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## **BANCO SANTANDER CENTRAL HISPANO, S.A.**

### **ANNUAL CORPORATE GOVERNANCE REPORT FOR FISCAL YEAR 2004**

#### **A OWNERSHIP STRUCTURE OF THE COMPANY**

##### **A.1. Complete the following table regarding the capital stock of the company:**

<b>Date of last change</b>	<b>Capital Stock (€)</b>	<b>Number of shares</b>
12 NOV 2004	3,127,148,289.50	6,254,296,579

There is only one class of shares.

##### **A.2. Breakdown of direct and indirect holders of significant interests in the company as of the end of the fiscal year, excluding directors:**

- Interests equal to or greater than 5%.

As of December 31, 2004, the only shareholders with an interest greater than 5% appearing in the Share Register of the Company were EC Nominee Limited and Chase Nominees Limited, with 7.76% and 6.23%, respectively.

However, the Company believes that such shares are held in custody on behalf of third parties, and to the Company's knowledge, none of the shareholders holds an interest of more than 5% of the capital stock or of the voting rights of the Company.

- Significant influence on the Company.

As of December 31, 2004, the Company is not aware of the existence of any other shareholder who has a number of shares that allows it to appoint a Director, pursuant to Article 137 of the Companies Law (proportional voting). This is the standard used to determine if a shareholder has significant influence on the Company.

In fact, considering the current number of members of the Board of Directors (19), the percentage of capital stock required to be entitled to appoint a Director would be approximately 5.26%.

Other than as mentioned in the preceding paragraph, no shareholder holds an interest equal to or greater than the required 5.26%.

Therefore, the Company is not aware of the existence of shareholders with significant shareholdings as of December 31, 2004.

**Indicate the most significant changes that have occurred in the shareholding structure during the fiscal year:**

During the fiscal year ended on December 31, 2004 the most significant changes that have occurred in the shareholding structure and that are known by the Company are the following<sup>(\*)</sup>:

- a) Upon the acquisition of Abbey National plc, the Company increased its capital stock by issuing 1,485,893,636 new shares (23.76% of the current capital stock of the Company) for the benefit of the former shareholders of Abbey National plc through EC Nominees Limited. As of December 31, 2004 the number of shares of the Company held through EC Nominees Limited was 485,350,615.
- b) By means of consecutive purchases, Mutua Madrileña Automovilista became the holder of 65,147,189 shares of stock representing 1.042% of the capital stock as of year-end 2004, as compared to the 887,398 shares of stock (0.019%) it held on March 10, 2004 when it became shareholder of the Company.
- c) By means of a series of transactions, Commerzbank has reduced its shareholding in the Company from 99,820,069 shares (2.093% of the Company's capital stock) as of December 31, 2003 to 19,160,906 shares representing 0.306% of the capital stock as of December 31, 2004.

**A.3. Complete the following tables about the members of the Board of Directors of the Company who hold shares of the Company:**

Name of director	Date of first appointment	Date of last appointment	Number of direct shares	Number of indirect shares (*)	Total % of capital stock
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	5 AUG1960	9 FEB 2002	1,488,712	91,806,672	2.035 <sup>(1)</sup>
Mr. Fernando de Asúa Álvarez	17 APR 1999	19 JUN 2004	24,039	18,000	0.001
Mr. Alfredo Sáenz Abad	11 JUL 1994	21 JUN 2003	336,125	1,290,962	0.026
Mr. Matías Rodríguez	7 OCT1988	21 JUN 2003	529,811	120,944	0.010

<sup>(\*)</sup> The capital increase of November 12, 2004 should be taken into account to correctly understand the data related to shareholdings in the capital of the Company provided herein. Such increase resulted from the acquisition of Abbey National plc whereby the Company increased its capital stock from 4,768,402,943 shares to 6,254,296,579 shares. The prospectus for such capital increase was registered by the Company with the National Securities Market Commission ("CNMV") on November 5, 2004.

Inciarte					
Mr. Manuel Soto Serrano	17 APR 1999	9 FEB 2002	0	157,000	0.003
Assicurazioni Generali S.p.A.	17 APR 1999	19 JUN 2004	12,276,056	38,835,343	0.817
Mr. Antonio Basagoiti García-Tuñón	26 JUL 1999	19 JUN 2004	512,000	0	0,008
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	4 FEB 1989	21 JUN 2003	8,208,570	4,024,646	0.001 <sup>(1)</sup>
Mr. Emilio Botín-Sanz de Sautuola y O'Shea	11 DEC 1989	21 JUN 2003	12,153,218	12,240	0.000 <sup>(1)</sup>
Mr. Javier Botín-Sanz de Sautuola y O'Shea	21 OCT 2004	21 OCT 2004	12,148,004	0	0.039 <sup>(1)</sup>
Lord Burns (Terence )	20 DEC 04 <sup>(2)</sup>	20 DEC 2004 <sup>(2)</sup>	27,101	0	0.000
Mr. Guillermo de la Dehesa Romero	24 JUN 2002	24 JUN 2002	100	0	0.000
Mr. Rodrigo Echenique Gordillo	7 OCT 1988	21 JUN 2003	651,598	7,344	0.011
Mr. Antonio Escámez Torres	17 APR 1999	19 JUN 2004	556,899	0	0.009
Mr. Francisco Luzón López	22 MAR 1997	19 JUN 2004	1,214,883	723	0.019
Mr. Elías Masaveu y Alonso del Campo	6 MAY 1996	21 JUN 2003	449,237	11,427,475	0.190
Mr. Abel Matutes Juan	24 JUN 2002	24 JUN 2002	52,788	86,150	0.002
Mutua Madrileña Automovilista	19 JUN 2004	19 JUN 2004	65,068,029	79,160	1.042
Mr. Luis Alberto Salazar-Simpson Bos	17 APR 1999	19 JUN 2004	26,415	4,464	0.000

(1) Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos is allocated the voting rights of 74,539,120 shares owned by Fundación Marcelino Botín (1.19% of the capital stock), of 8,096,742 shares which belongs to Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos, of 12,148,004 shares which belongs to Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, of 12,148,030 shares which belongs to Mr. Emilio Botín-Sanz de Sautuola y O'Shea and of 9,700,004 shares which belongs to Mr. Javier Botín-Sanz de Sautuola y O'Shea. Therefore, reference is made in this table to the direct and indirect shareholdings of each of these last three persons who are Directors of the Company, but in the column relating to total percentage of capital stock, such shares are computed together with the other shares owned or represented by Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos.

(2) Appointed by co-option to fill the vacancy of Sir George Mathewson. The appointment will be submitted for ratification at the next General Shareholders' Meeting, which is expected to be held on June 18, 2005.

**(\*) The number of indirect shares listed below includes shares represented by proxy as well as shares that are indirectly owned:**

Name of Director
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Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos

<b>Name</b>	<b>Number of direct shares</b>
Fundación Marcelino Botín-Sanz de Sautuola y López	74,539,120
Spouse	96,047
Simancas S.A.	3,007,426
Puentepumar S.L.	4,511,853
Puente San Miguel S.A.	1,555,484
Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos (voting rights)	8,096,742
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea (voting rights)	8,208,570
Cronje S.L. (voting rights)	3,939,434
Mr. Emilio Botín-Sanz de Sautuola y O'Shea (voting rights)	12,148,030
Mr. Javier Botín-Sanz de Sautuola y O'Shea (voting rights)	9,700,004
<b>Total:</b>	<b>125,802,710</b>

**Name**

Mr. Fernando de Asúa Álvarez

<b>Name</b>	<b>Number of direct shares</b>
Sualfer Inversiones SIMCAV S.A.	18,000
<b>Total:</b>	<b>18,000</b>

**Name**

Mr. Alfredo Sáenz Abad

<b>Name</b>	<b>Number of direct shares</b>
Wilson Tres Dos S.L.	47,430
Liborne, S.L.	1,243,532
<b>Total:</b>	<b>1,290,962</b>

**Name**

Mr. Matías Rodríguez Inciarte

<b>Name</b>	<b>Number of direct shares</b>
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Immediate family members	61,444
Cueto Calero SIMCAVF S.A.	59,500
<b>Total:</b>	120,944

<b>Name</b>
Mr. Manuel Soto Serrano

<b>Name</b>	<b>Number of direct shares</b>
Ace Global SIMCAV S.A.	157,000
<b>Total:</b>	157,000

<b>Name</b>
Assicurazioni Generali S.p.A.

<b>Name</b>	<b>Number of direct shares</b>
Generali Assurances IARD SA	16,608,000
La Estrella S.A.	11,343,798
GPA-VIE S.A.	3,400,000
Generali Assurances VIE SA	2,601,000
Volksfürsorge Deutsche Lebens.	1,531,600
Aachener und Münchener Lebens.	914,000
GPA-IARD S.A.	800,000
Central Krankenversicherung AG	330,400
Banco Vitalicio de España	293,156
Cosmos Lebensversicherungs AG	159,000
Generali Vita S.P.A.	149,300
Ina Vita S.P.A.	125,587
Generali Belgium S.A.	103,665
Alleanza Assicurazioni S.P.A.	102,472
Aachener Und Münchener Vers.	100,000
Generali Holding Vienna AG	88,800
Generali Personenversicherung	50,000
Intesa Vita S.P.A.	45,000

Generali Worldwide Insurance	43,160
Generali Versicherung AG (D)	42,000
Generali International Ltd	2,455
Europ Assistance Portugal	1,950
<b>Total:</b>	<b>38,835,343</b>

<b>Name of director</b>
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea

<b>Name</b>	<b>Number of direct shares</b>
Cronje S.L. (*)	84,702
Immediate family member (minor).	510
<b>Total:</b>	<b>85,212</b>

(\*) Excluding 3,939,434 shares owned by Cronje, S.L., the voting rights of which are exercised by Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos. See note (1) on page 3 of this Report.

<b>Name of director</b>
Mr. Emilio Botín-Sanz de Sautuola y O'Shea

<b>Name</b>	<b>Number of direct shares</b>
Immediate family member (minor)	12,240
<b>Total:</b>	<b>12,240</b>

<b>Name of director</b>
Mr. Rodrigo Echenique Gordillo

<b>Name</b>	<b>Number of direct shares</b>
Spouse	7,344
<b>Total:</b>	<b>7,344</b>

<b>Name of director</b>
Mr. Francisco Luzón López

<b>Name</b>	<b>Number of direct shares</b>
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Spouse	723
<b>Total:</b>	723

<b>Name of director</b>
Mr. Elías Masaveu y Alonso del Campo

<b>Name</b>	<b>Number of direct shares</b>
Corporación Masaveu S.A.	5,633,370
Fondarm S.A.	1,326,604
Títulos y Valores Masaveu S.A.	182,854
Agueira S.A.	76,245
Gemava S.A.	61,512
S. A. Tudela Veguín	3,985,660
Fundación Virgen de los Dolores	103,830
Fundación San Ignacio de Loyola	35,130
Estacionamientos Iruña S.A.	22,270
<b>Total:</b>	11,427,475

<b>Name of director</b>
Mr. Abel Matutes Juan

<b>Name</b>	<b>Number of direct shares</b>
Residencial Marina, S.A.	86,150
<b>Total:</b>	86,150

<b>Name of director</b>
Mutua Madrileña Automovilista

<b>Name</b>	<b>Number of direct shares</b>
MUTUACTIVOS, SAU SGIIC	79,160

<b>Name of director</b>
Mr. Luis Alberto Salazar-Simpson Bos

<b>Name</b>	<b>Number of direct shares</b>
C.I.U.V.A.S.A.	4,464

<b>Total:</b>	4,464
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<b>Total % of capital stock controlled by the Board of Directors</b>	4.215
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**Complete the following tables about the members of the Company's Board of Directors who hold Company stock options:**

Below is a description of the Directors' stock options as of December 31, 2004<sup>(1) (2)</sup>:

Name of Director	Number of direct option rights	Number of indirect option rights	Number of share equivalents	Total % of capital stock
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	691,400	-	691,400	0.011%
Mr. Alfredo Sáenz Abad	1,309,100	-	1,309,100	0.021%
Mr. Matías Rodríguez Inciarte	790,200	-	790,200	0.013%
Mr. Antonio Escámez Torres	100,000	-	100,000	0.002%
Mr. Francisco Luzón López	739,400	-	739,400	0.012%

(1) The table includes the following options granted under the I-06 Long-Term Incentive Plan, broken down as follows: Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos 541,400, Mr. Alfredo Sáenz Abad 1,209,100, Mr. Matías Rodríguez Inciarte 665,200 and Mr. Francisco Luzón López 639,400. Such plan is subject to the ratification at the next general shareholders' meeting, which is expected to be held on June 18, 2005. For more information about this plan, see B 1.11.

(2) The options belonging to Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, as a beneficiary of the I-06 Plan, will be those granted at the General Shareholders' Meeting of Banesto upon the proposal of its Board of Directors.

**A.4. Describe, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the Company, unless they are immaterial or result from the ordinary course of business:**

Not applicable due to the reasons explained in A.2 above.

**A.5. Describe, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the Company, to the extent that they are known to the Company, unless they are immaterial or result from the ordinary course of business:**

Not applicable due to reasons explained in A.2 above.



**A.6. Indicate any paracorporate agreements<sup>(\*)</sup> among the shareholders that have been reported to the company:**

As of December 31, 2004, the Company had received no notice of any paracorporate agreement.

**Indicate, if applicable, any concerted actions among your company's shareholders of which your company is aware:**

The Company has received no notice of any concerted actions among company shareholders.

**Expressly indicate whether any of such arrangements or concerted actions have been terminated or modified during the year.**

Not applicable.

**A.7. Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company pursuant to Article 4 of the Securities Market Law:**

None.

**A.8. Complete the following tables regarding the Company's treasury stock:**

As of year end:

Number of direct shares	Number of indirect shares (*)	Total % of capital stock
0	12,725,159	0.203%

(\*) Through:

Tax identification number or code (NIF or CIF)	Name of direct shareholder	Number of direct shares
A28031730	Pereda Gestión, S.A.	12,044,819
A08007478	Cantabro Catalana de Inversiones, S.A.	561,092
A28000032	Banco Español de Crédito, S.A.	117,926
A79018560	Cambios Sol	1,322

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(\*) Agreements among a company's shareholders regarding the exercise of voting rights in General Meetings or imposing on the parties thereto any limitations on the transfer of shares.

**Describe any significant changes, pursuant to the provisions of Royal Decree 377/1991, that have occurred during the year:**

Date	Number of direct shares	Number of indirect shares	Total % of capital stock
13 JAN 04	14,174,286	49,500,090	1.3354
04 FEB 04	2,082,466	51,864,905	1.1314
17 FEB 04	14,926,666	50,130,074	1.3643
08 MAR 04	2,115,941	45,751,353	1.0039
30 MAR 04	2,574,535	46,176,791	1.0224
15 APR 04	14,538,790	44,448,083	1.2370
28 APR 04	846,877	62,810,563	1.3350
07 MAY 04	13,764,700	47,484,875	1.2845
18 MAY 04	241,000	49,778,787	1.0490
22 JUN 04	5,340,470	44,525,539	1.0458
12 JUL 04	23,012,347	28,546,055	1.0813
09 AUG 04	1,648,348	46,951,292	1.0192
14 SEP 04	14,523,591	34,044,416	1.0186
22 OCT 04	11,084,292	37,595,198	1.0209
14 DEC 04	21,134,238	42,328,388	1.0147

Pursuant to Royal Decree 377/1991, only the acquisitions made –individually or in a series of transactions– since the last communication and exceeding 1% of the capital stock of the Company are communicated, excluding any sales made. The date specified above is the registration date.

<b>Consolidated gain (loss) from treasury stock transactions during the fiscal year</b>	<b>(in thousands of Euros)</b> -31,935
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**A.9. Describe the term(s) and condition(s) of the authorization(s) given by the shareholders to the Board of Directors in order to acquire or transfer the Company’s treasury stock described in A.8.**

The authorization for the treasury stock transactions made in FY 2004 was provided by resolution no. 5 adopted at June 21, 2003 General Shareholders’ Meeting, and by resolution no. 5 adopted at the June 19, 2004 General Shareholders Meeting.

Resolution no. 5 adopted at the Ordinary General Shareholders’ Meeting held on June 21, 2003 provides as follows:

- I) *“To rescind the unused portion of the authorization granted by the shareholders acting at the Extraordinary General Shareholders’ Meeting of February 9, 2002 for the derivative acquisition of treasury stock by the Bank and the Subsidiaries comprising the Group.*
- II) *To grant express authorization for the Bank and the Subsidiaries comprising the Group to acquire shares representing the capital stock of the Bank for any valuable consideration permitted by Law,*

*within the limits of the Law and subject to all legal requirements, up to a limit – including the shares they already hold – of 238,420,147 shares or, as appropriate, the number of shares equivalent to 5 percent of the capital stock existing at any given time. Such shares shall be fully paid-in at a minimum price per share equal to the par value and a maximum of up to the quoted price on the Electronic Market of the Spanish stock exchanges on the date of acquisition. This authorization may only be exercised within 18 months from the date of the Shareholders' Meeting. The authorization includes the acquisition of shares, if any, that must be conveyed directly to the employees and Directors of the Company, or that must be conveyed as a result of the exercise of the options they hold.”*

Resolution no. 5 adopted at the Ordinary General Shareholders' Meeting held on June 19, 2004 provides the following:

*I) To rescind the unused portion of the authorization granted by the shareholders acting at the Ordinary General Shareholders' Meeting of June 21, 2003 for the derivative acquisition of shares of the Bank by the Bank and the Subsidiaries comprising the Group.*

*II) To grant express authorization for the Bank and the Subsidiaries comprising the Group to acquire shares representing the capital stock of the Bank for any valuable consideration permitted by Law, within the limits of the Law and subject to all legal requirements, up to a limit - including the shares they already hold - of 238,420,147 shares or, as appropriate, the number of shares equivalent to 5 percent of the capital stock existing at any given time. Such shares shall be fully paid-in at a minimum price per share equal to the par value and a maximum of the quoted price on the Electronic Market of the Spanish stock exchanges on the date of acquisition. This authorization may only be exercised within 18 months from the date of the Shareholders' Meeting. The authorization includes the acquisition of shares, if any, that must be conveyed directly to the employees and Directors of the Company or that must be conveyed as a result of the exercise of the options they may hold.*

Since the date the tender offer for Abbey National plc. was announced, the Company has acquired its own shares based on such authorization through a repurchase program approved by the Board of Directors of the Company in order to reduce the capital stock in an amount equal to the net amount of sales and purchases made under this plan, and is being carried out as follows:

- (i) the maximum number of treasury shares that may be held by the Company will be 190,000,000;
- (ii) the maximum price of acquisition will be € 9.77 per share; and
- (iii) the plan will be effective until March 31, 2005, having the Company announced its decision not to extend the period of such program.

Furthermore, the Company's Board of Directors, at its meeting on June 19, 2004, have approved the formal rules of its treasury stock policy, as set forth below:

- “1. Purchases and sales of the Company's stock, by the Company itself or by companies it controls, shall conform above all to the provisions of applicable law and the resolutions of the shareholders acting at a General Shareholder Meeting in this regard.*
- 2. Transactions in the Company's stock shall have the following objectives:*
  - To provide liquidity or supply, as applicable, to the market for shares of the Bank.*
  - To take advantage of weakness in the price of the shares as against the prospects for medium-term growth, for the benefit of the shareholders as a group.*
- 3. Treasury stock transactions shall be carried out by the Department of Investments and Shareholdings, isolated as a separate area and protected with appropriate barriers, such that it does not have access to any privileged or relevant information.*

*In order to have an understanding of the market situation for shares of the Bank, such Department may collect data from those market members that it deems appropriate, although ordinary transactions in the electronic market must be executed through a single member.*

*No other unit within the Group shall engage in treasury stock transactions, with the sole exception as set forth in paragraph 7 below.*

- 4. Purchase orders must be made at a price equal to or lesser than the last trade on the market by independent subjects.*

*Sell orders must be made at a price equal to or greater than the last trade on the market by independent subjects.*

*Simultaneous purchase and sell orders in the market shall not be allowed.*

- 5. Generally, a treasury stock transaction shall not exceed 25% of the volume of the Bank's shares traded on the electronic market.*

*Such limit may be exceeded in exceptional circumstances, in which case the Department of Investments and Shareholdings must report such situation at the next meeting of the Executive Committee.*

6. *The rules contained in paragraphs 4 and 5 above shall not apply to treasury stock transactions performed outside of trading hours or on the block market.*
7. *The rules contained in paragraphs 2 through 5 above shall not apply to acquisitions of the Bank's treasury stock by the Bank or subsidiaries within its group in the performance of portfolio hedging activities or the facilitation of trading or hedging for customers.*
8. *The Executive Committee shall receive periodic information regarding treasury stock transactions.*

*In addition, when transactions are proposed that, due to their volume or other characteristics, it is so advisable, and in any event if they affect more than 0.5% of the capital stock, the person in charge of such Department must seek the advice of the Chairman or the Chief Executive Officer prior to the execution thereof."*

**A.10. Indicate any legal or bylaw restrictions on the exercise of voting rights, and any legal restrictions on the acquisition or transfer of interests in capital stock.**

1. Legal and bylaw restrictions on the exercise of voting rights:

There are no legal or bylaw restrictions on the exercise of voting rights as such.

As specified in last year's report, at the General Shareholders' Meeting held on June 19, 2004, the shareholders approved the amendment of Article 15 of the Bylaws to allow shareholders with any number of shares to be present at General Shareholders' Meetings, and the first paragraph of such Article 15 now reads as follows:

*"The holders of any number of shares registered in their name in the respective stock ledger five days prior to the date on which the General Shareholders' Meeting is to be held and who are current in the payment of capital calls shall be entitled to attend General Shareholders' Meetings ."*

The internal regulations of the Company do not provide exceptions to the one-vote-per-share rule. The first paragraph of Article 17 of the Bylaws provides that:

*"The attendees at the General Shareholders' Meeting shall have one vote for each share which they hold or represent."*

2. Legal or bylaw restrictions on the acquisition or transfer of interests in the capital stock:

There are no bylaw restrictions on the transfer of shares.

Articles 57 and 58 of Law 26/1988 on Bank Discipline and Intervention set forth a procedure for the advance reporting to the Bank of Spain of any acquisition of a significant interest in the case of Spanish entities. The Bank of Spain may oppose such acquisition in certain cases.

## **B STRUCTURE OF THE COMPANY'S MANAGEMENT**

### **B.1. Board of Directors**

**B.1.1. Describe the maximum and minimum number of directors set forth in the bylaws:**

<b>Maximum number of directors</b>	Thirty
<b>Minimum number of directors</b>	Fourteen

**B.1.2. Complete the following table identifying the members of the Board of Directors:**

<b>Name</b>	<b>Representative</b>	<b>Position</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	N/A	Chairman	5 AUG 1960	9 FEB 2002	General Shareholders' Meeting
Mr. Fernando de Asúa Álvarez	N/A	First Vice Chairman	17 APR 1999	19 JUN 2004	General Shareholders' Meeting
Mr. Alfredo Sáenz Abad	N/A	Second Vice Chairman	11 JUL 1994	21 JUN 2003	General Shareholders' Meeting
Mr. Matías Rodríguez Inciarte	N/A	Third Vice Chairman	7 OCT 1988	21 JUN 2003	General Shareholders' Meeting
Mr. Manuel Soto Serrano	N/A	Fourth Vice Chairman	17 APR 1999	9 FEB 2002	General Shareholders' Meeting
Assicurazioni Generali S.p.A.	Mr. Antoine Bernheim	Member	17 APR 1999	19 JUN 2004	General Shareholders' Meeting
Mr. Antonio Basagoiti García-Tuñón	N/A	Member	26 JUL 1999	19 JUN 2004	General Shareholders' Meeting
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	N/A	Member	4 FEB 1989	21 JUN 2003	General Shareholders' Meeting
Mr. Emilio Botín-Sanz de Sautuola y O'Shea	N/A	Member	11 DEC 1989	21 JUN 2003	General Shareholders' Meeting
Mr. Javier Botín-Sanz de Sautuola y O'Shea	N/A	Member	21 OCT 2004	21 OCT 2004	General Shareholders' Meeting
Lord Burns (Terence)	N/A	Member	20 DEC 2004	20 DEC 2004	Board of Directors (*)
Mr. Guillermo de la Dehesa Romero	N/A	Member	24 JUN 2002	24 JUN 2002	General Shareholders'

					Meeting
Mr. Rodrigo Echenique Gordillo	N/A	Member	7 OCT 1988	21 JUN 2003	General Shareholders' Meeting
Mr. Antonio Escámez Torres	N/A	Member	17 APR 1999	19 JUN 2004	General Shareholders' Meeting
Mr. Francisco Luzón López	N/A	Member	22 MAR 1997	19 JUN 2004	General Shareholders' Meeting
Mr. Elías Masaveu y Alonso del Campo	N/A	Member	6 MAY 1996	21 JUN 2003	General Shareholders' Meeting
Mr. Abel Matutes Juan	N/A	Member	24 JUN 2002	24 JUN 2002	General Shareholders' Meeting
Mutua Madrileña Automovilista	Mr. Luis Rodríguez Durón	Member	19 JUN 2004	19 JUN 2004	General Shareholders' Meeting
Mr. Luis Alberto Salazar-Simpson Bos	N/A	Member	17 APR 1999	19 JUN 2004	General Shareholders' Meeting

Representative: N/A: Not applicable.

(\*) Appointment by co-option to replace Sir George Mathewson. The appointment is subject to ratification by the shareholders at the next General Shareholders' Meeting, which is expected to be held on June 18, 2005.

<b>Total number of directors</b>	Nineteen
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The Company believes that this number of Directors is appropriate to ensure proper representation and the effective operation of the Board of Directors, in compliance with Article 6 of the Regulations of the Board.

In FY 2004, the changes in the composition of the Board of Directors and the offices held by Directors in Committees were the following:

- a) The Company reported as a material fact, dated April 26, 2004, the Board's resolution to appoint Mutua Madrileña Automovilista as a new Director. As a representative thereof, Mr. Luis Rodríguez Durón, Director of Mutua Madrileña Automovilista and Chairman of Mutuactivos, joined the Board of Directors of the Company.

The appointment by co-option of Mutua Madrileña Automovilista as Director, at the proposal of the Appointments and Remuneration Committee, was ratified at the General Shareholders' Meeting held on June 19, 2004.

- b) The Company reported as a material fact, dated May 7, 2004, Mr. José Manuel Arburúa Aspiunza's resignation from the Board of Directors submitted on April 22, 2004 and effective as of such date.



- c) The Company reported as a material fact, dated June 18, 2004, that due to the failure to fill the vacancy created by the death of Mr. Antonio de Sommer Champalimaud, the number of members of the Board of Directors would be reduced to twenty.
- d) The Company reported as a material fact, dated July 26, 2004, the announcement of the decision of Mr. Jaime Botín-Sanz de Sautoula y García de los Ríos to resign as a member of the Board of Directors. The Company also reported that, at the proposal of the Appointments and Remuneration Committee, the Board of Directors appointed Mr. Fernando de Asúa Álvarez, an external non-executive Director, to fill his vacancy as First Vice Chairman of the Board of Directors, in accordance with the provisions of Article 8 of the Regulations of the Board requiring such classification as a condition to being appointed First Vice Chairman of the Bank. To fill the vacancy of Mr. Jaime Botín-Sanz de Sautoula y García de los Ríos on the Board of Directors, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, appointed Mr. Javier Botín-Sanz de Sautoula y O'Shea as a new Director.

The appointment by co-option of Mr. Javier Botín-Sanz de Sautoula y O'Shea was ratified at the Extraordinary General Shareholders' Meeting held on October 21, 2004.

Finally, the appointment of Mr. Antonio Basagoiti García-Tuñón as member of the Executive Committee, at the proposal of the Appointments and Remuneration Committee, was reported as material fact on July 26, 2004.

- e) The Company reported as a material fact, dated November 12, 2004, the resignation of Sir George Mathewson from his position as Director. Such resignation was due to the acquisition of Abbey National plc ("Abbey"), whereupon the Company had informed the European Commission that it had agreed with The Royal Bank of Scotland Group plc that their reciprocal representation on the Board of Directors of the other entity would cease if and when the Company completed the acquisition of Abbey, such companies undertaking to obtain the resignation of the respective Directors acting on the Board of the other entity. Upon completion of the acquisition on November 12, 2004, Sir George Mathewson submitted his resignation to the Board effective immediately.
- f) The Company reported as a material fact, dated December 15, 2004, Mr. Juan Abelló Gallo's resignation from the Board of Directors submitted on the date thereof.
- g) The Company reported as a material fact, dated December 20, 2004, the appointment of Lord Burns as an external Director to fill the

vacancy left by Sir George Mathewson, Chairman of The Royal Bank of Scotland.

The appointment by co-option of Lord Burns at the proposal of the Appointments and Remuneration Committee, will be submitted for approval of the shareholders at the next General Shareholders' Meeting, which is expected to be held on June 18, 2005.

At the Ordinary General Shareholders' Meeting held on June 19, 2004, the shareholders also agreed to re-elect Mr. Fernando de Asúa Álvarez, Mr. Antonio Basagoiti García-Tuñón, Mr. Antonio Escámez Torres, Mr. Francisco Luzón López, Mr. Luis Alberto Salazar-Simpson Bos and Assicurazioni Generali S.p.A. as Directors.

**Indicate the vacancies on the Board of Directors that have occurred during the period:**

<b>Name of director</b>	<b>Date of vacancy</b>
Mr. José Manuel Arburúa Aspiunza	22 APR 2004
Mr. Antonio de Sommer Champalimaud	8 MAY 2004
Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos	25 JUL 2004
Sir George Mathewson	12 NOV 2004
Mr. Juan Abelló Gallo	15 DEC 2004

**B.1.3. Complete the following tables regarding the members of the Board and the status thereof:**

The Company classifies Directors as external or executive Directors.

However, for purposes of providing information to the market and in line with the criteria set by the Spanish Codes of Good Governance, the Company has classified its Directors as follows, without prejudice to considering the Board of Directors to be a unitary decision-making body.

#### **EXECUTIVE DIRECTORS**

Pursuant to the provisions of Article 5 of the Regulations of the Board, Executive Directors shall be deemed to be the Chairman, the Chief Executive Officer(s), and all other Directors who perform management duties within the Company or the Group and do not limit their activity to the duties of supervision and collective decision-making falling upon Directors, including, in all events, those Directors who, through the delegation of their powers, stable proxy-granting, or a contractual, employment or services relationship with the Company other than that inherent in their mere capacity as Directors, have any decision-making

capacity in connection with any part of the business of the Company or the Group. Therefore, the following are Executive Directors of the Company:

<b>Name of director</b>	<b>Committee that appointed the director</b>	<b>Position within the Company's structure</b>
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	(*)	Executive Chairman
Mr. Alfredo Sáenz Abad	Appointments and Remuneration	Second Vice Chairman and Chief Executive Officer
Mr. Matías Rodríguez Inciarte	Appointments and Remuneration	Third Vice Chairman and Head of Risks
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Appointments and Remuneration	Executive Chairman of Banesto
Mr. Francisco Luzón López	(*)	Executive Vice President for the America Division

(\*) Appointment submitted by the Board of Directors to the General Shareholders' Meeting without a prior proposal by the Appointments and Remuneration Committee, as this Committee did not have the power to appoint or re-elect a Director at the time the proposal was submitted by Board of Directors.

### **EXTERNAL PROPRIETARY DIRECTORS**

External proprietary Directors are those Directors who are not Executive Directors, but have or are directly connected to a significant interest in the capital stock of the Company, in the opinion of the Board of Directors. In accordance with such criterion, the external proprietary Directors of the Company are:

<b>Name of Director</b>	<b>Committee that proposed the director</b>	<b>Name of the significant shareholder represented by the director or that nominated the director (*)</b>	<b>Tax identification (NIF or CIF) of the significant shareholder</b>
Assicurazioni Generali S.p.A.	(**)	Representative of Assicurazioni Generali S.p.A.	
Mr. Emilio Botín-Sanz de Sautuola y O'Shea	Appointments and Remuneration	His own shares and shares owned by Fundación Marcelino Botín	
Mr. Javier Botín-Sanz de	Appointments and Remuneration	His own shares	

Sautuola y O'Shea			
Mutua Madrileña Automovilista	Appointments and Remuneration	Representative of Mutua Madrileña Automovilista	

(\*) Significant shareholder: As indicated in A.2. above, strictly speaking, there are no significant shareholders. Then, such shareholders that, in the opinion of the Board, have a relevant share in the capital of the Company are included in this box; therefore, such shareholders, if Directors, or the Directors related to them are considered external proprietary Directors. The relations among shareholders and Directors specified in this box are not relations in which such Directors represent the shareholders or have been proposed by the shareholders in question, except as otherwise stated. The relation is indicated in each particular case.

(\*\*) Appointment submitted by the Board of Directors to the General Shareholders' Meeting without a prior proposal by the Appointments and Remuneration Committee, as this Committee did not have the power to appoint or re-elect a Director at the time the proposal was submitted by Board of Directors.

### **EXTERNAL INDEPENDENT DIRECTORS**

The Board of Directors believes that all Directors are independent Directors, a classification that is based on the solvency, integrity and professionalism of each Director and not on compliance with certain requirements. However, in line with the criteria of the Olivencia Code and the Aldama Report, the Company incorporates the concept of independent Director in the definition provided in Article 5 of the Regulations of the Board of Directors (see B.1.4. of this Report). In accordance with such definition, the following are independent Directors:

<b>Name of Director</b>	<b>Committee that nominated the Director</b>	<b>Profile</b>
Mr. Fernando de Asúa Álvarez	(*)	Degree in Economics and Information Technology, post-graduate in Business Administration and Mathematics. Other relevant positions: He is Honorary Chairman of IBM Spain and a non-executive Director of Compañía Española de Petróleos (CEPSA).
Mr. Manuel Soto Serrano	(*)	Degree in Economics and Business Administration. Other relevant positions: He is a non-executive Vice Chairman of Indra Sistemas, S.A. and a non-executive Director of Cortefiel and of Corporación Financiera Alba.
Mr. Guillermo de la Dehesa Romero	Appointments and Remuneration	Government Commercial Expert and Economist. Other relevant positions: He has been Secretary of State for Economy, General Secretary of Commerce, Chief Executive Officer of Banco Pastor. He is a non-executive Director of Campofrío Alimentación S.A., Unión Fenosa, S.A. and Tele Pizza, S.A. He is the

		Chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty in Washington and Chairman of the Board of Instituto de Empresa. He is also non-executive Chairman of AVIVA Vida y Pensiones, S.A., a non-executive Director of Goldman Sachs Europe Ltd and Aviva plc.
Mr. Elías Masaveu y Alonso del Campo	Appointments and Remuneration	Ph D in Industrial Engineering. Other relevant positions: Chairman of Sociedad Anónima Tudela Veguín (Grupo Masaveu) and a non-executive Director of Bankinter.
Mr. Abel Matutes Juan	Appointments and Remuneration	Degree in Law and Economics. Other relevant positions: He has been Minister of Foreign Affairs, and EU Commissioner, holding the positions of Credit and Investment, Financial Engineering and Policy for Small and Medium-Sized Companies (1989), North-South Relations, Mediterranean Policy and Relations with Latin America and Asia (1989), and Transport, Energy and Supply Agency for Euroatom (1993). He is a non-executive Director of FCC Construcción, S.A. and a Director of Assicurazioni Internazionale di Provvidenza.
Mr. Luis Alberto Salazar-Simpson Bos	(*)	Degree in Law and Diploma in Public Treasury and Tax Law. Other relevant positions: Chairman of Auna Operadora de Telecomunicaciones, S.A. and Director of Mutua Madrileña Automovilista.

(\*) Appointment submitted by the Board of Directors to the shareholders at the General Shareholders' Meeting without a prior proposal by the Appointments and Remuneration Committee, as this Committee did not have the power to appoint or re-elect a Director at the time the proposal was submitted by Board of Directors.

### **OTHER EXTERNAL DIRECTORS**

<b>Name of Director</b>	<b>Committee that nominated the Director</b>
Mr. Antonio Basagoiti García-Tuñón	(*)
Lord Burns (Terence)	Appointments and Remuneration (**)
Mr. Rodrigo Echenique Gordillo	Appointments and Remuneration
Mr. Antonio Escámez Torres	(*)

(\*) Appointment submitted by the Board of Directors to the shareholders at the General Shareholders' Meeting without a prior proposal by the Appointments and Remuneration Committee, as this Committee did not have the power to appoint or re-elect a Director at the time the proposal was submitted by Board of Directors.

- (\*\*) Appointment by co-option to replace Sir George Mathewson. The appointment will be submitted for ratification at the next General Shareholders' Meeting, which is expected to be held on June 18, 2005.

**Reasons for which they cannot be considered proprietary or independent directors:**

The above four external Directors are not, in the opinion of the Board of Directors, independent or proprietary Directors. Pursuant to the criteria for independence described in Article 5 of the Regulations of the Board, to which reference is made in B.1.4. of this Report, the above four Directors are not considered independent Directors by the Board because they maintain or have maintained recent relations with the Company that may impair their independence. They are also not considered proprietary Directors given that, in the opinion of the Board, their shareholdings in the Company are not sufficiently relevant.

**Indicate the changes, in any, in the types of director during the period:**

No changes occurred in the types of Directors during fiscal year 2004.

Name of Director	Date of change	Former type	Current type
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**B.1.4. Indicate whether the classification of directors made in the item above is consistent with the distribution set forth in the Regulations of the Board of Directors.**

The classification is consistent with the criteria set forth in Article 5 of the Regulations of the Board of Directors, which provides:

*“Executive Directors shall be deemed to be the Chairman, the Chief Executive Officer(s), and all other Directors who perform management duties within the Company or the Group and do not limit their activity to the duties of supervision and collective decision-making falling upon the Directors, including, in all events, those Directors who, through the delegation of their powers, stable proxy-granting, or a contractual, employment or services relationship with the Company other than that inherent in their mere capacity as Directors, have any decision-making capacity in connection with any part of the business of the Company or the Group.*

*Independent Directors shall be deemed to be those external or non-executive Directors who: (i) are not, and do not represent, shareholders who have the power to influence the control of the Company; (ii) have not held executive positions therein in the last three years; (iii) are not connected to executive Directors by a family or professional bond; or (iv) do not maintain and have not maintained any*

*relations with the Company or the Group which may impair their independence.*

Applying the foregoing criteria, of the 19 Directors currently making up the Board of Directors, 5 of them are executive and the other 14 are external. Of the 14 external Directors, 6 of them are independent, 4 of them are proprietary and the other 4 are, in the opinion of the Board, neither independent nor proprietary Directors.

This composition reflects the existence of a majority of external Directors over executive Directors, and within external Directors, of a majority of independent Directors over the other external Directors.

**B.1.5. Indicate the powers, if any, delegated to the Managing Director(s):**

<b>Name of Director</b>	<b>Brief description</b>
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Executive Chairman
Mr. Alfredo Sáenz Abad	Chief Executive Officer

Notwithstanding the capacity of the Executive Chairman as the most senior authority of the Company under the bylaws, the Executive Chairman and the Managing Director have been vested with the same powers, which are the following:

All the powers of the Company's Board of Directors, except the following:

- a) Those that cannot be delegated as established by law.
- b) Approval of the general strategies of the Company.
- c) Appointment, compensation and, if applicable, removal of the members of the Senior Management.
- d) Control of management activities and evaluation of managers.
- e) Identification of the main risks of the Company, especially those arising from derivatives transactions, and the implementation of and follow-up on adequate internal control and reporting systems.
- f) Establishment of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. In particular, the Board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related transactions of particular importance or treasury stock.
- g) Approval of treasury stock policy.

- h) In general, the conduct of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions.

**B.1.6. Identify the directors who are managers or directors of companies within the listed company's group, if any:**

The Directors who are managers or directors of other companies within the Group of the Company are:

<b>Name of Director</b>	<b>Name of entity within the Group</b>	<b>Tax identification number or code (NIF or CIF) of the Group entity</b>	<b>Position</b>
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Santander Investment Services, S.A.	A 08161507	Chairman
	Santander Chile Holding, S.A.	--	Chairman
	Portal Universia, S.A.	A 82726639	Chairman
Mr. Alfredo Sáenz Abad	Banco Banif, S.A.	A 33003088	Chairman
	Santander Investment Services, S.A.	A 08161507	Vice Chairman
Mr. Matías Rodríguez Inciarte	Banco Español de Crédito, S.A.	A 28000032	Director
	Santander Seguros y Reaseguros Compañía Aseguradora, S.A.	A 46003273	Director
	Unión de Crédito Inmobiliario, S.A.	A 78973377	Chairman
	Santander Activos Inmobiliarios, S.A. S.G.I.I.C.	A 80959612	Chairman
	Banco Santander Totta, S.A.	500844321	Vice Chairman
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Banco Español de Crédito, S.A.	A 28000032	Chairman
	Santander Investment Services, S.A.	A 08161507	Director
	Inmobiliaria Urbis,	A 28040020	Vice Chairman



	S.A. Banco Santander de Negocios Portugal, S.A.	502519215	Director
Lord Burns (Terence)	Abbey National plc	2294747	Chairman
Mr. Rodrigo Echenique Gordillo	Banco Banif, S.A.	A 33003088	Second Vice Chairman
	Santander Investment Services, S.A.	A 08161507	Director
	Allfunds Bank , S.A.	A 41001371	Chairman
	Banco Santander International	---	Director
Mr. Antonio Escámez Torres	Santander Consumer Finance, S.A.	A 28122570	Chairman
	Patagon Bank, S.A.	A 28021079	Chairman
	Santander Benelux, S.A.	BE 464657318	Vice Chairman
Mr. Francisco Luzón López	Grupo Financiero Santander Serfin, S.A. de C.V.	--	Director
	Banco Santander Mexicano, S.A.	--	Director
	Casa de Bolsa Santander Serfin, S.A. de C.V.	--	Director
	Portal Universia, S.A.	A 82726639	Director
	Banco Santander International	--	Director

For the purposes hereof, the Group concept has been taken from Article 4 of the Securities Market Law.

**B.1.7. Identify the directors of your company, if any, who are directors of other companies listed on official stock exchanges in Spain other than those of your Group, that have been reported to your company:**

Information relating to the positions described above held by the Company's Directors is included below.

Name of director	Listed company	Position
Mr. Fernando de Asúa Álvarez	Compañía Española de Petróleos, S.A.	External Director

Mr. Alfredo Sáenz Abad	Compañía Española de Petróleos, S.A.	External Vice Chairman
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SIM	External Director
Mr. Manuel Soto Serrano	Campofrío Alimentación, S.A.	External Director <sup>(a)</sup>
	Cortefiel, S.A.	External Director
	Corporación Financiera Alba, S.A.	External Director
	Indra Sistemas, S.A.	External Vice Chairman
Mr. Antonio Basagoiti García-Tuñón	Unión Fenosa, S.A.	Chairman
	Pescanova, S.A.	External Director
	Sacyr Vallehermoso, S.A.	External Director <sup>(b)</sup>
	Faes Farma, S.A.	Vice Chairman
Mr. Guillermo de la Dehesa Romero	Compañía Española de Petróleos, S.A.	External Director
	Campofrío Alimentación, S.A.	External Director
	Unión Fenosa, S.A.	External Director
	Tele Pizza, S.A.	External Director
Mr. Francisco Luzón López	Industria de Diseño Textil, S.A.	External Director
Mr. Elías Masaveu y Alonso del Campo	Bankinter, S.A.	External Director
Mr. Abel Matutes Juan	Fomento de Construcciones y Contratas, S.A.	External Director

(a) Ceased being an external Director of Campofrío, S.A. on June 25, 2004.

(b) Ceased being an external Director of Sacyr Vallehermoso, S.A. on November 10, 2004.

For purposes of this item, the Group concept has been taken from Article 4 of the Securities Market Law.

**B.1.8. Complete the following tables regarding the aggregate compensation of Directors accrued during the year.**

Note 4 to the Financial Statements of Grupo Santander for FY 2004 has individual information for every item of compensation paid to all Directors, including executive Directors. See also the 2004 Report of the Appointments and Remuneration Committee which is distributed together with Grupo Santander's Annual Report.

However, the information adjusted to the format set forth in Circular 1/2004 of the National Securities Market Commission is as follows:

**a) In the company which is the subject matter of this report:**

<b>Compensation item</b>	<b>Data in thousands of euros</b>
Fixed compensation	6,784
Variable compensation	9,395
Fees	1,084
By-law stipulated fees	3,112
Share options and/or other financial instruments	-
Other	2,285
<b>TOTAL:</b>	<b>22,660</b>

<b>Other benefits</b>	<b>Data in thousands of euros</b>
Advances	-
Loans granted	10,781
Pension funds and plans: contributions	19,106
Pension funds and plans: contracted obligations	149,272
Life insurance premiums	407
Guarantees given by the Company for the Benefit of Directors	169

**b) On account of membership by the Company's directors on other boards of directors and/or in the senior management of Group companies:**

<b>Compensation item</b>	<b>Data in thousands of euros</b>
Fixed compensation	-
Variable compensation	-
Fees	84
By-law stipulated fees	-
Share options and/or other financial instruments	-
Other	-
<b>TOTAL:</b>	<b>84</b>

<b>Other benefits</b>	<b>Data in thousands of euros</b>
Advances	-
Loans granted	-
Pension funds and plans: contributions	2,438
Pension funds and plans: contracted obligations	9,742
Life insurance premiums	1
Guarantees given by the Company for the Benefit of directors	-

**c) Total compensation by type of director:**

Type of director	Per company	Per group
Executive	18,336	24
External proprietary	416	-
External independent	1,424	30
Other external	2,484	30
<b>Total</b>	<b>22,660</b>	<b>84</b>

**d) As a percentage of the profits attributable to the controlling company:**

<b>Total compensation of directors (in thousands of Euros)</b>	22,744
<b>Total compensation of directors/profits attributed to (*) the controlling company (expressed as a %)</b>	0.725%

(\*) Calculated on the profits attributed to the Group.

**B.1.9. Identify the members of the Company's senior management who are not executive Directors and state the total compensation accruing to them during the year:**

The most senior management duties of the Company, under the authority of the Company's Chairman and the Chief Executive Officer, are vested in the members of the Senior Management. Therefore, the Chairman, the Chief Executive Officer, the other executive Directors and the following persons, all of them members of the Senior Management, form the Senior Management of the Company.

Name	Position
Mr. Francisco Gómez Roldán	ABBEY
Mr. Marcial Portela Álvarez	AMERICA
Mr. Jesús M <sup>a</sup> Zabalza Lotina	AMERICA
Mr. Fernando Cañas Berkowitz <sup>(*)</sup>	AMERICA
Mr. David Arce Torres	INTERNAL AUDIT
Mr. Enrique García Candelas	RETAIL BANKING
Mr. Adolfo Lagos Espinosa	GLOBAL WHOLESale BANKING
Mr. Jorge Maortua Ruiz-López	GLOBAL WHOLESale BANKING
Mr. Francisco Martín López Quesada	GLOBAL WHOLESale BANKING
Mr. Gonzalo de las Heras Milla	GLOBAL WHOLESale

<sup>(\*)</sup> After the end of fiscal year 2004, Mr. Fernando Cañas Berkowitz, Executive Vice President of the Company, voluntarily resigned from his position to become a member of the Board of Directors of Banco de Chile.

	BANKING
Mr. Juan Manuel Cendoya Méndez de Vigo	COMMUNICATION AND RESEARCH
Mr. Juan Rodríguez Inciarte	EUROPE AND CONSUMER LENDING
Mr. Jorge Morán Sánchez	ASSET MANAGEMENT AND INSURANCE
Mr. José Antonio Álvarez Álvarez	FINANCIAL MANAGEMENT
Mr. José Manuel Tejón Borrajo	FINANCIAL ACCOUNTING
Mr. Pedro Mateache Sacristán	RESOURCES AND COSTS
Mr. Serafín Méndez González	RESOURCES AND COSTS
Mr. Joan David Grimà Terré	INDUSTRIAL PORTFOLIO
Mr. Antonio Horta-Osorio	PORTUGAL
Mr. Javier Peralta de las Heras	RISKS
Mr. José María Espí Martínez	RISKS
Mr. Teodoro Bragado Pérez	RISKS
Mr. Ignacio Benjumea Cabeza de Vaca	GENERAL SECRETARIAT AND OF THE BOARD
Mr. Juan Guitard Marín	GENERAL SECRETARIAT AND OF THE BOARD

<b>Total senior management compensation (in thousands of Euros)</b>	41,282
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**B.1.10. Identify, on an aggregate basis, if there are indemnity or severance payment provisions for the benefit of senior management, including executive Directors, of the Company or its Group in the event of dismissals or changes of control. Indicate whether such agreements must be reported to and/or approved by the decision-making bodies of the Company or its Group:**

<b>Number of beneficiaries</b>	27
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	<b>Board of Directors</b>	<b>Shareholders</b>
<b>Body approving the clauses</b>	<b>X</b>	

	<b>YES</b>	<b>NO</b>
<b>Is information about the clauses provided to the shareholders at the General Shareholders' Meeting?</b>		<b>X</b>

**B.1.11. Describe the process to set the compensation of the members of the Board of Directors and the relevant provisions of the Bylaws with regard thereto.**

1. To describe the process to set the compensation of Directors, it is necessary to draw a line between the different compensation schemes set forth in the Bylaws and to provide the text of the rules therein established and of the Regulations of the Board of Directors that relevant thereto.

Article 38 of the Bylaws provides as follows:

**“Article 38.-** *The Board of Directors, and, if applicable, the Executive Committee and the Executive Vice Presidents of the Bank, shall receive, in consideration for the performance of their duties and as a joint share in the income for each fiscal year, an amount equal to five percent thereof, provided, however, that the Board may resolve that such percentage be reduced in those years in which it so deems it justified. In addition, the Board of Directors shall distribute the resulting payment among the recipients in such manner and amount as may be resolved annually with respect to each of them.*

*In order to determine the specific amount corresponding to such share, the percentage decided upon shall be applied to the earnings for the fiscal year.*

*In any event, in order for this share of the Board of Directors to be deducted, all priorities established by current legislation must be satisfied.*

*Regardless of the foregoing, the members of the Board of Directors and the Executive Committee shall be entitled to collect attendance fees, as well as such compensation as may be applicable to the performance of their duties within the Company other than those of a Director.*

*Following a resolution adopted by the shareholders at the General Shareholders’ Meeting in such manner as provided by law, the Directors may also receive compensation in the form of shares or options thereon, or by any other compensation system which references share value.”*

Article 25 of the Regulations of the Board of Directors provides as follows:

*“1. The Directors shall be entitled to the compensation fixed by the Board of Directors following a proposal made by the Appointments and Remuneration Committee, as a joint share in the profits for each fiscal year and within the limits provided for in paragraph one of Article 38 of the By-Laws. The Directors shall also be entitled to*

*collect attendance fees, the amount of which shall be fixed by the Board, following a proposal by the above - mentioned Committee.*

*Upon establishing the amount of the compensation payable to each of the Directors for the reasons set forth above, the Board may take into consideration their membership with and attendance at the meetings of the different Committees.*

*2. Independently of the compensation provided for in the foregoing section, and pursuant to the provisions of paragraph four of Article 38 of the By- Laws, the Directors shall also be entitled to any other compensation that, following a proposal made by the Appointments and Remuneration Committee and upon resolution by the Board of Directors, may be considered appropriate in consideration for the performance of other duties in the Company, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as members of the Board.*

*3. In the case of compensation systems consisting of the delivery of shares or of rights thereto, as well as any other compensation system related to the value of the shares, the Board shall submit the corresponding proposal to the decision of the shareholders at the General Shareholders' Meeting.*

*4. The Board shall endeavor that Director compensation meets standards of moderation and correspondence to the earnings of the Company.”*

2. Article 15.2(c) of the current Regulations of the Board of Directors lists the following duties of the Appointments and Remuneration Committee:

*“c) Propose to the Board the form and amount of, and the procedures relating to, the annual compensation of the Directors – both for their performance as such and for their performance in the Company of duties other than those of a Director – and of the Executive Vice Presidents, and periodically review the compensation programs, assessing the appropriateness and yield thereof and endeavoring to ensure that the compensation of Directors shall conform to standards of moderation and correspondence to the earnings of the Company.”*

3. Based on the foregoing, the compensation systems for Directors and the process to set such compensation are as follows:

- (i) Compensation for acting in the position of Director as such.
  - a. Joint share in the income for each fiscal year.

Subject to a cap of 5% of the Company's net income for the year. In addition, funding is first required of all other

allocations required by law (for example, allocations to reserves required to comply with the equity rules for credit institutions).

This share may also be applied, within the limits mentioned above, to the Company's Executive Vice Presents.

Concerning this type of compensation, at the Board Meeting held on December 20, 2004, following a proposal of the Appointments and Remuneration Committee, the Directors set the bylaw-mandated share of the members of the Board as follows:

- € 71,400.24 for each member of the Board of Directors.
- € 155,129.01 for each member of the Executive Committee.
- € 35,700.12 for each member of the Audit and Compliance Committee.

In the case of positions that have not been filled for the entire fiscal year, such amounts are paid proportionately.

Therefore, the aggregate amount of such shares, added to the compensation corresponding to the General Management for such item, all the above as set forth in the first paragraph of Article 38 of the Bylaws, was 3,460.5 thousand euros, which represents 0.188% of the Company's net income for fiscal year 2004.

b. Attendance fees.

By resolution dated December 20, 2004, the Board of Directors set the amount of the fees for attending its meetings and those of its Committees, excluding the Executive Committee (as to which no attendance fees are paid) in accordance with the proposal made for such purpose by the Appointments and Remuneration Committee, as follows:

- Board of Directors: € 2,310 for resident Directors and € 1,870 for non-resident Directors.
- Committees: € 1,155 for resident Directors and € 935 for non-resident Directors.

(ii) Compensation for the performance of duties in the Company other than the duties of Director.

Pursuant to paragraph four of Article 38 of the Bylaws, this includes the compensation of Directors for the performance of



duties, whether as an executive Director or otherwise, other than the general supervisory duties they perform as members of the Board or its Committees.

The various components of this compensation (fixed compensation, variable compensation, pension contributions...), are approved by the Board of Directors at the proposal of the Appointments and Remuneration Committee.

(iii) Compensation linked to the Company's shares<sup>(\*)</sup>.

In this case, as required by Law and the Bylaws, the decision is to be adopted at the General Shareholders' Meeting, following a proposal made by the Board of Directors on the basis of a report submitted by the Appointments and Remuneration Committee.

During fiscal year 2004, the only compensation linked to the Company's shares was approved by the Board at its meeting held on December 20, 2004, wherein it resolved, subject to the approval of the shareholders at the next Ordinary General Shareholders' Meeting, "I-06 Incentive" Plan. Such Plan provides for the granting of 103,050,000 stock options to the Company's shares to a total of 2,750 participants, including some executive Directors of the Company. The exercise period is between January 15, 2008 and January 15, 2009, and the exercise price is € 9.07, the average price of the first fifteen trading days of 2005 for which the shares were listed.

These options may only be exercised if the following two requirements are met:

- Between January 2005 and January 2007, the price of the Company's shares must rise more than the shares of 20 of the 29 banks included in a benchmark group. Such banks were selected from among the largest banks in the world based on market capitalization.

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<sup>(\*)</sup> Upon acquisition of Abbey National plc, the following resolutions, among others, were adopted at the Extraordinary General Shareholders' Meeting held on October 21, 2004: (i) in resolution no 2, the shareholders authorized the continuation of certain stock option plans and rights to receive shares of Abbey National plc, replacing them with stock options and rights to receive shares of the Company; (ii) in resolution no. 3, the shareholders authorized the award of one hundred shares to each of the employees of Abbey National plc as a special bonus by reason of the acquisition.

This is not compensation given during the year to members of the Board of Directors, reference is made to such resolutions for information purposes only, as they are related to a decision adopted in 2004 regarding compensation linked to the Company's shares. The complete text of the resolution adopted at such Shareholders' Meeting is available on the Group's website.

- The growth in the earnings per share of the Company from FY 2003 to FY 2006 must be larger than the growth in the earnings per share of 20 of the abovementioned 29 banks included in the benchmark group.

**B.1.12. Indicate the identity of the members of the Board of Directors, if any, who are also members of the board of directors or managers of companies that hold a significant interest in the listed company and/or in companies within its group:**

As previously stated, the Company is not aware of the existence of shareholders holding a significant interest. However, reference will be made to shareholders whose interest was considered by the Board to be relevant at the time of classifying Directors directly linked to such interests as Proprietary Directors.

Name of Director	Tax identification code (CIF) of the significant shareholder	Name of significant shareholder	Position (*)
- Assicurazioni Generali S.p.A., represented on the Company's Board by Mr. Antoine Bernheim		- Assicurazioni Generali S.p.A.	Chairman
- Mutua Madrileña Automovilista represented on the Company's Board by Mr. Luis Rodríguez Durón.		- Mutua Madrileña Automovilista	Director

(\*) Position of representatives on the Company's Board (Mr. Antoine Bernheim and Mr. Luis Rodríguez Durón) on the board of their own company.

**Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the Board of Directors linking them to significant shareholders and/or in companies within its Group:**

Name of the related director	Tax identification number or code (NIF or CIF) of the significant shareholder	Name of significant shareholder	Description of relation
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**B.1.13. Indicate the amendments made during the fiscal year to the Regulations of the Board of Directors, if any.**

The Regulations of the Board of Directors are available on the corporate website of the Group, the address of which is: [www.gruposantander.com](http://www.gruposantander.com). The Regulations of the Board of Directors can be found in the main menu under “Information for Shareholders and Investors,” in the “Corporate Governance” sub-menu, under “Board of Directors.”

The Board of Directors approved its first Regulations on June 24, 2002. In 2004, the Board approved a new draft of the Regulations at its meeting on March 29, 2004, as indicated in the report for the last fiscal year.

Noteworthy amendments include the amendment relating to the duties of Directors, set forth in Article 27 of the Regulations. The current wording includes more detailed rules regarding such duties, in accordance with the provisions of Articles 127, 127 *bis*, 127 *ter* and 127 *quater* of the Companies Law and of Article 114.3 of the Securities Market Law, all of which are based on text from Law 26/2003. At its meeting on March 28, 2005, the Board of Directors made a technical amendment to the Regulations of the Board, replacing the references in Article 25 thereof to Article 37 of the Bylaws with references to Article 38 of such Bylaws.

**B.1.14. Indicate the procedures for the appointment, re-election, evaluation and removal of Directors. List the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.**

The procedures, criteria and competent bodies for the appointment, re-election and removal of Directors is mainly regulated by various provisions of the Companies Law (Articles 123 to 126, 131, 132, 137 and 138), the Regulations of the Commercial Registry (Articles 143 to 145), the Company’s Bylaws (Articles 28.II, 30 and 31) and the Regulations of the Board (Articles 19 to 22). The regulations relating to

the creation of credit institutions are also relevant in this case. The rules arising from all these provisions can be summarized as follows:

- Number of Directors.

The Board of Directors shall be composed of a minimum of fourteen Directors and a maximum of thirty. The Board is presently composed of nineteen Directors.

- Power to Appointment Directors.

Directors are appointed and re-elected by the shareholders at the General Shareholders' Meeting. However, all vacancies on the Board of Directors which occur during the period of time for which the Directors were appointed may be filled by Directors on an interim basis, upon resolution made by the Board of Directors, until the shareholders acting at the next General Shareholders' Meeting confirm or revoke such appointment.

- Requirements for and limitations on the appointment of Directors.

Subject to the limitations established by law in the case of interim appointments made by the Board of Directors (co-option) referred to above, one need not be a shareholder in order to be appointed as a Director. The following persons may not be Directors of the Company: any person adjudged bankrupt or subject to reorganization who has not been discharged, minors and incapacitated persons, any person convicted of a crime who is prohibited from holding public office, any person charged with serious violations of laws or corporate provisions, any person who is prohibited from carrying out business activities and any officials with duties relating to the activities carried out by the Company. Directors shall be persons widely recognized for their business and professional honorability, competence and solvency. There are no age limits for being a Director.

In addition, a majority of the members of the Board must possess sufficient knowledge and experience in the area in which the Company carries out its activities.

If a Director is a legal entity, the representative thereof is subject to compliance with the same requirements as established for individuals.

All persons designated as Directors must formally agree to fulfill the obligations and duties of their position upon taking office.

- Proportional system.

The holders of shares pooled to reach an amount of capital at least equal to the result of dividing the Company's capital stock by the number of members of the Board of Directors shall be entitled to appoint the number of Directors that result from such division, in whole numbers.

- Term of office.

Directors shall hold office for a term of three years and may be re-elected. Directors who have been appointed by co-option and confirmed at the next General Shareholders' Meeting shall cease to hold office on the date on which the Director's predecessor would have done so.

- Removal or withdrawal of Directors.

Directors shall cease to hold office upon the expiration of the term of office for which they have been appointed, unless they are re-elected by the shareholders at the General Shareholders' Meeting, they resign from their position or tender their resignation to the Board of Directors. Directors shall tender their resignation to the Board of Directors and formally resign from their position if the Board of Directors, following a report from the Appointments and Remuneration Committee, deems fit, in those cases in which they may adversely affect the operation of the Board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by the law.

- Procedure.

The proposals for appointment, re-election and ratification of Directors that the Board of Directors submits for consideration of the shareholders at the General Shareholders' Meeting, as well as the decisions adopted by the Board of Directors regarding appointments by co-option shall be preceded by the corresponding proposal made by the Appointments and Remuneration Committee.

Should the Board disregard the proposal made by the Appointments and Remuneration Committee, the Board shall substantiate such decision and shall record the reasons therefor in the minutes.

Directors affected by proposals for appointment or re-election to or withdrawal from office shall abstain from attending at and participating in the debate and voting of the Board of Directors and of the Committees thereof that deal with such matters.

- Criteria applied by the Board of Directors and the Appointments and Remuneration Committee.

Considering the set of applicable regulations, the recommendations resulting from the Spanish reports on corporate governance and the present situation of the Company and its Group, the Appointments and Remuneration Committee and the Board of Directors have been applying the following criteria to the processes for the appointment, confirmation and re-election of Directors and to the preparation of proposals for that purpose:

- a. First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency...) applicable to bank directors in Spain.
  - b. Having complied with these restrictions, a balanced composition of the Board of Directors is sought. To that effect:
    - (i) A broad majority of external or non-executive Directors is sought, but leaving room for an adequate number of executive Directors. Currently, 5 out of the 19 Directors are executive Directors.
    - (ii) A significant participation of "independent" Directors is sought among the external Directors (presently 6 out of 14 external Directors), but at the same time, the Board of Directors representing a significant percentage of the Company's capital are sought (as of December 31, 2004, the Directors represented 4.215% of the capital stock of the Company).
    - (iii) In addition to the foregoing, importance is given to the experience of Directors in all aspects of their professional life, both in public and private sectors, as well as their professional performance in the various geographical areas in which the Group operates.
  - c. Together with the above general criteria, an evaluation of the work and effective dedication of the Director during the Director's term in office is specifically taken into account in the re-election or confirmation thereof.
- Self-evaluation.

In response to the commitment made by the Chairman at the General Shareholders' Meeting of June 19, 2004, the Company hired Spencer Stuart to manage a Director self-evaluation process consisting of personal interviews and questionnaires regarding the following subjects:

- Organization and operation of the Board of Directors and of the following Committees: Executive, Delegated Risks, Audit and Compliance, and Appointments and Remuneration.
- The issues discussed at the meetings of the Board of Directors and of the above Committees, and participation by Directors.
- The information available to Directors to comply with their duties, and the role of the Office of the Secretary of the Board of Directors.
- The definition of the Company's strategic approach.
- The definition of Directors' duties and the performance thereof.

The self-evaluation has clearly shown the Directors' positive opinion about the changes in the operation of the Board and its Committees, and their belief that, based on their own experience, the Board of Santander has high standards with respect to best practices in the operation of Boards of Directors.

- Training.

Finally, a number of training presentations have been made at the Executive Committee and the Audit and Compliance Committee throughout the year. Noteworthy are the presentations relating to New Financial Products, International Accounting Standards (IAS) and various aspects of the Sarbanes-Oxley Act.

Independently of the foregoing, a training program has been implemented for Directors, divided into four modules,

- Financial Markets
- Corporate Governance
- Supervision and Regulation
- Financial Information

**B.1.15. Indicate the circumstances under which the resignation of Directors is mandatory.**

The Regulations of the Board of Directors (Article 21) provide that Directors shall tender their resignation to the Board of Directors if the Board of Directors, following a report from the Appointments and Remuneration Committee, deems it fit, in those cases in which they may adversely affect the operation of the Board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by the law.

**B.1.16. Explain whether the powers of the most senior executive are vested in the Chairman of the Board. If so, indicate the measures that have been taken to mitigate the risks of accumulation of powers in a single person:**

Yes

No

<b>Measures to mitigate risks</b>
<p>Pursuant to Article 34 of the Bylaws, <i>"The Chairman of the Board of Directors shall be considered as the highest executive in the Company, and shall be vested with such powers as are required to hold office in such capacity. Among other powers and duties set forth in these Bylaws, the Chairman of the Board of Directors shall have the following:</i></p> <p><u>ONE:</u> <i>To ensure that the Bylaws are fully complied with and that the resolutions adopted at the General Shareholders' Meeting and at the Board of Directors are duly carried out.</i></p> <p><u>TWO:</u> <i>To be responsible for the overall control of the Bank and all services</i></p>

thereof.

*THREE: To hold discussions with the Chief Executive Officer and the Senior Management in order to inform himself of the progress of the business.”*

Notwithstanding the above, it should be noted that the structure of all the Committees of and the individual positions on the Board is designed in such a manner as to permit a balanced involvement of all of them, including the Chairman. To cite a few significant aspects thereof, it is worth noting that:

1. The Board and its Committees (see detailed information in B.2.) perform the duties of supervision and control of the acts of the Chairman as well as the Managing Director.
2. The First Vice Chairman, who is an external independent Director, chairs the Appointments and Remuneration Committee and acts as coordinator of the Directors in this category.
3. The powers delegated to the Chief Executive Officer are the same powers delegated to the Chairman, as indicated above (B.1.5.), excluding in both cases such powers reserved exclusively to the Board itself.
4. The Chief Executive Officer is involved in the day-to-day of the various business areas, reporting to the Chairman.

**B.1.17. Are qualified majorities, different from the legal majorities, required to adopt certain types of decision?:**

Yes

No

**Describe the method used by Directors to adopt resolutions, including at least the minimum quorum required to hold a valid meeting and the kinds of majorities required to adopt resolutions:**

Adoption of resolutions		
Description of resolution	Quorum	Type of majority
Article 36 (fourth paragraph, first sentence) of the Bylaws provides that:  <i>“Resolutions shall be adopted by the absolute majority of Directors present at the Meeting, unless the law or these Bylaws require a supermajority.”</i>  In turn, Article 18.3. of the Regulations of the Board provides as follows:  <i>“Except in those cases in which a greater majority is specifically</i>		



*required, resolutions shall be adopted by an absolute majority of the Directors present in person or by proxy.”*

Greater majorities are required in resolutions relating to the appointment of the Chairman of the Board of Directors, as provided in Article 33 of the Bylaws, those relating to the appointment of the Director or Directors to whom delegated powers are entrusted, to the permanent delegation of powers to the Executive Committee and to the appointment of the members thereof, as provided in Articles 9.1 and 9.2, and 13.2. of the Regulations of the Board.

Such provisions establish the following:

Article 33 of the Bylaws:

*“The Board of Directors shall appoint from among its members a Chairman and also one or more Vice Chairmen; any such Vice Chairmen shall be consecutively numbered. The Chairman and the Vice Chairman or Vice Chairmen shall be appointed to hold office for an indefinite period. The appointment of the Chairman shall require the favorable vote of two-thirds of the Directors.”*

Article 9.1 and 9.2 of the Regulations of the Board:

*“1. The Board of Directors may delegate powers to one or more of its members by conferring or not conferring upon them the title of Managing Director or any other title that the Board deems fit.*

*2. Any permanent delegation of powers of the Board of Directors and the designation of the Director(s) to whom delegated powers are granted, whatever the title conferred upon him or them, shall require the favorable vote of not less than two-thirds of the members of the Board of Directors in order to be valid.”*

Article 13.2. of the Regulations of the Board:

*“Any permanent delegation of powers to the Executive Committee and all resolutions adopted for the appointment of its members shall require the favorable vote of not less than two-thirds of the members of the Board of Directors.”*

The minimum quorum is established in Article 36 of the Bylaws and in Article 18.1 of the Regulations of the Board.

Article 36 of the Bylaws includes the following:

*“In order for there to be a valid quorum of the Board of Directors, more than half the Directors must be present or represented.”*

**B.1.18. Explain whether there are specific requirements, other than the requirements relating to Directors, to be appointed Chairman.**

Yes  No X

Description of requirements
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**B.1.19. Does the Chairman have a tie-breaking vote?**

Yes X No

Business to which the tie-breaking vote applies
Pursuant to Article 36 of the Bylaws and Article 7.2 of the Regulations of the Board, the Chairman has a tie-breaking vote to resolve tied votes.

**B.1.20. Indicate whether the Bylaws or the Regulations of the Board of Directors set forth any age limit for directors:**

Yes  No X

Age limit for the Chairman --

Age limit for the Chief Executive Officer -- Age limit for the Directors --

**B.1.21. Indicate whether the Bylaws or the Regulations of the Board of Directors establish any limit on the term of office for independent directors:**

Yes  No X

Maximum number of years in office
--

The Board of Directors highly values the experience of its Directors, for which reason it does not deem it advisable to limit their terms of office, as a general recommendation. This decision must be left to the shareholders acting at a General Shareholders' Meeting.

**B.1.22. Indicate whether there are formal procedures for proxy voting at meetings of the Board of Directors. If so, briefly describe them.**

Article 36 (paragraph 3) of the Bylaws provides as follows:

*"In order for there to be a valid quorum of the Board of Directors, more than half the Directors must be present or represented. To this end, the Directors may grant a proxy for each meeting, in writing, to any other Director to represent them therein for all purposes, and one Director may hold several proxies.*

Article 18.1 of the Regulations of the Board provides similarly.

**B.1.23. Indicate the number of meetings that the Board of Directors has held during the year. In addition, specify the number of meetings, if any, at which the Chairman was not in attendance:**

<b>Number of meetings of the Board</b>	Thirteen
<b>Number of meetings of the Board at which the Chairman was not in attendance</b>	None

**Indicate the number of meetings held by the various committees of the Board during the year:**

The meetings held during this year by the various Committees of the Board, including Committees with and without delegated powers, are detailed below:

<b>Number of meetings of the Executive Committee</b>	59
<b>Number of meetings of the Audit and Compliance Committee (1)</b>	13
<b>Number of meetings of the Appointments and Remuneration Committee</b>	8
<b>Number of meetings of the Strategy and Investments Committee (2)</b>	-
<b>Number of meetings of the Delegated Risks Committee</b>	99
<b>Number of meetings of the International Committee</b>	2
<b>Number of meetings of the Technology, Productivity and Quality Committee</b>	2

(1) In the Company's case, the Audit Committee is called the Audit and Compliance Committee.

(2) The Company has no Strategy and Investments Committee.

**B.1.24. Indicate whether the annual individual financial statements and the annual consolidated financial statements that are submitted to the Board of Directors for approval have been previously certified:**

Yes  No

Pursuant to current Spanish regulations, the financial statements are prepared by the Board and signed by all the Directors.

**Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated financial statements of the Company for their preparation by the Board:**

<b>Name</b>	<b>Position</b>
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**B.1.25. Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the individual and consolidated financial statements submitted at the General Shareholders' Meeting and prepared by the Board of Directors.**

The mechanisms adopted for such purpose (contemplated in Articles 14.1 and 2 c), e) and f), and 32.1 and 32.5 of the Regulations of the Board) can be summarized as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Company and the Group, all in accordance with legal requirements and generally accepted accounting principles.
- Review by the Audit and Compliance Committee of the financial statements prepared by the services of the Company and of the Group. The Audit and Compliance Committee is a body specialized in this area, is made up entirely of external Directors and is presided over by the Fourth Vice Chairman, who is also an independent Director. This Committee serves as the normal channel of communication between the Board and the Auditor.
- Periodic contact between the Auditor and the Board (two meetings<sup>(\*)</sup> during 2004) and between the Auditor and the Audit and Compliance Committee (thirteen meetings during 2004) to verify sufficiently in advance any possible differences of opinion.
- In the event of a discrepancy, when the Board believes that its opinion must prevail, it shall in any event provide a public explanation of the content and scope of the discrepancy.

The provisions of the applicable Regulations of the Board relating to these mechanisms are set forth below:

Articles 14.1 and 14.2 c), e) and f). Audit and Compliance Committee.

*"1. The Audit and Compliance Committee shall consist of a minimum of four Directors and a maximum of seven, all of whom shall be external or non-executive, with independent Directors having majority representation. In all events, it shall be presided over by an independent Director, who shall also be knowledgeable about and experienced in accounting techniques and principles."*

*2. The Audit and Compliance Committee shall have the following duties:*

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<sup>(\*)</sup> During fiscal year 2004 the Auditor was present at two other meetings of the Board of Directors, where it reported on matters relating to the acquisition of Abbey National plc.

*c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, and report on the proposals for alterations to the accounting principles and standards suggested by management.*

*e) Know the process for gathering financial information and the internal control systems.*

*f) Serve as a channel of communication between the Board and the Auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the Board and the Auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavor to ensure that the statements ultimately drawn up by the Board are submitted to the General Shareholders' Meeting without any qualifications or reservations in the Auditor's report."*

Articles 32.1 and 32.5. Relations with the Auditor.

*"1. All relations between the Board of Directors and the Auditor shall be channeled through the Audit and Compliance Committee.*

*Notwithstanding the foregoing, the Auditor shall attend the meetings of the Board of Directors twice a year in order to submit its report and permit all the Directors to have access to as much information as possible regarding the content and conclusions of the Auditor's reports relating to the Company and the Group.*

*5. The Board of Directors shall use its best efforts to definitively prepare the financial statements such that there is no room for comments by the Auditor. However, when the Board believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy."*

No reservations or qualifications have been made to the individual financial statements of the Company or to the consolidated financial statements of the Group in the last three fiscal years, although there is a mention regarding the uniformity of financial statements (individual and consolidated) for fiscal year 2004 as compared to the previous fiscal year with respect to the accounting treatment of pension commitments arising from early retirements, which is due exclusively to credit entities being prohibited by the Bank of Spain from charging such obligations against their reserves. During fiscal year 2003, with the express authorization of the Bank of Spain, the commitments arising from early retirements by the Bank and by other companies of the Group were charged against reserves. More information is provided in the Report of the Audit and Compliance Committee released together with the Annual Report and in the Auditor's reports

for the individual and consolidated annual financial statements for fiscal year 2004.

**B.1.26. Describe the measures adopted so that the information released to the securities markets is transmitted in an equitable and symmetric way.**

These measures are included in the provisions of Article 31 of the Regulations of the Board and in paragraph 4, Title II, Chapter III “Dissemination of Material Information” of the Code of Conduct in the Securities Markets, the text of which is set forth below:

*“Article 31 of the Regulations of the Board. Relations with the Markets:*

*1. The Board of Directors shall immediately inform the public regarding:*

*a) All significant facts that might materially influence the stock exchange price of the Company shares.*

*b) All significant changes in the shareholding structure of the Company.*

*c) All substantial amendments to the rules of governance of the Company.*

*d) All related transactions of particular importance made with the members of the Board.*

*e) All treasury stock transactions of particular importance.*

*2. The Board of Directors shall adopt any required measures to ensure that the quarterly, semi-annual, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. For this latter purpose, such information shall be reviewed by the Audit and Compliance Committee before dissemination thereof.*

*3. The Board of Directors shall prepare and make public, on an annual basis, a corporate governance report, pursuant to the provisions of Law.*

Code of Conduct in the Securities Markets

*34. Diffusion of Material Information:*

*“Notwithstanding what is stated in paragraph 25, notification to the market and the diffusion of Material Information concerning the Group shall be subject to the following rules:*

*34.1 The Compliance Directorate is responsible for notifying the National Securities Market Commission (CNMV) of Material Information generated within the Group. Such notification shall always be made prior to the diffusion of Material Information to the market or the media, and shall take place as soon as the decision has been made or the resolution in question has been signed or executed.*

*34.2 The Compliance Directorate shall monitor the performance of Securities concerning which Material Information exists and shall adopt the appropriate measures, including, where appropriate, a notification of Material Information, in the event of an indication of an inappropriate diffusion of such information.*

*34.3 The diffusion of Material Information shall be truthful, clear, complete, fair, timely and where possible, quantified.*

*The Compliance Directorate shall keep a register of Material Information notified to the market.”*

During fiscal year 2004, the Company has published material information 114 times; that information can be found on the Group's website and on the website of the National Securities Market Commission.

**B.1.27. Is the secretary of the Board of Directors a Director?**

Yes

No

**B.1.28. Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditor, the financial analysts, the investment banks and the rating agencies.**

The Auditor of the Company and of its Consolidated Group is Deloitte, S.L.<sup>(\*)</sup> However, the Banco Santander Chile consolidated Subgroup is audited by PriceWaterhouseCoopers, but adequate coordination measures have been taken through the Auditor of the Group, who reviews the work of the external auditor of the Chilean consolidated Subgroup.

Article 32 of the Regulations of the Board regarding relations with the external auditor mentioned above includes several paragraphs (1 to 4) on this subject. Such paragraphs provide as follows:

*“1. All relations between the Board of Directors and the Auditor shall be channeled through the Audit and Compliance Committee.*

*Notwithstanding the foregoing, the Auditor shall attend the meetings of the Board of Directors twice a year in order to submit its report and*

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<sup>(\*)</sup> During fiscal year 2004, the Auditor changed its name from Deloitte & Touche España, S.L. to Deloitte, S.L.

*permit all the Directors to have access to as much information as possible regarding the content and conclusions of the Auditor's reports relating to the Company and the Group.*

*2. The Board of Directors shall not hire audit firms in which the fees intended to be paid to them, for all and any services, are equal to more than two percent of the total income thereof during the last fiscal year.*

*3. No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.*

*4. The Board of Directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing."*

The Chairman of the Audit and Compliance Committee meets regularly with the external auditors to ensure the effectiveness of their review and to analyze any situations that might impair their independence.

In addition, the relationship with the external auditor complies with the independence requirements included in Law 44/2002 of November 22, on Measures to Reform the Financial System, as well as the "Sarbanes – Oxley Act of 2002."

The audit fees for the audits conducted by the Deloitte worldwide organization for fiscal year 2004 amounted to € 9.4 million and the fees for other reports required by legal and tax regulations issued by the domestic supervisory entities of the countries where the Group operates and reviewed by the Deloitte worldwide organization amounted to € 2.6 million.

In order to show the absence of risks affecting the independence of the external auditor, both from a quantitative and qualitative perspective, the following significant information is provided with respect to the criteria established by the "O'Malley Panel" and in other international documents that are relevant to an assessment of the effectiveness of the external auditor:

1. Relationship between the fees charged by the auditors for non-auditing items and auditing fees: in accordance with available information regarding the main US financial institutions whose shares are traded on the organized markets, the average fees paid to their auditors during fiscal year 2003 (most recent information available) for services other than audit services represented 0.79 of the fees paid for auditing services.

This relationship is 0.23 for the Group with respect to Deloitte, S.L. for the year ended December 31, 2004 (see B.1.29.).



2. Relative importance of the fees generated by one client with respect to the total fees charged by the audit firm: the Group has decided not to hire audit firms for which the prospective fees payable by the Company for all matters represent more than 2% of the total revenues of such audit firm.

During fiscal year 2004, the fees charged to the Group by the Deloitte worldwide organization were below 0.15% of the total fees of such organization.

Based on the above, the Audit and Compliance Committee believes that there are no objective reasons to question the independence of the external auditor.

With respect to financial analysts, investment banks and rating agencies, the Company believes that it is not appropriate in this Report to describe the mechanisms for preserving their independence, as it believes that a description of such mechanisms should be provided by the entities themselves, and not the listed Company referred to in this Report.

- B.1.29. Indicate whether the audit firm performs other non-auditing work for the Company and/or its Group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the Company and/or its Group.**

Yes

No

	Company	Group	Total
Amount of other non-audit work (thousands of Euros)	447	2,377	2,824
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	3.03%	16.13%	19.17%

- B.1.30. Indicate the consecutive number of years for which the current audit firm has been auditing the annual financial statements of the Company and/or its Group. In addition, please state the percentage represented by such number of years with respect to the total number of years in which the annual financial statements have been audited:**

	Company(*)	Group (*)
Number of consecutive years	3	3

(\*) The audit firms that audit the Company and almost all of the companies of the Group formed part of the Andersen firm until 2001.

	Company	Group
Number of years audited by the	13.0%	13.6%

current audit firm / Number of years in which the company has been audited (%)		
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**B.1.31. Indicate the interests of members of the Board of Directors in the capital of companies that engage in the same, similar or complementary activities, both with respect to the Company and its Group, and which have been reported to the Company. In addition, state the position or duties of such Directors in such companies:**

Below is about a list of the interests of the Company's Directors in the capital of companies that engage in the same, similar or complementary activities with respect to the Company. The position and duties of such Directors, if any, are also specified.

Such list only includes companies that do not form a part of the Group, in accordance with article 4 of the Securities Market Law, as the Bank carries out its corporate purpose directly or through other Group companies. Moreover, only interests of more than 0.1% in the capital of the company in question have been included (for more information, see pages 186 and 187 of the Annual Report).

Name of director	Tax identification code (CIF) of the company in question	Name of company in which shares are held	% Interest	Position or duties
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	A 28157360	Bankinter, S.A.	1.10%	Director (1)
Assicurazioni Generali S.p.A. (2)	IT0001254884	Banca Nazionale del Lavoro S.p.A.	8.72%	---
	IT0000072618	Banca Intesa S.p.A.	6.05%	---
	DE0008032004	Commerzbank, AG	9.05%	---
	IT0001139747	Banca d'Italia	6.33%	---
	IT0001269361	San Paolo IMI SpA	1.98%	---
	CB0001334587	Banca Monte dei Paschi di Siena SpA	0.55%	---
	IT0000064839	UniCredito Italiano SpA	0.57%	---
	IL0006046119	Bank Leumi le-Israel B.M.	1.38%	---
	FR0000130809	Société Générale	0.30%	---

Mr. Elías Masaveu y Alonso del Campo	A 28157360	Bankinter, S.A.	5.62%	Non-executive Director
	A 36600229	Banco de Galicia, S.A.	1.48%	---
	200222244116	Espirito Santo	0.77%	---
Mutua Madrileña Automovilista, s.s.p.f. (2)	A 79261186	Mutuactivos SAU S.V.	100%	---
	A 78015203	Mutuactivos SAU SGIC	100%	Chairman (3)
	A 79137626	Autofondo SAU EGFP	100%	---
Mr. Juan Abelló Gallo (4)	A 08168064	Catalana Occidente	0.12%	---
Mr. Jaime Botín-Sanz de Sautuola y García de los Ríos (4)	A 28157360	Bankinter, S.A.	7.87%	Advisor to the Board

- (1) Ceased to be a non-executive Director of Bankinter during the year.
- (2) As to Assicurazioni Generali S.p.A. and Mutua Madrileña Automovilista s.s.p.f., the table does not provide all interests where such companies hold more than 0.1% of the capital stock. For more information about the interests of such companies, see their annual reports or visit their websites ([www.generalit.it](http://www.generalit.it) and [www.mutua-mad.es](http://www.mutua-mad.es), respectively).
- (3) The representative of Mutua Madrileña on the Bank's Board, Mr. Luis Rodríguez Durón, is the Chairman of Mutuactivos SAU SGIC.
- (4) Although they were Directors for some months in 2004, they ceased to hold office prior to December 31, 2004.

**B.1.32. Indicate whether there is any procedure for Directors to hire external advisory services and, if so, describe it:**

Yes  X

No  □

Description of procedure
<p>The Regulations of the Board (Article 24) expressly recognize that Directors are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the Board to hire external advisors, at the Company's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The Board may reject the request for good reason.</p> <p>The text of Article 24 of the Regulations of the Board is set forth below:</p> <p><i>"1. In order to be assisted in the performance of their duties, the Directors may address a request to the General Secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.</i></p>

*The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties.*

*2. The hiring decision lies with the Board of Directors, which may dismiss the request if the Board considers:*

*a) That the hiring is not necessary for the proper performance of the duties entrusted to the Directors;*

*b) That the cost thereof is not reasonable in light of the significance of the issues; or*

*c) That the technical assistance sought may be adequately provided by the Company's own technical experts.”*

**B.1.33. Indicate whether there is any procedure for Directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:**

Yes

No

**Description of procedure**

Articles 17.2 and 17.3 of the Regulations of the Board provide that notice of the call to its meetings shall be sent 15 days in advance, by the Secretary of the Board, or in the absence thereof, by the Assistant Secretary, who shall also send to the Directors, at least four days prior to the Meeting of the Board, the draft agenda proposed by the Chairman –which remains subject to approval by the Directors at the Meeting – in addition to any required information and documentation (normally, three days prior to the Meeting).

The information provided to the Directors prior to the meetings is prepared specifically for the purpose of preparing for these meetings, and is directed towards such purpose. In the opinion of the Board, such information is complete.

In addition, the Regulations of the Board of Directors expressly vest Directors with the right to request and obtain information regarding any aspect of the Company and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which empowers them to examine the books, records, documents and any other records of corporate transactions, and to inspect the premises and facilities thereof.

Directors have the right to request and obtain, through the Secretary, such information and advice as is necessary for the performance of their duties.

The text of Articles 17.2 and 17.3 of the Regulations of the

Board are set forth below:

*“2. The meetings shall, in all events, be called by the Secretary or, in the absence thereof, the Assistant Secretary, in compliance with the orders received from the Chairman; notice of the call to meeting shall be sent fifteen (15) days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).*

*The draft Agenda proposed by the Chairman shall be sent at least four (4) days prior to the meeting of the Board by the same means provided for in the foregoing paragraph. The information to be presented at the meeting of the Board shall be provided to the Directors reasonably in advance thereof.*

*When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible. In such case, notice may also be given by telephone, and neither the time periods nor the formalities set forth in the foregoing paragraphs with respect to the meetings contemplated in the annual calendar shall apply.*

*3. The Agenda shall be approved by the Board at the meeting itself. Any member of the Board may propose the inclusion of any other item not included in the draft Agenda.*

*In the course of the meeting and/or subsequently thereto, the Directors shall be provided with all such information or clarifications as they deem fit in connection with the items on the Agenda. In addition, any Director shall have the right to request and obtain such information and advice as is necessary for the performance of his duties; the exercise of this right shall be channeled through the Secretary of the Board.”*

In addition, as described in the preceding item, the Regulations expressly recognize the right of the Directors to be assisted by experts in the performance of their duties. Thus, Directors may ask the Board to hire external advisors, at the Company’s cost, to deal with specific issues of special significance or complexity arising during the performance of their duties, and such request can only be rejected by the Board for good reason.

**B.1.34. Indicate whether there is any liability insurance policy for the benefit of the Company’s Directors.**

Yes X

No

## B.2. Committees of the Board of Directors

### B.2.1. List the management decision-making bodies:

Name of body	No. of members (*)	Powers
Executive Committee	10	See B.2.3.1.
Delegated Risks Committee	5	See D.4.
Audit and Compliance Committee	5	See B.2.3.2.
Appointments and Remuneration Committee	5	See B.2.3.3.
International Committee	8	See B.2.3.5.
Technology, Productivity and Quality Committee	7	See B.2.3.6.

(\*) Does not include the Secretary.

### B.2.2. Detailed information about all the committees of the Board of Directors and the members thereof:

#### EXECUTIVE COMMITTEE

Name	Position (1)
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr. Fernando de Asúa Álvarez	Member
Mr. Alfredo Sáenz Abad	Member
Mr. Matías Rodríguez Inciarte	Member
Mr. Antonio Basagoiti García-Tuñón	Member
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member
Mr. Guillermo de la Dehesa Romero	Member
Mr. Rodrigo Echenique Gordillo	Member
Mr. Antonio Escámez Torres	Member
Mr. Francisco Luzón López	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Position on such Committee.

### AUDIT AND COMPLIANCE COMMITTEE (1)

<b>Name</b>	<b>Position (2)</b>
Mr. Manuel Soto Serrano	Chairman
Mr. Fernando de Asúa Álvarez	Member
Mr. Rodrigo Echenique Gordillo	Member
Mr. Abel Matutes Juan	Member
Mr. Luis Alberto Salazar- Simpson Bos	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) In this Company, the Audit Committee is called the Audit and Compliance Committee. (2) Position on such committee.

### APPOINTMENTS AND REMUNERATION COMMITTEE

<b>Name</b>	<b>Position (1)</b>
Mr. Fernando de Asúa Álvarez	Chairman
Mr. Manuel Soto Serrano	Member
Mr. Guillermo de la Dehesa Romero	Member
Mr. Rodrigo Echenique Gordillo	Member
Mr. Elías Masaveu y Alonso del Campo	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Position on such committee.

### DELEGATED RISKS COMMITTEE

<b>Name</b>	<b>Position (1)</b>
Mr. Matías Rodríguez Inciarte	Chairman
Mr. Fernando de Asúa Álvarez	Vice Chairman
Mr. Antonio Basagoiti García-Tuñón	Member
Mr. Rodrigo Echenique Gordillo	Member
Mr. Antonio Escámez Torres	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Position on such committee.

## INTERNATIONAL COMMITTEE

Name	Position (1)
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr. Alfredo Sáenz Abad	Member
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member
Mr. Guillermo de la Dehesa Romero	Member
Mr. Rodrigo Echenique Gordillo	Member
Mr. Antonio Escámez Torres	Member
Mr. Francisco Luzón López	Member
Mr. Abel Matutes Juan	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Position on such committee.

## TECHNOLOGY, PRODUCTIVITY AND QUALITY COMMITTEE

Name	Position (1)
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr. Fernando de Asúa Álvarez	Member
Mr. Alfredo Sáenz Abad	Member
Mr. Antonio Basagoiti García-Tuñón	Member
Mr. Emilio Botín-Sanz de Sautuola y O'Shea	Member
Mr. Antonio Escámez Torres	Member
Mr. Luis Alberto Salazar-Simpson Bos	Member
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Position on such committee.

The number of meetings held by the Board of Directors and its Committees during fiscal year 2004 has been detailed in B.1.23. of this Report.



The estimated time dedicated by each of the external Directors to prepare for and participate in meetings of the Board of Directors during 2004 was 60 hours.

In addition, each of the external Directors that are members of the Executive Committee have dedicated approximately 270 hours, the members of the Delegated Risks Committee 250 hours, the members of the Audit and Compliance Committee 60 hours, the members of the Appointments and Remuneration Committee 16 hours, the members of the International Committee 4 hours and the members of the Technology, Productivity and Quality Committee 4 hours.

Furthermore, all members of the Board who are not also members of the Executive Committee attend the meetings of such Executive Committee at least twice a year, after a call to meeting by the Chairman.

**B.2.3. Describe the rules of organization and operation of, and the duties allocated to, each of the Board committees.**

**1. Executive Committee:**

The Executive Committee is governed by Article 39 of the Company's Bylaws and Article 13 of the Regulations of the Board. All the powers of the Board of Directors have been permanently delegated to the Executive Committee, except the following:

- a) Those powers that cannot legally be delegated.
- b) The approval of the general strategies of the Company.
- c) The appointment, compensation and, if applicable, removal of the members of the Senior Management.
- d) The control of management activities and evaluation of managers.
- e) Identification of the main risks of the Company, especially those arising from derivative transactions, and the implementation of and follow-up on internal control and reporting systems.
- f) Establishment of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The Board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related transactions of particular importance and treasury stock.
- g) Approval of the treasury stock policy.
- h) In general, the conduct of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions.

The Board believes that the composition of this Committee is well balanced, given that it is made up of ten Directors, five of which are executive Directors and five of which are external Directors. In turn, two of these external Directors are independent Directors and the other three are neither proprietary Directors nor independent Directors. This Committee submits a complete report to the Board regarding the decisions it has adopted and proposes those decisions that may only be made by the Board.

## **2. Audit and Compliance Committee:**

- The Audit and Compliance Committee is governed by Article 40 of the Company's Bylaws and by Article 14 of the Regulations of the Board. It is established within the Board of Directors and its duties basically consist of evaluating the financial reporting and control systems, watching over the independence of the Auditor, and reviewing the internal control and compliance systems of Company and its Group.
- Within the framework of the Board's supervision and control powers, the Audit and Compliance Committee is required to assist the Board in the exercise of such powers, through its specialization in and special dedication thereto.
- This Committee is made up exclusively of external Directors. Four of its five members are independent Directors. One of these four Directors is the Chairman of the Committee and is knowledgeable about and experienced in accounting techniques and principles.
- Its members must have as deep an understanding as possible of the Company's accounts and internal control and compliance systems. This is the reason for the frequency of their meetings, which are attended by external and internal auditors and by Company executives.

The Audit and Compliance Committee has the following duties:

- a) Report through its Chairman and/or Secretary at the General Shareholders' Meeting with respect to matters raised therein by shareholders regarding its powers.
- b) Propose the appointment of the Auditor, as well as the conditions under which such Auditor will be hired, the scope of its professional duties and, if applicable, the renewal or non-renewal of its appointment.
- c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by the Management.
- d) Supervise the internal audit services.

- e) Know the process for gathering financial information and the internal control systems.
- f) Serve as a channel of communication between the Board and the Auditor, assess the results of each audit and the response of the management team to its recommendations and act as a mediator in the event of disagreement between the Board and the Auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavor to ensure that the statements ultimately drawn up by the Board are submitted to the General Shareholders' Meeting without any qualifications or reservations in the Auditor's report.
- g) Supervise the fulfillment of the audit contract, endeavoring to ensure that the opinion on annual financial statements and the main contents of the Auditor's report are set forth in a clear and accurate fashion.
- h) Watch over the independence of the Auditor, by taking notice of those circumstances or issues that might risk such independence and any others related the development of the auditing procedure, as well as receive information and maintain such communication with the Auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual Report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.
- i) Review, before dissemination thereof, all periodic financial information which, in addition to the annual information, is provided to the markets and the supervising authorities thereof, and ensure that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.
- j) Supervise the observance of the Code of Conduct of the Group in the Securities Markets, the Manuals and procedures for the prevention of money laundering and, in general, the rules of governance and compliance in effect at the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the Committee shall have the duty to receive information and, if applicable, issue a report on disciplinary penalties to be imposed upon members of the Senior Management.
- k) Review compliance with such courses of action and measures as result from the reports issued or the inspection proceedings carried out by the administrative authorities having functions of supervision and control.

- l) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this Committee and which are submitted to it by the Office of the General Secretary of the Company.
- m) Report on any proposed amendments to these Regulations prior to the approval thereof by the Board of Directors.

One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the Board is required to approve and include in the annual public documents.

### **3. Appointments and Remuneration Committee:**

- The Appointments and Remuneration Committee is governed by Articles 15, 19 and 21 of the Regulations of the Board. It is another specialized Committee of the Board, with no delegated powers. Its duties are to report and make proposals on the matters within its competence.
- It is made up exclusively of external non-executive Directors (four of its five members, including its Chairman, are external independent Directors).
- Its activities are limited, in its area of competency, to addressing Directors and members of Senior Management.

The Appointments and Remuneration Committee has the following duties:

- a) Establish and review the standards to be followed in order to determine the composition of the Board and select those persons who will be proposed to serve as Directors.
- b) Prepare, based on standards of objectiveness and conformance to the corporate interests, the proposals for appointment, re-election and ratification of Directors provided for in Article 19, section 2 of the Regulations of the Board of Directors, as well as the proposals for appointment of the members of each of the Committees of the Board of Directors.
- c) Propose to the Board the form and amount of, and the procedures relating to, the annual compensation of the Directors – both for their performance as such and for their performance in the Company of duties other than those of a Director – and of the Executive Vice Presidents, and periodically review the compensation programs, assessing the appropriateness and yield thereof and endeavoring to ensure that the compensation of Directors conforms to standards of moderation and correspondence to the earnings of the Company.
- d) Watch over the transparency of such compensation and the inclusion in the Annual Report and in the annual corporate governance report of information regarding the compensation of Directors and, for

such purposes, submit to the Board any and all information that may be appropriate.

e) Watch over compliance by the Directors with the duties prescribed in Article 27 of the Regulations of the Board of Directors, prepare the reports provided for therein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the Directors in the event of non-compliance with the above-mentioned duties or with the Code of Conduct of the Group in the Securities Markets.

#### **4. Delegated Risks Committee:**

The Delegated Risks Committee is governed by Article 12 of the Regulations of the Board, and has been permanently delegated the following powers of the Board of Directors:

- a) Decide on the granting of loans, the opening of credit accounts and risk operations in general, as well as the modification, transfer and cancellation thereof, and on global risk management (country risk, interest rate, credit, market, operational, treasury and derivatives) as well as determining and approving the general and particular conditions of overdrafts, loans, deposits, guarantees and all types of banking operations.
- b) Establish, change, substitute and terminate lease agreements for all kinds of movable and real estate assets, upon the terms and conditions that it may freely determine, as well as acquire the assets that are the subject of such leasing, with no limit on amount or volume.
- c) In the securing of obligations of third parties and for its own account, whether they be individuals or legal entities, without limit and with respect to all types of individuals and legal entities, public and private entities or organizations, particularly for the purposes of the provisions of the Government Contracts Law ("*Ley de Contratos de las Administraciones Públicas*") and additional regulations, and with the conditions and clauses deemed appropriate, it may create, modify or withdraw or cancel any kind of guarantee, bond or any other type of collateral, establishing, where applicable, the deposits in cash or securities required, with or without collateral, and may obligate the Company, even jointly with the main debtor, thus waiving the benefits of order, discussion and division ("*beneficios de orden, excusión y division*").

This Committee is made up of five Directors: an executive Director, an external independent Director and three external Directors who are neither independent nor proprietary Directors.

Section D of this Report includes an extensive explanation of the risk-control systems of the Company and its Group, as well as a detailed description of the duties and powers of the Delegated Risks Committee.

## **5. International Committee:**

The International Committee (to which reference is made in Article 12 of the Regulations of the Board of Directors) is responsible for monitoring the progress of the Group's strategy and of the activities, markets and countries in which the Group wishes to have a presence through direct investments or through the deployment of specific business, and is informed of the commercial initiatives and strategies of the various Units in the Group and of the new projects presented to it; it also reviews the progress of financial investments and business as well as the international economic climate so that it can make, where appropriate, suitable proposals to correct the country risk limits, their structure and yield and their allocation by business and/or Unit.

This Committee is made up of eight Directors: four executive Directors, two external independent Directors and two external Directors who are neither independent nor proprietary Directors.

## **6. Technology, Productivity and Quality Committee:**

The Technology, Productivity and Quality Committee is also dealt with in Article 12 of the Regulations of the Board, and is responsible for studying and reporting on the plans and actions relating to information and application programming systems, investments in computer equipment, design of operational procedures to improve productivity, and programs for the improvement of service quality and measuring procedures, as well as programs relating to resources and costs.

This Committee is made up of seven Directors: two executive Directors, two external independent Directors, one external proprietary Director and two external Directors who are neither independent nor proprietary Directors.

### **B.2.4. Indicate, if applicable, the advisory and consulting powers and the powers of delegation of each of the committees:**

<b>Name of committee</b>	<b>Brief description</b>
Executive Committee	See the previous item in this Report
Audit and Compliance Committee	See the previous item in this Report
Appointments and Remuneration Committee	See the previous item in this Report
Delegated Risks Committee	See the previous item in this Report
International Committee	See the previous item in this Report
Technology, Productivity and Quality Committee	See the previous item in this Report

### **B.2.5. Indicate, if applicable, the existence of regulations for the Board committees, where such regulations may be consulted and amendments made during the year. Also indicate if any annual report of the activities performed by each committee has been voluntarily prepared.**

There are no specific regulations for the Committees of the Board, because the regulations that govern them are contained, as mentioned in B.2.3. above, in the Regulations of the Board. Such Regulations are available on the Group's website, which is identified in B.1.13 above.

The Board of Directors approved its first Regulations on June 24, 2002. During 2004, the Board approved the new text of these Regulations at its meeting of March 29, 2004, as mentioned in last year's report.

The Board evaluates its overall activity, including that of its Committees, on annual basis. As regards fiscal year 2004, in response to the commitment made by the Chairman at the General Shareholders' Meeting of June 19, 2004, the Company hired Spencer Stuart to manage a Director self-evaluation process consisting of personal interviews and questionnaires regarding the following subjects:

- Organization and operation of the Board of Directors and of the following Committees: Executive, Delegated Risks, Audit and Compliance, and Appointments and Remuneration.
- The issues discussed at the meetings of the Board of Directors and of the above Committees, and participation by Directors.
- The information available to Directors to comply with their duties, and the role of the Office of the Secretary of the Board of Directors.
- The definition of the Company's strategic approach.
- The definition of Directors' duties and the performance thereof.

The self-evaluation has clearly shown the Directors' positive opinion about the changes in the operation of the Board and its Committees, and their belief that, based on their own experience, the Board of Santander has high standards with respect to best practices in the operation of Boards of Directors.

In addition, the Audit and Compliance Committee and the Appointments and Remuneration Committee have prepared a report that is distributed together with Grupo Santander's Annual Report.

The Report of the Audit and Compliance Committee Report addresses in detail the following issues:

a) Composition, duties and powers, and operational procedures of the Committee.

b) Activities performed in 2004, grouped in accordance with the basic duties of the Committee:

- Financial information

- Auditor
- Internal control systems of the Group
- Internal Audit
- Compliance and Prevention of Money-Laundering
- Corporate Governance
- Recommendations of supervisory bodies
- Information to the Board and to the shareholders at the General Shareholders' Meeting, and assessment of the effectiveness of and compliance with the Group's governance rules and procedures.

c) The Committee's assessment of its own performance during 2004.

The Report of the Appointments and Remuneration Committee addresses in detail the following subjects:

a) Composition

b) Duties and powers

c) Activities performed in 2004

- Appointments and withdrawals of Directors
- Compensation
- Directors' obligations and compliance therewith.

**B.2.6. If there is an Executive Committee, please indicate its delegated powers and its level of independence in the exercise of its duties to adopt resolutions regarding the management of the company.**

The powers delegated to the Executive Committee are detailed in B.2.3.1 of this Report.

**B.2.7. Indicate whether the composition of the Executive Committee reflects the participation of the different directors based on their category:**

Yes

No

Article 13.1 of the Regulations of the Board provides that:

*"The Board of Directors shall endeavor to ensure that the size of and types of Directors making up the Executive Committee shall conform*



*to standards of efficiency and reflect the guidelines followed in determining the composition of the Board.”*

The Executive Committee is made up of 10 Directors: 5 executive Directors and 5 external Directors. 2 of these external Directors are external independent Directors and the other 3 are external Directors who, in the opinion of the Board, are neither independent nor proprietary Directors. Accordingly, the percentage of independent Directors on such Committee is 20%.

The Board of Directors is made up of 19 Directors: 5 executive Directors and 14 external Directors. 6 of these 14 external Directors are independent Directors, 4 are proprietary Directors and, in the opinion of the Board, 4 are neither independent nor proprietary Directors. Accordingly, the percentage of independent Directors on the Board is 32%.

Given the nature of the Executive Committee as a collective decision-making body, preeminence is given to the efficiency standard set forth in Article 13.1 of the Regulations of the Board, even though due regard is given to the participation of independent Directors, to the extent that they amount to one fifth of the members of the Committee.

**B.2.8. If the Company has a Appointment Committee, indicate whether all of its members are external directors:**

Yes X

No

The Appointment Committee of the Company is called the Appointments and Remuneration Committee.

The Appointments and Remuneration Committee is made up entirely of external Directors (4 of which are independent Directors), as provided by Article 15.1 of the Regulations of the Board.

## **C RELATED-PARTY TRANSACTIONS**

The regulations regarding related-party transactions, intra-group transactions and conflicts of interest are extensive, and occasionally impose different reporting requirements for the same situation or require that the same information be included in different documents intended for shareholders and investors. Thus, in addition to the regulations specific to the Annual Corporate Governance Report (Article 116.4.c of the Securities Markets Law, Article 127 ter. 3 of the Companies Law, paragraph 1(c) of Order ECO/3722/2003 and Circular 1/2004 of March 17 issued by the National Securities Markets Commission), there are other regulations regarding the information on these matters to be included in the Annual Report (Article 114.2 of the Securities Markets Law, Articles 127 ter.4 and 200.13 of the Companies Law) and to be included in the semi-annual information for listed companies (Article 35 of the Securities Markets Law, as further developed this fiscal year by Order EHA/3050/2004, of September 15). In addition, regulations specific for loan institutions establish a special system applicable to transactions with directors, executive vice presidents and other equivalent bank officers (Law 31/1968, of July 27, and article 32 of Circular 5/1993 of the Bank of Spain). The foregoing is without prejudice to the rules contained in the Regulations of the Board and the Internal Code of Conduct in Securities Markets, which are addressed elsewhere in this Report.

Information specific to the Annual Corporate Governance Report regarding these matters (related-party transactions, intra-group transactions and conflicts of interest) is set forth below, except where the inclusion of additional information is indicated.

Such information is submitted based on the headings provided by Circular 1/2004, of March 17, of the National Securities Markets Commission, to which the definitions and criteria provided by Order EHA/ 3050/2004 of September 15 have been applied, regarding the information regarding related-party transactions that companies issuing securities admitted for trading on official secondary markets must provide in their semi-annual reports for purposes of determining (i) the matters contained in C.1, C.2, and C.3, which are those of “significant shareholders,” “directors and managers” and “companies belonging to the same group”; (ii) transactions “entailing a transfer of resources or obligations” which are listed in section Three 2) of the above Order, as well as any other type of transaction that involves a transfer of resources, services or obligations, regardless of whether any consideration is received; (iii) the exclusions from information to be submitted, which is set forth in section Three 3) and 4) of the Order.

Following the practice implemented last year, the Company has opted to include in C.2. individualized information regarding the Groups risks as of December 31, 2004, with respect to the Company’s Directors, even though: (a) all such transactions were carried out in the ordinary course of business of the Company or of a Group company with which the risk transactions have been carried out; and (b) all such transactions were carried out on an arm's-length basis.

**C.1. Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the Company's significant shareholders:**

As indicated above (A.2), the Company is not aware of the existence of significant shareholders and accordingly, there is no information regarding transactions therewith.

**C.2. Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the directors or managers of the Company:**

No transactions have occurred with the Company or other companies of its Group with directors themselves or through intermediaries, outside of the ordinary course of business or that were not carried out on an arm's length basis. As to directors that are legal entities (Assicurazioni Generali S.p.A. and Mutua Madrileña Automovilista), no such transactions have occurred with the representatives of such directors on the Board of the Company.

Nor have transactions of the Company or companies within its Group occurred with managers who are members of the Senior Management of the Company or its Group, either directly or through intermediaries, involving any of the circumstances described in the preceding paragraph or that were significant enough to be reported in order to faithfully reflect the equity, financial position or results of the Bank, in accordance with Order EHA/3050/2004 of September 15 regarding the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their semi-annual reports.

However, pursuant to article 200.13 of the Companies Law and rule 32 of Circular 5/1993 of the Bank of Spain, the following table shows the direct risks of the Group with Bank's Directors and Executive Vice Presidents in the form of loans, credit facilities and guarantees provided as of December 31, 2004.

<b>Name of Director</b>	<b>Tax identification number or code (NIF or CIF) of the company or entity within its group</b>	<b>Name of the company or entity within its group</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (in thousands of Euros)</b>
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	2,675
	A 28922599	Bansalease, S.A., E.F.C.	Debtor	Financing	93
Mr. Antonio Basagoiti García-Tuñón	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	174
	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Guarantees	1
	A 28122570	Santander Consumer Finance, S.A.	Debtor	Financing	37
Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea	A 28922599	Bansalease, S.A., E.F.C.	Debtor	Financing	26
Mr. Javier Botín-Sanz de Sautuola y O'Shea	A 28922599	Bansalease, S.A., E.F.C.	Debtor	Financing	336
Mr. Rodrigo Echenique Gordillo	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	42
	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Guarantees	121
	A 28922599	Bansalease, S.A., E.F.C.	Debtor	Financing	53

Mr. Antonio Escámez Torres	A 33003088	Banco Banif, S.A.	Debtor	Financing	273
Mr. Francisco Luzón López	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	1,169
Mr. Abel Matutes Juan	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	5,861
Mutua Madrileña Automovilista	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Financing	6
	A 39000013	Banco Santander Central Hispano, S.A.	Debtor	Guarantees	47
Mr. Luis Alberto Salazar-Simpson Bos	A 28922599	Bansalease, S.A., E.F.C.	Debtor	Financing	36
General Managers as in aggregate	--	Various	Debtor	Financing and guarantees	6,804

**C.3. Describe the relevant transactions of the Company with other companies belonging to the same group, provided they are not eliminated in the preparation of the consolidated financial statements and they are not part of the ordinary course of business of the Company as to their purpose and conditions:**

There have been no transactions with such characteristics.

Name of the entity within its group	Brief description of the transaction	Amount (in thousands of Euros)
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**C.4. Identify, if applicable, the conflict of interest situations in which directors of the company are involved, pursuant to Article 127 ter of the Companies Law.**

During fiscal year 2004, there have been 32 cases where Directors have abstained from participating or voting in deliberations or meetings of the Board of Directors or its Committees.

**C.5. Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the Company and/or its Group, and its directors, managers or significant shareholders.**

**- Directors.**

In the specific case of the Company's Directors, conflict of interest situations are governed by Article 27 of the Regulations of the Board, which was adapted to Article 127 *ter* of the Companies Law, introduced by Law 26/2003. Such Article 127 provides that Directors are required to report to the Board of Directors any conflict of interest, whether direct or indirect, they might have with the Company. If the conflict of interest is with respect to a transaction, the Director may not carry it out without the approval of the Board, after a report from the Appointments and Remuneration Committee. The Director in question shall abstain from deliberation and voting on the transaction affected by the conflict.

**- Mechanisms used to detect, determine and resolve conflicts of interests with members of Senior Management who are not Directors.**

The mechanisms used to detect conflicts of interest are essentially based on the obligation to declare any such conflict-of-interest situation by the persons subject to the Code of Conduct in the Securities Markets.

Such Code, which may be found on the corporate website of the Group, the address of which is [www.gruposantander.com](http://www.gruposantander.com), governs the obligation to declare conflicts of interest under Title I, Chapter III, Letter A ("Statement of Personal Situation"). Specifically relevant are sections 12 and 13 of such Code, the texts of which are set forth below:

*"12. General Statement of related-parties status.*

*Affected Persons must make a statement to the Compliance Directorate detailing their Connections, and keep such statement permanently updated.*

*13. Situations of possible conflict.*

*Affected Persons must inform the Compliance Directorate of any situation in which a conflict of interest might arise with respect to a specific action, service or transaction due to their Connections or any other reason or circumstance, from the point of view of an impartial and unbiased observer."*

Title I, Chapter III, letter B (“Action to be taken with respect to Conflicts of Interest”) governs the actions of persons subject to such Code in situations of conflict of interest and is based on the “Avoidance of Conflicts” principle, which is further developed in section 14 of such Code, pursuant to which:

*“Affected Persons shall endeavor to avoid conflicts of interests, both their own and those of the Group, and if affected personally by such conflicts, shall abstain from deciding or, if applicable, casting their vote in situations where such conflicts arise, and shall give notice of the conflict to those who are to make the relevant decision.”*

Regarding the rules to be applied in resolving conflicts of interest, section 15 of the Code of Conduct in Securities Markets provides that the following shall be taken into account:

*“15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter’s interests.*

*15.2 In the event of a conflict between Affected Persons and the Group, the duty of loyalty of the former.*

*15.3 In the event of a conflict between customers, the persons affected thereby shall be notified, and the services or transactions in which the conflict is present may only be carried out if the affected parties agree thereto. None of them shall be favored.”*

#### **Decision-making bodies that regulate and resolve conflicts of interest:**

##### **- Directors.**

These matters are the responsibility of the Board of Directors.

##### **- Senior Management.**

The provisions contained in Title I, Chapter III, letter B (“Conduct in the Event of a Conflict of Interest”), section 15, establish the following decision-making bodies:

*“Conflicts of interest shall be resolved by the person holding maximum responsibility for the Inside Area so affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomever the Compliance Directorate may choose. In the event of any questions regarding the power to act or the manner of resolution, the Compliance Directorate may also be consulted.”*

## **D RISK CONTROL SYSTEMS**

### **D.1 General description of the risk policy adopted by the company and/or its group, describing and assessing the risks covered by the system, together with a justification for the adjustment of such systems to the profile of each kind of risk.**

Efficient risk management is a necessary condition for the sustained creation of value by financial institutions. For Grupo Santander, risk quality constitutes one of the basic cornerstones of its strategy.

#### **– Principles guiding risk management**

The Company and its Group's risk management are based on the following principles:

- Functional independence under a shared hierarchy. Methods and objectives are set by the Risk Division while organizational structure is adapted to business needs and staying close to the customer, preserving the standards for risk quality.
- Executive capabilities supported by a knowledge of and proximity to the customer, in parallel with the business managers, together with collective decision-making by the appropriate Risk Committees.
- Comprehensive scope of operations (different types of risks) and the distinct handling of each customer (refusal of risks from different units), without prejudice to specialization by risk type or customer segment.
- Collective decision-making (even beginning at the level of the individual office) to ensure that different viewpoints are aired and that bottom-line results do not hinge on merely individual decisions.
- A target of a medium-low risk profile, implying a consistent corporate culture relating to a series of policies and procedures, among which may be highlighted the following:
  - Heightened importance placed on risk tracking to prevent possible deterioration as soon as possible.
  - Risk diversification, through general limits placed on the Group's share of customers' indebtedness under the lending system.
  - Avoidance of exposure to companies with a rating deemed insufficient, although there is a possibility of charging a risk premium proportional to the internal rating level.

Decision-making bodies of the Board are assured the capacity and independence needed to supervise the development of general organizational strategy as well as the decisions of Senior Management, which in turn sets



business plans, supervising decisions made in day-to-day business activities and ensuring their compliance with the objectives and policies set by the Board.

– **Risks covered by the system and reasons why the system is appropriate**

**1. CREDIT RISK.**

Credit risk is the possibility of financial loss stemming from the failure by our customers or counterparties to fulfill their obligations towards the Group.

This represents the Group's main source of risk, for which reason it is essential that it be appropriately identified, measured and managed in order for value to be created in a sustainable manner.

At Grupo Santander, the management of credit risk involves not just identification and measurement, but also integration, control and mitigation of different exposures and the calculation of risk-adjusted profitability.

The organization of Grupo Santander's risk operations follows a number of common principles and organizational standards shared by the various entities that make up the Group. For proper development of these principles and standards, the Group has established a set of policies, procedures and management tools that, while having a basic model in common, are adapted to local market and business characteristics.

Customer segmentation for the management of credit risk.

Credit risk is managed differently depending on the various Customer Risk Management Areas and product characteristics.

The Corporate Banking Risk Area deals with handling customers that are global in nature (large corporations, multinational financial groups). For large corporate groups, a Pre-Qualification Model has been established (setting of an internal maximum risk limit), based on a system for measuring and tracking At-Risk Capital.

Likewise, a specialized treatment has been used for financial institutions, and technical tracking of structured financings has been optimized.

The Company Risk Area has fostered the identification of commercial opportunities as a way to improve business planning through setting common business/risk goals. There have also been improvements to the efficiency of loan-approval cycles by setting up a simpler pre-qualification model geared towards those companies that meet specific requisites (good reputation, rating, etc.).

For its part, the Standardized Risks Area works with handling retail customers (small companies, businesses and individuals), dealt with in a decentralized

manner but following centrally-designed policies and standards, along with support from automated valuation and decision-making systems that allow for risk to be treated in a manner that is both effective and efficient in terms of resources.

Towards the end of 2004, there was publication of the Corporate Framework for Standardized Risk Management (*Marco Corporativo de Gestión de Riesgos Estandarizados*), the purpose of which is to standardize basic principles for managing this type of risk from the perspective of planning the loan cycle, quality of decision models and tracking of management indicators.

#### Rating tools.

For more than 10 years, the Group has assigned internal solvency or rating grades for evaluation and individual tracking of risks, the aim of which is to measure the degree of risk carried by a customer or transaction. Each rating corresponds to a probability of default or non-payment, determined from the Company's experience over time.

For corporate or company risks, the process for assigning ratings varies as a function of the segment in question. The weight given in the evaluation to analyst judgment is greater for large customers and more complicated analyses, whereas the grade given to customers or transactions in the retail sectors is above all based on pre-established valuation rules that allow for more automated treatment. The evaluation process differs by sector of activity.

In the tracking phase, ratings are periodically revised (at least once a year) to incorporate any new financial information available and the experience obtained over the course of the banking relationship.

The system for valuing companies has been extended to other subsidiaries of the Group both in Spain and abroad, including the banks in Portugal and Latin America. The depth of the available series of historical data allows for a determination of the probability of default associated with each rating. In 2004, there were improvements to the ratings assignment tools used by the foreign units through introduction of valuation modules based on statistical models constructed from empirical data.

For standardized risks, different automated valuation systems are applied depending on segment, product and distribution channel. These loan-approval systems are supplemented by behavioral modules derived from information available to the Group from the tracking of risks and pre-approval processes.

#### Master Ratings Scale

The Group has a Master Ratings Scale, the purpose of which is to equate, at equal probabilities of default, the various ratings grades used in the different homogeneous risk segments.

This scale is based on comparing internal estimates of default probabilities that were made for the Company's portfolio with the history of defaults associated with every external rating level, using rating agency publications.

For comparative purposes, the definition of "default" used for internal measurements for this master scale is based on pre-litigious situations and not on late payments (90 days' failure to pay). For purposes of BIS II or Statistical Reserves, default probabilities are also measured at 90 days' delay in payment.

#### The concept of expected loss.

Apart from evaluation of the customer, the analysis of transactions looks at other aspects such as the term, product type and existing guarantees, which serve to adjust the customer's initial rating. In this way, account is taken not just of the probability of the customer's defaulting on its contractual obligations but also of estimated exposure at the time of default and the percentage of the unpaid amount thought to be unrecoverable.

Assessment of the three factors mentioned above allows for early calculation of probable loss on each transaction or expected loss. Correct calculation thereof is essential for the price to adequately cover the resulting risk premium, so that expected losses may be reflected as one more cost of business activities.

Internationally, the Basel Committee's proposal to revise the 1988 Capital Accord is also based on the concept of expected loss, in this case to determine minimal levels of regulatory capital with more advanced approaches based on internal ratings.

Its extended experience with internal models for rating and measuring expected loss place Grupo Santander in a privileged position for benefiting from the possibilities presented by these new regulatory approaches.

#### Expected loss measurements.

The expected loss to the Group (excluding Abbey) due to credit risk, as per December 2004 data, was € 1,755 million, or 0.52% of exposure (equivalent to 0.48% of gross exposure and 0.76% of drawn customer risk).

The provisional estimate of expected losses for the whole Group, including Abbey, would be € 2,014 million, or 0.37% of exposure. The estimate of Abbey's expected loss would be 0.10%.

While estimates of expected loss for the Spanish units are the "bottom-up" result given by internal measurement models, the estimates for remaining units – apart from exceptions – are generally "top-down" assessments, to the extent that the measurements from the internal models of such units are consolidated.

### Proof of reasonableness – Parent Company Expected Loss

To put the model for calculating expected losses to the test, one can compare the specific reserves, net of recoveries, funded for the Company's average customer portfolio for the last five years with estimates of expected loss.

### Measurements of cost of credit (loss experience).

Likewise, the cost of credit risk for the Group and in its principal areas of activity during the fiscal year can be measured and compared with prior years.

### Quantifying the risk premium.

Grupo Santander's risk policy is directed towards maintaining a medium-low risk profile as to both credit and market risk.

Within the sphere of credit risk, this qualitative objective can be quantified in terms of expected loss.

### Concept of Economic Capital. RORAC Methodology.

For a variety of reasons (economic cycle, concentration of exposure, modeling errors), credit losses may exceed the expected loss level. This volatility of losses, or unexpected loss, constitutes true credit risk. While reserves correspond to expected losses, entities maintain capital funds to cover the contingency of credit losses above and beyond expectations. If reserves or the operating margin must be sufficient to cover expected loss, economic capital must be of an amount necessary to cover unexpected losses, thereby ensuring continuity of the business.

At a conceptual level, economic capital may not cover with 100% certainty all losses that might possibly arise. The maximum credit risk loss would come about from all assets being unpaid at the same time and no amounts being recoverable. This event, highly improbable, is not covered in its entirety by economic capital, which is, however, intended to cover occurrences of very high losses that, while quite unlikely, still have the capacity to threaten the continuity of business activities.

It is up to the Company to determine the level of confidence at which it wishes to ensure continuity of its business. At Grupo Santander, the level of confidence it wishes to cover with economic capital is 99.97%, above the 99.90% assumed by the regulatory capital formulas proposed in the New Basel Capital Accord.

In terms of external ratings, a confidence level of 99.97% requires a sufficient funding of capital to be rated AA, while 99.9% would only allow for a rating of A-.

Traditionally, the concept of economic capital has been contrasted with that of regulatory capital, the latter being what is required by solvency regulations and, until the upcoming revisions, impaired by insufficient risk sensitivity. The revisions to the 1988 Capital Accord that are under way will no doubt bring both concepts closer together.

At the individual transaction level, calculation of economic capital is based on the same variables as those needed to calculate expected loss, i.e., the customer's rating, the term of the loan and the guarantees on the transaction. Through aggregation, economic capital can be calculated for the rest of such customer's transactions and, with an eye towards appropriate diversification/correlation factors, for a portfolio of customers, for a business unit, or for the Company as a whole.

The operating margin, for its part, must not only cover costs, including expected loss or the cost of risk, but must be enough to provide an appropriate return on the economic capital taken up by those operations.

The RORAC methodology allows an evaluation of whether the profitability achieved by a transaction covers the costs of risk – expected loss – and the cost of the economic capital the Company has invested in the transaction.

Determination of the cost of capital is closely tied to the calculation of a target RORAC, which proceeds on the assumption of a minimum threshold of profitability that may be required of risk transactions.

The Company periodically reviews the target RORAC to ensure that authorized transactions are creating value for shareholders, calculating it using two basic components: the profitability required by shareholders plus the profitability needed to cover operational costs.

In turn, the profitability required by shareholders or the cost of capital are calculating by adding to the long-term risk-free rate the premium shareholders are demanding for investing in Grupo Santander shares.

The RORAC methodology permits comparison on a standardized basis of return on operations, customers, portfolios and businesses, identifying those that achieve a risk-adjusted return in excess of the Group's cost of capital, thereby aligning risk management and business management with the ultimate objective of maximizing value creation.

Grupo Santander has been employing the RORAC methodology in its management of credit risk since 1993, with the following objectives: (i) analysis and setting of prices in the decision-making process for transactions (loan approval) and customers (tracking); (ii) making estimates of capital consumed by each customer, portfolio or business segment, with the aim of optimizing the allocation of economic capital; and (iii) calculating a level of allowances consistent with average expected losses.

### Internal risk systems.

One of the most important objectives of the New Basel Accord is the adoption of rigorous risk management practices along the lines of those followed by the most advanced institutions.

Grupo Santander has been described as being in the forefront of these practices. For example, and by reason of rules issued by the Bank of Spain in 1999 related to statistical or countercyclical reserves, the Group was a pioneer among large Spanish institutions in seeking and obtaining recognition for its internal calculation models, in line with Basel II rules and disciplines.

Results obtained from these practices have been highly profitable, and the experience obtained in this field has also truly and fully served to confirm the usefulness of, and need for, the organizationally separate functions of integrated and independent risk management required by the New Basel Accord and which the Group has applied in its new organizational structure for the Risk Division.

### International Convergence of Capital Measurement and Capital Standards: a Revised Framework

The Group is clearly committed to the principles underlying the “International Convergence of Capital Measurement and Capital Standards: a Revised Framework” (Basel II).

Grupo Santander aspires to formal recognition, at the appropriate time, of its internal risk models in accordance with BIS II requirements.

For this purpose, the Group previously carried out an internal project which permitted approval of calculation methods under Bank of Spain Circular 9/99. To this same end, the Group had already launched its Master Plan for development of Basel II internal models in 2002.

Ensuing development of such Master Plan has given rise to a series of steps being taken, many of which have already been consolidated.

Furthermore, for some time now, the Group's taking of the steps needed for the “Revised framework” have been channeled through and developed by a Corporate Basel II project, the object of which is to direct, co-ordinate, support and supervise activities in the various Group areas affected by the new requirements, so that the latter can adapt to them in the manner and within the time required.

Based on the steps completed to date, as well as on the Group-wide estimates in the quantitative impact studies, the conclusion may be drawn that the new Accord will have a slightly favorable capital impact on the current balance sheet, even after implementing the new requirements for operating risk.

The Directorate of the Unit (General Comprehensive Risk Management and Internal Risk Controls Directorate), which under the Risk Division is charged with development and co-ordination of the necessary work for Basel, provide the coverage needed to allow the New Accord's mandatory principles to be satisfied.

#### New Bank of Spain Circular

On December 22, 2004, the Bank of Spain published Circular 4/2004 concerning Credit Institutions, referring in Annex IX to the Analysis and Coverage of Credit Risk.

Its most noteworthy feature is the tightening, vis-à-vis prior Circular 4/91, of the criterion for bad-debt risk due to customer payment delays, which will require an increase of the bad-debt balance. Nonetheless, this more conservative criterion for recognizing bad-debt is in line with the Group's internal policies, and thus does not mean there will be a need to modify internal risk management procedures, which have always been focused on prompt and active management of a risk once it begins behaving irregularly, and even beforehand, through the established risk tracking procedures described below.

#### Tracking and control systems

The control function is basic to assuring appropriate management of credit risks and maintaining the Company's risk profile within the parameters defined by the Board of Directors and Senior Management.

This function is carried out through various mechanisms inside and outside the Risk Division.

Within the Risk Division itself, and independently of the business areas characteristic of the Division, decision-making at the loan-approval stage is subject to a system of delegated risk-approval rights that originate with the Delegated Risks Committee. Decision-making at the approval stage is predominantly collective.

Within this approach, the 2005 Limit Plan was implemented towards the end of fiscal year 2004. In short, the 2005 Limit Plan consists of the formal acceptance of a comprehensive document allowing for complete management of the balance sheet and inherent risks by establishing an acceptable level of risk for the various factors measured.

This Plan aims to: (i) promote an integrated overview and management of risk; (ii) establish a coherent framework for action for all risks assumed; (iii) determine the acceptable level of risk and, thus, the available limits that make it possible to achieve the goals laid out; and (iv) be a framework for action that may be revised if so required.

In addition, a specific function has been set up within the Risks Directorate for tracking risks, with specific resources and managers having been earmarked for it. This tracking function is based on constant attention so as to ensure timely repayment on transactions, as well as on anticipating any circumstances possibly affecting the normal evolution and proper termination of the transactions.

To this end, a system called Companies on Special Watch (Firmas en Vigilancia Especial, "FEVE") is being put together, which distinguishes four separate steps depending on the degree to which the negative circumstances give cause for concern (Recall of Loan, Require Guarantee, Reduce Amount and Monitor). Being included in the serious steps automatically presupposes a reduction of delegated rights.

The Control, Analysis and Consolidation Units also carry out tracking and control tasks, the main functions of which are to obtain a comprehensive overview of the risk, to analyze possible future scenarios that may develop and to handle overall risk management information, as well as to promote and pursue common policies regarding risks and their impact on the Group, all while checking on compliance with Spanish and local legislation.

Under the principles of organizational and functional independence in management of risk approval and tracking required by the New Basel Accord, the Comprehensive Risk Management and Internal Risk Controls Directorate carries out specific monitoring and control functions in the internal models of credit risk.

Recognition in the regulatory field of internal models of credit risk management represents an additional guarantee of the degree of internal control, insofar as the latter is required as an important part of validating these models.

#### Risk of concentration.

The Group carries out constant monitoring of the degree of concentration of credit risk portfolios from various relevant perspectives: geographic area and country, sector of the economy, product and customer group.

The Board's Delegated Risks Committee establishes risk policies and reviews appropriate exposure limits so as to ensure that the degree of concentration of the credit risk portfolios is appropriately managed.

As for the Group's geographic distribution of risk, the recent acquisition of Abbey National plc has contributed to an increase in diversification by diminishing the weight of Spain and Latin America in the overall picture.

The Group is subject to the Bank of Spain's regulation of "large risks" (those that exceed 10% of book equity). In accordance with the rules contained in Circular 5/93, no individual exposure, including any sort of credit or equity



risk, may exceed 25% of the Group's equity. Also, the group risks classified as "large risks" may not represent more than 8 times equity.

Within the framework of the MIR model referred to in D.2 below, particular attention is given to risk of concentration for wholesale portfolios (large companies, sovereign risks and counterparty risks). For these purposes, the Group uses the Moody's-KMV portfolio model widely used by other financial entities as a supplemental reference.

The Group's Risk Division works closely with the Financial Division to actively manage loan portfolios, the focal point of which is to seek to reduce concentration of exposure by using various techniques such as entering into credit derivatives and securitization transactions, with the ultimate aim of optimizing the overall portfolio's risk-return ratio.

### Country-risk.

Country risk is a component of credit risk contained in all cross-border credit transactions. Its principal elements are sovereign risk and risk of transfer, and the risk of wild swings in the exchange rate of the local currency (based on recent foreign-currency crises) could also be included, since this may end up being a collective credit risk for economies with a high degree of foreign-currency indebtedness.

The management of country-risk, one of the responsibilities of the Risk Directorate includes analysis and assignment of country ratings, control of risk positions and setting of limits, in accordance with established policies.

Country ratings are assigned based on qualitative and quantitative valuation parameters that determine a country's capacity to meet its foreign obligations. Country-risk limits are determined based on the country's credit quality or rating and on business opportunities, with differentiations made between different products and risk periods.

The principles of country-risk management have continued to follow a standard of maximum prudence, country-risk being taken on very selectively in transactions that are clearly profitable for the Company and that clearly reinforce its overall customer relations.

### Environmental Risk.

An analysis of the environmental risk of loan transactions is one of the points on which a commitment was made in the Strategic Plan for Corporate Social Responsibility.

Grupo Santander has an approved corporate procedure for examination of environmental risk.

Since the beginning of fiscal 2004, the Group has had an Environmental Risk Evaluation System (Sistema de Valorización de Riesgos Medioambientales,

known as “VIDA”) developed in conjunction with Compañía Española de Seguros de Crédito de Exportación (CESCE) and Garrigues Medioambiental, the object of which is to evaluate the environmental risk inherent in every company, both current customers and those that may become such in the future.

The operational and analytic approach of the “VIDA” tool is to provide a final grade or “rating” (from 1 to 9). This rating, of a significance proportional to the depth of the evaluation process, will be progressively integrated into the Group's rating system. However, this grade has served as an additional point of reference in the decision-making process from the outset.

### Counterparty Risk.

Counterparty risk is a variant of credit risk. Within this risk are included all types of exposure to credit institutions as well as the solvency risk assumed in Treasury transactions (bonds and derivatives) with other types of customers.

Control is handled by an integrated real-time system that allows one to find out the credit line available to any counterparty, on any product or loan period and at any of the Group's offices, at any time.

Risk is measured both by its present and potential value (value of the risk positions in light of future variation in the market factors underlying the contracts).

Derivative operations continue to be concentrated on counterparties of outstanding credit quality, such that we maintain risk levels of around 91% with parties with a rating greater than or equal to A-.

## **2.- MARKET RISK.**

### 2.1. Activities subject to market risk.

The measurement, control and monitoring of market risk embraces all types of transactions in which company assets are placed at risk. This risk derives from variation in the price of the risk factors: interest rates, exchange rates, equity arrangements, volatility, solvency risks, liquidity risks ... for the various products and markets in which the Group operates.

Based on the risk objective, activities are broken down as follows:

- Trading: this heading includes customer financial services and purchase, sale and short-term placement of liquid fixed-income, equity and foreign-currency products.
- Proprietary Treasury transactions (Directional Portfolio): taking of positions with a longer-term horizon through fixed-income, equity and foreign-currency products.

- Balance Sheet Management: the risk arises from temporary mismatches between maturities and re-pricing of assets and liabilities and from the taking of portfolio positions to protect the Group's margin in the face of falling interest rates.
- Strategic Positions that include: (i) investments through taking shares of capital both in subsidiaries as well as in other companies, financial and non-financial, giving rise to equity risk in companies whose business activities are not consolidated (Structural Equity Activity); (ii) exchange-rate risk due to the currency in which the investment is made, in companies whose business activities both are and are not consolidated (Structural Exchange-Rate); and (iii) exchange-rate risk derived from swaps of future earnings denominated in currencies other than the Euro (Earnings Swaps).

Each of these activities is measured and analyzed with different tools in order to show their risk profile as precisely as possible.

## 2.2. Methodologies followed:

### *A. - Trading Activities.*

The methodology used by Grupo Santander during fiscal 2004 for its trading activities is the Value at Risk (VaR) methodology. It uses as a base the historical simulation standard with a confidence level of 99% and a time line of one day, to which statistical adjustments have been applied that allow for prompt and effective incorporation of more recent events that have a bearing on assumed levels of risk.

In addition, and as the size or nature of the portfolios may require, the Group has been applying other methodologies such as the Montecarlo Simulation and Parametric Models.

VaR is not the only measure. Other instruments are being developed that allow for greater control over risk in all markets in which the Group participates.

Among these instruments is Scenario Analysis, which consists of defining alternative behaviors for various financial variables and obtaining their bottom-line impact by applying them to business activities. These scenarios may replicate facts occurring in the past or other plausible facts, even if these are not in accord with past events. At a minimum, three types of scenarios are defined: plausible, severe and extreme, thereby obtaining, along with VaR, a much more complete spectrum of risk profiles.

In addition, positions are tracked daily, with an exhaustive check on changes taking place in portfolios, with the aim of detecting possible issues which may arise so that they may be corrected immediately. Drawing up a profit and loss statement every day is an excellent indicator of risk to the extent that it allows

for observation and detection of the effect of variations in financial variables or portfolios.

*B.- Directional Portfolio / Balance-Sheet Management.*

Interest-rate Risk.

The Group conducts analyses of the sensitivity of the financial margin and equity value to variations in interest rates. This sensitivity is conditioned by the mismatches in maturity dates and interest-rate revision that occur between different entries on the balance sheet.

With regard to Balance-Sheet Management, the Assets and Liabilities Committee manages the various balance-sheet entries so as to hold this sensitivity within the target range, whereas the Directional Portfolios, given their purely directional character, are the responsibility of the Treasurer.

The measurements used by the Group to control interest-rate risk on these activities are the interest-rate “gap,” sensitivity of the financial margin and equity value to variations in levels of interest rates, the Value at Risk (VaR) and scenario analysis.

Liquidity Risk.

Liquidity risk is associated with the Group's capacity for financing the commitments it has made at reasonable market prices as well as for carrying out its business plans with stable sources of financing. The Group is constantly watching over its liquidity situation.

The measurements used to control liquidity risk in Balance-Sheet Management are the liquidity “gap,” liquidity ratios, stress scenarios and contingency plans.

Analysis and control of liquidity risk has the aim of guaranteeing that the Group maintains acceptable levels of liquidity to cover its financing needs over the short and long term under normal market conditions. Other scenario analyses are also made which collect the additional needs that might arise for different events. This is intended to cover a whole spectrum of situations with which the Group is more or less likely to be faced and to prepare for same.

*C.- Strategic Positions.*

The structural exchange-rate position can be permanent or temporary. The permanent position fundamentally reflects the theoretical book value of investments net of the initial goodwill, while the temporary position is generated basically by foreign-currency purchase/sale transactions entered into to hedge exchange-rate risk. Currency translation differences generated by each of these positions are reflected for accounting purposes in shareholders' equity and profits and losses, respectively. Given their nature, fluctuations therein are not permitted unless previously approved by

committees with local or overall functions. Position limits are established, insofar as these are measured by VaR, Loss Trigger and Stop Loss. The latter measures are indicators.

#### *D.- Supplemental measurements.*

##### Measurements of calibration and contrast.

“A posteriori” contrast tests, or “back-testing,” are an analysis that compares the Value at Risk (VaR) estimates and the results actually generated every day. The object of these tests is to verify and provide a means for precisely calibrating the models used to calculate VaR.

The “back-testing” analyses performed at Grupo Santander, at a minimum, comply with BIS recommendations regarding comparison and contrast of internal systems used to measure and manage market risk. In short, there is a comparison each day of the daily estimated VaR against the results of the prior day's closing portfolios valued at the following day's prices. Furthermore, when back-testing, theoretical tests are performed: excess tests, normality tests, “spearman rank correlation,” average excess measurements, etc.

Valuation models are regularly compared and calibrated by a special unit.

##### Coordination with other areas.

Joint work is performed with other areas on a daily basis that permits operating risk to be mitigated. Basically, this entails the reconciliation of positions.

##### “Benchmarking”.

Depending on how often the information is published by local regulators, comparative studies are done of the Company's position relative to its principal competitors and to the system.

##### Debt maturity profile.

A biweekly analysis is made of the maturity profile of the portfolio's holdings (trading and investment), to learn the periods during which there are large cash-flow concentrations.

### 2.3. Control System:

#### *A.- Definition of Limits.*

Limits are set after the annual budget exercise, and this is the instrument used to determine how much capital is available for each activity. The setting of limits is conceived as a dynamic process that corresponds to the level of risk Senior Management views as acceptable.

*B. - Objectives of the limit structure.*

The limit structure requires moving forward with a process that takes account, *inter alia*, of the following: (a) efficient and comprehensive identification and determination of the major types of market risk incurred, in order for them to be consistent with the management of the business and with the defined strategy; (b) quantification and communication to the business areas of the risk levels and risk profile that Senior Management thinks can be taken on, to avoid incurring undesired risk; (c) giving the business areas flexibility to take on market risk quickly and efficiently, in keeping with market changes, and to formulate their business strategies, always within the risk limits the Company deems acceptable; (d) permitting business units to take risks prudently but sufficiently to achieve budgeted results; and (e) establishing investment alternatives through limiting consumption of equity.

**3.- OPERATIONAL RISK.**

Within Grupo Santander, operational risk is defined as “the risk of loss resulting from deficiencies or failures of internal processes, human resources or systems, or derived from outside circumstances.” It deals with occurrences that have an originating cause that is purely operational, which distinguishes it from market or credit risk.

The Group's objective is to identify, mitigate, manage and quantify operational risk.

The Group's greatest need is to identify and eliminate sources of risk quite apart from whether they have resulted in losses or not. This measurement also aids management by letting priorities be established and a hierarchy of decisions be created.

To calculate capital by operational risk, Grupo Santander has found it useful to opt for the Standard Method in principle, but this does not discount the possibility of moving to the Internal Model in the future. This is all a function of the following assessments:

1. Priority of mitigation in the daily management of operational risk.
2. A large part of the basic fundamentals of an Internal Model are already incorporated in the Standard Model and in Grupo Santander's management of operational risk.

The organizational structure for operational risk at Grupo Santander is based on the following principles:

- The function of evaluating and controlling this type of risk is the responsibility of the Risk Division.
- The Central Unit that supervises operational risks within the Risk Division is responsible for the Company's comprehensive corporate program.

– The effective structure for managing operational risk is based on the knowledge and experience of the managers and professional staff of the various areas/units of the Group, with fundamental significance given to the role of the coordinators who are responsible for operational risk, key figures within this organizational framework.

This organizational framework complies with the qualitative criteria contained in the New Basel Capital Accord, both for Standard Methods as well as for Advanced Measurement Methods. Along the same lines, the Internal Auditors retain their independence concerning management of operational risk, without prejudice to their effective power of reviewing the management structure in this area.

The principal benefits of the management structure chosen by Grupo Santander are: (i) comprehensive and effective management of operational risk (identification, evaluation, tracking, mitigation/control and reporting); (ii) improved knowledge of operational risk, which is assigned to the business and support lines; (iii) compilation of loss data allows quantification of operational risk, for calculation of economic as well as regulatory capital; and (iv) information on operational risk contributes to improvement of processes and controls and to reduction of losses and income volatility.

The independent unit that manages and controls Operational Risk, within the Risk Division, was set up and has been functioning since 2001.

The project's implementation at the various entities comprising Grupo Santander began in 2002. Currently, almost all of the Group's units have been incorporated, with a high degree of uniformity. Nevertheless, differences in the timing of its implementation, in its phases, in schedules and in the historical depth of the relevant databases have translated into differences between the various countries in the level of progress achieved.

In addition to standard information and management requirements imposed on the Group's various Operational Risk Units, some Group entities have proven very active in risk management, by virtue of the benefits they receive from the mitigation process.

Within the general context of the BIS II Project developed by Grupo Santander, the Operational Risk Department, together with the Technology Department, is working on designing and introducing a corporate tool for operational risk that, in a Web environment, will integrate the various management instruments that have heretofore been used, in the form of local applications at the various units managing operational risk.

This corporate tool is being developed in various phases and modules, first beginning by satisfying basic requirements for risk management, and afterwards adding other, more advanced functionality.

#### **4. - REPUTATIONAL RISK.**

In all the Areas of its organization, Grupo Santander regards the function dealing with reputational risk from its activities as an essential aspect of its operations. The major elements on which management of this risk are based are:

**- Global New Products Committee.**

Any new product or service that any Grupo Santander entity plans to market must be submitted for approval by this Committee.

In 2004, the Committee met 11 times, at which 70 products or families of products were analyzed.

A local New Products Committee is created in each country where a Grupo Santander entity is based. Once it has processed a new product or service following procedures, it must request approval from the Global New Products Committee. In Spain, the role of the Local New Products Committee is performed by the Global New Products Committee itself.

The Areas participating in the Global New Products Committee are: Tax Counseling, Legal Counseling, Customer Service, Internal Auditing, Commercial Banking, Global Corporate Banking, Private International Banking, Financial Accounting, Financial Operations and Markets, Organization, Prevention of Money-Laundering, Global Wholesale Banking Risks, Credit Risks, Financial Risks, Operational Risk, Technology, Global Treasury and, finally, the unit proposing the new product or the Local New Products Committee.

Prior to the launch of a new product or service, these Areas, as well as other independent experts, if any, deemed necessary for a correct assessment of the risks incurred, make an exhaustive analysis of those features that might have implications for the process, stating their opinion on marketing of the product or service.

Based on the documents received, and having checked that all requirements for new product or service approval have been followed, the Global New Products Committee, in light of the risk directives established by Grupo Santander's Delegated Risks Committee, will approve, reject or set conditions for the proposed new product or service.

The Global New Products Committee gives special consideration to the new product or service's suitability to the setting in which it is to be marketed. To that end, it pays particular attention to ensuring:

- that each product or service is being sold by someone who knows how to sell it.
- that the customer knows what the customer is investing in and what risks are entailed in each product or service, and that there is documentary evidence of thereof.



- that each product or service is being sold where it may be sold, not just for legal or tax reasons, *i.e.*, how it fits within each country's legal and tax system, but also with regard to the country's financial culture.
- that, when a product or service is approved, a maximum limit be set as to the amount that may be sold in each country.

– **Financial Product Marketing Procedures Manual**

This Manual is to be used by the Company in the retail marketing of financial products in Spain.

The purpose of the Manual is to improve the quality of information made available to investors and for them to comprehend the nature, profitability and risk thereof.

The Manual divides customers into three categories, which initially coincide with those of Private Banking, Personal Banking and Individual Banking. In addition, products are divided into three categories: green, red and yellow, based on their complexity and the assurances they offer for repayment of principal and obtaining particular yields.

This Manual deals with financial savings products marketed to retail customers who are private individuals, such as, for example, shares of investment funds and public offerings of stock. However, the Global New Products Committee may include other products within the scope of the Manual of Procedures.

In 2004, 47 products subject to this Manual were submitted for approval. Although the great majority of products presented are investment funds, authorization was also given to market other types of products such as warrants, hedging products, preferred stock and public offerings of securities for sale and/or subscription.

Of these 47 products, 12 were new products submitted to the Global New Products Committee and 35 were non-new products submitted to the Manual Office (body created specifically to monitor the Manual's implementation, and which is part of the Compliance Directorate). These 47 products are classified as follows: 27 were classified as green products (57.5%), 11 as yellow products (23.5%) and 9 as red products (19%). The Manual Office has timely reported all approved products to the National Securities Market Commission ("CNMV").

In practice, implementation of the Manual requires: (i) being rigorous in the use of commercial documentation and contract documents, and (ii) paying attention to the segment to which the customer belongs before offering the product.

**- Delegated Risks Committee.**

The Delegated Risks Committee, as the highest body responsible for the global management of risk and of all types of bank operations, evaluates reputational risk within the scope of its activities and decisions.

**D.2. Indicate the control systems that are currently in place to assess, mitigate or reduce the main risks of the company and its group.**

While D.1 contained a detailed analysis of the risks covered by the control systems of the Company and its Group, along with a statement explaining why these control systems are appropriate, this section will cite some of the techniques and tools used by the Society and its Group to manage the risks described:

- Internal ratings, with evaluation of the various components that, for each customer and transaction (guarantees, term, etc.), allow for assessment of, first, the probability of default and, subsequently, based on severity studies, the expected loss.
- RORAC (Return On Risk-Adjusted Capital), extending from the use of per-transaction pricing tools (“bottom up”) to portfolio and unit analysis (“top down”).
- Economic capital, estimated by evaluating all classes of risk (credit risk, business risk, etc.), both as a reference point for managing the various “building blocks” and for the profitability they obtained, as well as in the approval and limit-setting processes when determining global classifications for large customers.
- “Value at Risk” as an element for controlling and setting limits on market risks in the various trading portfolios.
- “Stress testing” to supplement the market risk and credit risk analyses, in order to evaluate the impact of alternative scenarios, including on reserves and capital.

These tools are supplemented by the Comprehensive Risk Framework (Marco Integral de Riesgos, “M.I.R.”) - developed in 2003, that is used by Grupo Santander to quantify, aggregate and allocate economic capital and to measure the risk-adjusted profitability of the Group and its principal business units.

The M.I.R. tool looks at the principal risks to which the Company's business activity and that of its Group is exposed, as well as at the grade of correlation (diversification) between such risks and the various business units. In this way, this model provides a reasonably precise measure of the economic capital needed to support the risk assumed by the Group with the level of confidence associated with a target rating of AA. It also allows measurements to be obtained of the risk-adjusted profitability of the principal business units and of the Group as a whole.

Calculation of the Group's economic capital based on the assumption that it should support the risk from the business activity with a 99.97% confidence level, equivalent to a target rating of AA. A comparison of these economic capital figures with the capital resources available in December of 2004 allows for the conclusion that the Group has sufficient capital for a AA rating, both before and after the acquisition of Abbey.

In the 2005 budget process, this Model served to set risk-adjusted profit objectives for the Group's principal business units, thus considering not just the return on the activity but also the risk incurred to obtain it and the return required by our shareholders.

The Group believes that this Model will also allow the new Basel regulatory requirements to be satisfied, in particular those derived from Pillar 2.

**D.3. In the event some of the risks affecting the company and/or its group materialized, indicate the circumstances giving rise to them and whether the established control systems have worked.**

In the business activities of the Company and its Group, there is an assumption of the risks described in D.1. The established systems of control are working properly.

**D.4. Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms, and describe the functions thereof.**

**- Decision-making body and its functions:**

The Group's Risk Division reports directly to the 3<sup>rd</sup> Vice Chairman of the Board and Chairman of the Delegated Risks Committee.

The Delegated Risks Committee, whose delegated powers have been detailed in B.2.3.4 of this Report, performs the following functions:

- Establishes the Group's risk policies, in concert with the Board's Executive Committee.
- Supervises the levels of risk assumed, both overall and individual, to ensure that they are in compliance with set objectives.
- Decides on transactions that are beyond the powers delegated to lower-ranking decision-making bodies.
- Delegates to other, lower-ranking Committees the powers needed to assume risk.
- Receives information on matters of importance about which it needs to know or decide.

- Systematically reviews exposures to principal customers, sectors of economic activity, geographic areas, risk types, etc.
- Supervises compliance with risk objectives, management tools, improvement initiatives, projects and any other relevant activity related to the topic.
- Is informed of, evaluates and follows up on the observations and recommendations that, for various reasons, the supervisory authorities make in the exercise of their functions.
- Ensures that the Group's actions are consistent with the risk tolerance level previously decided on.

The activities of the Delegated Risks Commission relate to all the various classes of risk: credit, market, operational, liquidity, counterparty, etc.

**- Organizational structure:**

The Risk Division's objective is to put in place for the Group a single, integrated risk function having a global mandate and with execution on multiple sites, one that spans the various geographic areas where the Group is present. The mission of this Division is to provide quick, effective and efficient customer service, while always maintaining the quality of the risk.

The Group's Risk Division is organized into two General Directorates: the General Risk Directorate and the General Comprehensive Risk Management and Internal Risk Controls Directorate.

The General Risk Directorate has responsibility for carrying out executive functions of credit and market risk management, and adjusts itself to the structure of the business, both by type of customer: (i) Corporate Banking Risks, (ii) Financial Institution and Structured Risk, (iii) Commercial Banking Risks, (iv) Standardized Risks; as well as by activity and geography (global/local view): (i) Control and Consolidation Financial Risks, (ii) Control and Consolidation Wholesale Risks, (iii) Control and Consolidation Credit Risks.

This fosters its ability to anticipate events when presented with changes in the financial conditions of a customer or the market, while maintaining the Group's risk quality and risk standards and promoting dynamic and integrated management action. In a supplemental manner, there is an area within this same General Directorate that monitors the use of best practices in measurement and tools, to allow for more offerings of complex products, better risk analysis and, in short, a more efficient utilization of capital.

Moreover, the General Comprehensive Risk Management and Internal Risk Controls Directorate meets the requirements for organizational independence established by the New Basel Capital Accord (BIS II), functionally characterized by contributing a global vision, integrated measurements,

quality analysis and consistent methodologies for different risk exposures, as well as by appropriate controls and internal validation to ensure consistency and uniformity of processes and tools, through the following functional organization: (i) RORAC Methodologies, Value Creation and Economic Capital, (ii) Global Analysis, (iii) Operational Risk, (iv) Validation of Internal Models, (v) Information Systems and (vi) BIS II Project Coordination.

Both Directorates report directly to the head of the Risk Division and 3<sup>rd</sup> Vice Chairman of the Group, which ensures the functioning of appropriate mechanisms of coordination.

**D.5. Identification and description of compliance procedures included in the various regulations that affect the company and/or its group.**

The Group has defined Compliance as a function delegated to the Senior Management, which is charged with harmonizing the organizational structure with the regulatory environment by translating laws, norms and ethical standards into operating procedures and specific training activities, so to minimize the probabilities of the occurrence of irregularities and ensure that such irregularities as may materialize are always promptly identified, reported and resolved, thereby letting interested third parties be shown that the Institution has at its disposal an organization, procedures and means appropriate to its business activity and constantly subject to revision.

Moreover, there is a whole set of rules (labor, environmental, urban planning, banking, securities market...) that are part of the setting in which the Company and its Group do business.

## **E** GENERAL SHAREHOLDERS' MEETING

### **E.1. Indicate the quorum required to hold valid a General Shareholders' Meeting as established in the Bylaws. Describe how it is different from the minimum quorum required by the Companies Law (LSA).**

The quorum required to hold a valid General Shareholders' Meeting established in the Bylaws (Article 21) and in the Regulations of the Board (Article 12) is the as provided in the Companies Law.

Therefore, the provisions of articles 102, 103.1 and 103.2, first sentence, of the Companies Law apply, the text of which is as follows:

#### ***“Article 102. Quorum.***

*1. The General Shareholders' Meeting shall be validly established at first call if shareholders representing at least 25% of the subscribed capital stock with voting rights are present at the meeting in person or by proxy. The Bylaws may increase the quorum required.*

*2. At second call, the General Shareholders' Meeting shall be validly established no matter the capital with voting rights represented thereat, unless the Bylaws establish a particular quorum, which shall be lower than the quorum established or required by Law for first meetings upon first call.*

#### ***Article 103. Quorum. Special cases.***

*1. To adopt resolutions regarding the issue of debentures, the increase or reduction in capital stock, the transformation, merger or spin-off of the company and in, general, any amendment of its bylaws, the general or extraordinary general shareholders' meeting shall be validly established at first call if shareholders holding at least fifty percent of the subscribed capital with voting rights are present at the meeting either in person or by proxy.”*

*2. At second call, shareholders representing twenty-five percent of the capital of the company shall suffice.*

### **E.2. Explain the rules governing the adoption of corporate resolutions. Describe how they are different from the rules provided by the Companies Law.**

The rules governing the adoption of corporate resolutions by the shareholders at the General Shareholders' Meeting do not differ from the rules provided by the Companies Law, as set forth in Article 25 of the Bylaws and Article 22.1 of the Regulations of the Board.

Therefore, articles 93.1 and 103.2, second sentence, of the Companies Law apply, the text of which is as follows:

#### ***“Article 93. General Shareholders' Meeting.***

1. The shareholders acting at a duly called general meeting shall decide by majority the matters validly proposed at the meeting.

**Article 103. Quorum. Special cases.**

*(2<sup>nd</sup> sentence). When shareholders representing less than fifty percent of the subscribed capital with voting rights are present at the meeting, the resolutions referred to in the preceding section may only be adopted with the affirmative vote of two-thirds of the capital present in person or represented by proxy at the meeting.”*

**E.3. Explain the rights of the shareholders regarding general shareholders' meeting which are different from the rights provided in the Companies Law.**

The rights granted to the shareholders by the Bylaws and the Regulations of the Board of the Company with respect to General Shareholders' Meetings are the same rights as provided in the Companies Law.

**E.4. Indicate, if applicable, the measures adopted to encourage the participation of shareholders at general shareholders' meetings.**

The Board of Directors expressly encourages the informed participation of shareholders at General Shareholders' Meetings, as evidenced by Article 28.3 of the Regulations of the Board, pursuant to which:

*“The Board of Directors shall encourage the informed participation of the shareholders at the General Shareholders' Meetings and shall adopt such measures as may be appropriate to make it easier for the shareholders acting at a General Shareholders' Meeting to effectively exercise the powers conferred upon them by Law and the Bylaws.*

*In particular, the Board of Directors shall make available to the shareholders, prior to the General Shareholders' Meeting, all such information as may be legally required. The Board, acting through the General Secretary, shall respond in writing to those requests which, in the exercise of the right to receive information as contemplated by law, the shareholders may submit in writing to the Board as much in advance of the General Shareholders' Meeting as may be requisite.*

*In addition, the Board shall, by means of its Chairman or, if applicable and if so decided by the Chairman, by means of the Chairman of the Audit and Compliance Committee, any Director, the General Secretary or, if appropriate, any employee or expert in the issues, respond, when it is admissible under the provisions of Law, the Bylaws or the Regulations for the General Shareholders' Meeting, to any questions that the shareholders may pose verbally during the course of the General Shareholders' Meeting in connection with the matters included in the Agenda. When it is impossible to satisfy the shareholder's right at such time, the requested information shall, if*

*appropriate, be provided in writing within seven days following the end of the General Shareholders' Meeting.*

*Furthermore, the Board of Directors shall maintain and make available to the shareholders an updated website of the Company, with due observance of the applicable regulations, where all such information as is required under legal or bylaw provisions or regulations may be accessed."*

The above is without prejudice to the shareholders' right to information as established in Article 26 of the Bylaws and Articles 7 and 18 of the Regulations for the General Shareholders' Meeting.

Notwithstanding the foregoing, the following are some of the measures that have also been adopted to foster such participation:

- On occasion of the General Shareholders' Meeting of June 19, 2004, the Chairman re-sent a letter to all the shareholders inviting them to suggest matters that they would like to be discussed at the meeting, without prejudice to their rights to receive information and make proposals.

A total of 914 communications were received and duly answered.

- Provision in the Regulations for the General Shareholders' Meeting that relevant information should be available as of the date of the call to meeting (Article 6) and that a copy of the proposed resolutions should be provided to the shareholders upon entering the premises where the Meeting is to be held (Article 9.3).

Available information can be found on the Group's website ([www.grouposantander.com](http://www.grouposantander.com)), which can be found in the main menu under "Information for Shareholders and Investors."

- The Shareholders' Area provides personal attention to the shareholders of the Company not only upon the call to a General Shareholders' Meeting, but continuously throughout the year.
- Article 15 of the Bylaws was amended, at the proposal of the Board of Directors, at the Ordinary General Shareholders' Meeting held on June 19, 2004, in order to eliminate the requirement of a minimum of 100 shares to attend the General Shareholders' Meeting.

**E.5. Indicate whether the chairman of the general shareholders' meeting is also the chairman of the board of directors. Describe, if applicable, the measures adopted to ensure independence and proper operation of the general shareholders' meeting:**

Yes X

No



<b>Description of measures</b>
<p>As established in Article 13.2 of the Regulations for the General Shareholders' Meeting, the Chairman of the Board of Directors or, in his absence, the Vice Chairman serving in his stead pursuant to the Bylaws, and in the absence of both the Chairman and the Vice Chairman, the Director designated by the Board of Directors, shall chair the General Shareholders' Meetings. In the absence of any express designation pursuant to the foregoing, the shareholder elected by the shareholders present at the Meeting shall serve as Chairman.</p> <p><b>Measures adopted to ensure independence and proper operation of the General Shareholders' Meeting:</b></p> <p>At the General Shareholders' Meeting held on June 21, 2003, the shareholders approved the Regulations for the General Shareholders' Meeting. Thereafter, Law 26/2003, of July 17, became effective, which amended Law 24/1988, of July 28, on the Securities Market and the revised text of the Companies Law, approved by Royal Decree 1564/1989 of December 22, in order to reinforce the transparency of the listed companies.</p> <p>Although, as indicated above, the Company already had Regulations for the General Shareholders' Meetings when Law 26/2003, of July 17, became effective, at the Ordinary General Shareholders' Meeting held on June 19, 2004, the shareholders approved, upon the proposal of the Board of Directors, new Regulations that incorporate the new features incorporated by such Law.</p> <p>The Regulations for the General Shareholders' Meeting, which include a detailed set of measures ensuring the independence and proper operation of the General Shareholders' Meeting, may be found on the website of the Group at the address specified in E.6. below.</p> <p>The specific measures implemented by the Company to improve the operation of the General Shareholders' Meeting at the meetings held during 2004 included voting and proxy-granting by electronic procedures (Internet) at the General Shareholders' Meetings held on June 19, 2004 and October 21, 2004 and mail voting at the General Shareholders' Meeting held on October 21, 2004. A detailed description of the votes cast as a percentage of the capital stock of the Company using the abovementioned voting and proxy procedures is included in E.7 of this Report.</p>

**E.6. Indicate, if applicable, the amendments made during the fiscal year to the regulations for the general shareholders' meeting.**

The Regulations for the General Shareholders' Meeting are available on the corporate website at [www.gruposantander.com](http://www.gruposantander.com). These Regulations can be

found in the main menu under "Information for Shareholders and Investors," in the "Corporate Governance" sub-menu under "Regulations for the General Shareholders' Meeting."

These new Regulations, which replaced the Regulations approved by the shareholders at the Ordinary General Shareholders' Meeting held on June 21, 2003, were approved by the shareholders at the Ordinary General Shareholders' Meeting held on June 19, 2004 and have not been modified since that date.

The differences between the texts are mainly related to the right to information, proxies, procedures for the remote casting of votes and proxy representation, voting on proposed resolutions, and real-time attendance at the General Shareholders' Meeting by remote means of communication ("on-line" Meetings).

Considering that the new Regulations had to be communicated to the National Securities Market Commission ("CNMV") and, for the first time, recorded with the Commercial Registry, the members of the Board considered it preferable to propose the abolition of the entire text of the existing Regulations and the corresponding approval of a completely new text.

In any event, the approved amendments only affected the preamble and eight out of twenty-five articles of the previous text, plus the inclusion of a new article 20 (and the corresponding re-numbering of the subsequent articles) together with an Additional Provision. The other provisions remain unchanged.

**E.7. Indicate the data on attendance at the General Shareholders' Meetings held during the fiscal year referred to in this report:**

Two General Shareholders' Meetings were held during the fiscal year: an Ordinary General Shareholders' Meeting held on June 19, 2004 and an Extraordinary General Shareholders' Meeting held on October 21, 2004. Attendance data related to these Meetings are provided below:

Date of General Shareholders' Meeting	Attendance data			Total
	% of shareholders present in person	% of shareholders represented by proxy	% distance voting	
06/19/2004	6.113%	40.565% <sup>(1)</sup>	0.003% <sup>(2)</sup>	46.681%
10/21/2004	4.785%	33.800% <sup>(3)</sup>	5.435% <sup>(4)</sup>	44.020%

(1) Of the percentage specified (40.565%), 0.003% corresponds to the capital represented by proxies granted through the Internet.

(2) The percentage specified corresponds to shareholders who cast their votes through the Internet.

(3) Out of the percentage specified (33.800%), 0.022% corresponds to the capital represented by proxies granted through the Internet.

(4) Out of the percentages specified (5.435%), 0.009% corresponds to electronic votes and 5.426% to mail votes.

**E.8. Briefly describe the resolutions adopted by the shareholders acting at the general shareholders' meetings held during the fiscal year referred to in this report and the percentage of votes by which each resolution was passed.**

Below is a description of the resolutions adopted by the shareholders at the Ordinary General Shareholders' Meeting held on June 19, 2004 and at the Extraordinary General Shareholders' Meeting held on October 21, 2004 (the only meetings held during fiscal year 2004), and the percentage of votes by which each of such resolutions was passed. The complete text of these resolutions can be found on the Group's website.

## Ordinary General Shareholders' Meeting of June 19, 2004

### VOTES

	For	Against	Abstentions	Blank votes
1. Approval of annual accounts and the corporate performance with respect to the 2003 financial year	96.78%	0.10%	3.03%	0.09%
2. Approval of application of the 2003 earnings.	98.03%	0.02%	1.86%	0.09%
3. Re-election of Mr. Fernando de Asúa Álvarez, Mr. Antonio Basagoiti García-Tuñón, Mr. Antonio Escámez Torres, Mr. Francisco Luzón López, Mr. Luis Alberto Salazar-Simpson Bos and Assicurazioni Generali S.p.A. as Directors, and ratification of the appointment of Mutua Madrileña Automovilista, Sociedad de Seguros a Prima Fija, as a Director.	97.59%	0.45%	1.87%	0.09%
4. Re-election of Deloitte & Touche España, S.L. as the Auditor for the 2004 financial year	97.82%	0.07%	2.02%	0.09%
5. Authorization for the acquisition of treasury stock.	97.55%	0.03%	2.33%	0.09%
6. Modification of corporate Bylaws: article 8 (replacement of references to the former Securities Clearing & Settlement Service by references to the present Management Company for Securities Registration, Clearing & Settlement Systems – Iberclear); 15 (elimination of the requirement to own 100 shares in order to personally attend a Shareholders' Meeting, as well as the regulation of share groupings); 16 (adaptation to the modifications of article 15 and regulation of the delegation of votes at General Shareholders' Meetings via remote means of communication); 22 (modification of reference to article 32 to the renumbering of the latter); 23 (inclusion of shareholders issuing their vote by remote means in the list of those attending the meeting); introduction of a new article 24 (to regulate voting via remote means of communication), renumbering the present articles 24 to 46 as new articles 25 to 47, a new article 26 (adaptation of the regulation of the shareholders' right to information to the recent legal modifications on this matter); a new article 32 (adaptation of the regulation of the duties of directors to the recent legal modifications on this matter); a new article 36 (the possibility that the Board may adopt resolutions in writing and without holding an actual meeting, and hold its meetings via videoconference or multiple telephone connection. Adoption of the Board's resolutions by absolute majority, unless the Law or the Bylaws demand a higher vote, and the possibility that the Regulations of the Board may raise the legal majority or that established by the Bylaws for specific matters); a new article 37 (modification of reference to article 35 to the renumbering of the latter) and a new article 46 (elimination of references to delegation and voting via electronic means, which are now regulated in articles 16 and 24, and the assignment to the Board of the authority to establish the appropriate electronic communication mechanisms and procedures between the Bank, its directors and its shareholders).	97.21%	0.04%	2.66%	0.09%
7. Elimination of the prevailing Regulations of the General Meeting of Shareholders and approval of new Regulations.	96.83%	0.03%	3.05%	0.09%
8. Delegation of powers to the Board so that, within a period of one year, it may indicate the date and establish the conditions for a capital increase, approved by the General Shareholders' Meeting, in an amount of 300 million euros.	97.19%	0.30%	2.42%	0.09%
9. Delegation of powers to the Board to issue fixed income securities not convertible into shares up to an amount of 20,000 million euros.	97.97%	0.06%	1.87%	0.09%
10. Authorization to the Board to interpret, correct, complement, execute and implement the resolutions adopted and the granting of powers to the Board to place such resolutions on public record.	97.98%	0.03%	1.90%	0.09%

## Extraordinary General Shareholders' Meeting of October 21, 2004

	VOTES			
	For	Against	Abstentions	Blank votes
1. Approval of a capital increase in the nominal amount of 755,689,951.5 euros by means of the issuance and circulation of 1,511,377,903 new common shares having a par value of one-half (0.5) euros, to be fully subscribed and paid-up by means of non-monetary contributions consisting of common shares of the British company Abbey National plc. Total suppression of pre-emptive rights and express provision for the possibility of an incomplete subscription. Option, in accordance with the provisions of Chapter VIII of Title VII and the Second Additional Provision of the Revised Text of the Corporate Income Tax Law ( <i>Ley del Impuesto sobre Sociedades</i> ) approved by Royal Legislative Decree 4/2004, for the special rules therein provided. Delegation of powers to the Board of Directors, authorizing the Board to delegate in turn to the Executive Committee, in order to set the terms of the increase in all areas not provided for by the shareholders at this General Meeting, perform the acts needed for the execution thereof, revise the text of the first paragraph of Article 4 of the Bylaws to reflect the new amount of share capital, execute whatsoever public or private documents as are necessary to carry out the increase and, with respect to the non-monetary contribution of the shares of Abbey National plc, opt for the special tax rules provided for the exchange of securities. Request applicable domestic and foreign agencies to admit the new shares to trading on the Madrid, Barcelona, Bilbao, and Valencia stock markets, through the Stock Exchange Interconnection System (Continuous Market) and the foreign Stock Exchanges on which the shares of Banco Santander are listed (currently Milan, Lisbon and Buenos Aires, and in New York through ADRs), in the manner required by each of them.	99.37%	0.31%	0.30%	0.02%
2. Authorization, within the framework of the acquisition of Abbey National plc by the Bank, and once such acquisition has been completed, for the continuation of certain options and rights to receive shares of Abbey National plc that it has currently granted to employees in its group, replacing options and rights to receive shares of Abbey National plc with options and rights to receive shares of the Bank.	98.67%	0.25%	1.05%	0.03%
3. Authorization for the delivery of one hundred (100) shares of the Bank to each of the employees of the Abbey National Group plc, as a special bonus upon the acquisition of Abbey National plc, once such acquisition has been completed.	90.57%	8.45%	0.96%	0.03%
4. Ratification of the appointment of Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea as Director.	98.28%	0.48%	1.21%	0.03%
5. Authorization for the Board to interpret, cure, supplement, execute and further develop the resolutions adopted, and the grant of powers to convert such resolutions into notarial instruments.	98.88%	0.14%	0.96%	0.03%

**E.9. Indicate, if applicable, the number of shares required to attend the general shareholders' meeting and whether there is any bylaw limitation in that respect.**

As indicated in last year's report, at the General Shareholder's Meeting held on June 19, 2004, the shareholders resolved to amend Article 15 of the Bylaws in order to allow the holders of any number of shares to attend the General Shareholders' Meeting. The first paragraph of said article states:

*“The holders of any number of shares registered in their name in the respective stock ledger five days prior to the date on which the General Shareholders’ Meeting is to be held and who are current in the payment of capital calls shall be entitled to attend General Shareholders’ Meetings.”*

**E.10. Indicate and justify the policies followed by the Company with respect to proxy-voting at the General Shareholders’ Meeting.**

The proxy card expressly set forth all the items of the Agenda and request the proxy-holder’s vote on each of such items. The identity of the proxy-holder shall also be requested.

In order to ensure the exercise of voting rights, the cards provide that:

- If the proxy has not been granted to a specific person, it shall be deemed to be granted to the Chairman of the Board.
- If no voting instructions have been provided, it shall be deemed that the vote is in favor of the proposal of the Board of Directors.

In addition, pursuant to Article 114 of the Securities Market Law, as amended by Law 26/2003, of July 17, on the Transparency of Listed Companies, the proxy cards used at the General Shareholders’ Meetings of June 19, 2004 and October 21, 2004 (the only meetings held by the Company as of this date after such Law 26/2003 was enacted) provide that if the shareholder’s representative has a conflict of interest in the voting for any of the proposals – whether or not included in the Agenda- submitted at the General Shareholders’ Meeting, the proxy would be deemed to be granted to the General Secretary of the Company in his capacity as a shareholder with the right to attend.

Moreover, at the General Shareholders’ Meetings held during fiscal year 2004, the shareholders were able to exercise their right to distance voting and the granting of proxies by electronic procedures (Internet). Furthermore, at the Extraordinary General Shareholders’ Meeting of October 21, 2004, the shareholders were also able to exercise their voting rights by mail. E.7 of this Report provides a breakdown of the votes recorded as a percentage of the Company’s capital stock, using the different voting and proxy-granting systems described in this paragraph at the General Shareholders’ Meeting held during the year.

In the case of proxies granted by remote means of communication, the provisions of Article 16 of the Bylaws and Article 8 of the Regulations of the General Shareholders’ Meeting shall apply. Such provisions provide as follows:

*“When a proxy is granted by remote means of communication, it shall only be deemed valid if the grant is made:*

a) by hand-delivery or postal correspondence, sending the Company the duly signed attendance card and proxy, or by other written means that, in the judgment of the Board of Directors recorded in a resolution adopted for such purpose, allows for due confirmation of the identity of the shareholder granting the proxy and of the representative being appointed, or

b) by electronic correspondence or communication with the Company, including an electronic copy of the attendance card and the proxy; such electronic copy shall specify the representation being granted and the identity of the party represented, and shall include the digital signature or other form of identification of the shareholder being represented, in accordance with the conditions set by the Board of Directors recorded in a resolution adopted for such purpose, to ensure that this system of representation includes adequate assurances regarding authenticity and the identity of the shareholder represented.

In order to be valid, a proxy granted by any of the foregoing means of remote communication must be received by the Company before midnight of the third day prior to the date the Shareholders' Meeting is to be held on first call. In the resolution approving the call to the Shareholders' Meeting in question, the Board of Directors may reduce the required notice period, disseminating this information in the same manner as it disseminates the announcement of the call to meeting. Pursuant to the provisions of Article 24.4 below, the Board may also expand upon the foregoing provisions regarding proxies granted by remote means of communication.

The proxy may include such items not included in the agenda which may be discussed in the Shareholders' Meeting pursuant to the Law.

**E.11. Indicate whether the company is aware of any policy of institutional investors as to participating or not in the decisions of the company:**

Yes

No

Describe the policy
--

**E.12. Indicate the address and manner for accessing corporate governance content on your website.**

In compliance with the resolution adopted by the Board of Directors of the Company at its meeting of January 23, 2004, all the information required by article 117 of the Securities Market Law, as amended by Law 26/2003, of July 17, on the Transparency of Listed Companies, and by Order ECO/3722/2003, can be easily found in the "Information for Shareholders and Investors" section of the main menu of Grupo Santander's website: [www.grouposantander.com](http://www.grouposantander.com).

## **F DEGREE OF COMPLIANCE WITH GOOD GOVERNANCE RECOMMENDATIONS**

Indicate the company's degree of compliance with existing good governance recommendations or whether the company has not adopted them, if applicable.

If the company does not comply with any of such recommendations, explain the recommendations, standards, practices or criteria applied by the company.

Until the single document referred to in ORDER ECO/3722/2003, of December 26, is prepared, the recommendations included in the Olivencia Report and in the Aldama Report should be used as a reference in completing this section.

Grupo Santander considers its actions to be guided by the basic principles of transparency, efficiency and the establishment of a strict catalog of duties of Directors and managers that fundamentally avoids conflicts of interest. These basic principles are reflected in the commentaries set forth below regarding the degree of compliance with Good Governance recommendations.

With respect to the structure of this Section, given the lack of a restated text containing the recommendations of the Special Commission for the study of an Ethical Code for the Board Directors of Companies (*Comisión Especial para el estudio de un Código Ético de los Consejeros de Administración de las Sociedades*) (hereinafter, the "Olivencia Code"), as well as the updates, revisions and recommendations of the Report of the Special Commission for the Promotion of Transparency and Safety in the Markets and in Listed Companies (*Informe de la Comisión Especial para el Fomento de la Transparencia y Seguridad en los Mercados y en las Sociedades Cotizadas*) (hereinafter, the "Aldama Report"), the Company has chosen to synthesize the following 25 most relevant aspects of such works.

This is intended to provide the most precise information possible regarding the degree of compliance with existing recommendations regarding corporate governance, which is intended to highlight the importance given by the Group to such matters, and specifically to the recommendations contained in the Olivencia Code as well as the Aldama Report.

### **Recommendation 1 regarding the functions of the Board of Directors.**

*According to the Olivencia Code:*

*"That the Board of Directors expressly assumes, as the core of its mission, the general function of supervision, exercises the duties such mission entails without delegation, and establishes a formal catalog of matters reserved to it."*

As the core of its mission, the Board of Directors assumes the function of supervision for the entire Group, delegating the ordinary management thereof to the corresponding executive decision-making bodies and the various management



teams. This principle is expressly set forth in the Regulations of the Board (Article 3).

However, this Regulation includes in the formal catalog of Board duties not only the general function of supervision, but also reserves to it certain of the most important decisions which cannot be delegated, without prejudice to those matters to be dealt with at the General Shareholders' Meeting.

The decisions belonging to the Board include, for example, the approval of general strategies, the identification of principal risks, the determination of policies regarding information and communication to the market, the acquisition and disposal of the most important assets and the appointment and removal, if applicable, of executive Directors and other members of Senior Management, as well as the setting of the compensation corresponding to their respective functions.

In any event, the Board has continuous and complete awareness of the different areas of the Company's business through the reports presented at its meetings by the Chief Executive Officer and, based on the list of matters approved by the Board to be dealt with each year, by other non-director managers of the business areas, including managers of the Group's foreign business units.

### **Recommendation 2 regarding independent Directors.**

*According to the Olivencia Code:*

*"That the Board of Directors include a reasonable number of independent directors, whose profile is that of persons of professional prestige who are not connected to the executive team or significant shareholders."*

The Board believes that independence should be the standard, be a predicate for all Directors, and be based on the solvency, integrity and professionalism of each of them, for which reason it does not believe it proper to attribute such quality only to those not affected by certain circumstances.

Therefore, a distinction is made between executive Directors and external Directors, and within the latter between proprietary and non-proprietary Directors. However, in line with the standards of the Olivencia and Aldama Reports, the Company includes the concept of Independent Director, defining it in Article 5 of the Regulations of the Board, but without prejudice to considering the Board to be a unitary body.

According to such Article 5, independent Directors are deemed to be those external or non-executive Directors who: (i) neither are nor represent shareholders capable of influencing the control of the Company; (ii) have not held executive positions therein during the past three years; (iii) are not connected by family or professional ties to executive Directors; or (iv) do not have and have not had relationships with the Company or the Group that might diminish their independence.

Applying the above standards, of the 19 Directors currently making up the Board of Directors, 5 are executive and 14 are external. Of the 14 external Directors, 6 are independent, 4 are proprietary and, in the opinion of the Board, 4 are neither proprietary nor independent.

Moreover, the professional career of the Directors is broad and distinguished in financial and banking activities. In addition, six Directors are or have been the chairman of large Spanish or foreign banks.

### **Recommendation 3 regarding the composition of the Board of Directors.**

*According to the Olivencia Code:*

*"That external directors (proprietary and independent) constitute a wide majority over executive directors in the make-up of the Board of Directors, and that the proportion between proprietary and independent directors is established taking into account the existing relationship between capital stock made up of significant blocks and the rest of the capital stock."*

*This recommendation has been updated by the Aldama Report in the following two ways:*

- (i) *"That the Board of Directors, through the directors, represent as large a percentage of capital stock as possible";*
- (ii) *"That there is a wide majority of external directors on the Board, and that among them, there is a very significant percentage of independent directors, taking into account the shareholding structure of the company and the capital represented on the Board."*

The Board of Directors believes that it is of great importance to its work that it has a representation of 4.215% of the capital of the Company as of year-end 2004, a percentage that should be considered in light of its broad shareholder base at December 31, 2004 of 2,685,317 shareholders.

On the other hand, in line with the recommendation of the Aldama Report, the Board has a wide majority of external Directors, 14 of them as opposed to 5 executive Directors, and a significant percentage of the "independent" Directors, as shown by the fact that 6 of the external Directors are independent Directors.

### **Recommendation 4 regarding the size of the Board of Directors.**

*According to the Olivencia Code:*

*"That the Board of Directors adjust its size to achieve more efficient and participatory operation. In principle, the proper size could range from five to fifteen members."*

*The Aldama Report has revised this point, eliminating the recommendation of the Olivencia Code regarding the maximum and minimum numbers of members of the Board, in accordance with the following recommendation:*

*"The Board of Directors should have a reasonable number of members to ensure the operation thereof and the work of each director, and to have all of the means necessary for the best and most efficient exercise of its functions, including communication with the heads of the various business and service areas and, if applicable, the assistance of external professionals and experts."*

The Bylaws (Article 30) provide that the maximum number of Directors be 30 and the minimum number be 14. The Company's Board is currently made up of 19

Directors, a number that the Institution believes is appropriate to ensure due representation on and efficient operation of its Board, thus complying with the provisions of the Regulations of the Board of Directors.

Moreover, communication between the Board and the heads of the different business areas is ensured by the fact that the same 5 Directors who provide first-hand reports on the Group's business are present on the Board.

Finally, executives of the Group who are not directors of the Bank also report to the Board regarding their respective areas of responsibility.

On this point, the information provided with respect to recommendation 14 (assistance of external professionals and experts) should be kept in mind.

### **Recommendation 5 regarding the executive Chairman.**

*According to the Olivencia Code:*

*"That, in the event the Board chooses the formula of combining the position of first executive of the company with that of the Chairman, it adopt the precautions needed to reduce the risks of concentration of power within a single person."*

The Chairman of the Board is the most senior authority of the Company, and has therefore been delegated all of the powers that are delegable in accordance with the Law, the Bylaws and the Regulations of the Board. The Chairman is responsible for directing the Company's management team, always in accordance with the decisions and standards set by the shareholders at the General Shareholders' Meeting and by the Board, within their respective scope of powers.

For his part, the Chief Executive Officer, by delegation and under the dependency of the Board of Directors and the Chairman, as the most senior authority of the Bank, handles the conduct of the business and the maximum executive functions of the Company.

The Chairman, apart from his executive functions, provides special attention and dedication to the proper operation of the Board and its Committees. In addition, at meetings of the Board, the work of the Chairman is centered on ensuring the proper operation thereof, fostering maximum participation by all the Directors and ensuring that they have sufficient information to perform their duties.

Finally, the structure of the group and individual decision-making bodies of the Board is configured to allow for the balanced action of all of them, including the Chairman. To cite only a few particularly relevant aspects thereof, it should be noted that:

- The Board and its Committees (regarding which detailed information is provided in B.2. of this Report) perform the duties of supervision and control of the actions of the Chairman as well as of the Chief Executive Officer.
- The 1<sup>st</sup> Vice Chairman, who is an external independent director, chairs the Appointments and Remuneration Committee and acts as the coordinator of the Directors in this category.

- The powers delegated to the Chief Executive Officer are equal to those delegated to the Chairman, excluding the powers that are reserved exclusively to the Board itself.
- The Chief Executive Officer is in charge of the daily management of the various business areas, reporting to the Chairman.

**Recommendation 6 regarding the Secretary of the Board.**

*According to the Olivencia Code:*

*"That greater significance be given to the position of Secretary of the Board, reinforcing the Secretary's independence and stability, and emphasizing the Secretary's function of ensuring the formal and substantive legality of the Board's actions."*

The Regulations of the Board (Article 10) expressly include among the duties of the Secretary of the Board, assisted by the Assistant Secretary, where applicable, attention to the formal and substantive legality of the Boards actions, ensuring that its governance procedures and rules are respected and regularly reviewed. In addition, the Regulations provide that the Secretary assist the Chairman in his work and provide for the proper operation of the Board, concerning himself especially with providing the Directors with necessary advice and information, preserving corporate documentation, duly reflecting the progress of meetings in the minutes, and attesting to the resolutions of the Board.

Cohesion in the above-mentioned work of the Board, which in turn is performed by the Committees of this body, is strengthened by having provided in the Regulations of the Board that the Secretary of the Board of Directors shall always be the General Secretary of the Company and the Secretary of the Executive Committee and all other Committees of the Board of Directors.

The figure of the Board Secretary is especially important, and the Secretary has a support team which is required for the performance of his duties.

The stability thereof is corroborated by the fact that the position of Board Secretary has been exercised by the same person since 1994.

**Recommendation 7 regarding the Executive Committee.**

*According to the Olivencia Code:*

*"That the composition of the Executive Committee, when it exists, reflect the same balance that is maintained by the Board among the different classes of directors, and that the relationships between both decision-making bodies is based on the principle of transparency, such that the Board has a complete understanding of the matters dealt with and decisions made by the Committee."*

*The Aldama Report qualifies the Olivencia Code in stating that:*

*"The Board of Directors shall decide the composition of this Committee, recommending that, when the executive committee totally or significantly assumes the powers of the Board, its composition be similar to that of the Board itself regarding the participation therein of the different categories of directors."*

The Executive Committee is a basic instrument in the functioning of the corporate governance of the Company and of its Group. It has a composition that the Board believes to be well balanced, in that it is composed of 10 Directors (5 executive and 5 external), of which 2 are independent, and another 3 who are neither proprietary nor independent. Therefore, the percentage of independent Directors on such Committee is 20%.

For its part, the Board is composed of 19 Directors, 5 of which are executive and 14 of which are external. 6 of these 14 external Directors are independent Directors, 4 are proprietary Directors and, in the opinion of the Board, 4 are neither proprietary nor independent Directors. Accordingly, the percentage of independent Directors on the Board is 32%.

Given the nature of the Executive Committee as a collective decision-making body, preeminence is given to the efficiency standard set forth in Article 13.1 of the Regulations of the Board, even though due regard is given to the participation of independent Directors, to the extent that they amount to one fifth of the members of the Committee.

Moreover, based on the principle of transparency, the Executive Committee submits complete information to the Board regarding the decisions it makes, and proposes those decisions that are reserved exclusively to the Board.

### **Recommendation 8 regarding the Committees of the Board of Directors.**

*According to the Olivencia Code:*

*"That the Board of Directors create delegated monitoring Committees, composed exclusively of external directors, on matters of accounting information and monitoring (Audit); selection of directors and senior managers (Appointment); determination and review of compensation policy (Compensation); and evaluation of the governance system (Compliance)."*

Pursuant to the provisions of the Regulations of the Board, the Company's Board of Directors has created an Audit and Compliance Committee and an Appointments and Remuneration Committee, with the duties of supervision, information, advising and proposal-making for matters within their competence. Neither of these two Committees is deemed a delegated committee of the Board for purposes of the provisions of Article 141 of the Companies Law.

### **Audit and Compliance Committee.**

The Audit and Compliance Committee is created within the Board with a function that basically consists of evaluating the accounting information and verification systems, ensuring the independence of the Auditor and reviewing the internal monitoring and compliance systems of the Company and its Group. Its mission, as defined and approved by the Board of Directors, is set forth in the Bylaws and in the Regulations of the Board.

In order to carry out its work, it has Directors that the Regulations provide must be exclusively external directors, with a majority of independent Directors, and its Chairman must always be an independent Director who also has knowledge and

experience in accounting techniques and principles, as is the case. Currently, the Chairman of this Committee is the 4<sup>th</sup> Vice Chairman of the Board.

Its functions, which have been listed in previous sections of this document, include the report to the shareholders at the General Meeting on matters within its competence, as well as the review, prior to dissemination thereof, of the periodic information provided to the markets and to supervisory entities, in addition to the annual information. The Audit and Compliance Committee reviews the financial statements of the Company and of the Group, ensures compliance with legal requirements and the correct application of generally accepted accounting principles, and also reports on proposals to modify accounting principles and standards that are suggested by the Management.

In addition, this Committee proposes to the Board the Auditor, the conditions under which it is hired, the scope of its professional duties and, if applicable, the renewal or non-renewal of such appointment, always watching over the independence thereof and paying attention to the circumstances or issues that might put such independence at risk and any other issues relating to the process of auditing the financial statements.

In order to carry out this work, the Audit and Compliance Committee supervises the Internal Audit services, which report to the Board of Directors, and is familiar with the financial information process and internal control systems.

The Audit and Compliance Committee has issued a report that is distributed together with the Annual Report of Grupo Santander, and which addresses in detail the following issues:

a) Composition, duties and powers, and operational procedures of the Committee.

b) Activities performed in 2004, grouped in accordance with the basic duties of the Committee:

- Financial information
- Auditor
- Internal control systems of the Group
- Internal Audit
- Compliance and Prevention of Money-Laundering
- Corporate Governance
- Recommendations of supervisory bodies
- Information to the Board and to the shareholders at the General Shareholders' Meeting, and assessment of the effectiveness of and compliance with the Company's governance rules and procedures

c) The Committee's assessment of its performance during 2004.

## **Appointments and Remuneration Committee.**

This is another specialized Committee of the Board, with no delegated powers. The Regulations of the Board provides that this Committee be made up exclusively of external Directors, and that its Chairman be an independent Director, which he is.

Its duties, also dealt with in preceding sections of this Report and defined in the Regulations of the Board, include the establishment and review of the standards to be followed in determining the composition of the Board and the selection of those persons who will be proposed to serve as Directors. In particular, this Committee makes proposals for the appointment, re-election and ratification of Directors, as well as the appointment of the members of each of the Committees of the Board of Directors, based on standards of objectivity and conformance to the corporate interests.

On the other hand, the Appointments and Remuneration Committee proposes to the Board the form and amount of, and the procedures relating to, the annual compensation of the Directors and Executive Vice Presidents, and watching over the transparency thereof and ensuring the inclusion of information regarding the compensation of Directors in the Annual Report and in the Annual Corporate Governance Report.

The Appointments and Remuneration Committee has issued a report, distributed together with the Annual Report of Grupo Santander, which sets forth the following items in detail:

- a) Composition
- b) Duties and powers
- c) Activities performed in 2004
  - Appointments and withdrawals of Directors
  - Compensation
  - Directors' obligations and compliance therewith

### **Recommendation 9 regarding the information prepared for the Directors.**

*According to the Olivencia Code:*

*"That the necessary measures are adopted to ensure that sufficient information is available to the directors, sufficiently in advance, which is specifically prepared and oriented towards preparing the meetings of the Board, without dispensing with the significance or confidential nature of the information in the application thereof, except under exceptional circumstances."*

As provided by the Regulations of the Board, meetings are called 15 days in advance by the Secretary of the Board, or by the Assistant Secretary in his absence, who sends to the Directors the draft agenda proposed by the Chairman at least 4 days prior to the holding of the meeting of the Board – which must approve it, and also sending them the required information and documentation, normally at least 3 days prior to the holding of the meeting.

The information provided to the Directors prior to the meetings is specifically prepared in order to prepare for these meetings, and is oriented towards such purposes. In the opinion of the Board, such information is complete.

In addition, the Regulations also set forth the right of the Directors to receive at each meeting or subsequent thereto, any information or clarifications they deem appropriate with respect to the items on the agenda.

The information regarding recommendation 14 should also be kept in mind with respect to this point.

### **Recommendation 10 regarding the operation of the Board.**

*According to the Olivencia Code:*

*"That, in order to ensure the proper operation of the Board, its meetings are held with the frequency necessary to carry out its mission; the participation and free taking of positions by all of the Directors is encouraged by the Chairman; special care is taken in the drafting of the minutes; and the quality and efficiency of its work is evaluated at least annually."*

*In addition, the Aldama Report states that the Board:*

*"Shall meet on all occasions in which requested to do so by the Chairman or a sufficient number of directors, and also in accordance with the Bylaws and Regulations. Throughout the fiscal year, there must be a specific analysis of the budget for and progress towards the strategic plan, if any, and the degree of fulfillment thereof, as well as the quarterly financial statements that the company must send to bodies regulating or supervising the markets for publication."*

The Regulations of the Board provides for a minimum of nine ordinary annual meetings. In addition, the Board must meet whenever so decided by the Chairman upon his own initiative or at the request of at least three Directors. There were thirteen meetings during fiscal year 2004.

The Chairman directs debate, ensures the proper functioning of the Board, and encourages the participation of all of the Directors at the meetings and deliberations of the Board.

The Directors may delegate their vote in writing to another Director for each meeting.

At meetings of the Board, the Chief Executive Officer reports on the progress of the Company and the Group and the fulfillment of their objectives, including the budget, and submits the quarterly and annual financial statements of the Company and its Group, once they have been reviewed by the Audit and Compliance Committee.

The drafting of the Board's minutes discussed in the commentary to recommendation 6 should also be kept in mind.

Finally, in response to the commitment assumed by the Chairman at the June 19, 2004 Meeting, the Company hired Spencer Stuart to manage a Board self-evaluation process, which has been carried out by reviewing, through the



answering of a questionnaire and personal interviews of the Directors, the following subjects:

- Organization and operation of the Board of Directors and of the following Committees: Executive, Delegated Risks, Audit and Compliance, and Appointments and Remuneration.
- The issues discussed at the meetings of the Board of Directors and of the above Committees, and participation by Directors.
- The information available to Directors to comply with their duties, and the role of the Office of the Secretary of the Board of Directors.
- The definition of the Company's strategic approach.
- The definition of Directors' duties and the performance thereof.

The self-evaluation has clearly shown the Directors' positive opinion about the changes in the operation of the Board and its Committees, and their belief that, based on their own experience, the Board of Santander has high standards with respect to best practices in the operation of Boards of Directors.

In addition, the Audit and Compliance Committee has prepared a report regarding the efficiency and compliance with the Company's governance rules and procedures during 2004, which it has submitted to the Board of Directors.

#### **Recommendation 11 regarding the selection and re-election of Directors.**

*According to the Olivencia Code:*

*"That the participation of the Board in the selection and re-election of its members follows a formal and transparent procedure, based upon a reasoned proposal of the Appointment Committee."*

The Appointments and Remuneration Committee prepares, based on standards of objectiveness and conformance to the corporate interests, the proposals for appointment, re-election and ratification of Directors. Such proposals are submitted to the Board itself, in cases of appointments by co-option, or by the Board for approval by the shareholders at the General Shareholders' Meeting.

The Appointments and Remuneration Committee also proposes and reviews the standards that should be followed in order to determine the composition of the Board and select those persons who will be proposed to serve as Directors.

The Company's Bylaws do not contain limitations on eligibility for the position of Director.

#### **Recommendation 12 regarding the resignation of Directors.**

*According to the Olivencia Code:*

*"That Companies include in their regulations the obligation of Directors to resign in instances that might negatively affect the operation of the Board or the credit or reputation of the company."*

The Regulations of the Board of Directors (Article 21) provide that in events where there is an incompatibility or legal prohibition or that might negatively affect the operation of the Board or the credit or reputation of the Company, the Director must tender his resignation to the Board if, after a report from the Appointments and Remuneration Committee, the Board of Directors deems it appropriate.

**Recommendation 13 regarding age limits for Directors.**

*According to the Olivencia Code:*

*"That an age limit be established for the holding of the position of director, which might be sixty-five years for executive directors and the chairman, and somewhat more flexible for the rest of the members."*

*This recommendation has been revised by the Aldama Report to eliminate the age limit established by the Olivencia Code for holding the office of Director, and to add:*

*"That a company adopting a policy on this matter should do so with clarity in its internal regulations (Bylaws or Regulations)."*

Pursuant to the provisions of the Regulation of the Board (Article 19.5), there is no age limit to be named Director or to hold this office.

**Recommendation 14 regarding the Directors' right to information and assistance from experts.**

*According to the Olivencia Code:*

*"That the right of all directors to gather and obtain information and the advice needed for the performance of their duties of supervision be formally recognized, and that proper channels for the exercise of this right be established, including resort to external experts under special circumstances."*

As evidence of the importance that the Company gives to the Directors' right to information, the Regulations of the Board dedicate an entire chapter thereto (Chapter VII). These Regulations vest Directors with the right to request and obtain information regarding any aspect of the Company and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which empowers them to examine the books, records, documents and any other records of corporate transactions, and to inspect the premises and facilities thereof.

The Directors have the right to collect and to obtain, through the Secretary, such information and advice as is necessary for the performance of their duties.

In addition, the Regulations expressly recognize the right of the Directors to be assisted by experts in the performance of their duties. Thus, Directors may ask the Board to hire external advisors, at the Company's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties, and such request can only be rejected by the Board on reasoned grounds.

**Recommendation 15 regarding Director compensation policy.**

*According to the Olivencia Code:*

*"That the director compensation policy, the proposal, evaluation and review of which should be performed by the compensation Committee, conforms to standards of moderation, correspondence to the earnings of the company, and detailed and individualized information."*

*On the other hand, with respect to Director compensation, the Aldama Report specifies that:*

*"It can be generally recommended that compensation consisting of the delivery of shares of the company or group companies, stock options, or options linked to share prices, should be limited to executive or internal directors."*

The proposal, evaluation and review of Director compensation policy is performed by the Appointments and Remuneration Committee. Pursuant to the provisions of the Regulations of the Board, such Committee should be guided in its action by endeavoring to ensure that the compensation of Directors conforms to standards of moderation and correspondence to the earnings of the Company.

In addition, the Appointments and Remuneration Committee is responsible for watching over the transparency of compensation, ensuring the inclusion in the Annual Report and the Annual Corporate Governance Report of information regarding the compensation of Directors.

Grupo Santander already anticipated the requirements in this area imposed by regulatory innovations occurring during fiscal year 2003 in the area of transparency for listed companies, going even further by publishing in 2002 a detailed and individualized list of compensation of any kind received by the Company's Directors, including executive Directors. Such information, as regards fiscal year 2004, is included in this Annual Corporate Governance Report.

Finally, the external Directors have not been granted options to the Bank's stock or compensation linked to changes in the price thereof.

#### **Recommendation 16 regarding the Directors' duty of loyalty.**

*According to the Olivencia Code:*

*"That the internal regulations of the company specify the obligations arising from the directors' general duties of diligence and loyalty, specifically contemplating the situation of conflicts of interests, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets."*

The duties of the Directors are regulated in the Regulations of the Board. Upon modification of Article 27 thereof to include a more detailed regulation of these duties, in accordance with the provisions of Articles 127, 127 *bis*, 127 *ter*, and 127 *quater* of the Companies Law and Article 114.3 of the Securities Market Law, all in accordance with the text resulting from Law 26/2003, the Regulations expressly contemplate the following:

- The duty of diligent management, which includes the duty to diligently inform oneself regarding the progress of the Company.
- The duty of faithfulness to the interests of the Company.

- The duty of loyalty, which includes, among other things, the obligation to abstain from voting and to disclose in cases conflicts of interests, the obligation to refrain from exploiting business opportunities for their own benefit, and the obligation to report interests or positions in companies with the corporate objectives that are the same as or complementary or analogous to those of the Company, or the performance of such activities for their own account.
- The obligation to remain passive with respect to confidential information.
- The duty of secrecy, even after ceasing to act as a Director.

Some of the above duties continue even after a Director has ceased to hold their position, as is the case with the duty of confidentiality just mentioned above, or the duty not to compete contained in Article 20 of the Regulations of the Board, pursuant to which a Director who finishes his or her term or for any other reason ceases to hold office may not provide services to another entity that has a corporate objective analogous to that of the Company, for a period of two years.

Finally, it should be noted that the duties of loyalty and secrecy apply not only to Directors, but to the Secretary and Assistant Secretary as well.

**Recommendation 17 regarding transactions with significant shareholders.**

*According to the Olivencia Code:*

*"That the Board of Directors promotes the adoption of appropriate measures to extend the duties of loyalty to significant shareholders, in particular, providing for vigilance regarding transactions entered into between such shareholders and the company."*

Pursuant to the provisions of the Regulations of the Board, the Board is aware of any direct or indirect transaction between the Company and a significant shareholder, evaluates such transactions from the point of view of the equal treatment owed to all shareholders and market conditions, and includes information about these transactions in the Annual Corporate Governance Report, pursuant to applicable regulations.

**Recommendation 18 regarding proxy-granting and communication with shareholders.**

*According to the Olivencia Code:*

*"That measures are implemented to make the proxy-granting mechanism more transparent and to promote communication between the company and its shareholders, particularly its institutional investors."*

**Transparency in the proxy-granting mechanism.**

In the internal regulations of the Company, representation or proxy-granting at the General Shareholders' Meetings is governed by Articles 16 and 46 of the Bylaws and Article 8 of the Regulations for the General Shareholders' Meeting.

As indicated in last year's report, at the General Shareholders' Meeting held on June 19, 2004, upon the proposal of the Board, the shareholders approved

amendments to conform them to Articles 105 and 106 of the Companies Law and Article 114 of the Securities Market Law, as amended by Law 26/2003, of July 17, and to endeavor to provide greater ease in the use of remote voting and proxy-granting.

Pursuant to the provisions of the Regulations for the Meeting, beginning on the date of the call to the Meeting, which is expected to be held on June 18, the Group's corporate website will contain the details relating to the means and procedures to grant a proxy. The means and procedures for proxy-granting by data transmission means and for distance voting by electronic means will also be indicated, as occurred with the Shareholders' Meetings held during fiscal year 2004.

At the General Shareholders' Meeting held during fiscal year 2004, the shareholders could exercise their right to distance voting and proxy-granting by electronic procedures (Internet). In addition, at the Extraordinary General Shareholders' Meeting on October 21, 2004, the shareholders could also exercise their right to vote by mail. Subsection E.7 of this Report contains a detailing of the votes recorded as a percentage of the Company's capital using the various systems for voting and proxy-granting described in this paragraph at the Meetings held during the fiscal year.

In the case of proxies granted by remote means of communication, the rules described in Articles 16 of the Bylaws and 8 of the Regulations for the Meeting apply, pursuant to which:

*"When a proxy is granted by remote means of communication, it shall only be deemed valid if the grant is made:*

*a) by hand-delivery or postal correspondence, sending the Company the duly signed attendance card and proxy, or by other written means that, in the judgment of the Board of Directors recorded in a resolution adopted for such purpose, allows for due confirmation of the identity of the shareholder granting the proxy and of the representative being appointed, or*

*b) by electronic correspondence or communication with the Company, including an electronic copy of the attendance card and the proxy; such electronic copy shall specify the representation being granted and the identity of the party represented, and shall include the digital signature or other form of identification of the shareholder being represented, in accordance with the conditions set by the Board of Directors recorded in a resolution adopted for such purpose, to ensure that this system of representation includes adequate assurances regarding authenticity and the identity of the shareholder represented.*

*In order to be valid, a proxy granted by any of the foregoing means of remote communication must be received by the Company before midnight of the third day prior to the date the Shareholders' Meeting is to be held on first call. In the resolution approving the call to the Shareholders' Meeting in question, the Board of Directors may reduce the required notice period, disseminating this information in the same manner as it disseminates the announcement of the call to meeting. Pursuant to the provisions of Article 24.4 below, the Board may also expand upon the foregoing provisions regarding proxies granted by remote means of communication.*

*The proxy may include such items not included in the agenda which may be discussed in the Shareholders' Meeting pursuant to the Law."*

On the other hand, the proxy cards expressly set forth all of the items on the Agenda, requesting an indication of the vote for each of them. A determination of the shareholder to whom the proxy is being granted is also requested.

In order to ensure the casting of the vote, the cards provide that:

- In the case of a failure to grant the proxy to a specific person, it shall be deemed to be granted to the Chairman of the Board.
- In the case of a failure to indicate voting instructions, it shall be deemed that the vote is in favor of the proposal of the Board of Directors.

In addition, pursuant to the provisions of Article 114 of the Securities Market Law, as amended by Law 26/2003, of July 17, on Transparency of Listed Companies, the proxy cards used at the General Shareholders' Meetings of June 19, 2004 and October 21, 2004, the only meetings held by the Company through the date hereof since the entry into force of the above-mentioned Law 26/2003, provide that if the representative of the shareholder is in a conflict of interest in the voting on one of the proposals submitted at the Meeting, whether or not included on the Agenda, the proxy shall be deemed granted to the General Secretary of the Company in his capacity as a shareholder with the right to attend.

Finally, the Group's corporate website reports the entire content of all of the proposed resolutions, setting forth the reasons for such resolutions, in a manner which allows the shareholders to evaluate the decision being proposed and to make their own judgment.

### **Communication with the shareholders, and particularly with institutional investors.**

The exercise of the legal right to information is further developed in the internal regulations of the Company, in Article 26 of the Bylaws and in Articles 7 and 18 of the Regulations for the General Shareholders' Meeting. Regarding these Articles, the shareholders at the Ordinary General Shareholders' Meeting held on June 19, 2004, upon the proposal of the Board, approved changes to conform them to Article 112 of the Companies Law, as amended by Law 26/2003, of July 17.

Communication with shareholders is governed by Articles 28 and 29 of the Regulations of the Board.

The shareholders may generally communicate with the company by means of postal and electronic correspondence, as well as through the shareholders attention line.

On the other hand, in accordance with the provisions of the Regulations of the Board, there is a department that handles the regular exchange of information with institutional investors that are shareholders of the Company. However, as also provided by the Regulations of the Board, the Company takes the measures

necessary so that relations between the Board and institutional shareholders do not involve in any case the delivery to such shareholders of information that might put them in a privileged or advantageous position regarding the other shareholders.

During 2004, there were 843 meetings with investors, analysts and rating agencies, as well as socially responsible investors (SRIs). In addition, 178,480 individual shareholders were attended to personally.

**Recommendation 19 regarding information to be supplied to the markets.**

*According to the Olivencia Code:*

*"That the Board of Directors, beyond the requirements imposed by current rules, shall be responsible for supplying rapid, specific and trustworthy information to the markets, especially when referring to the shareholding structure, to substantial modifications of the governance rules, to significant related-party transactions or to treasury stock."*

The Regulations of the Board (Article 31.1.) provide for the Board of Directors to inform the public immediately regarding: a) material facts capable of significantly influencing the quoted price of the Company's shares; b) changes that materially affect the shareholding structure of the Company; c) substantial modifications of the Company's governance rules; d) significant related-party transactions with members of the Board, and e) significant treasury stock transactions.

In addition, in compliance with the recommendations of the Aldama Report regarding the right of investors to know key information regarding the decision-making procedures of listed companies and significant aspects of corporate governance, the Regulations of the Board also provide, in addition to what is mentioned in the preceding paragraph, that the Board of Directors prepare and make public a corporate governance report on an annual basis, pursuant to the provisions of Law.

Based on the foregoing, the Company has communicated 114 reports of material information to the Spanish National Securities Commission ("CNMV") during 2004, and has approved this Annual Corporate Governance Report, although it also includes a chapter on corporate governance in its Annual Report.

**Recommendation 20 regarding periodical financial information.**

*According to the Olivencia Code:*

*"That all periodic financial information, in addition to annual information, that is provided to the markets be prepared in accordance with the same principles and professional practices as for the annual financial statements, and is verified by the Audit Committee prior to being disseminated."*

Pursuant to the provisions of the Regulations of the Board (Article 31.2.), the Board has adopted the measures necessary to ensure that quarterly and semi-annual financial information and other information provided to the markets is prepared in accordance with the same principles, standards and professional practices with which the annual financial statements are prepared, and are just as reliable. For

this purpose, such information is reviewed by the Audit and Compliance Committee prior to its public dissemination.

**Recommendation 21 regarding the independence of the external auditors.**

*According to the Olivencia Code:*

*"That the Board of Directors and the Audit Committee watch for situations that might entail risk to the independence of the Company's external auditors, and specifically, that they verify the percentage that fees paid for all matters represent of the total income of the auditing firm, and that public notice is given of the fees corresponding to professional services other than those of auditing."*

Given the importance of this aspect of corporate governance to the Company, the Board has expressly entrusted the duty of guarding the independence of the Auditor to the Audit and Compliance Committee, with such Committee being in charge of channeling the relationship thereof with the Board.

In addition, the Company has mechanisms established in the Regulations of the Board (Article 32) to preserve the independence of the Auditor, including that the Board shall abstain from hiring those auditing firms in which the fees that are expected to be paid for all matters are greater than two percent of the total income thereof for the last fiscal year. Also, the Regulations of the Board limit contracting with the auditing firm for other services apart from auditing, which might put the independence thereof at risk.

On the other hand, the Regulations impose upon the Board the requirement to make public the overall fees paid by the Company to the Auditor for services other than auditing.

The Chairman of the Audit and Compliance Committee meets periodically with the Auditor in order to ensure the effectiveness of its review and to analyze possible situations that might entail a risk to the independence thereof.

On pages 162 and 219 of the Annual Report of Grupo Santander corresponding to fiscal year 2004, there is detailed information regarding payments made to the Auditor for auditing work as well as for other services, as well as the comparative ratio between the payments for both concepts and an indication of the percentages that such payments entail of all fees billed by such auditor on a worldwide basis.

**Recommendation 22 regarding qualifications in the audit report.**

*According to the Olivencia Code:*

*"That the Board of Directors endeavor to avoid that the financial statements it prepares be submitted at the General Shareholders' Meeting with reservations and qualifications in the auditors report, and when this is not possible, that the Board as well as the auditors clearly explain the content and scope of the discrepancies to the shareholders and the markets."*

As detailed in B.1.25. of this Report, the mechanisms used for such purpose can be summarized as follows:



- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Company and the Group, all in accordance with legal requirements and generally accepted accounting principles.
- Review by the Audit and Compliance Committee of the financial statements prepared by the services of the Company and of the Group. The Audit and Compliance Committee is a body specialized in this area, is made up entirely of external Directors and is presided over by the Fourth Vice Chairman, who is also an independent Director. This Committee serves as the normal channel of communication between the Board and the Auditor.
- Periodic contact between the Auditor and the Board (two meetings<sup>(\*)</sup> during 2004) and between the Auditor and the Audit and Compliance Committee (thirteen meetings during 2004) to verify sufficiently in advance any possible differences of opinion.
- In the event of a discrepancy, when the Board believes that its opinion must prevail, it shall in any event provide a public explanation of the content and scope of the discrepancy.

The provisions of the applicable Regulations of the Board relating to these mechanisms are set forth below:

Articles 14.1 and 14.2 c), e) and f). Audit and Compliance Committee.

*“1. The Audit and Compliance Committee shall consist of a minimum of four Directors and a maximum of seven, all of whom shall be external or non-executive, with independent Directors having majority representation. In all events, it shall be presided over by an independent Director, who shall also be knowledgeable about and experienced in accounting techniques and principles.*

*2. The Audit and Compliance Committee shall have the following duties:*

*c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, and report on the proposals for alterations to the accounting principles and standards suggested by the management.*

*e) Know the process for gathering financial information and the internal control systems.*

*f) Serve as a channel of communication between the Board and the Auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the*

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<sup>(\*)</sup> During fiscal year 2004 the Auditor was present at two other meetings of the Board of Directors, where it reported on matters relating to the acquisition of Abbey National plc.

*Board and the Auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavor to ensure that the statements ultimately drawn up by the Board are submitted to the General Shareholders' Meeting without any qualifications or reservations in the Auditor's report."*

Articles 32.1 and 32.5. Relations with the Auditor.

*"1. All relations between the Board of Directors and the Auditor shall be channeled through the Audit and Compliance Committee.*

*Notwithstanding the foregoing, the Auditor shall attend the meetings of the Board of Directors twice a year in order to submit its report and permit all the Directors to have access to as much information as possible regarding the content and conclusions of the Auditor's reports relating to the Company and the Group.*

*5. The Board of Directors shall use its best efforts to definitively prepare the financial statements such that there is no room for comments by the Auditor. However, when the Board believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy."*

No reservations or qualifications have been made to the individual financial statements of the Company or to the consolidated financial statements of the Group in the last three fiscal years, although there is a mention regarding the uniformity of financial statements (individual and consolidated) for fiscal year 2004 as compared to the previous fiscal year with respect to the accounting treatment of pension commitments arising from early retirements, which is due exclusively to credit entities being prohibited by the Bank of Spain from charging such obligations against their reserves. During fiscal year 2003, with the express authorization of the Bank of Spain, the commitments arising from early retirements by the Bank and by other companies of the Group were charged against reserves. More information is provided in the Report of the Audit and Compliance Committee released together with the Annual Report and in the audit reports for the individual and consolidated annual financial statements for fiscal year 2004.

### **Recommendation 23 regarding the annual corporate governance report.**

*According to the Olivencia Code:*

*"That the Board of Directors include in its annual public report information regarding its governance rules, providing reasons for rules that do not conform to the recommendations of this Code."*

Grupo Santander, pursuing its objective of maximum transparency, anticipated the requirements imposed by Article 116 of the Securities Market Law, as amended by Law 26/2003, of June 17, as well as Order ECO/3722/2003, by incorporating a large portion of the information required by the regulations currently in effect into its Annual Report for fiscal year 2002.

This Annual Corporate Governance Report for fiscal year 2004 includes not only the governance rules of the Company and its group and the degree of compliance therewith, but the content hereof fully responds to the recommendations of the

Aldama Report and the above-referenced regulations, by including information regarding: a) the ownership structure of the Company; b) the management structure of the Company; c) related-party transactions and intra-group transactions; d) risk control systems, and e) the functioning of the General Shareholders' Meeting. In addition, the Group's Annual Report contains information that is individualized and broken down by the different types of compensation to Directors, including executive Directors, reaching maximum levels of transparency beyond what is postulated by the Aldama Report and required by current regulations.

Pursuant to the recommendations of the Aldama Report and current regulations, this Report has been examined and approved by the full Board at its meeting on March 28, 2005, and is available to all of the shareholders on the Group's website.

#### **Recommendation 24 regarding the Regulations of the Board of Directors and the Regulations for the General Shareholders' Meeting.**

*According to the Aldama Report:*

*"All companies must have a set of corporate governance rules or standards, at least including Regulations for the General Shareholders' Meeting and of the Board of Directors."*

#### **Regulations for the General Shareholders' Meeting.**

In line with the recommendations of the Aldama Report, Grupo Santander anticipated the requirements imposed by Law 26/2003, of July 17, by having a specific regulation for general shareholders' meetings, when the "Regulations for the General Shareholders' Meeting of Banco Santander Central Hispano, SA" was approved at the Ordinary General Shareholders' Meeting of June 21, 2003.

At the Ordinary General Shareholders' Meeting of June 19, 2004, the Regulations were abolished and a new draft was approved to reflect the innovations introduced by Law 26/2003, of July 17, on Transparency of Listed Companies (for more details, see E.5 and E.6 of this Report).

The scope of application of such Regulations contains the recommendations of the Aldama Report, by including matters relating to the call to meeting, preparation, information, attendance, progress and exercise of political rights with respect to the shareholders.

#### **Regulations of the Board of Directors.**

As a clear definition of the functioning and the powers to be exercised by the different decision-making bodies of the Company is one of the cornerstones of good governance at Grupo Santander, the Board of Directors approved its first Regulations on June 24, 2002.

The Board approved a new draft of the Regulations of the Board at its meeting on March 29, 2004. Finally, at its meeting on March 28, 2005, the Board of Directors made a purely technical amendment to the Regulations of the Board, replacing the

references in Article 25 thereof to Article 37 of the Bylaws with references to Article 38 of such Bylaws.

These new Regulations are available to any shareholder or investor on the Group's website.

**Recommendation 25 regarding the corporate website.**

*According to the Aldama Report:*

*“Companies listed on a stock exchange should have a web page through which they may inform their shareholders, investors and the general market regarding financial and all other facts of a significant nature that occur with respect to the company, as well as to facilitate the participation of the shareholders in the exercise of the right to information and other corporate rights, if any.”*

In the execution of the resolution adopted by the Company's Board of Directors at its meeting of January 23, 2004, all of the information required by Article 117 of the Securities Market Law, as amended by Law 26/2003, of July 17, on Transparency of Listed Companies, and by Order ECO/3722/2003, is easily accessible in the “Information for Shareholders and Investors” section of the main menu of Grupo Santander's corporate website: [www.gruposantander.com](http://www.gruposantander.com).

## **G OTHER INFORMATION OF INTEREST**

**If you believe that there is any relevant principle or aspect regarding the corporate governance practices applied by your company that has not been discussed in this Report, please mention and explain it below.**

**In this section, you may include any other information, clarification or comment relating to the prior sections of this report to the extent that it is relevant and not repetitive.**

**Specifically, indicate whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information that the company is required to release and that is different from the information released in this Report.**

The Company does not submit an Annual Corporate Governance Report other than that governed by Order ECO/3722/2003.

There is no additional information that is not contained in the preceding sections of this Report.

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**This annual corporate governance report has been approved by the Board of Directors of the company, at its meeting held on**

March 28, 2005.

**Indicate the Directors or Members of the Board of Directors who have voted against or have abstained from approving this Report.**

None.