive subsequently die whilst still in service and prior to retirement, the capital of the pension will correspond to his/her heirs.

Pension charges recognised and reversed in 2007 amounted to EUR 21,615 thousand and EUR 580 thousand, respectively (2006: EUR 44,819 thousand and EUR 629 thousand, respectively; 2005: EUR 4,414 thousand and EUR 4,449 thousand, respectively).

Additionally, other directors have life insurance policies the cost of which is borne by the Group, the related insured sum being EUR 3 million at 31 December 2007 (2006 and 2005: EUR 3 million). Also, the payments made in 2007 to the members of the Board entitled to post-employment benefits amounted to EUR 2.6 million.

d) Share option plans granted to directors

The detail of the Bank's share options granted to directors (Note 49) is as follows:

	Options at 1 January 2005	Options Granted	Exercised Options			Options at 31 December 2005	Exercise Price (Euros)
		Number	Number	Exercise Price (Euros)	Market Price Applied (Euros)		
Managers Plan 2000:							
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	150,000	-	(150,000)	10,545	11.12	-	-
Mr. Alfredo Sáenz Abad	100,000	-	(100,000)	10,545	11.14	-	-
Mr. Matías Rodríguez Inciarte	125,000	-	(125,000)	10,545	11.14	-	-
Mr. Antonio Escámez Torres	100,000	-	(100,000)	10,545	11.07	-	-
Mr. Francisco Luzón López	100,000	-	(100,000)	10,545	11.14	-	-
	575,000	-	**(575,000)**	**10,545**	**11.12**	-	-
Long-Term Incentive Plan (I06) (Note 49):							
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	541,400	-	-	-	-	541,400	9.09
Mr. Alfredo Sáenz Abad	1,209,100	-	-	-	-	1,209,100	9.09
Mr. Matías Rodríguez Inciarte	665,200	-	-	-	-	665,200	9.09
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (*)	293,692	-	-	-	-	293,692	9.09
Mr. Francisco Luzón López	639,400	-	-	-	-	639,400	9.09
	3,348,792	-	-	-	-	**3,348,792**	**9.09**
Long-Term Incentive Plan (I09) (Note 49):							
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	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Long-Term Incentive Plan (I10) (Note 49):							
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	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

(*) Approved by Banesto's shareholders at its Annual General Meeting on 28 February 2006.

(**) Without prejudice to the Banesto shares relating to Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea by virtue of the Banesto Share-Based Payment Incentive Plan approved by the shareholders at the Annual General Meeting of Banesto held on 27 June 2007, the maximum number of shares shown in the foregoing table relate to the aforementioned executive director, based on the resolution adopted at the aforementioned Annual General Meeting.

	Options at 31 December 2006	Exercise Price (Euros)	Concessions Granted		Exercised Options	Options at 31 December 2007	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
			Number	Exercise Price (Euros)	Number			
Managers Plan 2000:								
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-	-	30-12-03	29-12-05
Mr. Alfredo Sáenz Abad	-	-	-	-	-	-	30-12-03	29-12-05
Mr. Matías Rodríguez Inciarte	-	-	-	-	-	-	30-12-03	29-12-05
Mr. Antonio Escámez Torres	-	-	-	-	-	-	30-12-03	29-12-05
Mr. Francisco Luzón López	-	-	-	-	-	-	30-12-03	29-12-05
	-	-	-	-	-	-		
Long-Term Incentive Plan (I06) (Note 49):								
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	541,400	9.09	-	-	-	541,400	15-01-08	15-01-09
Mr. Alfredo Sáenz Abad	1,209,100	9.09	-	-	-	1,209,100	15-01-08	15-01-09
Mr. Matías Rodríguez Inciarte	665,200	9.09	-	-	-	665,200	15-01-08	15-01-09
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (*)	293,692	9.09	-	-	-	293,692	15-01-08	15-01-09
Mr. Francisco Luzón López	639,400	9.09	-	-	-	639,400	15-01-08	15-01-09
	3,348,792	**9.09**	-	-	-	**3,348,792**		
Long-Term Incentive Plan (I09) (Note 49):								
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	41,785	-	-	41,785	23-06-07	31-07-09
Mr. Alfredo Sáenz Abad	-	-	110,084	-	-	110,084	23-06-07	31-07-09
Mr. Matías Rodríguez Inciarte	-	-	53,160	-	-	53,160	23-06-07	31-07-09
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (**)	-	-	27,929	-	-	27,929	23-06-07	31-07-09
Mr. Francisco Luzón López	-	-	44,749	-	-	44,749	23-06-07	31-07-09
	-	-	**277,707**	-	-	**277,707**		
Long-Term Incentive Plan (I10) (Note 49):								
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	62,589	-	-	62,589	23-06-07	31-07-10
Mr. Alfredo Sáenz Abad	-	-	164,894	-	-	164,894	23-06-07	31-07-10
Mr. Matías Rodríguez Inciarte	-	-	79,627	-	-	79,627	23-06-07	31-07-10
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (**)	-	-	41,835	-	-	41,835	23-06-07	31-07-10
Mr. Francisco Luzón López	-	-	67,029	-	-	67,029	23-06-07	31-07-10
	-	-	**415,974**	-	-	**415,974**		

(*) Approved by Banesto's shareholders at its Annual General Meeting on 28 February 2006.

(**) Without prejudice to the Banesto shares relating to Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea by virtue of the Banesto Share-Based Payment Incentive Plan approved by the shareholders at the Annual General Meeting of Banesto held on 27 June 2007, the maximum number of shares shown in the foregoing table relate to the aforementioned executive director, based on the resolution adopted at the aforementioned Annual General Meeting.

Additionally, the maximum limits to the Matched Deferred Bonus Plan (Note 49) are as follows:

Executive Directors	Maximum Number of Shares
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	16,306
Mr. Alfredo Sáenz Abad	37,324
Mr. Matías Rodríguez Inciarte	20,195
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (*)	13,610
Mr. Francisco Luzón López	22,214
	109,649

(*) In accordance with the resolution adopted by the shareholders at the Annual General Meeting of Banco Santander held on 23 June 2007, the maximum number of shares relating to Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea is that shown in the foregoing table, in accordance with the resolution adopted by the shareholders at the Annual General Meeting of Banesto held on 27 June 2007.

e) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on an arm's-length basis or the related compensation in kind was charged:

Thousands of Euros	2007			2006			2005		
	Loans and Credits	Guarantees	Total	Loans and Credits	Guarantees	Total	Loans and Credits	Guarantees	Total
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	-	-	-	-	-	-	2	-	2
Mr. Fernando de Asúa Álvarez	-	-	-	-	-	-	4	-	4
Mr. Alfredo Sáenz Abad	6	-	6	21	-	21	16	-	16
Mr. Matías Rodríguez Inciarte	18	10	28	-	-	-	8	10	18
Mr. Manuel Soto Serrano	4	-	4	4	-	4	3	-	3
Mr. Antonio Basagoiti García-Tuñón	94	1	95	125	1	126	145	1	146
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	-	-	-	2	-	2	-	-	-
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea	-	-	-	-	-	-	60	-	60
Mr. Rodrigo Echenique Gordillo	7	-	7	33	-	33	5	-	5
Mr. Antonio Escámez Torres	309	-	309	289	-	289	295	-	295
Mr. Francisco Luzón López	722	-	722	875	-	875	1,026	-	1,026
	1,160	**11**	**1,171**	**1,489**	**64**	**1,553**	**1,569**	**58**	**1,627**

f) Senior managers

Following is a detail of the remuneration paid to the Bank's General Managers (*) in 2007, 2006 and 2005:

Thousands of Euros

Year	Number of Managers (1)	Salary Fixed	Salary Variable	Salary Total	Other Remuneration	Total
2005	24	16,450	27,010	43,460	2,708	46,168
2006	26	19,119	34,594	53,713	11,054	64,767
2007	26	19,504	42,768	62,272	10,092	72,364

(*) Excluding executive directors' remuneration, which is detailed above.
(1) At some point in the year they occupied the position of General Manager. The amounts reflect the annual remuneration regardless of the number of months in which the position of General Manager was occupied.

The actuarial liability recognised in respect of post-employment benefits earned by the Bank's senior managers totalled EUR 202 million at 31 December 2007 (31 December 2006: EUR 186 thousand; 31 December 2005: EUR 150 million). The charge to the consolidated income statement in this connection amounted to EUR 24 million in 2007 (2006: EUR 46 million; 2005: EUR 24 million). Additionally, the total sum insured under life and accident insurance policies relating to this group amounted to EUR 56 million at 31 December 2007 (31 December 2006: EUR 52 million; 31 December 2005: EUR 43 million).

The 912,000 share options granted to the Bank's General Managers (excluding executive directors) under the Managers Plan 2000 (Note 49), the exercise price of which was EUR 10.545 per share, were exercised in 2005 at an average market price of EUR 11.06 per share. Also, the Bank's General Managers (excluding executive directors) held 7,235,988 options on the Bank's shares under Plan I06 at 31 December 2007 (31 December 2006: 7,268,572 options - Note 49). The Bank's General Managers (excluding executive directors) had the right to receive a maximum number of 889,109 and 1,333,465 shares under Plan I09 and Plan I010, respectively (Note 49). Additionally, with respect to the Matched Deferred Bonus Plan, the maximum amount relating to the general managers is EUR 3.7 million.

The remuneration in kind paid to the Bank's General Managers (excluding executive directors), mainly in respect of life insurance, totalled EUR 1,094 thousand in 2007 (2006: EUR 909 thousand; 2005: EUR 777 thousand).

g) Post-employment benefits to former directors and former general managers

The post-employment benefits paid in 2007 to former directors of the Bank and former general managers amounted to EUR 7.9 million and EUR 8.7 million, respectively (2006: EUR 7.6 million and EUR 6.7 million, respectively; 2005: EUR 7.3 million and EUR 6.3 million, respectively).

The expense recognised in the consolidated income statement for 2007 in connection with pension and similar obligations assumed by the Group to former directors of the Bank and former general managers amounted to EUR 308 thousand and EUR 99 thousand, respectively (2006: EUR 2.8 million and EUR 0.3 million, respectively; 2005: EUR 2.4 million and 9.6 million, respectively.

Furthermore, “Provisions - Provisions for pensions and similar obligations” in the consolidated balance sheet at 31 December 2007 included EUR 89.2 million and EUR 142.9 million in respect of the post-employment benefit obligations to former directors of the Bank and former general managers, respectively (2006: EUR 91.7 million and EUR 95.9 million, respectively; 2005: EUR 91.5 million and EUR 110.3 million, respectively).

h) Termination benefits

The Bank has signed contracts with all its executive directors.

The Bank's executive directors have indefinite-term employment contracts. However, executive directors whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the contracts are terminated for reasons attributable to the Bank or due to objective circumstances (such as those affecting the executive directors' functional and organic statute), the directors will be entitled, at the date of termination of their employment relationships with the Bank, to the following:

- In the case of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, to acquire the status of retiree and to accrue a pension supplement. At 31 December 2007, the annual pension supplement would amount to EUR 1,706 thousand (31 December 2006: EUR 1,529 thousand).

- In the cases of Mr. Matías Rodríguez Inciarte and Mr. Francisco Luzón López, to acquire the status of early retirees and to accrue pension supplements. At 31 December 2007, the annual pension supplements would amount to EUR 2,146 thousand for Mr. Matías Rodríguez Inciarte and EUR 2,293 thousand for Mr. Francisco Luzón López (2006: EUR 1,916 thousand and EUR 1,972 thousand, respectively; 2005: EUR 1,801 thousand and EUR 1,938 thousand, respectively).

- In the case of Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, to receive a termination benefit amounting to up to five years' annual fixed salary payments, as established in the related contract, based on the date on which the contract is terminated. At 31 December 2007, this benefit would amount to EUR 3,399 thousand (31 December 2006: EUR 4,120 thousand; 31 December 2005: EUR 4,000 thousand). Receipt of this termination benefit is incompatible with that of a pension supplement.

- In the case of Mr. Alfredo Sáenz Abad, to acquire the status of retiree or, alternatively, to receive a termination benefit equal to 40% of his annual fixed salary multiplied by the number of years of service at the Bank, up to a maximum of ten times his annual fixed salary. At 31 December 2007, the amount relating to the first option would be EUR 4,257 thousand per year and that relating to the second option would be EUR 31.3 million. The two alternatives are mutually exclusive and, therefore, if Mr. Alfredo Sáenz Abad opted to receive the termination benefit, he would not receive any pension supplement (31 December 2006: EUR 3,657 thousand per year and EUR 27.2 million, respectively; 31 December 2005: EUR 3,421 thousand per year and EUR 26.4 million, respectively).

- In the case of Mr. Juan Rodríguez Inciarte, to acquire the status of special early retiree, early retiree or retiree and to accrue a pension supplement. At 31 December 2007 the annual pension supplement would amount to EUR 930 thousand.

Additionally, other members of the Group's senior management have contracts which entitle them to receive benefits in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a personnel expense only when the employment relationship between the Bank and its managers is terminated before the normal retirement date.

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

In accordance with the requirements of Article 127 ter.4 of the Spanish Companies Law, in order to enhance the transparency of listed companies, following is a detail of the directors' investments in the share capital of entities engaging in banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat:

Director	Corporate Name	Number of Shares	Functions
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Bankinter, S.A.	3,300,395	-
	Royal Bank of Scotland Group plc	8,230,000	-
	Shinsei Bank, Limited	-	Director (1)
	Bank of America Corporation	560	-
	Santander Investment, S.A.	-	Chairman (1)
Mr. Fernando de Asúa Álvarez	Banco Bilbao Vizcaya Argentaria, S.A.	16,905	-
	Commerzbank, AG	5,000	-
	UBS	950	-
	Unibanco	630	-
Mr. Alfredo Sáenz Abad	Banco Bilbao Vizcaya Argentaria, S.A.	25,000	-
	HSBC Holdings	8,298	-
	Lloyds TSB	218	-
	Banco Banif, S.A.	-	Chairman (1)
	Santander Investment, S.A.	-	Deputy Chairman (1)
Mr. Matías Rodríguez Inciarte	Banesto	27,575	Director (1)
	Banco Santander Totta, S.A.	-	Deputy Chairman (1)
Mr. Manuel Soto Serrano	Banco Bilbao Vizcaya Argentaria, S.A.	72,000	-
	BNP Paribas	13,000	-
	Istituto per le Opere di Religione (IOR)	-	Director (2)
	UniCredito Italiano S.p.A.	294,000	-
Assicurazioni Generali S.p.A (3)	BSI SA	4,400,000	-
	Commerzbank, AG	57,480,386	-
	Intesa Sanpaolo	623,154,355	-
	Mediobanca - Banca di Credito Finanziario S.p.A.	16,381,963	-
	Bank Leumi le-Israel B.M.	19,711,333	-
	Erste Bank AG	3,248,964	-
	Banca Monte dei Paschi di Siena S.p.A.	22,062,700	-
	UniCredito Italiano S.p.A.	105,996,338	-
	Société Générale	1,841,117	-
	Deustche Bank, A.G.	920,619	-
	Banesto	760,000	-
Mr. Antonio Basagoiti García Tuñón	Banco Popular Español, S.A.	800	-
	Banco Bilbao Vizcaya Argentaria, S.A.	850	-
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Banesto	356,848	Chairman
	Santander Investment, S.A.	-	Director (1)
	BSN - Banco Santander de Negócios Portugal, S.A.	-	Director (1)
	Bankinter, S.A.	5	-
Lord Burns (Terence)	Abbey National plc	-	Chairman (1)
Mr. Guillermo de la Dehesa Romero	Goldman Sachs & Co.	12,888	-
	Goldman Sachs Europe Ltd.	-	Director (1)
	Banco Pastor, S.A.	11,088	-
Mr. Rodrigo Echenique Gordillo	Banco Popular Español, S.A.	12,600	-
	Banco Bilbao Vizcaya Argentaria, S.A.	13,580	-
	Mitsubishi UFJ FIN	6,000	-
	Royal Bank of Scotland Group plc	5,975	-
	Mizuho Financial Group, Inc.	5	-
	Banco Banif, S.A.	-	Second Deputy Chairman (1)
	Santander Investment, S.A.	-	Director(1)
	Allfunds Bank, S.A.	-	Chairman (1)
	Banco Santander International	-	Director (1)

Director	Corporate Name	Number of Shares	Functions
Mr. Antonio Escámez Torres	Attijariwafa Bank	10	Deputy Chairman (1)
	Banco de Valencia, S.A.	349	-
	Santander Consumer Finance, S.A.	-	Chairman (1)
	Open Bank Santander Consumer, S.A.	-	Chairman (1)
Mr. Francisco Luzón López	Banco Santander, S.A. (4)	-	Director (1)
	Banco Santander International	-	Director (1)
Mr. Abel Matutes Juan	Intesa Sanpaolo	2,359,665	-
	Eurizon Financial Group	-	Director (1)
	Banco Bilbao Vizcaya Argentaria, S.A.	554,366	-
	Banesto	11,980	-
Mr. Luis Alberto Salazar-Simpson Bos	Bankinter, S.A.	2,798	-
Ms. Isabel Tocino Biscarolasaga	Banco Banif, S.A.	-	Director (5)
Mr. Antoine Bernheim (6)	BNP Paribas	14,400	-
	UBS	40,164	-
	Crédit Suisse	35,200	-
	Intesa Sanpaolo	398,533	Deputy Chairman (7)
	Mediobanca - Banca di Credito Finanziario S.p.A.	60,000	Director (1)
	UniCredito Italiano S.p.A.	126,455	-
	Royal Bank of Scotland Group plc	11,998	-
	Bank of New York Mellon	10,000	-
	BSI SA	-	Director (1)

(1) Non-executive.
(2) Non-executive member of the Control Committee.
(3) More detailed information on the ownership interests held by Assicurazioni Generali, S.p.A. can be consulted in the notes to the financial statements of this company or on its website (www.generali.it).
(4) Formerly Banco Santander Serfin, S.A.
(5) Ceased to be non-executive director of Banco Banif, S.A., since he was appointed as director of Banco Banif, S.A.
(6) Representative on the Bank's Board of Directors of the non-executive nominee director Assicurazioni Generali S.p.A.
(7) (Non-executive) Deputy Chairman of the Supervisory Board.

None of the members of the Board of Directors perform, as independent professionals or as employees, activities of the nature detailed in the foregoing table.

6. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The breakdown, by classification, type and currency, of the balances of "Loans and advances to credit institutions" in the consolidated balance sheets is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial assets held for trading	12,294,559	14,627,738	10,278,858
Other financial assets at fair value through profit or loss	6,865,073	185,485	2,428,663
Loans and receivables	31,759,867	45,361,315	47,065,501
	50,919,499	**60,174,538**	**59,773,022**
Type:			
Reciprocal accounts	417,438	503,299	345,104
Time deposits	13,569,362	16,842,601	21,962,472
Reverse repurchase agreements	30,276,080	37,010,008	33,634,326
Other accounts	6,656,619	5,818,630	3,831,120
	50,919,499	**60,174,538**	**59,773,022**
Currency:			
Euro	28,547,895	33,380,000	33,537,338
Pound sterling	6,139,274	4,364,111	5,313,338
US dollar	11,486,584	16,150,735	16,848,462
Other currencies	4,764,233	6,292,419	4,109,930
Impairment losses	(18,487)	(12,727)	(36,046)
	50,919,499	**60,174,538**	**59,773,022**

The impairment losses on financial assets classified as loans and receivables are disclosed in Note 10.

Note 53 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

7. DEBT INSTRUMENTS

The breakdown, by classification, type and currency, of the balances of "Debt instruments" is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial assets held for trading	66,330,811	76,736,992	81,741,944
Other financial assets at fair value through profit or loss	7,072,423	4,500,220	9,699,237
Available-for-sale financial assets	34,187,077	32,727,454	68,054,021
Loans and receivables	1,668,339	621,770	171,203
	109,258,650	**114,586,436**	**159,666,405**
Type:			
Spanish government debt securities-			
Treasury bills	5,558,420	3,160,674	3,948,045
Government bonds	376,393	535,584	3,287,406
Other book-entry debt securities	9,440,746	9,080,043	12,481,210
Foreign government debt securities	21,617,457	22,250,587	48,120,701
Issued by financial institutions	43,443,566	56,063,543	61,080,306
Other fixed-income securities	28,913,821	23,586,327	30,828,737
Impairment losses	(91,753)	(90,322)	(80,000)
Of which: on available-for-sale financial assets	*(91,753)*	*(90,322)*	*(80,000)*
	109,258,650	**114,586,436**	**159,666,405**
Currency:			
Euro	55,013,063	43,708,401	79,195,677
Pound sterling	16,164,296	22,488,577	32,983,211
US dollar	13,341,949	12,483,749	12,591,314
Other currencies	24,831,095	35,996,031	34,976,203
Impairment losses	(91,753)	(90,322)	(80,000)
	109,258,650	**114,586,436**	**159,666,405**

At 31 December 2007, the nominal amount of Spanish government debt securities assigned to certain Group or third-party commitments amounted to EUR 695 million (31 December 2006: EUR 695 million; 31 December 2005: EUR 70 million).

Additionally, at 31 December 2007, other debt securities totalling EUR 16,171 million had been assigned to own obligations.

The impairment losses on available-for-sale financial assets are disclosed in Note 8.

Note 53 contains a detail of the residual maturity periods of available-for-sale financial assets and of loans and receivables and of the related average interest rates.

8. OTHER EQUITY INSTRUMENTS

a) Breakdown

The breakdown, by classification and type, of the balances of "Other equity instruments" is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial assets held for trading	9,744,466	13,490,719	8,077,867
Other financial assets at fair value through profit or loss	2,870,322	2,712,433	30,303,170
Available-for-sale financial assets	10,161,830	5,970,845	5,890,918
Of which:			
Disregarding impairment losses	*10,173,068*	*5,984,704*	*5,908,576*
Impairment losses	*(11,238)*	*(13,859)*	*(17,658)*
	22,776,618	**22,173,997**	**44,271,955**
Type:			
Shares of Spanish companies	6,375,891	5,185,206	5,707,494
Shares of foreign companies	9,787,139	11,138,458	8,256,086
Investment fund units and shares	4,068,215	3,410,494	18,563,343
Of which: Abbey	602,067	669,689	17,041,821
Pension fund units	-	144,320	133,918
Other securities	2,556,611	2,309,378	11,628,772
Of which: unit linked	*2,556,611*	*2,309,378*	*11,628,772*
Impairment losses	(11,238)	(13,859)	(17,658)
	22,776,618	**22,173,997**	**44,271,955**

b) Changes

The changes in the balance of "Available-for-sale financial assets", disregarding impairment losses, were as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	5,985	5,909	7,850
Net additions /disposals	3,096	(1,232)	(2,984)
Of which:			
Antena 3 Televisión, S.A.	-	*(398)*	-
San Paolo IMI, S.p.A.	-	*(1,499)*	-
Assicurazioni Generali, S.p.A.	-	*399*	-
Royal Bank of Scotland Group, plc	*1,368*	-	*(2,028)*
Commerzbank AG	-	-	*(306)*
Shinsei Bank, Ltd.	-	-	*(52)*
Fortis SA/NV	*892*	-	-
Iberdrola, S.A.	*1,503*	-	-
BPI	*(229)*	-	-
Intesa Sanpaolo	*(1,206)*	-	-
Transfers	-	-	396
Valuation adjustments	1,092	1,308	647
Of which:			
San Paolo IMI, S.p.A.	-	*607*	*414*
Companhía Energética de Sao Paulo	*331*	-	-
Bovespa Holding, S.A.	*330*	-	-
Balance at end of year	**10,173**	**5,985**	**5,909**

The main acquisitions and disposals made in 2007, 2006 and 2005 were as follows:

i. Shinsei Bank, Ltd. (Shinsei)

In February 2004 the shareholders of Shinsei, which was 11.4%-owned by the Group, resolved to float on the stock exchange 35% of the bank's shares, which gave rise to the sale of a 4% holding by the Santander Group, at a gain of EUR 118 million. Following this sale, the Group's holding in this bank was 7.4%. In the first quarter of 2005, the Group disposed of a further 2.7% of Shinsei Bank at a gain of EUR 49 million.

At 31 December 2007, the Group had a 4.23% ownership interest in the share capital of Shinsei.

ii. Royal Bank of Scotland Group Plc (RBS)

In 2004 the Group sold 79 million shares of RBS, representing 2.51% of its share capital, giving rise to a gain of approximately EUR 472 million. In 2005 the Group sold all the ownership interest held by it in RBS (2.57%) for EUR 2,007 million, giving rise to a consolidated gain of EUR 717 million which was recognised in "Other gains – Other" (Note 52). In 2007 the Group acquired a 2.3% stake in the share capital of RBS.

iii. Auna Operadores de Telecomunicaciones, S.A. (Auna)

In January 2004 the Bank exercised certain agreements in connection with this company, thereby increasing its holding by 2.5%, and subsequently made several acquisitions representing a further 1.5% ownership interest. The holding in Auna was 27.3% at 31 December 2004, representing a cost of EUR 1,814 million.

In the first half of 2005, the Group increased its holding by 4.7%, at a cost of EUR 422 million, to 32.08%. In November 2005, the Group sold part of its ownership interest in Auna (27.07%) at a gain of EUR 355 million, which was recognised under "Other gains – Other" (Note 52).

iv. Commerzbank AG

In 2005 the Group progressively sold its holding in Commerzbank AG (3.38%), giving rise to a total gain of EUR 24 million.

v. Antena 3 Televisión, S.A. ("Antena 3")

On 25 October 2006, Antena 3 announced its acquisition of a 10% stake owned by the Group, giving rise to a gain of EUR 294 million for the Group which was recognised under "Other gains – Other" (Note 52).

vi. San Paolo IMI, S.p.A. ("San Paolo")

In December 2006, the Group sold 89.9 million shares of San Paolo, representing 4.8% of its share capital, giving rise to a gain of EUR 705 million which was recognised under "Other gains – Other" (Note 52).

vii. Intesa Sanpaolo

In 2007 the Group sold its 1.79% ownership interest in the share capital of the Italian entity Intesa Sanpaolo, for a total amount of EUR 1,206 million, which gave rise to a gain of EUR 566 million.

viii. Banco BPI, S.A. ("BPI")

In 2007 the Group sold 35.5 million shares of BPI, for a total amount of EUR 228 million, giving rise to a gain of EUR 107 million. The ownership interest in BPI at 31 December 2007 was 1.2%.

ix. Other holdings

In 2007 the Group acquired ownership interests in Iberdrola, S.A. and Fortis, N.V. At 31 December 2007, it had stakes of 3.3% and 2.1%, respectively, in the share capital of these companies.

c) Notifications of acquisitions of investments

The notifications made by the Bank in 2007, in compliance with Article 86 of the Spanish Companies Law and Article 53 of Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

d) Impairment losses

Following is a summary of the changes in the impairment losses on these items and on debt instruments classified as "Available-for-sale financial assets" (Note 7):

Thousands of Euros	2007	2006	2005
Balance at beginning of year	104,181	97,658	250,560
Net impairment losses for the year	6,546	(2,869)	(110,977)
Of which:			
Impairment losses charged to income	34,341	6,737	36,156
Impairment losses reversed with a credit to income	(27,795)	(9,606)	(147,133)
Net changes in the scope of consolidation	(6,737)	-	-
Write-off of impaired balances against recorded impairment allowance	(97)	(4,009)	(21,471)
Transfers between allowances	(3,928)	18,349	(26,402)
Exchange differences and other items	3,026	(4,948)	5,948
Balance at end of year	**102,991**	**104,181**	**97,658**
Of which:			
By geographical location of risk:			
Spain	*57,931*	*52,225*	*31,868*
Rest of Europe	*6,964*	*3,122*	*2,553*
Latin America	*38,096*	*48,834*	*63,237*
By type of asset covered:			
Debt instruments – Available-for-sale financial assets (Note 7)	*91,753*	*90,322*	*80,000*
Other equity instruments – Available-for-sale financial assets	*11,238*	*13,859*	*17,658*

9. TRADING DERIVATIVES (ASSETS AND LIABILITIES) AND SHORT POSITIONS

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group is as follows (Note 36):

Thousands of Euros	2007		2006		2005	
	Debit Balance	Credit Balance	Debit Balance	Credit Balance	Debit Balance	Credit Balance
Interest rate risk	33,298,794	35,195,843	24,522,311	24,785,804	23,944,965	23,733,558
Foreign currency risk	4,369,032	6,809,887	3,416,681	4,204,816	1,325,399	1,330,493
Price risk	6,365,243	6,068,122	5,121,227	7,938,554	1,949,054	3,695,552
Other risks	2,693,049	729,375	1,924,072	1,808,944	409,776	468,477
	46,726,118	**48,803,227**	**34,984,291**	**38,738,118**	**27,629,194**	**29,228,080**

b) Short positions

Following is a breakdown of the short positions:

Thousands of Euros	2007	2006	2005
Borrowed securities:			
Debt instruments	2,424,447	5,459,927	7,033,121
Of which: Abbey	1,783,832	4,574,639	6,156,838
Equity instruments	1,596,775	4,151,317	6,279,410
Of which:			
Bank	277,595	8,800	1,193,790
Abbey	1,285,989	3,995,291	4,975,258
Short sales:			
Debt instruments	1,582,052	1,842,729	4,051,078
Of which: the Bank	*1,485,173*	*1,721,742*	*3,876,223*
Equity instruments	9,960	19,089	52,191
	5,613,234	**11,473,062**	**17,415,800**

10. LOANS AND ADVANCES TO CUSTOMERS

a) Breakdown

The breakdown, by classification, of the balances of "Loans and advances to customers" in the consolidated balance sheets is as follows:

Thousands of Euros	2007	2006	2005
Financial assets held for trading	23,704,481	30,582,982	26,479,996
Other financial assets at fair value through profit or loss	8,021,623	7,972,544	6,431,197
Loans and receivables	533,750,907	484,790,338	402,917,602
Of which:			
Disregarding impairment losses	*542,446,111*	*492,953,782*	*410,527,527*
Impairment losses	*(8,695,204)*	*(8,163,444)*	*(7,609,925)*
	565,477,011	**523,345,864**	**435,828,795**
Loans and advances to customers disregarding impairment losses	*574,172,215*	*531,509,308*	*443,438,720*

Note 53 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Detail

Following is a detail, by loan type and status, borrower sector, geographical area of residence and interest rate formula, of the loans and advances to customers, which reflect the Group's exposure to credit risk in its core business, disregarding impairment losses:

Millions of Euros	2007	2006	2005
Loan type and status:			
Commercial credit	22,364	21,565	16,931
Secured loans	322,269	302,361	255,041
Reverse repurchase agreements	29,089	30,502	27,581
Other term loans	171,931	148,110	119,179
Finance leases	15,727	13,991	11,899
Receivable on demand	6,722	10,367	8,452
Impaired assets	6,070	4,613	4,356
	574,172	**531,509**	**443,439**
Borrower sector:			
Public sector – Spain	5,633	5,329	5,243
Public sector - Other countries	2,296	4,970	6,608
Households	316,129	302,451	248,615
Energy	7,820	4,616	5,583
Construction	21,137	19,659	13,694
Manufacturing	31,839	28,682	25,649
Services	98,548	91,592	63,585
Other sectors	90,770	74,210	74,462
	574,172	**531,509**	**443,439**
Geographical area:			
Spain	234,146	205,246	158,782
European Union (excluding Spain)	235,849	231,445	203,111
United States and Puerto Rico	32,070	31,385	25,884
Other OECD countries	6,633	6,020	3,943
Latin America	60,753	54,274	49,227
Rest of the world	4,721	3,139	2,492
	574,172	**531,509**	**443,439**
Interest rate formula:			
Fixed interest rate	228,434	178,423	143,316
Floating rate	345,738	353,086	300,123
	574,172	**531,509**	**443,439**

c) Impairment losses

The changes in the impairment losses on the assets making up the balances of “Loans and receivables – Loans and advances to customers”, “Loans and receivables – Loans and advances to credit institutions” (Note 6) and “Other financial assets” (Note 24) were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	8,288,128	7,756,675	6,997,428
Impairment losses charged to income for the year:	4,120,278	3,035,468	2,234,186
Of which:			
Individually assessed	4,223,069	2,584,434	1,874,413
Collectively assessed	1,077,785	1,151,376	636,836
Impairment losses reversed with a credit to income	(1,180,576)	(700,342)	(277,063)
Inclusion of entities in the Group in the year	7,356	164,530	4,006
Write-off of impaired balances against recorded impairment allowance	(3,320,162)	(2,369,865)	(1,519,494)
Exchange differences and other changes	(316,169)	(261,034)	267,090
Transfers between allowances	16,940	(37,646)	(226,541)
Balance at end of year	**8,796,371**	**8,288,128**	**7,756,675**
Of which:			
By method of assessment:			
Individually assessed	*3,356,264*	*3,190,220*	*3,520,985*
Of which: country risk (Note 2-g)	*51,522*	*159,024*	*281,389*
Of which: on loans and advances to credit institutions (Note 6)	*18,487*	*12,727*	*36,046*
Of which: on other financial assets (Note 24)	*82,680*	*111,957*	*110,704*
Collectively assessed	*5,440,107*	*5,097,908*	*4,235,690*
By geographical location of risk:			
Spain	*4,512,000*	*4,318,320*	*3,664,349*
Rest of Europe	*2,250,127*	*2,358,448*	*2,153,620*
Americas	*2,034,244*	*1,611,360*	*1,938,706*

Previously written-off assets recovered in 2007, 2006 and 2005 amounted to EUR 624,220 thousand, EUR 551,606 thousand and EUR 486,286 thousand, respectively. Taking into account these amounts and those recognised in “Impairment losses charged to income for the year” in the foregoing table, impairment losses on “Loans and receivables” amounted to EUR 3,496,058 thousand in 2007, EUR 2,483,862 thousand in 2006 and EUR 1,747,900 thousand in 2005.

d) Impaired assets

The detail of the changes in the balance of the financial assets classified as loans and receivables and considered to be impaired due to credit risk is as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	**4,613**	**4,356**	**4,208**
Net additions	4,898	2,723	1,356
Written-off assets	(3,320)	(2,370)	(1,519)
Exchange differences and other	(120)	(96)	311
Balance at end of year	**6,070**	**4,613**	**4,356**

This amount, after deducting the related allowances, represents the Group's best estimate of the fair value of the impaired assets.

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2007, and of the assets which, although not considered to be impaired, include any past-due amount at that date, classified by geographical location of risk and by age of the oldest past-due amount:

Millions of Euros

	With no Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by					
		3 to 6 Months	6 to 12 Months	12 to 18 Months	18 to 24 Months	More than 24 Months	Total
Spain	209	708	524	206	71	64	1782
European Union (excluding Spain)	121	1,422	530	172	115	244	2,604
United States and Puerto Rico	32	168	22	15	8	35	279
Other OECD countries	15	146	14	2	1	1	178
Latin America	53	350	348	42	17	409	1,219
Rest of the world	-	6	1	-	-	-	7
	429	**2,799**	**1,440**	**436**	**212**	**754**	**6,070**

The detail at 31 December 2006 is as follows:

Millions of Euros

	With no Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by					
		3 to 6 Months	6 to 12 Months	12 to 18 Months	18 to 24 Months	More than 24 Months	Total
Spain	159	491	210	370	73	98	1,401
European Union (excluding Spain)	15	515	275	1,060	87	173	2,125
United States and Puerto Rico	-	118	8	41	3	15	185
Other OECD countries	4	19	21	4	2	83	133
Latin America	40	180	177	103	10	252	762
Rest of the world	5	-	-	-	-	2	7
	223	**1,323**	**691**	**1,578**	**175**	**623**	**4,613**

e) Securitisation

"Loans and advances to customers" includes, inter alia, the securitised loans transferred to third parties on which the Group has retained risks, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (Note 2-e) is shown below. Note 22 details the liabilities associated with these securitisation transactions.

Millions of Euros	**2007**	**2006**	**2005**
Derecognised	3,742	4,901	6,065
Of which: mortgage-backed securities	*2,479*	*2,981*	*2,897*
Retained on the balance sheet	92,023	59,426	46,523
Of which: mortgage-backed securities	*60,056*	*36,363*	*33,085*
Total	**95,765**	**64,327**	**52,588**

The growth in securitisation in 2007 was the result of its use as a tool for the management of regulatory capital and as a means of diversifying the Group's liquidity sources.

f) Guarantees

At 31 December 2007, financial assets securing liabilities or contingent liabilities amounted to EUR 109,019 million (Note 22), the detail being as follows:

Millions of Euros	
Commercial paper (promissory notes)	183
Asset-backed securities	63,172
Other mortgage securities	45,664
Of which: mortgage bonds (cédulas hipotecarias)	*32,264*
Total	**109,019**

The mortgage-backed securities (EUR 46,164 million) and other mortgage securities are secured by mortgage loans with average maturities of more than ten years. The main terms and conditions of these loans are as follows:

- First mortgage on principal residence.
- Loans current in payment, with minimum experience of payments being honoured.
- Appraisal conducted by specialist valuer.
- The amount of the loan must not exceed 80% of the appraised value.
- Arrangement of insurance contract for an amount not less than the appraised value.

The other securitisations are secured by SME and consumer loan portfolios with average maturities of seven and five years, respectively.

The fair value of the guarantees received by the Group (financial and non-financial assets) which the Group is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Group's financial statements as a whole.

11. HEDGING DERIVATIVES

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting is as follows (Note 36):

Thousands of Euros	2007		2006		2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedges	2,662,762	(3,862,500)	2,866,213	(3,340,480)	3,757,503	(1,710,911)
Of which: Portfolio hedges	*398,143*	*826,178*	-	-	-	-
Cash flow hedges	101,629	(238,277)	98,220	(132,658)	368,601	(344,717)
Of which: Recognised in equity (Note 29)	-	*58,655*	-	*(49,252)*	-	*(70,406)*
Hedges of net investments in foreign operations	298,778	(33,794)	23,531	(20,711)	-	(255,101)
	3,063,169	**(4,134,571)**	**2,987,964**	**(3,493,849)**	**4,126,104**	**(2,310,729)**

In 2007 the Group implemented a fair value hedge of the interest rate risk of a portfolio of financial instruments. The aim of this hedge is to maintain the economic value of the hedged items, consisting of fixed-rate marketable debt securities originally maturing at long term which have been hedged with IRSs.

12. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of "Non-current assets held for sale" is as follows:

Thousands of Euros	2007	2006	2005
Equity instruments:			
Antonveneta (Note 3-b)	9,000,000	-	-
Other instruments	25,936	-	-
	9,025,936	-	-
Tangible assets:			
Foreclosed assets	364,345	265,311	271,574
Assets recovered from finance leases	19,196	13,528	20,785
Other assets	678,202	48,545	43,965
Of which: Ciudad Financiera business campus	*625,124*	-	-
	1,061,743	**327,384**	**336,324**

In 2007 the Group organised a restricted, private competition for the sale and subsequent leaseback of a property portfolio owned by it in Spain. Certain of these properties were sold in the year (Note 16-d) and at 2007 year-end the sale of the "Ciudad Financiera" business campus in which the Bank's head offices are located had not yet been completed (Note 1-h). The foregoing table shows the carrying amount of these properties in the Group's balance sheet at 31 December 2007.

Impairment losses of EUR 112,030 thousand, EUR 138,246 thousand and EUR 123,246 thousand were deducted from the balance of this item at 31 December 2007, 2006 and 2005, respectively. The net charges recorded in those years amounted to EUR 27,299 thousand, EUR 48,796 thousand and EUR 10,536 thousand, respectively.

13. INVESTMENTS – ASSOCIATES

a) Breakdown

The breakdown, by company, of the balance of "Investments – Associates" (Note 2-c) is as follows:

Thousands of Euros	2007	2006	2005
RFS Holdings B.V. (Note 3-b)	11,778,624	-	-
Cepsa	2,548,035	2,291,599	2,619,264
Sovereign	1,026,826	2,246,824	-
Attijariwafa Bank Société Anonyme	188,149	177,048	166,225
Vaporeón, S.L.	41,050	35,985	-
Abbey companies	5,104	3,531	34,103
Other companies	101,339	251,122	211,890
	15,689,127	**5,006,109**	**3,031,482**
Of which			
Euros	*14,431,945*	*2,544,864*	*2,793,030*
Listed	*3,763,010*	*4,715,471*	*2,785,489*
Goodwill	*8,942,799*	*1,502,441*	*664,768*
Of which:			
RFS Holdings B.V. (Note 3-b)	*7,993,875*	-	-
Cepsa	*940,199*	*833,241*	*650,949*
Sovereign	-	*653,946*	-

At 31 December 2007, the unrealised capital gains on investments in Group associates, based on the related market values, amounted to EUR 3,771 million (31 December 2006: EUR 2,899 million; 31 December 2005: EUR 1,056 million).

b) Changes

The changes in the balance of this item were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	5,006,109	3,031,482	3,747,564
Acquisitions and capital increases (Note 3)	11,773,567	2,618,196	18,470
Of which:			
Sovereign	-	*2,299,893*	-
RFS Holdings B.V.	*11,614,871*	-	-
Disposals and capital reductions (Note 3)	(27,421)	(753,071)	(1,168,585)
Of which:			
Unión Fenosa	-	-	*(1,083,305)*
Cepsa	-	*(711,393)*	-
Effect of equity accounting	441,457	426,921	619,157
Impairment losses	(1,052,673)	(380)	-
Dividends paid	(147,820)	(164,606)	(181,179)
Change in consolidation method	(13,389)	(84,503)	(39,608)
Exchange differences and other changes	(290,703)	(67,930)	35,663
Balance at end of year	**15,689,127**	**5,006,109**	**3,031,482**

c) Impairment losses

No impairment was detected with respect to investments in associates in 2005. In 2006 impairment losses amounting to EUR 380 thousand were recognised and in 2007 an impairment of EUR 1,053 million was recognised on the investment in Sovereign. Of this amount, EUR 586 million relate to goodwill inherent in Sovereign and EUR 104 million to exchange differences.

d) Other disclosures

Following is a summary of the financial information on the associates (obtained from the information available at the reporting date):

Millions of Euros	2007	2006
Total assets	168,320	91,987
Total liabilities	(151,891)	(78,869)
Minority interests	(355)	(203)
Net assets	16,074	12,915
Group's share of the net assets of associates	**6,746**	**3,504**
Goodwill	8,943	1,502
Total Group share	**15,689**	**5,006**
Total income	16,058	16,195
Total profit	1,211	1,237
Group's share of the profit of associates	**441**	**427**

14. INSURANCE CONTRACTS LINKED TO PENSIONS

The detail of the balance of "Insurance contracts linked to pensions" (Note 25-c) is as follows:

Thousands of Euros	2007	2006	2005
Assets relating to insurance contracts covering post-employment benefit plan obligations:			
Bank	2,220,638	2,272,786	2,320,512
Banesto	257,633	274,400	285,573
Other Spanish companies	33,286	34,442	35,526
Assets relating to insurance contracts covering other similar obligations:			
Bank	10,663	18,713	29,576
Other Spanish companies	3,330	4,194	5,178
	2,525,550	**2,604,535**	**2,676,365**

15. LIABILITIES UNDER INSURANCE CONTRACTS AND REINSURANCE ASSETS

The breakdown of the balances of "Liabilities under insurance contracts" and "Reinsurance assets" in the consolidated balance sheets (Note 2-j) is as follows:

Thousands of Euros	2007			2006			2005		
Technical Provisions for:	Direct Insurance and Reinsurance Assumed	Reinsurance Ceded	Total (Balance Payable)	Direct Insurance and Reinsurance Assumed	Reinsurance Ceded	Total (Balance Payable)	Direct Insurance and Reinsurance Assumed	Reinsurance Ceded	Total (Balance Payable)
Unearned premiums and unexpired risks	351,799	(128,663)	223,136	172,226	(78,340)	93,886	119,114	(39,376)	79,738
Life insurance:									
Unearned premiums and unexpired risks	120,747	(23,580)	97,167	119,867	(11,031)	108,836	113,381	(31,615)	81,766
Mathematical provisions	2,885,581	(17,727)	2,867,854	3,049,875	(10,496)	3,039,379	28,523,561	(2,200,524)	26,323,037
Claims outstanding	364,878	(29,213)	335,665	162,484	(37,362)	125,122	350,865	(15,798)	335,067
Bonuses and rebates	15,957	(13,359)	2,598	11,414	(5,399)	6,015	579,895	(5,246)	574,649
Equalisation	-	-	-	-	-	-	25	-	25
Life insurance policies where the investment risk is borne by the Policyholders	9,097,620	(90,395)	9,007,225	7,175,926	(118,993)	7,056,933	14,855,872	(94,732)	14,761,140
Other technical provisions	197,035	(6,837)	190,198	12,466	(252)	12,214	129,587	(410)	129,177
	13,033,617	**(309,774)**	**12,723,843**	**10,704,258**	**(261,873)**	**10,442,385**	**44,672,300**	**(2,387,701)**	**42,284,599**

16. TANGIBLE ASSETS

a) Changes

The changes in "Tangible assets" in the consolidated balance sheets were as follows:

Thousands of Euros	Property, Plant and Equipment for Own Use	Investment Property	Other Assets Leased out under an Operating Lease	Total
Cost:				
Balances at 1 January 2005	9,541,389	2,148,841	5,398,778	17,089,008
Additions/Disposals (net)	315,027	(1,480,536) (*)	441,162	(724,346)
Exchange differences (net)	561,772	49,393	133,883	745,048
Balances at 31 December 2005	10,418,188	717,698	5,973,823	17,109,710
Additions/Derecognitions (net) due to change in the scope of consolidation	(3,938)	(557,549)	180,492	(380,995)
Additions/Disposals (net)	(358,066)	240,900	366,485	249,319
Transfers and other changes	(32,271)	-	-	(32,271)
Exchange differences	(182,605)	(55)	97,526	(85,134)
Balances at 31 December 2006	9,841,308	400,994	6,618,326	16,860,629
Additions/Derecognitions (net) due to change in the scope of consolidation	(43,055)	-	-	(43,055)
Additions/Disposals (net)	(1,156,036)	77,285	545,769	(532,982)
Transfers and other changes	(713,511)	9,680	86,768	(617,063)
Exchange differences (net)	(97,641)	(511)	(411,297)	(509,449)
Balances at 31 December 2007	**7,831,065**	**487,448**	**6,839,566**	**15,158,079**
Accumulated depreciation:				
Balances at 1 January 2005	(4,572,468)	(33,018)	(1,786,713)	(6,392,199)
Disposals	224,135	1,588	57,969	283,692
Charge for the year	(606,510)	(2,007)	(9,592)	(618,109)
Exchange differences and other items	(245,261)	(5,745)	(44,714)	(295,720)
Balances at 31 December 2005	(5,200,104)	(39,182)	(1,783,050)	(7,022,336)
Additions/Derecognitions (net) due to change in the scope of consolidation	8,421	24,743	(35,748)	(2,584)
Disposals	1,174,842	1,314	274,008	1,450,164
Transfers and other changes	7,624	-	(508,549)	(500,925)
Charge for the year	(618,135)	(2,876)	(7,526)	(628,537)
Exchange differences	81,301	2	(33,805)	47,498
Balances at 31 December 2006	(4,546,051)	(15,999)	(2,094,670)	(6,656,720)
Additions/Derecognitions (net) due to change in the scope of consolidation	21,681	-	-	21,681
Disposals	1,440,435	14,363	202,503	1,657,301
Transfers and other changes	110,941	(12,629)	(304,805)	(206,493)
Charge for the year	(600,454)	(3,561)	(17,256)	(621,271)
Exchange differences and other items	40,848	1,451	156,020	198,319
Balances at 31 December 2007	**(3,532,600)**	**(16,375)**	**(2,058,208)**	**(5,607,183)**
Impairment losses:				
Balances at 1 January 2005	(43,689)	-	(67,927)	(111,616)
Impairment charge for the year	(12,463)	(2,564)	(63)	(15,090)
Exchange differences	43,000	(8,504)	(1,957)	32,539
Balances at 31 December 2005	(13,152)	(11,068)	(69,947)	(94,167)
Additions/Derecognitions (net) due to change in the scope of consolidation	755	-	-	755
Net impairment charge	(7,091)	634	-	(6,457)
Exchange differences and other changes	8,408	(14)	(1,438)	6,956
Balances at 31 December 2006	(11,080)	(10,448)	(71,385)	(92,913)
Impairment charge for the year	(1,452)	8	-	(1,444)
Additions/Derecognitions (net) due to change in the scope of consolidation	549	-	-	549
Exchange differences	1,130	92	723	1,945
Balances at 31 December 2007	**(10,853)**	**(10,348)**	**(70,662)**	**(91,863)**
Tangible assets, net				
Balances at 31 December 2005	5,204,931	667,449	4,120,827	9,993,207
Balances at 31 December 2006	5,284,177	374,547	4,452,272	10,110,996
Balances at 31 December 2007	**4,287,612**	**460,725**	**4,710,696**	**9,459,033**

(*) Mainly Abbey.

b) Property, plant and equipment for own use

The detail, by class of asset, of the balance of "Property, plant and equipment for own use" in the consolidated balance sheets is as follows:

Millions of Euros	Cost	Accumulated Depreciation	Impairment Losses	Net Balance
Land and buildings	3,835	(851)	(13)	2,971
IT equipment and fixtures	2,619	(1,957)	-	662
Furniture and vehicles	3,786	(2,275)	-	1,511
Construction in progress and other items	178	(117)	-	61
Balances at 31 December 2005	**10,418**	**(5,200)**	**(13)**	**5,205**
Land and buildings	3,704	(848)	(11)	2,845
IT equipment and fixtures	2,059	(1,495)	-	564
Furniture and vehicles	3,838	(2,114)	-	1,724
Construction in progress and other items	240	(89)	-	151
Balances at 31 December 2006	**9,841**	**(4,546)**	**(11)**	**5,284**
Land and buildings	2,632	(682)	(11)	1,939
IT equipment and fixtures	1,903	(1,303)	-	600
Furniture and vehicles	3,019	(1,460)	-	1,559
Construction in progress and other items	277	(88)	-	189
Balances at 31 December 2007	**7,831**	**(3,533)**	**(11)**	**4,287**

The net balance at 31 December 2007 in the foregoing table includes the following amounts:

- Approximately EUR 5,335 million relating to property, plant and equipment owned by Group entities and branches located abroad (31 December 2006: EUR 5,272 million; 31 December 2005: EUR 5,171 million).

- Approximately EUR 394 million relating to property, plant and equipment being acquired under finance leases by the consolidated entities (Note 2-l discloses additional information on these items - 31 December 2006: EUR 183 million; 31 December 2005: EUR 83 million).

c) Investment property

The fair value of investment property at 31 December 2007, 2006 and 2005 amounted to EUR 588 million, EUR 425 million and EUR 944 million, respectively.

The rental income earned from investment property and the direct costs related both to investment properties that generated rental income in 2007, 2006 and 2005 and to investment properties that did not generate rental income in those years are not material in the context of the consolidated financial statements.

d) Sale of properties

On 14 November 2007, the Group sold ten singular properties to two companies in the Pontegadea Group for EUR 458 million and recognised a net gain of EUR 216 million. At the same time, an operating lease agreement for the aforementioned properties (with maintenance, insurance and taxes payable by the Group) was entered into with these companies, with compulsory terms of between 12 and 15 years, during which the rent (currently set at EUR 1,722 thousand per month) will be reviewed annually on the date of completion of each year of the lease term, based on the percentage variation in the Spanish Consumer Price Index (CPI) in the preceding twelve months, except in the fifth year (effective from the sixth year), in which the rent for nine of the ten properties will be reviewed on the basis of the CPI plus three percentage points. In nine of the ten lease agreements, the agreement is renewable for five additional five-year periods and a last three-year renewal period, up to a total of 40 years. In one of the ten lease agreements, the agreement is renewable for five additional five-year periods up to a total of 40 years. Nine of the ten lease agreements provide for adjustment of the rent to market in each renewal period. One of the ten lease agreements provides for adjustment of the rent to market in 2017, with subsequent adjustments to market taking place every five years from 2017 onwards. Also, the lease agreements include a purchase option exercisable by the Group on final expiry of the agreements (2047), with the exception of one of the leases, which envisages the possibility of exercising the purchase option in March 2023, March 2028, March 2033, March 2038, March 2043 and March 2047. In all the lease agreements, the value of the properties in the event that the purchase option is exercised shall be the market value of the properties on the related dates; this market value will be determined, if appropriate, by independent experts.

Also, on 23 November 2007 the Group sold 1,152 of its branch offices to the Pearl Group for EUR 2,040 million and recognised a net gain of EUR 860 million. Simultaneously, an operating lease agreement for the aforementioned branch offices (with maintenance, insurance and taxes payable by the Group) was entered into with the Pearl Group, with compulsory terms of 24, 25 or 26 years (depending on the property), during which the rent (currently set at EUR 8,417 thousand per month, payable quarterly) will be reviewed annually on the date of completion of each year of the lease term: (i) during the first ten years of the agreement, based on the percentage variation in the Spanish CPI in the preceding twelve months, plus 215 basis points; and (ii) from the eleventh year onwards, based on variations in the CPI. The agreement is renewable for a maximum of three additional seven-year periods, up to a total of 45, 46 or 47 years (depending on the property), the rent being adjusted to market at the end of the compulsory term and of each renewal period, and includes an option, exercisable by the Group on final expiry of the lease (45, 46 or 47 years, depending on the property) to purchase the properties at their market value on the expiry date; this market value will be determined, if appropriate, by independent experts.

The most noteworthy feature of the other agreed terms and conditions, all of which are customary market conditions for operating lease agreements, is that none of the aforementioned lease agreements provides for the transfer of ownership of the properties to the Group on expiry thereof, and the Group is entitled not to renew the rentals beyond the minimum compulsory term. Furthermore, the Group has not granted any guarantee to the buyers for any losses that might arise from the early termination of the agreements or for possible fluctuations in the residual value of the aforementioned properties.

The Group was advised in the above-mentioned transactions by independent experts, who estimated the economic lives of the transferred properties at the transaction date, which in all cases were more than 60 years. These experts also analysed both the selling prices of the properties and the agreed subsequent rental payments, and concluded that they had been set at fair market values at that date.

The rental expense recognised by the Group in 2007 in connection with these agreements amounted to EUR 10 million, which related in full to the minimum contractual payments. The present value of the minimum future payments that the Group will incur during the compulsory term (since it is considered that

the agreements will not be renewed and the existing purchase options will not be exercised) amounts to EUR 122 million payable within one year, EUR 443 million payable at between one and five years –EUR 117 million in 2009, EUR 113 million in 2010, EUR 109 million in 2011 and EUR 105 million in 2012-, and EUR 1,253 million payable at more than five years.

17. INTANGIBLE ASSETS

a) Goodwill

The breakdown of "Goodwill", based on the companies giving rise thereto (Note 3-c), is as follows:

Thousands of Euros	2007	2006	2005
Abbey (UK)	8,167,868	8,920,188	8,740,560
Totta Group (Portugal)	1,640,746	1,640,746	1,639,560
CC Holding (AKB Germany)	824,483	824,483	824,483
Banco Santander Chile	680,937	717,957	908,879
Grupo Financiero Santander Serfin (Mexico)	498,074	560,327	633,638
Meridional Group (Brazil)	501,192	458,202	469,372
Drive Group	419,481	412,986	-
Banesto	372,655	373,562	380,008
Santander Consumer Bank AS (Norway)	133,742	116,568	120,262
Finconsumo (Italy)	105,921	105,921	105,921
Banco Santander Consumer Portugal, S.A.	163,438	89,743	-
Bansander Leasing, Corp. (Island Finance)	58,888	80,873	-
Banco Santander Internacional	38,384	42,905	47,899
CB Extrobank	36,767	-	-
Unifin	36,437	37,490	-
PTF (Poland)	23,956	22,471	22,303
Other entities	127,739	108,313	125,360
	13,830,708	14,512,735	14,018,245

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable value to below its carrying amount). For this purpose, it analyses the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation, economic situation –including bankarisation–, among others); (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the Group carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital ratio, return on equity, among others); and (iii) the price earnings (P/E) ratio of the investments as compared with the P/E ratio of the stock market in the country in which the investments are located and that of comparable local financial institutions.

Based on the foregoing, and in accordance with the estimates, projections and measurements available to the Bank's directors, except for the impairment losses reflected in the following table, these assets were not impaired in the last three years, and the projected income attributable to the Group is at least equal to the amount recognised as goodwill.

The changes in "Goodwill" were as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	14,513	14,018	15,090
Additions (Note 3)	252	650	62
Of which:			
Drive Group	*97*	*422*	-
Santander Central Hispano Inc. (Island Finance)	-	*96*	-
Banco Santander Consumer Portugal, S.A.	*74*	*90*	-
Unifin	-	*37*	-
Santander BanCorp	-	-	*11*
CB Extrobank	*38*	-	-
Santander Consumer Bank AS (by Bankia)		-	*45*
Definitive assessment of acquisitions	(50)	-	(1,856)
Of which (transfer to other intangible assets):	-		
Abbey	-	-	*(1,753)*
Santander Consumer Bank AS (by Elcon)	-	-	*(28)*
Santander Consumer Bank AS (by Bankia)	-	-	*(22)*
PTF	-	-	*(52)*
Of which other:	-		
Drive Group	*(49)*	-	-
Impairment losses	(15)	(13)	-
Of which:			
Cambios Sol, S.A.	-	*(7)*	-
Santander Financial Services Inc. (Island Finance)	*(14)*	*(6)*	-
Disposals	(6)	(76)	(2)
Of which:			
Banco Santander Chile	-	*(67)*	-
Exchange differences and other items	(863)	(66)	724
Balance at end of year	13,831	14,513	14,018

b) Other intangible assets

The breakdown of the balance of “Other intangible assets” is as follows:

Thousands of Euros	Estimated Useful Life	2007	2006	2005
With indefinite useful life:				
Brand name	-	446,175	487,177	459,680
Of which: Abbey	-	*429,536*	*469,099*	*459,680*
With finite useful life:				
Customer deposits (Abbey)	10 years	1,175,428	1,283,693	1,257,843
Credit cards (Abbey)	5 years	32,727	35,741	35,021
IT developments	3 years	1,574,969	1,309,678	1,207,606
Other assets	-	233,352	323,026	163,199
Accumulated amortisation		(1,234,838)	(980,530)	(704,345)
Impairment losses		(25,479)	(14,679)	(207,978)
		2,202,334	**2,444,106**	**2,211,026**

The changes in “Other intangible assets” were as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	2,444	2,211	413
Additions/Disposals (net)	1,074	757	403
Exchange differences and other changes (net)	(107)	(6)	66
Impairment losses	(563)	-	(131)
Transfers from “Goodwill”	1	-	1,856
Amortisation	(647)	(518)	(396)
Balance at end of year	**2,202**	**2,444**	**2,211**

At 2007 year-end, the useful lives of certain intangible assets acquired during the year were revised, and the carrying amounts of these assets were adjusted on the basis of the estimated economic benefits that are expected to be obtained therefrom following the purchases described in Note 3.

18. PREPAYMENTS AND ACCRUED INCOME AND ACCRUED EXPENSES AND DEFERRED INCOME

The breakdown of the balances of “Prepayments and accrued income” and “Accrued expenses and deferred income” is as follows:

Thousands of Euros	Assets			Liabilities		
	2007	2006	2005	2007	2006	2005
Prepayments (*)	594,506	521,246	1,792,886	-	-	-
Accrued expenses	-	-	-	(2,444,509)	(2,197,921)	(2,012,861)
Other	1,154,687	1,060,597	1,176,333	(1,606,483)	(801,159)	(1,035,872)
	1,749,193	**1,581,843**	**2,969,219**	**(4,050,992)**	**(2,999,080)**	**(3,048,733)**

(*) Of the amount for 2005, EUR 1,160 million relate to Abbey's insurance business.

19. OTHER ASSETS - OTHER AND OTHER LIABILITIES - OTHER

The breakdown of the balances of these items is as follows:

Thousands of Euros	Assets			Liabilities		
	2007	2006	2005	2007	2006	2005
Transactions in transit	147,392	163,655	122,316	(150,609)	(311,283)	(469,211)
Net pension plan assets (Note 25)	239,392	223,851	54,693	-	-	-
Other	1,744,230	1,531,836	1,710,059	(2,328,848)	(3,147,457)	(1,043,697)
	2,131,014	**1,919,342**	**1,887,068**	**(2,479,457)**	**(3,458,740)**	**(1,512,908)**

20. DEPOSITS FROM CENTRAL BANKS AND DEPOSITS FROM CREDIT INSTITUTIONS

The breakdown, by classification, counterparty, type and currency, of the balances of these items is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial liabilities held for trading	23.254.111	39.690.713	31.962.919
Other financial liabilities at fair value through profit or loss	12.207.579	-	-
Financial liabilities at amortised cost	77.434.333	73.345.224	116.659.488
Of which:			
Deposits from central banks	*28.748.079*	*16.529.557*	*22.431.194*
Deposits from credit institutions	*48.686.254*	*56.815.667*	*94.228.294*
	112.896.023	**113.035.937**	**148.622.407**
Type:			
Reciprocal accounts	562.619	411.314	190.885
Time deposits	71.226.437	63.589.635	47.224.471
Other demand accounts	2.466.370	2.225.037	7.383.695
Repurchase agreements	36.615.910	45.417.839	91.399.196
Central bank credit account drawdowns	2.008.927	1.348.815	2.369.406
Other financial liabilities associated with transferred financial assets	-	8.445	7.170
Hybrid financial liabilities	15.760	34.852	47.584
	112.896.023	**113.035.937**	**148.622.407**
Currency:			
Euro	58.327.694	43.828.306	79.664.528
Pound sterling	14.947.746	24.543.241	26.488.413
US dollar	28.930.017	27.883.219	20.307.158
Other currencies	10.690.566	16.781.171	22.162.308
	112.896.023	**113.035.937**	**148.622.407**

Note 53 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

21. CUSTOMER DEPOSITS

The breakdown, by classification, geographical area and type, of the balances of "Customer deposits" is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial liabilities held for trading	27,992,480	16,572,444	14,038,543
Other financial liabilities at fair value through profit or loss	10,669,058	273,079	-
Financial liabilities at amortised cost	317,042,764	314,377,078	291,726,737
	355,704,302	**331,222,601**	**305,765,280**
Geographical area:			
Spain	132,008,374	120,485,991	107,117,818
European Union (excluding Spain)	134,620,750	136,730,342	133,274,597
United States and Puerto Rico	17,888,682	7,512,963	7,578,598
Other OECD countries	189,548	79,117	106,151
Latin America	69,361,574	64,984,913	56,395,157
Rest of the world	1,635,374	1,429,275	1,292,959
	355,704,302	**331,222,601**	**305,765,280**
Type:			
Demand deposits-			
Current accounts	87,136,743	89,151,030	80,631,188
Savings accounts	90,727,525	93,717,633	90,471,827
Other demand deposits	3,593,720	2,025,095	1,747,720
Time deposits-			
Fixed-term deposits	92,673,147	86,345,788	77,166,817
Home-purchase savings accounts	296,768	324,262	269,706
Discount deposits	9,933,139	7,132,341	16,128,577
Funds received under financial asset transfers	-	-	1
Hybrid financial liabilities	8,494,773	4,994,535	4,141,071
Other financial liabilities associated with transferred financial assets	-	-	20,346
Other time deposits	113,562	470,140	351,620
Notice deposits	283,301	45,849	33,713
Repurchase agreements	62,451,624	47,015,928	34,802,694
	355,704,302	**331,222,601**	**305,765,280**

Note 53 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

22. MARKETABLE DEBT SECURITIES

a) Breakdown

The breakdown, by classification and type, of the balances of "Marketable debt securities" is as follows:

Thousands of Euros	2007	2006	2005
Classification:			
Financial liabilities held for trading	17,090,935	17,522,108	19,821,087
Other financial liabilities at fair value through profit or loss	10,279,037	12,138,249	11,809,874
Financial liabilities at amortised cost	206,264,524	174,409,033	117,209,385
	233,634,496	**204,069,390**	**148,840,346**
Type:			
Bonds and debentures outstanding	200,905,082	168,661,356	123,566,864
Notes and other securities	32,729,414	35,408,034	25,273,482
	233,634,496	**204,069,390**	**148,840,346**

At 31 December 2007, 2006 and 2005, none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares (except for the Santander Securities ("Valores Santander"), which are described in Note 34-a).

At 31 December 2007, asset-backed securities amounted to EUR 63,172 million. In 2007 asset-backed securities amounting to EUR 28,520 million were issued, of which EUR 15,924 million were issued by Abbey, EUR 2,666 million by Fondo de Titulización de Activos Santander Empresas 3, EUR 2,585 million by Santander Consumer Bank AG, EUR 1,733 million by Hipototta No. 5 plc. and EUR 1,659 million by Fondo de Titulización de Activos Santander Consumer Spain Auto 07 – 1.

Additionally, total mortgage bonds at 31 December 2007 amounted to EUR 45,664 million. In 2007 the Bank and Banesto issued mortgage bonds (cédulas hipotecarias) amounting to EUR 4,500 million and EUR 1,750 million, respectively. The mortgage bonds outstanding in connection with these issues totalled EUR 39,264 million at 31 December 2007.

At 31 December 2006, asset-backed securities amounted to EUR 48,226 million (31 December 2005: EUR 27,997 million). In 2006 asset-backed securities amounting to EUR 21,380 million were issued, of which EUR 11,004 million were issued by Abbey, EUR 4,374 million by the Bank and EUR 1,769 million by Santander Consumer Bank AG.

Additionally, total mortgage bonds at 31 December 2006 amounted to EUR 42,425 million. In 2006 the Bank and Banesto issued mortgage bonds (cédulas hipotecarias) amounting to EUR 7,500 million and EUR 3,000 million, respectively. The mortgage bonds outstanding in connection with these issues totalled EUR 36,224 million at 31 December 2006 (31 December 2005: EUR 27,250 million).

Note 53 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates in each year.

b) Bonds and debentures outstanding

The breakdown, by currency of issue, of the balance of this account is as follows:

				31 December 2007	
		Millions of Euros		Outstanding Issue Amount in Foreign Currency	Annual Interest
Currency of Issue	**2007**	**2006**	**2005**	(Millions)	Rate (%)
Euro	132,031	112,622	78,499	132,032	4.39
US dollar	38,864	30,001	20,429	57,212	5.54
Pound sterling	23,154	21,128	19,274	16,980	6.24
Chilean peso	2,239	1,725	1,701	1,640,995	4.54
Other currencies	4,617	3,185	3,664	-	-
Balance at end of year	**200,905**	**168,661**	**123,567**		

The changes in "Bonds and debentures outstanding" were as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	168,661	123,567	83,021
Net inclusion of entities in the Group	36	1,895	-
Issues	122,530	76,956	52,670
Of which:			
Banco Santander, S.A.-			
Non-convertible debentures February and December – floating rate	*-*	*4,374*	*-*
Mortgage bonds – fixed rate	*4,500*	*7,500*	*7,000*
Banesto-			
Mortgage bonds – fixed rate	*1,708*	*3,000*	*4,000*
Bonds	*5,006*	*5,547*	*3,750*
Santander International Debt, S.A., Sole-Shareholder Company-			
Bonds – floating rate	*10,059*	*11,709*	*10,169*
Abbey-			
Holmes Financing Series 10	*-*	*5,581*	*-*
Holmes Master Issuer plc	*15,924*	*5,153*	*-*
Holmes Financing Series 9	*-*	*-*	*5,540*
Bonds in pounds sterling	*26,613*	*6,608*	*3,729*
Bonds in other currencies	*41,122*	*7,284*	*9,156*
Santander US Debt, S.A., Sole-Shareholder Company-			
Debentures – floating rate	*2,038*	*3,785*	*5,086*
Santander Consumer Bank AG-			
Asset-backed securities	*2,585*	*1,769*	*1,668*
Banco Santander Totta, S.A.-			
Asset-backed securities	*890*	*3,808*	*736*
FTA Santander Consumer Spain Auto 06-			
Asset-backed securities	*-*	*1,350*	*-*
Redemptions	(85,674)	(30,510)	(14,269)
Of which:			
Banco Santander, S.A.	*(3,987)*	*(3,038)*	*(1,000)*
Banesto	*(2,358)*	*(2,037)*	*(2,000)*
Santander Consumer Bank S.p.A.	*(26)*	*(179)*	*(102)*
Abbey	*(70,535)*	*(21,210)*	*(7,503)*
Exchange differences	(2,864)	(1,557)	958
Other changes	(1,748)	(1,690)	1,187
Balance at end of year	**200,905**	**168,661**	**123,567**

c) Notes and other securities

These notes were basically issued by Banco Santander, S.A.; Abbey National North America LLC; Abbey National Treasury Services, plc; Abbey National, plc; Santander Central Hispano Finance (Delaware) Inc.; Banco Santander, S.A.; Institución de Banca Múltiple, Grupo Financiero Santander; Santander Consumer Finance, S.A.; Banco Santander Puerto Rico; Banesto and CB Extrobank.

23. SUBORDINATED LIABILITIES

a) Breakdown

The detail, by currency of issue, of the balance of "Subordinated liabilities" is as follows:

				31 December 2007	
	Thousands of Euros			Outstanding Issue Amount in Foreign Currency	Annual Interest Rate
Currency of Issue	**2007**	**2006**	**2005**	(Millions)	%
Euro	19,224,529	16,309,049	14,706,164	19,224	5.15
US dollar	7,358,576	6,898,455	7,843,846	10,832	7.11
Pound sterling	6,918,511	5,631,867	5,761,408	5,073	7.10
Other currencies	2,168,563	1,583,450	452,038	-	-
Balance at end of year	**35,670,179**	**30,422,821**	**28,763,456**		

Note 53 contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

b) Changes

The changes in the balance of "Subordinated liabilities" were as follows:

Millions of Euros	**2007**	**2006**	**2005**
Balance at beginning of year	30,423	28,763	27,470
Net inclusion of entities in the Group	-	(459)	-
Of which:			
Scottish Pensions Limited	-	*(292)*	-
Issues	8,330	5,881	2,507
Of which:			
Santander Consumer Finance, S.A.			
Banco do Estado de Sao Paulo, S.A. (Banespa)	-	*995*	*420*
Abbey	-	-	*793*
Santander Central Hispano Issuances, Limited	*5,908*	*3,484*	-
Santander Finance Capital, S.A., Sole-Shareholder Company	-	-	*1,000*
Santander Perpetual, S.A., Sole-Shareholder Company	*1,019*	-	-
Santander Finance Preferred, S.A., Sole-Shareholder Company	*1,072*	-	-
Redemptions	(2,340)	(2,265)	(2,410)
Of which:			
Abbey	*(944)*	*(763)*	*(551)*
Santander Central Hispano Issuances, Limited	*(1,188)*	*(1,369)*	*(1,189)*
Exchange differences	(1,353)	(1,093)	659
Other changes	610	(404)	537
Balance at end of year	**35,670**	**30,423**	**28,763**

c) Other information

For the purposes of payment priority preference shares are junior to all general creditors and to subordinated deposits. The payment of dividends on these shares, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by Spanish banking regulations on equity.

The other issues are subordinated and, therefore, rank junior to all general creditors of the issuers. The issues launched by Santander Central Hispano Issuances, Limited, Santander Central Hispano Financial Services, Limited, Santander Issuances, S.A., Sole-Shareholder Company, Santander Perpetual, S.A., Sole-Shareholder Company, Santander Finance Capital, S.A., Sole-Shareholder Company, and Santander Finance Preferred S.A., Sole-Shareholder Company, are guaranteed by the Bank or by restricted deposits arranged by the Bank for this purpose.

Except for those described in Note 34-a), at 31 December 2007 none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares. Abbey has a GBP 200 million subordinated debt issue which is convertible, at Abbey's option, into preference shares of Abbey, at a price of GBP 1 per share. Banco Santander, S.A. Institución de Banca Múltiple, Grupo Financiero Santander has two USD 150 million issues of unguaranteed subordinated preference debentures that are voluntarily convertible into ordinary shares of Banco Santander, S.A. Institución de Banca Múltiple, Grupo Financiero Santander.

24. OTHER FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

The breakdown of the balances of these items is as follows:

Thousands of Euros	2007		2006		2005	
	Other Financial Assets	Other Financial Liabilities	Other Financial Assets	Other Financial Liabilities	Other Financial Assets	Other Financial Liabilities
Declared dividends payable	-	-	-	-	-	(581,400)
Trade receivables (payables)	105,255	(3,350,422)	104,281	(3,070,870)	808,401	(2,907,828)
Clearing houses	1,872,444	(1,106,714)	760,839	(544,004)	913,953	(408,700)
Public agency revenue collection accounts	-	(2,040,547)	-	(2,031,137)	-	(1,758,574)
Factoring accounts payable	-	(326,107)	-	(284,331)	-	(169,627)
Bonds	5,582,063	(994,572)	3,478,722	(41,447)	2,639,426	(15,988)
Unsettled financial transactions	2,455,085	(2,994,299)	6,548,625	(1,978,120)	3,653,275	(1,369,389)
Other financial assets (liabilities)	2,336,185	(5,727,544)	2,182,878	(4,798,756)	1,614,388	(4,081,071)
	12,351,032	**(16,540,205)**	**13,075,345**	**(12,748,665)**	**9,629,443**	**(11,292,577)**

At 31 December 2007, 2006 and 2005, impairment losses amounted to EUR 82,680 thousand, EUR 111,957 thousand and EUR 110,704 thousand, respectively (Note 10-c).

Note 53 contains a detail of the residual maturity periods of other financial assets and liabilities at each year-end.

25. PROVISIONS

a) Breakdown

The breakdown of the balance of "Provisions" is as follows:

Thousands of Euros	2007	2006	2005
Provisions for pensions and similar obligations	11,819,748	14,014,305	14,172,961
Provisions for contingent liabilities and commitments (Note 2)	636,316	598,735	487,048
Of which: country risk	*48,831*	*57,216*	*11,529*
Other provisions	4,114,835	4,613,473	5,162,981
Total provisions	**16,570,899**	**19,226,513**	**19,822,990**

b) Changes

The changes in "Provisions" were as follows:

Millions of Euros	2007				2006				2005			
	Pensions	Contingent Liabilities and Commitments	Other Provisions	Total	Pensions	Contingent Liabilities and Commitments	Other Provisions	Total	Pensions	Contingent Liabilities and Commitments	Other Provisions	Total
Balances at beginning of year	14,014	599	4,614	19,227	14,173	487	5,163	19,823	13,441	361	4,222	18,024
Net inclusion of entities in the Group	(2)	-	(35)	(37)	-	-	1	1	(1)	-	-	(1)
Additions charged to income:												
Interest expense and similar charges (Note 39)	488	-	-	488	735	-	-	735	641	-	-	641
Personnel expenses (Note 49)	209	-	-	209	223	-	-	223	245	-	-	245
Additions to provisions	114	96	497	707	984	96	(1)	1,079	776	20	1,011	1,807
Other additions (Note 52)	317	-	-	317	-	-	-	-	-	-	-	-
Other additions arising from insurance contracts linked to pensions	(17)	-	-	(17)	(6)	-	-	(6)	(10)	-	-	(10)
Payments to pensioners and early retirees with a charge to internal provisions	(1,109)	-	-	(1,109)	(1,422)	-	-	(1,422)	(1,258)	-	-	(1,258)
Insurance premiums paid	(6)	-	-	(6)	(2)	-	-	(2)	(8)	-	-	(8)
Payments to external funds	(2,168)	-	-	(2,168)	(743)	-	-	(743)	(212)	-	-	(212)
Amount used	-	-	(921)	(921)	-	-	(982)	(982)	-	(9)	(560)	(569)
Transfers, exchange differences and other changes	(20)	(59)	(40)	(119)	72	16	433	521	558	115	491	1,164
Balances at end of year	**11,820**	**636**	**4,115**	**16,571**	**14,014**	**599**	**4,614**	**19,227**	**14,172**	**487**	**5,164**	**19,823**

c) Provisions for pensions and similar obligations

The breakdown of the balance of "Provisions for pensions and similar obligations" is as follows:

Millions of Euros	2007	2006	2005
Provisions for post-employment plans – Spanish entities	5,723	5,647	5,657
Of which, defined benefit	*5,626*	*5,647*	*5,657*
Provisions for other similar obligations – Spanish entities	4,001	4,527	4,269
Of which: early retirements	*3,950*	*4,481*	*4,215*
Provisions for post-employment plans – Abbey	1,275	1,642	1,788
Provisions for post-employment plans and other similar obligations – Other foreign subsidiaries	821	2,198	2,459
Provisions for pensions and similar obligations	**11,820**	**14,014**	**14,173**

i. Spanish entities - Post-employment plans and other similar obligations

At each year-end, the Spanish consolidated entities had post-employment benefit obligations under defined benefit plans. At its meeting on 17 December 2007, the Bank's Board of Directors approved the implementation of a defined contribution retirement plan for executives of the Bank. This plan recognises an extraordinary contribution totalling EUR 97 million for services rendered, and subsequent current contributions. On 25 July 2006, the Bank entered into an agreement with the employee representatives to promote a defined contribution plan aimed at all current personnel. Also, in 2007, 2006 and 2005 some of the consolidated entities offered certain of their employees the possibility of taking early retirement and, therefore, provisions were recognised in those years for the obligations to employees taking early retirement –in terms of salaries and other employee welfare costs– from the date of early retirement to the date of effective retirement.

At each year-end, the Spanish entities had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 14 million in 2007, EUR 13 million in 2006 and EUR 2 million in 2005.

The amount of defined benefit obligations was determined by independent actuaries using the following actuarial techniques:

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

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

	Post-Employment Plans			Other Similar Obligations		
	2007	2006	2005	2007	2006	2005
Annual discount rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Mortality tables	GRM/F-95 (PERM/F-2000 in the case of Banesto)	GRM/F-95 (PERM/F-2000 in the case of Banesto)	GRM/F-95 (PERM/F-2000 in the case of Banesto)	GRM/F-95 (PERM/F-2000 in the case of Banesto)	GRM/F-95 (PERM/F-2000 in the case of Banesto)	GRM/F-95 (PERM/F-2000 in the case of Banesto)
Cumulative annual CPI growth	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Annual salary increase rate	2.50% (2.9% in the case of Banesto)	2.50% (2.9% in the case of Banesto)	2.50% (2.9% in the case of Banesto)	n/a	n/a	n/a
Annual social security pension increase rate	1.5%	1.5%	1.5%	n/a	n/a	n/a
Annual benefit increase rate	n/a	n/a	n/a	0% to 1.5%	0% to 1.5%	0% to 1.5%

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

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	Post-Employment Plans			Other Similar Obligations		
	2007	2006	2005	2007	2006	2005
Expected rate of return on plan assets	4.0%	4.0%	4.0%	-	-	-
Expected rate of return on reimbursement rights	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

The funding status of the defined benefit obligations is as follows:

	Post-Employment Plans			Other Similar Obligations		
Millions of Euros	2007	2006	2005	2007	2006	2005
Present value of the obligations:						
To current employees	1,259	1,215	1,207	-	-	-
Vested obligations to retired employees	4,876	4,958	4,942	-	-	-
To early retirees	-	-	-	3,950	4,481	4,215
Long-service bonuses and other obligations	-	-	-	50	46	54
Other	174	164	225	1	-	-
	6,309	**6,337**	**6,374**	**4,001**	**4,527**	**4,269**
Less:						
Fair value of plan assets	192	203	211	-	-	-
Unrecognised actuarial (gains)/losses	487	482	506	-	-	-
Unrecognised past service cost	4	5	-	-	-	-
Provisions – Provisions for pensions	**5,626**	**5,647**	**5,657**	**4,001**	**4,527**	**4,269**
Of which:						
Internal provisions for pensions	3,114	3,065	3,015	3,987	4,504	4,235
Insurance contracts linked to pensions (Note 14)	2,512	2,582	2,642	14	23	34

The amounts recognised in the consolidated income statement in relation to the aforementioned defined benefit obligations are as follows:

Millions of Euros	Post-Employment Plans 2007	2006	2005	Other Similar Obligations 2007	2006	2005
Current service cost	56	55	54	5	3	6
Interest cost	242	239	255	166	156	150
Expected return on plan assets	(8)	(8)	(9)	-	-	-
Expected return on insurance contracts linked to pensions	(102)	(103)	(105)	(1)	(1)	(2)
Extraordinary charges:						
Actuarial (gains)/losses recognised in the year	6	8	13	13	16	14
Past service cost	58	151	35	-	-	-
Early retirement cost	2	(24)	(13)	39	799	671
Other	(16)	(21)	(38)	(22)	(10)	(2)
Total	**238**	**297**	**192**	**201**	**963**	**837**

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

Millions of Euros	Post-Employment Plans 2007	2006	2005	Other Similar Obligations 2007	2006	2005
Present value of the obligations at beginning of year	**6,337**	**6,374**	**6,433**	**4,527**	**4,269**	**4,099**
Net inclusion of entities in the Group	-	-	-	-	-	-
Current service cost	56	55	54	5	3	6
Interest cost	242	239	255	166	156	150
Early retirement cost	2	(24)	(13)	39	799	671
Effect of curtailment/settlement	(16)	(21)	(38)	(22)	(10)	(2)
Benefits paid	(350)	(415)	(324)	(729)	(708)	(673)
Past service cost	58	156	35	1	-	-
Actuarial (gains)/losses	(19)	(25)	(26)	13	16	14
Other	(1)	(2)	(2)	1	2	4
Present value of the obligations at end of year	**6,309**	**6,337**	**6,374**	**4,001**	**4,527**	**4,269**

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

Plan assets

Millions of Euros	Post-Employment Plans 2007	2006	2005
Fair value of plan assets at beginning of year	**203**	**211**	**212**
Expected return on plan assets	8	8	9
Actuarial gains/(losses)	(12)	(4)	1
Contributions	6	2	8
Benefits paid	(13)	(14)	(19)
Fair value of plan assets at end of year	**192**	**203**	**211**

Insurance contracts linked to pensions

	Post-Employment Plans			Other Similar Obligations		
Millions of Euros	2007	2006	2005	2007	2006	2005
Fair value of insurance contracts linked to pensions at beginning of year	**2,582**	**2,642**	**2,703**	**23**	**34**	**51**
Expected return on insurance contracts (Note 38)	102	103	105	1	1	2
Actuarial gains/(losses)	(17)	(6)	(10)	-	-	-
Premiums paid	12	11	12	-	-	-
Benefits paid	(165)	(168)	(168)	(10)	(12)	(19)
Exchange differences	(2)	-	-	-	-	-
Fair value of insurance contracts linked to pensions at beginning of year	**2,512**	**2,582**	**2,642**	**14**	**23**	**34**

In 2008 the Group expects to make contributions in Spain to fund its defined benefit pension obligations for amounts similar to those made in 2007.

The plan assets and the insurance contracts linked to pensions are instrumented through insurance policies.

The following table shows the estimated benefits payable at 31 December 2007 for the next ten years:

Millions of Euros	
2008	1,026
2009	969
2010	908
2011	844
2012	788
2013 to 2017	2,941
	7,476

ii. Abbey

At the end of each of the last three years, Abbey had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 10 million in 2007, EUR 5 million in 2006 and EUR 6 million in 2005.

The amount of the defined benefit obligations was determined by independent actuaries using the following actuarial techniques:

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

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

	2007	2006	2005
Annual discount rate	5.30%	5.20%	4.85%
Mortality tables	PA92MC C2006	PA92MC C2006	PA92MC C2005
Cumulative annual CPI growth	3.0%	3.0%	2.8%
Annual salary increase rate	4.0%	4.0%	4.3%
Annual pension increase rate	3.0%	3.0%	2.8%

The funding status of the defined benefit obligations is as follows:

Millions of Euros	2007	2006	2005
Present value of the obligations	**6,248**	**6,350**	**6,337**
Less:			
Fair value of plan assets	4,913	4,810	4,326
Unrecognised actuarial (gains)/losses	60	(102)	223
Unrecognised past service cost	-	-	-
Provisions - Provisions for pensions	**1,275**	**1,642**	**1,788**

The amounts recognised in the consolidated income statement in relation to the aforementioned defined benefit obligations are as follows:

Millions of Euros	2007	2006	2005
Current service cost	97	119	131
Interest cost	322	309	294
Expected return on plan assets	(284)	(263)	(240)
Extraordinary charges:			
Actuarial gains/losses recognised in the year	(1)	-	-
Past service cost	-	-	-
Early retirement cost	-	3	-
Total	**134**	**168**	**185**

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

Millions of Euros	2007	2006	2005
Present value of the obligations at beginning of year	**6,350**	**6,337**	**5,232**
Net inclusion of entities in the Group	-	-	-
Current service cost	97	119	131
Interest cost	322	309	294
Early retirement cost	-	3	-
Benefits paid	(175)	(178)	(102)
Actuarial (gains)/losses	200	(342)	570
Exchange differences and other items	(546)	102	212
Present value of the obligations at end of year	**6,248**	**6,350**	**6,337**

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

Millions of Euros	2007	2006	2005
Fair value of plan assets at beginning of year	**4,810**	**4,326**	**3,504**
Net inclusion of entities in the Group	-	-	-
Expected return on plan assets	284	263	240
Actuarial gains/losses	45	(13)	347
Contributions	387	303	238
Benefits paid	(175)	(178)	(102)
Exchange differences	(438)	109	99
Fair value of plan assets at end of year	**4,913**	**4,810**	**4,326**

Through Abbey, the Group expects to make contributions in 2008 to fund these defined benefit pension obligations for amounts similar to those made in 2007.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2007	2006	2005
Equity instruments	46%	46%	51%
Debt instruments	52%	51%	48%
Other	1%	3%	1%

The expected return on plan assets was determined on the basis of the market expectations for returns over the duration of the related obligations.

The following table shows the estimated benefits payable at 31 December 2007 for the next ten years:

Millions of Euros	
2008	174
2009	187
2010	202
2011	217
2012	233
2013 to 2017	1,466
	2,479

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2007, 2006 and 2005, these entities had defined contribution and defined benefit post-employment benefit obligations. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 23 million in 2007, EUR 19 million in 2006 and EUR 13 million in 2005.

The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

The funding status of the obligations similar to post-employment benefits is as follows:

Millions of Euros	2007	2006	2005
Present value of the obligations	**7,264**	**6,198**	**5,481**
Less:			
Fair value of plan assets	6,725	3,917	2,523
Unrecognised actuarial (gains)/losses	134	517	760
Unrecognised past service cost	-	-	2
Provisions - Provisions for pensions	**405**	**1,764**	**2,196**
Of which:			
Internal provisions for pensions	*821*	*2,198*	*2,459*
Net assets for pensions	*(239)*	*(224)*	*(55)*
Unrecognised net assets for pensions	*(177)*	*(210)*	*(208)*

In January 2007 Banco do Estado de Sao Paulo, S.A.- Banespa (which merged with Banco Santander Banespa, S.A. on 31 August 2006) externalised a portion of the pension obligations to employees for which it still recognised an internal provision and for this purpose arranged an external plan or fund managed by Banesprev. As a result of this externalisation, the related assets and liabilities were transferred to Banesprev, and "Provisions – Provisions for Pensions and Similar Obligations" at 31 December 2007 included the present value of the aforementioned obligations, net of the fair value of the related plan assets and the net unrecognised cumulative actuarial gains and/or losses.

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

Millions of Euros	2007	2006	2005
Current service cost	51	46	54
Interest cost	608	574	413
Expected return on plan assets	(559)	(271)	(222)
Extraordinary charges:			
Actuarial gains/losses recognised in the year	22	93	35
Past service cost	-	29	-
Early retirement cost	16	72	62
Other	216	(132)	-
Total	**354**	**411**	**342**

The changes in the present value of the accrued obligations were as follows:

Millions of Euros	2007	2006	2005
Present value of the obligations at beginning of year	**6,198**	**5,481**	**4,092**
Current service cost	51	46	54
Interest cost	608	574	413
Early retirement cost	16	72	62
Effect of curtailment/settlement	(4)	(132)	-
Benefits paid	(492)	(513)	(423)
Past service cost	-	27	2
Actuarial (gains)/losses	707	72	455
Exchange differences and other items	180	571	826
Present value of the obligations at end of year	**7,264**	**6,198**	**5,481**

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

Millions of Euros	2007	2006	2005
Fair value of plan assets at beginning of year	**3,917**	**2,523**	**1,962**
Expected return on plan assets	559	271	222
Actuarial gains/(losses)	586	12	9
Contributions	1,863	461	168
Benefits paid	(452)	(199)	(165)
Exchange differences and other items	252	849	327
Fair value of plan assets at end of year	**6,725**	**3,917**	**2,523**

In 2008 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2007.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2007	2006	2005
Equity instruments	27%	27%	28%
Debt instruments	66%	61%	64%
Properties	2%	3%	4%
Other	5%	8%	4%

The expected return on plan assets was determined on the basis of the market expectations for returns over the duration of the related obligations.

The following table shows the estimated benefits payable at 31 December 2007 for the next ten years:

Millions of Euros	
2008	441
2009	455
2010	471
2011	488
2012	507
2013 to 2017	2,799
	5,159

d) Other provisions

The balance of "Provisions – Other provisions", which includes, inter alia, provisions for restructuring costs and tax and legal litigation, was estimated using prudent calculation procedures in keeping with the uncertainty inherent in the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation; in certain cases, these obligations have no fixed settlement period and, in other cases, are based on litigation in progress.

The breakdown of the balance of "Provisions – Other provisions" is as follows:

Millions of Euros	2007	2006	2005
Provisions for contingencies and commitments in operating units:			
Recognised by Spanish companies	814	892	937
Of which:			
Bank	*326*	*400*	*376*
Banesto	*197*	*249*	*331*
Recognised by other EU companies	*886*	*1,230*	*1,876*
Of which: Abbey	*584*	*931*	*1,458*
Recognised by other companies	*2,415*	*2,492*	*2,350*
Of which:			
Brazil	*1,989*	*1,795*	*1,318*
Mexico	*159*	*193*	*233*
	4,115	4,614	5,163

e) Litigation

i. Tax litigation

At 31 December 2007, the main tax litigation concerning the Group was as follows:

- The "Mandado de Segurança" filed by Banco Santander Banespa, S.A. claiming its right to pay the Brazilian social contribution tax on net income at a rate of 8%. On 14 January 2008, an unfavourable judgment was handed down by the Federal Regional Court, against which the directors of Banco Santander S.A. (Brazil) intend to file an appeal at a higher court.
- The "Mandado de Segurança" filed by Banco Santander Banespa, S.A. claiming its right to consider the social contribution tax on net income as deductible in the calculation of Brazilian corporation tax. This action was declared unwarranted and an appeal was filed at the Federal Regional Court, requesting to have the claimability of the tax credit stayed and obtaining permission to deposit with the courts the disputed amounts. On 1 October 2007, an unfavourable judgment was handed down by the Federal Regional Court, which was appealed against by Banco Santander S.A. (Brazil) through the presentation of "Embargos de Declaraçao" on 8 October 2007. A decision has not yet been handed down by the Court.
- The "Mandado de Segurança" filed by Banco Santander, S.A. and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. The "Mandado de Segurança" was declared unwarranted and an appeal was filed at the Federal Regional Court. On 13 September 2007, this Court handed down a favourable judgment. Unión Federal has filed an appeal against this judgment at a higher court.
- A claim was filed against Abbey National Treasury Services plc by tax authorities abroad in relation to the refund of certain tax credits and other associated amounts. The legal advisers of Abbey National Treasury Services plc considered that the grounds to contest this claim were well-founded, proof of which is that a favourable judgment was handed down at first instance in September 2006, although the judgment was appealed against by the tax authorities in January 2007. However, in December 2006 an unfavourable judgment for another taxpayer was handed down on another proceeding which might affect this case.

At 31 December 2007, other less significant tax litigation was in progress.

ii. Legal litigation

At 31 December 2007, the main legal litigation concerning the Group was as follows:

- Misselling: claims associated with the sale by Abbey of certain financial products to its customers.

  The provisions recorded by Abbey in this connection were calculated on the basis of the best estimate of the number of claims that will be received, of the percentage of claims that will be upheld and of the related amounts.

- LANETRO, S.A.: claim (ordinary lawsuit no. 558/2002) filed by LANETRO, S.A. against Banco Santander, S.A. at Madrid Court of First Instance no. 34, requesting that the Bank comply with the obligation to subscribe to EUR 30.05 million of a capital increase at the plaintiff.

  On 16 December 2003, a judgment was handed down dismissing the plaintiff's request. The subsequent appeal filed by LANETRO was upheld by a decision of the Madrid Provincial Appellate Court on 27 October 2006.

  The Bank has filed extraordinary appeals on grounds of procedural infringements and an extraordinary cassation appeal against the aforementioned decision.

- Galesa de Promociones, S.A.: small claims proceeding at Elche Court of First Instance no. 4 (case no. 419/1994), in connection with the claim filed by Galesa de Promociones, S.A. (Galesa) requesting the Court to annul a previous legal foreclosure proceeding brought by the Bank against the plaintiff in 1992, which culminated in the foreclosure of certain properties that were subsequently sold by auction.

  The judgments handed down at first and second instance were in the Bank's favour. The cassation appeal filed by Galesa at the Supreme Court was upheld by virtue of a decision on 24 November 2004 which ordered the reversal of the legal foreclosure proceeding to before the date on which the auctions were held. On 8 June 2006, Galesa filed a claim for the enforcement of the decision handed down by the Supreme Court, requesting that the Bank be ordered to pay EUR 56 million, the estimated value of the properties, plus a further EUR 33 million for loss of profit. The Bank challenged this claim on the grounds that the Supreme Court decision could not be enforced –since no order had been pronounced against the Bank, but rather a proceeding had merely been annulled– and it also argued that the damages requested would have to be ruled upon by an express court decision, which had not been pronounced.

  The Elche Court of First Instance, by virtue of an order dated 18 September 2006, found in favour of the Bank, and referred the plaintiff to the appropriate ordinary proceeding for the valuation of the aforementioned damages.

  Galesa filed an appeal for reconsideration, which was dismissed by a resolution on 11 November 2006. Galesa lodged an appeal against this resolution at the Alicante Provincial Appellate Court. This appeal was in turn contested by the Bank and a favourable judgment was handed down.

- Declaratory large claims action brought at Madrid Court of First Instance no. 19 (case no. 87/2001) in connection with a claim filed by Inversión Hogar, S.A. against the Bank. This claim sought the termination of a settlement agreement entered into between the Bank and the plaintiff on 11 December 1992.

  On 19 May 2006, a judgment was handed down at first instance, whereby the agreement was declared to be terminated and the Bank was ordered to pay EUR 1.8 million, plus the related legal interest since February 1997, to return a property that was given in payment under the aforementioned agreement, to pay an additional EUR 72.9 million relating to the replacement value of the assets foreclosed, and subsequently sold, by the Bank, and to pay all the related court costs. The Bank and Inversión Hogar, S.A. filed appeals against the judgment.

  On 30 July 2007, the Madrid Provincial Appellate Court handed down a decision upholding in full the appeal filed by the Bank, revoking the ruling issued at first instance and dismissing the appeal lodged by Inversión Hogar, S.A. Inversión Hogar, S.A. has announced that, on completion of the clarification procedure, it will file a cassation appeal against the aforementioned decision at the Civil Chamber of the Supreme Court.

- Complaint in an ordinary proceeding filed by Inés Arias Domínguez and a further 17 persons against Santander Investment, S.A. at Madrid Court of First Instance no. 13 (case no. 928/2007), seeking damages of approximately EUR 43 million, plus interest and costs. The plaintiffs, who are former shareholders of Yesocentro S.A. (Yesos y Prefabricados del Centro, S.A.) allege that Santander Investment, S.A. breached the advisory services agreement entered into on 19 October 1989 between the former Banco Santander de Negocios, S.A. and the plaintiffs, the purpose of which was the sale of shares owned by the plaintiffs to another company called Invercámara, S.A.

  This complaint was duly contested by Santander Investment, S.A. on 5 November 2007. The parties are currently awaiting notification of the hearing to be held prior to the court proceeding.

At 31 December 2007, other less significant legal litigation was in progress.

*   *   *   *   *

At the end of each of the last three years, the Group had recorded provisions that reasonably cover any contingencies that might arise from the aforementioned tax and legal litigation.

Following is a description of the developmemts in 2007 in the litigation against Casa de Bolsa Santander, S.A. de C.V. Grupo Financiero Santander (Casa de Bolsa):

- In 1997 Casa de Bolsa was sued for an alleged breach of various stock brokerage contracts. On 6 July 1999, Civil Court number thirty-one of the Federal District handed down a judgment ordering Casa de Bolsa to return to the plaintiff 2,401,588 shares of México 1 and 11,219,730 shares of México 4 at their market value and to pay MXP 15 million, plus interest calculated at the average percentage borrowing cost (C.P.P.) multiplied by four.

  After numerous appeals were filed concerning the method used for calculating this interest, a final judgment was handed down ruling that the interest should not be capitalised.

  Following this judgment, the amount owed was paid in full and there are currently no claims outstanding in this connection.

26. EQUITY HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

This category includes the financial instruments issued by the consolidated companies which, although equity for legal purposes, do not meet the requirements for classification as equity.

These shares do not carry any voting rights and are non-cumulative. They were subscribed to by non-Group third parties and, except for the shares of Abbey amounting to GBP 325 million, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

The changes in the balance of "Equity having the substance of a financial liability" were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	668,328	1,308,847	2,124,222
Redemptions	(94,912)	(472,925)	(944,968)
Of which:			
Totta & Açores Financing, Limited	-	(118,483)	-
Abbey National, plc	-	(354,442)	-
BSCH Finance, Ltd.	-	-	(754,774)
BCH Capital, Ltd.	-	-	(190,194)
Pinto Totta Internacional Finance, Limited	(94,912)	-	-
Exchange differences and other changes	(50,858)	(167,594)	129,593
Balance at end of year	**522,558**	**668,328**	**1,308,847**

The detail of the issuers and of the most significant terms and conditions of the issues is as follows:

	Millions of Euros							
	2007		2006		2005		Annual	
Issuer and Currency of Issue	Equivalent en Euros	Foreign Extranjera	Equivalent Euro Value	Foreign Currency	Equivalent Euro Value	Foreign Currency	Interest Euro Value	Redemption Currency
Rate (%)			Option (1)					
Banesto Holdings Ltd. (US dollar)	53	77	59	77	66	77	10.50%	30/06/12
Totta & Açores Financing, Limited (US dollar)	-	-	-	-	127	150	-	-
Pinto Totta International Finance, Limited (US dollar)	-	-	95	125	212	250	-	-
Abbey (US dollar)	-	-	-	-	381	450	-	-
Abbey (Pound sterling)	443	325	484	325	474	325	8.63% to 10.38%	No option
Valuation adjustments	27	-	30	-	49	-	-	-
Balance at end of year	**523**		**668**		**1,309**			

(1) From these dates, the issuer can redeem the shares, subject to prior authorisation by the national supervisor.

27. TAX MATTERS

a) Consolidated Tax Group

Pursuant to current legislation, the consolidated tax group includes Banco Santander , S.A. (as the Parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

The other Group banks and companies file income tax returns in accordance with the tax regulations applicable in each country.

b) Years open for review by the tax authorities

At 31 December 2007, the consolidated tax group had, in addition to the two years mentioned below, 2003, 2004, 2005, 2006 and 2007 open for review in relation to the main taxes applicable to it.

The other consolidated entities have the corresponding years open for review, pursuant to their respective tax regulations.

The tax audit of 2001 and 2002 for the main taxes applicable to the consolidated tax group was completed in March 2007. Most of the tax assessments issued were signed on a contested basis.

In 2007 there were no significant developments in connection with the tax disputes at the different instances, which were pending resolution at 31 December 2006.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's tax advisers consider that the possibility of such contingent liabilities becoming actual liabilities is remote, and that in any event the tax charge which might arise therefrom would not materially affect the consolidated financial statements of the Group.

c) Reconciliation

The reconciliation of the corporation tax expense calculated at the standard tax rate to the income tax expense recognised is as follows:

Millions of Euros	2007	2006	2005
Consolidated profit before tax:			
From ordinary activities	11,175	8,995	7,661
From discontinued operations	973	1,840	480
	12,148	10,835	8,141
Corporation tax at 32.5% (*)	3,948	3,792	2,849
Decreases due to permanent differences	(1,062)	(1,022)	(981)
Of which:			
Due to effect of different tax rates	*(851)*	*(1,364)*	*(627)*
Due to effect on deferred taxes of change in Spanish tax rate	*-*	*491*	*-*
Income tax of Group companies, per local books	2,886	2,770	1,868
Net increases (decreases) due to other permanent differences	(577)	(568)	(539)
Other, net	204	388	62
Current income tax	**2,513**	**2,590**	**1,391**
Of which:			
Ordinary activities	*2,336*	*2,255*	*1,242*
Discontinued operations	*177*	*335*	*149*
Of which:			
Current tax	*2,805*	*2,003*	*837*
Deferred taxes	*(292)*	*587*	*554*
Taxes paid in the year	*3,181*	*949*	*1,036*

(*) 35% for 2006 and 2005.

The effective tax rate is as follows:

Millions of Euros	2007	2006	2005
Consolidated tax group	5,043	4,212	3,281
Other Spanish entities	50	1,518	389
Foreign entities	7,055	5,105	4,471
	12,148	10,835	8,141
Income tax	2,513	2,590	1,391
Effective tax rate	**20.69%**	**23.90%**	**17.09%**

d) Tax recognised in equity

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

Millions of Euros	2007	2006	2005
Tax charged to equity	**(497)**	**(418)**	**(438)**
Measurement of available-for-sale fixed-income securities	(104)	(276)	(184)
Measurement of available-for-sale equity securities	(393)	(99)	(230)
Measurement of cash flow hedges	-	(43)	(24)
Tax credited to equity	**20**	**-**	**-**
Measurement of cash flow hedges	20	-	-
Total	**(477)**	**(418)**	**(438)**

e) Deferred taxes

The balance of “Tax assets” in the consolidated balance sheets includes debit balances with the tax authorities relating to deferred tax assets. The balance of “Tax liabilities” includes the liability for the Group's various deferred tax liabilities.

The detail of the balances of “Deferred tax assets” and “Deferred tax liabilities” is as follows:

Millions of Euros	2007	2006	2005
Deferred tax assets	**10,853**	**9,156**	**8,909**
Of which:			
Banespa	*1,905*	*1,577*	*1,201*
Abbey	*1,257*	*1,517*	*1,390*
Early retirements	*1,167*	*1,482*	*1,286*
Other pensions	*1,167*	*966*	*1,225*
Prepaid taxes- Investments	*965*	*-*	*-*
Deferred tax liabilities	**3,744**	**3,778**	**2,767**
Of which:			
Abbey	*741*	*799*	*957*
Banespa	*253*	*149*	*33*
Banco Santander, S.A. Institución de Banca Múltiple			
Grupo Financiero Santander	*101*	*159*	*6*
Santander Consumer Bank Aktiengesellschaft	*104*	*104*	*83*
Valuation adjustments	*534*	*425*	*560*

The changes in the balances of "Deferred tax assets" and "Deferred tax liabilities" were as follows:

Millions of Euros

	Balances at 31 December 2005	(Charge)/Credit to Income	Foreign Currency Balance Translation Differences and Other Items	Charge/Credit to Asset and Liability Revaluation Reserve	Acquisitions for the Year (Net)	Balances at 31 December 2006
Deferred tax assets	8,909	148	225	(22)	(104)	9,156
Deferred tax liabilities	(2,767)	(735)	(252)	112	(136)	(3,778)
Total	**6,142**	**(587)**	**(27)**	**90**	**(240)**	**5,378**

Millions of Euros

	Balances at 31 December 2006	(Charge)/Credit to Income	Foreign Currency Balance Translation Differences and Other Items	Charge/Credit to Asset l and Liability Revaluation Reserve	Prepaid Taxes	Acquisitions for the Year (Net)	Balances at 31 Dec. 2007
Deferred tax assets	9,156	419	230	110	965	(27)	10,853
Deferred tax liabilities	(3,778)	(127)	252	(128)	-	37	(3,744)
Total	**5,378**	**292**	**482**	**(18)**	**965**	**10**	**7,109**

f) Other information

In conformity with the Listing Rules Instrument 2005 published by the UK Financial Services Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit in respect of the withholdings the Bank is required to make from the dividends to be paid to them. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Grupo Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

28. MINORITY INTERESTS

"Minority interests" include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of the balance of "Equity – Minority interests" is as follows:

Thousands of Euros	2007	2006	2005
Grupo Financiero Santander, S.A. de C.V.	**649,291**	**657,013**	**609,728**
Banesto	476,152	303,889	767,833
Banco Santander Chile	241,726	234,726	146,192
Brazil Group	56,062	45,161	44,275
Santander BanCorp	30,701	31,311	29,539
Other companies	328,445	298,837	720,990
	1,782,377	1,570,937	2,318,557
Profit for the year attributed to minority interests	575,892	649,806	529,666
Of which:			
Banesto Group	81,467	260,591	149,143
Grupo Financiero Santander, S.A. de C.V.	281,186	166,103	139,885
Banco Santander Chile	138,781	84,640	58,153
Somaen-Dos, S.L.	-	77,177	138,919
Brazil Group	7,005	10,568	11,559
Santander BanCorp	1,626	3,053	6,680
	2,358,269	**2,220,743**	**2,848,223**

b) Changes

The changes in the balance of "Minority interests" are summarised as follows:

Millions of Euros	2007	2006	2005
Balance at beginning of year	2,221	2,848	2,085
(Net) inclusion of companies in the Group and changes in scope of consolidation	(9)	(1,050)	34
Change in proportion of ownership interest	(117)	72	(1)
Valuation adjustments	(57)	15	49
Dividends paid to minority interests	(360)	(160)	(137)
Changes in share capital	220	(29)	(25)
Exchange differences and other items	(116)	(125)	313
Profit for the year attributed to minority interests	576	650	530
Balance at end of year	**2,358**	**2,221**	**2,848**

29. VALUATION ADJUSTMENTS

The balances of "Valuation adjustments" include the amounts, net of the related tax effect, of adjustments to the assets and liabilities recognised temporarily in equity through the statement of changes in equity until they are extinguished or realised, when they are recognised definitively as shareholders' equity through the consolidated income statement. The amounts arising from subsidiaries, jointly controlled entities and associates are presented, on a line by line basis, in the appropriate items according to their nature.

"Valuation adjustments" include the following items:

a) Available-for-sale financial assets

This item includes the net amount of unrealised changes in the fair value of assets classified as available-for-sale financial assets.

The changes in this item were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	2,283,323	1,941,690	1,936,818
Revaluation gains	825,812	1,663,713	911,814
Income tax	(107,043)	(144,772)	(23,468)
Taxes transferred to income	(1,583,126)	(1,177,308)	(883,474)
Balance at end of year	**1,418,966**	**2,283,323**	**1,941,690**
Of which:			
Fixed-income	157,698	594,719	407,084
Equities	1,261,268	1,688,604	1,534,606

b) Cash flow hedges

This item includes the net amount of changes in the value of financial derivatives designated as hedging instruments in cash flow hedges, for the portion of these changes considered as effective hedges (Note 11).

The changes in this item were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	49,252	70,406	(1,787)
Valuation gains/(losses)	(156,313)	9,087	83,216
Income tax	62,633	(30,241)	(11,023)
Amounts transferred to income	(14,227)	-	-
Balance at end of year	**(58,655)**	**49,252**	**70,406**
Of which:			
Spain	*(53,294)*	*(54,498)*	*43,709*
Mexico	*16,863*	*83,608*	*17,439*
Italy	*20,393*	*17,825*	-
United States	*(36,987)*	-	-
Other countries	*(5,630)*	*2,317*	*9,258*

c) Hedges of net investments in foreign operations and Exchange differences

"Hedges of net investments in foreign operations" include the net amount of changes in the value of hedging instruments in hedges of net investments in foreign operations, for the portion of these changes considered as effective hedges (Note 11).

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

The changes in these two items were as follows:

Thousands of Euros	2007	2006	2005
Balance at beginning of year	538,182	1,065,000	(157,467)
Revaluation gains (losses)	(1,236,453)	(529,982)	1,388,998
Amounts transferred to income	59,996	3,164	(166,531)
Balance at end of year	**(638,275)**	**538,182**	**1,065,000**
Of which:			
Arising on consolidation:			
Subsidiaries:	*(663,779)*	*549,211*	*1,061,515*
Brazil Group	*696,462*	*456,412*	*544,228*
Chile Group	*(130,186)*	*(40,677)*	*178,260*
Mexico Group	*(508,264)*	*(217,746)*	*87,093*
Abbey Group	*(562,990)*	*490,771*	*264,769*
Other	*(158,801)*	*(139,549)*	*(12,835)*
Associates (Note 13)	*25,504*	*(11,029)*	*3,485*

30. SHAREHOLDERS' EQUITY

"Shareholders' equity" includes the amounts of equity contributions from shareholders, accumulated profit or loss recognised through the consolidated income statement, and components of compound financial instruments having the substance of permanent equity. Amounts arising from subsidiaries and jointly controlled entities are presented in the appropriate items based on their nature.

The changes in "Shareholders' equity" were as follows:

Thousands of Euros

	Share Capital	Share Premium	Accumulated Reserves	Reserves of Entities Accounted for Using the Equity Method	Other Equity Instruments	Treasury Shares	Profit Attributed to the Group	Dividends and Remuneration	Total
Balances at 1 January 2005	**3,127,148**	**20,370,128**	**6,256,632**	**621,195**	**93,567**	**(126,500)**	**3,605,870**	**(1,310,662)**	**32,637,378**
Consolidated profit for the year	-	-	-	-	-	-	6,220,104	-	6,220,104
Appropriation of profit for the year	-	-	3,279,608	326,262	-	-	(3,605,870)	-	-
Dividends/Remuneration	-	-	(1,721,691)	(115,582)	-	-	-	(433,537)	(2,270,810)
Issues (reductions)	-	-	(2,531)	-	-	-	-	-	(2,531)
Purchase and sale of own equity instruments	-	-	26,421	-	-	73,432	-	-	99,853
Payments with equity instruments	-	-	-	-	19,167	-	-	-	19,167
Transfers	-	-	267,052	(243,462)	(23,590)	-	-	-	-
Other	-	-	(5,351)	15,236	(11,666)	-	-	-	(1,781)
Balances at 31 December 2005	**3,127,148**	**20,370,128**	**8,100,140**	**603,649**	**77,478**	**(53,068)**	**6,220,104**	**(1,744,199)**	**36,701,380**
Consolidated profit for the year	-	-	-	-	-	-	7,595,947	-	7,595,947
Appropriation of profit for the year	-	-	5,828,922	391,182	-	-	(6,220,104)	-	-
Dividends/Remuneration	-	-	(2,495,742)	(109,173)	-	-	-	406,981	(2,197,934)
Issues (reductions)	-	-	(4,163)	-	-	-	-	-	(4,163)
Purchase and sale of own equity instruments	-	-	9,627	-	-	(73,733)	-	-	(64,106)
Payments with equity instruments	-	-	-	-	19,167	-	-	-	19,167
Transfers	-	-	79,346	(44,369)	(34,977)	-	-	-	-
Other	-	-	(26,460)	(43,479)	450	-	-	-	(69,489)
Balances at 31 December 2006	**3,127,148**	**20,370,128**	**11,491,670**	**797,810**	**62,118**	**(126,801)**	**7,595,947**	**(1,337,218)**	**41,980,802**
Consolidated profit for the year	-	-	-	-	-	-	9,060,258	-	9,060,258
Appropriation of profit for the year	-	-	7,169,330	426,617	-	-	(7,595,947)	-	-
Dividends/Remuneration	-	-	(3,117,057)	(139,086)	-	-	-	(200,589)	(3,456,732)
Issues (reductions)	-	-	(1,704)	-	7,000,000	-	-	-	6,998,296
Purchase and sale of own equity instruments	-	-	4,575	-	-	126,609	-	-	131,184
Payments with equity instruments	-	-	-	-	48,548	-	-	-	48,548
Transfers	-	-	207,364	(195,246)	(12,118)	-	-	-	-
Other	-	-	(278,185)	5,342	(11,667)	-	-	-	(284,510)
Balances at 31 December 2007	**3,127,148**	**20,370,128**	**15,475,993**	**895,437**	**7,086,881**	**(192)**	**9,060,258**	**(1,537,807)**	**54,477,846**
Parent	*3,127,148*	*20,370,128*	*7,696,864*	*-*	*7,078,622*	*-*	*4,070,247*	*(1,537,807)*	*40,805,202*
Subsidiaries	*-*	*-*	*7,687,422*	*-*	*8,259*	*(192)*	*4,501,609*	*-*	*12,197,098*
Jointly controlled entities	*-*	*-*	*91,707*	*-*	*-*	*-*	*46,945*	*-*	*138,652*
Associates	*-*	*-*	*-*	*895,437*	*-*	*-*	*441,457*	*-*	*1,336,894*

31. ISSUED CAPITAL

a) Changes

At the end of each of the last three years, the share capital consisted of 6,254,296,579 shares and amounted to EUR 3,127,148,290.

The Bank's shares are listed on the computerised trading system of the Spanish stock exchanges and on the New York, London, Milan, Lisbon, Buenos Aires and Mexico stock exchanges, and all of them have the same features and rights. At 31 December 2007, the only shareholders with an ownership interest in the Bank's share capital of over 3% were Chase Nominees Ltd. (with a 10.80% holding), State Street Bank & Trust (with an 8.13% holding) and EC Nominees Ltd. (with a 5.85% holding).

b) Other considerations

At 31 December 2006, the additional share capital authorised by the shareholders at the Annual General Meeting of the Bank amounted to EUR 1,564 million.

The shareholders at the Annual General Meeting on 23 June 2007 resolved to increase capital by EUR 375 million, and fully empowered the Board of Directors to set and establish, within a period of one year, the terms and conditions for this capital increase in all matters not already provided for by the Annual General Meeting. In exercising these powers, the Board of Directors must determine whether the capital increase is to be performed through the issuance of new shares or by increasing the par value of the shares outstanding.

Also, the aforementioned Annual General Meeting authorised the Bank's Board of Directors to issue fixed-income securities for up to a maximum amount of EUR 35,000 million (or the equivalent amount in another currency) by any lawful means. The shareholders at the Annual General Meeting on 21 June 2003 authorised the Board to issue fixed-income securities, convertible into new shares or exchangeable for outstanding shares, for up to EUR 4,000 million over a five-year period, and empowered the Bank's Board of Directors to increase capital by the required amount to cater for the requests for conversion. Of the aforementioned amount, EUR 2,000 million are still available for issue.

At 31 December 2007, the shares of the following companies were listed on official stock markets: Banco Río, S.A.; Banco de Venezuela, S.A.; Banco Universal; Banco Santander Colombia, S.A.; Santander BanCorp (Puerto Rico); Grupo Financiero Santander, S.A. de C.V.; Banco Santander Chile; Cartera Mobiliaria, S.A., S.I.C.A.V.; Inversiones Tesoreras, S.I.C.A.V., S.A.; Santander Chile Holding, S.A.; Inmuebles B de V 1985 C.A.; Banco Santander, S.A. (Brazil); Banco Español de Crédito, S.A.; Portada, S.A. and Capital Variable S.I.C.A.V., S.A.

At 31 December 2007, the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) was 31,899,321, which represented 0.51% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 14,767,478 (equal to 0.236% of the Bank's share capital).

At 31 December 2007, the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective Annual General Meetings were not material at Group level.

32. SHARE PREMIUM

"Share premium" includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

33. RESERVES

a) Definitions

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

The balance of "Shareholders' equity – Reserves of entities accounted for using the equity method" includes the net amount of the accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

b) Breakdown

The breakdown of the balances of these reserve accounts is as follows:

Thousands of Euros	2007	2006	2005
Accumulated reserves:			
Restricted reserves-			
Legal reserve	625,430	625,430	625,430
Reserve for treasury shares	218,603	378,700	173,103
Revaluation reserve Royal Decree-Law 7/1996	42,666	42,666	42,666
Reserve for retired capital	10,610	10,610	-
Voluntary reserves (*)	3,668,316	3,711,534	3,791,677
Consolidation reserves attributed to the Bank	3,131,239	1,831,093	992,066
Reserves at subsidiaries	7,779,129	4,891,637	2,475,198
	15,475,993	11,491,670	8,100,140
Reserves of entities accounted for using the equity method:			
Associates	895,437	797,810	603,649
Of which:			
Cepsa	734,719	662,172	469,763
Attijariwafa Bank	126,626	111,701	102,692
	16,371,430	**12,289,480**	**8,703,789**

(*)Include the reserves stipulated by Article 81 of the Consolidated Spanish Companies Law for an amount equal to the loans granted by Group companies to third parties for the acquisition of treasury shares.

i. Legal reserve

Under the Consolidated Companies Law, Spanish entities must transfer 10% of net profit for each year to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

ii. Reserve for treasury shares

Pursuant to the Consolidated Companies Law, a restricted reserve has been recorded for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances which gave rise to its mandatory recording cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares.

iii. Revaluation reserve Royal Decree Law 7/1996, of 7 June

The balance of “Revaluation reserve Royal Decree-Law 7/1996” can be used, free of tax, to increase share capital. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If the balance of this reserve were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to taxation.

iv. Reserves at subsidiaries and jointly controlled entities

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

Millions of Euros	2007	2006	2005
Banco Español de Crédito, S.A. (Banesto) (Consolidated Group)	3,319	2,312	1,809
Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander (Consolidated Group)	1,819	1,336	998
Abbey Group	1,419	742	-
Banespa (Consolidated Group)	1,036	976	927
Banco Santander Totta, S.A. (Consolidated Group)	939	784	642
Banco Santander Chile (Consolidated Group)	589	473	215
Banco de Venezuela, S.A., Banco Universal (Consolidated Group)	502	402	272
Grupo Santander Consumer Finance, S.A.	323	304	302
Cartera Mobiliaria, S.A., S.I.C.A.V.	298	281	241
Santander Investment, S.A.	181	167	129
Banco Santander International (United States)	178	156	138
Banco Santander (Suisse), S.A.	139	110	90
BSN - Banco Santander de Negocios Portugal, S.A.	78	63	44
Banco Santander Río, S.A.	(525)	(587)	(379)
Exchange differences	(3,167)	(3,167)	(3,167)
Consolidation adjustments and other companies	652	540	214
Total	**7,779**	**4,892**	**2,475**
Of which: restricted	*925*	*740*	*556*

34. OTHER EQUITY INSTRUMENTS AND TREASURY SHARES

a) Other equity instruments

“Other equity instruments” includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration, and other items not recognised in other “Shareholders' equity” items.

Valores Santander

In 2007, in order to partially finance the takeover bid launched on ABN AMRO (Note 3), Santander Emisora 150, S.A.U. issued securities mandatorily convertible into newly-issued ordinary shares of the Bank ("Valores Santander") amounting to EUR 7,000 million. These securities can be voluntarily exchanged for Bank shares on 4 October 2008, 2009, 2010 and 2011, and must be mandatorily exchanged on 4 October 2012.

The reference price of the Bank’s share for conversion purposes was set at EUR 16.04 per share, and the conversion ratio of the bonds –i.e. the number of Bank shares corresponding to each Valor Santander for conversion purposes– is 311.76 shares for each Valor Santander. The nominal interest rate on these securities is 7.30% until 4 October 2008 and Euribor plus 2.75% thereafter until the securities are exchanged for shares.

b) Treasury shares

The balance of “Shareholders’ equity – Treasury shares” includes the amount of equity instruments held by all the Group entities.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

The shareholders at the Bank's Annual General Meeting on 23 June 2007 set the maximum number of Bank shares that the Bank and/or any Group subsidiary are authorised to acquire at 5% of the fully paid share capital amount, at a minimum share price which cannot be lower than par value and a maximum share price of up to 3% higher than the quoted price on the computerised trading system of the Spanish stock exchanges at the date of acquisition.

The Bank shares owned by the consolidated companies accounted for less than 0.01% of issued capital (also less than 0.01% including derivatives on own equity instruments) at 31 December 2007 (31 December 2006: 0.15%; 31 December 2005: 0.08%).

The average purchase price of the Bank's shares in 2007 was EUR 13.86 per share and the average selling price was EUR 13.86 per share.

The effect on equity arising from transactions involving Bank shares (gains of EUR 5 million in 2007, gains of EUR 10 million in 2006 and gains of EUR 26 million in 2005) was recognised in equity.

35. OFF-BALANCE-SHEET ITEMS

"Off-balance-sheet items" relate to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the consolidated entities although they may not impinge on their net assets.

a) Contingent liabilities

"Contingent liabilities" includes all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The breakdown is as follows:

i. Financial guarantees

Financial guarantees are the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay failed to do so.

The breakdown of "Financial guarantees" is as follows:

Millions of Euros	2007	2006	2005
Bank guarantees and other indemnities provided	69,805	52,697	44,251
Credit derivatives sold	708	478	180
Irrevocable documentary credits	5,803	5,029	3,767
Other financial guarantees	-	1	2
	76,316	**58,205**	**48,200**

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

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

ii. Assets earmarked for third-party obligations

"Assets earmarked for third-party obligations" includes the carrying amount of the assets owned by the consolidated entities that have been earmarked for the full performance of customer transactions.

iii. Other contingent liabilities

This item includes the amount of any contingent liability not included in other items.

b) Contingent commitments

"Contingent commitments" includes those irrevocable commitments that could give rise to the recognition of financial assets.

The breakdown of "Contingent commitments" is as follows:

Millions of Euros	2007	2006	2005
Drawable by third parties	102,216	91,690	77,678
Financial asset forward purchase commitments	1,440	1,449	991
Regular way financial asset purchase contracts	4,181	3,202	9,886
Securities subscribed but not paid	107	83	196
Securities placement and underwriting commitments	33	3	16
Documents delivered to clearing houses	5,988	6,013	6,030
Other contingent commitments	711	809	1,466
	114,676	**103,249**	**96,263**

36. OTHER DISCLOSURES

a) Notional amounts and market values of trading and hedging derivatives

The breakdown of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Group is as follows:

Millions of Euros	2007		2006		2005	
	Notional Amount	Market Value	Notional Amount	Market Value	Notional Amount	Market Value
Trading derivatives:						
Interest rate risk-						
Forward rate agreements	330,315	(878)	116,858	(267)	16,332	3
Interest rate swaps	1,923,372	(455)	1,466,880	761	1,156,681	(2,019)
Options and futures	953,315	(463)	825,795	(780)	419,628	345
Foreign currency risk-						
Foreign currency purchases and sales	117,868	(505)	81,612	(142)	63,203	108
Foreign currency options	62,723	(566)	62,852	(464)	39,091	(223)
Currency swaps	75,090	(1,020)	56,096	(366)	45,458	(154)
Securities and commodities derivatives	157,807	1,809	138,628	(2,496)	90,547	341
	3,620,490	**(2,078)**	**2,748,721**	**(3,754)**	**1,830,940**	**(1,599)**
Hedging derivatives:						
Interest rate risk-						
Forward rate agreements	-	-	1	-	737	(3)
Interest rate swaps	120,822	(1,159)	103,564	547	89,713	1,630
Futures and options	10,660	(112)	9,793	(66)	106,341	(28)
Foreign currency risk-						
Foreign currency purchases and sales	28	6	1,745	3	6,856	(25)
Foreign currency options	16,630	292	15,266	6	110	-
Currency swaps	16,372	(99)	26,372	(989)	20,563	248
Securities and commodities derivatives	155	1	622	(7)	2,307	(7)
	164,667	(1,071)	157,363	(506)	226,627	1,815
Total	**3,785,157**	**(3,149)**	**2,906,084**	**(4,259)**	**2,057,567**	**216**

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognised under "Gains/losses on financial assets and liabilities (net)" in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged (Note 11).

Additionally, in order to interpret correctly the results on the "Securities and Commodities Derivatives" shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Group's held-for-trading portfolio.

The Group manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions.

The detail of the cumulative credit risk exposure, by financial derivative, is as follows.

Millions of Euros	2007	2006	2005
Credit derivatives	1,008	709	242
Securities derivatives	3,227	2,148	1,573
Fixed-income derivatives	405	9	67
Currency derivatives	7,990	7,498	7,386
Interest rate derivatives	17,507	18,084	19,319
Commodities derivatives	23	4	-
Collateral received	(3,084)	(1,562)	(2,496)
Total	**27,076**	**26,890**	**26,091**

The fair value of hedging derivatives, by type of hedge, is as follows:

Millions of Euros	2007	2006	2005
Fair value hedges	(1,199)	(474)	2,046
Cash flow hedges	(137)	(35)	24
Hedges of net investments in foreign operations	265	3	(255)
	(1,071)	**(506)**	**1,815**

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

i. Fair value hedges

The Group hedges the interest rate risk of the issues secured by the Bank. At 2007 year-end the Group held IRS contracts with an equivalent euro nominal value of EUR 49,593 million, of which EUR 37,125 million were denominated in euros, EUR 5,655 million in US dollars and EUR 5,557 million in pounds sterling. The fair value of these transactions at that date represented a loss of EUR 964.7 million, which was offset by the gain on the hedged items, giving rise to a net loss of EUR 17.1 million. In addition, there was an unrealised gain of EUR 18.9 million relating to a cash flow hedge on a floating rate issue.

In the case of fair value hedges of interest rate risk on financial instrument portfolios, the gain or loss on the hedged items is recognised in assets or liabilities under "Changes in the fair value of hedged items in portfolio hedges of interest rate risk". At 31 December 2007, the gains associated with assets and liabilities thus hedged amounted to EUR 297 million and EUR 517 million, respectively.

An expense of EUR 1,274.9 million and a revenue of EUR 1,196.4 million were recognised in profit or loss (Note 45) in 2007 on the hedging instruments and on the hedged items attributable to the hedged risk, respectively.

At 2006 year-end, the Group held IRS contracts with an equivalent euro nominal value of EUR 43,026 million, of which EUR 34,160 million were denominated in euros, EUR 4,243 million in US dollars and EUR 3,574 million in pounds sterling. The fair value of these transactions at that date represented a loss of EUR 471.5 million, which was offset by the gain on the hedged items, giving rise to a net loss of EUR 5.1 million.

ii. Foreign currency hedges (net investments in foreign operations)

As part of its financial strategy, the Group hedges the foreign currency risk arising from its investments in non-euro-area countries. To this end, it arranges foreign currency derivatives in order to take a long position in euros vis-à-vis the local currency of the investment. At 2007 year-end, the Group held foreign currency options in this connection with an equivalent euro nominal value of EUR 12,878 million, of which EUR 5,046 million were denominated in pounds sterling, EUR 3,592 million in Brazilian reais, EUR 2,560 million in Mexican pesos and EUR 1,320 million in Chilean pesos. In 2007 gains amounting to EUR 37.6 million arising from the settlement of options that matured in the year were taken to reserves. At 2007 year-end, the unrealised gain on the options not yet exercised amounted to EUR 256 million.

At 2006 year-end, the Group held foreign currency options in this connection with an equivalent euro nominal value of EUR 8,900 million, of which EUR 4,939 million were denominated in pounds sterling, EUR 2,570 million in Mexican pesos and EUR 1,390 million in Chilean pesos. In 2006 losses amounting to EUR 45.9 million arising from the settlement of options that matured in the year were allocated to reserves. At 2006 year-end the unrealised gains on the options not yet exercised amounted to EUR 15.2 million.

b) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group is as follows:

Millions of Euros	2007	2006	2005
Investment funds	119,211	119,838	109,480
Pension funds	11,952	29,450	28,619
Assets under management	19,814	17,836	14,746
	150,977	**167,124**	**152,845**

37. DISCONTINUED OPERATIONS

a) Description of divestments

i. Abbey's insurance business (Note 3-c.ii)

In the third quarter of 2006 an agreement was entered into with Resolution plc ("Resolution") for the sale to the latter of Abbey's life insurance business for EUR 5,340 million (GBP 3,600 million). The transaction did not give rise to any gains for the Group.

ii. Inmobiliaria Urbis (Note 3-c.xvi)

The agreement to sell the Group's 53.62% ownership interest in Urbis to Construcciones Reyal for EUR 1,776 million was executed in December 2006. This divestment gave rise to a pre-tax gain of EUR 1,218 million.

Additionally, the Group made other less significant disposals totalling EUR 128 million, giving rise to a gain of EUR 89 million.

iii. Pension fund managers (AFPs)

The agreement to sell the obligatory pension fund managers in Latin America (AFPs) to ING Groep NV for EUR 906 million was executed in December 2007. The agreement covered the AFPs in Chile (AFP Bansander), Colombia (AFP Cesantías Santander), Mexico (Afore Santander) and Uruguay (Afinidad AFAP). These disposals gave rise to gross gains totalling EUR 747 million.

Also, an agreement was entered into for the sale of the Argentine companies Orígenes AFJP and Orígenes Seguro de Retiro to ING Groep NV. The agreement was executed in December 2007 for EUR 112 million, giving rise to a pre-tax gain of EUR 84 million.

b) Profit and net cash flows from discontinued operations

The detail of the profit from discontinued operations is set forth below.

The comparative figures for 2006 and 2005 were restated in order to include the operations classified as discontinued in 2007.

Thousands of Euros	2007	2006	2005
Net interest income	5,476	(74,950)	(164,223)
Share of results of entities accounted for using the equity method	-	123	9
Net fee and commission income	177,892	220,997	254,826
Insurance activity income	74,179	378,106	614,053
Gains/Losses on financial assets and liabilities	17,741	49,040	31,376
Exchange differences	(94)	72	(168)
Gross income	**275,194**	**573,388**	**735,873**
Sales and income from the provision of non-financial services	-	762,041	845,989
Cost of sales	-	(455,817)	(576,135)
Other operating income (Net)	(1,780)	(4,920)	(14,404)
Personnel expenses	(73,552)	(173,536)	(208,638)
Other general administrative expenses	(45,375)	(131,743)	(252,941)
Depreciation and amortisation	(4,530)	(7,734)	(7,268)
Net operating income	**149,957**	**561,679**	**522,476**
Other gains (Net)	(7,703)	(28,988)	(42,427)
Profit before tax	**142,254**	**532,691**	**480,049**
Income tax	(29,860)	(152,056)	(149,346)
Profit from divestments	830,928	1,307,033	-
Income tax on profit from divestments	(146,727)	(182,703)	-
Profit from discontinued operations	**796,595**	**1,504,965**	**330,703**

Additionally, following is a detail of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

Thousands of Euros	2007	2006	2005
Cash and cash equivalents at beginning of year	(59)	78,701	76,625
Cash flows from operating activities	28,849	180,407	(2,065,721)
Cash flows from investing activities	(65)	(64,253)	1,639,319
Cash flows from financing activities	(28,780)	(127,380)	428,478
Cash and cash equivalents at end of year	**(55)**	**67,475**	**78,701**

c) Consideration received

The breakdown of the assets and liabilities associated with discontinued operations is as follows:

Millions of Euros	2007	2006
ASSETS:		
Cash and balances with central banks	-	68
Financial assets held for trading	426	1,495
Of which: Abbey Insurance	-	1,482
Orígenes Seguros de Retiro	348	-
Other financial assets at fair value through profit or loss	110	35,837
Of which: Abbey Insurance	-	*35,812*
Orígenes Seguros de Retiro		
Available-for-sale financial assets	43	6
Loans and receivables	422	1,461
Of which: Abbey Insurance	-	*1,105*
Orígenes Seguros de Retiro	*410*	-
Non-current assets held for sale	-	8
Investments	-	10
Reinsurance assets	-	2,361
Of which: Abbey Insurance	-	*2,361*
Tangible assets	18	726
Intangible assets	-	31
Tax assets	-	89
Prepayments and accrued income	-	1,135
Of which: Abbey	-	*1,134*
Other assets	62	2,910
Of which: Urbis	-	*2,904*
LIABILITIES:		
Other financial liabilities at fair value through profit or loss	-	(845)
Financial liabilities at amortised cost	(68)	(4,355)
Of which: Urbis	-	*(2,707)*
Liabilities under insurance contracts	(640)	(34,355)
Of which: Abbey Insurance	-	*(34,355)*
Orígenes Seguro de Retiro	*(640)*	
Provisions	(55)	(57)
Tax liabilities	-	(147)
Accrued expenses and deferred income	-	(16)
Other liabilities	(117)	(6)
Net asset value	**201**	**6,356**
Goodwill	5	46
Minority interests	(19)	(464)
Net amount	**187**	**5,938**
Profit from divestments	831	1,307
Consideration received	**1,018**	**7,245**
Of which: in cash	*1,018*	*7,245*

d) Earnings per share relating to discontinued operations

The earnings per share relating to discontinued operations were as follows:

	2007	2006	2005
Basic earnings per share (euros)	0.1117	0.2030	0.0368
Diluted earnings per share (euros)	0.1105	0.2019	0.0367

38. INTEREST AND SIMILAR INCOME

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

The breakdown of the main interest and similar income items earned in 2007, 2006 and 2005 is as follows:

Thousands of Euros	2007	2006	2005
Balances with the Bank of Spain and other central banks	633,417	616,125	404,506
Due from credit institutions	2,881,240	2,363,762	2,396,787
Debt instruments	4,049,941	4,567,889	4,332,376
Loans and advances to customers	35,202,921	26,498,414	21,398,898
Insurance contracts linked to pensions (Note 25)	102,604	103,821	106,617
Other interest	2,933,231	2,682,812	4,449,463
Total	**45,803,354**	**36,832,823**	**33,088,647**

39. INTEREST EXPENSE AND SIMILAR CHARGES

"Interest expense and similar charges" in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds.

The breakdown of the main items of interest expense and similar charges accrued in 2007, 2006 and 2005 is as follows:

Thousands of Euros	2007	2006	2005
Deposits from the Bank of Spain and other central banks	279,624	300,374	485,725
Deposits from credit institutions	3,581,327	3,297,332	3,106,892
Customer deposits	12,408,001	11,083,439	9,382,865
Marketable debt securities	9,351,606	5,828,925	4,262,401
Subordinated liabilities (Note 23)	2,053,389	1,693,737	1,568,471
Pension funds (Note 25)	487,911	735,004	640,545
Equity having the substance of a financial liability	47,290	85,229	118,389
Other interest	2,712,322	1,732,987	3,199,558
Total	**30,921,470**	**24,757,027**	**22,764,846**

40. INCOME FROM EQUITY INSTRUMENTS

"Income from equity instruments" includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The breakdown of the balance of "Income from equity instruments" is as follows:

Thousands of Euros	2007	2006	2005
Equity instruments classified as:			
Financial assets held for trading	201,186	258,126	175,543
Available-for-sale financial assets	212,056	145,874	160,033
Of which: relating to San Paolo IMI S.p.A.	80,500	90,037	74,281
	413,242	**404,000**	**335,576**

41. SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD - ASSOCIATES

"Share of results of entities accounted for using the equity method – Associates" comprises the amount of profit or loss attributable to the Group generated during the year by associates.

The breakdown of the balance of this item is as follows:

Thousands of Euros	2007	2006	2005
Cepsa	206,706	370,169	476,191
Attijariwafa	25,700	24,230	16,707
Sovereign	43,355	9,199	-
RFS Holdings B.V.	141,348	-	-
Unión Fenosa	-	-	78,597
Técnicas Reunidas, S.A.	-	-	11,287
U.C.I., S.A.	-	-	19,850
Other companies	24,348	23,323	16,525
	441,457	**426,921**	**619,157**

42. FEE AND COMMISSION INCOME

"Fee and commission income" comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

Thousands of Euros	2007	2006	2005
Collection and payment services:			
Bills	240,976	247,129	233,503
Demand accounts	571,394	554,882	544,629
Cards	1,524,161	1,291,327	1,153,252
Cheques	411,256	455,194	270,867
Orders	252,052	213,982	214,184
	2,999,839	2,762,514	2,416,435
Marketing of non-banking financial products:			
Investment funds	1,812,975	1,685,459	1,498,757
Pension funds	171,935	155,059	141,524
Insurance	1,476,202	1,207,905	924,121
	3,461,112	3,048,423	2,564,402
Securities services:			
Securities underwriting and placement	262,645	113,712	71,562
Securities trading	434,182	350,801	258,364
Administration and custody	266,598	263,529	274,444
Asset management	94,594	76,613	58,574
	1,058,019	804,655	662,944
Other:			
Foreign exchange	65,502	70,680	59,968
Financial guarantees	360,893	306,853	254,608
Commitment fees	166,374	106,412	58,380
Other fees and commissions	1,368,247	1,189,043	1,137,210
	1,961,016	1,672,988	1,510,166
	9,479,986	**8,288,580**	**7,153,947**

43. FEE AND COMMISSION EXPENSE

"Fee and commission expense" shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

Thousands of Euros	2007	2006	2005
Fees and commissions assigned to third parties	924,801	798,034	653,362
Of which: Cards	671,077	627,610	533,333
Brokerage fees on lending and deposit transactions	21,882	55,105	66,047
Other fees and commissions	493,128	411,246	373,342
	1,439,811	**1,264,385**	**1,092,751**

44. INSURANCE ACTIVITY INCOME

"Insurance activity income" includes the net amount of the contribution from consolidated insurance and reinsurance companies to the Group's gross income.

Thousands of Euros	2007			2006			2005		
	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
Net premiums collected	4,861,011	319,448	5,180,459	4,313,315	214,369	4,527,683	2,000,625	115,109	2,115,734
Claims paid and other insurance-related expenses	(2,601,011)	(261,775)	(2,862,786)	(1,919,737)	(129,884)	(2,049,620)	(1,336,851)	(71,510)	(1,408,361)
Reinsurance income	58,853	93,185	152,038	44,302	56,927	101,229	52,712	35,740	88,452
Net charges to liabilities under insurance contracts	(2,632,133)	(106,568)	(2,738,701)	(2,884,231)	(63,852)	(2,948,083)	(1,149,586)	(49,526)	(1,199,112)
Finance income	563,121	34,382	597,503	887,643	(46,805)	840,838	724,697	11,133	735,830
Finance charges	(7,178)	(1,982)	(9,160)	(216,671)	(2,292)	(218,963)	(130,509)	(568)	(131,077)
	242,663	**76,690**	**319,353**	**224,621**	**28,463**	**253,084**	**161,088**	**40,378**	**201,466**

45. GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES

"Gains/losses on financial assets and liabilities" includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The breakdown of the balance of this item, by type of instrument, is as follows:

Thousands of Euros	2007	2006	2005
Fixed-income	(402,884)	77,724	793,527
Equities, financial derivatives and other	2,724,508	1,974,815	664,320
Of which:			
Financial assets and liabilities held for trading and derivatives	*2,019,787*	*1,549,486*	*317,608*
Available-for-sale financial assets	*704,721*	*374,150*	*345,561*
Of which due to the sale of:			
Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros	*110,587*	*106,197*	-
BPI	*107,000*	-	-
Telefónica, S.A.	*138,410*	-	-
Shinsei	-	-	*49,332*
Commerzbank	-	-	*24,424*
	2,321,624	**2,052,539**	**1,457,847**
Of which:			
Financial assets and liabilities classified as at fair value through profit or loss on initial recognition	*1,411,705*	*1,635,757*	*854,892*

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

Million of Euros	2007	2006	2005
Loans and advances to credit institutions	19,160	14,813	12,708
Loans and advances to customers	31,726	38,556	32,911
Debt instruments	73,403	81,237	91,441
Other equity instruments	12,615	16,203	38,381
Derivatives	46,726	34,985	27,629
	183,630	**185,794**	**203,070**

The foregoing table shows the maximum credit risk exposure of these assets. The Group mitigates and reduces this exposure as explained below.

With respect to derivatives, the Group has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment. For derivatives arranged with customers, the Group applies a risk premium accrual policy. At 31 December 2007, the actual credit risk exposure of the derivatives was EUR 27,076 million (Note 36).

"Loans and advances to credit institutions" and "Loans and advances to customers" included repos amounting to EUR 38,809 million at 31 December 2007. Also, mortgage-backed assets totalled EUR 7,773 million.

Debt instruments include EUR 18,155 million of Spanish and foreign government securities.

At 31 December 2007, the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

Millions of Euros	2007	2006	2005
Derivatives	(48,803)	(38,738)	(29,228)
Other liabilities	(107,107)	(97,670)	(95,048)
	(155,910)	**(136,408)**	**(124,276)**

The difference between the amount recognised as liabilities at fair value and the amount which the Group would contractually be required to pay to the holders of the related obligations at maturity, in other than derivative transactions, was EUR 839 million at 31 December 2007.

46. EXCHANGE DIFFERENCES

"Exchange differences" shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

47. SALES AND INCOME FROM THE PROVISION OF NON-FINANCIAL SERVICES AND COST OF SALES

These items in the consolidated income statements show, respectively, the amount of sales of goods and income from the provision of services that constitute the typical activity of the non-financial consolidated Group entities and the related cost of sales. The main lines of business of these entities are as follows:

Thousands of Euros	2007		2006		2005	
Line of Business	Sales/ Income	Cost of Sales	Sales/ Income	Cost of Sales	Sales/ Income	Cost of Sales
Property	40,368	(12,232)	45,875	(17,531)	80,464	(55,789)
Rail transport	251,545	(188,514)	240,411	(190,236)	285,207	(233,085)
Other	479,114	(418,209)	448,316	(407,922)	199,854	(120,473)
	771,027	**(618,955)**	**734,602**	**(615,689)**	**565,525**	**(409,347)**

48. OTHER OPERATING INCOME

The breakdown of the balance of “Other operating income” is as follows:

Thousands of Euros	2007	2006	2005
Exploitation of investment property and operating leases	2,758	3,976	4,306
Commissions on financial instruments offsetting related direct costs	195,272	176,536	154,187
Other	153,067	143,388	97,630
	351,097	**323,900**	**256,123**

49. PERSONNEL EXPENSES

a) Breakdown

The breakdown of “Personnel expenses” is as follows:

Thousands of Euros	2007	2006	2005
Wages and salaries	4,819,751	4,364,858	4,032,728
Social security costs	729,496	673,338	638,674
Charges to defined benefit pension provisions (Note 25)	209,193	222,257	245,112
Contributions to defined contribution pension funds	47,485	36,653	20,126
Share-based payment costs	48,546	19,167	19,167
Of which:			
Granted to the Bank's directors	*1,424*	*641*	*641*
Other personnel expenses	696,730	651,600	655,501
	6,551,201	**5,967,873**	**5,611,308**

b) Headcount

The average number of employees in the Group, by professional category, was as follows:

Average Number of Employees (**)	2007	2006	2005
The Bank:			
Senior executives (*)	93	81	81
Other line personnel	16,153	15,729	15,731
Clerical staff	4,147	4,231	4,595
General services personnel	42	45	49
	20,435	20,086	20,456
Banesto	10,524	10,188	10,560
Rest of Spain	5,582	4,996	3,789
Abbey	15,771	17,461	19,904
Other companies	76,820	70,477	65,372
	129,132	**123,208**	**120,081**

(*) Categories of Deputy Assistant General Manager and above, including senior management.
(**) Excluding personnel assigned to discontinued operations.

The functional breakdown, by gender, at 31 December 2007 is as follows:

	Functional Breakdown by Gender					
	Executives		Other Line Personnel		Clerical Staff	
	Men	Women	Men	Women	Men	Women
Continental Europe	85%	15%	60%	40%	58%	42%
United Kingdom	79%	21%	47%	53%	31%	69%
Latin America	64%	35%	56%	43%	43%	57%
Total	**76%**	**24%**	**58%**	**42%**	**44%**	**56%**

The breakdown at 31 December 2006 is as follows:

	Functional Breakdown by Gender					
	Executives		Other Line Personnel		Clerical Staff	
	Men	Women	Men	Women	Men	Women
Continental Europe	85%	15%	61%	39%	62%	38%
United Kingdom	80%	20%	44%	56%	24%	76%
Latin America	72%	28%	60%	40%	44%	56%
Total	**79%**	**21%**	**59%**	**41%**	**44%**	**56%**

The labour relations between employees and the various Group companies are governed by the related collective labour agreements or similar regulations.

c) Share-based payments

i. The Bank

In addition to the extraordinary allocation of 100 Bank shares to each Group employee, as discussed in Note 1-i, to celebrate the Bank's 150th Anniversary, in recent years the Bank has set up remuneration systems tied to the performance of the stock market price of the shares of the Bank based on the achievement of certain targets indicated below:

	Number of Shares	Euros Exercise Price	Year Granted	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
Plans outstanding at 1 January 2005	21,126,750	9.94					
Options granted (Plan I06)	99,900,000	9.09 (**)		Managers	2,601	15/01/2008	15/01/2009
Options exercised	(15,606,000)	(9.83)					
Of which:							
Plan Four	*(228,000)*	*7.84*					
Young Executives Plan	*(329,000)*	*2.29*					
Managers Plan 2000	*(12,389,000)*	*10.545*					
European Branches Plan	*(2,660,000)*	*7.60 (*)*					
Options cancelled or not exercised	(5,520,750)	-					
Plans outstanding at 31 December 2005	99,900,000	9.09					
Options exercised	-	-					
Options cancelled, net (Plan I06)	(3,648,610)	9.09		Managers	(44)	15/01/2008	15/01/2009
Plans outstanding at 31 December 2006	96,251,390	9.09					
Options granted (Plan I09)	10,448,480	-		Managers	5,476	23/06/2007	31/07/2009
Options granted (Plan I10)	15,690,283	-		Managers	5,506	23/06/2007	31/07/2010
Options cancelled, net (Plan I06)	(1,195,371)	9.09		Managers	(45)	15/01/2008	15/01/2009
Plans outstanding at 31 December 2007	121,194,782	-					
Of which:							
Plan I06	*95,056,019*	*9.09*					
Plan I09	*10,448,480*	-					
Plan I10	*15,690,283*	-					

(*) The average exercise price ranges from EUR 5.65 to EUR 10.15 per share.
(**)The exercise price of the options under Plan I06 is EUR 9.09 per share, which is the weighted average of the daily average market price of the Bank shares on the continuous market in the first 15 trading days of January 2005. This was the criterion established in the resolution approving Plan I06 adopted at the Annual General Meeting held on 18 June 2005. The documentation on the aforementioned resolution stated correctly the method to be used to set the exercise price but, by mistake, an amount of EUR 9.07 per share was mentioned rather than the correct amount of EUR 9.09 per share.

Plan I06

In 2004 a long-term incentive plan (I06) was designed which, consisting of options on shares of the Bank, is tied to the achievement of two targets: appreciation of the Bank's share price and growth in earnings per share, in both cases above a sample of comparable banks. These targets were achieved. At 31 December 2007, 2,512 Group executives were included in Plan I06 and 95,056,019 options on Bank shares at a price of EUR 9.09 correspond to them. The exercise period is from 15 January 2008 to 15 January 2009. This plan was approved by the shareholders at the Annual General Meeting on 18 June 2005.

The fair value of the equity instruments granted (EUR 57.5 million) is charged to income (Note 49-a), with a credit to equity, in the specific period in which the beneficiaries provide their services to the Group.

The executive directors are beneficiaries under this plan; the number of Bank share options held by them is indicated in Note 5-d.

Long-term incentive policy

At its meeting on 26 March 2007, following the report of the Appointments and Remuneration Committee, the Bank's Board of Directors approved a long-term incentive policy aimed at the Bank's executive directors and certain executive personnel of the Bank and of other Santander Group companies (excluding Banesto). Implementation of this policy, which includes Bank share-based payments, requires, in conformity with the Law and the Bank's bylaws, specific resolutions to be adopted by the Annual General Meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans shaping the aforementioned incentive policy are as follows: (i) Performance Share Plan; (ii) Matched Deferred Bonus Plan; (iii) Restricted Shares Plan; and (iv) Minimum Investment Programme. The characteristics of the plans are set forth below:

(i) Performance Share Plan

This multiannual incentive plan is payable in shares of the Bank. The beneficiaries of the plan are the executive directors and other members of senior management, together with any other Group executives determined by the Board of Directors or, when delegated by it, the Executive Committee.

This plan will involve successive three-year cycles of share deliveries to the beneficiaries, so that each year one cycle will begin and, from 2009 onwards, another cycle will also end. The aim is to establish an adequate sequence between the end of the incentive programme linked to the previous Plan I06 and the successive cycles of this plan. Thus, the first two cycles will commence in July 2007, the first cycle having a duration of two years (PI09) and the second cycle having a standard three-year term (PI10).

For each cycle a maximum number of shares is established for each beneficiary who remains in the Group's employ for the duration of the plan. The targets, which, if met, will determine the number of shares to be delivered, are defined by comparing the Group's performance with that of a benchmark group of financial institutions and are linked to two parameters, namely Total Shareholder Return (TSR) and growth in Earnings per Share (EPS). These parameters each have a 50% weighting in determining the percentage of shares to be delivered.

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle (with the exception of the first cycle, for which the second anniversary will be considered), and the shares will be delivered within a maximum period of seven months from the end of the cycle. This number will range from the maximum percentage of shares, if Santander, for each of the measures considered (TSR and EPS growth), ranks within the third quartile of the Benchmark Group, including the 75th percentile, to 30% of the maximum number of shares if it is placed at the median (50th percentile). If Santander ranks below the median, all assignments of shares will be rendered null and void.

At 31 December 2007, the maximum number of shares to be delivered was 10,448,480 (for a total of 5,476 participants) for the first cycle (PI09) and 15,690,283 (5,506 participants) for the second cycle (PI10). The fair value of the equity instruments granted under these plans was EUR 149 million, and this amount is charged to "Personnel expenses", with a credit to equity, in the specific period in which the beneficiaries provide their services to the Group.

The fair value was calculated as follows:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.
- The fair value of the 50% relating to the Bank's relative TSR position was determined on the basis of the report of an independent expert whose assessment was based, inter alia, on the following variables:
    - Expected volatility: determined on the basis of the historical volatility over a two-year period for PI09 and a three-year period for PI10. In the case of the Bank, the average volatility used was 16.25% for PI09 and 15.67% for PI10.
    - Annual dividend yield: based on the data for the last two/three years before 1 July 2007. In the case of the Bank, this yield stood at 3.23% for PI09 and 3.24% for PI10.
    - Risk-free interest rate: return on Treasury Bonds (zero coupon) offered on 1 July 2007 for a period of two years for PI09 (4.473%) and three years for PI10 (4.497%)

- Monte Carlo valuation model: performance of 10,000 simulations to determine the TSR of each of the companies in the Benchmark Group, taking into account the aforementioned variables. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate. Application of the simulation model results in percentage values of 42.7% for PI09 and 42.3% for PI10 (second cycle), which are applied to 50% of the value of the shares granted, in order to determine the cost per books of the TSR-based portion of the incentive. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

-In view of the high correlation between TSR and EPS, it was considered feasible to extrapolate that, in a high percentage of cases, the TSR value is also valid for EPS. Therefore, it was determined that the fair value of the portion of the plans linked to the Bank's relative EPS position, i.e. of the remaining 50% of the shares granted, was the same as that of the 50% corresponding to the TSR. Since this valuation refers to a non-market condition, it shall be reviewed and adjusted on a yearly basis.

(ii) Matched Deferred Bonus Plan

This multiannual incentive plan is payable in shares of the Bank and is conditional upon compliance with certain investment and continued service requirements.

The beneficiaries of the plan, which currently total 32, are the executive directors and other members of the Bank's senior management, together with other senior executives of the Santander Group (see Note 5).

This plan is structured in three-year cycles which start each year. The beneficiaries of the plan must use 10% of their gross annual variable remuneration (or bonus) to acquire shares of the Bank in the market (the "Obligatory Investment").

Participants who hold the shares acquired through the Obligatory Investment and remain in the Group's employ for three years from the date on which the Obligatory Investment is made will be entitled to receive the same number of Bank shares as that composing their initial Obligatory Investment.

The shares will be delivered within a maximum period of one month from the third anniversary of the date on which the Obligatory Investment was made.

(iii) Restricted Shares Plan

This plan envisages the selective delivery of shares in special circumstances relating to the hiring or retention of employees. All employees and executives, except for the Bank's executive directors, are eligible for this plan, provided that they have completed a minimum of three to four years of service at the Group. Each participant will be entitled to receive the shares upon completion of the minimum period of service.

(iv) Minimum Investment Programme

This programme consists of the obligation of the Group's top 32 executives (including executive directors) to hold Bank shares equal to one year's fixed remuneration. This amount must be reached within a maximum period of five years.

ii. Abbey

The option plans on shares of the Bank originally granted by management of Abbey to its employees (on Abbey shares) are as follows:

	Number of Shares	Pounds Sterling (*) Exercise Price (*)	Year Granted	Employee Group	Number of Persons	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
Plans outstanding at 31 December 2005	17,675,567	3.58					
Options exercised	(1,769,216)	4.45					
Of which:							
Executive Options	*(89,305)*	*4.43*					
Employee Options	*(2,550)*	*5.90*					
Sharesave	*(1,677,361)*	*4.45*					
Options cancelled or not exercised	(1,783,670)	-					
Plans outstanding at 31 December 2005	14,122,681	3.41					
Of which:							
Executive Options	*269,539*	*4.07*					
Employee Options	*54,000*	*5.90*					
Sharesave	*13,799,142*	*3.38*					
Plans outstanding at 31 December 2005	14,122,681	3.41					
Options granted (MTIP)	2,825,123	7.50	2005 and 2006	Managers	174	First half of 2008	First half of 2008
Options exercised	(5,214,171)	3.41					
Of which:							
Executive Options	*(87,659)*	*4.07*					
Employee Options	*(33,000)*	*5.90*					
Sharesave	*(5,093,512)*	*3.38*					
Options cancelled or not exercised	(1,379,401)	-					
Plans outstanding at 31 December 2006	10,354,232	4.32					
Of which:							
Executive Options	*178,026*	*4.11*	*2003-2004*	*Managers*	*13*	*26/03/06*	*24/03/13*
Employee Options	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Sharesave	*7,638,791*	*3.32*	*1998-2004*	*Employees*	*4,512 (**)*	*01/04/06*	*01/09/11*
MTIP	*2,537,415*	*9.39*	*2005 and 2006*	*Managers*	*170*	*First half of 2008*	*First half of 2008*
Options granted (MTIP)	-	-					
Options exercised	(1,535,325)	3.81					
Of which:							
Executive Options	*(33,904)*	*3.96*					
Sharesave	*(1,501,421)*	*3.81*					
Options cancelled (net) or not exercised	(770,595)	-					
Plans outstanding at 31 December 2007	8,048,312	5.32					
Of which:							
Executive Options	*144,122*	*4.15*	*2003-2004*	*Managers*	*4*	*26/03/2006*	*24/03/2013*
Sharesave	*5,684,340*	*3.18*	*1998-2004*	*Employees*	*2,239 (**)*	*01/04/2006*	*01/09/2011*
MTIP	*2,219,850*	*10.88*	*2005 and 2006*	*Managers*	*157*	*First half of 2008*	*First half of 2008*

(*) At 31 December 2007, 2006 and 2005, the euro/pound sterling exchange rate was EUR 1.36360/GBP 1; EUR 1.4892/GBP 1 and EUR 1.4592/GBP 1, respectively.
(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2005 the Group designed a Medium-Term Incentive Plan (MTIP) involving the delivery of Bank shares to Abbey executives. Under the plan, effective allocation of the shares in 2008 is tied to the achievement of business targets by Abbey (in terms of net profit and income). This Plan was approved by the shareholders at the Annual General Meeting on 17 June 2006. Subsequently, it was considered necessary to amend the conditions of the Plan in order to reflect the impact of the sale of Abbey's life insurance business to Resolution on the income targets of Abbey for 2007. The Board of Directors, after obtaining a favourable report from the Appointments and Remuneration Committee, submitted this amendment for ratification by the shareholders at the Annual General Meeting held on 23 June 2007. The amendment was approved thereat.

iii. Fair value

The fair value of each option granted by the Group is calculated at the grant date. In order to value Plan I06 two valuation reports were performed by two multinational investment banks. These experts used the Black-Scholes equity option pricing model considering the following parameters: the expected life of the options, interest rates, volatility, exercise price, market price and dividends of the Bank shares and the shares of comparable banks. The fair value of the options granted was calculated as the average value resulting from the two valuations.

With the exception of the share option plans which include terms relating to market conditions, the transfer terms included in the vesting conditions are not taken into account to estimate fair value. The transfer terms that are not based on market conditions are taken into account by adjusting the number of shares or share options included in the measurement of the service cost of the employee so that, ultimately the amount recognised in the income statement is based on the number of shares or share options transferred. When the transfer terms are related to market conditions, the charge for the services received is recognised regardless of whether the market conditions for the transfer are met, although the non-market transfer terms must be satisfied. The share price volatility is based on the implicit volatility scale for the Bank's shares at the exercise prices and the duration corresponding to most of the sensitivities.

The fair value of each option granted by Abbey was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2007	2006	2005
Risk-free interest rate	5.0%-5.8%	4.5% to 5%	4.5% to 4.6%
Dividend increase, based solely on the average increase since 1989	10%	10%	10%
Volatility of underlying shares based on historical volatility over 5 years	19.80%-26.90%	17.70% to 19.85%	16.96% to 17.58%
Expected life of options granted under:			
Employee Sharesave Plan (*)	3, 5 and 7 years	3, 5 and 7 years	3, 5 and 7 years
Executive Share Option Plan	10 years	10 years	10 years
Employee Share Option Plan	10 years	10 years	10 years
Medium-Term Incentive Plan	3 years	3 years	3 years

50. OTHER GENERAL ADMINISTRATIVE EXPENSES

a) Breakdown

The breakdown of the balance of "Other general administrative expenses" is as follows

Thousands of Euros	2007	2006	2005
Property, fixtures and supplies	989,663	972,933	880,117
Other administrative expenses	912,621	835,554	821,405
Technology and systems	488,741	417,977	419,116
Advertising	563,986	474,290	390,202
Communications	417,587	346,854	390,668
Technical reports	298,175	258,349	270,282
Per diems and travel expenses	279,298	242,444	214,553
Taxes other than income tax	279,093	227,835	179,889
Surveillance and cash courier services	201,532	189,474	158,566
Insurance premiums	36,432	35,588	28,302
	4,467,128	**4,001,298**	**3,753,100**

b) Other information

The balance of "Technical reports" includes the fees paid by the various Group companies (detailed in the accompanying Appendixes) to their respective auditors, the detail being as follows:

Millions of Euros	2007	2006	2005
Audit of the annual financial statements of the companies audited by the Deloitte worldwide organisation	15.9	15.6	15.8
Of which:			
Abbey	*4.1*	*4.1*	*4.9*
Audit of the Bank's individual and consolidated financial statements	*1.0*	*1.0*	*1.0*

In recent years, in addition to the audits of financial statements, the internal control audit was performed in accordance with the requirements of the US Sarbanes-Oxley Act (for EUR 4.8 million in 2007, EUR 5.6 million in 2006 and EUR 5.4 million in 2005) and other reports were prepared in accordance with the requirements of the legal and tax regulations issued by the national supervisory authorities of the countries in which the Group operates, including most notably the six-monthly audit reports and those which comply with the US SEC requirements (other than Sarbanes-Oxley Act) totalling EUR 3.7 million, EUR 3.9 million and EUR 3.9 million in 2007, 2006 and 2005, respectively. Additionally, in 2007 EUR 1.4 million were paid in connection with the work relating to the Group's adaptation to the new capital regulations (Basel – 2006: EUR 1.0 million).

The detail of the other services provided to the various Group companies in 2007 is as follows:

1. Due diligence review and other corporate transaction services (see Notes 2-b and 3): EUR 3.7 million (2006: EUR 3.3 million; 2005: EUR 0.6 million). Additionally, the Group's auditors provided other non-attest services to various Group companies for EUR 5.3 million in 2007, EUR 5.5 million in 2006 and EUR 4.5 million in 2005.

   The services commissioned from the Group's auditors meet the independence requirements stipulated by Law 44/2002, of 22 November, on Financial System Reform Measures and by the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

2. Services provided by audit firms other than Deloitte: EUR 12.5 million (2006: EUR 14.6 million; 2005: EUR 21.4 million).

51. OTHER OPERATING EXPENSES

The breakdown of the balance of "Other operating expenses" is as follows:

Thousands of Euros	2007	2006	2005
Contribution to Deposit Guarantee Fund	168,617	179,209	171,153
Other	301,119	263,316	173,676
	469,736	**442,525**	**344,829**

52. OTHER GAINS AND OTHER LOSSES

"Other gains" and "Other losses" include the income and expenses arising from non-ordinary activities not included in other items. The breakdown of the net balance of these two items is as follows:

Thousands of Euros

Net Balance	**2007**	**2006**	**2005**
On disposal of tangible assets	1,804,108	88,894	80,619
Of which, on sale of properties (Note 16-d)	*1,620,119*	-	-
On disposal of investments	16,388	271,961	1,298,935
Of which:			
Unión Fenosa (Note 3-c)	-	-	*1,156,648*
Sale of ADRs (Chile) (Note 3-c)	-	*269,768*	-
Other	322,753	1,044,865	1,133,844
Of which: gains obtained on the disposal of:			
Antena 3	-	*294,287*	-
San Paolo	*566,086*	*704,936*	-
Royal Bank of Scotland Group, plc	-	-	*717,394*
Auna	-	-	*354,838*
Of which, extraordinary retirement plans (Note 25)	*(316,942)*	-	-
Net gains	**2,143,249**	**1,405,720**	**2,513,398**

53. OTHER DISCLOSURES

a) Residual maturity periods and Average interest rates

The breakdown, by maturity, of the balances of certain items in the consolidated balance sheets is as follows:

Millions of Euros	31 December 2007								
	Demand	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 3 Years	1 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:									
Cash and balances with central banks	14,102	10,278	5	10	1,265	4,295	1,108	31,063	5.93%
Available-for-sale financial assets:									
Debt instruments	31	953	1,070	2,060	5,837	6,450	17,786	34,187	5.11%
Loans and receivables:									
Loans and advances to credit institutions	4,865	9,785	6,333	4,113	884	759	5,021	31,760	4.53%
Loans and advances to customers	9,848	29,446	28,607	65,696	58,124	62,048	279,982	533,751	6.75%
Debt instruments	1	4	-	5	634	65	959	1,668	4.55%
Other financial assets	7,165	2,393	99	282	372	766	1,274	12,351	-
	36,012	**52,859**	**36,114**	**72,166**	**67,116**	**74,383**	**306,130**	**644,780**	**6.51%**
Liabilities:									
Financial liabilities at amortised cost:									
Deposits from central banks	3,534	21,322	3,691	201	-	-	-	28,748	4.45%
Deposits from credit institutions	5,704	22,412	6,504	6,197	3,002	3,111	1,756	48,686	4.55%
Customer deposits	178,538	55,381	27,839	28,959	13,141	11,145	2,040	317,043	4.12%
Marketable debt securities	868	13,310	17,600	24,198	35,294	26,745	88,250	206,265	4.61%
Subordinated liabilities	88	8	61	569	4,065	2,357	28,522	35,670	5.69%
Other financial liabilities	11,251	931	1,343	1,034	79	1,780	123	16,540	-
	199,983	**113,364**	**57,038**	**61,158**	**55,581**	**45,138**	**120,691**	**652,952**	**4.41%**
Difference (assets less liabilities)	**(163,970)**	**(60,505)**	**(20,924)**	**11,008**	**11,535**	**29,245**	**185,439**	**(8,172)**	

Millions of Euros	31 December 2006							
	Demand	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:								
Cash and balances with central banks	9,725	3,281	-	1	-	828	13,835	3.99%
Available-for-sale financial assets:								
Debt instruments	26	2,260	2,501	3,771	9,599	14,570	32,727	5.96%
Loans and receivables:								
Loans and advances to credit institutions	5,668	20,073	6,459	6,118	4,002	3,041	45,361	3.85%
Loans and advances to customers	10,291	19,607	30,625	56,311	112,644	255,312	484,790	5.86%
Debt instruments	565	-	-	-	-	57	622	3.02%
Other financial assets	7,330	2,356	184	693	1,411	1,101	13,075	-
	33,605	**47,577**	**39,769**	**66,894**	**127,656**	**274,909**	**590,410**	**5.66%**
Liabilities:								
Financial liabilities at amortised cost:								
Deposits from central banks	2	14,366	1,657	503	2	-	16,530	5.25%
Deposits from credit institutions	6,445	21,646	9,981	11,680	5,446	1,618	56,816	4.07%
Customer deposits	198,606	54,331	24,976	22,199	12,594	1,671	314,377	3.90%
Marketable debt securities	2,288	14,079	16,489	14,701	37,170	89,682	174,409	3.91%
Subordinated liabilities	253	-	234	108	5,577	24,250	30,422	5.74%
Other financial liabilities	6,797	1,653	1,161	2,378	266	494	12,749	-
	214,391	**106,075**	**54,498**	**51,569**	**61,055**	**117,715**	**605,303**	**4.05%**
Difference (assets less liabilities)	**(180,786)**	**(58,498)**	**(14,729)**	**15,325**	**66,601**	**157,194**	**(14,893)**	

Millions of Euros	31 December 2005							
	Demand	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:								
Cash and balances with central banks	7,232	4,701	4,152	1	-	-	16,086	2.62%
Available-for-sale financial assets:								
Debt instruments	77	1,769	4,239	4,553	41,930	15,486	68,054	3.58%
Loans and receivables:								
Loans and advances to credit institutions	4,102	20,681	9,121	7,070	5,247	845	47,066	2.93%
Loans and advances to customers	11,131	14,728	24,026	43,508	85,929	223,596	402,918	5.84%
Debt instruments	-	-	-	17	46	108	171	2.49%
Other financial assets	4,656	2,988	29	567	393	996	9,629	-
	27,198	**44,867**	**41,567**	**55,716**	**133,545**	**241,031**	**543,924**	**5.10%**
Liabilities:								
Financial liabilities at amortised cost:								
Deposits from central banks	396	18,262	3,773	-	-	-	22,431	2.42%
Deposits from credit institutions	3,709	50,254	20,781	11,593	6,195	1,696	94,228	2.91%
Customer deposits	166,531	42,322	39,397	25,199	16,742	1,537	291,728	3.59%
Marketable debt securities	-	7,128	13,613	9,124	46,826	40,518	117,209	3.91%
Subordinated liabilities	-	48	175	1,437	4,240	22,863	28,763	Nota 23
Other financial liabilities	7,815	971	396	1,184	893	34	11,293	-
	178,451	**118,985**	**78,135**	**48,537**	**74,896**	**66,648**	**565,652**	**3.54%**
Difference (assets less liabilities)	**(151,253)**	**(74,118)**	**(36,568)**	**7,179**	**58,649**	**174,383**	**(21,728)**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

Equivalent Value in Millions of Euros	2007		2006		2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash and balances with central banks	16,155	-	10,042	-	11,749	-
Financial assets and liabilities held for trading	124,409	100,719	139,783	106,075	128,973	95,225
Other financial instruments at fair value	15,815	28,553	10,414	12,140	45,534	11,810
Available-for-sale financial assets	15,395	-	18,530	-	16,814	-
Loans and receivables	260,435	-	248,977	-	221,041	-
Investments	13,036	-	2,461	-	238	-
Tangible assets	4,665	-	4,696	-	4,745	-
Intangible assets	12,557	-	13,626	-	12,910	-
Financial liabilities at amortised cost	-	308,166	-	309,610	-	279,575
Liabilities under insurance contracts	-	2,139	-	2,157	-	38,247
Other	8,388	19,120	7,793	20,598	11,741	18,919
	470,855	**458,697**	**456,322**	**450,580**	**453,745**	**443,776**

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for loans and receivables and held-to-maturity investments, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, the Group's financial liabilities –except for financial liabilities held for trading, those measured at fair value and derivatives other than those having as their underlyings equity instruments whose market value cannot be estimated reliably– are measured at amortised cost in the consolidated balance sheet.

i) Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial assets measured at other than fair value and their respective fair values at year-end:

Millions of Euros	2007		2006		2005	
Assets	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and receivables:						
Loans and advances to credit institutions	31,760	31,765	45,361	45,359	47,066	46,560
Money market operations through counterparties	-	-	200	200	-	-
Loans and advances to customers	533,751	535,513	484,790	487,533	402,918	404,950
Debt instruments	1,668	1,668	622	622	171	171
Other financial assets	12,351	12,340	13,076	13,076	9,629	9,629
	579,530	**581,286**	**544,049**	**546,790**	**459,784**	**461,310**

ii) Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Group's financial liabilities measured at other than fair value and their respective fair values at year-end:

Millions of Euros	2007		2006		2005	
Liabilities	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities at amortised cost:						
Deposits from central banks	28,748	28,748	16,530	16,528	22,431	22,431
Deposits from credit institutions	48,686	48,727	56,816	56,826	94,228	94,221
Money market operations through counterparties	-	-	-	-	-	-
Customer deposits (*)	317,043	317,184	314,377	314,320	291,727	291,727
Marketable debt securities	206,265	206,480	174,409	174,878	117,209	117,117
Subordinated liabilities	35,670	36,286	30,423	31,822	28,763	29,278
Other financial liabilities	16,540	16,538	12,748	12,752	11,293	11,293
	652,952	**653,963**	**605,303**	**607,126**	**565,651**	**566,067**

(*) For these purposes, the fair value of customer demand deposits is taken to be the same as their carrying amount.

54. GEOGRAPHICAL AND BUSINESS SEGMENT REPORTING

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises four segments: three operating areas plus the Financial Management and Holdings Unit. The operating areas, which include all the business activities carried on therein by the Group, are Continental Europe, the United Kingdom (Abbey) and Latin America, based on the location of our assets.

The Continental Europe area encompasses all the Commercial Banking (including the Private Banking entity Banif), Wholesale Banking and Asset Management and Insurance business activities carried on in Europe with the exception of Abbey. Latin America includes all the financial activities carried on by the Group through its banks and subsidiaries, as well as the specialised units of Santander Private Banking, which is treated as a globally managed independent unit, and the New York business.

The Financial Management and Holdings segment includes the centralised management business relating to financial and industrial investments, the financial management of the Parent's structural currency position and its structural interest rate risk position and the management of liquidity and equity through issues and securitisations. As the Group's holding unit, this segment handles the total capital and reserves, capital allocations and liquidity with the other businesses.

The financial statements of each operating segment are prepared by aggregating the figures for the Group's various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group.

Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statement. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are classified under "Loans and advances to credit institutions/Deposits from credit institutions" and, therefore, the sum of these line items exceeds the figure for the consolidated Group.

Additionally, for segment presentation purposes, the equity of each geographical unit is that reflected in the related individual financial statements and is offset by a capital endowment made by the Financial Management and Holdings Unit which, as explained earlier, acts as the holding unit for the other businesses and, therefore, reflects the Group's total equity.

There are no customers located in areas other than those in which our assets are located that generate income exceeding 10% of gross income.

The summarised balance sheets and income statements of the various geographical segments are as follows:

Millions of Euros	2007					2006				
(Summarised) Income Statement	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*
Loans and advances to customers	310,618	184,086	68,854	1,919	565,477	271,687	190,512	60,172	975	523,346
Financial assets held for trading (excluding loans and advances)	44,846	53,782	22,845	1,328	122,801	33,831	61,507	27,846	2,028	125,212
Available-for-sale financial assets	10,149	44	12,628	21,528	44,349	13,126	23	17,943	7,606	38,698
Loans and advances to credit institutions	53,205	19,810	11,146	25,429	109,590	67,061	18,185	20,311	22,956	128,513
Non-current assets	5,373	4,685	1,805	(202)	11,661	4,558	5,059	1,695	1,243	12,555
Other asset accounts	25,876	9,458	24,707	170,154	230,195	18,583	8,691	16,842	126,028	170,144
Total assets/liabilities	**450,067**	**271,865**	**141,985**	**220,156**	**1,084,073**	**408,846**	**283,977**	**144,809**	**160,836**	**998,468**
Customer deposits	149,167	122,514	82,054	1,969	355,704	140,231	115,194	75,301	497	331,223
Marketable debt securities	70,344	76,055	5,039	82,196	233,634	47,633	72,858	5,258	78,320	204,069
Subordinated liabilities	2,379	7,876	2,540	22,875	35,670	2,362	9,430	2,383	16,248	30,423
Liabilities under insurance contracts	10,907	6	2,121	-	13,034	8,547	71	2,086	-	10,704
Deposits from credit institutions	66,027	38,688	19,017	47,834	171,566	89,016	51,020	32,403	8,935	181,374
Other liability accounts	130,970	23,549	22,626	18,326	195,471	103,090	32,076	19,530	21,137	175,833
Equity	20,274	3,177	8,588	46,955	78,994	17,967	3,328	7,847	35,700	64,842
Off-balance-sheet customer funds	92,761	10,225	47,991	-	150,977	102,465	8,307	56,352	-	167,124
Total funds under management	**542,829**	**282,090**	**189,976**	**220,155**	**1,235,050**	**511,311**	**292,284**	**201,160**	**160,837**	**1,165,592**

Millions of Euros	2005				
(Summarised) Income Statement	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*
Loans and advances to customers	210,299	171,796	52,919	815	435,829
Financial assets held for trading (excluding loans and advances)	26,315	64,014	25,844	1,276	117,449
Available-for-sale financial assets	12,604	18	16,308	45,015	73,945
Loans and advances to credit institutions	69,621	13,070	24,436	15,718	122,845
Non-current assets	4,219	5,197	1,392	1,396	12,204
Other asset accounts	15,709	47,420	17,194	94,342	174,665
Total assets/liabilities	**338,767**	**301,515**	**138,093**	**158,562**	**936,937**
Customer deposits	127,355	110,776	65,707	1,927	305,765
Marketable debt securities	27,011	62,462	6,213	53,154	148,840
Subordinated liabilities	2,241	11,428	1,130	13,964	28,763
Liabilities under insurance contracts	6,414	36,521	1,737	-	44,672
Deposits from credit institutions	90,341	40,761	42,208	38,385	211,695
Other liability accounts	70,527	37,259	13,033	18,907	139,726
Equity	14,878	2,307	8,066	32,225	57,476
Off-balance-sheet customer funds	97,141	6,000	49,705	-	152,846
Total funds under management	**435,908**	**307,514**	**187,799**	**158,562**	**1,089,783**

Millones de Euros	2007					2006				
(Summarised) Income Statement	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*
Net interest income	**7,894**	**2,335**	**6,654**	**(1,588)**	**15,295**	**6,206**	**2,108**	**5,272**	**(1,106)**	**12,480**
Share of results of entities accounted for using the equity method	9	2	4	427	442	6	3	7	411	427
Net fee and commission income	4,137	1,007	2,866	30	8,040	3,653	1,025	2,357	(11)	7,024
Insurance activity income	148	-	171	-	319	137	-	120	(4)	253
Gains/losses on financial assets and liabilities and Exchange differences	732	436	691	1,113	2,972	708	424	604	413	2,149
Gross income	**12,920**	**3,780**	**10,386**	**(18)**	**27,068**	**10,710**	**3,560**	**8,360**	**(297)**	**22,333**
Sales and income from the provision of non-financial services (net of expenses) and Other operating income/expense	30	51	(141)	15	(45)	39	42	(118)	(33)	(70)
General administrative expenses:										
Personnel expenses	(3,014)	(1,037)	(2,222)	(236)	(6,509)	(2,684)	(1,062)	(1,975)	(204)	(5,925)
Other administrative expenses	(1,513)	(780)	(1,867)	(270)	(4,430)	(1,272)	(815)	(1,726)	(160)	(3,973)
Depreciation and amortisation	(559)	(102)	(348)	(259)	(1,268)	(523)	(105)	(305)	(214)	(1,147)
Net operating income	**7,864**	**1,912**	**5,808**	**(768)**	**14,816**	**6,270**	**1,620**	**4,236**	**(908)**	**11,218**
Net impairment losses	(1,580)	(312)	(1,660)	(1,527)	(5,079)	(1,355)	(387)	(886)	77	(2,551)
Other gains/losses	39	22	(368)	1,745	1,438	(245)	-	(230)	803	328
Profit/(loss) before tax	**6,323**	**1,622**	**3,780**	**(550)**	**11,175**	**4,670**	**1,233**	**3,120**	**(28)**	**8,995**
Profit from ordinary activities	**4,546**	**1,201**	**2,958**	**134**	**8,839**	**3,269**	**889**	**2,451**	**132**	**6,741**
Profit from discontinued operations	-	-	112	685	797	1,147	114	124	120	1,505
Consolidated profit for the year	**4,546**	**1,201**	**3,070**	**819**	**9,636**	**4,416**	**1,003**	**2,575**	**252**	**8,246**
Profit attributed to the group	**4,439**	**1,201**	**2,666**	**754**	**9,060**	**4,144**	**1,003**	**2,287**	**162**	**7,596**

Millions of Euros	2005				
(Summarised) Income Statement	Continental Europe	Abbey	Latin America	Financial Management and Holdings	*Total*
Net interest income	**5,366**	**2,083**	**3,950**	**(740)**	**10,659**
Share of results of entities accounted for using the equity method	26	2	7	584	619
Net fee and commission income	3,291	947	1,842	(19)	6,061
Insurance activity income	115	-	84	3	202
Gains/losses on financial assets and liabilities and Exchange differences	505	345	733	(48)	1,535
Gross income	**9,303**	**3,377**	**6,616**	**(220)**	**19,076**
Sales and income from the provision of non-financial services (net of expenses) and Other operating income/expense	55	36	(89)	(26)	(24)
General administrative expenses:					
Personnel expenses	(2,510)	(1,119)	(1,742)	(183)	(5,554)
Other administrative expenses	(1,154)	(888)	(1,507)	(170)	(3,719)
Depreciation and amortisation	(489)	(117)	(334)	(74)	(1,014)
Net operating income	**5,205**	**1,289**	**2,944**	**(673)**	**8,765**
Net impairment losses	(977)	(318)	(433)	(74)	(1,802)
Other gains/losses	(18)	76	(213)	853	698
Profit/(loss) before tax	**4,210**	**1,047**	**2,298**	**106**	**7,661**
Profit from ordinary activities	**3,020**	**725**	**1,876**	**798**	**6,419**
Profit from discontinued operations	111	86	134	-	331
Consolidated profit for the year	**3,131**	**811**	**2,010**	**798**	**6,750**
Profit attributed to the group	**2,980**	**811**	**1,779**	**650**	**6,220**

b) Business segments

At this secondary level of segment reporting, the Group is structured into Commercial Banking, Asset Management and Insurance and Global Wholesale Banking; the sum of these three segments is equal to that of the three primary operating geographical segments. Total figures for the Group are obtained by adding to the business segments the data for the Financial Management and Holdings segment.

The Commercial Banking segment encompasses the entire commercial banking business (except for the Corporate Banking business managed globally using the Global Relationship Model). The Asset Management and Insurance segment includes the contribution to the Group arising from the design and management of the investment fund, pension and insurance businesses of the various units. The Global Wholesale Banking segment reflects the returns on the Global Corporate Banking business, those on Investment Banking and Markets worldwide, including all the globally managed treasury departments and the equities business.

The summarised income statements and other significant data are as follows:

Millions of Euros	2007					2006				
(Summarised) Income Statement	Commercial Banking	Global Wholesale Banking	Asset Management and Insurance	Financial Management and Holdings	*Total*	Commercial Banking	Global Wholesale Banking	Asset Management and Insurance	Financial Management and Holdings	*Total*
Net interest income	**15,339**	**1,492**	**52**	**(1,588)**	**15,295**	**12,310**	**1,241**	**35**	**(1,106)**	**12,480**
Share of results of entities accounted for using the equity method	15	-	-	427	442	16	-	-	411	427
Net fee and commission income	6,668	919	423	30	8,040	5,966	646	423	(11)	7,024
Insurance activity income	-	-	319	-	319	-	-	257	(4)	253
Gains/losses on financial assets and liabilities and Exchange differences	1,349	491	19	1,113	2,972	1,042	690	4	413	2,149
Gross income	**23,371**	**2,902**	**813**	**(18)**	**27,068**	**19,334**	**2,577**	**719**	**(297)**	**22,333**
Sales and income from the provision of non-financial services (net of expenses) and Other operating income/expense	(30)	(29)	(1)	15	(45)	(4)	(33)	-	(33)	(70)
General administrative expenses										
Personnel expenses	(5,603)	(542)	(128)	(236)	(6,509)	(5,165)	(447)	(109)	(204)	(5,925)
Other administrative expenses	(3,737)	(310)	(113)	(270)	(4,430)	(3,455)	(252)	(106)	(160)	(3,973)
Depreciation and amortisation	(899)	(91)	(19)	(259)	(1,268)	(848)	(68)	(17)	(214)	(1,147)
Net operating income	**13,102**	**1,930**	**552**	**(768)**	**14,816**	**9,862**	**1,777**	**487**	**(908)**	**11,218**
Net impairment losses	(3,488)	(63)	(1)	(1,527)	(5,079)	(2,324)	(304)	-	77	(2,551)
Other gains/losses	(256)	(35)	(16)	1,745	1,438	(412)	(48)	(15)	803	328
Profit/(loss)before tax	**9,358**	**1,832**	**535**	**(550)**	**11,175**	**7,126**	**1,425**	**472**	**(28)**	**8,995**
Other aggregates:										
Total assets	678,867	166,979	18,071	220,156	1,084,073	668,960	153,005	15,667	160,836	998,468
Loans and advances to customers	510,561	52,975	22	1,919	565,477	474,253	47,948	171	974	523,346
Customer deposits	308,652	45,082	1	1,969	355,704	288,533	42,194	-	496	331,223

Millions of Euros	2005				
(Summarised) Income Statement	Commercial Banking	Global Wholesale Banking	Asset Management and Insurance	Financial Management and Holdings	*Total*
Net interest income	**10,640**	**724**	**35**	**(740)**	**10,659**
Share of results of entities accounted for using the equity method	35	-	-	584	619
Net fee and commission income	5,196	488	396	(19)	6,061
Insurance activity income	-	-	199	3	202
Gains/losses on financial assets and liabilities and Exchange differences	927	654	2	(48)	1,535
Gross income	**16,798**	**1,866**	**632**	**(220)**	**19,076**
Sales and income from the provision of non-financial services (net of expenses) and Other operating income/expense	25	(24)	1	(26)	(24)
General administrative expenses					
Personnel expenses	(4,907)	(350)	(114)	(183)	(5,554)
Other administrative expenses	(3,219)	(219)	(111)	(170)	(3,719)
Depreciation and amortisation	(868)	(59)	(13)	(74)	(1,014)
Net operating income	**7,829**	**1,214**	**395**	**(673)**	**8,765**
Pérdidas netas por deterioro de activos	(1,659)	(69)	-	(74)	(1,802)
Other gains/losses	(176)	12	9	853	698
Profit/(loss)before tax	**5,994**	**1,157**	**404**	**106**	**7,661**
Other aggregates:					
Total assets	624,040	145,163	9,172	158,562	936,937
Loans and advances to customers	404,656	30,163	194	816	435,829
Customer deposits	268,225	35,592	21	1,927	305,765

55. RELATED-PARTY TRANSACTIONS

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its Board of Directors and the General Managers, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties, distinguishing between associates and jointly controlled entities, members of the Bank's Board of Directors, the Bank's General Managers, and other related parties. Related-party transactions were made on terms equivalent to those that prevail in arm's-length transactions or were charged to the related compensation in kind.

Millions Of Euros	2007				2006			
	Associates and Jointly Controlled Entities	Members of the Board of Directors	General Managers	Other Related Parties	Associates and Jointly Controlled Entities	Members of the Board of Directors	General Managers	Other Related Parties
Assets:								
Loans and advances to credit institutions	3,169	-	-	136	2,051	-	-	97
Loans and advances to customers	262	1	14	2,040	246	1	10	3,198
Debt instruments	-	-	-	293	103	-	-	51
Liabilities:								
Deposits from credit institutions	(284)	-	-	-	(115)	-	-	(4)
Customer deposits	(4)	(7)	(18)	(265)	(249)	(63)	(8)	(133)
Marketable debt securities	-	-	-	-	(98)	-	-	-
Income statement:								
Interest and similar income	110	-	-	117	80	-	-	35
Interest expense and similar charges	(11)	-	-	(6)	(25)	(2)	-	(3)
Gains/losses on financial assets and liabilities	6	-	-	21	-	-	-	22
Fee and commission income	48	-	-	15	30	1	-	36
Fee and commission expense	(16)	-	-	-	(12)	-	-	-
Others								
Contingent liabilities	365	-	2	968	40	-	2	1,333
Contingent commitments	358	1	1	280	467	-	1	2
Derivative financial instruments	7,823	-	4	831	6,121	-	-	245

Millions Of Euros	2005			
	Associates and Jointly Controlled Entities	Members of the Board of Directors	General Managers	Other Related Parties
Assets:				
Loans and advances to credit institutions	1,864	-	-	958
Loans and advances to customers	215	2	8	100
Debt instruments	-	-	-	-
Liabilities:				
Deposits from credit institutions	(64)	-	-	(979)
Customer deposits	(25)	(98)	(7)	(68)
Marketable debt securities	-	-	-	-
Income statement:				
Interest and similar income	19	-	-	29
Interest expense and similar charges	(1)	(3)	-	(12)
Gains/losses on financial assets and liabilities	-	-	-	-
Fee and commission income	10	1	-	1
Fee and commission expense	(1)	-	-	-
Others				
Contingent liabilities	96	-	-	45
Contingent commitments	117	-	-	477
Derivative financial instruments	-	-	-	-

56. RISK MANAGEMENT

Risk management at the Santander Group is based on the following principles:

- Independence of the risk function with respect to the business. The head of the Group's Risk Division, Mr. Matías Rodríguez Inciarte, as third deputy chairman and in his capacity as chairman of the Risk Standing Committee, reports directly to the Executive Committee and the Board.

- Commitment to supporting the business by contributing, without undermining the preceding principle, to the achievement of commercial objectives whilst maintaining risk quality. To this end, the organisational structure is adapted to the commercial structure so as to encourage cooperation between business and risk managers.

- Collective decisions (even at branch level), which ensure that different opinions are taken into account and avoid situations in which decisions are taken individually.

- Well-established tradition of using internal rating and scoring tools, return on risk-adjusted capital (RORAC), value-at-risk (VaR), economic capital, extreme scenario analyses, etc.

- Global approach, achieved by addressing in full all the risk factors in all the business units and using the concept of economic capital as a consistent measure of the risk assumed and as the basis for assessing the management performed.

- Desire to continue to target a medium-low risk profile, emphasising its low volatility and its predictability, by:

  - seeking to achieve a high degree of risk diversification, thus limiting risk concentration on particular customers, groups, sectors, products or geographical locations.

  - maintaining a low level of complexity in Markets operations.

  - paying ongoing attention to risk monitoring in order to prevent potential portfolio impairment sufficiently in advance.

At Santander, the risk management and control process is structured into the following phases:

- Establishment of risk policies that reflect Santander's risk management principles;

- Identification of risks, through the constant review and monitoring of exposures, the assessment of new products and businesses and the specific analysis of singular transactions;

- Measurement of risks using extensively tested methods and models;

- Definition of the Group's risk appetite by setting overall and specific limits for the various types of risks, products, customers, groups, sectors and geographical locations;

- Preparation and distribution of a complete set of reports that are reviewed daily by the heads at all levels of Santander management;

- Implementation of a risk control system which checks, on a daily basis, the degree to which Santander's risk profile matches the risk policies approved and the risk limits set.

For many years the Santander Group has managed risk using a number of techniques and tools which are described in detail in this section. The most noteworthy of these techniques and tools, due to the foresight with which Santander implemented them at the time and their current significance in light of the New Basel Capital Accord (BIS II), are as follows:

- Internal ratings and scorings, based on qualitative and quantitative weighting of risk, which, by assessing the various risk components by customer and transaction, make it possible to estimate, firstly, probability of default and, subsequently, expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.

- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).

- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.

- Extreme scenario analysis, used to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Consequently, Santander fully identifies with BIS II, insofar as it recognises, from a regulatory standpoint, the leading-edge industry practices that the Group has implemented in advance. The entry into force of the aforementioned Capital Accord will enable Santander to once again demonstrate its strength in this field, which will entail the swift application of the advanced internal risk-based (AIRB) approach to the Group's global management.

Due to the imminent implementation of the new regulatory framework (BIS II), 2007 was marked by the review conducted by the Bank of Spain and the Financial Services Authority (FSA) of the AIRB models of the Parent, Banesto and Abbey, whose portfolios represent approximately 70% of the Group's total exposure. Once the Bank of Spain has issued the necessary rules, which are expected to be published in the near future, the Group will be able to use these internal models to calculate its regulatory capital.

A. CORPORATE GOVERNANCE OF THE RISK FUNCTION

The responsibilities assigned to the Risk Standing Committee are essentially as follows:

- To propose to the Board the Group's risk policy, which will identify, in particular:
  - The various types of risk (financial, operational, technological, legal and reputational, inter alia) facing the Group;
  - The information and internal control systems to be used to control and manage these risks;
  - The level of risk deemed acceptable;
  - The measures envisaged to mitigate the impact of the identified risks in the event that they materialise.

- To conduct systematic reviews of the Group's exposure to its main customers, economic activity sectors, geographical areas and types of risk.

- To authorise the management tools and risk models and ascertain the result of their internal validation.

- To ensure that the Group's actions are consistent with the level of risk tolerance previously defined.

- To resolve transactions outside the powers delegated to lower-ranking bodies and the overall limits for pre-classified risk categories in favour of economic groups or in relation to exposure by type of risk.

The Risk Standing Committee has delegated certain of its powers to Risk Committees which are structured by geographical area, business line and type of risk. Although Banesto has been granted autonomous risk management powers within the Santander Group, the Executive Committee ensures that its risk management policy is consistent with the Group's policies.

The Risk Standing Committee, which is chaired by the third deputy chairman of the Santander Group and comprises a minimum of four and a maximum of six Group directors, normally meets twice a week.

B. CREDIT RISK

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

The following table shows the global map of credit risk, expressed in nominal amounts (with the exception of exposure in derivatives and repos, which is expressed in credit risk equivalent), to which the Group was exposed at 31 December 2007.

Santander Group – Gross Credit Risk Exposure

	Customer Draw -downs	Drawable by Customers	Sovereign Fixed-Income (Excl. Trad.)	Private Fixed-Income (Excl. Trad.)	Credit Institutions Drawdowns	Drawable by Credit Institutions	Derivatives and Repos (REC)	Total	%	Change/ Dec-06
Spain	**298,281**	**56,290**	**14,460**	**8,334**	**24,092**	**1,008**	**13,135**	**415,600**	**49.6%**	**15.9%**
Parent bank	179,476	38,604	10,895	3,613	18,142	670	9,545	260,945	31.1%	20.6%
Banesto	83,648	11,100	3,002	2,302	2,903	137	3,422	106,514	12.7%	6.4%
Other	35,157	6,586	563	2,419	3,047	201	168	48,141	5.8%	14.4%
Other European countries *	**246,283**	**20,342**	**1,021**	**3,870**	**3,723**	**1**	**10,142**	**285,382**	**34.0%**	**8.8%**
Germany	17,196	2,181	100	60	388	-	5	19,931	2.4%	13.6%
Portugal	23,016	6,431	794	290	1,046	1	1,845	33,423	4.0%	1.9%
UK	165,159	6,961	0	3,227	975	-	8,199	184,521	22.0%	2.2%
Other	40,911	4,769	127	293	1,314	-	93	47,507	5.6%	50.6%
Latin America	**70,858**	**22,130**	**8,330**	**1,842**	**16,704**	**2,000**	**5,710**	**127,574**	**15.2%**	**9.0%**
Brazil	22,654	7,537	2,334	418	9,036	-	2,031	44,010	5.3%	41.8%
Chile	18,291	3,448	704	550	936	1	2,027	25,959	3.1%	12.2%
Mexico	14,133	7,384	4,165	-	3,123	1,999	1,440	32,244	3.8%	(17.1%)
Other	15,778	3,761	1,127	874	3,609	-	212	25,361	3.0%	6.0%
Rest of the world	**4,967**	**445**	**327**	**1,412**	**2,954**	-	**46**	**10,151**	**1.2%**	**30.2%**
Total Group	620,389	99,207	24,138	15,458	47,473	3,009	29,033	838,707	100%	12.5%
%/Total	74.0%	11.8%	2.9%	1.8%	5.7%	0.3%	3.5%	100.0%		
% Change /Dec-06	11.9%	10.3%	(4.0%)	61.0%	49.9%	75.8%	(13.1%)	12.5%		

Data at 31/12/07, prepared on the basis of legal-entity criteria.
Derivatives, including repos, expressed in credit risk equivalent.
Balances drawn down by customers exclude repos (EUR 28,980 million).
Balances with credit institutions (excluding repos and trading portfolio) include EUR 27,770 million of deposits at central banks.
* Includes the assets of Santander Consumer Finance, including Drive.

Spain accounts for 50% of the nominal credit risk exposure, a similar percentage to 2006, with absolute growth of 16% on December. The strong growth in the customer business in Spain (drawn-down balance up 12%) was accompanied by a decrease in sovereign fixed-income securities. Other European countries represent more than one third of credit risk exposure. Particularly noteworthy in this respect is the presence in the United Kingdom through Abbey, which accounts for 22% of the exposure. Taken as a whole, Europe represents 84% of credit risk exposure.

Latin America accounts for 15% of credit risk exposure, a similar proportion to 2006. Countries with higher credit ratings (investment grade) represent more than half of the exposure in the region, whereas countries with lower credit ratings represent only 5% of the Group's exposure.

The organisation of the Group's risk function is customer-centric. To this end, customers are classified for risk management purposes into two major groups or segments: individualised and standardised.

- Individualised risks: individualised customers are defined as those to which, either explicitly or implicitly, the Group has assigned a Risk Analyst (belonging to a Business Analysis Unit or to Corporate Banking Risks or Exposure to Financial Institutions). This category includes the following segments: Corporate Banking, Financial Institutions, Sovereigns and certain enterprises belonging to Commercial Banking.
- Standardised risks: standardised customers are those which have not been assigned a specific Risk Analyst and with respect to which the Group's current or potential exposure does not exceed a pre-established amount. This category includes Individuals, Individual Entrepreneurs, and Commercial Banking enterprises not classified as individualised customers.

The Wholesale and Corporate Banking Risk Area deals with the Group's global customers (Large Corporations and Multinational Financial Groups).

For large corporate groups, a pre-classification model is used (which sets a maximum internal risk limit), based on an economic capital measurement and monitoring system.

B.1 Rating tools

Since 1993 the Group has used proprietary internal rating models to measure the degree of risk inherent in a given customer or transaction. Each rating relates to a certain probability of default or non-payment, determined on the basis of the Entity's historical experience, with the exception of certain portfolios classified as "low default portfolios". More than 200 internal rating models are used in the Group's loan approval and risk monitoring process.

Global rating tools are applied to the Sovereign Risk, Financial Institutions and Global Wholesale Banking segments. Management of these segments is centralised at Group level, for both rating calculation and risk monitoring purposes. These tools furnish a rating for each customer, which combines the results provided by a quantitative or automatic module, a qualitative or expert analyst adjustment module, and a set of final adjustments.

B.2. Customer segmentation for credit risk management

The table below details the distribution, by segment, of the credit risk exposure to customers in terms of EAD. Approximately 83% of total risk exposure to customers (excluding sovereign and counterparty risk) relates to the SME and individuals financing segments, which reflects the commercial orientation of the Santander Group's business and risks. The expected loss arising from customer exposure is 0.81%, as compared with 0.68% for the Group's total credit risk exposure, and, accordingly, the profile of the credit risk assumed can be classified as medium-low.

Segmentation of Credit Risk Exposure

	EAD	%	Average PD	Average LGD	EL
Sovereign	56,827	7.6%	0.03%	25.3%	0.01%
Counterparty	69,887	9.4%	0.19%	41.2%	0.08%
Public sector	1,635	0.2%	0.65%	21.3%	0.14%
Corporate	101,383	13.6%	0.67%	40.4%	0.27%
Businesses	154,076	20.6%	2.27%	29.3%	0.67%
Mortgages	257,001	34.4%	2.72%	7.1%	0.19%
Consumer loans	89,072	11.9%	6.10%	45.1%	2.75%
Cards	13,553	1.8%	8.30%	62.1%	5.15%
Other	3,302	0.4%	2.40%	57.0%	1.37%
Memorandum item – customers	*620,022*	*83.0%*	*2.88%*	*28.0%*	*0.81%*
Total	**746,737**	**100.0%**	**2.41%**	**28.1%**	**0.68%**

Source: Economic Capital Model - December 2007 (millions of euros).

B.3 Control and monitoring systems

A robust control environment is of vital importance in ensuring the adequate management of credit risk and in keeping the Entity's risk profile in line with the parameters defined by the Board of Director and senior management. Also, from the regulatory standpoint (Sarbanes-Oxley, BIS II), financial institutions are required to have a control system that is commensurate with the size and complexity of each organisation.

In 2006, within the corporate framework established in the Group for compliance with the Sarbanes-Oxley Act, a corporate tool was made available on the Group's intranet for the documentation and certification of all the subprocesses, operational risks and related mitigating controls. The Risk Division, as a part of the Group, assessed the efficiency of the internal control of its activities in 2006, and is currently conducting the same assessment for 2007, in which no material shortcomings have been detected.

Prior to conducting these assessments at the Parent bank, the subprocesses were documented in keeping with established internal policies and procedures, and for each control a person was designated as responsible for performing the related assessment, in terms of design and operation, which was later ratified by the head of the corresponding subprocess, process and activity. This assessment was performed in accordance with the procedure, scope and documentation requirements established in the Group's internal control model which, in turn, was based on the framework proposed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Consequently, these assessment exercises serve to steadily strengthen the components of process control and discipline with respect to those previously in place.

B.4 Concentration risk

Concentration risk is an essential factor in the area of credit risk management. The Group constantly monitors the degree of concentration of its credit risk portfolios, by geographical area/country, economic sector, product and customer group.

The Risk Standing Committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk portfolio concentration.

C. MARKET RISK

C.1 ACTIVITIES SUBJECT TO MARKET RISK

The Financial Risks area measures, controls and monitors all operations in which net worth risk is assumed. This risk arises from changes in the risk factors –interest rate, exchange rate, equities and the volatility thereof– and from the solvency and liquidity risk of the various products and markets in which the Group operates.

The activities are segmented by risk type as follows:

a) Trading: this item includes financial services for customers, trading operations and positioning in fixed-income, equity and foreign currency products.

b) Balance sheet management: interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities. This item also includes the active management of the credit risk inherent in the Group's balance sheet.

c) Structural risks:

- Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).
- Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk.

The Treasury area is responsible for managing the positions taken in the trading activity.

The Financial Management area is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Group operates. Thus, in the convertible currencies area, Financial Management directly manages the Parent's risks and coordinates the management of the other units operating in these currencies. Decisions affecting the management of these risks are taken through the ALCO Committees in the respective countries and, ultimately, by the Parent's Markets Committee.

The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels.

Each of these activities is measured and analysed using different tools in order to reflect their risk profiles as accurately as possible.

C.2 METHODOLOGIES

(C.2.1) Trading

The standard methodology applied to trading activities by the Santander Group in 2007 was Value at Risk (VaR), which measures the maximum expected loss with a given confidence level and time horizon. This methodology was based on a standard historical simulation with a 99% confidence level and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed. Specifically, the Group uses a time window of two years or at least 520 daily data obtained retrospectively from the reference date of the VaR calculation. Two figures are calculated each day, one by applying an exponential decline factor which gives a lesser weighting to more distant observations in time, and another with uniform weightings for all observations. The VaR reported is the higher of these two figures.

VaR is not the only measure. It is used because it is easy to calculate and because it provides a good reference of the level of risk incurred by the Group. However, other measures are simultaneously being implemented to enable the Group to exercise greater risk control in all the markets in which it operates.

One of these measures is scenario analysis, which consists of defining behaviour scenarios for various financial variables and determining the impact on results of applying them to the Group's activities. These scenarios can replicate past events (such as crises) or, conversely, determine plausible scenarios that are unrelated to past events. A minimum of three types of scenarios are defined (plausible, severe and extreme) which, together with VaR, make it possible to obtain a much more complete spectrum of the risk profile.

The positions are monitored daily through an exhaustive control of changes in the portfolios, the aim being to detect possible incidents and correct them immediately. The daily preparation of an income statement is an excellent risk indicator, insofar as it allows us to observe and detect the impact of changes in financial variables on the portfolios.

Lastly, due to their atypical nature, derivatives and credit management activities are controlled by assessing specific measures on a daily basis. In the case of derivatives, these measures are sensitivities to fluctuations in the price of the underlying (delta and gamma), in volatility (vega) and in time (theta). For credit management activities, the measures controlled include sensitivity to spread, jump-to-default and position concentrations by rating level.

(C.2.2) Balance-sheet management

1 Interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Group to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital, Value at Risk (VaR) and scenario analysis.

a) Interest rate gap of assets and liabilities

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk to be detected in the various maturities. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the Entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analysed and estimated using an internal model.

b) Net interest margin (NIM) sensitivity

Net interest margin sensitivity measures the change in the expected accruals for a given period (12 months) in the event of a shift in the interest rate curve.

Net interest margin sensitivity is calculated by simulating the margin both for a scenario of changes in the interest rate curve and for the current scenario, the sensitivity being the difference between the two margins so calculated.

c) Market value of equity (MVE) sensitivity

Market value of equity sensitivity is a supplementary measure to net interest margin sensitivity.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

d) Value at Risk (VaR)

The Value at Risk for balance sheet aggregates and investment portfolios is calculated by applying the same standard as that used for Trading: historical simulation with a confidence interval of 99% and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed.

e) Scenario analysis

Two interest rate behaviour scenarios are established: maximum volatility and severe crisis. These scenarios are applied to the activities under analysis, thus obtaining the impact on the market value of equity and the net interest margin projections for the year.

2. Liquidity risk

Liquidity risk is associated with the Group's ability to finance its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Group permanently monitors maximum gap profiles.

The measures used to control liquidity risk in Balance Sheet Management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period for each currency in which the Group operates. The gap measures net cash requirements or surpluses at a given date and reflects the liquidity level maintained under normal market conditions.

The Group conducts two types of liquidity gap analyses, depending on the balance sheet item in question:

1. Contractual liquidity gap: all cash-flow generating on- and off-balance-sheet items are analysed and placed at the point of contractual maturity. For assets and liabilities without contractual maturities, an internal analysis model is used based on a statistical study of the time series of the products, and the so-called stable or instable balance for liquidity purposes is determined.

2. Operational liquidity gap: this is a scenario for normal liquidity profile conditions, since the cash flows of the on-balance-sheet items are placed at the point of probable liquidity rather than at the point of contractual maturity. In this analysis, the definition of the behaviour scenario (renewal of liabilities, discounts in portfolio disposals, renewal of assets, etc.) is the fundamental point.

b) Liquidity ratios

The liquidity ratio compares the liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) with the total amount of liabilities (including contingencies). This ratio shows, by non-consolidable currency, the Entity’s capacity to immediately respond to its commitments.

Cumulative net illiquidity is defined as the 30-day cumulative gap obtained from the modified liquidity gap. The modified contractual liquidity gap is calculated on the basis of the contractual liquidity gap, and places liquid assets at the point of settlement or transfer rather than at the point of maturity.

c) Scenario analysis/Contingency Plan

The Santander Group's liquidity management focuses on adopting all the measures required to prevent a crisis. It is not always possible to predict the causes of a liquidity crisis and, therefore, contingency plans focus on the modelling of potential crises by analysing various scenarios, the identification of crisis types, internal and external communications, and individual responsibilities.

The Contingency Plan spans management activity from local unit to head office level. At the first sign of a crisis, it specifies clear lines of communication and suggests a wide range of responses to different levels of crisis.

Since a crisis can occur locally or globally, each local unit must prepare a Contingency Funding Plan, in which it indicates the amount of aid or funding that might be required from headquarters during a crisis. Each local unit must inform headquarters (Madrid) of its Contingency Plan at least every six months so that it can be reviewed and updated. However, these plans must be updated more frequently if market conditions make this advisable.

(C.2.3) Structural foreign currency risk / Hedges of results / Structural equities risk

These activities are monitored by measuring positions, VaR and results.

C.3 RISKS AND RESULTS IN 2007

(C.3.1) Trading

The average VaR of the Group’s trading portfolio in 2007, EUR 28.9 million, was lower than that for 2006.

(C.3.2) Balance sheet management

1. Interest rate risk

a) Convertible currencies

At the end of December 2007, the sensitivity of the net interest margin at one year to parallel increases of 100 b.p. in the euro interest rate curve was negative by EUR 362 million, substantially all the risk being concentrated on the Parent bank. The sensitivity of the margin for other convertible currencies is scantly material.

Also at 2007 year-end, the sensitivity of value to parallel increases of 100 b.p. in the main interest rate curves was concentrated on the euro and pound sterling curves, whose sensitivities were negative by EUR 161 million and GBP 197 million, respectively.

b) Latin America

The interest rate risk in Balance Sheet Management portfolios in Latin America, measured in terms of sensitivity of the net interest margin (NIM) at one year to a parallel increase of 100 b.p. in the interest rate curve, remained at low levels throughout 2007, fluctuating within a narrow band and reaching a high of EUR 54 million in October. Measured in terms of value sensitivity, it fluctuated between EUR 300 million and EUR 400 million, showing a downward trend in the second half of the year, due mainly to the reduction of the portfolio positions in Mexico. This portfolio, consisting of local-currency government securities and interest rate swaps, is intended to cover possible future margin losses.

At the end of December 2007, the risk consumption for the region, measured in terms of 100 b.p. sensitivity of the MVE, stood at EUR 326 million (December 2006: EUR 377 million), while the net interest margin risk at one year, measured in terms of 100 b.p sensitivity of this margin, was EUR 21 million (December 2006: EUR 20 million).

2. Structural credit risk management

The aim of structural credit risk management is to reduce, through the sale of assets, the concentrations that arise naturally as a result of commercial activity. These transactions are financed with the acquisition of other assets which permit diversification of the loan portfolio as a whole. The Financial Management area analyses these strategies and submits management proposals to the ALCO with a view to optimising credit risk exposure and contributing to the creation of value.

3. Structural liquidity management

Structural liquidity management seeks to finance the Group’s recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

The Group manages its liquidity on the basis of the ample structural liquidity resulting from its commercial banking activities and of the following management principles founded on prudence and anticipation:

- Ample structural liquidity position. Since Santander is basically a commercial bank, customer deposits constitute the main source of liquidity in its financing structure. These deposits, combined with capital and other similar instruments, enable the Group to cover most of its liquidity requirements and, as a result, reduce the need to seek financing in the wholesale markets.

- Thus, in Latin America the excess of deposits over loans means that in practice the raising of financing in wholesale markets is residual, corresponding basically to the need to maintain a presence and to achieve diversification. As regards the rest of the Group (referred to as the "convertible currencies area"), deposits plus long-term on-balance-sheet funds (capital and similar liabilities) cover approximately three quarters of loans (excluding securitisations).

- Broad access to wholesale liquidity markets based on high short- and long-term ratings.

- Obtainment of liquidity through diversification in markets and instruments. The Group is actively present in a wide, diverse range of financing markets, thus limiting its dependence on specific markets and ensuring the availability of ample market funding.

- This enables the Group to have an adequate structure of medium- and long-term issues, with reduced short-term wholesale financing (at 2007 year-end, commercial paper and notes represented only 7% of total wholesale financing). This structure is based on securitisations (accounting for around one third of the total) and a medium- and long-term issue portfolio (around 60% of the total) featuring high product diversification and an average maturity of 4.4 years.

- High capacity to obtain on-balance-sheet liquidity. The Group has on its balance sheet, aligned with its positions, a diversified portfolio of liquid assets and assets convertible into cash in the short term.

- Independent financing of subsidiaries within a centralised management structure. The main legal entities, with the exception of Santander Consumer Finance, must obtain financing in the wholesale markets based on their needs and establish their own liquidity and contingency plans, without resorting to credit facilities from the Parent to fund their activities.

- The Group, as a holding, performs control and management functions, which involves planning its funding requirements, structuring the sources of financing to achieve optimum diversification in terms of maturities, instruments and markets, and defining contingency plans.

- In practice, the liquidity management performed by the Group consists of the following:

  - Each year, a liquidity plan is prepared on the basis of the financing needs arising from the budgets of each business. Based on these liquidity requirements and taking into account certain prudential limits on the obtainment of short-term market financing, the Group establishes an issue and securitisation plan for the year.

  - Throughout the year the Group periodically monitors the actual changes in financing requirements and updates this plan accordingly.

  - Another task of fundamental importance is the control and analysis of liquidity risk. The primary objective is to guarantee that the Group has sufficient liquidity to meet its short- and long-term financing requirements in normal market situations. To this end, the Group employs certain balance-sheet control measures, such as the liquidity gap and liquidity ratios.

Simultaneously, various scenario (or stress-scenario) analyses are conducted which consider the additional requirements that could arise if certain extreme but plausible events occur. The aim pursued is to cover a broad spectrum of situations that are more or less likely to affect the Group, thus enabling it to prepare the related contingency plans.

The scenario analyses conducted in the last four months of 2007 evidenced how the Group, even in a scenario of scant demand for medium- and long-term issues, maintained ample liquidity conditions.

Set forth below are certain highlights of structural liquidity management in 2007:

- Throughout the year, the Group's units in the convertible currencies area obtained a total of EUR 45,000 million through medium- and long-term issues in the wholesale markets, and securitised assets for a further EUR 44,500 million.

- The Group's structural liquidity position (long-term on-balance-sheet deposits and funds cater for 75% of its needs in the convertible currencies area and for more than 100% in the Latin American banks) and the quantity and quality of its liquid assets continue to enable Santander to conduct its lending business as usual.

(C.3.3) Structural foreign currency risk/hedges of results

Structural foreign currency risk arises from the Group's operations in foreign currencies, and relates mainly to long-term investments, and the results and hedges of those investments.

Foreign currency risk is managed dynamically in order to limit the impact on capital of currency depreciations and optimise the financial cost of hedges.

The Group’s general policy for managing the foreign currency risk on long-term investments is to finance these investments in the currency in which they are denominated, provided that the market is sufficiently deep and the cost is justified by the expected currency depreciation. Also, hedges are arranged on an as-needed basis when it is considered that a local currency may weaken against the euro at a significantly quicker pace than that at which it is being discounted in the market.

At 2007 year-end, the Group had hedged all its significant investments in foreign subsidiaries (including the foreign currency risk arising from the direct investment in Banco Real) through option structures. These hedges protect the Group’s capital against the impact of currency depreciation (exceeding a given level).

(C.3.4) Exposures relating to special assets and businesses

The Santander Group’s exposure to complex structured instruments and vehicles is highly limited:

- No exposure to sub-prime mortgages;

- Non-material exposure subject to mark-to-model;

- Limited exposure to hedge funds, asset-backed securities, monoliners, conduits, etc.;

The Santander Group’s policy with respect to the approval of new transactions has traditionally been very prudent and conservative, subject to strict supervision by senior Group management. Before approval is given for a new transaction, product or underlying, the Risk Division checks:

- whether there is an adequate valuation model to monitor the value of each exposure: mark-to-market, mark-to-model or mark-to-liquidity;

- whether the inputs enabling application of the valuation model are available in the market.

Provided the two aforementioned conditions are met, the Division ascertains:

- the availability of adequate systems duly adapted for the calculation and daily monitoring of the results, positions and risks of the new transactions envisaged.

- the degree of liquidity of the product or underlying, with a view to arranging the related hedge on a timely basis.

(C.3.5) Structured financing operations

The Santander Group’s structured financing operations are subject to low exposure and are diversified in terms of product type, sector and number of transactions.

D. OPERATIONAL RISK

The Santander Group defines operational risk as "the risk of loss resulting from deficiencies or failures of internal processes, human resources or systems or that arising due to external causes”. This risk relates to events of a purely operational nature, which differentiates it from market or credit risk.

The Group's aim in operational risk control and management is to identify, prevent, measure, mitigate and monitor this risk.

The overriding requirement for the Group, therefore, is to identify and eliminate any clusters of operational risk, irrespective of whether losses have been incurred. Measurement of this risk also facilitates its management, since it enables priorities to be established and decisions to be hierarchised.

Analysis and monitoring of controls in market operations

The turmoil in the financial markets in 2007 and the increased operational risk arising from the growing complexity of financial instruments prompted the Group to steadily strengthen the operational control of its financial market activities, thus bolstering the highly stringent and conservative risk and operational principles already applied on a regular basis by the Santander Group.

In addition to specifically monitoring all operational control-related matters, in all its units the Group placed greater emphasis on the following aspects, the reviews conducted being validated on a monthly basis by the management Committee of each unit. The most noteworthy of these aspects are as follows:

- Review of the valuation models and, in general, of the values of the portfolios.

- Processes for the capture and independent validation of prices.

- Adequate confirmation of transactions with counterparties.

- Review of transaction cancellations/modifications.

- Review and monitoring of the effectiveness of guarantees, collateral and risk mitigators.

Role of insurance in operational risk management

The Santander Group was a pioneer in considering insurance as a key factor in operational risk management. Since 2004 the Operational Risk area has worked closely with the Insurance area in the Santander Group in all activities leading to improvements in the two areas.

As a result of this cooperation, the Santander Group has classified its insurance policies by type of operational risk, based on internal and BIS classifications. At 31 December 2007, 90% of its banking business had been catalogued in this way.

The BBB policy provides protection against, for instance, the losses resulting from internal fraud, robbery, raids, electronic crime, forgery and fraudulent mortgages.

E. ECONOMIC CAPITAL

In calculating economic capital, a bank must decide what level of losses it wishes to cover, i.e. with what confidence level it wishes to ensure the continuity of its business. The target confidence level that the Santander Group intends to achieve using economic capital is 99.97%, higher than the 99.90% assumed by the regulatory capital formulas proposed in the New Basel Capital Accord. The difference between the two levels means that the probability of failure assumed by the Group is 0.03%, instead of 0.1%, i.e. 3 times lower (3 times better) than the BIS proposal.

In external rating terms, a 99.97% confidence level requires the Group to have sufficient capital to achieve a degree of solvency equivalent to an AA rating, whereas the maximum rating attainable with a 99.90% confidence level would be A-, given the higher associated probability of failure.

The Group's economic capital model enables it to quantify the consolidated risk profile taking into account all the significant risks of the business and the diversification effect inherent in a multinational, multibusiness group like Santander. The Group is using this model as a basis for its proposal in the Internal Capital Adequacy Assessment Process in accordance with Bank of Spain rules within the framework of Pillar 2 of Basel II.

The economic capital measurement and aggregation model pays particular attention to the concentration risk for wholesale portfolios (large corporations, banks and sovereigns).

Analysis of global risk profile

At 31 December 2007, the distribution, by type of risk and main business units, of the Group's global risk profile measured in terms of economic capital, was as follows:

By business unit:	
Latin America	25.5%
Financial Management and Investments	31.6%
Abbey	5.3%
Santander Network Spain	8.1%
Banesto	6.2%
Wholesale Banking Spain	8.7%
Portugal	3.3%
Santander Consumer	5.7%
Other	5.7%

By type of risk:	
Credit risk	48.2%
Equities market risk	21.4%
Other market risks	9.1%
Structural interest rate risk	5.9%
Business risk	3.9%
Operational risk	6.6%
Other risks	5.0%

The lending business, which accounts for 48.2% of the Group's economic capital, continues to be the main source of risk. It is followed in importance by equities market risk, which was heightened at 2007 year-end due to the treatment under the capital model of the investment in RFS Holding (Banco Real).

The distribution of the economic capital among the main units reflects the diversification of the Group's business. Latin America, with 25.5%, accounts for a slightly lower proportion than in 2006.

F. REPUTATIONAL RISK

The Santander Group considers the reputational risk function to be an essential feature of its activities in all areas of the Organisation. Management of this risk is performed mainly through:

Global New Products Committee (CGNP)

Any new product or service that a Santander Group entity intends to market must be authorised by this Committee.

In 2007 the Committee held 14 meetings (two of which were conducted in writing without convening a formal meeting), at which a total of 186 products or product families were analysed.

A Local New Products Committee is set up in each country in which a Santander Group entity is based. Once a new product or service has undergone the required procedures, this Committee must seek the approval of the Global New Products Committee. In Spain, the functions of the Local New Products Committee are discharged by the Global New Products Committee.

The areas represented on the Global New Products Committee, which is chaired by the General Secretary, are: Tax Advisory, Legal Advisory, Customer Care, Internal Audit, Commercial Banking, Global Corporate Banking, Santander Private Banking, Compliance, the Controller's Unit, Financial Transactions and Markets, Operations and Services, Global Wholesale Banking Risks, Corporate Banking Risks and IFIs, Credit Risk, Financial Risks, Methodology, Processes and Infrastructure Risks, Operational Risk, Technology, Global Treasury, Universities and, lastly, the unit proposing the new product or a representative of the Local New Products Committee.

Before a new product or service is launched, the aforementioned areas, together with any independent experts required to correctly evaluate the risks incurred (such as, for example, Money Laundering Prevention), conduct an exhaustive analysis of all the matters involved and express their opinion as to whether the product or service should be marketed.

On the basis of the documentation received, the Global New Products Committee, after checking that all requirements for the approval of the new product or service have been met and considering the risk guidelines established by the Santander Group's Risk Standing Committee, either approves, rejects or sets conditions for the proposed new product or service.

The Global New Products Committee pays particular attention to the suitability of the new product or service for the environment in which it is to be marketed. To this end, it places particular emphasis on ensuring that:

- Each product or service is sold by people who know how to sell it.
- Customers know what they are investing in and are aware of the risk involved in the particular product or service, and this can be evidenced by supporting documentation.
- The product or service fits the customer's risk profile.
- Each product or service is sold where its sale is possible, not only from a legal or tax standpoint (i.e. it complies with the legal or tax regime of the country in question), but also with regard to the local financial culture.
- When a given product or service is approved, maximum placement limits are set for the amount that can be sold in each country.

Procedures Manual for the Marketing of Financial Products

This Manual, which has been used at Banco Santander since 2004 in the retail sale of financial products in Spain, was fully updated in 2007 as a result of the entry into force on 1 November of Directive 2004/39 on Markets in Financial Instruments ("MiFID"), which establishes new requirements governing the sale of financial products.

The objective of this Manual is to guarantee: (i) the appropriate valuation of financial products prior to their commercial use; (ii) the proper conduct of commercial activities, based on the characteristics of the service, the product and the customer; and (iii) compliance with the regulations applicable to the marketing of financial products, including MiFID.

Investment services for financial products, including: fixed-income or equity securities or other financial instruments, money market instruments, shares or units in collective investment undertakings, savings and investment insurance, traded derivatives, OTC derivatives and atypical financial contracts, will be subject to this Manual. Nevertheless, the Global New Products Committee may opt to include other financial products within the scope of the Procedures Manual.

The Manual starts out with a segmentation of customers and products and establishes various categories of commercial treatment, which basically depend on the type of service to be provided. The combination of these elements (customer category, product type and commercial treatment) produces a matrix that determines the mechanism to be applied (advisability test, suitability test) in order to assess a customer's suitability for a given product, and to establish the warnings that should be given to the customer.

The customer and product segmentation is the result of uniting the internal classification used by Santander prior to MiFID with that established by the Directive, giving rise to a level of protection that surpasses the minimum required under MiFID.

The various types of commercial treatment, arranged on a scale of descending involvement of the Bank, are as follows: (i) advised sale, which includes, in turn, portfolio advice and management; and (ii) non-advised sale, which encompasses marketing and mere performance of the sale.

In 2007, 120 products subject to this Manual were submitted for approval. Although the vast majority of these products are investment funds, authorisation was also granted for the marketing of other kinds of products, such as warrants, hedging products, preference shares and IPOs and secondary offerings.

Of these 120 products, 68 were new products submitted to the Global New Products Committee and 52 were existing products submitted to the Office of the Manual (this specific body created to oversee implementation of the Manual forms part of the Compliance Department). These 120 products were categorised as follows: 36 green products (30%), 49 yellow products (41%) and 32 red products (27%). Three products were not assigned any colour: two of them because they are generic products to which a colour will be assigned for each particular issue that it is intended to market, and the third because its approval is conditional upon a final review. The red, yellow and green colours are assigned, not only on the basis of the risk of loss involved, but also taking into account the difficulty experienced by the public in understanding the features of the related products.

Of the 28 products approved on or after 1 November, 19 were classified under MiFID as complex products and 9 as non-complex products.

Risk Standing Committee

The Risk Standing Committee, in its capacity as the body ultimately responsible for global risk management and for all banking operations, assesses, with the support of the General Secretary's Division, the reputational risk within its scope of competence in areas for which it has decision-making powers.

Audit and Compliance Committee

The Audit and Compliance Committee is also responsible for the Group's reputational risk. Amongst other functions, it supervises compliance with the Group's Code of Conduct in Securities Markets, the manuals and procedures for the prevention of money laundering and, in general, the Bank's governance and compliance rules, and makes any required proposals for improvement.

57. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

SUBSIDIARIES OF BANCO SANTANDER, S.A. (1)

		% of Ownership Held by the Bank				Millions of Euros (a)		
Entity	Location	Direct	Indirect	% of Voting Rights (k)	Line of Business	Capital and Reserves	Net Profit (Loss) for the Year	Amount of Ownership Interest
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	Finance	39	99	-
Abbey National Alpha Investments (d)	United Kingdom	-	100.00%	100.00%	Finance	62	-	62
Abbey National American Investments Limited	United Kingdom	-	100.00%	100.00%	Finance	374	15	345
Abbey National Baker Street Investments	United Kingdom	-	100.00%	100.00%	Finance	168	-	168
Abbey National Beta Investments Limited	United Kingdom	-	100.00%	100.00%	Finance	145	6	116
Abbey National Financial Investments 4 B.V.	Netherlands	-	100.00%	100.00%	Finance	341	16	341
Abbey National General Insurance Services Limited	United Kingdom	-	100.00%	100.00%	Advisory services	(52)	-	-
Abbey National Homes Limited	United Kingdom	-	100.00%	100.00%	Finance	(49)	-	-
Abbey National International Limited	Jersey	-	100.00%	100.00%	Banking	277	42	204
Abbey National Investments	United Kingdom	-	100.00%	100.00%	Finance	161	7	145
Abbey National June Leasing (5) Limited	United Kingdom	100.00%	-	100.00%	Leasing	276	-	273
Abbey National March Leasing (4) Limited	United Kingdom	-	100.00%	100.00%	Leasing	(24)	2	-
Abbey National PEP & ISA Managers Limited	United Kingdom	-	100.00%	100.00%	Fund and portfolio management	53	(1)	50
Abbey National plc	United Kingdom	100.00%	-	100.00%	Banking	3,559	478	12,429
Abbey National Property Investments	United Kingdom	-	100.00%	100.00%	Finance	392	24	189
Abbey National Securities Inc.	United States	-	100.00%	100.00%	Broker-dealer	35	7	31
Abbey National Treasury International (IOM) Limited	Isle of Man	-	100.00%	100.00%	Banking	11	1	8
Abbey National Treasury Investments	United Kingdom	-	100.00%	100.00%	Finance	331	22	251
Abbey National Treasury Services Investments Limited	United Kingdom	-	100.00%	100.00%	Finance	1,083	39	1,023
Abbey National Treasury Services Overseas Holdings	United Kingdom	-	100.00%	100.00%	Holding company	1,418	73	1,389
Abbey National Treasury Services plc	United Kingdom	-	100.00%	100.00%	Banking	3,561	145	3,885
Abbey National UK Investments	United Kingdom	-	100.00%	100.00%	Finance	1,038	45	827
Agencia de Seguros Santander, Ltda.	Colombia	-	100.00%	100.00%	Insurance	-	-	-
Alcaidesa Holding, S.A. (consolidated)	Spain	-	44.60%	50.01%	Property	77	-	28
América Latina Tecnología de México, S.A. De C.V.	Mexico	100.00%	-	100.00%	It services	72	(8)	47
Andaluza de Inversiones, S.A.	Spain	-	100.00%	100.00%	Holding company	28	13	27
Aviación Regional Cántabra, A.I.E.	Spain	73.58%	-	73.58%	Leasing	27	5	22
Banco Alicantino de Comercio, S.A.	Spain	-	89.19%	100.00%	Banking	9	-	8
Banco Banif, S.A.	Spain	100.00%	-	100.00%	Banking	215	56	84
Banco de Albacete, S.A.	Spain	100.00%	-	100.00%	Banking	12	-	9
Banco de Asunción, S.A.	Paraguay	-	99.33%	99.33%	Banking	1	-	34
Banco de Venezuela, S.A., Banco Universal (f)	Venezuela	96.78%	1.64%	98.42%	Banking	385	221	119
Banco Español de Crédito, S.A.	Spain	88.12%	1.07%	89.19%	Banking	4,145	660	1,340
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	-	100.00%	100.00%	Banking	1,383	63	1,159
Banco Santander (Panamá), S.A.	Panama	-	100.00%	100.00%	Banking	7	1	55
Banco Santander (Suisse) SA	Switzerland	-	100.00%	100.00%	Banking	148	36	15
Banco Santander Bahamas International Limited	Bahamas	-	100.00%	100.00%	Banking	1,125	30	785
Banco Santander Chile	Chile	-	76.73%	76.91%	Banking	1,541	421	1,156
Banco Santander Colombia, S.A.	Colombia	-	97.64%	97.64%	Banking	139	6	444
Banco Santander Consumer Portugal S.A.	Portugal	-	100.00%	100.00%	Banking	106	16	277
Banco Santander International	United States	95.89%	4.11%	100.00%	Banking	163	24	73
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	Banking	22	(1)	22
Banco Santander Puerto Rico	Puerto Rico	-	90.59%	100.00%	Banking	402	16	306
Banco Santander Río S.A.	Argentina	8.23%	91.07%	99.30%	Banking	280	71	1,647
Banco Santander S.A.	Brazil	-	98.08%	98.08%	Banking	3,078	505	3,771
Banco Santander Totta, S.A.	Portugal	-	99.72%	99.86%	Banking	1,416	343	2,343

SUBSIDIARIES OF BANCO SANTANDER, S.A. (1)

		% of Ownership Held by the Bank				Millions of Euros (a)		
Entity	Location	Direct	Indirect	% of Voting Rights (k)	Line of Business	Capital and Reserves	Net Profit (Loss) for the Year	Amount of Ownership Interest
Banco Santander, S.A.	Uruguay	90.93%	9.07%	100.00%	Banking	43	12	48
Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico	-	74.95%	99.99%	Banking	3,150	683	1,647
Banco Totta de Angola, SARL	Angola	-	99.70%	99.99%	Banking	54	14	19
Banesto Banco de Emisiones, S.A.	Spain	-	89.19%	100.00%	Banking	99	1	87
Banesto Bolsa, S.A., Sdad. Valores y Bolsa	Spain	-	89.19%	100.00%	Broker-dealer	93	9	31
Banesto Factoring, S.A. Establecimiento Financiero de Crédito	Spain	-	89.19%	100.00%	Factoring	111	5	105
Banif Gestión, S.A., S.G.I.I.C.	Spain	-	97.84%	100.00%	Fund management company	23	2	15
Bansalease, S.A., E.F.C.	Spain	100.00%	-	100.00%	Leasing	84	4	57
BRS Investment, S.A.	Argentina	-	100.00%	100.00%	Holding company	19	1	237
BSN - Banco Santander de Negocios Portugal, S.A.	Portugal	-	99.86%	100.00%	Banking	78	38	28
BST International Bank, Inc.	Puerto Rico	-	99.72%	100.00%	Banking	232	17	3
CA Premier Banking Limited	United Kingdom	-	100.00%	100.00%	Banking	5	-	5
Cántabra de Inversiones, S.A.	Spain	100.00%	-	100.00%	Holding company	204	(78)	218
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	-	100.00%	Holding company	169	15	140
Capital Riesgo Global, SCR de Régimen Simplificado, S.A.	Spain	87.09%	12.91%	100.00%	Venture capital company	366	34	321
Carfax (Guernsey) Limited	Guernsey	-	100.00%	100.00%	Insurance brokerage	81	5	27
Cartera Mobiliaria, S.A., SICAV	Spain	-	74.49%	89.63%	Securities investment	598	15	201
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander	Mexico	-	74.93%	99.97%	Broker-dealer	24	15	28
Cater Allen International Limited	United Kingdom	-	100.00%	100.00%	Broker-dealer	337	50	161
Cater Allen Limited	United Kingdom	-	100.00%	100.00%	Banking	240	25	303
CB Extrobank	Russia	-	100.00%	100.00%	Banking	37	(3)	44
Central Inmobiliaria de Santiago, S.A. de C.V.	Mexico	100.00%	-	100.00%	Property management	68	(1)	73
Centro de Equipamientos Zona Oeste, S.A.	Spain	93.62%	6.38%	100.00%	Property	(21)	(42)	43
Corpoban, S.A.	Spain	-	89.19%	100.00%	Securities investment	71	2	61
Crefisa, Inc.	Puerto Rico	100.00%	-	100.00%	Finance	24	(2)	17
Drive ABS LP	United States	-	90.00%	100.00%	Inactive	32	-	7
Drive Consumer LP	United States	-	90.00%	100.00%	Inactive	24	-	2
Drive VFC GP LLC	United States	-	90.00%	100.00%	Inactive	26	(78)	-
Dudebasa, S.A.	Spain	-	89.19%	100.00%	Finance	44	1	22
Efectividad en Medios de Pago, S.A. de C.V.	Mexico	98.61%	1.39%	100.00%	Broker-dealer	23	1	10
Elerco, S.A.	Spain	-	89.19%	100.00%	Leasing	270	13	124
Fideicomiso 100740 SLPT	Mexico	-	74.95%	100.00%	Finance	41	3	28
Fideicomiso GFSSLPT Banca Serfín, S.A.	Mexico	-	74.95%	100.00%	Finance	41	1	25
Gestión de Actividades Tecnológicas, S.A.	Spain	99.98%	0.02%	100.00%	Securities investment	(20)	1	-
Gestión Industrial Hispamer, S.A.	Spain	100.00%	0.01%	100.00%	Securities investment	(37)	-	-
Gestión Santander, S.A. de C.V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Santander	Mexico	-	74.96%	100.00%	Finance	14	9	1
Hipotebansa EFC, S.A.	Spain	100.00%	-	100.00%	Mortgage loan company	46	4	36
Holmes Financing (Nº10) plc	United Kingdom	-	(b)	-	Finance	(1)	(23)	-
Holmes Funding Limited	United Kingdom	-	(b)	-	Finance	58	97	-
Hualle, S.A.	Spain	-	89.19%	100.00%	Securities investment	1	41	5
Ingeniería de Software Bancario, S.L.	Spain	100.00%	-	100.00%	It services	83	(21)	76
Inmobiliaria Lerma y Amazonas, S.A. De C.V.	Mexico	-	74.93%	100.00%	Property management	18	1	11
Internacional Compañía Seguros de Vida, S.A.	Argentina	-	59.20%	59.20%	Insurance	18	19	10

SUBSIDIARIES OF BANCO SANTANDER, S.A. (1)

Entity	Location	% of Ownership Held by the Bank Direct	% of Ownership Held by the Bank Indirect	% of Voting Rights (k)	Line of Business	Millions of Euros (a) Capital and Reserves	Net Profit (Loss) for the Year	Amount of Ownership Interest
Inversiones Turísticas, S.A.	Spain	-	89.19%	100.00%	Hospitality	34	1	32
Island Insurance Corporation	Puerto Rico	-	90.59%	100.00%	Insurance	4	-	3
La Unión Resinera Española, S.A. (consolidated)	Spain	74.87%	21.28%	96.23%	Chemicals	50	-	28
Laboratorios Indas, S.A. (e)	Spain	-	73.41%	100.00%	Pharmaceuticals	147	10	27
Laparanza, S.A. (c)	Spain	61.59%	-	61.59%	Agriculture and livestock	28	1	16
Luresa Inmobiliaria, S.A.	Spain	-	96.14%	100.00%	Property	19	1	9
Luri 1, S.A.	Spain	-	5.58%	100.00%	Property	101	2	6
Luri 2, S.A.	Spain	-	4.81%	100.00%	Property	101	1	5
N&P (B.E.S.) Loans Limited	United Kingdom	-	100.00%	100.00%	Leasing	148	6	132
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	Shipping company	35	6	35
Norbest A.S.	Norway	7.94%	92.06%	100.00%	Securities investment	506	(133)	473
Oil-Dor, S.A.	Spain	-	89.19%	100.00%	Finance	147	2	109
Open Bank Santander Consumer, S.A.	Spain	-	100.00%	100.00%	Banking	44	23	47
Optimal Investment Services SA	Switzerland	-	99.99%	99.99%	Fund management company	30	16	5
Pan American Bank Limited	Bahamas	-	100.00%	100.00%	Banking	2	-	21
Patagon Euro, S.L.	Spain	100.00%	-	100.00%	Holding company	672	26	587
Porterbrook Leasing Company Limited	United Kingdom	-	100.00%	100.00%	Leasing	625	93	420
Porterbrook Maintenance Limited	United Kingdom	-	100.00%	100.00%	Maintenance services	153	7	-
Riobank International (Uruguay) SAIFE	Uruguay	-	100.00%	100.00%	Banking	18	-	15
Rue Villot 26, S.L.	Spain	-	80.00%	80.00%	Property	26	-	24
Santander AM Holding, S.L.	Spain	100.00%	-	100.00%	Holding company	100	13	6
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	-	99.86%	100.00%	Fund management company	27	9	7
Santander Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.	Brazil	-	98.08%	100.00%	Asset management	22	6	22
Santander Asset Management S.A. Administradora General de Fondos	Chile	-	76.74%	100.00%	Fund management company	75	27	8
Santander Asset Management UK Holdings Limited	United Kingdom	-	100.00%	100.00%	Holding company	183	-	183
Santander Asset Management, S.A., S.G.I.I.C.	Spain	28.30%	69.54%	100.00%	Fund management company	93	70	33
Santander Bank & Trust Ltd.	Bahamas	-	100.00%	100.00%	Banking	1,498	211	1,078
Santander Benelux, S.A./N.V.	Belgium	100.00%	-	100.00%	Banking	940	43	925
Santander Brasil Arrendamento Mercantil S.A.	Brazil	-	98.08%	100.00%	Leasing	179	6	125
Santander Brasil S.A. Corretora de Títulos e Valores Mobiliários	Brazil	-	98.08%	100.00%	Broker-dealer	26	41	19
Santander Brasil Seguros S.A.	Brazil	-	99.38%	100.00%	Insurance	4	16	14
Santander Capitalizaçao S.A.	Brazil	-	99.38%	100.00%	Finance	2	21	6
Santander Cards Limited	United Kingdom	100.00%	-	100.00%	Financial services	132	(50)	149
Santander Carteras, S.G.C., S.A.	Spain	-	100.00%	100.00%	Fund management company	18	3	8
Santander Consumer (UK) plc	United Kingdom	-	100.00%	100.00%	Advisory services	75	(7)	89
Santander Consumer Bank AS	Norway	-	100.00%	100.00%	Finance	257	39	370
Santander Consumer Bank AG	Germany	-	100.00%	100.00%	Banking	872	385	884
Santander Consumer Bank S.p.A.	Italy	-	100.00%	100.00%	Finance	205	21	262
Santander Consumer Finance a.s.	Czech Republic	-	100.00%	100.00%	Leasing	38	3	33
Santander Consumer Finance B.V.	Netherlands	-	100.00%	100.00%	Finance	34	3	32
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	Banking	3,919	693	2,538
Santander Consumer Holding GmbH	Germany	-	100.00%	100.00%	Holding company	1,096	196	1,891

SUBSIDIARIES OF BANCO SANTANDER, S.A. (1)

						Millions of Euros (a)		
		% of Ownership Held by the Bank		% of Voting Rights (k)			Net Profit (Loss) for the Year	Amount of Ownership Interest
Entity	Location	Direct	Indirect		Line of Business	Capital and Reserves		
Santander Consumer Iber-Rent, S.L.	Spain	-	60.00%	60.00%	Full-service lease	56	5	18
Santander Consumer Spain Auto 07-1	Spain	-	(b)	-	Securitisation	20	(41)	-
Santander Consumer Spain Auto 07-2	Spain	-	(b)	-	Securitisation	(9)	(20)	-
Santander Consumer Spólka Akcyjna	Poland	-	100.00%	100.00%	Banking	138	29	121
Santander Consumer USA Inc.	United States	90.00%	-	90.00%	Finance	33	187	583
Santander Consumer, EFC, S.A.	Spain	-	100.00%	100.00%	Finance	242	139	168
Santander Corredora de Seguros Limitada	Chile	-	76.73%	100.00%	Insurance brokerage	34	10	1
Santander de Leasing, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	Leasing	41	7	35
Santander de Renting, S.A.	Spain	99.99%	0.01%	100.00%	Full-service lease	22	(1)	18
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	-	100.00%	Factoring	99	23	76
Santander Factoring, S.A.	Chile	-	99.51%	100.00%	Factoring	22	2	6
Santander Financial Products, Ltd.	Ireland	-	100.00%	100.00%	Finance	178	6	162
Santander Financial Services, Inc.	Puerto Rico	-	90.59%	100.00%	Lending company	94	(40)	84
Santander Global Property, S.L.	Spain	94.44%	5.56%	100.00%	Securities investment	138	-	128
Santander International Bank of Puerto Rico, Inc.	Puerto Rico	-	90.59%	100.00%	Banking	97	2	63
Santander Investimentos em Participações S.A.	Brazil	-	98.08%	100.00%	Collection and			
Payment services	56	60	100					
Santander Investment Bank Limited	Bahamas	-	100.00%	100.00%	Banking	88	1	171
Santander Investment Bolsa, S.V., S.A.	Spain	-	100.00%	100.00%	Broker-dealer	119	87	104
Santander Investment Chile, Limitada	Chile	-	100.00%	100.00%	Finance	170	8	126
Santander Investment Limited	Bahamas	-	100.00%	100.00%	Broker-dealer	(35)	(17)	-
Santander Investment Securities Inc.	United States	-	100.00%	100.00%	Broker-dealer	57	(1)	295
Santander Investment, S.A.	Spain	100.00%	-	100.00%	Banking	203	310	14
Santander Investment, S.A., Corredores de Bolsa	Chile	-	88.13%	100.00%	Broker-dealer	46	5	28
Santander Leasing S.A.	Chile	-	76.85%	100.00%	Leasing	42	1	48
Santander Merchant Bank Limited	Bahamas	-	100.00%	100.00%	Banking	4	-	50
Santander Mortgage Corp.	Puerto Rico	-	90.59%	100.00%	Mortgage loan company	19	-	15
Santander Overseas Bank, Inc. (h)	Puerto Rico	-	100.00%	100.00%	Banking	343	25	187
Santander PB UK (Holdings) Limited	United Kingdom	100.00%	-	100.00%	Finance	277	-	282
Santander Pensiones, S.A., E.G.F.P.	Spain	21.20%	76.64%	100.00%	Pension fund management company	77	13	50
Santander Portfolio Management UK Limited	United Kingdom	-	100.00%	100.00%	Finance	40	-	31
Santander Private Banking s.p.a.	Italy	-	100.00%	100.00%	Banking	29	(7)	43
Santander Private Banking UK Limited	United Kingdom	-	100.00%	100.00%	Property	565	-	565
Santander Real Estate, S.G.I.I.C., S.A.	Spain	-	99.14%	100.00%	Fund management company	49	28	6
Santander Río Seguros S.A.	Argentina	-	100.00%	100.00%	Insurance	6	5	6
Santander S.A. - Corretora de Câmbio e Títulos	Brazil	-	98.08%	100.00%	Broker-dealer	15	37	10
Santander S.A. Agente de Valores	Chile	-	76.95%	100.00%	Broker-dealer	183	10	20
Santander Securities Corporation	Puerto Rico	-	90.59%	100.00%	Broker-dealer	24	7	15
Santander Seguros de Vida, S.A.	Chile	-	100.00%	100.00%	Insurance	63	34	9
Santander Seguros Generales S.A.	Chile	99.50%	0.50%	100.00%	Insurance	12	1	12
Santander Seguros S.A.	Brazil	-	99.38%	99.38%	Insurance	125	48	100
Santander Seguros, S.A.	Uruguay	-	100.00%	100.00%	Insurance	2	(1)	1
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	-	95.78%	100.00%	Insurance	287	81	215
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	-	99.86%	100.00%	Insurance	45	46	22
Santander Unit Trust Managers UK Limited	United Kingdom	-	100.00%	100.00%	Fund and portfolio management	22	2	20
Scottish Mutual Pensions Limited	United Kingdom	-	100.00%	100.00%	Insurance	6	-	98

SUBSIDIARIES OF BANCO SANTANDER, S.A. (1)

Entity	Location	% of Ownership Held by the Bank Direct	Indirect	% of Voting Rights (k)	Line of Business	Millions of Euros (a) Capital and Reserves	Net Profit (Loss) for the Year	Amount of Ownership Interest
Seguros Santander, S.A., Grupo Financiero Santander	Mexico	-	74.96%	100.00%	Insurance	34	19	25
Serfin International Bank and Trust, Limited	Cayman Islands	-	99.72%	100.00%	Banking	27	1	22
Sheppards Moneybrokers Limited	United Kingdom	-	100.00%	100.00%	Advisory services	21	-	18
Sinvest Inversiones y Asesorías Limitada	Chile	-	100.00%	100.00%	Finance	58	2	2
Sistema 4B, S.A.	Spain	52.17%	13.11%	66.87%	Cards	13	7	10
Solarlaser Limited	United Kingdom	-	100.00%	100.00%	Property	60	3	54
Totta & Açores Inc. Newark	United States	-	99.72%	100.00%	Banking	1	-	-
Totta (Ireland), PLC (h)	Ireland	-	99.72%	100.00%	Finance	342	89	341
Totta Crédito Especializado, Instituiçao Financeira de Crédito, S.A. (IFIC)	Portugal	-	99.83%	100.00%	Leasing	102	23	42
Totta Urbe - Empresa de Administraçâo e Construçôes, S.A.	Portugal	-	99.72%	100.00%	Property	104	4	148
UNIFIN S.p.A.	Italy	-	70.00%	70.00%	Finance	14	5	44
Vista Desarrollo, S.A. SCR	Spain	100.00%	-	100.00%	Venture capital			
Company	246	15	133					
W.N.P.H. Gestao e Investimentos Sociedade Unipessoal, S.A.	Portugal	-	100.00%	100.00%	Securities investment	33	1	-
Wallcesa, S.A.	Spain	100.00%	-	100.00%	Securities investment	25	(47)	-

(a) Amount per books of each company at 31 December 2007, disregarding, where appropriate, any interim dividends paid in the year. The amount of the ownership interest (net of allowances) is the figure per the books of each holding company multiplied by the Group's percentage of ownership, disregarding impairment of goodwill on consolidation. The data on foreign companies were translated to euros at the year-end exchange rates.
(b) Companies over which effective control is exercised.
(c) Data from the latest approved financial statements at 31 December 2006.
(d) Data from the latest approved financial statements at 31 March 2007.
(e) Data from the latest approved financial statements at 30 June 2007.
(f) Data uniform with 2007 calendar year.
(g) Pursuant to Article 3 of Royal Decree 1815/1991, of 20 December, approving the rules for the preparation of consolidated financial statements, in order to determine voting rights, the voting rights relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies were added to the voting rights directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(h) Data from the latest approved financial statements at 30 November 2007.
(1) The preference share and security issuer companies are detailed in Appendix III, together with other relevant information.

LISTED COMPANIES IN WHICH THE SANTANDER GROUP HAS OWNERSHIP INTERESTS OF MORE THAN 3% (G), ASSOCIATES OF THE SANTANDER GROUP AND JOINTLY CONTROLLED ENTITIES

Entity	Location	% of Ownership Held by the Bank Direct	Indirect	% of Voting Rights (f)	Line of Business	Millions of Euros (a) Assets	Capital and Reserves	Net Profit (Loss) for the Year
Accordfin España, E.F.C., S.A.	Spain	-	49.00%	49.00%	Finance	437	21	5
Affirmative Insurance Holdings Inc. (b)	United States	-	5.61%	-	Insurance	379	134	7
Alcaidesa Inmobiliaria, S.A.	Spain	-	44.60%	44.60%	Property	106	68	(1)
Allfunds Bank, S.A.	Spain	-	50.00%	50.00%	Banking	134	55	23
Americredit Corp. (consolidated) (d)	United States	-	4.38%	4.38%	Finance	12,099	1,165	245
Attijari International Bank Société Anonymé (b)	Morocco	50.00%	-	50.00%	Banking	315	4	1
Attijariwafa Bank Société Anonyme (consolidated) (b)	Morocco	-	14.55%	14.55%	Banking	12,574	1,019	170
Autopistas del Sol, S.A. (b)	Argentina	-	14.17%	14.17%	Motorway concessions	332	77	(6)
Banco Internacional da Guiné-Bissau, S.A. (h)	Guinea Bissau	-	48.86%	49.00%	Banking	12	(30)	(1)
Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (consolidated) (b)				Spain	1.22%	6.69%	8.07%Financial	
services	4,385	347	131					
Companhia Energética de São Paulo	Brazil	-	7.42%	7.57%	Energy	7,567	3,908	69
Compañía Concesionaria del Túnel de Soller, S.A.	Spain	-	29.17%	32.70%	Construction	67	17	1
Compañía Española de Petróleos, S.A. (consolidated) (b)	Spain	28.71%	2.93%	31.64%	Oil refining	8,724	4,159	826
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (b)				Spain	13.95%	6.41%	21.08%Credit	
insurance	999	165	15					
Consorcio Credicard, C.A.	Venezuela	-	32.80%	33.33%	Cards	84	11	10
Ensafeca Holding Empresarial, S.L.	Spain	-	31.82%	31.82%	Securities investment	24	23	1
Friedrichstrasse, S.L.	Spain	-	45.00%	45.00%	Property	44	44	-
Grupo Financiero Galicia, S.A. (consolidated) (b)	Argentina	-	6.67%	3.50%	Banking	5,063	349	(4)
Iberdrola, S.A. (consolidated) (b)	Spain	0.70%	2.58%	3.29%	Electricity	33,061	8,907	1,660
Imperial Holding S.C.A. (c)	Luxembourg	-	36.67%	36.67%	Securities investment	184	38	-
Kepler Weber S.A. (b)	Brazil	-	5.57%	5.68%	Storage systems	59	28	(96)
Konecta Bto, S.L.	Spain	-	44.25%	44.25%	Telecommunications	20	19	1
Norchem Participaçoes e Consultoria S.A.	Brazil	-	49.04%	50.00%	Broker-dealer	23	16	3
Petroquímica União S.A. (consolidated) (b)	Brazil	-	9.89%	10.08%	Chemicals	680	248	57
Prodesur Mediterráneo, S.L.	Spain	-	44.60%	50.00%	Property	78	22	(2)
Proinsur Mediterráneo, S.L.	Spain	-	44.60%	50.00%	Property	82	28	(1)
Real Estate Investment Society España, S.A.	Spain	31.80%	-	31.80%	Property	100	100	-
RFS Holdings B.V.	Netherlands	27.91%	-	27.91%	Holding company	69,826	69,814	5
Servicio Pan Americano de Protección, S.A. de C.V.	Mexico	-	15.78%	21.05%	Security	145	84	(5)
Shinsei Bank, Ltd. (consolidated) (e)	Japan	-	4.23%	4.23%	Banking	65,711	6,028	(369)
Sos Cuétara, S.A. (consolidated) (b)	Spain	2.18%	2.61%	5.09%	Pastry manufacturer	1,744	590	13
Sovereign Bancorp, Inc. (consolidated) (b)	United States	24.43%	-	24.43%	Banking	60,894	5,779	93
Transolver Finance EFC, S.A.	Spain	-	50.00%	50.00%	Leasing	224	29	1
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	-	50.00%	50.00%	Mortgage loan company	3,020	161	48

(a)Amounts per the books of each company generally at 31 December 2007, unless otherwise stated, because the financial statements have not yet been authorised for issue. The data on foreign companies were translated to euros at the year-end exchange rates.
(b)Data from the latest approved financial statements at 31 December 2006.
(c)Data from the latest approved financial statements at 31 July 2007.
(d)Data from the latest approved financial statements at 30 June 2007.
(e)Data at 31 March 2007, the closing date of this entity.
(f)Pursuant to Article 3 of Royal Decree 1815/1991, of 20 December, approving the rules for the preparation of consolidated financial statements, in order to determine voting rights, the voting rights relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies were added to the voting rights directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(g)Excluding the Group companies listed in Appendix I.
(h)Data from the latest approved financial statements at 30 April 2002.

PREFERENCE SHARE AND SECURITY ISSUER SUBSIDIARIES

		% of Ownership Held by the Bank			Millions of Euros (a)			
Entity	Location	Direct	Indirect	Line of Business	Capital	Reserves	Net Profit (Loss) for the Year	Preference Dividends
Abbey National Capital Trust I	United States	-	(b)	Finance	-	-	-	-
Abbey National Capital Trust II	United States	-	(b)	Finance	-	-	-	-
Banesto Holdings, Ltd.	Guernsey	-	89.19%	Securities investment	-	45	6	6
Banesto Preferentes, S.A.	Spain	-	88.98%	Finance	-	-	6	6
Pinto Totta International Finance, Limited	Cayman Islands	-	49.86%	Finance	-	-	13	13
Santander Emisora 150, S.A., Sole-Shareholder Company	Spain	100.00%	-	Finance	-	-	-	-
Santander Finance Capital, S.A., Sole-Shareholder Company	Spain	100.00%	-	Finance	-	-	138	138
Santander Finance Preferred, S.A., Sole-Shareholder Company	Spain	100.00%	-	Finance	-	-	109	109
Totta & Açores Financing, Limited	Cayman Islands	-	99.72%	Finance	-	-	12	12

(a) Amounts per the books of each company at 31 December 2007, translated to euros (in the case of foreign companies) at the year-end exchange rates.
(b) Companies over which effective control is exercised.

NOTIFICATIONS OF ACQUISITIONS AND DISPOSALS OF INVESTMENTS IN 2007

(Article 86 of the Consolidated Companies Law and Article 53 of Securities Market Law 24/1998)

On 13 September 2007, the CNMV registered two notifications from Banco Santander, S.A. which stated the variations in the ownership interest held in the share capital of AMPER, S.A. (one change in which the holding exceeded 5% and another in which it was reduced to below 5%).

Appendix V

OTHER INFORMATION ON THE SHARE CAPITAL OF THE GROUP'S BANKS

Following is certain information on the share capital of the Group's banks.

1. Banco Santander S.A. (formerly Banco Santander Banespa S.A.)

a) Number of equity instruments held by the Group

The Santander Group holds 70,532,121,965 ordinary shares and 59,683,197,827 preference shares through its subsidiaries Grupo Empresarial Santander, S.L. and Santander Seguros, S.A. The shares composing the share capital of Banespa have no par value.

The preference shares have no voting rights and are not convertible into ordinary shares. However, they have the following advantages:

1. Their dividends are 10% higher than those on ordinary shares.
2. Priority in the distribution of dividends.
3. Participation, on the same terms as ordinary shares, in capital increases resulting from the capitalisation of reserves and profits and in the distribution of bonus shares arising from the capitalisation of retained earnings, reserves or any other funds.
4. Priority in the reimbursement of capital in the event of the dissolution of the company.

There is no unpaid capital.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

The company is authorised to increase share capital, subject to approval by the Board of Directors but without the need to amend the bylaws, up to a limit of 250,000,000,000 shares (125,000,000,000 ordinary shares and 125,000,000,000 preference shares). At present the share capital consists of 132,768,478,951 shares (71,035,922,637 ordinary shares and 61,732,556,314 preference shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

There are no rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights.

e) Specific circumstances that restrict the availability of reserves

The only restriction on the availability of Banco Santander, S.A.'s reserves relates to the legal reserve (restricted reserves), which can only be used to offset losses or to increase capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Listed equity instruments

All the shares are listed on the São Paulo Stock Exchange (Bovespa).

2. Banco Español de Crédito, S.A. (Banesto)

a) Number of equity instruments held by the Group

At 31 December 2007, the Parent and its subsidiaries held 613,696,098 fully subscribed and paid ordinary shares of EUR 0.79 par value each, all of which carry the same voting and dividend rights.

The Annual General Meeting of Banco Español de Crédito S.A. held at first call on 26 February 2008 resolved to reduce the entity's share capital by EUR 5,485,207 through the retirement of 6,943,300 treasury shares, previously acquired under authorisation of the Annual General Meeting, within the limits envisaged in Articles 75 et seq.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

The Annual General Meeting of Banco Español de Crédito S.A. held at first call on 26 February 2008 authorised the Board of Directors to increase capital at one or several times, within five years from the date of the Annual General Meeting, by an amount (par value) of up to half the share capital of the Bank at the date of the Meeting, through the issuance of new shares, with or without share premium and with or without voting rights; the consideration for the new shares to be issued will be monetary contributions, and the Board may set the terms and conditions of the capital increase. Also, the Board was empowered to disapply preemptive subscription rights, fully or partially, in accordance with Article 159.2 of the Spanish Companies Law.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2007, no shares with these characteristics had been issued.

e) Specific circumstances that restrict the availability of reserves

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount (10% of any net profit reported each year must be transferred to the legal reserve until the balance of this reserve reaches 20% of the share capital). Pursuant to the Spanish Companies Law, a restricted reserve has been recorded for an amount equal to the carrying amount of the Banesto shares owned by subsidiaries.

The revaluation reserve recorded pursuant to Royal Decree-Law 7/1996, of 7 June, can be used to increase capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Listed equity instruments

All the shares are listed on the Spanish Stock Exchanges.

3. Banco Santander Totta, S.A. (Totta)

a) Number of equity instruments held by the Group

The Group holds 574,356,881 ordinary shares through Santander Totta, SGPS and 14,593,315 ordinary shares through Taxagest Sociedade Gestora de Participaçoes Sociais, S.A., all of which have a par value of EUR 1 each, are fully subscribed and paid and carry the same voting and dividend rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2007, no shares with these characteristics had been issued.

e) Specific circumstances that restrict the availability of reserves

Under Article 296 of the Companies' Code, the legal and merger reserves can only be used to offset losses or to increase capital.

Non-current asset revaluation reserves are regulated by Decree-Law 31/1998, under which losses can be offset or capital increased by the amounts for which the underlying asset is depreciated, amortised or sold.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Listed equity instruments

Totta's shares are not listed.

4. Banco Santander Chile

a) Number of equity instruments held by the Group

The Group holds 66,822,519,695 ordinary shares through Santander Chile Holding, S.A., 78,108,391,607 ordinary shares through Teatinos Siglo XXI Inversiones Limitada and 16,577 ordinary shares through Santander Inversiones Limitada (Chile), all of which have no par value, are fully subscribed and paid and carry the same voting and dividend rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

Due to the effect of the monetary adjustment, share capital amounted to CLP 818,535,110,378 at 31 December 2007. However, each year the Annual General Meeting must approve the balance sheet at 31 December of the previous year and, therefore, approve the share capital amount.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2007, no shares with these characteristics had been issued.

e) Specific circumstances that restrict the availability of reserves

Remittances to foreign investors in relation to investments made under the Statute of Foreign Investment (Decree-Law 600/1974) and the amendments thereto require the prior authorisation of the Foreign Investment Committee.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable..

g) Listed equity instruments

All the shares are listed on the Chilean Stock Exchanges and, through American Depositary Receipts (ADRs), on the New York Stock Exchange.

5. Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander.

a) Number of equity instruments held by the Group

The Santander Group holds 62,308,710,973 ordinary shares of Grupo Financiero Santander, S.A. de C.V.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

The shareholders at the Extraordinary and Annual General Meeting held on 3 December 2007 resolved to set the authorised share capital of Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander at MXN 14,619,490,617, represented by a total of 146,194,906,170 shares. Of this share capital, MXN 7,309,748,223 have been fully subscribed and paid, represented by a total of 73,097,482,230 shares.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At 31 December 2007, the entity had issued MXN 300 million of unsecured preferred subordinated debentures, subscribed by Bank of America and the Bank. These debentures have not been registered in the National Securities Register and, therefore, they cannot be included in a public offering.

e) Specific circumstances that restrict the availability of reserves

The institution is subject to a legal requirement that at least 10% of net profit for the year be transferred to a capital reserve fund until the balance of the fund reaches the paid-in share capital amount. The capital reserve fund can only be distributed to shareholders as dividends in the form of shares..

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Listed equity instruments

The company does not have any equity instruments listed on a stock exchange..

6. Abbey

a) Number of equity instruments held by the Group

The Group holds 1,485,893,636 fully subscribed and paid ordinary shares of GBP 0.10 par value each, all of which carry the same voting and dividend rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the Annual General Meeting

The company is authorised to increase share capital, subject to approval by the Board of Directors, by up to GBP 175,000,000 (1,750,000,000 ordinary shares), GBP 1,000,000,000 of sterling preference shares (1,000,000,000 shares), USD 10,080,000 of US dollar preference shares (1,008,000,000 shares) and EUR 10,000,000 of euro preference shares (1,000,000,000 shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Abbey has issued GBP 200 million of debentures (10.0625% subordinated debentures convertible into equity) exchangeable for sterling preference shares with a par value of GBP 1 each, at Abbey's discretion. The exchange can be made at any time, provided the holders are given between 30 and 60 days' notice.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

BANCO SANTANDER, S.A. AND COMPANIES COMPOSING THE SANTANDER GROUP

Directors' Report for 2007

GENERAL BACKGROUND

The Santander Group carried on its business activities against a backdrop of strong worldwide growth (up 5.2%), although the year ended on a note of uncertainty. The instability observed in the financial markets in the last quarter of 2007, combined with high energy prices and a US economic cycle that had reached maturity, led to a moderation of the growth of the global economy in that quarter which, against all odds and thanks to the vitality of the emerging economies, stood at 4%.

The US ended the fourth quarter with 0.6% growth in GDP, which fell to 2.2% for the year as a whole. The unfavourable financial and property scenario and high energy prices suggest that the slowdown will continue. To offset this downturn, the FED made major cuts in the official interest rate in the second half of 2007 (4.25% at year-end vs. 5.25% in 2006) and in 2008 (3.0% in February), which came hand-in-hand with the Government's announcement of a package of tax incentives. Despite the high inflation, current trends give the FED leeway to make further interest rate cuts.

Latin America has remained untouched by the crisis in the markets thanks to its sound financial and foreign trade positions, high raw material prices, its links to the Asian economies and the vitality of domestic demand. Consequently, GDP growth remained at just over 5%. The sharp rise in inflation, which reduces the room for manoeuvre of monetary policy, together with the slowdown of the developed economies, could dampen growth slightly in the region in 2008, although it will remain within sound levels (more than 4%).

The three major Latin American economies registered strong growth. Only Mexico witnessed a slowdown in growth to 3% due to the influence of the US, which was offset by a solid, growing domestic demand. The upturn in Brazil and Chile, which grew by over 5%, heightened inflationary pressure, especially in Chile, which led its central bank to raise interest rates to 6%. Consequently, exchange rates have remained steady.

The euro zone reported notable growth in 2007 (2.7%), albeit more moderate towards the end of the year (2.3% in the fourth quarter). The economic situation is more resilient to financial turbulence than in the US, since the private sector is more financially sound. Inflation rose to 3.1%, exceeding the target level (2%), thereby limiting the leeway of the European Central Bank, which has maintained the official interest rate at 4% since mid-2007. Against this backdrop, the euro remained strong (EUR 1/USD 1.47).

Spanish GDP continued to show strong growth of 3.8%, although the last quarter was somewhat slacker (3.5%). Solid domestic demand continues to be the mainstay within the general slowdown, which is somewhat more pronounced in construction investments, while foreign trade mitigates growth to a lesser extent. Inflation rose at the end of the year to over 4%.

In the United Kingdom, GDP grew by 3.1%, exceeding its potential, despite a more moderate last-quarter performance (2.9%). The cuts in the official interest rates by the Bank of England in December and January to 5.25% sought to counteract this tendency. However, inflation running at over the 2% target rate might limit the room for manoeuvre of monetary policy. Against this backdrop, the pound sterling weakened to depreciate 8% against the euro (to EUR 1/GBP 0.73).

The performance of the US dollar, the pound sterling and the other currencies in which Santander operates had a slightly negative impact (approximately 2 to 3 percentage points) on the Group's income and expenses. The impact on the balance sheet was negative to the tune of around 5 percentage points.

EARNINGS PERFORMANCE

Once again in 2007 the earnings performance evidenced the effectiveness of the Group's business model, which was adapted to the various markets to achieve solid growth in income, margins and profit at local level and, by aggregation, at global level. The focus on customers and on the commercial business, the potential of Santander's business portfolio and the continuous efforts to improve commercial and operational efficiency, inter alia, are the pillars on which this performance is founded.

In addition to the foregoing, mention should be made of the Group's excellent equity position, the favourable comparison of non-performing loans and coverage ratios with respect to international standards, the very minimal exposure to complex structured products, which have not impacted results, and the competitive advantage which, in a scenario of liquidity pressures, affords us a structurally liquid balance sheet, boosted by our nature as an eminently commercial Group.

The highlights of the Group's financial performance in 2007 were as follows:

- New record profit: the Santander Group obtained attributed net profit of EUR 9,060 million, up 19.3% on the figure for 2006. Recurring attributed profit, i.e. disregarding extraordinary gains and write-offs (2007: EUR 950 million; 2006: EUR 1,014 million), increased by 23.2% to EUR 8,111 million, of which EUR 60 million related to the net contribution by the businesses acquired from ABN AMRO.

- Strong EPS growth: earnings per share stood at EUR 1.43, or EUR 1.28 disregarding gains, signalling growth of 17.5% and 21.4%, respectively. In the calculation of earnings per share for 2007, the denominator included the total number of shares into which the Santander Securities ("Valores Santander") will obligatorily be converted, weighted by the period in which these securities were issued.

- In view of these earnings, the Board of Directors will propose to the shareholders at the Annual General Meeting that a dividend of EUR 0.65078 per share be paid out of 2007 profit. This dividend represents a 25% increase for the third consecutive year, a sustained payout ratio of around 50% of profit before extraordinary gains and write-offs, and a yield of 4.7% on the average share price in 2007.

- Income statement: healthy, recurring and high-quality:

  – The increase in the Group's profit was based on a sharp rise in income (up 21.3%), boosted to a large extent by the most recurring income items -net interest income, fee and commission income and insurance activity income-, which together represent more than 80% of total income growth. Also, their recurring nature is reflected by a sound quarterly trend over the last three years.

  – Costs increased by 10.5%, half the increase in income, which widened the gap between the income and cost growth rates to more than 10 percentage points and improved the efficiency ratio by 4.4 percentage points to 44.2%.

  – Net credit loss provisions rose by 40.6%. Eliminating the effect of the entry of Drive, the rise is 24.2%, in line with the Group's strategy and with the new business mix in certain units. Net operating income, disregarding provisions, increased by almost 30%, very much in line with the 32.3% increase in gross operating income.

  – All areas recorded significant increases in earnings. Europe as a whole (accounting for 68% of the operating areas) obtained a profit of EUR 5,624 million, excluding gains, and Latin America (32%) obtained a profit of EUR 2,666 million, excluding gains.

- **New improvement in return** on equity and on risk assets with respect to 2006 (excluding gains): ROE of 19.6% (up 1.1 percentage points) and RORWA of 1.76% (up 16 basis points).

- **Significant risk quality:** the non-performing loans ratio rose slightly in recent quarters to 0.95% and the coverage ratio stood at 151%, boosted by the general allowance of EUR 6,027 million.

- **Robust capital ratios:** the BIS ratio stood at 12.66% and the core capital ratio was 6.25%. This high solvency is based on three pillars: the capacity to generate ordinary profit, the active management of the Group's businesses, and the continuous optimisation of the balance sheet.

- **Further enhancements in credit ratings:** Standard & Poor's and Fitch Ratings raised the Santander Group's credit ratings in 2006. Also, in March 2007, Standard & Poor's further improved our long-term credit rating from A+ to AA, and in April Moody's improved it from AA to Aa1, while maintaining the financial strength rating.

The Group has successfully combined these efforts to achieve growth and generate current profits with active management to ensure increased profits in the future: investments have continued in commercial networks (on a like-for-like basis, the Group opened close to 500 branches and over 1,500 ATMs) and in customer attraction and customer loyalty; Abbey is being fostered to make it a more commercial bank; the globalisation of the Group has been enhanced; and, lastly, ABN AMRO's assets were acquired to increase growth potential.

BUSINESS AREAS IN 2007

The starting point of a detailed analysis by business area is the **primary or geographical segmentation,** which comprises three operating areas (Continental Europe, the United Kingdom -Abbey- and Latin America) and Financial Management and Holdings.

The three major geographical areas, which encompass all the business carried on therein by the Group, performed well in 2007: Continental Europe once again reported highly robust, diversified results; Abbey achieved the targets set for 2007 under its three-year plan; and Latin America maintained high growth rates in business and earnings, above all in its customer business.

Continental Europe accounted for 53% of the attributed profit from the Group's operating areas. It recorded a 19.9% increase in income, far exceeding the rise in costs, and absorbed the increase in provisions in line with the growth in income. As a result, net operating income climbed 24.2% and attributed profit excluding gains rose by 27.4% to reach EUR 4,423 million. This performance was underpinned by the growth achieved in all the commercial banking units (Santander Network, Banesto, Santander Consumer Finance and Portugal) and the upward trend experienced by the global areas.

• Santander Network

In 2007 the Group extended the "We Want to Be Your Bank" strategic plan launched in 2006, the objectives of which are to attract more customers and foster customer loyalty and to enhance the quality of service. Improvements were made in these two objectives in 2007.

The foregoing was reflected in earnings, the highlights of which were as follows: two-digit growth in income, underpinned largely by net interest income (up 21.7% due to increased volumes and enhanced management of spreads); costs rose by half this rate and, accordingly, efficiency improved once again in 2007 to 38.7%; and provisions increased by only 1.6% (boosted by lower general provision requirements). In short, attributed profit grew by 19.9%.

In terms of business, the pace of growth in loans and receivables slowed in 2007, with an 11% increase at year-end. Particularly noteworthy with regard to the attraction of deposits was the issue of Santander Securities amounting to EUR 7,000 million, together with the favourable performance of pension funds and savings and investment insurance products. In contrast, investment funds performed negatively in 2007 due in part to the market trend.

• Banesto

Once again in 2007, Banesto reported profitable, efficient growth. On a like-for-like basis, i.e. excluding the profits and gains obtained in relation to Urbis, which was sold in 2006, profit from ordinary activities increased by 24.2%. This increase was underpinned by a 14.8% rise in income and by costs which, despite the major commercial expansion plan of the last two years, remained substantially unchanged in actual terms.

In terms of business activities, loans and receivables maintained growth levels of close to 20%, since SMEs and businesses offset the decline in mortgages. Also, these increases go hand-in-hand with a non-performing loans ratio which compares very favourably with the industry average. Total customer funds grew by 11%, with on-balance-sheet customer funds performing better than investment and pension funds.

• Santander Consumer Finance

Three matters were particularly worthy of note in 2007: a moderate increase in earnings in Europe, despite the complex scenario in which consumer finance activities were carried on; the successful integration of the US-based unit (Drive), whose inclusion in the scope of consolidation in 2007 had a significant impact on the area's production and earnings growth rates; and the expansion of new business platforms, whose rewards will be reaped in future years.

In short, income grew by 44.5%, costs by 22.6%, provisions by 112% and profit attributed to the Group by 27.1%. Disregarding the integration of Drive, the increases are more modest: income up 7%, costs up 10%, provisions up 10% and profit up 8%.

• Portugal

The environment in which Santander Totta carried on its business activities was complex due to the moderate growth of the Portuguese economy, increasing competition and regulatory changes that have a direct impact on the profitability of banks.

Against this backdrop, the Group focused its activity on fostering customer loyalty and increasing cross-selling, and placed particular emphasis on individuals, SMEs and businesses and, as in recent years, on cost control. The outcome was growth of 10.1% in income, 2.4% in costs and 20.8% in attributed profit (not including the impact of the gains amounting to EUR 16 million, net of extraordinary write-offs). In terms of business activities, there were increases in individuals, SMEs and businesses, which were not reflected in full in the balance sheet due to the reduction in large companies.

In the United Kingdom, **Abbey** met the income and cost targets set for the year and attributed profit reached EUR 1,201 million. Noteworthy were the increase of 6.7% (in pounds sterling) in income, since the scenario in which it was obtained was more complex than that initially projected, and the further reduction in costs (2.9%), as a result of which the efficiency ratio rose by 5.0 percentage points in the year and net operating income and profit increased by close to 20%. Abbey's profit accounts for 15% of the total for all the operating areas.

The explanations behind the growth in profit are basically three-fold. Firstly, the greater focus on profitability than on volumes, which led to an across-the-board improvement in spreads, while maintaining more than acceptable production rates in mortgages and in the most profitable deposit products. Secondly, the high quality of loans and receivables, with mortgages in the top-end prime segment of the market and a reduction in the less profitable balances of the unsecured personal loan business (UPLs), which was reflected in a decline in the need for provisions. Thirdly, the implementation of Partenón, which enhances the customer overview and reinforces the product offering to retail customers.

Latin America achieved attributed profit of EUR 2,666 million (32% of that obtained by the Group's operating areas), an increase of 16.6% in euros. This growth was achieved in a region which reported robust growth in 2007 and is undergoing a major bankarisation process.

Against this backdrop, the Group's strategy continued to be focused on the major development of the commercial franchise and on the increase in customer loyalty, mainly among individuals and SMEs. This led to a sharp upturn in business, with lending and borrowed funds rising by close to 20% in local currency terms, and a more than significant increase in income (up 24.2%), far outstripping the rise in costs (up 10.8%), which grew in line with the business expansion plans being implemented in each country.

The combination of these trends enabled Latin America to achieve a 37.1% increase in net operating income and to absorb the higher provisions resulting from the growth in business and the change in the business mix. In terms of US dollars, the area's management currency, attributed profit rose by 27.3% to reach USD 3,648 million.

• Brazil

In 2007 Brazil's economic performance was positive and the financial system displayed strong growth in loans and borrowed funds. In this context, Santander Brazil focused on the expansion of its commercial businesses by attracting customers and enhancing customer loyalty in individual banking, the growth of the distribution businesses and the development of business with the SME and company segments.

All of the foregoing resulted in a sharp increase in income (up 30.5%), a controlled rise in costs (up 11.8%) and, consequently, a 46.7% increase in net operating income (all in euro terms). This strong growth enabled Santander Brazil to cushion the higher provisions arising from the increase in volumes (close to 30% disregarding the exchange rate effect) and the focus on higher risk products and segments, and to achieve a 20.5% improvement in attributed profit in euro terms.

• Mexico

The Mexican economy performed very positively in 2007. Despite the slowdown of the US economy, Standard & Poor's raised its long-term sovereign rating and the financial system showed burgeoning growth in loans and savings. Against this backdrop, the Group's strategy focused on broadening the customer base, building customer loyalty, and achieving profitable growth in the commercial businesses, based on a highly-segmented multichannel model.

The result was a 21.8% increase (in euros) in gross income (with rises of more than 20% in net interest income and net fee and commission income) and a more moderate increase in costs (+4.8%), giving rise to a 41.3% advance in net operating income and a 6.3-percentage point improvement in efficiency. This strong growth enabled the Group to cushion the higher provisions resulting from the expansion drive and the deterioration of the risk premium on credit cards and to increase attributed profit by 23.8%. In volume terms, lending rose by more than 20% and bank savings by more than 12% (disregarding the exchange rate effect), with improved growth in demand products and investment funds.

• Chile

In 2007 the Chilean economy grew by more than 5% and Standard & Poor's revised upwards Chile's sovereign credit rating, placing it above that of the other Latin American countries. For the financial system as a whole, lending and bank savings rose by more than 20%. In this scenario, Santander Chile focused its strategy on building customer loyalty, increasing business with individuals and SMEs, expanding the retail network and enhancing the spreads of its business.

The measures adopted led to a 12.8% increase in gross income, underpinned largely by net interest income, whose growth (+22.1%) outstripped that of costs (+6.5%). This performance enabled Santander Chile to cushion the higher provisions and to report 18.6% growth in net profit (before the impact of minority interests) (all percentages in euros). Business volumes grew at below-market rates, influenced by the policy that prioritised margins over growth.

• Other

Of the other Latin American countries, the most notable contributions were those of Argentina and Venezuela, with attributed profit of EUR 188 million and EUR 179 million, respectively, up 27.1% and 22.6% year-on-year.

The secondary or business segment reporting comprises the following segments: Commercial Banking, Global Wholesale Banking, and Asset Management and Insurance, the sum of which is equal to that of the three geographical operating areas composing the primary basis of segment reporting. All these segments performed soundly in 2007 within the various environments in which their business activity is conducted:

- Commercial Banking, which accounted for 86% of the total income of the operating areas and 80% of pre-tax profit, reported year-on-year growth of 20.5% in income, 32.1% in net operating income and 26.5% in profit before tax. An upward trend was mirrored across all the geographical subdivisions. Profit before tax was up 20.1% in Continental Europe, 31.6% at Commercial Abbey and 37.2% in Latin America (all in euro terms), boosted by growth in customer loyalty, improved volumes, sound management of spreads and selective cost control.

- Global Wholesale Banking obtained profit before tax amounting to EUR 1,830 million (16% of the total for the operating areas), up 28.4% on 2006. This increase was positively influenced by growth in income from customers (+24%) and a reduction in the general provisions required. The contribution made by proprietary positions fell due to the poorer performance of the markets in the second half of the year.

- Asset Management and Insurance obtained profit before tax amounting to EUR 537 million, 4% of the total for the operating areas, and reported growth of 13.5% in net operating income and of 13.7% in profit before tax (compared on a like-for-like basis with 2006, i.e. after including the results of the pension fund managers sold in 2007 under "Profit from discontinued operations"). The breakdown of this growth displays the upward trend in insurance and the European pension fund business, as well as a weaker performance in investment funds, mainly in Spain, due to the greater tax and financial advantages of other alternative savings products.

The figures for this area reflect only a small portion of the income it generates for the Group, since the result that remains in Asset Management and Insurance is the net amount resulting from deducting from the gross income for the Group the distribution cost used to remunerate the networks for marketing these products under the related distribution agreements. Therefore, if we consider the total income obtained by the Group on the products managed by this area, the figure amounts to EUR 3,643 million (13% of the total income of the operating areas), up 13% on 2006.

In short, this analysis of the Group's business map evidences the efforts made to increase income and improve efficiency in all areas; customer business was boosted in all the geographical and business areas in which Santander operates and, at the same time, the Group's solvency was bolstered and its ROA and ROE ratios enhanced.

SANTANDER GROUP INCOME STATEMENT

The Santander Group obtained attributed profit of EUR 9,060 million in 2007, EUR 1,464 million (19.3%) higher than the EUR 7,596 million reported in 2006.

Excluding the net amount of extraordinary gains and write-offs (EUR 950 million in 2007 and EUR 1,014 million in 2006), attributed profit grew by 23.2% to reach EUR 8,111 million. Analyses of the coming years should be based on this figure, since it provides the best reflection of the Group's capacity to generate profits.

The results for 2007 include a net impact of EUR 60 million due to the inclusion in the Group of ABN AMRO, comprising a positive effect of EUR 141 million corresponding to the profit of Banco Real from the date of purchase and an after-tax financing cost of EUR 81 million (cost of EUR 13,000 million), no profit being included for Antonveneta.

Gains totalling EUR 2,348 million, net of tax, arose from property sales in Spain not yet completed at year-end (EUR 1,076 million) and the sale of the pension business in Latin America (EUR 622 million), of 1.79% of Intesa Sanpaolo (EUR 566 million) and of 4.67% of Banco Portugues do Investimento (EUR 84 million). Of the total amount, EUR 1,398 million, net of tax, were allocated to various extraordinary provisions and write-offs: EUR 737 million to the valuation adjustment of the investment in Sovereign, EUR 351 million to the writedown of intangible assets, EUR 242 million to special provisions for retirement plans and EUR 68 million to write-offs in Portugal.

In addition, as required by IFRSs the results obtained from the Latin American pension business which, as mentioned earlier, was discontinued in 2007 and had previously been fully consolidated, were removed from the various income statement line items and included, net, under "Profit from discontinued operations". The previous years' financial statements, both of the Group and of the areas in question, were restated using the same criteria. This practice enables the Group to better monitor the management of its recurring businesses.

Following is a detailed overview of the changes in the income statement based on a like-for-like comparison, i.e. excluding extraordinary gains and write-offs and including the results of businesses sold under discontinued operations.

All changes are shown in euros. These changes, both in income and in costs, were adversely affected by the combined performance of the average exchange rates of the Latin American currencies, the pound sterling and the US dollar against the euro. The negative impact was 2/3 percentage points.

Also, the inclusion of Drive in the United States gave rise to a small positive scope effect of 1.6 percentage points in terms of attributed profit. The net impact of the inclusion of ABN is less than 1%.

Net interest income amounted to EUR 15,295 million, up 22.6% on 2006. Growth was particularly notable in the Santander Network, Banesto, Brazil, Mexico and Chile. Abbey also performed very well, contributing an 11% increase. Furthermore, this growth has proven to be sound and sustained since, excluding dividends and the financing cost of ABN in the last quarter of 2007 (ABN's income is not included here because it is accounted for using the equity method), consecutive increases have been reported each quarter for the last three years.

Disregarding the effect of dividends and the cost of preference shares, the growth in net interest income is very similar (+23.3%) and is explained mainly by increased volumes and the improved customer spreads in some of the Group's major units.

Net fee and commission income totalled EUR 8,040 million, representing an increase of 14.5% with respect to 2006, including most notably the 21.6% growth achieved in Latin America. A more modest performance was that of Continental Europe (+13.3%), highly conditioned by the impact on the Santander Network of the extension to other customer groups of the "We Want to Be Your Bank" Plan and by the launch in Portugal of the "Comissões Zero" strategy, the aim of which is to attract new customers and raise the loyalty of existing ones. By contrast, Abbey fell slightly (-1.8%) due to the drop in income from commissions on current accounts, which was almost entirely counterbalanced by an extended range of products and improved cross-selling.

An analysis by product shows outstanding increases in net fee and commission income from cards (+28.5%), securities (+26.1%) and insurance (+20.9%), while guarantees and other contingent liabilities also performed well.

In addition to the aforementioned insurance fees and commissions, the Group's insurance activity contributed income of EUR 319 million, representing a year-on-year increase of 26.2%. Latin America, with growth of 42.6%, outperformed all other areas.

The **share of results of entities accounted for using the equity method** added EUR 441 million to the Group's profit, an increase of 3.4%. Disregarding the results contributed by ABN, this figure stood at EUR 300 million, down 29.7%, due to the lower contribution from the investment in Cepsa. This income statement line item also includes a profit of EUR 43 million relating to the investment in Sovereign Bancorp.

As a result of the foregoing, the **commercial margin** amounted to EUR 24,096 million, up 19.4% on 2006.

Net gains on financial assets and liabilities amounted to EUR 2,998 million, up 39.5% on 2006. This growth was due largely to the substantial gains obtained in 2007 on the EUR/USD and EUR/GBP exchange rate positions and to the adverse impact in 2006 of the write-down of structural interest rate risk hedging portfolios.

After including the net gains on financial assets and liabilities, gross income amounted to EUR 27,095 million, signalling growth of 21.3% with respect to 2006.

At 10.5%, the increase in **operating expenses** was half that in income, 2007 witnessing a sound behaviour in the commercial areas coupled with a slightly higher growth in costs in the global businesses due to the expansion projects in progress.

In Continental Europe, where costs climbed 13.6% in the year, the three major commercial networks recorded moderate increases (in actual terms) which catered for their business expansion processes. Higher costs at Santander Consumer Finance were attributable mainly to the inclusion of Drive in the scope of consolidation in 2007 (although the impact at Group level was less than one percentage point, Drive represented a 12-percentage point growth in costs at Santander Consumer Finance) and to the launch of expansion projects, such as the start-ups in France, Denmark and Russia. Expenditure grew at a faster pace in the global areas due to implementation of their integration and expansion projects.

Abbey took further advantage of its cost rationalisation process to record a 3.2% decrease in costs in euro terms.

Lastly, Latin America saw a 10.8% increase in expenses (+15.0% excluding the exchange rate effect). As in Europe, this growth was explained by the Group's plans to expand the business in the region and by the launch of new products. On a like-for-like basis (in terms of the scope of consolidation), at 2007 year-end the Group had 292 branches and 1,618 ATMs more than at 31 December 2006.

The rising costs in Financial Management and Holdings can be attributed to expenditure on corporate projects, to investments in technology and single branding, and to the expenses resulting from the celebration of the Bank's 150th anniversary.

As a result of the foregoing, **net operating income** rose by EUR 3,624 million (+32.3%) to reach EUR 14,842 million. All geographical areas contributed increases to this figure, of around 20% or above, thus evidencing the robust, recurring and highly diversified nature of this growth.

Net impairment losses totalled EUR 3,549 million, up 39.1%. Most of this amount (EUR 3,470 million) related to net impairment charges for loans, which were 40.6% higher than in 2006. This increase was due basically to the net effect of, on the one hand, the higher impairment charges in Latin America (+EUR 760 million) and the inclusion of Drive in the scope of consolidation (+EUR 407 million) and, on the other, the lower general credit loss provisions recognised in the year as compared with 2006 (-EUR 434 million), mostly in Global Wholesale Banking.

In 2007 the **other income statement line items** reflected net losses of EUR 383 million (2006: net losses of EUR 45 million), due to the increased provisions for possible contingencies recognised to improve the quality of the balance sheet.

Consequently, **pre-tax profit** (excluding extraordinary gains) stood at EUR 10,910 million, up 26.5% on 2006.

Beneath "Profit before tax" appears "Profit from discontinued operations", which amounted to EUR 112 million in 2007, compared with EUR 470 million in 2006. This line item includes the net profit arising from the operations discontinued in the two years (in 2007 the Group sold the pension fund management business in Latin America and, in 2006, Abbey's insurance business, the investment in Urbis, Banco de Santa Cruz in Bolivia and AFP Unión Vida in Peru).

Attributed profit (excluding extraordinary gains) for 2007, after taxes and minority interests, was EUR 8,111 million, an increase of EUR 1,528 million (23.2%) on 2006.

Lastly, after including extraordinary gains net of extraordinary write-offs, the total profit for 2007 amounted to EUR 9,060 million.

SANTANDER GROUP BALANCE SHEET

At 2007 year-end, the **funds managed** by the Santander Group totalled EUR 1,063,892 million, up 6.3% on 2006. Of this amount, 86% (EUR 912,915 million) relate to on-balance-sheet items, whereas the remainder corresponds to investment funds, pension funds and assets under management.

For a correct interpretation of the changes in the balance sheet in 2007, two negative impacts should be taken into account. Firstly, the effect on managed funds of the exclusion from consolidation of the pension fund management business sold in Latin America and, secondly, the negative exchange rate effect resulting from the depreciation against the euro of the US dollar, the pound sterling and the main Latin American currencies (except the Brazilian real). The impact of the two effects on changes in customer balances was -4 percentage points in loans and -6 percentage points in managed funds.

The Group's **gross loans and receivables** amounted to EUR 574,172 million, a year-on-year increase of 8% (12% after deducting the exchange rate effect). The overall trend points to a slowdown in year-on-year growth rates, albeit maintaining slight increases, as reflected in the accompanying graph.

The breakdown, by item, of loans and receivables shows a 6% increase in loans and advances to the public sector, whereas lending to other resident sectors climbed 14%, with commercial credit scaling 6%, secured loans growing at a clearly slower pace ,11%, than in 2006, and other loans rising by 20%. This growth reflects the sound performance of balances with individuals and SMEs. Lastly, lending to the non-resident sector grew by 5%, with secured loans up 4% and other loans up 5% year-on-year. All these figures were clearly influenced (by around six percentage points) by the fluctuations in exchange rates.

An analysis of loans and receivables by geographical segment (primary segments) shows that Continental Europe reported overall growth of 14%. In Spain, the Santander Network and Banesto recorded 11% and 21% growth, respectively, marked by a clear slowdown in mortgages and an improved performance in lending to SMEs and businesses.

Of the Group's other units, Santander Consumer Finance increased its balances by 16%. In Europe, consumer finance rose by 14%, with new production achieving modest growth (6%), prompted by the fall in vehicle registrations and the increase in VAT in Germany.

Lastly, lending in Portugal was up 6%, an increase that was tempered by the fall in corporate banking balances, since financing to individuals rose by 9% and lending to SMEs by 21%.

Abbey's balances fell by 3% in euro terms, reflecting a strong exchange rate impact (close to ten percentage points). In pounds sterling, mortgages, which account for 97% of the loan portfolio, increased by 9%, whereas unsecured personal loans (UPLs), in line with the Group's strategy, fell by 24%.

Latin America recorded growth of 14% in euro terms. In local currency, this growth was 20%, including increases either approaching or exceeding this rate in Brazil, Mexico (manageable loans) and Chile. Significant growth was also achieved in Argentina and Venezuela. In general, the region performed very favourably in lending to individuals, above all consumer loans and cards, and in lending to SMEs.

Consequently, at year-end Continental Europe accounted for 55% of the Group's loans and receivables, Abbey represented 33% and Latin America the remaining 12% (2006: 52%, 36% and 12%, respectively).

Alongside its lending activities, the Group has assumed other non-investment risks (guarantees and documentary credits), as well as the various commitments and contingencies incurred in the normal course of its operations. The accompanying table shows the nominal value of these items, the amount of equivalent risk and the related risk-weighted figure. This last-mentioned figure is calculated in accordance with the regulations governing capital requirements (BIS ratio).

As regards **risk quality,** non-performing and doubtful loans totalled EUR 6,179 million at 2007 year-end. Total allowances recognised for credit losses amounted to EUR 9,302 million in December 2007, 65% of which (EUR 6,027 million) relate to general allowances, which rose by EUR 360 million in the year.

The Santander Group's non-performing loans ratio stood at 0.95%, up 17 basis points on the figure for 2006 (+13 basis points in a like-for-like analysis, disregarding the change of policy in Portugal), while the coverage ratio was 151% (down from 187% in 2006; or 179% on a like-for-like basis). These figures compare very favourably with international standards, since, on average, the NPL ratio of the European banks included in our reference group is twice as high, and their coverage ratio is virtually half that of the Santander Group.

Excluding mortgage guarantees, the non-performing loans ratio was 0.67% and the coverage ratio 215%.

In Spain, in line with the market trend, the non-performing loans ratio finished 2007 at 0.63%, ten basis points above the figure for December 2006. The coverage ratio for doubtful balances remained very high at 264%.

Santander Consumer Finance reported an NPL ratio of 2.84% in December, a year-on-year increase of 27 basis points. The ratio of allowances recorded to non-performing loans was 96%, a reduction of 18 percentage points with respect to the previous year.

In Portugal, the non-performing loans ratio stood at 1.25%, with a coverage ratio of 117%. Compared on a like-for-like basis with the 2006 year-end figures, there was no change in the NPL ratio, whereas coverage fell by 13 percentage points.

In the United Kingdom, Abbey recorded an NPL ratio of 0.60%, identical to that reported at 2006 year-end. The coverage ratio was 66%, down 20 percentage points from 2006 year-end, as a result of the lower proportion of total loans accounted for by the personal loans portfolio.

The non-performing loans ratio in Latin America stood at 1.87%, up 49 basis points in the year, in keeping with the strategy (discussed earlier) to achieve growth in retail segments in all countries of the region. The allowances recorded represented 134% of doubtful balances, a decline of 33 percentage points.

The Group's country risk exposure to third parties, for which allowances must be recorded in accordance with Bank of Spain criteria, amounted to USD 1,243 million (gross) in December 2007, representing a year-on-year rise of 5%.

More detailed information on the evolution of the Group's credit risk, its control and monitoring systems and the internal risk models used to calculate allowances is included in the Risk Management section of this Annual Report.

Turning our attention to the liability side of the balance sheet, the Santander Group's total customer funds under management amounted to EUR 784,995 million at 2007 year-end, representing year-on-year growth of 6%.

A line-by-line balance sheet analysis shows increases of 3% in deposits (excluding repos), 14% in marketable debt securities and 17% in subordinated liabilities. There was a slight dip in investment funds and pension funds fell back 59%, whereas savings and investment insurance products rose by 41%.

All these percentages are conditioned, on the one hand, by the exchange rate effect and, on the other, by the sale of the pension fund managers in Latin America and, in addition, by the placement of the EUR 7,000 million Santander Securities issue, this amount being transferred from customer funds to equity. Accordingly, on a like-for-like basis and disregarding the exchange rate effect, growth ran at 5% for pension funds and 13% for total customer funds under management, a percentage which provides a better measure of the management of funds than the 6% mentioned above.

A breakdown of the balances by geographical segment (primary segments) shows that total customer funds under management in Continental Europe rose by 8% (consisting of a 17% increase in on-balance-sheet funds and a 7% decrease in other managed customer funds).

In Spain, Santander Network deposits grew by 12%, after deducting the effect of the Santander Securities issue, while the rise in deposits at Banesto was 18%, boosted largely by the increase in time deposits. Investment funds fell by 13%, influenced notably, on the one hand, by customers' preference for time deposits in 2007 and, on the other, by the aforementioned Santander Securities issue. Nevertheless, the Group retained its leading position in investment funds in Spain, with a market share of assets under management of 22.6%.

Pension funds in Spain achieved growth of 5%, with individual and associated plans increasing by this rate and occupational plans growing at 7%. The market share in individual pension funds was 15.4%.

In Portugal, customer funds under management displayed a modest increase of 4% in 2007 as a result of the reconciliation of growth and the need to safeguard margins. This moderate growth, which comprised an increase in on-balance-sheet funds counterbalanced by a fall in investment funds, was affected by the reduction in balances with large enterprises.

At Abbey, customer deposits (excluding repos) slipped 3% in euro terms, impacted by the exchange rate effect. In pounds sterling, growth in these deposits ran at 6%, while investment funds were up 34%.

The trend in customer funds under management in Latin America (-1% in euro terms) was highly influenced, as mentioned earlier, by the fluctuations in exchange rates and the sale of the pension fund managers. On a like-for-like basis, i.e. disregarding these two impacts, total customer funds under management in the region rose by 18%.

Deposits (excluding repos) achieved double-digit growth in Colombia (+27%), Brazil (+22%), Argentina (+20%) and Chile (+16%). In Mexico growth in deposits was only 6% due to the reduced financing requirements following the repayment of the FOBAPROA promissory note.

The region-wide increase in investment funds was 29%, including growth of 41% in Colombia, 36% in Brazil, 24% in Mexico and Chile and 10% in Argentina. All these figures exclude the exchange rate effect.

Thus, at the end of 2007, Continental Europe accounted for 48% of customer funds under management, Abbey represented 32% and Latin America the remaining 20%. These percentages are virtually the same as those for 2006 year-end: 47%, 32% and 21%, respectively.

Additionally, within its global financing strategy, in 2007 the Group launched mortgage bond (cédula hipotecaria) issues totalling EUR 6,800 million, senior debt issues for an equivalent value of EUR 23,067 million and subordinated debt issues for EUR 7,357 million. Also, three preference share issues were placed for a total of EUR 1,100 million.

Furthermore, in the course of 2007 senior debt issues totalling EUR 14,557 million, mortgage bond (cédula hipotecaria) issues for EUR 3,865 million and subordinated debt issues for a total equivalent value of EUR 1,950 million reached maturity. Also, the Group exercised the option to redeem early preference shares for an equivalent value of EUR 444 million.

At 2007 year-end, the balance-sheet item "Goodwill" (corresponding to the fully consolidated entities) amounted to EUR 13,831 million, of which EUR 1,773 million related to Latin America and EUR 11,594 million to Europe. In 2007 goodwill decreased by EUR 682 million due to the exchange rate effect.

The Santander Group's **capital**, calculated using Bank for International Settlements (BIS) criteria, amounted to EUR 65,225 million, up EUR 5,448 million (9%) in the year, with a cushion over minimum capital requirements of EUR 24,021 million.

These figures illustrate the Group's high level of solvency. Its BIS ratio stands at 12.66%, its Tier 1 ratio at 7.71% and its core capital ratio at 6.25%. This ample solvency, which constitutes a competitive advantage over the banks that have been hit by the loss in value of their assets, is supported by three pillars: the active management of the Group's business, the optimisation of the balance sheet, which enables a more efficient use of capital, and the capacity to generate ordinary profits. In addition, the Group can rely on additional sources of capital, such as unrealised gains and general allowances.

EXCEPTIONAL FACTORS AND RISKS AND UNCERTAINTIES

No exceptional factors arose that have conditioned the Group's activity in the main markets in which it operates or which have had a material impact on the Group's financial statements in 2006 and 2007.

Also, no trend is currently known to exist that might have a significant impact on the outlook for the Group. Notwithstanding the foregoing, following is a description of certain risk factors which, should they arise, may have a material adverse effect on the Bank.

- Uncertainties concerning expected economic growth and the changes in economic cycles, above all in the United States, Spain, the United Kingdom, other European countries and Latin America, and the impact that these uncertainties might have on interest and exchange rates.

- A substantial downturn in the Spanish real estate market, and the concomitant increase in the nonperforming loans ratio in mortgage lending.

- The effect that a slowdown in the economy might have on Latin America and on interest and exchange rates in the region.

- The evolution of a series of other changes in the macroeconomic environment that may impair the credit quality of our customers.

- A pronounced bearish trend in the capital markets.

- A significant change in the value of the euro against the US dollar, the pound sterling or the Latin American currencies.

- Higher inflationary pressures in the benchmark economies, due to the effect these pressures may have in terms of increasing interest rates and driving growth down.

- The European financial services industry will in all likelihood continue to be competitive, and the number of financial services providers and alternative distribution channels will increase. Furthermore, the consolidation process underway in the industry (through mergers, acquisitions or alliances) is expected to continue, since other rival banks may wish to increase their market share or to combine with complementary businesses. Regulatory changes will foreseeably take place in the future that will bring down barriers in the markets. All these variables can have an impact of reducing margins and fee and commission income.

- Although it is foreseen that the barriers impeding access to local markets in Europe will diminish, any plans that the Bank may have to expand into other markets could be affected by regulatory requirements imposed by the national authorities of the countries concerned.

- Acquisitions or business restructurings whose actual performance may not meet the Group's expectations.

- Liquidity pressures and changes in credit spreads as a result of the recent crisis besetting the US financial markets, which may affect the Group's cost of financing, the value of its proprietary portfolios and that of the portfolios under management. Nevertheless, it is not expected that the Group, or the third-party funds managed by it, will experience any material loss.

- The Group's Venezuelan subsidiary is exposed to the risk of bank nationalisation. Various political events in Venezuela point to an increased risk that the Venezuelan government might nationalise our subsidiary or alternatively intervene in its operations, which might have an adverse effect on our activities in Venezuela. In 2007 attributed profit of EUR 179 million was obtained in Venezuela, representing 1.98% of the profit attributed to the Group in the year.

RISK MANAGEMENT

For the Santander Group, quality in risk management constitutes one of its distinguishing features and, therefore, represents a focal point of its activities.

Risk management at Santander is characterised by its functional independence with respect to the businesses, compatible with its mission to support and assist them, a well-established tradition of using leading-edge tools –early implementation of management practices promoted by the new Basel II regulations–, a global management approach that addresses in full all risk factors and types, and a determination to continue to target a medium-low risk profile. The Group aims to achieve this profile by: a) seeking to achieve a high degree of risk diversification, thus limiting risk concentration on particular customers, groups, sectors, products or geographical locations; b) maintaining a low level of complexity in Markets operations; and c) paying ongoing attention to risk monitoring in order to prevent loan portfolio impairment sufficiently in advance.

The traditional prudence in risk management that has marked Santander's operations throughout its 150-year history, coupled with its use of the most advanced techniques, have shielded the Group from any adverse impact of the intense turbulence that has affected the financial markets since July 2007.

In 2007 non-performing loans and the cost of credit, as well as the NPL coverage ratio, stood at levels that testify to Santander's excellent risk quality, its high level of provisions and its control over variations in the cost of credit.

INFORMATION ON HUMAN RESOURCES

Santander has more than 130,000 employees in over 40 countries. Its Human Resources strategy is geared towards attracting and developing the very best talent worldwide.

To enable it to meet this challenge in an increasingly competitive climate and support the growth of its business, the Santander Group has defined a corporate Human Resources model comprising four strategies and six corporate policies.

The model is structured around the following four strategies:

- To generate and develop top-level executives on an ongoing basis.
- To consolidate Santander's position as a first-choice employer on an international scale.
- To transmit the corporate culture and strategic knowledge to the entire organisation.
- To have global processes in place.

With a view to fostering these strategies, Santander has outlined six Human Resources policies to be applied at corporate level throughout the Group: segmentation, human resources recruitment and marketing, training and knowledge, evaluation, compensation and development and mobility.

Segmentation

In order to better manage its professionals, Santander groups them into various categories: top, senior and middle executives and assistants. This segmentation evolves in keeping with the Group's corporate approach.

In 2007 the Group worked on the definition of a new segmentation, for which a set of uniform entry and exit criteria have already been established. The aim for 2008 is to complete the definition and composition of the new segmentation.

Human resources recruitment and marketing

To attract and retain professional talent in an increasingly competitive international scenario is one of the priority targets of the HR recruitment and marketing policy.

In 2007 Human Resources disseminated the corporate value offering to all Santander professionals through the project entitled "Santander eres tú (You are Santander)". Conducted in ten different languages, this project laid the foundations for the future project to highlight the brand's role as an employer, "Santander puedes ser tú (You can be Santander)", which will target the external market.

Similarly, the Bank's value offering was publicised at major talent sources. Santander continues to actively cooperate with universities and the main international business schools, such as the London Business School, INSEAD, IESE, IE, ESADE, CEIBS, Wharton, Kellogg and Stanford. Moreover, it participated in university job fairs and made presentations at leading academic institutions.

Santander continues to foster its policy aimed at providing training experience and study grants. In Spain alone, more than 800 students took part in the Group's job experience programme.

In addition, Human Resources revised the recruitment policies and processes with a global corporate vision. The corporate recruitment policy establishes the general guiding principles, the sphere for recruitment, and the various phases of the process, ranging from the definition of the vacant positions to the hiring of the successful candidates, and including the call for candidate applications, headhunting, candidate evaluation and the making of an offer to join the Bank. Corporate-wide implementation of the processes and policies redesigned in 2007 will commence in the course of 2008.

Evaluation

In order to recognise the achievements of each person and manage their professional opportunities, Santander has in place an evaluation policy based on an objective, transparent and participative methodology that is applied to all professionals.

This tool helps to guide decisions on the compensation received by each person, identify training needs, manage intra-Group professional opportunities and establish specific actions to improve individual performance.

Compensation

Santander has a total compensation policy designed to maximise talent attraction and retention, optimise the remuneration of its professionals, reinforce the corporate culture, strengthen executives' commitment to the Group and harness economies of scale.

Professional compensation encompasses various components that make up a total compensation package, comprising fixed remuneration, variable remuneration and certain employee benefits. Since 2007, the total compensation scheme for executives also includes the Long-Term Incentive Policy approved by the shareholders at the Annual General Meeting.

Furthermore, as part of the celebrations to mark Santander's 150th anniversary, the Annual General Meeting resolved to deliver 100 shares to all Group professionals in recognition of their contribution, endeavour and commitment.

Training and knowledge

Training and knowledge constitute one of Santander's strategic priorities, the aim being to contribute to the professional development of its employees and to guarantee maximum quality in customer service and competitiveness in the markets. The corporate training and knowledge policy is implemented through an all-encompassing model structured into the Knowledge Schools, the Corporate Integration Centre and the Executive Development Centre. Further details of the activities of these institutions are provided in the Research and Development section below.

Development and mobility

With a view to recognising talent and facilitating its ongoing contribution to the growth of the Group, Santander has established a development and mobility policy.

In 2007 Santander set up the Development and Mobility Committees, whose responsibility is to gain a better understanding of the persons making up the management team, to propose development initiatives to enhance their technical and leadership skills and to establish succession mechanisms for key positions.

To nurture the talent of its professionals, Santander has organised various development programmes at both corporate and local level. 2007 witnessed the 2nd Santander Executive Training Programme (STEP), an intensive corporate scheme aimed at future Group executives which combines international secondments, training and support from Human Resources. In addition, the 5th APOLO Programme for managers with potential in the Commercial Banking Division, the 2nd New Talent Programme in the Americas Division and the 14th Future Executives Programme (Americas) took place, to name but a few of the initiatives to support talent development.

Alongside these corporate policies, Santander constantly strives, at both corporate and local level, to help strike a balance between professional and personal life. This it does through a range of initiatives, such as the Equality Plan signed in Spain in 2007, the Child Education Centre for the children of employees working at the Santander Group business campus, the kindergarten voucher scheme in Spain, the Flexible Working policy in the UK, the Libra Programme in Portugal, the Você quality of life programme in Brazil and the Work and Family Programme in Chile.

In addition, Human Resources encourages the adoption of a preventive approach to guarantee safety and occupational health through various local initiatives and fosters social dialogue by liaising with employees' representatives. Santander has a variety of channels for communication with its professionals, including Intranets, publications, idea and suggestion gathering systems, employee portals, and the employee care telephone service.

As a result of this global Human Resources strategy and the implementation of corporate-wide and local policies, Santander has strengthened its role as an innovative international enterprise in global people management. It can offer mobility mechanisms to expedite professional careers, an international presence to attract and develop the best talent, and a culture characterised by the recognition of the merit of its professionals.

INFORMATION ON THE ENVIRONMENT

In 2007 Santander made further progress in its commitment to make protection and respect of the environment an integral part of its strategy and management.

This commitment entails both the integration of environmental criteria into the Bank's activities and the adoption of measures designed to protect and preserve our surroundings. The main contributions to achieving this goal will be those of Santander's employees, of whom the greatest effort is required, and its suppliers.

Santander drives implementation of this environmental policy through the Environmental Committee, which oversees its practical application, monitoring and control within the Group's Strategic Corporate Social Responsibility Plan, taking into account international best practices in the field.

The measures adopted by the Group to protect and respect the environment can be grouped into five major lines of action:

1. Consumption control: since electricity and paper are the most significant resources consumed by the Bank, it focuses primarily on controlling and improving their use through a series of initiatives adopted in the various countries. The most noteworthy of these initiatives are as follows:

- At the Santander Group business campus (Boadilla del Monte, Madrid, Spain), the Group's headquarters, consumption of resources is strictly monitored on a regular basis with a view to reducing the use of paper, electricity and water. The campus also boasts a complete selective waste collection system (for paper, toner cartridges, batteries, mobile phones, etc.).

- Other Group units have encouraged similar initiatives, most notably the introduction, at Santander Totta, of multifunction equipment (print/copy/fax/e-mail) to reduce paper consumption and, in Mexico, the implementation of the Environmental Management System (SGA) in the production processes.

2. Training, awareness-raising, promotion and certification: a three-fold approach is taken:

- Internal training and awareness-raising. The Group provides special training for professionals whose activities have a greater impact on the environment, and helps to raise the environmental awareness of all other personnel. It also requires that the employees of its most environmentally sensitive suppliers have adequate environmental protection skills.

- Support of initiatives to combat climate change. Santander participates actively in numerous events, such as the Carbon Disclosure Project (CDP), and sponsors the Global Climate Strategies beyond 2012 Forum of the Florence School of Regulation. The Group's commitment to the prevention of climate change is measured each year though the Dow Jones Sustainability Index. In the latest annual review, Santander scored 83 points in the section relating to climate change, placing it among the world's leading financial institutions.

- Environmental certification. The Group already holds three ISO 14001 certificates for its environmental management at the Santander business campus (the Group's headquarters), Santander's head office buildings in Santiago (Chile) and the Santander Serfin head office in Santa Fe (Mexico).

3. Environmental analysis in lending to customers

Santander uses the VIDA tool to measure the environmental risk of the enterprises with which it has business dealings. Developed in conjunction with Garrigues Medioambiente and CESCE (Spanish Export Credit Insurance Company), this tool attains a high level of objectivity in keeping with the nature of the business and is based on the related legislation and internationally accepted standards.

In 2007 this environmental analysis was maintained for all individualised customers. Currently, all the Group's commercial banking customers (enterprises) in Spain with an assigned analyst are assessed using the tool: a total of 36,703 firms, with an outstanding risk exposure of EUR 68,500 million.

In order to ensure that the VIDA tool is managed properly, in 2007 a total of 293 executives and analysts were trained in environmental risk management. Also, the Risk Division is periodically informed of the transactions conducted with customers assessed using the VIDA tool.

4. Financial products and services for the enhancement of the environment

Santander is aware of the need to integrate climate change issues, for a long-term timeframe, in its investments, financing, research and advisory services, and to take full advantage of the Renewable Energies Plan within the framework of the 2020 Objectives adopted by the European Union.

To this end, the Group has a specialist unit, Asset & Capital Structuring, whose main objectives are to promote and develop renewable energy projects and to provide services to combat climate change. The most noteworthy activities of this unit include:

- “Business incubators” in biomass and photovoltaic solar projects in Europe, and in wind-power, hydroelectric and biomass projects in Latin America. More specifically, through its alliance with BP Solar, Santander has promoted and developed numerous photovoltaic facilities in Spain with a total installed capacity of 20 MW.

- Products designed to reduce greenhouse-effect gases through the production of clean electricity; these products benefit from the advantages of emission allowance trading established under the Kyoto Protocol.

The Clean Development Mechanism (CDM) projects are the most interesting in this regard. The CDM, an arrangement included in the Kyoto Protocol, enables the emission reductions achieved in CDM projects in developing countries to be certified and, consequently, used to offset the limits established in industrialised countries.

As a result, wealth and technological know-how is transferred to Latin America, where Santander is focusing its efforts on the development of CDM projects:

- FC2E: a EUR 100 million carbon fund set up by Santander and Instituto de Crédito Oficial which, instead of paying dividends, distributes emission reductions among its investors. In 2007, FC2E arranged eleven purchase agreements for a total of 4.5 million tonnes of CO_2, with a significant degree of technological and geographical diversification (the agreements involved six different technologies and originated allowances in three continents).

- Products for the post-Kyoto future (2012). Santander has commenced work on developing a new carbon fund that will focus on acquiring the emission reductions to be generated after Kyoto.

5. Financing of renewable energy projects: Santander has actively financed profitable projects for the start-up of various renewable energy generation facilities:

- In 2007 Santander participated in the financing and/or refinancing of several wind-power projects in six countries with a total capacity of nearly 1,700 MW. Particularly noteworthy in this connection is the proportion of such financing attained by the Bank in Spain, where, following the four new projects financed (+170 MW), the projects currently financed by Santander (3,973 MW) represent one third of the total installed capacity.

- Also in 2007, Santander participated in transactions for more than 96 MW in the photovoltaic sector, thus bringing its total financed capacity up to 149 MW. One of the highlights was the clinching of the first project finance deal in 15 years in the United States for the start-up of a thermosolar plant.

- Promotion of investments in energy efficiency projects for SMEs in Spain, taking advantage of the Bank's leadership in arranging financing lines from Instituto de Crédito Oficial (ICO).

- Photovoltaic leases. Santander provides financing solutions involving lease and turnkey agreements (project design, obtainment of permits, licensing, insurance, production and maintenance) for photovoltaic power plants with capacities of up to 100 KW.

- Green loans. In the United Kingdom, Abbey has launched a loan intended for customers who wish to adapt their homes or cars using energy efficient systems. For each green loan taken out by its customers, Abbey plants five trees in UK forests.

- Biofuels. Once again in 2007, the most active biofuel market was the United States, where Santander financed the construction and development of several ethanol plants and, in what constituted a first for the Bank, a biodiesel plant. All in all, three ethanol plants and one biodiesel plant were financed.

RESEARCH AND DEVELOPMENT

The Santander Group constantly strives to be the leading bank in terms of product, service, process and system innovation, to improve the quality it offers its customers and to increase its efficiency and productivity. To this end, it seeks to outperform its competitors in catering for all the needs of its customers.

Essential pre-requisites for the achievement of these objectives, in addition to the day-to-day endeavour of our commercial and wholesale networks, are a Human Resources policy capable of attracting and retaining the best talent and a Technology and Operations Division that together represent a competitive advantage for the Santander Group.

Following is a detailed description of the efforts currently being made by the Santander Group in these two major support areas.

Human resources training and development is one of the key tools for the creation of value in the Bank's relationship with its shareholders and customers and with society as a whole. In response to the various objectives pursued, the corporate training model is basically structured into the following three centres:

– Corporate Schools of Knowledge. These schools contribute to Santander's technical excellence in global businesses and functions. They organise advanced technical study programmes for executive-level higher education, curriculum-based programmes providing support in the various stages of employees' careers, and best practices and business target support programmes.

– The Corporate Integration Centre. This centre organises the Corporate Integration Programme aimed at newly recruited professionals joining the Group. The programme is implemented consistently in all the countries in which Santander is present and is supplemented by local integration programmes. It consists of a series of planned activities during the first three/six months following recruitment, such as the Corporate Integration Course, meetings, tutorials, job-specific training actions, etc.

– The Executive Development Centre, which sets a benchmark for the professional development of all Group executives, implements training and development and talent development programmes within the framework of the corporate Executive Management policy.

This corporate model is supplemented by El Solaruco, the Group's Corporate Training and Development Centre. Located at the Santander Group's business campus in Boadilla del Monte (Madrid, Spain), the Centre has become a benchmark institution not only for Santander professionals, but also outside the Group. In 2007, El Solaruco received Corporate Learning Improvement Process (CLIP) accreditation from the European Foundation for Management Development.

In 2007 Santander provided more than 5.4 million hours of training for its professionals, reaching 90% of the workforce. The Corporate Training and Development Centre welcomed to its facilities 74,921 people from all Group areas, of whom 24,781 participated in training programmes and more than 50,140 attended professional gatherings, forums and conventions.

Also in 2007, the Technology and Operations Division played a key role in rolling out Santander's strategy and made substantial progress in the implementation of its Global Management Model. This model helps the Group to seize the opportunities arising from its global dimension and to develop a strict discipline in cost management, in relation to income growth, which constitutes an advantage that sets Santander apart from its competitors.

The Group pursued five major lines of action in this connection:

– Firstly, technology initiatives continued to focus on **implementing strategic corporate solutions** as a first step towards achieving Group-wide technological convergence. Corporate technology enables Santander, through Partenón in Europe and Altair in Latin America, to harness the advantages of being a global bank and, through Alhambra, to make available the most suitable tools for each local market.

  Partenón facilitates a sustained reduction of operating costs, comprehensive knowledge of customers, and swifter, more responsive product launches. At Banesto, the Santander Network and Banif, Partenón is already fully operational and implementation at the other European units is progressing according to schedule. Particularly worthy of mention is the roll-out of Partenón at Abbey, where, although the platform will not become fully functional until 2008, numerous benefits are already being obtained due to its capacity to:

• Boost the commercial function by strengthening the Group's vision of customers and automating commercial processes.

• Improve the quality of service by reducing the number of incidents and the time required to open accounts and attend to customers.

• Reduce technology costs by more than 20%.

• Enhance financial control and diminish operational risk.

• Promote new businesses and products. Specifically, Abbey used Partenón to implement the corporate technological solution that enabled it to reduce debit card fraud and to create the new credit card business in record time and at a minimal cost.

In Latin America, the Altair platform continued to evolve through the development of new card, deposit and consumer credit products.

Parallel to these advances, the roll-out of Alhambra in the Santander Network in Spain was successfully completed, thus rendering the work of its employees more productive and effective. Alhambra is a key component of Santander's corporate strategy, since it will enable technological convergence between Partenón in Europe and Altair in Latin America.

2007 also saw further progress in the standardisation and unification of the technological infrastructures, in line with corporate policies, leading to increased quality of service and improved efficiency in the main areas of data processing centres, communications and terminals.

- Secondly, technology, through the implementation of global solutions and the consolidation of platforms, helped to **boost the Group's global businesses.** A clear illustration of this is the Corinto corporate solution for wholesale businesses. This solution, whose roll-out continued in 2007 focusing particularly on Brazil and Abbey, facilitates both the development of new products and the introduction of the corporate factory operations model.

- Thirdly, keeping apace with the technological developments, work continued on the **extension of the Global Operations Model,** designed to help improve Group efficiency and productivity. Already established in the Santander Network, Banesto and Banif, this model is currently being implemented at Abbey, Totta and Openbank, in line with the start-up of Partenón. Work on the model has also begun in Latin America and at Santander Consumer Finance.

- Fourthly, the **development of specialist corporate factories was consolidated.** These factories constitute a key component of the Global Model: Isban and Altec for software development and maintenance, Produban for IT production and the management of data processing and networking centres, and Geoban for the management of operating services. The factories continued to strive to expand their service and customer portfolios, to enhance quality of service and efficiency, and to reduce operational and technological risks.

- Lastly, 2007 also witnessed further steps in the **implementation of the Global Integral Cost Management Model,** including the creation of specific management units for each type of expense, the centralisation of the purchasing and payments functions, and heightened discipline in cost approval and management. This model enables Santander to reduce costs, improve cost control and enhance the service provided by the expenses and purchasing areas.

SIGNIFICANT EVENTS SUBSEQUENT TO YEAR-END

The significant events at the Santander Group from 1 January 2008 until the date on which the consolidated financial statements were authorised for issue were as follows:

- Banco Santander reached an agreement with the consortium headed by Propinvest for the sale and leaseback of the Santander business campus for a period of 40 years, under which the Bank reserves the right to exercise a purchase option at the end of the lease term.

  This transaction culminates the restricted private auction organised by Banco Santander for the sale and subsequent leaseback of a property portfolio owned by it in Spain. The agreed price for the Santander business campus is EUR 1,900 million, giving rise to a gain of approximately EUR 605 million for the Group.

  Taking into consideration the earlier transactions, duly announced, performed as part of the aforementioned auction, the Santander Group has sold properties, in each case simultaneously leasing them back with a purchase option, for a total price of EUR 4,398 million, giving rise to gains totalling approximately EUR 1,681 million.

- Santander and Fortis have reached an agreement whereby Santander will purchase from Fortis ABN AMRO's asset management business in Brazil, which was acquired by Fortis as part of the purchase of ABN AMRO by the Consortium (RBS, Fortis and Santander).

  This transaction, valued at EUR 209 million, is expected to be completed in the second quarter of 2008 and will be subject to the habitual terms of completion, as well as obtainment of the appropriate regulatory approvals.

- In 2008, the Board of Directors of Banco Santander, at its meeting on 28 January, resolved to appoint Mr. Juan Rodríguez Inciarte as a director of the Bank to fill, by co-optation, the vacancy resulting from Mutua Madrileña Automovilista's decision to stand down from the Board. At 31 December 2007, Mr. Juan Rodríguez Inciarte held 577,740 Bank shares (direct ownership interest).

OUTLOOK

The economic outlook for 2008 points to world GDP growth of around 4%, somewhat slacker than the pace set in 2007, but satisfactory when viewed over a long-term timeframe, all the more so in light of the obstacles posed by the high price of crude oil, the turbulence in the financial markets and the prolonged phase of intense global expansion that began five years ago.

The most dynamic regions will be the emerging economies, above all Asia, spearheaded by China, and also Latin America, which is displaying remarkable resilience in the current climate and is set to once again report growth in excess of 4%. The sound policies applied in recent years, which boosted the region's credibility, the high prices of raw materials and its robust foreign position (currency reserves, reduction of external debt, surplus balances of payments, etc.) will enable Latin America to extend this stage of growth and macroeconomic stability, a scenario which is conducive to further bankarisation of the region.

In the United States, monetary and tax policies have responded swiftly to the adverse conditions besetting the financial and real estate markets. Consequently, although activity will be sluggish in the first half of the year, the economy is expected to show certain signs of recovery after the summer, which will enable it to avoid the risk of recession and achieve growth of 1.5% in 2008. Since January the FED has lowered its benchmark interest rate and in all likelihood will make further cuts in the next few months, despite the fact that underlying inflation is currently running at the upper limit of the desired 1.5-2% band.

Expectations for the euro zone, not untouched by the slowdown in the United States, signal moderate growth of less than 2% in 2008. Inflation has risen due to increases of more than 3% in energy and food prices, breaking the ECB's 2% ceiling, thus limiting any room for manoeuvre. Nevertheless, once the abatement of price increases in the coming months is confirmed, official interest rates are expected to fall by between 50 and 75 basis points in the course of 2008. In any case, the financial strength of businesses and families in most European countries suggests that there is a solid base for a revival that would be triggered by even the slightest improvement in the international economic and financial climate. The euro will remain steady and the second half of the year will foreseeably bring a recovery of the United States that could bolster the dollar to around USD 1.35/EUR 1.

The outlook for growth in the United Kingdom is also less optimistic, even though its slowdown towards the end of 2007 was highly contained. Faced by this trend, the Bank of England reacted swiftly to reduce interest rates from 5.75% to 5.25%. Further cuts are anticipated for 2008, although, as in the euro zone, the relatively high rate of inflation and predictions of a sharp rise will prompt the Bank of England to act prudently. The pound sterling is expected to remain stable against the euro to stand at around EUR 1/GBP 0.73 by the end of 2008.

Growth in Spain will continue to clearly outpace that of the euro zone and its neighbouring countries, albeit at around 2.5%, a more modest rate than in 2007, due to the less favourable environment and the decline in the real estate industry. Inflation has risen to above 4%; however, as in the euro zone as a whole, it is expected to fall back after the spring to below 3%. Against this backdrop, predictions herald more moderate growth in lending and deposits.

In short, although the prevailing scenario is one of growth, conditions will be more demanding and there will be greater uncertainties than in previous years, from both a macroeconomic and a financial standpoint.

The financial climate in the second half of 2007 marked the end of a period characterised by high liquidity (pushing the cost of liquidity down), in which financial institutions focused their attention on bolstering the asset side of their balance sheets. In the new environment, financial institutions and customers alike face a scenario in which liquidity and risks will demand a higher price, more commensurate with the levels assumed, and in which a high value will be attached to customer relations, efficiency and deposits.

In a scenario such as this, institutions which are geared towards universal banking, manage liabilities as opposed to assets and have a strong presence in high-growth emerging markets will initially have the upper hand. In view of this state of play, the worldwide banking industry is considering a return to its traditional business, a path from which institutions such as Santander have never strayed.

Accordingly, Santander will start 2008 with excellent prospects, which are based on the following:

- The core business, commercial banking, is highly diversified, which means that the Group has recurring, stable income.
- A high-quality business profile, resulting in a risk exposure that is low and, more importantly, predictable.
- Immense strength of the balance sheet, with comfortable liquidity and solvency levels.
- A highly-differentiated business portfolio, combining both developed and emerging markets to contribute higher growth, which in the near future will benefit from the investments made in recent years.
- Santander's excellent track record in cost management, which has enabled it to strengthen its front-office and invest heavily in capacity whilst at the same time improving efficiency.
- Lastly, and very importantly, the contribution of the ABN businesses, which gives Santander the critical mass required to compete with the major players in Brazil, making it the only international bank with a significant presence in a BRIC country.

In short, Santander faces up to the challenges of 2008 with a sound positioning and a proven capacity to perform. In order to take full advantage of this position, Santander has clearly defined its management approach for 2008, which is as follows:

- Greater emphasis on the management of margins.
- Priority attention to be paid to costs, as the basic instrument for managing the gaps between income and expenses.
- Particular vigilance with respect to risks and their impact on provisions.
- Increased focus on deposits.
- Very special emphasis on customers and quality of service.
- Achievement of the above without neglecting discipline in financial and capital management or the initiatives to derive value from the global nature of the Group through its global businesses and technology.

The management priorities in the major business units are to raise their level of performance above that of the rival banks. The most significant actions envisaged for 2008 are as follows:

- The Santander Network will continue to roll out the "We Want to Be Your Bank" strategy, which already covers 4 million customers. Also worthy of mention are the new initiatives targeting SMEs, businesses and enterprises, aimed at increasing business and quality of service, which should step up income and profit. The Santander Network's management targets in 2008 will centre on growth in recurring income from customers, margin management, a strict approach to costs and keeping risks under control.
- Once again in 2008, Banesto will focus on increasing its market share vis-à-vis its competitors and will continue to implement its strategy in its target products and segments, above all in SME banking, in which it seeks to become the benchmark bank. Also, Banesto continues to pioneer the Group's development of plans and systems designed to improve efficiency, and it is committed to steadily enhancing profitability whilst maintaining a high level of risk quality.
- Santander Consumer Finance will achieve further organic growth in 2008, which will help to mitigate margin pressures in Europe, and, at the same time, it will continue to manage the incorporation of Drive into the Group, which signified a higher-than-expected contribution to the consumer finance area's earnings in 2007. The area will selectively add to its array of products, progress in the integration of its units, and develop the business of the small financial institutions, joint ventures with local operators and start-ups recently acquired in Russia, Mexico, Chile, France and Finland.
- Santander Portugal will continue to enhance its distribution capacity in order to maintain a higher market share in terms of profits than in terms of business, and will once again display the highest profitability and efficiency in the Portuguese market. Moreover, it will focus its efforts on achieving increased penetration in the SME segment. Santander Portugal's business model will continue to be customer-centric, and it will strive to increase the number of customers and to secure higher levels of customer loyalty and satisfaction.
- Abbey will advance towards its goal of becoming a commercial bank capable of offering the entire range of services. It expects its income to grow at above the average rate for the UK personal financial services market, backed by Partenón, whose implementation will enable Abbey to further improve business productivity.
- Latin America will make further progress in its ambitious strategic plan for 2006-2009, a period in which it plans to double customer business and income. The keys to achieving this target are rampant customer business and sound management of the risk-return ratio, with growth-adjusted premiums. There will also be selective cost increases in line with the commercial expansion investments planned for each country under the "América 20.10" programme, which aims to reap the rewards of the region's bankarisation process.

In addition, Santander continues to step up the globalisation of its business through significant projects to develop its global units. More specifically:

- In Global Wholesale Banking, the focus will lie on strengthening income from customers, maintaining a solid position in Spain, increasing business with our customers in Europe and exporting the wholesale product distribution model through retail networks in Latin America.
- In Cards, the Group will further consolidate its global model, the aim of which is to make it the most highly integrated payment systems specialist in commercial banking worldwide. The business in Spain, Brazil and the United Kingdom will be boosted and Santander's leading position in Mexico and Chile will be bolstered.
- Asset Management will continue to pursue its strategy of providing innovative products for Santander and third parties, with efficiency remaining its main competitive advantage. Santander will promote the marketing of products among institutional and private banking customers and strengthen its market position in countries with growth potential such as Brazil, Chile and Mexico.
- In Global Private Banking, progress will be made in the integration of the recently created division. As a result, the various units will have the support of a central unit to help them achieve improved growth ratios and significant synergies in products, technology and human resources.

- In Insurance, the Group will take further steps in sharing best practices, integrating technological platforms and using the common operational centres to bolster local networks, thus enabling it to continue to obtain higher income with improved efficiency. The emphasis will be placed on increasing penetration in the Group's customer base, harnessing the business opportunities resulting from the ageing of the population in developed countries and fostering new businesses and channels.

All in all, Santander is confident that in 2008 it will continue its medium- and long-term trend of growth and value creation, which will allow it to meet the earnings-per-share projections made on Investors' Day in September 2007 and to continue to outperform its competitors.

CORPORATE GOVERNANCE

PROPOSED DISTRIBUTION OF PROFIT

A total gross dividend of EUR 0.6508 per share to be paid out of 2007 profit will be proposed for approval by the shareholders at the Annual General Meeting, the detail being as follows: three interim dividends of EUR 0.122940 per share and one of EUR 0.281961 per share. The first three were distributed in August and November 2007 and in February 2008, and the fourth will be paid in May 2008. With this fourth dividend, which, if the proposed distribution of profit to be submitted to the Annual General Meeting is approved, will be the final dividend paid out of 2007 profit, the total dividend will have increased by 25% with respect to that paid out of 2006 profit.

In the first three interim dividends out of 2007 profit, a total of EUR 2,307 million were distributed, leaving EUR 1,763 million to be paid on or after the aforementioned date.

SHARE CAPITAL AND TREASURY SHARES

Structure of the share capital and agreements in force relating to the possible issuance of new shares or of debentures convertible into shares

At 31 December 2007, and at the date of preparation of this directors' report, the share capital of Banco Santander, S.A. amounted to EUR 3,127.1 million, represented by 6,254,296,579 fully subscribed and paid shares of EUR 0.50 par value each, all of the same class and of a single series. All these book-entry shares carry the same voting and dividend rights.

Also, securities issued during the year with a total nominal value of EUR 7,000 million, mandatorily convertible into newly-issued ordinary shares of the Bank, were outstanding at 31 December 2007. These securities can be voluntarily exchanged for shares of the Bank on 4 October 2008, 2009, 2010 and 2011, and must be mandatorily exchanged on 4 October 2012. The reference price of the Bank's share for conversion purposes was set at EUR 16.04 per share, and the conversion ratio of the debentures is 311.76 shares for each debenture.

As approved by the shareholders at the Extraordinary General Meeting held on 27 July 2007, the authorised additional share capital amounts to EUR 1,563,574,144.5. The Bank's directors have until 27 July 2010 to carry out increases under this authorisation. The limit available at any given time of the aforementioned maximum amount shall be deemed to include the amount of any capital increases that may be made to cater for the conversion of debentures under Resolution Ten of the Annual General Meeting of 21 June 2003. This resolution empowers the Board to fully or partially disapply the pre-emption right in accordance with the terms of Article 159.2 of the Spanish Companies Law.

In addition, Resolution Eight of the Bank's Annual General Meeting of 23 June 2007 authorised a capital increase of EUR 375 million and granted the Board the broadest powers to set the date and establish the terms and conditions of this capital increase, within one year from the date of the aforementioned Annual General Meeting. If the Board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

Treasury shares policy and transactions involving treasury shares

The Annual General Meeting held on 23 June 2007 expressly authorised the Bank and the Group subsidiaries to acquire shares representing the Bank's capital for any consideration permitted by law, observing the legally-stipulated limits and requirements, until they reach a maximum -including the shares already held by them- of 312,714,828 shares or, as the case may be, a number of shares equivalent to 5 per cent of the existing share capital at any give time, fully paid, at a minimum price per share of the par value and a maximum price of up to 3% higher than the quoted price on the Continuous Market of the Spanish stock exchanges (including the block market) at the acquisition date. This authorisation, which can only be exercised within 18 months from the date of the Annual General Meeting, includes the acquisition of the shares, if any, that must be delivered to Company employees and directors either directly or as a result of the exercise of options held by them.

At its meeting on 23 June 2007, the Board of Directors adopted the current resolution on treasury share policy (which can be consulted on the Group's website: www.santander.com). This resolution regulates the main aspects of treasury share transactions, such as their purpose, the persons authorised to conduct them, general guidelines, prices, time limits and reporting obligations. This policy prohibits the use of treasury shares for golden parachute purposes.

At 31 December 2007, the Bank shares owned by the consolidated companies accounted for less than 0.01% of the Bank's capital at that date. At 31 December 2006 and 2005, they represented 0.12% (0.15% including derivatives on own equity instruments) and 0.08%, respectively.

The transactions with treasury shares performed in the Group's interest by the consolidated companies in 2007 can be summarised as the acquisition of 611,138,902 shares, equivalent to a par value of EUR 305.6 million (cash amount of EUR 8,473.0 million) and the sale of 618,404,917 shares, with a par value of EUR 309.2 million (cash amount of EUR 8,570.5 million).

The average purchase price of the Bank's shares in 2007 was EUR 13.86 per share and the average selling price was EUR 13.86 per share. The net gain in 2007 on transactions involving treasury shares, amounting to EUR 5 million, was recognised in the Group's equity under "Shareholders' equity-Reserves".

Restrictions on the free transferability of the shares

There are no legal or bylaw-stipulated restrictions on the transfer of shares other than those set forth below.

As is the case with all other Spanish credit institutions, there are legal restrictions on the transfer of shares, since Articles 57 and 58 of Law 26/1988, of 29 July, on Discipline and Intervention of Credit Institutions apply to the Bank. These articles provide that any acquisition of a significant ownership interest in a credit institution must previously be notified to the Bank of Spain, which in certain circumstances has a right to object to the acquisition.

Notwithstanding the foregoing, a description is provided below of a shareholder agreement notified to the Bank which affects the free transfer of certain shares of the Bank.

Restrictions on voting rights

There are no legal or bylaw-stipulated restrictions on voting rights.

In this respect, Article 15.1 of the bylaws stipulates that *"the holders of any number of shares registered in their name in the corresponding accounting record five days prior to the date on which the General Meeting is to be held and who are current in their capital payments shall be entitled to attend the General Meeting".*

Shareholder agreements

In February 2006 three directors, together with other shareholders of the Bank, entered into a shareholder agreement that was notified to the Bank and to the Spanish National Securities Market Commission (CNMV), and the document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

The agreement, which was signed 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. (Sole-Shareholder Company), provides for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The aim pursued by virtue of the syndication agreement, the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the Syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At the date of execution of the agreement, the Syndicate comprised a total of 44,396,513 shares of the Bank (0.710% of its capital). In addition, as established in Clause One of the agreement, the syndication will be extended, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2007, a further 19,875,320 shares (0.318% of the Bank's share capital) were included in the Syndicate.

At any given time, the Chairman of the Syndicate is the person then presiding over the Marcelino Botín Foundation, currently Mr. Emilio Botín Sanz de Sautuola y García de los Ríos.

The members of the Syndicate undertake to syndicate and pool the voting rights of all kinds inherent to the syndicated shares, so that these rights may be exercised and, in general, the Syndicate members heading the Bank may act in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the Syndicate, and, for this purpose, the representation of these shares is attributed to the Chairman of the Syndicate as the common representative of its members.

Except for transfers made in favour of other members of the Syndicate or the Marcelino Botín Foundation, prior authorisation must be obtained from the Syndicate Assembly, which may freely approve or refuse permission for the planned transfer.

Significant direct and indirect ownership interests

At 31 December 2007, the share capital of the Bank was distributed among 2,278,321 shareholders.

The Bank's Shareholder Register showed the following shareholders with an ownership interest of more than 3% in the share capital at 31 December 2007(*): Chase Nominees Limited (10.80%), State Street Bank & Trust (8.13%) and EC Nominees Ltd (5.85%). The Bank understands that the aforementioned entities hold these interests in their capacity as international custodian/depository banks acting for the account of third parties, and has no record of any individual holding of more than 3% in the Bank's share capital or voting rights.

The table below includes the direct and indirect holdings of the members of the Bank's Board of Directors and the ownership interests represented by them at 31 December 2007, per the Bank's Official Shareholder Register:

Directors	Number of Shares Held Directly	Number of Shares Held Indirectly	Number of Shares Represented	Total Shares	Total as % of Share Capital
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos (1)	1,638,812	27,042,993	107,949,897	136,631,702	2.506
Mr. Fernando de Asúa Álvarez	25,616	40,000	---	65,616	0.001
Mr. Alfredo Sáenz Abad	365,163	1,243,532	---	1,608,695	0.026
Mr. Matías Rodríguez Inciarte (3)	555,617	65,300	61,444	682,361	0.011
Mr. Manuel Soto Serrano	---	250,000	---	250,000	0.004
ASSICURAZIONI GENERALI S.p.A	13,885,264	67,847,477	---	81,732,741	1.307
Mr. Antonio Basagoiti García-Tuñón	530,000	---	---	530,000	0.008
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (1)	4,977,423	4,024,306	---	9,001,729	0.000
Mr. Javier Botín-Sanz de Sautuola y O'Shea (1) (2)	4,793,481	6,300,000	---	11,093,481	0.000
Lord Burns (Terence)	100	27,001	---	27,101	0.000
Mr. Guillermo de la Dehesa Romero	100	---	---	100	0.000
Mr. Rodrigo Echenique Gordillo	651,598	7,344	---	658,942	0.011
Mr. Antonio Escámez Torres	559,508	---	---	559,508	0.009
Mr. Francisco Luzón López	44,195	1,298,544	---	1,342,739	0.021
Mr. Abel Matutes Juan	99,809	86,150	---	185,959	0.002
Mr. Luis Ángel Rojo Duque	1	---	---	1	0.000
Mr. Luis Alberto Salazar-Simpson Bos	131,312	19,464	---	150,776	0.002
Ms. Isabel Tocino Biscarolasaga	1,545	---	---	1,545	0.000
	28,259,544	**108,252,111**	**108,011,341**	**244,522,996**	**3.910**

(1) Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos has been attributed the voting rights of 90,715,628 shares owned by the Marcelino Botín Foundation (1.45% of the share capital), 8,096,742 shares held by Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos, 96,047 shares held by Ms. Paloma O'Shea Artiñano, 9,041,480 shares held by Mr. Emilio Botín-Sanz de Sautuola y O'Shea, 9,001,559 shares held by Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea and 11,093,481 shares held by Mr. Javier Botín-Sanz de Sautuola y O'Shea. Therefore, although the table above shows the direct and indirect ownership interests of each of the two last-mentioned directors of the Entity, these holdings, in the column relating to the total percentage of share capital held, are included together with those belonging to 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 has the status of a nominee director, since he represents on the Board the 2.506% of the share capital relating to the holdings of the Marcelino Botín Foundation, 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 holding.

(3) Mr. Matías Rodríguez Inciarte has been attributed the voting rights of 61,444 shares owned by his children.

Additionally, at its meeting on 28 January 2008, the Board of Directors of Banco Santander, S.A. resolved to appoint Mr. Juan Rodríguez Inciarte as a director of the Bank to fill, by co-optation, the vacancy that resulted from the decision of Mutua Madrileña Automovilista to stand down from the Board. This appointment will be submitted for ratification by the shareholders at the Annual General Meeting scheduled to take place at first and second call on 20 and 21 June, respectively. At 31 December 2007, Mr. Juan Rodríguez Inciarte held 577,740 shares of the Bank (direct ownership interest).

BOARD OF DIRECTORS

Rules governing the appointment and replacement of members of the Board of Directors and the amendment of the bylaws

The most significant regulations governing the procedures, criteria and competent bodies for the appointment, re-election and renewal of directors are contained in various provisions of the Spanish Companies Law, the Regulations of the Mercantile Registry, the Bank's bylaws (Articles 28.II, 30 and 31) and the

(*) Threshold stipulated, for the purposes of the Annual Corporate Governance Report, in Royal Decree 1362/2007, of 19 October.

Regulations of the Board of Directors (Articles 16 and 20 to 24). Also of relevance in this connection is the legislation governing the creation of credit institutions.

Following is a description of the most relevant features of the framework resulting from all the aforementioned provisions:

- Number of directors and term of office:

The bylaws (Article 30) provide for a maximum of 22 directors and a minimum of 14 directors. The Bank's Board is currently composed of 19 directors.

The term of office of a director is five years, although directors can be re-elected. Directors designated by co-optation and ratified at the earliest subsequent General Meeting shall cease to hold office on the same date as that on which their predecessors would have done so.

- Competence and procedure for appointment:

Responsibility for the appointment and re-election of directors lies with the General Meeting. Nevertheless, in the event that directors vacate their office during the term for which they were appointed, the Board of Directors may provisionally designate another director until the shareholders, at the earliest subsequent General Meeting, either confirm or revoke this appointment.

Proposals for the appointment, re-election and ratification of directors submitted by the Board of Directors to the General Meeting and decisions adopted by the Board itself by virtue of its co-optation powers must be preceded by the related proposal from the Appointments and Remuneration Committee. If the Board objects to the Committee's proposal, it must give the reasons for its decision and place these reasons on record.

The directors whose appointment, re-election, ratification or removal has been proposed shall refrain from participating in the deliberations and ballots of the Board and of the Committee.

The rules applicable for the amendment of the bylaws do not establish more exacting conditions than those stipulated by law and, accordingly, the requisites established in the Spanish Companies Law shall apply.

- Appointment requisites and restrictions:

It is not necessary to be a shareholder in order to be appointed a director, except when this is legally required in the case of provisional appointment by the Board (co-optation) referred to above. The following persons may not hold the office of director: undischarged bankrupt traders and non-traders, minors and the incapacitated, persons sentenced to penalties disqualifying them from holding public office, those sentenced for gross breach of the law or of social provisions, persons barred from trading and government employees who discharge functions related to the Bank's specific activities. Directors must be persons of renowned commercial and public integrity, competence and solvency. There is no age limit for directors.

Candidates to be proposed for the position of director will be selected on the basis of whether they are persons of renowned solvency, competence and experience, and, furthermore, particular importance will be attached, where appropriate, to the size of their shareholdings in the Bank's capital.

Individuals representing legal-entity directors are subject to the same requirements as individual directors.

On taking office, the designated directors must formally agree to fulfil all the obligations and perform all the duties inherent to the position.

- Proportional system:

Shares pooled to form an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Vacation of office or removal:

Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the General Meeting so resolves, or when they resign or place their office at the disposal of the Board.

Directors must place their office at the disposal of the Board and tender the related notice of resignation if the Board, after receiving the report of the Appointments and Remuneration Committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the Board or on the Bank's credibility and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office.

Furthermore, the directors must, at their earliest convenience, notify the Board of any circumstances which might jeopardise the Bank's credibility and reputation and, in particular, of any lawsuits in which they are involved as accused parties.

Lastly, the Board Regulations (Article 22.2) specifically provide that non-executive nominee directors must tender their resignations, in the appropriate number, when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

Powers of the General Meeting and of the Board of Directors

The powers of the General Meeting and of the Board of Directors of the Bank are governed by current legislation and the Bank's bylaws, the Regulations of the General Meeting and those of the Board, which can be consulted on the Group's website at www.santander.com.

Following is a summary of the most noteworthy features:

- Powers of the General Meeting

As provided for in Article 28 of the bylaws, the General Meeting is authorised to adopt all manner of resolutions concerning the Bank, and is reserved, in particular, the following powers:

I. To approve a set of regulations for the General Meeting which, subject to the provisions of the law and the Bank's bylaws, governs the procedures for calling, preparing and informing a General Meeting, the attendance and conduct thereof, and the exercise of voting rights when a General Meeting is called and held.

II. To appoint and remove the members of the Board of Directors, and to ratify or revoke the provisional appointments of directors made by the Board itself, and to scrutinize and approve the conduct of the directors' activities.

III. To appoint the auditors.

IV. To approve, if appropriate, the financial statements; to decide on the distribution of profit; and to approve, if appropriate, the consolidated financial statements.

V. To resolve to issue debentures, increase or reduce capital, transform, merge, spin off or dissolve the Bank and, in general, make any amendment to the bylaws.

VI. To authorise the Board of Directors to increase share capital, as provided for in Article 153.1.b of the Spanish Companies Law.

VII. To grant the Board of Directors such powers as it might deem advisable in the event of unforeseen circumstances.

VIII. To decide on any matters submitted to it by resolution of the Board of Directors.

IX. To decide on the application of share or share-option based remuneration systems and of any other remuneration system linked to the value of the Bank's share, irrespective of the eventual beneficiaries of such remuneration systems.

X. To resolve to subsidiarise or contribute to subsidiaries the Bank's operating assets, thus converting the Bank into a mere holding company.

XI. To approve, as appropriate, the acquisition or disposal of assets when, in view of their quality and volume, they entail an effective change in the company objects.

XII. To resolve to conduct transactions whose effect is equivalent to the liquidation of the Bank.

- Powers of the Board of Directors

As established in Article 29 of the bylaws, the Board of Directors is responsible for managing, administering and representing the Bank in all the activities included in its company objects, using the powers attributed to it by law and the Bank's bylaws. With the exception of the powers conferred by the bylaws upon the General Meeting, and as provided for in Article 37 of the bylaws, the Board of Directors has the broadest powers to manage, administer and represent the Bank. Consequently, it may adopt all manner of resolutions and take such action and enter into such agreements as it may deem appropriate in order to attain the corporate goals, at all times in observance of prevailing legislation.

The Board Regulations (Article 3) establish that, except with respect to matters for which the General Meeting has sole responsibility, the Board of Directors is the Bank's senior decision-making body.

Without prejudice to the foregoing, the Board delegates the conduct of the Bank's ordinary operations to the executive bodies (mainly the Executive Committee) and to the management team, and itself focuses on the general supervisory function, directly assuming and exercising, on a non-delegation basis, the responsibilities that this function entails, including most notably the following:

a) Approval of the Bank's general policies and strategies, in particular:

(i) Strategic plans, management targets and annual budget;

(ii) Dividend and treasury share policy;

(iii) General risk policy;

(iv) Corporate governance policy;

(v) Corporate social responsibility policy;

b) Approval of shareholder, market and public reporting and communication policies. The Board is responsible for furnishing the markets with swift, accurate and reliable information, above all that relating to the shareholder structure, to substantial changes in governance rules, to particularly significant related party transactions or to treasury shares.

c) Approval of the financial information that the Bank must periodically publish.

d) Approval of transactions involving the acquisition and disposal of substantial Bank assets and major corporate transactions, unless such approval is to be given by the General Meeting, in conformity with Article 28 of the bylaws.

e) Approval, within the framework of Article 38 of the Bank's bylaws, of the remuneration for each director.

f) Approval of the agreements regulating the performance by the directors of duties other than those of a director and the remuneration corresponding to them for discharging executive functions.

g) Appointment, remuneration and, where appropriate, removal of the other senior executives and definition of the basic terms and conditions of their contracts.

h) Control of management activity and evaluation of executives.

i) Authorisation to create or acquire holdings in special purpose vehicles or entities domiciled in countries or territories deemed to be tax havens.

j) The responsibilities specifically provided for in the Board Regulations.

The powers detailed in sections (c), (d), (e), (f), (g), and (i) may be exercised, when advisable for reasons of urgency, by the Executive Committee, provided the Board is subsequently informed at the earliest meeting held.

- Board of Directors Committees

The Board has set up, as decision-making committees, an Executive Committee, to which general decision-making powers have been delegated, and a Risk Standing Committee, to which specific risk-related powers have been delegated.

Also, the Board has a series of other committees with supervisory, reporting, advisory and proposal powers, namely the Audit and Compliance Committee, the Appointments and Remuneration Committee, the International and Technology Committee and the Productivity and Quality Committee.

Following is a summary of the rules governing the organisation and operation of the Executive Committee and the Risk Standing Committee.

Executive Committee

The Executive Committee, regulated in Article 39 of the bylaws and Article 13 of the Board Regulations, has been delegated all the powers of the Board of Directors, except for those not delegable by law and those listed below.

a) Approval of the Company's general policies and strategies, in particular:

(i) Strategic plans, management targets and annual budget;

(ii) Dividend and treasury share policy;

(iii) General risk policy;

(iv) Corporate governance policy;

(v) Corporate social responsibility policy.

b) Approval of shareholder, market and public reporting and communication policies. The Board is responsible for furnishing the markets with swift, accurate and reliable information, above all that relating to the shareholder structure, to substantial changes in governance rules, to particularly significant related party transactions or to treasury shares.

c) Control of management activity and evaluation of executives.

d) Together with the powers pertaining to the Board in relation to its composition and modus operandi, the remuneration and duties of directors, the hiring of technical assistance for directors, and the Board's relations with shareholders, the markets and the auditor.

As indicated in the "Powers of the Board of Directors" section, when reasons of urgency so advise, certain of these powers may be exercised by the Executive Committee, provided the Board is subsequently informed at the earliest meeting held.

The Executive Committee shall comprise a maximum of twelve directors. The Chairman of the Board of Directors will at all times be one of the members of the Executive Committee, which he will preside. This Committee proposes to the Board the decisions for which it has sole responsibility. Furthermore, the issues addressed and the resolutions adopted by the Executive Committee are placed on record and at each Board meeting the minutes of the Executive Committee meetings held since the Board last convened are furnished to the directors for their perusal.

Risk Standing Committee

The Risk Standing Committee is regulated in Article 14 of the Board Regulations. It shall comprise a minimum of four and a maximum of six directors and shall be presided over by a deputy chairman with executive functions.

This Committee has been permanently delegated the following powers of the Board of Directors:

a) To decide on the granting of loans, the opening of credit accounts and risk transactions in general, as well as on their modification, assignment and cancellation, and on global risk management –country risk, interest rate risk, credit risk, market risk, operational risk, treasury risk, derivatives risk–, and to determine and approve the general and specific conditions of discounting facilities, loans, deposits, guarantees and banking transactions of all kinds.

b) To arrange, modify, subrogate to and terminate finance lease agreements for all manner of movable property and real estate, on the terms and conditions freely determined by it, and to acquire the assets leased under such agreements, with no limitation as to their amount or quantity.

c) As security for the obligations of third parties, and on their behalf, whether they be individuals or legal entities, with no limitation as to the amount, vis-à-vis all manner of individuals and legal entities, public or private agencies or bodies, specifically for the purposes of the Public Authority Contracts Law and supplementary provisions thereto, and with such conditions and clauses as it may deem appropriate, the Committee may arrange, modify, withdraw or cancel guarantees of any kind or any other type of security, by making, as appropriate, any cash or securities deposits that may be required of it, with or without security, and may bind the Company, even jointly and severally with the principal debtor, thereby waiving the benefits of order, discussion and division.

Per Article 14.3 of the Board Regulations, its functions are as follows:

a) To propose to the Board the risk policy for the Group, which will include in particular:

(i) The various types of risk (operational, technological, financial, legal and reputational, inter alia) facing the Group, including contingent liabilities and other off-balance-sheet items in the financial or economic risks;

(ii) The information and internal control systems to be used to control and manage the aforementioned risks;

(iii) The level of risk deemed acceptable by the Group;

(iv) The measures envisaged to mitigate the impact of the identified risks in the event that they materialise;

b) To conduct systematic reviews of the Group's exposure to its main customers, economic activity sectors, geographical areas and types of risk.

c) To ascertain and authorise, where appropriate, the management tools, improvement initiatives, project development and any other significant risk control actions, specifically including the characteristics and behaviour of the internal risk models and the result of their internal valuation.

d) To assess and implement the indications issued by the supervisory authorities in the performance of its functions.

e) To ensure that the Group's actions are consistent with the previously established level of risk tolerance and to empower lower-ranking committees or executives to assume risks.

f) To decide on transactions outside the powers delegated to lower-ranking bodies and on the overall limits for pre-classified risk categories in favour of economic groups or in relation to exposure by type of risk.

SIGNIFICANT AGREEMENTS ENTERED INTO BY THE COMPANY WHICH WILL COME INTO FORCE, BE MODIFIED OR TERMINATE IN THE EVENT OF A CHANGE IN CONTROL OF THE COMPANY RESULTING FROM A TAKEOVER BID

No such agreements exist.

AGREEMENTS BETWEEN THE COMPANY AND ITS DIRECTORS, MANAGEMENT PERSONNEL OR EMPLOYEES WHICH PROVIDE FOR TERMINATION BENEFITS WHEN THE LATTER RESIGN OR ARE DISMISSED WITHOUT JUSTIFICATION OR IF THE EMPLOYMENT RELATIONSHIP ENDS AS A RESULT OF A TAKEOVER BID

In addition to those described in Note 5 for executive directors, the Bank has established certain termination benefit clauses in favour of its non-director senior executives. Had the aforementioned circumstance arisen on 31 December 2007, it would have given rise to termination benefits totalling EUR 79.6 million for these executives.

Banco Santander, S.A. Balance Sheet at December 31, 2007
Before allocation of income

Assets		Euros
1. Cash and balances with central banks		12,306,553,802
2. Financial assets held for trading		51,349,203,799
2.1. Loans and advances to credit institutions	–	
2.2. Money market operations through counterparties	–	
2.3. Loans and advances to customers	198,043,132	
2.4. Debt instruments	14,135,473,098	
2.5. Other equity instruments	3,704,483,854	
2.6. Trading derivatives	33,311,203,715	
Memorandum item: Loaned or in guarantee	7,793,215,192	
3. Other financial assets at fair value through profit or loss		19,008,781,447
3.1. Loans and advances to credit institutions	16,470,004,286	
3.2. Money market operations through counterparties	–	
3.3. Loans and advances to customers	2,538,777,161	
3.4. Debt instruments	–	
3.5. Other equity instruments	–	
Memorandum item: Loaned or in guarantee	–	
4. Available for sale financial assets		17,074,175,084
4.1. Debt instruments	15,878,202,144	
4.2. Other equity instruments	1,195,972,940	
Memorandum item: Loaned or in guarantee	6,044,001,000	
5. Loans and receivables		194,049,148,358
5.1. Loans and advances to credit institutions	23,771,642,111	
5.2. Money market operations through counterparties	–	
5.3. Loans and advances to customers	161,364,230,277	
5.4. Debt instruments	–	
5.5. Other financial assets	8,913,275,970	
Memorandum items: Loaned or in guarantee	11,001,503,256	
6. Held- to- maturity investments		–
Memorandum items: Loaned or in guarantee	–	
9. Changes in the fair value of hedged items in portfolio hedges of interest rate risk		–
10. Hedging derivatives		1,923,399,999
11. Non-current assets held for sale		36,085,652
11.1. Loans and advances to credit institutions	–	
11.2. Loans and advances to customers	–	
11.3. Debt instruments	–	
11.4. Equity instruments	–	
11.5. Tangible assets	36,085,652	
11.6. Other assets	–	
12. Investments		59,256,376,341
12.1. Associates	22,761,360,091	
12.2. Multigroup	399,960,750	
12.3. Group	36,095,055,500	
13. Insurance contracts linked to pensions		3,030,270,413
15. Tangible assets		714,211,462
15.1. For own use	711,663,910	
15.2. Investment property	2,547,553	
15.3. Other assets leased out under an operating lease	–	
15.4. Subject to social works	–	
Memorandum item: Acquired under a finance lease	454,729,729	
16. Intangible assets		626,068
16.1. Goodwill	219,988	
16.2. Other intangible assets	406,080	
17. Tax assets		3,853,376,026
17.1. Current	15,939,907	
17.2. Deferred	3,837,436,119	
18. Prepayments and accrued income		310,492,341
19. Other assets		475,843,903
Total assets		363,388,544,695
Memorandum accounts		
1. Contingent liabilities		107,495,208,176
1.1. Financial guarantees	107,488,839,703	
1.2. Assets earmarked for third-party obligations	3,313	
1.3. Other contingent liabilities	6,365,160	
2. Contingent commitments		48,352,016,680
2.1. Drawable by third parties	41,813,396,633	
2.2. Other commitments	6,538,620,047	

Approved
The Chairman
Emilio Botín

Banco Santander, S.A. Balance Sheet at December 31, 2007
Before allocation of income

Liabilities		Euros
1. Financial liabilities held for trading		**36,721,285,955**
1.1. Deposits from credit institutions	–	
1.2. Money market operations through counterparties	–	
1.3. Customer deposits	–	
1.4. Debt securities	–	
1.5. Trading derivatives	34,958,518,093	
1.6. Short positions	1,762,767,862	
2. Other financial liabilities at fair value through profit or loss		**23,084,971,871**
2.1. Deposits from credit institutions	19,306,173,858	
2.2. Customer deposits	3,778,798,013	
2.3. Debt securities	–	
3. Financial liabilities at fair value through equity		–
3.1. Deposits from credit institutions	–	
3.2. Customer deposits	–	
3.3. Debt securities	–	
4. Financial liabilities at amortised cost		**253,201,119,215**
4.1. Deposits from central banks	17,770,531,878	
4.2. Deposits from credit institutions	27,761,289,077	
4.3. Money market operations through counterparties	–	
4.4. Customer deposits	129,140,181,422	
4.5. Debt securities	38,133,036,515	
4.6. Subordinated liabilities	29,853,900,485	
4.7. Other financial liabilities	10,542,179,838	
10. Changes in the fair value of hedged items in portfolio hedges of interest rate risk		–
11. Hedging derivatives		**2,445,014,325**
12. Liabilities associated with non-current assets held for sale		–
12.1. Customer deposits	–	
12.2. Other liabilities	–	
14. Provisions		**8,212,055,855**
14.1. Provision for pensions and similar obligations	7,289,917,813	
14.2. Provisions for taxes	–	
14.3. Provisions for contingent liabilities and commitments	510,386,717	
14.4. Other provisions	411,751,325	
15. Tax liabilities		**192,999,477**
15.1. Current	–	
15.2. Deferred	192;999,477	
16. Accrued expenses and deferred income		**1,183,881,235**
17. Other liabilities		**464,640,638**
17.1. Social works fund	–	
17.2. Other	464,640,638	
18. Equity having the substance of a financial liability		–
Total Liabilities		**325,505,968,571**
2. Valuation adjustments		**208,611,646**
2.1. Available- for- sale financial assets	118,120,123	
2.2. Financial liabilities at fair value through equity	–	
2.3. Cash flows hedges	12,730,349	
2.4. Hedges of net investments in foreign operation	77,761,174	
2.5. Exchange differences	–	
2.6. Non-current assets held for sale	–	
3. Own funds		**37,673,964,478**
3.1. Capital or allocation fund	3,127,148,290	
3.1.1. Issued	3,127,148,290	
3.1.2. Pending unrequired disbursement (-)	–	
3.2. Share premium	20,370,127,731	
3.3. Reserves	4,565,625,403	
3.3.1. Accumulated reserves	4,565,625,403	
3.3.2. Remaining	–	
3.4. Other equity instruments	7,078,622,166	
3.4.1. Equity component of compound financial instruments	–	
3.4.2. Other	7,078,622,166	
3.5. Treasury shares	–	
3.6. Participating quotas and associated funds (savings banks)	–	
3.7. Income for the year	4,070,247,331	
3.8. Dividends and remuneration	(1,537,806,443)	
Total equity		**37,882,576,124**
Total equity and liabilities		**363,388,544,695**

Second Vice-Chairman and CEO
Alfredo Sáenz

The General Controlled
José Tejón

Banco Santander, S.A. Income statement as of December 31, 2007
Banco Santander, S.A. Income statement

1. Interest and similar income		11,614,275,507
2. Interest expense and similar charges		(10,028,499,866)
2.1. Return on equity having the substance of a financial liability	–	
2.2. Other	(10,028,499,866)	
3. Income from equity securities		3,016,199,556
3.1. Investments in associated companies	123,555,029	
3.2. Investments in multigroup companies	12,500,000	
3.3. Investmens in Group companies	2,727,773,557	
3.4. Other capital instruments	152,370,970	
A) Net interest income		4,601,975,197
5. Fee and commission income		2,113,601,268
6. Fee and commission expense		(242,914,140)
8. Gain/losses on financial assets and liabilites (net)		118,864,499
8.1. Held for trading	2,799,000	
8.2. Other financial instruments at fair value trough profit or loss	57,442,479	
8.3. Available-for-sale financial assets	295,087,218	
8.4. Loans and receivables	(36,974,768)	
8.5. Other	(199,489,430)	
9. Exchange differences (net)		580,208,437
B) Gross income		7,171,735,261
12. Other operating income		69,631,270
13. Personnel expenses		(1,715,395,234)
14. Other general administrative expenses		(1,143,543,036)
15. Depreciation and amortization		(126,575,563)
15.1. Tangible assets	(126,472,962)	
15.2. Intangible assets	(102,601)	
16. Other operating expenses		(87,157,992)
C) Net operating income		4,168,694,706
17. Impairment losses (net)		(1,393,408,280)
17.1. Available-for-sale financial assets	(20,389,099)	
17.2. Loans and receivables	(288,385,624)	
17.3. Held to maturity investments	–	
17.4. Non-current assets held for sale	(2,415,794)	
17.5. Holdings	(1,062,637,835)	
17.6. Tangible assets	–	
17.7. Goodwill	–	
17.8. Other intangible assets	–	
17.9. Other assets	(19,579,928)	
18. Provisions (net)		(228,665,799)
21. Other gains		1,691,287,838
21.1. Gains on disposal of tangible assets	1,690,032,200	
21.2. Gains on disposal of investments	745,575	
21.3. Other	510,063	
22. Other losses		(159,359,179)
22.1. Losses on disposal of tangible assets	(9,357,199)	
22.2. Losses on disposal of investments	(1,185,044)	
22.3. Other	(148,816,936)	
D) Profit before taxes		4,078,549,286
23. Income tax		(8,301,955)
24. Obligatory allocation to social works and funds		–
E) Profit from ordinary activities		4,070,247,331
25. Profit from discontinued operations (net)		–
F) Net income for the year		4,070,247,331

Proposed Distribution of Income (31/12/2007)

Income for the year	**4,078,549,286**
Less:	
Provision for corporate income tax	**(8,301,955)**
Net income	**4,070,247,331**
Distribution	
Legal reserves	
Voluntary reserves	68,385
Dividend	4,070,178,946

Banco Santander, S.A. Balance Sheet at December 31, 2007

After allocation of income

Assets		Euros
1. Cash and balances with central banks		12,306,553,802
2. Financial assets held for trading		51,349,203,799
2.1. Loans and advances to credit institutions	–	
2.2. Money market operations through counterparties	–	
2.3. Loans and advances to customers	198,043,132	
2.4. Debt instruments	14,135,473,098	
2.5. Other equity instruments	3,704,483,854	
2.6. Trading derivatives	33,311,203,715	
Memorandum item: Loaned or in guarantee	7,793,215,192	
3. Other financial assets at fair value through profit or loss		19,008,781,447
3.1. Loans and advances to credit institutions	16,470,004,286	
3.2. Money market operations through counterparties	–	
3.3. Loans and advances to customers	2,538,777,161	
3.4. Debt instruments	–	
3.5. Other equity instruments	–	
Memorandum item: Loaned or in guarantee	–	
4. Available for sale financial assets		17,074,175,084
4.1. Debt instruments	15,878,202,144	
4.2. Other equity instruments	1,195,972,940	
Memorandum item: Loaned or in guarantee	6,044,001,000	
5. Loans and receivables		194,049,148,358
5.1. Loans and advances to credit institutions	23,771,642,111	
5.2. Money market operations through counterparties	–	
5.3. Loans and advances to customers	161,364,230,277	
5.4. Debt instruments	–	
5.5. Other financial assets	8,913,275,970	
Memorandum items: Loaned or in guarantee	11,001,503,256	
6. Held- to- maturity investments		–
Memorandum items: Loaned or in guarantee	–	
9. Changes in the fair value of hedged items in portfolio hedges of interest rate risk		–
10. Hedging derivatives		1,923,399,999
11. Non-current assets held for sale		36,085,652
11.1. Loans and advances to credit institutions	–	
11.2. Loans and advances to customers	–	
11.3. Debt instruments	–	
11.4. Equity instruments	–	
11.5. Tangible assets	36,085,652	
11.6. Other assets	–	
12. Investments		59,256,376,341
12.1. Associates	22,761,360,091	
12.2. Multigroup	399,960,750	
12.3. Group	36,095,055,500	
13. Insurance contracts linked to pensions		3,030,270,413
15. Tangible assets		714,211,462
15.1. For own use	711,663,910	
15.2. Investment property	2,547,553	
15.3. Other assets leased out under an operating lease	–	
15.4. Subject to social works	–	
Memorandum item: Acquired under a finance lease	454,729,729	
16. Intangible assets		626,068
16.1. Goodwill	219,988	
16.2. Other intangible assets	406,080	
17. Tax assets		3,853,376,026
17.1. Current	15,939,907	
17.2. Deferred	3,837,436,119	
18. Prepayments and accrued income		310,492,341
19. Other assets		475,843,903
Total assets		363,388,544,695
Memorandum accounts		
1. Contingent liabilities		107,495,208,176
1.1. Financial guarantees	107,488,839,703	
1.2. Assets earmarked for third-party obligations	3,313	
1.3. Other contingent liabilities	6,365,160	
2. Contingent commitments		48,352,016,680
2.1. Drawable by third parties	41,813,396,633	
2.2. Other commitments	6,538,620,047	

Approved
The Chairman
Emilio Botín

Banco Santander, S.A. Balance Sheet at December 31, 2007
After allocation of income

Liabilities		Euros
1. Financial liabilities held for trading		**36,721,285,955**
1.1. Deposits from credit institutions	–	
1.2. Money market operations through counterparties	–	
1.3. Customer deposits	–	
1.4. Debt securities	–	
1.5. Trading derivatives	34,958,518,093	
1.6. Short positions	1,762,767,862	
2. Other financial liabilities at fair value through profit or loss		**23,084,971,871**
2.1. Deposits from credit institutions	19,306,173,858	
2.2. Customer deposits	3,778,798,013	
2.3. Debt securities	–	
3. Financial liabilities at fair value through equity		–
3.1. Deposits from credit institutions	–	
3.2. Customer deposits	–	
3.3. Debt securities	–	
4. Financial liabilities at amortised cost		**253,201,119,215**
4.1. Deposits from central banks	17,770,531,878	
4.2. Deposits from credit institutions	27,761,289,077	
4.3. Money market operations through counterparties	–	
4.4. Customer deposits	129,140,181,422	
4.5. Debt securities	38,133,036,514	
4.6. Subordinated liabilities	29,853,900,485	
4.7. Other financial liabilities	10,542,179,838	
10. Changes in the fair value of hedged items in portfolio hedges of interest rate risk		–
11. Hedging derivatives		**2,445,014,325**
12. Liabilities associated with non-current assets held for sale		–
12.1. Customer deposits	–	
12.2. Other liabilities	–	
14. Provisions		**8,212,055,855**
14.1. Provision for pensions and similar obligations	7,289,917,813	
14.2. Provisions for taxes	–	
14.3. Provisions for contingent liabilities and commitments	510,386,717	
14.4. Other provisions	411,751,325	
15. Tax liabilities		**192,999,477**
15.1. Current	–	
15.2. Deferred	192,999,477	
16. Accrued expenses and deferred income		**1,183,881,236**
17. Other liabilities		**2,997,013,141**
17.1. Social works fund	–	
17.2. Other	2,997,013,141	
18. Equity having the substance of a financial liability		–
Total Liabilities		**328,038,341,074**
2. Valuation adjustments		**208,611,646**
2.1. Available- for- sale financial assets	118,120,123	
2.2. Financial liabilities at fair value through equity	–	
2.3. Cash flows hedges	12,730,348	
2.4. Hedges of net investments in foreign operation	77,761,174	
2.5. Exchange differences	–	
2.6. Non-current assets held for sale	–	
3. Own funds		**35,141,591,975**
3.1. Capital or allocation fund	3,127,148,290	
3.1.1. Issued	3,127,148,290	
3.1.2. Pending unrequired disbursement (-)	–	
3.2. Share premium	20,370,127,731	
3.3. Reserves	4,565,693,788	
3.3.1. Accumulated reserves	4,565,693,788	
3.3.2. Remaining	–	
3.4. Other equity instruments	7,078,622,166	
3.4.1. Equity component of compound financial instruments	–	
3.4.2. Other	7,078,622,166	
3.5. Treasury shares	–	
3.6. Participating quotas and associated funds (savings banks)	–	
3.7. Income for the year	–	
3.8. Dividends and remuneration	–	
Total equity		**35,350,203,621**
Total equity and liabilities		**363,388,544,695**

Second Vice-Chairman and CEO
Alfredo Sáenz

The General Controlled
José Tejón

APPENDICES

APPENDICES

REPUTATIONAL RISK AND THE COMPLIANCE FUNCTION

The General Secretariat Division is responsible for managing reputational risks and compliance in Banco Santander.

As part of the General Secretariat Division, Compliance Management is entrusted with managing compliance and reputational risks. Compliance risk is understood as the possibility of failing to comply with legal regulations, rules, standards of conduct adopted by the institution or codes of conduct applicable to its activities which could give rise to sanctions (regulatory risk). Reputational risk emanates from the perception that stakeholders, both internal and external, have of the Bank in the development of its activity. It includes legal, economic financial, ethical, social and environmental aspects, among others. Both risks may produce an adverse material impact on results, the capital or on the expectations of development of the Bank's businesses.

The Group has established a Compliance Policy which sets out the organisation, mechanisms and existing procedures which enable it to: (i) minimise the probability of irregularities; (ii) identify, report and quickly resolve those irregularities that might occur; and (iii) justify, in case it is necessary, that the Bank has the appropriate organisation, procedures and resources to comply with the aforementioned purposes.

The specific spheres where Compliance activity is particularly intense are:

- Own account transactions.
- Related party transactions.
- Conflicts of interest.
- Treatment of sensitive information (confidential, reserved or privileged).
- Prevention of money-laundering.
- Approval and marketing of financial products.
- Preparation and dissemination of information and documents for markets (material facts, periodic public information, prospectus, etc).
- Protection of personal data.
- Institutional relations with regulatory bodies.
- Handling of to customers' complaints.
- Verifying specific aspects related to the Markets in Financial Instruments Directive (MiFID).

The Compliance function is developed, with various levels of responsibility and different tasks, by the Board of Directors, which approves the general policy and receives information on how it is implemented by the Audit and Compliance Committee, which supervises compliance with the Code of Conduct in the Securities Markets and with the manuals and procedures to prevent money-laundering, and reviews the compliance of the actions and measures that are the result of reports or measures of the supervisors, and of Senior Management, which fosters compliance with the policy in its respective areas of responsibility.

Carrying out the policy of compliance corresponds, first of all, to Compliance Management, together with other areas or units which, for operational or specialisation reasons, do not organically form part of Compliance Management, but which help it to execute the policy. As well as ensuring that the policy is appropriately executed, Compliance Management must: (i) advise on how to resolve doubts regarding the policy; (ii) keep the General Secretary, the Audit and Compliance Committee and the Board informed of the state of execution of the policy; and (iii) foment the creation of a corporate culture of compliance.

Compliance Management reports on an ongoing basis to the Board via the Audit and Compliance Committee. The Chief Compliance Officer took part in 10 of the 13 meetings held during 2007. The Compliance Committee, which monitors the Compliance Policy, held four meetings in 2007.

Adapting to the Markets in Financial Instruments Directive (MiFID) and marketing of financial products

Compliance Management participated during 2007 in the process of adapting to the European Union Markets in Financial Instruments Directive (MiFID, 2004/39), mainly regarding the marketing of financial products. The new requirements introduced by the MiFID (basically, greater information demands from customers and new categories of customers and types of product) made it necessary to profoundly reform the Procedures' Manual for selling financial products to retail clients — used since 2004 —, which was replaced by the current Manual of Procedures for Marketing Financial Products, approved by the Executive Committee on October 29, 2007.

The Group also made a great effort to prepare employees affected by the new Directive, implementing a training plan structured in three phases, depending on its contents: introduction course (basic concepts) in which 20,448 employees participated; basic level (specific actions in certain units) attended by 18,546 people and advanced level (modules differentiated by subject matter) attended by 2,275 people.

The Group's Compliance area, via the Global Committee of New Products, develops all the processes related to approving new products and services offered to customers. This committee held 14 meetings in 2007 at which 186 products or families of products were reviewed.

Relations with the supervisory authorities and dissemination of information in the 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 reports or inspection activities of these bodies and supervising the way in which the Group disseminates institutional information in the markets, ensuring it is done transparently and in accordance with the requirements of regulators.

A total of 103 information requirements were received and replied to during 2007; the Audit and Compliance Committee was informed of the most significant ones.

The Bank made public 119 relevant facts, both in Spain and in the rest of the markets where its shares are traded.

Off-shore centres

In accordance with the recommendations of the Bank of Spain contained in the 2003 Report of Banking Supervision in Spain regarding subsidiaries and branches in tax havens, Compliance Management reports every year on these establishments. The report for 2007 concluded that control of them from the standpoint of money-laundering was adequate and that the phase of implementing the policy for consolidated risk management of knowledge of customers was being satisfactorily concluded.

Anti-money laundering

Grupo Santander, aware of the importance for advanced societies of fighting money-laundering and the financing of terrorism, is keeping its commitment to co-operate with governments and authorities in all countries where it operates. It is strengthening its policies and procedures at the global level and applying them in all its units and subsidiaries, in line with the strictest guidelines and mandates of the Financial Action Task Force (FATF), the Basle Banking Supervision Committee, the EU Directive on Money-Laundering and the US Patriot Act. The prevention of money-laundering is a very important part of Grupo Santander's culture. In this sphere, we are one of the groups in the vanguard of the financial system, which in some countries distinguishes us from our competitors.

The organisation for prevention is a pyramid-shaped structure involving the whole of Grupo Santander. At the top of it is the Analysis and Resolution Committee which defines the policies and general objectives. The Central Department for the Prevention of Money-laundering is responsible for implementing, co-ordinating and globally supervising the system. Below it is staff responsible for prevention systems in their respective sphere (business areas, units, branches and accounts). This central organisation is replicated in all countries. The prevention system at Grupo Santander throughout the world is subject to the policies, control and direct supervision of the parent Bank in Spain.

The prevention organisation covers 232 units in 40 countries. In 2007, 413 Group employees were involved in fighting money-laundering and the financing of terrorism, two-thirds of them full time.

The Group's policies are set out in Corporate Manuals, approved by the Board of Directors of Banco Santander (universal, private and correspondent banking). These internal regulations were last updated in December 2007. They regulate all aspects related to the prevention of money-laundering and the financing of terrorism and are implemented in all the Group's units.

The website (www.santander.com) contains the Group's policies and procedures for the prevention of money-laundering.

Grupo Santander's model is based on "Customer Acceptance Policies" which establish rigorous filters, such as a ban on operating with certain people or risk sectors and, in other cases, a strict regime of authorisation. The business areas with the highest risk have specific and much more demanding regulations. Forms have to be filled out which give information on the identification, activities, origin of the capital, references, among others.

In order to control and analyse risk transactions, Grupo Santander has installed a mixed model in all its units, which covers all transactions and involves everyone in the Group. The model, unique in banks of our size, combines decentralised software in business areas with centralised applications in money-laundering prevention departments. BlanCa II, the corporate tool of centralised control, enables us to increase the scope of reviews by incorporating the profiles of each customer, whose breaches are analysed on a centralised basis. This complements the decentralised analysis by each business unit and allows an operation susceptible of being linked to money-laundering or the financing of terrorism to be analysed and identified, as well as monitored.

These tools cover not only the transactions of the branch network, but also those in the securities markets, correspondent and direct banking.

One of the obligations in the regulations of all countries is to train employees in techniques that enable them to detect and prevent potential money-laundering transactions. All our Group's units receive training and all the staff within them. The teaching material is of a corporate nature and training is given by experts. Specialised training actions have also been developed for certain areas, such as private and correspondent banking.

In 2007, 79,948 employees received training in all the different levels of prevention of money-laundering (awareness, strengthening and updating and specialisation), 8,019 of them in Spain and 71,839 in other countries.

Grupo Santander's prevention system is under constant review. The Central Department for the Prevention of Money-laundering, whose main function is to implement policies and procedures globally, also directly supervises activities. During 2007 it reviewed 147 units, 26 of them in Spain and the rest abroad, and issued reports on the steps to be taken to improve or strengthen systems.

Over and above this, the Internal Audit Division has regular review programmes in branches and throughout the organisation responsible for money-laundering prevention. This work was very thorough during 2007.

Lastly, many units undergo regular reviews by external auditors. Deloitte conducted in 2007 a full review of the parent Bank's global system for the prevention of money-laundering and in the rest of the units in Spain. Deloitte said in its report that the review showed no aspect worthy of mention that affected the effectiveness of the prevention model.

All units have procedures for communicating suspicious transactions to the authorities, ensuring throughout the circuit the strictest confidentiality. The Group opened and investigated 26,694 cases in 2007 on customers and transactions which showed signs of links to criminal activities, of which 6,923 were reported to the authorities of the respective countries.

Santander is a founder member of the Wolfsberg Group (www.wolfsberg-principles.com) along with 11 other large international banks. The Group's objective is to establish international standards that increase the effectiveness of programmes to fight money-laundering and the financing of terrorism. Various initiatives have been developed on the prevention of money-laundering in private and correspondent banking and the financing of terrorism, among others. All regulators in the world and experts in this area believe that the principles and guidelines set by this Group are a major reference in the fight against money-laundering, corruption, terrorism and other serious dangers. At the beginning of 2007, the Group published together with Transparency International and the Basel Institute on Governance a Declaration Against Corruption.

MAIN INDICATORS OF ACTIVITY

Year 2007	Subsidiaries reviewed	Number of files investigated	Operations communicated to the authorities	Number of employees trained
Spain	26	2,462	241	8,109
Abroad	121	24,232	6,682	71,839
Total	**147**	**26,694**	**6,923**	**79,948**

HISTORICAL DATA 1997-2007

	With IFRS				
	2007		2006	2005	2004
	Mill. US$	Mill. euros	Mill. euros	Mill. euros	Mill. euros
Balance sheet					
Total assets	1,343,902	912,915	833,873	809,107	664,486
Net customer loans	832,439	565,477	523,346	435,829	369,350
Customer funds under management	1,155,591	784,995	739,223	651,360	595,380
On-balance-sheet	920,076	625,009	565,715	483,369	466,865
Other customer funds under management	235,516	159,986	173,509	167,991	128,515
Shareholders' equity	76,469	51,945	40,062	35,841	32,111
Total managed funds	1,566,156	1,063,892	1,000,996	961,953	793,001
Income statement					
Net interest income	20,928	15,295	12,480	10,659	7,562
Gross operating income	37,073	27,095	22,333	19,076	13,999
Net operating income	20,308	14,842	11,218	8,765	6,431
Profit before taxes	15,291	11,175	8,995	7,661	4,387
Attributable profit to the Group	12,397	9,060	7,596	6,220	3,606

	2007		2006	2005	2004
	US$	euros	euros	euros	euros
Per share data*					
Attributable profit to the Group	1.9548	1.4287	1.2157	0.9967	0.7284
Dividend	0.9580	0.6508	0.5206	0.4165	0.3332
Share price	21.77	14.79	14.14	11.15	9.13
Market capitalisation (million)	136,171	92,501	88,436	69,735	57,102

Note: All pre-1999 figures are proforma and basically correspond with the aggregate of the Santander and BCH Groups, excluding per share data

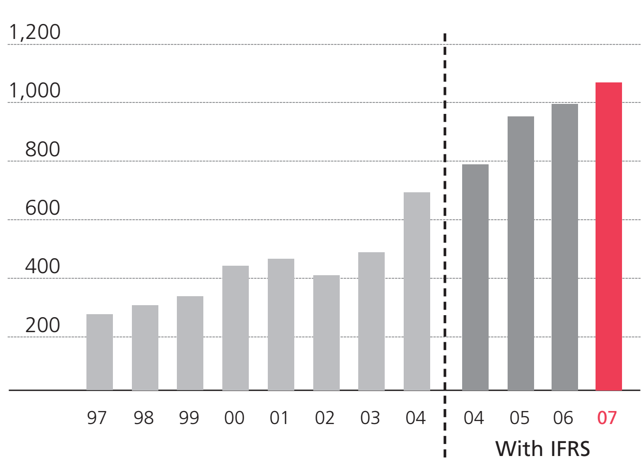
Euro / US$ = 1.4721 (balance sheet) and 1.3683 (income statement)

(*).- Figures adjusted to stock splits and capital increases.

(**).- Compound annual growth rate

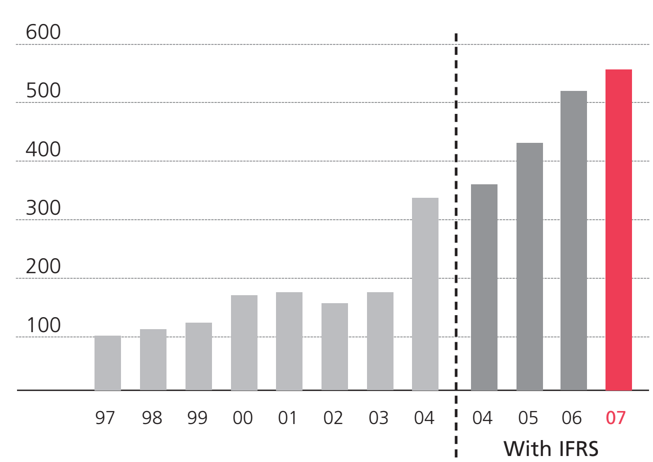
TOTAL MANAGED FUNDS

Billion euros



CUSTOMER LOANS

Billion euros



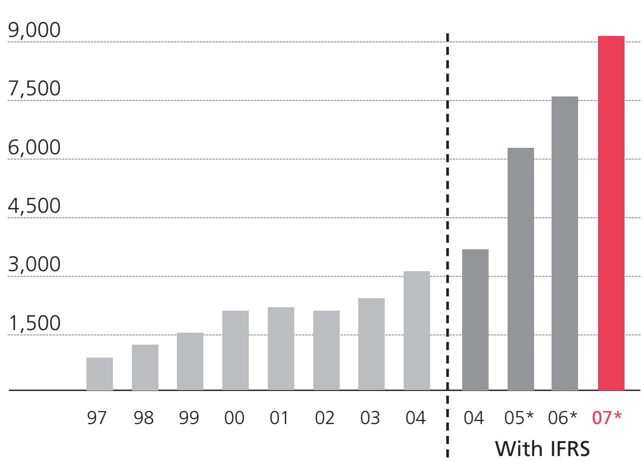
HISTORICAL DATA 1997-2007

Without IFRS

2004 Mill. euros	2003 Mill. euros	2002 Mill. euros	2001 Mill. euros	2000 Mill. euros	1999 Mill. euros	1998 Mill. euros	1997 Mill. euros	CAGR** (%)
575,398	351,791	324,208	358,138	348,928	256,438	235,805	226,715	14.9
335,208	172,504	162,973	173,822	169,384	127,472	112,383	101,113	18.8
538,042	323,901	304,893	331,379	303,098	232,232	201,796	187,412	15.4
398,047	214,998	211,555	236,132	214,450	153,757	132,291	135,976	16.5
139,995	108,903	93,338	95,247	88,648	78,476	69,505	51,436	12.0
32,058	18,364	17,594	19,128	17,798	8,026	8,778	6,334	23.4
715,393	460,693	417,546	453,384	437,576	334,914	305,309	278,151	14.4
8,636	7,958	9,359	10,257	8,290	6,670	6,190	4,982	11.9
14,198	13,128	14,004	15,564	13,005	10,127	9,320	7,759	13.3
6,545	5,721	5,566	5,944	4,689	3,479	2,949	2,355	20.2
4,435	4,101	3,509	4,237	3,774	2,716	2,154	1,748	20.4
3,136	2,611	2,247	2,486	2,258	1,575	1,250	923	25.7
2004 euros	2003 euros	2002 euros	2001 euros	2000 euros	1999 euros	1998 euros	1997 euros	CAGR** (%)
0.6307	0.5475	0.4753	0.5447	0.5369	0.4294	0.3816	0.3396	15.5
0.3332	0.3029	0.2885	0.2885	0.2735	0.2275	0.1883	0.1803	13.7
9.13	9.39	6.54	9.41	11.40	11.24	8.48	7.65	6.8
57,102	44,775	31,185	43,845	51,987	41,226	31,035	21,963	15.5

ATTRIBUTABLE PROFIT TO THE GROUP

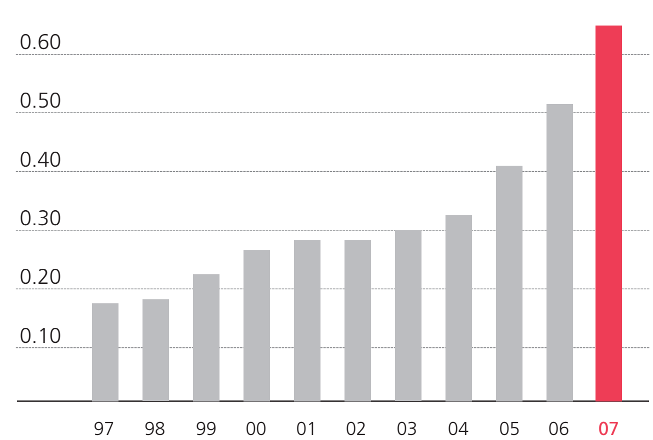
Million euros



(*).- 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



General Information

Banco Santander, S.A.

The parent bank of the Santander Group 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. This amendment was registered on June 8, 1992, and entered in the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A- 39000013. 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.

Operational Headquarters

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid (Spain)

General Information

Telephones: 902 11 22 11
Telephones: 91 289 00 00

Shareholder's Office

Santander Group City
Edificio Pampa, Planta Primera
Avenida de Cantabria, s/n.
28660 Boadilla del Monte
Madrid (Spain).
Telephones: 902 11 17 11 - +34 91 526 96 97

Investor Relations

Santander Group City
Edificio Pereda, 1ª planta
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid (Spain).
Telephones: 91 259 65 20 / 91 259 65 14
Telephones: +34 91 259 65 20 / +34 91 259 65 14

Customer Attention Department

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid (Spain).
Telephones: 91 257 30 80
Fax: 91 254 10 38
atenclie@gruposantander.com

Ombudsman

Mr. José Luis Gómez-Dégano.
PO Box 14019
28080 Madrid (Spain).

Corporate website

www.santander.com

This report was printed on ecology-friendly paper and has been produced using environmentally friendly processes.

Design: Alvaro Reyero Pita, See the change

Photographs: Fernando López, Luis Asín

Printing: Litofinter, S.A.

Depósito Legal: M-17.999-2008

Santander

www.santander.com