Annual Report 2009

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Appendix A

Santander
(Banco Santander, S.A.,
the majority shareholder of
Santander BanCorp) A-1

Investor Information
and Announcements Back Inside Cover

The year 2009 was a rewarding one for Santander BanCorp ("the Corporation"). The effort and dedication put forth by everyone in the institution led to important financial milestones. Even though the economy continued immersed in prolonged economic recession, the Corporation was able to reposition as a leading financial institution in Puerto Rico.

Juan Moreno
President and Chief Executive Officer

Santander BanCorp (NYSE: SBP; Latibex: XSBP)
Annual Report 2009

The year 2009 was a rewarding one for Santander BanCorp ("the Corporation"). The effort and dedication put forth by everyone in the institution led to important financial milestones despite the economic and financial difficulties experienced by Puerto Rico's financial industry.

Even though the economy continued immersed in prolonged economic recession, the Corporation was able to reposition as a leading financial institution in Puerto Rico, not necessarily in size, but in profitability, asset quality and capital strength.

The story for 2009 continued to be one of persistent labor market weakness, stagnation in construction activity, rising bankruptcies, continuous asset quality deterioration and erosion in profit and capital in the local financial industry. However, as these events unfolded we repositioned in order to mitigate losses and reduce risk exposure to preserve asset quality and contain credit costs. We further improved the Corporation's credit management practices, something that yielded outstanding results for the institution, as asset quality was preserved and capital strengthened.

The Corporation's management and associates also remained focused on developing differentiated products and on providing the highest standard of service quality to customers, businesses and institutions of all sizes in Puerto Rico. Our efforts in these areas yielded positive results, increasing client activation for organic growth.

These initiatives helped to strengthen the Corporation's earning power in spite of mounting competitive pressure in the market. In addition, we were able to consistently manage and contain operating expenses to improve operating efficiency.

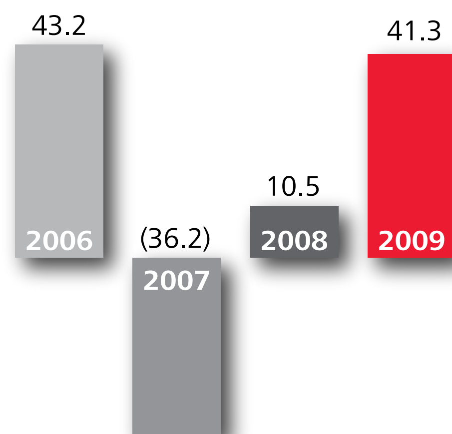
Our financial performance in 2009 clearly reflects our emphasis on achieving our commitment to increasing the Corporation's profitability for the benefit of our shareholders.

Earnings

The Corporation experienced an increment in net income of $30.8 million in 2009 compared to 2008. The increase in net income was principally due to decreases of $55.5 million and $23.0 million in operating expenses and provision for loan losses, respectively.

The decline in the provision for loan losses was attributed primarily to the reduction in the average loan balance and to more stringent origination and underwriting criteria. The Corporation sold $483.7 million in construction, commercial and mortgage loans, including some classified as impaired, to an affiliate, contributing to reduce provision requirements. In 2009, the Corporation sold for $142 million in cash a total of $149.2 million of these loans, which had a net book value of $142 million comprised of an outstanding principal balance of $149.2 million and a specific valuation allowance of $7.2 million.

Net Income
($millions)



For the year ended December 31, 2009, net interest income declined $4.6 million to $351.7 million compared to the same period in 2008. However, net interest margin, on a tax equivalent basis, increased from 4.50% in 2008 to 5.56% in 2009. This improvement in net interest margin reflects a decrease of 106 basis points in the cost of interest expense on average deposits and borrowings together with a $1.6 billion decrease in average interest-bearing liabilities.

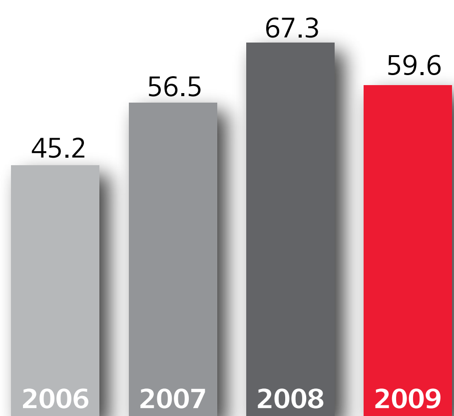
The Corporation experienced a decrease of $1.6 billion in average earning-assets compared to the previous year due primarily to a reduction of $1.1 billion in average net loans, $553.6 million in average investment securities, and $30.0 million in average interest-bearing deposits. The decrease in average net loans was mainly the result of the sale of commercial and construction loans, including some classified as impaired, to an affiliate. The average commercial and construction loans reflected a decrease of $413.6 million and $279.0 million, respectively, between 2008 and 2009, mainly to the sale of loans and net repayments during the period.

Non-interest income decreased $25.4 million for the year ended December 31, 2009, compared to the same period in 2008, totaling $122.4 million. Broker-dealer, asset management and insurance fees declined by $12.1 million to $62.7 million during the same period.

The fees generated by the broker-dealer and asset management subsidiaries totaled $59.6 million in 2009, resulting in a $7.7 million decline compared to 2008. This reflects primarily the reduction in the broker-dealer sales force, continued turmoil in the local financial markets that directly impacted our commission business and the decrease in new issuances of fixed-income transactions in the local capital markets. Also, insurance fees totaled $3.0 million in 2009, declining by $4.4 million compared with fees generated in 2008. The driving factor behind this reduction in insurance fees was the decrease in the consumer loan portfolios at Banco Santander Puerto Rico ("the Bank") and Santander Financial, which in turn led to a reduction in credit life commissions.

Brokered Dealers, Asset Managemnet Fees

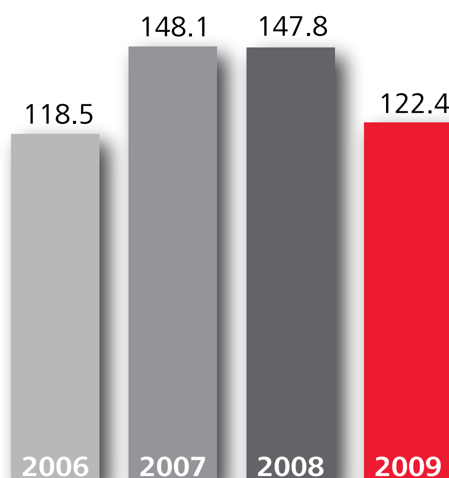
($millions)



The Bank's service charges and fees declined $4.8 million for the year ended December 31, 2009. The reduction in bank service charges was attributed primarily to a $4.3 million decrease in commissions from confirming advances. These advances consist of the payment by the Bank on behalf of its clients of transactions for a fee. During 2009, the Corporation sold $495.4 million of investment securities available for sale and realized a gain of $9.3 million. This gain was offset by a loss of $9.6 million included in other gains (losses), on the early termination of repurchase agreements that were funding the securities sold.

Total Other Income

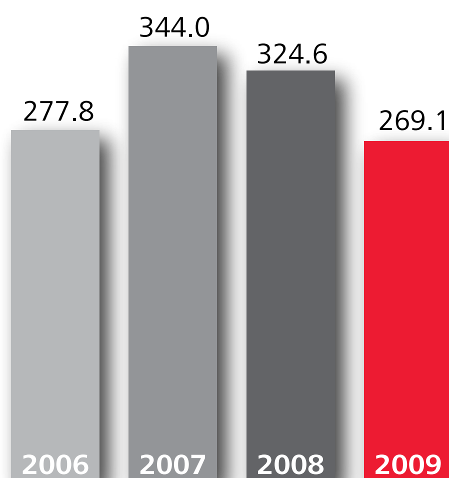
($millions)



The Corporation remained focused on streamlining its operations to reduce operating expenses and improve efficiency in 2009. Operating expenses declined by $55.5 million, from $324.6 million in 2008 to $269.1 million in 2009. This reduction was driven by a decrease of $18.1 million in personnel costs and $37.4 million in other operating expenses. The decrease in other operating expenses reflects the effect of the provision for claims receivable of $25.1 million from Lehman Brothers Inc., which was recognized during the third quarter of 2008. This provision was accounted for as a valuation allowance in cases for which the amounts due by the institution could not be collected.

Operating Expenses

($millions)

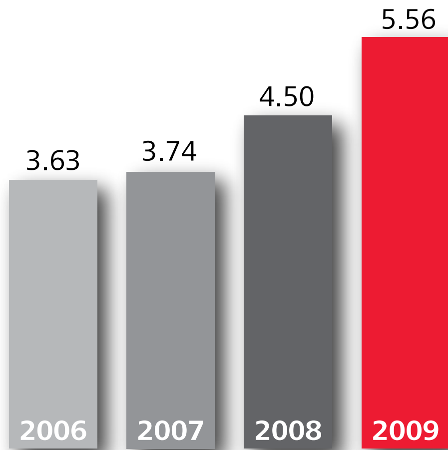


Key Achievements

In 2009, the Corporation remained focused on the implementation of its business model, which included, among other things, maximizing organic growth opportunities through cross-selling to diversify revenues, strengthening its credit risk management framework to maintain asset quality, and controlling operating expenses to improve efficiency.

Net Interest Margin

(%)



On the revenue side, the Corporation experienced an increase in net interest margin, on a tax-equivalent basis, from 4.50% for the year ended in December 31, 2008, to 5.56% for the year ended December 31, 2009. This improvement reflects our ongoing efforts to price products according to a fair assessment of their underlying risk, in addition to the emphasis on minimizing funding costs.

The Corporation also remained committed to fostering revenue diversification to grow organically. Cross-selling and client activation remained the backbone of our efforts in this area. We focused on improving the quality of service to promote client satisfaction and to increase the volume of transactions. In addition, we implemented and upgraded our analytical tools to design value proposition products that could allow improvements in cross-selling and client activation. These efforts yielded positive results in 2009.

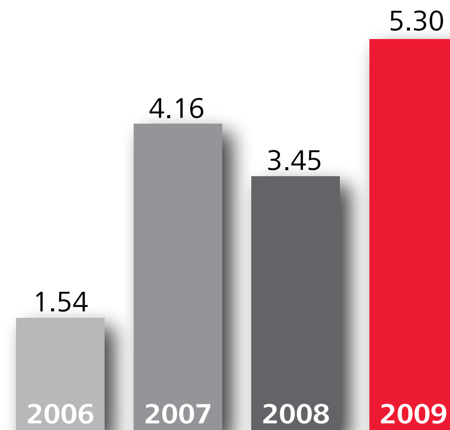
With a customer base of over 400,000 clients as of December 31, 2009, the Corporation was able to increase its cross-selling index from 3.23% per individual as of December 31, 2008, to 3.49% per individual as of December 31, 2009, whereas the index for business customers increased from 3.50% per business to 3.78% per business during the same period. An additional improvement was achieved in the client activation index, i.e., the transactions executed by clients, where it increased 1.7 percentage points over that of 2008 to 74.9%. The loyalty index also increased from 37.1% in 2008 to 41.3% in 2009.

The Corporation continued striving for continuous improvements in efficiency by controlling operating expenses and streamlining operations. Through the implementation of its cost-reduction program, which includes the optimization of the Corporation's headcount, we were able to contribute to efficiency improvements and to maintaining operating expenses in 2009 below the prior year level. The efficiency ratio, on a tax-equivalent basis, improved 362 basis points, from 60.39% in 2008 to 56.77% in 2009.

The preservation of asset quality remained a top priority in our agenda because of its importance in containing credit costs and in preserving capital. Instead of growing our business by increasing loan balances, we implemented a series of initiatives that strengthened the Corporation's credit risk management framework and improved problem loan workouts and collections, helping to curb the growing trend in credit cost. In addition, the Corporation in 2009 sold $142.0 million in commercial, mortgage and construction loans, including some classified as impaired, to an affiliate aiming to reduce its credit exposure in these segments while strengthening its balance sheet.

Nonperforming Loans / Total loans

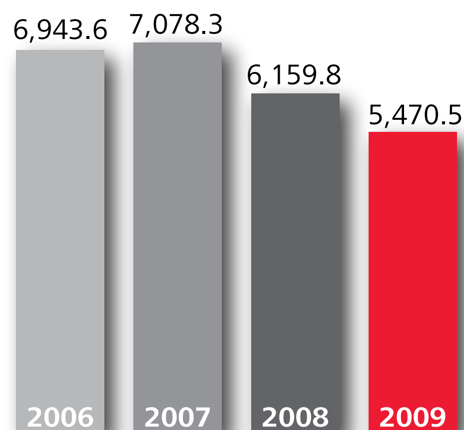
(%)



As a result of these initiatives the Corporation's loan portfolio (including loans held for sale) declined by $689.4 million to $5.5 billion between 2008 and 2009. Although the Corporation's nonperforming loans as a percentage of total loans (NPLs) increased from 3.45% in December 2008 to 5.30% in December 2009, it remained significantly lower when compared to the industry average, as nonperforming loans continued to stabilize.

Total Loans

($millions)



Retail Banking

Banco Santander Puerto Rico (the "Bank") is the retail banking subsidiary of Santander BanCorp. It serves individual clients and small- and medium-sized businesses, providing a full range of financial products and services through its network of 54 banking branches and 145 ATMs. In 2009, the Bank represented one of the largest branch networks and client deposit franchise (excluding brokered deposits) in Puerto Rico.

Lending activities constitute one of the most important aspects of the Bank's retail business. However, in 2009, our loan portfolio declined as we implemented more stringent risk management practices, sold loans from the construction, commercial, and mortgage portfolio to an affiliate and increased net repayments. The commercial retail business lending portfolio, which is largely composed of small- and middle-market businesses, agricultural businesses and commercial mortgage lending, declined from $1.5 billion in 2008 to $1.3 billion in 2009. The consumer lending portfolio also declined from $566.6 million to $443.9 million during the same period, primarily due to a 32% reduction in the installment loan portfolio and 9.5% in the credit card portfolio.

We know that our customers highly value the quality of financial service provided to them, and this is an essential component for improving client satisfaction and business growth. By grasping a better understanding of the key drivers that enhance clients' satisfaction we were able to reassess our plans to foster growth in our customer base, primarily within the high-income segment of the market. That is why in 2009 the retail banking unit successfully launched its *Banca Preferente (Preferred Banking)* program. The program offers our affluent and high net worth clients personalized and integrated financial services to satisfy their credit, investment, insurance and transactional needs. This initiative yielded positive results in the number of new clients and additional volume of deposits, exceeding the goal originally set for 2009 by 70% and 711%, respectively.

In the small- and medium-size business segment, the Bank reinforced its collection efforts and restructured problem loans to control delinquency and nonperforming loans. On the deposit side, we were able to increase the number of commercial customers by promoting to commercial clients the use of our points of sale and commercial internet banking. In addition, we worked actively on developing new products to better serve our commercial clients. One product launched in 2009 was *Linea de Crédito Ágil (Agile Credit Line)*, which facilitated the process of consulting, disbursing and repaying credit lines. Further, we prepared ourselves for the future by concentrating efforts on designing and implementing various reports and processes that will accelerate the Bank's response time to customers' commercial loan requests.

Wholesale Banking

The Wholesale Banking unit serves major corporate and institutional clients including the public sector, not-for-profit organizations and specialized industries such as universities, healthcare and financial institutions. This unit offers a full array of products and specialized services, including construction lending, deposit accounts, international commerce and cash management.

In 2009, the wholesale banking unit remained focused on increasing corporate customer deposits and improving loyalty levels by offering them fee income and transactional products such as cash management services, electronic lock box and collection services, among other corporate transactional products.

To minimize the impact of the current adverse economic environment on the construction and commercial loan portfolios, the wholesale banking unit tightened credit standards and loan granting in these segments and concentrated efforts on developing portfolio management strategies targeted to anticipate adverse economic trends and control delinquency levels while increasing interest margins. Consequently, the corporate banking loan portfolio declined by $79.8 million, from $692 million as of December 31, 2008, to $612.2 million as of December 31, 2009. The construction portfolio also declined from $194.0 million to $70.7 million during this period.

Despite these adjustments we were able to provide new financing to key corporate clients in 2009. Some of the more significant wholesale banking transactions include the origination of a $40.0 million loan to one of the main wholesale distributors in the local market, the participation with $20 million in a $190 million syndicate to grant financing to one of the biggest shopping centers on the island, granting a credit line of $50 million to a municipal government agency, and providing $11.5 million in financing to a municipality to finance infrastructure projects.

Mortgage Banking

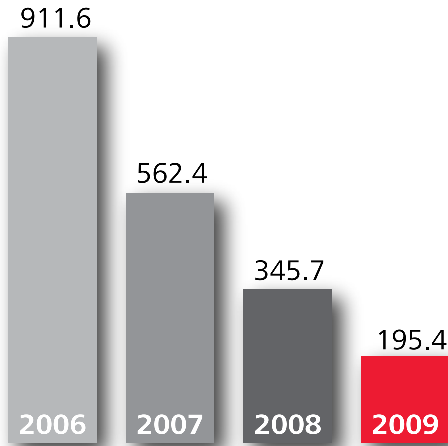
The mortgage banking unit originates, sells, and services residential mortgage loans and securitizes and sells mortgages to the secondary market. Total mortgage loan originations totaled $195.4 million in 2009; the mortgage loan portfolio reached $2.4 billion by year-end and the mortgage servicing portfolio consisted of $1.4 billion serviced for other institutions.

The deterioration in the industry's asset quality continued driving our emphasis on credit risk management rather than growth in loan origination and business volume. In 2009, the mortgage banking unit implemented a loss mitigation strategy to help our customers overcome the economic recession, refinancing $96 million in outstanding loans. This strategy helped to stabilize the trends in loan delinquencies and nonperforming loans. Another measure that was implemented to preserve the quality of the mortgage portfolio included

the increase in confirming loans from 28% in 2008 to 73% in 2009. Despite our emphasis on asset quality, we were able, through our mortgage operations, to remain fully engaged in complementing the marketing initiatives undertaken by local residential developers to promote the real estate market with attractive financing alternatives for new homeowners.

Mortgage Originations

($millions)



Consumer Finance

Santander Financial is the Corporation's consumer finance subsidiary. During 2009, Santander Financial, which operates under the trade name "Island Finance," celebrated 50 years of uninterrupted service in Puerto Rico. The company provides consumer loans and real estate-secured loans through a network of 60 branches in Puerto Rico. As of December 31, 2009, Santander Financial was the second largest consumer finance company in Puerto Rico, with total loan portfolio of $558.9 million.

During first half of 2009 Santander Financial continued experiencing weak loan volumes, which kept putting pressure on our average net balances. However, during the second part of the year the company addressed the weakness in loan demand with a series of telemarketing campaigns that allowed it to contain portfolio reduction to just $19.3 million by the end of the year from the $578.2 million held in the loan portfolio in 2008. This allowed Santander Financial to continue generating adequate margins to support its streamlined expense base, cover its loan losses and become profitable for the second year in a row.

We remain confident that Santander Financial, through risk strategies at both the origination and collection ends, coupled with its rigorous approach to expense management and a well-aligned pricing strategy, will allow the company to meet the formidable challenges presented by the current economic environment.

Wealth Management

Santander Securities Corporation ("Santander Securities"), the Corporation's wealth management subsidiary, achieved outstanding results in 2009. Santander Securities fulfilled its goal of offering high-quality investment services by bringing forward timely products and assisting clients in navigating a year of financial uncertainty and continued economic downturn.

As a result of renewed activity in Puerto Rico's fixed income market with several new bond issues in 2009 and the marked recovery of the US stock market, Santander Securities was able to close the year with $5.5 billion in retail assets under management. The success in the wealth management business is mainly attributable to the firm's focus on client service by providing unparalleled experience and leadership in the local market.

Throughout the year, Santander Securities participated in the underwriting and structuring of over $8.2 billion of fixed income products in the US and Puerto Rico capital markets. The firm had leading roles in the issuance and sale of over $1.25 billion in Government Development Bank Senior Notes and $1.2 billion in Puerto Rico Sales Tax Financing Corporation bonds in the local capital markets. In addition, Santander Securities co-managed issues totaling over $5 billion for Puerto Rico issuers in the US tax-exempt market and also acted as placement and structuring agent in several transactions for public entities totaling over $400 million.

Another important component of Santander Securities operations is Santander Asset Management Corporation ("SAM"). A wholly owned subsidiary of Santander Securities, SAM is the second largest asset manager in Puerto Rico with a 24% market share, and it is the asset manager of the First Puerto Rico Family of Funds, which ended 2009 with $3.2 billion in assets. SAM also has over $638 million in assets under management for institutional clients, which consist primarily of public corporations, insurance companies, university endowments and pension plans.

In a very difficult year for the Puerto Rico capital market and financial sector as a whole, Santander Securities was able to successfully deliver competitive products to its client base coupled with its commitment to excellent customer service and prudent investment advice. Despite continued financial turmoil and uncertainty in Puerto Rico, the firm remains a major driving force behind the Corporation's fee income, a formidable builder of investor confidence during these difficult times, and a provider of wealth opportunities for investors in Puerto Rico.

Insurance

Santander Insurance Agency ("Santander Insurance"), the insurance agency of Santander BanCorp, offers a growing base of products, including life, disability and unemployment insurance for consumer loans, and dwelling, flood, and title insurance for mortgage loans as a corporate agent. The agency also operates as a general agent for multiple local and international insurance companies, offering traditional and innovative insurance products for personal needs such as homeowners, auto, life, disability and cancer policies. For the commercial segment, the agency also offers bid, payment and performance bonds, auto fleets, and property and liability business solutions.

Most Santander Insurance business comes from credit-related activities from Santander Financial and the Bank. However, the curtailment of lending in both subsidiaries had a direct impact on Santander Insurance fees. In 2009, these fees declined to $3.0 million compared with $7.4 million in 2008, mainly as a result of the reduction in credit life commissions generated from retail banking business and the Island Finance operations.

During 2009, Santander Insurance began to diversify into non-credit related insurance products to compensate for commissions lost from banking activities. The agency experienced a 9% increase in subscribed premiums over the previous year for a total of $35 million. As part of the commercial initiatives, fixed annuities were sold and the "stock" of annuity products increased from $3.9 million in 2008 to $8.1 million in 2009, producing a 49% increase in commissions. Also, the number of cancer insurance policies increased 171% in 2009, with a 54% growth in commissions.

Our commitment to the insurance business is to continue looking for new market opportunities that could allow us to expand the scope of our operations, thus contributing to our objective of improving cross-selling and diversifying revenues for a more stable profitability.

Stock Performance

Santander BanCorp's common stock value as of December 31, 2009, was $12.28, representing a market capitalization of $572.7 million, a 72% price increase compared to its 52-week low of $7.14 as of December 31, 2008. The Corporation's stock price surged 135% compared to its market low of $5.22 on July 17, 2009, reflecting the market receptivity to our efforts in preserving asset quality, strengthening capital and restoring growth despite the financial challenges that the financial service industry faced throughout the year.

Thanks for Your Trust

The year 2009 posed significant challenges for Santander BanCorp. The economic recession and the adverse credit cycle pressured our margins and profitability, but we were able to give a positive turn to the Corporation's profitability in 2009.

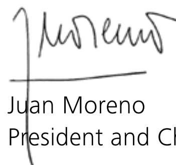
While the economy navigated through the recession and the credit cycle continued affecting performance in the financial industry, we were focused foremost on three fundamentals: improving cross-selling opportunities for revenue diversification, keeping ongoing strict control of operating expenses, and preserving asset quality. The unique business model implemented at the Bank not only led to improvements in cross-selling, but also yielded positive results in terms of client activation and revenue diversification. The emphasis on controlling operating expenses contributed to additional improvements in efficiency, whereas the establishment of a strong overall risk management framework allowed the Corporation to preserve asset quality at adequate levels despite the rapid deterioration in credit market conditions.

We believe that these actions have helped to strengthen our business foundations, and when the economic environment once again improves, we will be in a better position to benefit as opportunities arise from the transformation of Puerto Rico's financial sector. We remain confident about our competitive position and ability to achieve this goal in order to generate attractive results for our shareholders. We were once again recognized by the prestigious banking publication *Global Finance* and *The Banker* as the best bank of the year for Puerto Rico in 2009. This achievement underscores our determination and the reality of our goal: becoming the best financial institution in Puerto Rico.

In closing, I would like to thank the management team and our associates for their firm commitment to our goals and strategies and to the directors of Santander BanCorp for their guidance through a very challenging year.

Our gratitude also goes to our customers for the ongoing confidence in our ability to serve their needs and to our shareholders for their support and belief in our vision for growth.

Sincerely,



Juan Moreno
President and Chief Executive Officer

Socially responsible management at Santander

Programs that bolster higher education are the best way to contribute to the growth and the social and economic progress of individual communities.

Banco Santander S.A. ("Santander"), the majority shareholder of Santander BanCorp (the "Corporation"), is convinced that, particularly in the current economic context, socially responsible management ensures the long-term viability of the business and contributes to sustainable development in the countries in which it operates.

Although 2009 presented significant challenges for the local financial industry and economy as a whole, the Corporation, driven by its longstanding commitment to Santander's principle of social responsibility, reinforced its pursuit of programs designed to contribute to the social and economic development of Puerto Rico. The Corporation remained strongly committed to serving local communities through initiatives that support the advancement of programs established to stimulate opportunities in higher education, focus attention on community action, and preserve the environment.

Advancement of higher education: a corporate priority

Programs that bolster higher education are the best way to contribute to the growth and the social and economic progress of individual communities. Thus, Santander makes education the first priority of its Corporate Social Responsibility program worldwide through the *Santander Universidades Global Division* and *Universia*, the world's largest Spanish and Portuguese-speaking university collaboration network. This model was founded and is driven by Santander in support of academic institutions and their collectives. It is also an instrument for facilitating cooperation among universities in a wide range of countries.

In Puerto Rico, support for higher education, research and knowledge are also the hallmarks of the Corporation's social responsibility agenda through its *Santander Universidades* program and the *Universia Puerto Rico* network. They work side by side to promote the advancement of higher education initiatives on the island and to forge a unique alliance of the worlds of business and higher education.

Alliances with the island's major universities through *Santander Universidades*

The Corporation's *Santander Universidades* division continues to maintain strong alliances with five of the island's major institutions of higher education through collaborative agreements as part of its Higher Education Assist Program. These institutions include *Universidad de Puerto Rico*, *Universidad Interamericana de Puerto Rico*, *Pontificia Universidad Católica de Puerto Rico*, *Universidad Carlos Albizu* and *Universidad Central de Bayamón*. In 2009, the Corporation invested through its *Santander Universidades* program over $500,000 to support academic agendas in expanding educational opportunities, scholarship funds, student exchange programs, and research as well as to offer better educational services, among other initiatives.

Socially responsible management at Santander

To continue strengthening its positioning as *El Banco de los Universitarios* (The Bank for University Students, Faculty and Administration), the Corporation opened its first *Santander Universidades* full-service branch at the *Plaza Universitaria* building, located across from the main entrance of the *Río Piedras* campus of the *Universidad de Puerto Rico (UPR)*, the island's largest university with over 63,000 students. The *Plaza Universitaria* branch provides banking services to members of the UPR *Río Piedras* academic community, more than 22,600 students, professors and administrative staff. It also includes an integrated center for university student services managed with the collaboration of the Office of the Dean of Students of the campus.

The Corporation's *Santander Universidades* division also collaborated with the *Universidad Carlos Albizu (UCA)*, a private, non-profit higher education institution in Old San Juan, to carry out various projects. Among them was the Corporation's sponsorship of an electric vehicle to facilitate transportation within the UCA campus; the implementation of the *Tarjeta Universitaria Inteligente* (*"TUI"* University Intelligent Card) technology, a card issued by the Corporation's *Santander Universidades* division that serves as an ID and can also be used as a debit card or to access classrooms, among other things; and a Santander Universidades Office stand located at the entrance of the main university building to provide the UCA community access to a complete array of banking services.

For the third consecutive year, the Corporation's *Santander Universidades* division sponsored the non-profit organization *Liga Atlética Interuniversitaria de Puerto Rico's* main event, the island's biggest and most well-attended annual inter-university sports competition, with an attendance of over 50,000 students from 21 local universities.

Other initiatives of the Corporation's *Santander Universidades* division included financial planning seminars for professors and administrative staff of the *Universidad Interamericana de Puerto Rico* and the *Pontificia Universidad Católica de Puerto Rico*. Offered with the collaboration of the Corporation's wealth management subsidiary, Santander Securities, the seminars highlighted the importance of saving and preparing for retirement.

The *Universia* network continues to grow and now embraces 1,169 universities and higher education institutions in 23 Latin American countries.

New opportunities for the university community at the *Universia* network

The *Universia* network continues to grow and now embraces 1,169 universities and higher education institutions in 23 Latin American countries. It works to provide a space to exchange knowledge, promote innovation and boost cooperation, to help create new opportunities for the university community in areas related to employment, ongoing training and the creation of social networks. It develops its work by promoting actions through four strategic areas: Job Opportunities, Training and Development, Observatory for the Future of Science and Higher Education, and Social Networks. Within this framework, the *Universia* website (www.universia.net) offers specialized content and services to the entire university community.

Universia Puerto Rico, the local network, is a proven model of collaboration between the island's universities and the private sector as it acts as an advocate for change and innovation, helping universities develop joint projects and generate new opportunities for the academic community. In 2009, students and professors of 18 higher education institutions (representing 94% of Puerto Rico's college population) benefited by logging on to its website (www.universia.pr) and by accessing thousands of sources of information.

Among the key projects of *Universia Puerto Rico* in 2009 was the Professional Development Program for people affected by unemployment, in close collaboration with the Municipal Agency for Employment Opportunities of the Municipality of Carolina. Through training and development seminars, *Universia Puerto Rico* helped 95% of the participants to obtain jobs.

Another success story for *Universia Puerto Rico* in 2009 was the development of the Inter Futura Academy of Leadership at the *Universidad Interamericana de Puerto Rico (INTER)*, the largest private university on the island. The project consisted of designing and developing a series of specialized courses for professors and other outstanding members of the *INTER* staff to prepare them for future leadership roles at the university.

Other collaborations of *Universia Puerto Rico* in 2009 included strategic alliances with three local editorial projects: *Radio Universidad de Puerto Rico*, the *UPR* radio station; the *Diálogo* publication, the *UPR* newspaper; and *Prensa Comunitaria*, a non-profit organization that promotes the development of new media projects among local disadvantaged communities.

Under the slogan "Research, Innovation and Market: the Potential Role of the University," the Fifth Conference of University Presidents and Chancellors, hosted by *Universia Puerto Rico* in 2009, provided an interesting forum for more than 100 high-ranking representatives of local universities to discuss relevant issues affecting the quality of the island's higher education curriculum. After the Conference, Universia Puerto Rico was responsible for generating the report titled "What is the role of the university in the promotion of Puerto Rico as an investment destination and a potential market for international businesses and industries," currently available at www.universia.pr.

In 2009, *Universia Puerto Rico* hosted two major events for local university students: the U>Rock Contest for Rock Bands and the First Invitational Soccer Cup. While 33 local rock bands competed in U>Rock for a chance to travel to Spain to participate in the U>Rock final, four local university soccer teams battled to win the Soccer Cup in order to go to Guadalajara, Mexico, to defend their title at the Universia 2010 Soccer Cup.

Socially responsible management at Santander

Contributing to the well-being of local communities

The Corporation has always played an active role in the social and economic development of the communities it serves. Its Community Reinvestment Act (CRA) division has consistently contributed to the well-being of people in need of assistance by supporting community development initiatives that enhance the quality of their lives, a long standing record of service.

Since 2003, the Corporation's CRA division has had a leadership role in the CRA Committee of the Puerto Rico Bankers Association by assuming, among other things, a key role in the creation of the annual Community Reinvestment Week.

The Corporation's CRA division also promotes home ownership through the *Mi Casa Santander*- First Home Club (My Santander Home) program, a joint effort with the Federal Home Loan Bank of New York, which provides origination of loans and assistance for first-time home buyers. The assistance consists of matching a homebuyer's systematic savings in a dedicated account, and providing attractive rates. As part of the program, first-time homebuyers attend workshops where they learn firsthand the benefits and responsibilities of home ownership, among other topics. In 2009, Banco Santander Puerto Rico (the "Bank"), the Corporation's banking subsidiary, remained one of the few local banks to offer the program.

The *Contigo* (With you) program is another key endeavor specifically designed to improve the quality of life in low- and moderate-income communities. The goal is to attend mainly to the unbanked population of local communities by providing financial education and creating awareness of the important financial considerations that impact the lives of their residents. The program enlists the support of the Office of Special Communities of the Commonwealth government and Puerto Rico's municipalities.

For the fourth consecutive year, the Corporation's CRA division sponsored the award presentation of *Premio a la Solidaridad…Honrando lo que nos une* (Award for Solidarity…Honoring that which unites us). The award is given annually by the Miranda Foundation, a non-government organization whose mission is to stimulate the cause of standing together for community improvement and the practice of community involvement values in Puerto Rico. In 2009, the honor went to "the G-8," or the eight communities bordering the Caño Martín Peña neighborhood in Hato Rey. The G-8 has been working very hard to resolve housing issues affecting the neighborhoods around the Caño. Their work clearly demonstrates how socially motivated organizations can encourage positive change. The Corporation's CRA division has an ongoing program in these communities that provides an example of the effectiveness of the Bank's hands-on approach. The Bank continually works with the G-8 families by sponsoring their activities and making donations to their projects.

During 2009, the Corporation's CRA division actively participated on nine boards of directors of nonprofit, community and non-government organizations, encouraged bank officials to join and serve as volunteers and provided financial aid to many organizations. These include: Alliance for Economic and Community Development - Puerto Rico Community Foundation, *Proyecto Enlace del Caño Martín Peña*, Habitat for Humanity, Entrepreneurial Support for the Cantera Peninsula, Advisory Committee Economic and Financial Alliance, Consumer Credit Counseling Services of Puerto Rico, the San Juan Municipal Office of Special Communities, Alliance for the Improvement of the San Juan Family and the Company for the Integral Development of the Cantera Peninsula.

Committed to protect our environment

The Corporation sponsors community-based initiatives such as environmental cleanup efforts that foster environmental awareness and preserve the island's natural resources.

The International Coastal Clean-up Day, which has become the largest grassroots environmental cleanup event in Puerto Rico, is one of the initiatives the Corporation has actively sponsored and supported since it began in 2002.

In 2009 the Corporation not only sponsored the event, but also organized its own team of volunteers, which joined forces with other local volunteers to clean over 220 coastal sites, including rivers, lakes and beaches. More than 230,000 pounds of trash were removed from the island's shores.

Another hands-on environmental initiative supported by the Corporation took place at the Centro Esperanza (Center for Hope) of Loíza, on the island's northeastern coast. The center focuses on childhood education programs for low-income families of the neighborhood. Assisted by the Commonwealth Department of Natural Resources, a group of Corporation employees, their families and friends volunteered their services to reforest the center's green areas and paint the building that houses its preschool facility.

Santander eres tú bringing teams together

Santander's more than 169,000 employees are one of the key elements for the institution's growth and leadership around the world. This is why Santander's human resources corporate model focuses on attracting and retaining the best people in the countries where it operates, including Puerto Rico.

A strong corporate culture binds teams together. As a result, the *Santander eres tú* project (Santander is you) was created in 2007 to recognize and reward employee dedication. Of particular importance to this project is transmitting Santander's values of strength, leadership, dynamism, business focus, innovation and professional ethics.

One of the most important initiatives of the 2009 *Santander eres tú* project, in which employees from all Santander banks and affiliates around the world had the opportunity to participate, was the *Nos mueven los valores* race (Values Move Us): a group of employees ran during relay intervals the 500 kilometers that separate Santander's corporate headquarters in Boadilla del Monte, Madrid, from the city of Santander, in Spain.

Other initiatives included the *Somos los protagonistas* contest (We are the stars), an opportunity for family members and friends of employees to be the "stars" of the next *Santander eres tú* internal campaign of testimonials; the *Santander eres tú* Week, where employees teamed up for activities designed for bonding in solidarity with colleagues, their families and local communities; and the Third Santander Golf Cup, where 18 teams consisting of 76 players from three continents competed at the Santander Golf Club, one of Spain's largest golf courses.

Socially responsible management at Santander

The Corporation is proud of it's ongoing commitment as it pledges to continue to grow and prosper alongside the communities it serves while contributing to the island's social and economic development.

Besides providing an opportunity for its 1,764 employees to be part of the worldwide initiatives, in 2009 the Corporation continued to support the *Santander eres tú* local experience. Among its most significant programs was the *Plan Alivio* (Relief Program), specifically designed to mitigate the effects of Puerto Rico's recessionary conditions on employees and their families and to improve the quality of their lives through special pricing offers of banking products. The plan also included a series of attractive offers and discounts from business partners for everyday products and services. Since its inception, the Plan Alivio has provided over $7,550,000 in assistance to 402 employees and their families.

The *Santander eres tú* local experience also includes solidarity efforts to contribute to worthy causes. Not only the Corporation's employees volunteer their services every year to a wide variety of community organizations, but they also make valuable monetary contributions through payroll deductions to non-profit organizations such as the United Way of Puerto Rico. In addition, the Corporation makes donations to the Puerto Rico Chapter of the Muscular Dystrophy Association and other charitable organizations.

In 2009, the Corporation, its employees and their families united efforts with the Puerto Rico Bankers Association, the Puerto Rico Chapter of the American Red Cross and Puerto Rico's Commonwealth government to raise funds for earthquake relief efforts in Haiti. The initiative helped raised $50,000 among customers and employees, a contribution that was matched by the Corporation. In addition, over 190 boxes of first aid supplies were collected at 16 centers the Corporation, its subsidiaries and affiliates established specifically for the cause.

Other solidarity efforts included supporting the local *Comparte tus alimentos* (Share your food) campaign, sponsored by the Puerto Rico Association of Letter Carriers with the collaboration of the Puerto Rico Bankers Association and a blood drive for the Puerto Rico Chapter of the Red Cross.

Among the most popular events in 2009, was the *Feria Navideña* Santander, a Christmas Fair held for the Corporation's employees and their families at the Science Park of Bayamón, located on the island's north coast.

Also in 2009 and as part of the *Salud Integral* program (Total Health), the Corporation offered seminars on how to prevent disease and other conditions and sponsored health fairs and employee participation in local sports events such as the World's Best 10K Race, the largest and most important family sports event held in Puerto Rico as well as a bowling tournament among colleagues in the local banking industry.

Concerned and involved with local communities

For nearly 33 years, the Corporation has built a reputation as a socially responsible corporate citizen, concerned and involved with local communities. Its programs not only involve its employees, who enthusiastically volunteer their own time and efforts to worthy causes, but place importance on assisting the people of Puerto Rico in fulfilling their aspirations for a better life. The Corporation is proud of this ongoing commitment as it pledges to continue to grow and prosper alongside the communities it serves while contributing to the island's social and economic development.

Santander BanCorp

Board of Directors

Gonzalo de las Heras
Chairman

Juan Moreno
Vice Chairman

Víctor Arbulu Crousillat*
María Calero
Stephen Ferriss*
José R. González
Roberto Valentín*
Jesús Zabalza

Rafael S. Bonilla, Esq.
Secretary

* Member of the Audit Committee

Management

Juan Moreno
Chief Executive Officer
President

Retail Banking

Alberto Aveleyra
Senior Vice President
Branch Network

Eugenio Alonso
Senior Vice President
Santander Universities

Carmen Aida Cedeño
Senior Vice President
Island Region

Ingrid M. Schmidt
Senior Vice President
Metro Region

Other Retail Banking Areas

Eric Delgado
First Senior Vice President
Middle Market

Lilian Díaz
Senior Vice President
Middle Market

Guillermo Lopetegui
Senior Vice President
Marketing and Products

Liza Cora
Director
Mortgage Banking

José Lafarga
Manager
Consumer Banking

Risk Management

Justo Muñoz
Executive Vice President
Chief Credit Officer

Tomás Torres
Executive Vice President
Collections & Workout

Francisco Ríos
Senior Vice President
Collections & Workout

José Santoni
First Senior Vice President
Credit Administration

Myrna Díaz
Senior Vice President
Construction Loans

Beatriz Ramírez de Arellano
Senior Vice President
Monitoring & Management

Gonzalo Bava
Senior Vice President
Market Risk

Rogério Leal
Senior Vice President
Portfolio Management

Fredy Molfino
Senior Vice President
Consumer Credit

Martín Pagani
Director
Collections - Consumer Loans

Treasury & Investments
Catalina Mejía
Senior Vice President
Treasurer

Fernando Bruno
Vice President
Trading

Finance & Administration
Roberto Jara
Executive Vice President
Chief Accounting Officer

Carola Acum
Senior Vice President
Comptroller - Bank

Juan M. Díaz Soultaire
Senior Vice President
Investor Relations and
Sarbanes-Oxley & Basel Officer

María Leticia García
Senior Vice President
Norms, Fiscal Affairs &
Information Systems

Luis Roig Hostas
Senior Vice President
Chief Financial Officer -
Santander Securities &
Santander Asset Management

Aurienid Bracete
Vice President
Repossessed Assets

Alex López
Director
Management Information
Reporting

Operations & Information Technology
José Álvarez Giraldez
Executive Vice President

Pedro Latorre
Senior Vice President
Banking Operations

Cecilio Bueno
Vice President
Administrative Services

Francisco Iván Cruz
Vice President
Branch Operations

Carlos F. León
Assistant Vice President
Information Security &
IT Service Management

María E. Semidei
Assistant Vice President
Organization and Methods

Joseba Camba
Director
Information Technology

Gisela Cuprill
Manager
GLBA & Operational Risk

Legal
Rafael S. Bonilla, Esq.
Senior Vice President
General Counsel

Compliance
María Calero
Senior Executive Vice President
Chief Compliance Officer

Eugenio Alonso
Senior Vice President
Community Reinvestment

Gloria Benson
Senior Vice President
BSA Officer

Ana Suárez
Senior Vice President &
Chief Compliance Officer
Broker-Dealer Business

Luis Conty
Vice President
Consumer Compliance -
Consumer Finance

Vivian Morales
Vice President
Loan Review

Bernice Salazar
Vice President
Mortgage Consumer Compliance

Xiomara Cebollero, Esq.
Director
Consumer Compliance - Retail
Banking

Human Resources
Gabriela Planchart
Senior Vice President

Internal Audit
Miguel Cabeza
Senior Vice President

Subsidiaries:

Santander Financial Services, Inc.
Mario Delgado
President

Santander Insurance Agency, Inc.
Carlos Acevedo
President

Santander Securities Corporation
James Rodríguez Colom
President

Juan Carlos Batlle
Managing Director
Branch Manager

Santander Asset Management Corporation
Frank Serra
President

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES
EXCHANGE ACT OF 1934
For Fiscal Year ended December 31, 2009
Commission File: 001-15849

SANTANDER BANCORP

(Exact name of Corporation as specified in its charter)

Incorporated in the Commonwealth of Puerto Rico
I.R.S. Employer Identification No. 66-0573723
B7 Tabonuco Street, 18th Floor, San Patricio,
Guaynabo, Puerto Rico 00968-3028
Telephone Number: (787) 777-4100

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Common Stock, $2.50 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes __X__ No_____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act).
Yes _____ No__X

Indicate by check mark whether the Corporation (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (for such shorter period that the Corporation was required to file such reports) and has been subject to such filing requirement for the past 90 days. Yes __X__ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer___ Accelerated filer__X__ Non-accelerated filer______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ___ No__X_.

As of December 31, 2009 the Corporation had 46,639,104 shares of common stock outstanding. The aggregate market value of the common stock held by non-affiliates of the Corporation was $53,868,504 based upon the reported closing price of $12.28 on the New York Stock Exchange on that date.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Corporation's Proxy Statement relating to the 2010 Annual Meeting of Stockholders of the Corporation to be held on or about April 26, 2010, are incorporated herein by reference to Item 10 through 14 of Part III.

SANTANDER BANCORP

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PART I

ITEM 1. BUSINESS

General

Santander BanCorp (the "Corporation") is a publicly owned financial holding company, registered under the Bank Holding Company Act of 1956, ("BHC Act") as amended and, accordingly, subject to the supervision and regulation by the Federal Reserve Board. The Corporation was incorporated under the laws of the Commonwealth of Puerto Rico ("Puerto Rico" or the "Island") to serve as the financial holding company for Banco Santander Puerto Rico ("Banco Santander" or the "Bank").

Banco Santander, S.A., (SAN.MC, STD.N), ('Santander Group") is a retail and commercial bank, based in Spain, with presence in 10 main markets. At the end of 2009, Santander was the largest bank in the euro zone by market capitalization and third in the world by profit. Founded in 1857, Santander had EUR 1,245 billion in managed funds at the end of 2009. After the acquisition of Sovereign Bancorp in the U.S. during January 2009, Santander has 90 million customers, 13,660 branches -more than any other international bank- and 170,000 employees. It is the largest financial group in Spain and Latin America, with leading positions in the United Kingdom and Portugal and a broad presence in Europe through its Santander Consumer Finance arm. In 2009, Santander registered €8,943 million in net attributable profit.

The Corporation offers a full range of financial services through its subsidiaries Banco Santander Puerto Rico, including mortgage banking, Santander Securities Corporation, Santander Insurance Agency, Inc., Santander International Bank of Puerto Rico, Inc., Santander Asset Management Corporation, Santander Financial Services, Island Insurance Corporation, currently inactive, and Santander PR Capital Trust I. As of December 31, 2009, the Corporation had, on a consolidated basis, total assets of $6.8 billion, total net loans of $5.3 billion, total deposits of $4.4 billion and stockholder's equity of $595.9 million. The Corporation also had $13.5 billion of customer financial assets under management.

Banco Santander Puerto Rico

The Corporation's main subsidiary, Banco Santander Puerto Rico, is one of the Island's largest financial institutions (based on number of branches and customer deposits as reported with the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Commissioner of Financial Institutions of Puerto Rico) with a network of 54 branches and 145 ATMs, representing one of the largest branch franchises in Puerto Rico. As of December 31, 2009, the Bank had total assets of approximately $6.6 billion, total deposits of $4.5 billion and stockholders' equity of $641.4 million.

The Bank provides a wide range of financial products and services to a diverse customer base that includes small and medium-size businesses, large corporations and individuals, including mortgage banking services. The Bank also provides specialized products and services to foreign customers through its wholly owned subsidiary, Santander International Bank of Puerto Rico, Inc. ("Santander International Bank"), an international banking entity organized under the International Banking Center Regulatory Act of Puerto Rico ("IBC Act").

Santander International Bank of Puerto Rico, Inc.

Santander International Bank of Puerto Rico, Inc. is a wholly owned subsidiary of Banco Santander Puerto Rico, organized during 2001 to operate as an international banking entity under the International Banking Center Regulatory Act of Puerto Rico. Santander International Bank was created for the purpose of providing specialized products and services to foreign customers.

Santander Securities Corporation

Santander Securities Corporation ("Santander Securities") is the second largest securities broker-dealer (based on broker-dealer customer assets and mutual funds managed as reported with the SEC and the Office of the Commissioner of Financial Institutions of Puerto Rico) in Puerto Rico with approximately $9.4 billion in assets under management, composed of over $5.5 billion in customer assets at the retail broker-dealer and $3.9 billion in managed gross assets and institutional accounts at its wholly owned subsidiary, Santander Asset Management. Santander Securities has three offices islandwide and an office in Miami, Fl.

Santander Asset Management Corporation

Santander Asset Management Corporation ("Santander Asset Management" or "SAM") is a wholly owned subsidiary of Santander Securities created for the purpose of managing assets for Puerto Rico investment companies (mutual funds) and institutional accounts. The funds managed by Santander Asset Management invest primarily in fixed-income securities, including Puerto Rico and U.S. Government securities, mortgage-backed and asset-backed securities and municipal obligations. Santander Asset Management also services its institutional accounts, which consist primarily of university endowments, insurance companies, governmental agencies, pension funds and individual investors.

Santander Insurance Agency, Inc.

The Corporation's subsidiary, Santander Insurance Agency, Inc. ("Santander Insurance") was established in October 2000 as the first financial holding company insurance operation to receive approval from the Commissioner of Insurance of Puerto Rico ("Insurance Commissioner"). This was a result of the Gramm-Leach-Bliley Act of 1999 ("Gramm-Leach-Bliley Act") that authorized financial holding companies to enter into the insurance business. Santander Insurance Agency offers a growing base of products, including life, disability, unemployment and title insurance as a corporate agent, and also operates as a general agent offering bid, payment and performance bonds, and insurance to cover equipment and auto leases.

Santander Financial Services, Inc.

Santander Financial Services, Inc. ("Santander Financial Services" or "Island Finance") is the largest consumer finance company in Puerto Rico (as reported with the Office of the Commissioner of Financial Institutions). Island Finance is a well established consumer finance business in Puerto Rico. The brand has operated in Puerto Rico for over 40 years, is one of the most recognized brand names in consumer finance and commands a 43% market share as of September 30, 2009 (as reported with the Office of the Commissioner of Financial Institutions). The acquisition of Island Finance in 2006 boosted the Corporation's business footprint by adding 60 consumer retail branches and close to 123,000 clients. Santander Financial Services, Inc. through, Island Finance provides mainly consumer loans and real estate-secured loans to customers.

Island Insurance Corporation

In July 2006, the Corporation acquired Island Insurance Corporation, a Puerto Rico life insurance company, duly licensed by the Puerto Rico Commissioner of Insurance. This corporation is currently inactive.

Santander PR Capital Trust I

A statutory trust organized under the Statutory Trust Act of the state of Delaware. It was formed for the purpose of issuing trust redeemable preferred securities issued pursuant to the acquisition of Island Finance in 2006.

Operations

The Corporation operates a client-oriented, full-service bank, offering products and services in the areas of commercial, mortgage and consumer banking. Insurance, securities and asset management services are also offered through the Corporation's various subsidiaries. The Corporation organizes its operations in five reportable segments: Commercial Banking, Mortgage Banking, Consumer Finance, Treasury and Investments, and Wealth Management.

While the Bank offers a wide variety of financial services to its customers, its primary products and services are grouped into the following categories:

Commercial Banking. The Corporation's integrated business model is built upon the strength of its commercial banking franchise and its distribution capabilities. This segment's goal is to be an agile client-service organization with the primary focus on satisfying the total financial needs of its customers through specialized retail and wholesale banking services. These two units of the commercial banking segment are closely interrelated and are differentiated mostly by the composition of their respective client-bases.

> Retail Banking. The Retail Banking unit serves individual clients and small-and medium-sized businesses providing them with a full range of financial products and services through branches across Puerto Rico. Each branch represents an important vehicle for distributing the retail banking solutions. Branch personnel promote cross selling of financial products and coordinate service delivery.

Wholesale Banking. The Wholesale Banking unit serves major corporate and institutional clients including the public sector, not-for-profit organizations and specialized industries such as universities, healthcare and financial institutions. This unit also houses certain specialized services such as construction lending, international commerce and cash management. Wholesale banking also calls into play the substantial resources of our worldwide operations, when such involvement is deemed appropriate or necessary to achieve the client's financial objectives. Wholesale banking clients are offered a full array of commercial banking products and services, including cash management, bank card products, letters of credit and a variety of other foreign trade-related services. This unit works closely with retail banking branch personnel when its specialized services are required.

Mortgage Banking. Through Santander Mortgage Corporation up to December 31, 2007 and as a Bank's division thereafter, this business segment, the fifth largest mortgage loan originator (based on information on mortgage production obtained from the Office of the Commissioner of Financial Institutions of Puerto Rico) and servicer in Puerto Rico, originates, sells, and services a variety of residential mortgage loans. Total mortgage loan originations amounted to $195.5 million in 2009, the mortgage loan portfolio reached $2.4 billion by year-end and the mortgage servicing portfolio consisted of $1.4 billion serviced for other institutions.

Consumer Finance. The Island Finance operation provides consumer loans and real estate-secured loans through its 60 consumer retail branches in Puerto Rico. Island Finance provides lending to near prime or "Band C" borrowers (individuals with Fair Isaac Corporation ("Fico Scores") of 620 or less among other factors), which represent approximately of 27.5% of total loan portfolio.

Treasury and Investments. The Corporation's Treasury Department handles its investment portfolio and liquidity position. It also focuses on offering another level of financial service to our clients in the form of derivative instruments that can protect the owner of small and medium-sized business from the impact of interest rate fluctuations.

Wealth Management. The Corporation's Wealth Management segment includes the operations of its subsidiary Santander Securities. Santander Securities offers a complete range of products and services as part of an overall wealth management program that includes asset management and other trust services. The combination of Santander Asset Management products and Santander Securities' distribution capabilities has allowed Santander Group to provide a diverse range of high quality investment alternatives in the Puerto Rico market.

The principal offices of the Corporation are located at B7 Tabonuco Street, 18th Floor, San Patricio, Guaynabo, Puerto Rico, and the main telephone number is (787) 777-4100. The Corporation's Internet web site is http://www.santandernet.com.

Forward Looking Statements

When used in this Form 10-K or future filings by Santander BanCorp with the Securities and Exchange Commission, in the Corporation's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the word of phrases "would be", "will allow", "intends to", "will likely result", "are expected to", "is anticipated", "estimate", "project", "believe" , or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995**.**

The future results of the Corporation could be affected by subsequent events and could differ materially from those expressed in forward-looking statements. If future events and actual performance differ from the Corporation's assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive and regulatory factors and legislative changes, could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

REGULATION AND SUPERVISION

Overview

The Corporation and its banking subsidiary are subject to extensive federal and Puerto Rico banking regulations that impose restrictions on and provide for general regulatory oversight of the Corporation and its operations. Set forth below is a summary description of material laws and regulations that relate to the operations of the Corporation and its subsidiaries, including the Bank. This summary description does not purport to be complete and is qualified in its entirety by reference to the full text of the particular statutes and regulations described. Supervision, regulation and examination of banks by regulatory agencies are intended primarily for the protection of depositors, the deposit insurance fund of the FDIC, other clients of the institution and the banking system as a whole, and not for the benefit of the Corporation's shareholders.

Future changes in laws, regulations or policies that impact the Corporation and its subsidiaries, including the Bank, cannot be predicted and may have a material effect on our business and earnings. Legislation relating to banking and other financial services has been introduced from time to time in Congress and is likely to be introduced in the future. If enacted, such legislation could significantly change the competitive environment in which the Corporation and its subsidiaries operate. The Corporation cannot predict whether these or any other proposals will be enacted or the ultimate impact of any such legislation on our competitive situation, financial condition or results of operations.

Holding Company Operations – Federal Regulation

General

The BHC Act and the Gramm-Leach-Bliley Act ("GLB Act"). The Corporation is a bank holding company registered under the BHC Act and subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a bank holding company, the Corporation is required to file periodic and annual reports with the Federal Reserve and other information concerning its own business operations and those of its subsidiaries. The BHC Act subjects bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. The BHC Act requires that a bank holding company obtain prior Federal Reserve Board approval before: (i) acquiring direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank; (ii) acquiring all or substantially all of the assets of any bank; or (iii) merging or consolidating with another bank holding company. The Federal Reserve Board also has authority to issue cease and desist orders against holding companies and their non-bank subsidiaries.

The BHC Act prohibits a bank holding company, with limited exceptions, from engaging in any business other than the business of banking, or of managing or controlling banks, and to any other activity that the Federal Reserve deems to be so closely related to banking as to be a proper incident thereto.

Enacted in 1999, the GLB Act revised and expanded the existing provisions of the BHC Act by permitting a bank holding company to elect to become a "financial holding company" to engage in a full range of financial activities. The law eliminated the legal barriers to affiliations among banks and securities firms, insurance companies and other financial services companies. The law reserved the role of the Federal Reserve as the supervisor for bank holding companies. At the same time, it also provided a system of functional regulation which is designed to utilize the various existing federal and state regulatory bodies. The qualification requirements provide that in order for a bank holding company to elect to be treated as a financial holding company (and to maintain such treatment), all the subsidiary banks controlled by the bank holding company at the time of election to become a financial holding company must be and remain at all times "well capitalized" and "well managed." Under the law, financial holding companies and banks that desire to engage in new financial activities are required to have a "satisfactory" or better Community Reinvestment Act ("CRA") rating when they commence the new activity. On May 15, 2000, the Corporation elected to become a financial holding company under the provisions of the GLB Act.

Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature, (ii) incidental to such financial activity, or (iii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or to the financial system generally. The GLB Act, specifically provides that the following activities have been determined to be "financial in nature": (a) lending, trust and other banking activities; (b) insurance activities; (c) financial or economic advice or services; (d) pooled investments; (e) securities underwriting and dealing; (f) existing bank holding company domestic activities; (g) existing bank holding company foreign activities; and (h) merchant banking activities. Santander Insurance Agency, which is a wholly-owned subsidiary of the Corporation, offers insurance agency services. Santander Securities, which is also a wholly-owned subsidiary of the Corporation, offers securities brokerage, dealing and underwriting services.

In addition, the GLB Act specifically gives the Federal Reserve the authority, by regulation or order, to expand the list of "financial" or "incidental" activities, but requires consultation with the U.S. Treasury, and gives the Federal Reserve authority to allow a financial holding company to engage in any activity that is "complementary" to a financial activity and does not "pose a substantial risk to the safety and soundness of depository institutions or the financial system generally."

Under the GLB Act, if the Corporation fails to continue to meet any of the requirements for financial holding company status, the Corporation must enter into an agreement with the Federal Reserve to comply with all applicable requirements. If the Corporation is unable to cure such deficiencies within certain prescribed periods of time, the Federal Reserve could require the Corporation to divest control of its depository institution subsidiaries or alternatively cease conducting financial activities that are not permissible for bank holding companies that are not financial holding companies.

Under Federal Reserve policy, a bank holding company such as the Corporation is expected to act as a source of financial strength for its banking subsidiary and is required to commit resources to support the Bank. Moreover, an obligation to support the Bank may be required at times when, absent such policy, the Corporation might not be inclined to provide it. In addition, any capital loans by a bank holding company to any of its subsidiary banks must be subordinated in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to the federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. The Bank is currently the only subsidiary depository institution of the Corporation.

The GLB Act also modified other laws, including laws related to financial privacy and community reinvestment. These financial privacy provisions generally prohibit financial institutions, including the Corporation’s bank subsidiary, from disclosing nonpublic personal financial information to third parties unless customers have the opportunity to “opt out” of the disclosure.

USA Patriot Act

The USA Patriot Act of 2001 (the “USA Patriot Act”) was enacted in response to the terrorist attacks that occurred on September 11, 2001. The statute amended the Bank Secrecy Act and broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to prosecute international money laundering and the financing of terrorism. Under the statute, all financial institutions, including the Corporation and the Bank, are required in general to verify the identity of clients, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the GLB Act for financial institutions that comply with this provision and the authorization of the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing.

The U.S. Treasury Department (“U.S. Treasury”) has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and financing of terrorists.

Failure of a financial institution to comply with the USA Patriot Act’s requirements could have serious legal and reputational consequences for the institution. The Corporation and its subsidiaries have adopted policies, procedures and controls designed to comply with the USA Patriot Act and regulations adopted thereunder by the U.S. Treasury.

Privacy Policies

The GLB Act requires financial institutions to adopt and implement policies and procedures regarding the disclosure of non-public personal information about consumers to non-affiliated third parties and the protection of customer data from unauthorized access. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such non-public personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the institution’s policies and procedures. The Corporation and its subsidiaries have adopted policies and procedures in order to comply with the privacy provisions of the GLB Act, pursuant to which all its existing and new customers are notified of the privacy policies.

Dividend Restrictions

The Corporation is a legal entity separate and distinct from the Bank and our other subsidiaries and affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our shareholders, are dividends that the Bank and our other subsidiaries pay us as their sole shareholder. Various statutory and regulatory limitations limit the amount of dividends that the Bank can pay the Corporation, as well as to the dividends that the Corporation can pay to its shareholders. The policy of the Federal Reserve that a bank holding company should serve as the source of strength to its subsidiary banks also results in the position of the Federal Reserve that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiaries or that can be funded through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as such a source of strength.

The Federal Reserve Board and the FDIC have also issued policy statements that provide that bank holding companies and their insured banks should generally pay dividends only out of current operating earnings. The Federal Reserve has indicated that in the current financial and economic environment bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% or higher level unless the asset quality and the capital of the institution are very strong.

The Corporation's ability to pay dividends is also subject to the provisions of Puerto Rico corporations' law which requires that dividends be paid out only from the Corporation's net assets in excess of capital or in the absence of such excess, from the Corporation's net earnings for such fiscal year and/or the preceding fiscal year.

The ability of the Bank to declare and pay dividends on its common stock is restricted by the Puerto Rico Banking Law. In general terms, the Puerto Rico Banking Law provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is an insufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Bank may not declare any dividends under the statute until its capital has been restored to its original amount and the reserve fund to 20% of the original capital.

In light of the continuing challenging general economic conditions in Puerto Rico and the global capital markets, in August 2008 the Board of Directors of the Corporation voted to discontinue the payment of the quarterly cash dividend on the Corporation's common stock to strengthen the institution's core capital position. The Corporation may use a portion of the funds previously paid as dividends to reduce its outstanding debt. The Corporation's decision is part of the significant actions it has proactively taken in order to face the on-going challenges presented by the Puerto Rico economy, which among others, include: maintaining an on-going strict control on operating expenses; an efficiency plan driven to lower its current efficiency ratio; and merging its mortgage banking and commercial banking subsidiaries.

The payment of dividends by the Corporation, or by the Bank, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Moreover, under the FDIA, a depository institution may not pay any dividend if payment would cause the depository institution to become undercapitalized or if it already is undercapitalized.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. The FHLB system consists of twelve regional FHLBs governed and regulated by the Federal Housing Finance Board. Among other benefits, each FHLB serves as reserve or central bank for its member institutions within its assigned region. Each FHLB is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. Each make available loans or advances to its members in accordance with policies and procedures established by the FHLB system and the boards of directors of each regional FHLB.

The Bank is a member of the FHLB of New York. As such, the Bank is required to own capital stock in that FHLB in an amount equal to the greater of: (i) 1.0% of the aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year, or (ii) 5.0% of its FHLB outstanding advances or borrowings. At December 31, 2009, the Bank met the required investment in FHLB stock, holding $55.4 million in capital stock of the FHLB of New York. All loans, advances and other extensions of credit made by the FHLB of New York to the Bank are secured by a portion of the Bank's mortgage loan portfolio, certain other investments and the FHLB capital stock owned by the Bank.

Limitations on Transactions with Affiliates

Transactions between depository institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act and Regulation W adopted by the Federal Reserve, which codifies prior regulations under Sections 23A and 23B and provides interpretative guidance with respect to affiliate transactions. An affiliate of a depository institution is any company or entity, which controls, is controlled by or is under common control with the depository institution. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company (or by the ultimate parent company of such bank holding company) are affiliates of the depository institution. In general, subject to certain specified exemptions, under Section 23A, depository institutions and their subsidiaries are limited in their ability to engage in "covered transactions" with any one affiliate to an amount equal to 10% of the depository institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution's capital stock and surplus. Affiliate transactions are also subject to Section 23B which generally requires that all such transactions be on terms substantially the same, or at least as favorable, to the depository institution or subsidiary as those prevailing at the time for comparable transactions with non-affiliated persons. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the depository institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

Loans to Insiders

Sections 22(h) and (g) of the Federal Reserve Act and its implementing regulation, Regulation O, restrict loans by a bank to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater-than-10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit, generally equal to 15% of the institution's unimpaired capital and surplus. Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior board of directors approval for certain loans. In addition, the aggregate amount of extensions of credit by a depository institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements

The Federal Reserve has adopted capital risked-based guidelines to evaluate the capital adequacy of bank holding companies. Under these guidelines, specific categories of assets are assigned different risk weights based generally on the perceived credit risk of the asset, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and commercial loans. These risks weights are multiplied by corresponding asset balances to determine a “risk-weighted” asset base. The Federal Reserve capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8.0% of total risk-adjusted assets, with at least 4.0% consisting of Tier I or core capital and the rest consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders' equity and perpetual preferred stock, subject to limitations on the kind and amount of such perpetual preferred stock which may be included as Tier I capital, less goodwill and, with certain exceptions, intangibles. Tier II capital generally consists of hybrid capital instruments, perpetual preferred stock which is not eligible to be included as Tier I capital, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, generally allowances for loan losses. Total capital is the sum of Tier I and Tier II capital. As of December 31, 2009, the Corporation's Tier I risk-based capital ratio was 10.6% and our total risk-based capital ratio was 15.55%.

In addition to the risk-based capital guidelines, the Federal Reserve requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total consolidated assets of 3.0%. Total consolidated assets for purposes of this calculation do not include goodwill and any other intangible assets and investments that the Federal Reserve determines should be deducted from Tier I capital. Certain top-rated bank holding companies without supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth may maintain a minimum leverage capital ratio of 3.0%. Other bank holding companies are required to maintain a leverage capital ratio of at least 4.0%. As of December 31, 2009, the Corporation's leverage capital ratio was 7.98%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Basel Committee on Banking Supervision proposed new risk-based international capital standards ("Basel II") in June 2004, and the new framework is currently being evaluated and implemented by bank supervisory authorities worldwide. Basel II is an effort to update the original international bank capital accord ("Basel I"), which has been in effect since 1988. Basel II is intended to improve the consistency of capital regulations internationally, make regulatory capital more risk sensate, and promote enhanced risk-management practices. A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies only to certain large or internationally active or "core" banking organizations (defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not required to comply. The rule also allows a banking organization's primary federal supervisor to determine that application of the rule would not be appropriate in light of the bank's asset size, level of complexity, risk profile or scope of operations.

To correct differences between core and non-core banking organizations, Basel IA was proposed in late 2006 presenting modifications to the general risk-based capital rules for non-core banking organizations that do not adopt the advanced approaches. After considering the comments on both the Basel IA and the advanced approaches, in July 2008, the agencies proposed a new rule that would provide all non-core banking organizations with an option to adopt the standardized approach under Basel II. This alternative provides a more risk sensitive capital framework to institutions not adopting the advanced approaches without unduly increasing regulatory burden. Comments on the proposed rule were due to the agencies by October 27, 2008, but a definitive final rule has not been issued. The proposed rule, if adopted, will replace the Basel IA approach.

In light of the weaknesses revealed by the financial market crisis, in January 2009, the Basel Committee on Banking Supervision issued a consultative package proposing enhancements to strengthen the regulation and supervision of internationally active banks. The proposed enhancements will help ensure that the risks inherent in banks' portfolios related to trading activities, securitizations and exposures to off-balance sheet vehicles are better reflected in minimum capital requirements, risk management practices and accompanying disclosures to the public.

The Corporation does not meet the criteria in the new U.S. rules which would make adoption of the new Basel II rules mandatory.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 ("SOA") was enacted to address corporate and accounting improprieties. SOA contains reforms of various business practices and numerous aspects of corporate governance. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The SOA includes additional public disclosure requirements and new corporate governance rules.

SOA addresses, among other matters: (i) expansion of the authority and responsibilities of audit committees, (ii) certification of financial statements by the chief executive officer and the chief financial officer, (iii) the forfeiture of bonuses or other incentive base compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement, (iv) a prohibition on insider trading during pension plan black-out periods, (v) disclosure of off-balance sheet transactions, (vi) a prohibition on personal loans to directors and officers, (vii) expedited filing requirements for Form 4's, (viii) disclosure of a code of ethics and filing of a Form 8-K for a change or waiver of such code and protection for whistleblowers and informants, (ix) "real time" filing of periodic reports, (x) the formation of an independent accounting oversight board ("PCAOB") to oversee the audit of public companies and auditors who perform such audits, (xi) auditor independence provisions which restrict the non-audit services that independent accountants may provide to their audit clients, and (xii) various increased criminal penalties for fraud and other violations of securities laws.

Change of Control

Federal law restricts the amount of voting stock of a bank holding company and a state bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Regulations pursuant to the BHC Act and the Change in Bank Control Act generally require prior FDIC and Federal Reserve approval for an acquisition of control of an insured institution or its holding company, respectively, by any person or persons acting in concert. Control is deemed to exist if, among other things, a person (or persons acting in concert) acquires more than 25% of any class of voting stock of an insured institution or its holding company. Control is presumed to exist subject to rebuttal, if a person (or persons acting in concert) acquires more than 10% of any class of voting stock and either (i) the company has securities registered under Section 12 of the Exchange Act, or (ii) no person will own, control or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction. The concept of acting in concert is very broad and also is subject to certain rebuttable presumptions, including among others, that relatives, business partners, management officials, affiliates and others are presumed to be acting in concert with each other and their businesses. The FDIC's regulations implementing the Change in Bank Control Act are generally similar to those described above.

The Banking Law requires the approval of the Commissioner for changes in control of a Puerto Rico bank. See "Banking Operations-Puerto Rico Regulation."

Banking Operations

General

The Bank is a Puerto Rico corporation chartered as a commercial bank under the Banking Law of Puerto Rico. The Bank is a "state bank" and an "insured depository institution" under the Federal Deposit Insurance Act ("FDIA"), and a "foreign bank" within the meaning of the International Banking Act of 1978. The Bank is not a member of the Federal Reserve System, making it primarily subject to regulation and supervision by the Commissioner and the FDIC. The federal and Puerto Rico laws and regulations that apply to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the types and amounts of loans that may be granted and the interest that they may charge, the timing of the availability of deposited funds, the nature and amount of and collateral for certain loans and the types of services they may offer. As a creditor and financial institution, the Bank is subject to consumer laws and regulations promulgated by the Federal Reserve, which also affect its operations. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

The Bank is subject to periodic examinations by the Commissioner and the FDIC. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banks and their affiliates. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound banking practices. In addition, certain actions are required by statute and implementing regulations. Other actions or inaction may provide the basis for enforcement action, including misleading or untimely reports filed by a bank with regulatory authorities.

FDIC Capital Requirements

The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, like the Bank, that are not members of the Federal Reserve System. For purposes of the FDIA, Puerto Rico is treated as a state and the Bank as such is a state-chartered non-member bank. These requirements are substantially similar to those adopted by the Federal Reserve regarding bank holding companies, as described above. The FDIA, among other things, requires federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. The relevant capital measures are the total risk-based capital ratio, the Tier I risk-based capital ratio and the leverage ratio. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have

specified by regulation the relevant capital for each category. A well capitalized depository institution, for example, must maintain a leverage ratio of at least 5.0%, a Tier I risk-based capital ratio of at least 6.0% and a total risk-based capital ration of at least 10.0% and not be subject to any written agreement or directive to meet and maintain a specific capital level.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

Failure to meet capital guidelines could subject an insured bank like the Bank to a variety of prompt corrective actions and enforcement remedies under the FDIA, including, with respect to an insured bank, the termination of deposit insurance by the FDIC, and to certain restrictions on its business. In general terms, undercapitalized depository institutions are prohibited from making any capital distributions (including dividends), are subject to restrictions on borrowing from the Federal Reserve System, and are subject to growth limitations and are required to submit capital restoration plans.

At December 31, 2009, the Bank met the capital requirements of a well capitalized institution.

An institution's capital category, as determined by applying the prompt corrective action provisions of law, may not constitute an accurate representation of the overall financial condition or prospects of the institution. The capital condition of the Bank should be considered in conjunction with other available information regarding the Corporation's financial condition and results of operations.

FDIC Deposit Insurance Assessments

Banco Santander is subject to FDIC deposit insurance assessments. On February 8, 2006, the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") was signed by the President. The Reform Act provided for the merger of the Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF") into a single Deposit Insurance Fund ("DIF"), increase in the maximum amount of FDIC insurance coverage for certain retirement accounts, and possible "inflation adjustments" in the maximum amount of coverage available with respect to other insured accounts. In addition, it granted a one-time initial assessment credit to recognize institutions' past contributions to the fund.

On October 3, 2008, President George W. Bush signed into law the Emergency Economic Stabilization Act of 2008 ("EESA"), which temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase in deposit insurance coverage became effective upon the President's signature. On September 9, 2009, the FDIC Board of Directors approved a rule to finalize: (1) the deposit insurance coverage regulations to reflect the extension of the temporary increase in the standard maximum deposit insurance amount (SMDIA) to $250,000 through December 31, 2013.

The deposits of Banco Santander are insured up to the applicable limits by the DIF of the FDIC and are subject to the deposit insurance assessments to maintain the DIF. Banco Santander Puerto Rico paid $7.2 million of regular insurance premium to the FDIC during 2009.

Under the Reform Act, the FDIC made significant changes to its risk-based assessment system so that effective January 1, 2007, the FDIC imposes insurance premium based upon a matrix that is designed to more closely tie what banks pay for deposit insurance to the risk they pose. The new FDIC risk-based assessment system imposes premium based upon factors that vary depending upon the size of the bank. These factors are: for banks with less than $10 billion in assets-capital level, supervisory rating, weighted average CAMELS component rating, and certain financial ratios; and for banks with $10 billion up to $30 billion in assets-capital level, supervisory rating, weighted average CAMELS component rating, certain financial ratios and (if at least one is available) long-term debt issuer ratings, and additional risk information; and for banks with over $30 billion in assets- capital level, supervisory rating, weighted average CAMELS component rating, debt issuer ratings (unless none are available in which case certain financial ratios are used), and additional risk information. The FDIC subsequently adopted a new base schedule of rates that the FDIC can adjust up or down, depending on the revenue needs of the DIF, and set initial premiums that range from 5 cents per $100 of domestic deposits for the banks in the lowest risk category to 43 cent per $100 of domestic deposits for banks in the highest risk category. This assessment system resulted in a 2008 annual assessment rate on the deposits of Banco Santander of 7 cents per $100 of deposits. Effective January 1, 2009, FDIC increased assessment rates uniformly by 7 basis points (annual rate) for the first quarter 2009 assessment period only. Annual rates applicable to the first quarter 2009 assessments, which would was collected at the end of June 2009, are based

on: (i) risk category I: 12 – 14 basis points; (ii) risk category II: 17 basis points; (iii) risk category III: 35 basis points; and (iv) risk category IV: 50 basis points.

On November 21, 2008, the Board of Directors of the FDIC approved the Temporary Liquidity Guarantee Program ("TLGP") to strengthen confidence and encourage liquidity in the banking system. The TLGP is comprised of the Debt Guarantee Program ("DGP") and the Transaction Account Guarantee Program ("TAGP"). The DGP guarantees all newly issued senior unsecured debt (e.g., promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits issued by participating entities, including bank holding companies, beginning on October 14, 2008 and continuing through October 31, 2009. For eligible debt issued by that date, the FDIC will provide the guarantee coverage until the earlier of the maturity date of the debt or June 30, 2012. The TAGP offers a full guarantee for non interest-bearing transaction deposit accounts held at FDIC-insured depository institutions. The unlimited deposit coverage is voluntary for eligible institutions and is in addition to the $250,000 FDIC deposit insurance per depositor that was included as part of the EESA. The TAGP coverage became effective on October 14, 2008 and will continue for participating institutions until December 31, 2009. Participants in the DGP program have a fee structure based on a sliding scale, depending on length of maturity. Shorter-term debt has a lower fee structure and longer-term debt have a higher fee. The range is 50 basis points on debt of 180 days or less, and a maximum of 100 basis points for debt with maturities of one year or longer, on an annualized basis. Any eligible entity that has not chosen to opt out of the TAGP is assessed, on a quarterly basis, an annualized 10 cents per $100 fee on balances in non interest bearing transaction accounts that exceed the existing deposit insurance limit of $250,000. The Corporation is only participating on the "TAGP" program.

On May 22, 2009, the Board of Directors of the FDIC adopted a final rule to impose an emergency special assessment of 5 cents per $100 based on factors such as capital level, supervisory rating, certain financial ratios and risk information on each insured depository institution assets minus Tier 1 capital as of June 30, 2009. The amount of special assessment for any institution will no exceed 10 basis points times the institution's assessment base for the second quarter 2009. The special assessment was collected on September 30, 2009. The Corporation paid $3.2 million of this emergency special assessment.

The FDIC amended its regulations requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment for these periods was collected on December 31, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For purposes of estimating an institution's assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, and calculating the amount that an institution prepaid on December 31, 2009, the institution's assessment rate was its total base assessment rate in effect on September 30, 2009. On September 29, 2009, the FDIC increased annual assessment rates uniformly by 3 basis points beginning in 2011. As a result, an institution's total base assessment rate for purposes of estimating an institution's assessment for 2011 and 2012 will be increased by an annualized 3 basis points beginning in 2011. Again, for purposes of calculating the amount that an institution prepaid on December 30, 2009, an institution's third quarter 2009 assessment base will be increased quarterly at a 5 percent annual growth rate through the end of 2012. The FDIC will begin to draw down an institution's prepaid assessments on March 30, 2010, representing payment for the regular quarterly risk-based assessment for the fourth quarter of 2009.

As of December 31, 2009, the Corporation had a prepaid of $25.8 of estimated quarterly risk-based deposit insurance assessment. Events during the prepayment period, such as slower deposit growth or changes in CAMELS ratings, may cause an institution's actual assessments to differ from the pre-paid amount. Assessment billing will account for events that occur during the prepayment period and may result in an institution either paying assessments in cash before the prepayment period has concluded or ultimately receiving a rebate of unused amounts.

The Deposit Insurance Funds Act of 1996 separated the Financing Corporation ("FICO") assessment to service the interest on its bond obligations from the DIF assessment. The amount assessed on individual institutions by the FICO is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. The FICO assessment rate for the fourth quarter of 2009 was $1.06 per $100 of DIF-assessable deposits. As of December 31, 2009, the Bank had a DIF deposit assessment base of approximately $4.5 billion.

The FDIC may terminate its insurance of deposits if it finds after a hearing that the depository institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance.

Community Reinvestment Act

The Bank has a responsibility under the CRA and related regulations, to help meet the credit needs of its entire community, including low-and moderate-income neighborhoods consistent with safe and sound banking practice. The CRA does not establish specific lending requirements or programs for such banks nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires each federal banking agency, in connection with its examination of an insured depository institution, to assess and assign one of four ratings to the institution's record of meeting the credit needs of its community. An institution's failure to comply with the provisions of the CRA could lead to potential penalties, including regulatory denials of applications to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions. The CRA also requires that all institutions make public disclosure of their CRA ratings. The Bank received a rating of "outstanding" from the FDIC on its last CRA examination report dated August 2008.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are generally known as the "OFAC" rules as they are administered by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they may contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions such as the Bank are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. The Bank does not believe the brokered deposits regulation has had or will have a material effect on the funding or liquidity of the Bank.

Federal Limitations on Activities and Investments

The activities and equity investments of FDIC-insured, state-chartered banks (which under the FDIA include banking institutions incorporated under the laws of Puerto Rico) are generally limited to those permitted under applicable state laws and are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. However, an insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, [(ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures director', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and][confirm source] (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met. In addition, an insured state-chartered bank may not, directly or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements. Any insured state-chartered bank that is directly or indirectly engaged in any activity that is not permitted for a national bank must cease such impermissible activity.

Interstate Branching

Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") amended the FDIA and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed

legislation prior to May 31, 1997 expressly prohibiting interstate mergers. States are also allowed to permit de novo interstate branching. Under the Riegle-Neal Act amendments, once a state or national bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. A bank that has established a branch in a state through de novo branching (if permitted under state laws) may establish and acquire additional branches in such state in the same manner and to the same extent as a bank having a branch in such state as a result of an interstate merger. If a state opted out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or *de novo.*

For purposes of the Riegle-Neal Act's amendments to the FDIA, the Bank is treated as a state bank and is subject to the same restriction on interstate branching as other state banks. However, for purposes of the IBA, the Bank is considered to be a foreign bank and may branch interstate by merger or *de novo* to the same extent as a domestic bank in the Bank's home state.

Banking Operations-Puerto Rico Regulation

General

As a commercial bank organized under the laws of Puerto Rico, the Bank is subject to the supervision, examination and regulation of the Commissioner, pursuant to the Puerto Rico Banking Act of 1933, as amended (the "Banking Law"). The Banking Law contains provisions governing the incorporation and organization, rights and responsibilities of directors, officers and stockholders as well as the corporate powers, lending limitations, capital requirements, investment requirements and other aspects of the Bank and its affairs. In addition, the Commissioner is given extensive rule making power and administrative discretion under the Banking Law.

Section 12 of the Banking Law requires the prior approval of the Commissioner with respect to a transfer of capital stock of a bank that results in a change of control of the bank. Under Section 12, a change of control is presumed to occur if a person or a group of persons acting in concert, directly or indirectly, acquire more than 5% of the outstanding voting capital stock of the bank. The Commissioner has interpreted the restrictions of Section 12 as applying to acquisitions of voting securities of entities controlling a bank, such as a bank holding company. Under the Banking Law, the determination of the Commissioner whether to approve a change of control filing is final and non-appealable.

Section 16 of the Banking Law requires every bank to maintain a legal reserve which, except as otherwise provided by the Commissioner, may not be less than 20% of its demand liabilities, excluding government deposits (federal, state and municipal) which are secured by actual collateral. The reserve is required to be composed of any of the following securities or a combination thereof: (1) legal tender of the United States; (2) checks on banks or trust companies located in Puerto Rico, to be presented for collection on the day after the day they are received; (3) money deposited in other banks or depository institutions, subject to immediate collection; (4) federal funds sold to any Federal Reserve Bank and securities purchased under agreement to resell executed by the bank to the extent such funds are subject to be repaid to the bank on or before the close of the next business day; and (5) any other asset that the Commissioner determines from time to time.

Section 17 of the Banking Law permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of 15% the sum of: (i) paid-in capital; (ii) reserve fund of the commercial bank; and (iii) any other components that the Commissioner may determine from time to time. As of December 31, 2009, the legal lending limit for the Bank under this provision was approximately $66.2 million. If such loans are secured by collateral worth at least 25% more than the amount of the loan, the aggregate maximum amount may reach one third of the sum of the Bank's paid-in capital, reserve fund, retained earnings and any such other components approved by the Commissioner. If the bank is well capitalized and had been rated 1 in the last examination performed by the Commissioner or any regulatory agency, its legal lending limit shall also include 15% of 50% of its undivided profits and for loans secured by collateral worth at least 25% more than the amount of the loan, the capital of the bank shall also include 33 1/3% of 50% of its undivided profits. Institutions rated 2 in their last regulatory examination may include this additional component in their legal lending limit only with the prior authorization of the Commissioner. There are no restrictions under Section 17 of the Banking Law on the amount of loans which are wholly secured by bonds, securities and other evidences of indebtedness of the Governments of the United States or of the Commonwealth of Puerto Rico, or by bonds, not in default, of authorities, instrumentalities or dependencies of the Commonwealth of Puerto Rico or its municipalities.

Section 17 of the Banking Law also prohibits banks from making loans secured by their own stock, and from purchasing their own stock in connection therewith, unless such purchase is necessary to prevent losses because of a debt previously

contracted in good faith. The stock so purchased by a bank must be sold by it in a public or private sale within one year from the date of purchase.

Section 27 of the Banking Law requires that at least 10% of the yearly net income of the Bank be credited annually to a reserve fund until the amount deposited to the credit of the reserve fund is equal to the total paid-in capital on common and preferred stock of the Bank. As of December 31, 2009, the Bank transfer $2.6 million to Reserve Fund.

Section 27 of the Banking Law also provides that when the expenditures of a bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If the reserve fund is not sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and no dividends may be declared until capital has been restored to its original amount and the reserve fund to 20% of the original capital of the bank.

Section 14 of the Banking Law authorizes the Bank to conduct certain financial and related activities directly or through subsidiaries, including finance leasing of personal property, operating small loans companies and mortgage loans activities. The Bank currently has one wholly-owned subsidiary, Santander International Bank, an international banking entity operating under the International Banking Center Regulatory Act of Puerto Rico (the “IBC Act”).

The Finance Board, which is composed of the Commissioner, the Secretary of the Treasury, the Secretary of Economic and Commercial Development, the Secretary of Consumer Affairs, the President of the Economic Development Bank, the President of the Planning Board, the President of the Government Development Bank for Puerto Rico, the Executive President of the Public Corporation for the Supervision and Insurance of Cooperatives and the Insurance Commissioner, has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in Puerto Rico. The current regulations of the Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses, including real estate development loans but excluding certain other personal and commercial loans secured by mortgages on real estate properties and finance charges on retail installment sales and for credit card purchases, is to be determined by free competition. Regulations adopted by the Finance Board deregulated the maximum finance charges on retail installment sales contracts, and for credit card purchases. These regulations do not set a maximum rate for charges on retail installment sales contracts and for credit card purchases and set aside previous regulations which regulated these maximum finance charges. Furthermore, there is no maximum rate set for installment sales contracts involving motor vehicles, commercial, agricultural and industrial equipment, commercial electric appliances and insurance premiums.

IBC Act

Santander International Bank, an international banking entity (“IBE”), is subject to supervision and regulation by the Commissioner under the IBC Act. Under the IBC Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the Commissioner, if by such transaction a person or persons acting in concert would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. Such authorization must be requested at least 30 days prior to the transaction. The IBC Act and the regulations issued thereunder by the Commissioner limit the business activities that may be carried out by an IBE. The activities of Santander International Bank are limited to dealing with persons and assets located outside Puerto Rico. The IBC Act further provides that every IBE must have not less than $300,000 of unencumbered assets or acceptable financial securities in Puerto Rico.

Under the IBC Act, without the prior approval of the Office of the Commissioner, Santander International Bank may not amend its articles of incorporation or issue additional shares of capital stock or other securities convertible into additional shares of capital stock unless such shares are issued directly to the shareholders of Santander International Bank previously identified in the application to organize the IBE, in which case notification to the Commissioner must be given within ten (10) business days following the date of the issue.

Pursuant to the IBC Act, Santander International Bank must maintain its original accounting books and records in its principal place of business in Puerto Rico. Santander International Bank is also required to submit to the Commissioner quarterly and annual reports of its financial condition and results of operations, including annual audited financial statements.

The IBC Act empowers the Commissioner to revoke or suspend, after notice and hearing, a license issued to an international banking entity if, among other things, the IBE fails to comply with the IBC Act, the regulations issued thereunder, or the

terms of its license, or if the Commissioner finds that the business of the IBE is conducted in a manner not consistent with the public interest.

Mortgage Banking Operations

The mortgage banking business conducted by the Bank is subject to the rules and regulations of FHA, VA, FNMA, FHLMC, HUD and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, required credit reports on prospective borrowers and fix maximum loan amounts and, with respect to VA loans, fix maximum interest rates. Moreover, mortgages lenders are required annually to submit to FHA, VA, FNMA, FHLMC, GNMA and HUD, audited financial statements, and each regulatory entity has its own financial requirements. Our mortgage banking business is also subject to supervision and examination by FHA, VA, FNMA, FHLMC, GNMA and HUD at all times to assure compliance with the applicable regulations, policies and procedures. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, the Real Estate Settlement Procedures Act and the regulations promulgated thereunder.

Mortgage loan production activities are subject to the Federal Truth-in-Lending Act and Regulation Z promulgated thereunder. This Act contains disclosure requirements designed to provide consumers with uniform, understandable information with respect to the terms and conditions of loans and credit transactions in order to give them the ability to compare credit terms. The Truth-in-Lending Act provides consumers with a three-day right to cancel certain credit transactions, including the refinancing of any mortgage or junior mortgage on a consumer's primary residence.

The Bank is required to comply with the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit lenders from discriminating against applicants on the basis of race, color, sex, age or marital status, and restrict creditors from obtaining certain types of information from loan applicants. These requirements mandate certain disclosures by lenders regarding consumer rights and require lenders to advice applicants of the reasons for any credit denial. In instances where the applicant is denied credit or the rate or charge for the loan increases as a result of information obtained from a consumer credit agency, another statute, The Fair Credit Reporting Act of 1970, as amended, requires that the lenders supply the applicant with the name and address of the reporting agency. The Real Estate Settlement Procedures Act imposes, among other things, limits on the amount of funds a borrower can be required to deposit in any escrow account for the payment of taxes, insurance premiums and other taxes.

The mortgage banking operation is licensed by the Commissioner under the Puerto Rico Mortgage Banking Law (the "Mortgage Banking Law"), and as such is subject to regulation by the Commissioner, with respect to, among other things, licensing requirements, maximum origination fees on certain types of mortgage loans products, and the recordkeeping, examination and reporting requirements under that statute. The authorization to act as a mortgage banking institution under the Mortgage Banking Law must be renewed each year. Although the Bank believes that it is in compliance in all material respects with applicable Federal and Puerto Rico laws, rules and regulations related to its mortgage banking business, there can be no assurance that more restrictive laws or rules will not be adopted in the future, which could make compliance more difficult or expensive, restricting the Bank's ability to originate or sell mortgage loans or sell mortgage-backed securities, further limit or restrict the amount of interest and other fees earned from the origination of mortgage loans, or otherwise adversely affect the business or prospects of the Bank.

The Mortgage Banking Law requires the prior approval of the Commissioner for the acquisition of control of any mortgage banking institution licensed under such law. For purposes of the Mortgage Banking Law, the term "control" means the power to direct or influence decisively, directly or indirectly, the management or policies of a mortgage banking institution. The Mortgage Banking Law provides that a transaction that results in the holding of less than 10% of the outstanding voting securities of a mortgage banking institution shall not be considered a change in control.

Broker-Dealer Operations

Santander Securities is registered as a broker-dealer with the SEC and the Commissioner, and is also a member of the Financial Industry Regulatory Authority ("FINRA"). As a registered broker-dealer, it is subject to regulation, examination and supervision by the SEC, the Commissioner and FINRA which can affect its manner of operation and profitability. Such regulations cover a broad range of subject matters. Rules and regulations for registered broker-dealers cover such issues as: net capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and

employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions.

Santander Securities is subject to the net capital rule of the Exchange Act, which specify minimum net capital requirements for registered broker-dealers. The net capital requirements are designed to ensure that broker-dealers maintain regulatory capital in relation to their liabilities and the size of their customer business. If Santander Securities fails to maintain its minimum required net capital, it would be required to cease executing customer transactions until it came back into compliance. This could result in Santander Securities losing its FINRA membership, its registration with the SEC, or require a complete liquidation. As of December 31, 2009, Santander Securities was in compliance with the required net capital under the rule.

The SEC's risk assessment rules also apply to Santander Securities as a registered broker-dealer. These rules require broker-dealers to maintain and preserve records and certain information, describe risk management policies and procedures, and report on the financial condition of affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer.

Insurance Operations

Santander Insurance Agency is licensed as a corporate agent and general agency by the Office of the Commissioner of Insurance of Puerto Rico (the "Insurance Commissioner"). As such, Santander Insurance Agency is subject to regulation, examination and supervision by the Insurance Commissioner. The applicable regulations relate to, among other things, licensing of employees, sales practices, charging of commissions and obligations to customers.

Island Insurance Corporation is licensed as an insurance company with the Insurance Commissioner. Island Insurance Corporation is subject to regulation, examination and supervision by the Insurance Commissioner. As of December 31, 2009, this corporation was inactive.

Recent Puerto Rico Legislation

On March 9, 2009, the Governor of Puerto Rico signed Law 7 ("Law 7") which seeks to increase the tax revenues of the Puerto Rico Government with certain permanent and temporary measures. Law 7 includes the following amendments: (i) for taxable years commenced after December 31, 2008 and before January 1, 2012, taxable corporations (such as the Corporation and the Bank) would be subject to a separate tax of 5% based on their total tax liability; (ii) for taxable years commenced after December 31, 2008 and before January 1, 2012, international banking entities that do not operate as bank units would be subject to a 5% income tax on their entire net income computed in accordance with the Puerto Rico Internal Revenue Code of 1994, as amended (the "PR Code"); (iii) certain income tax credits granted to financial institutions in relation to financing provided for the acquisition of new or existing homes may no longer generate a tax refund for any taxable year commenced on or before December 31, 2010 and after such date, this refundable tax credit will not generate interest for the period elapsed between the claim of refund and its payment by the Puerto Rico Treasury Department (as further discussed below); (iv) certain income tax credits granted to developers of projects in designated urban areas which serve as source of repayment for construction loans will not be available during the taxable years commenced after December 31, 2008 and before January 1, 2012; and (v) net income subject to alternative minimum tax in the case of individuals ("AMT") now includes various categories of exempt income and income subject to preferential tax rates under the PR Code (as further discussed below).

Shareholders of the Corporation will now have to take into consideration for purposes of computing their AMT income subject to preferential tax rates such as: (i) long-term capital gains on the sale of their Corporation stock which enjoys a preferential tax rate of 10% under PR Code Section 1014; (ii) dividends from the Corporation that are taxable at the rate of 10% under PR Code Section 1012; (iii) interest on bank deposits and individual retirement accounts subject to the special 10% and 17% preferential income tax rates, respectively; and (iv) interest from notes or bonds eligible for the special 10% tax rate provided by Section 1013A of the PR Code. These changes may affect this income by subjecting it to AMT. The AMT top rate of 20% starts on alternative minimum taxable income in excess of $175,000. Also, the vast majority of tax-exempt income covered by Section 1022 of the PR Code and other special laws is subject to AMT pursuant to the provisions of Law 7. A notable exception is the interest income derived from U.S. and Puerto Rico Government obligations which continues to be exempt for AMT purposes even after the enactment of Law 7.

On December 2007, the Governor of Puerto Rico signed Law 197 ("Law 197") which provided certain credits when individuals purchase certain new or existing homes. The maximum amount of credits under Law 197 amounted to $220,000,000 and such amount was reached before its December 31, 2008 sunset. The incentives under Law 197 were as

follows: (a) for a new constructed home constituting the individuals principal residence, a credit equal to 20% of the sales price or $25,000, whichever is lower; (b) for new constructed homes that will not constitute the individuals principal residence, a credit of 10% of the sales price or $15,000, whichever is lower; and (c) for existing homes a credit of 10% of the sales price or $10,000, whichever is lower.

The income tax credit provided under Law 197 may be used against income taxes, including estimated taxes, for years commencing after December 31, 2007 in three installments, subject to certain limitations, between January 1, 2008 and June 30, 2011; the credit may be ceded, sold or otherwise transferred to any other person. Any tax credit not used in a given tax year, as certified by the Secretary of Treasury, may be claimed as a refund but only for taxable years commenced after December 31, 2010 and after such date, this refundable tax credit will not generate interest for the period elapsed between the claim of refund and its payment by the Puerto Rico Treasury Department.

Employees

As of December 31, 2009, the Corporation and its subsidiaries have approximately 1,764 employees. None of its employees are represented by a collective bargaining group. The Corporation considers its employee relations to be good.

Availability at our website

We make available free of charge, through our investor relations section at our internet website, www.santandernet.com, our Form 10-K, Form 10-Q and Form 8-K reports and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

The Corporation is subject to risk in several areas. Discussed below, and elsewhere in this report, are the various risk factors that could cause the Corporation's financial condition and results of operations to vary significantly from period to period. Please refer to the "Regulation and Supervision" section of this report for more information about legislative and regulatory risks. Also refer to the MD&A section, Quantitative and Qualitative Disclosures about Market Risk, and the Financial Statements and Supplementary Data sections in this report for additional information about credit, interest rate and market risks. Any factor described below or elsewhere in this report or in our 2009 Annual Report to Stockholders could, by itself or together with one or more other factors, have a material adverse effect on the Corporation's financial condition and results of operations.

General business, economic and political conditions. The Corporation's businesses and earnings are affected by general economic and political conditions in Puerto Rico and the United States of America. General business and economic conditions that could affect the Corporation include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, and the strength of the United States and Puerto Rico economies. A period of reduced economic growth or a recession has historically resulted in a reduction in lending activity and an increase in the rate of defaults on loans. A recession may have an adverse impact on net interest income and fee income. The Corporation may also experience significant losses on the loan portfolio due to defaults as customers become unable to meet their obligations, which would result in an adverse effect on earnings as higher reserves for loan losses would be required. Geopolitical conditions can also affect the Corporation's earnings. Acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, could affect the general business and economic conditions in Puerto Rico, United States and abroad.

The Corporation's financial activities and credit exposure are concentrated in Puerto Rico. As a result, the Corporation's financial condition and results of operations are highly dependent on economic conditions in Puerto Rico. An extended economic slowdown, adverse political or economic developments or natural disasters such as hurricanes, affecting Puerto Rico could result in a reduction in lending activities and an increase in the level of non-performing assets and charge offs, all of which would adversely affect the Corporation's profitability.

Competition. The Corporation operates in a highly competitive environment in Puerto Rico composed of other local and international banks as well as mortgage banking companies, insurance companies and brokers-dealers. Increased competition could require that the Corporation lower rates charged on loans or increase rates offered on deposits, which could adversely affect profitability.

The Corporation's business model is based on a diversified mix of businesses that provide a broad range of financial products and services, delivered through multiple distribution channels. The Corporation's success depends, in part, on its ability to adapt its products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce the Corporation's net interest margin and income from fee-based products and services. In addition, the widespread adoption of new technologies, including internet services, could require the Corporation to incur in substantial expenditures to modify or adapt its existing products and services in order to remain competitive. The Corporation is at risk of not being successful or timely in introducing new products and services, responding or adapting to changes in consumer spending and saving habits, achieving market acceptance of its products and services, or developing and maintaining loyal customers.

Interest rate risk. Net interest income is the interest earned on loans, securities and other assets minus the interest paid on deposits, long-term and short-term debt and other liabilities. Net interest income is the difference between the yield on assets and the rate paid on deposits and other sources of funding. These rates are highly sensitive to many factors beyond the Corporation's control, including general economic conditions and the policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if the Corporation does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates.

Changes in interest rates could adversely affect net interest margin. Although the yield earned on assets and funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing the Corporation's net interest margin to expand or contract. The Corporation's liabilities tend to be shorter in duration than its assets, so they may adjust faster in response to changes in interest rates.

Changes in the slope of the “yield curve” – or the spread between short-term and long-term interest rates – could also reduce the Corporation’s net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. However, since the Corporation’s liabilities tend to be shorter in duration than its assets, they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, the Corporation’s funding costs may rise faster than the yield earned on its assets causing net interest margin to contract until the yield catches up.

The Corporation assesses its interest rate risk by estimating the effect on earnings under various scenarios that differ based on assumptions about the direction, magnitude and speed of interest rate changes and the slope of the yield curve. Some interest rate risk is hedged with derivatives. However, not all interest rate risk is hedged. There is always the risk that changes in interest rates could reduce net interest income and earnings in material amounts, especially if actual conditions turn out to be materially different than what the Corporation expected. For example, if interest rates rise or fall faster than the Corporation assumed, or the slope of the yield curve changes, the Corporation may incur significant losses on debt securities held as investments. To reduce interest rate risk, the Corporation may rebalance its investment and loan portfolios, refinance its debt and take other strategic actions. Certain losses or expenses may be incurred when such strategic actions are taken. Refer to the “Risk Management – Asset Liability Management” section of the MD&A.

Credit Risk. When the Corporation lends money or commits to lend money or enters into a contract with a counterparty, it incurs credit risk, or the risk of losses if borrowers do not repay their loans or counterparties fail to perform according to the term of their contract. The Corporation allows for and reserves against credit risks based on its assessment of credit losses inherent in its loan portfolio (including unfunded credit commitments). The process for determining the amount of the allowance for loan losses is critical to the Corporation’s financial condition and results of operations. It requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always the chance that the Corporation will fail to identify the proper factors or that it will fail to accurately estimate the impacts of factors that are identified.

For further discussion of credit risk and the Corporation’s credit risk management policies and procedures, refer to “Credit Risk Management and Loan Quality” in the MD&A.

Changes in market prices of managed assets. The Corporation earns fee income from managing assets for others and providing brokerage services. Since investment management fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce the Corporation’s fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees earned from the brokerage business.

Changes in accounting standards. The Corporation’s accounting policies are fundamental to understanding its financial condition and results of operations. Some of these policies require the use of estimates and assumptions that may affect the value of assets or liabilities and financial results. Several of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. For a description of the Corporation’s critical accounting policies, refer to “Critical Accounting Policies” in the MD&A.

From time to time the Financial Accounting Standards Board (FASB), the SEC and other regulatory bodies, change the financial accounting and reporting standards that govern the preparation of external financial statements. These changes are beyond the Corporation’s control, can be difficult to predict and could materially impact how it reports financial condition and results of operations. In some cases, the Corporation could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

Federal and state regulations. The Corporation, the banking and non banking subsidiaries are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of its operations. These regulations protect depositors, federal deposit insurance funds, consumers and the banking system as a whole, not stockholders. The Corporation and its non banking subsidiaries are also heavily regulated by securities regulators. This regulation is designed to protect investors in securities we sell or underwrite. Congress and state legislatures and foreign, federal and state regulatory agencies continually review laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways including limiting the types of financial services and products it may offer and increasing the ability of non banks to offer competing financial services and products. Implementation of regulatory changes could also be costly to the Corporation.

Governmental fiscal and monetary policy. The Corporation's earnings are affected by domestic and international monetary policy. For example, the Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. These policies, to a large extent, determine the Corporation's cost of funds for lending and investing and the returns earned on those loans and investments, both of which affect net interest margin. These policies can also affect the value of financial instruments, such as debt securities and mortgage servicing rights as well as affecting as borrowers by potentially increasing the risk that they may fail to repay their loans.

The Corporations earnings are also affected by the fiscal policies that are adopted by various governmental authorities of Puerto Rico and the United States. Changes in tax laws can have a potentially adverse impact on the Corporation's earnings.

Changes in domestic and international monetary and fiscal policies are beyond the Corporation's control and are difficult to predict.

Liquidity risk. Liquidity is essential to business and could be impaired by an inability to access the capital markets or unforeseen outflows of cash. This situation may arise due to circumstances that the Corporation may be unable to control, such as a general market disruption. The Corporation's credit ratings are important to its liquidity. A reduction in credit ratings could adversely affect its liquidity and competitive position, increase borrowing costs, limit access to the capital markets. For a further discussion of the Corporation's liquidity, refer to "Liquidity Risk" in the MD&A.

Operational risk. The Corporation is exposed to operational risk. In its daily operations, the Corporation relies on the continued efficacy of its technical and telecommunication systems, operational infrastructure, relationships with third parties and the vast array of associates and key executives in its day to day and ongoing operations. Failure by any or all of these resources subjects the Corporation to risks that may vary in size, scale and scope. This includes but is not limited to operational or technical failures, ineffectiveness or exposure due to interruption in third party support as expected, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors (including clerical or recordkeeping errors), as well as, the loss of key individuals or failure on the part of the key individuals to perform properly.

Reputational risk. The Corporation is subject to reputational risk, or the risk to earnings and capital from negative public opinion. The Corporation's ability to attract and retain customers and employees could be adversely affected to the extent its reputation is damaged. The Corporation's failure to address, or to appear to fail to address various issues that could give rise to reputational risk could cause harm to the Corporation and its business prospects and could lead to litigation and regulatory action. These issues include, but are not limited to, appropriately addressing potential conflicts of interest; legal and regulatory requirements; ethical issues; money laundering ; privacy; properly maintaining customer and associated personal information; record keeping; sales and trading practices; and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in its products.

Merger risk. There are significant risks associated with mergers. Future business acquisitions could be material to the Corporation and could require the issuance of additional capital or incurring of debt. In that event, the Corporation could become more susceptible to economic downturns and competitive pressures. Merger risk includes the possibility that projected growth opportunities and cost savings fail to be realized, and that the integration process results in the loss of key employees, or that the disruption of ongoing business from the merger could adversely affect the Corporation's ability to maintain relationships with customers.

Litigation risk. The volume of claims and the amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remains high. Substantial legal liability or significant regulatory action against the Corporation could have material adverse financial effects or cause significant reputational harm to the Corporation, which could result in serious financial consequences.

Current Economic Condition of the Commonwealth of Puerto Rico. Puerto Rico's economy continues immersed on a prolonged and profound economic recession already in its fourth year of duration. The weakness in the labor market persists with a loss of more than 39,000 jobs between January and November of 2009 when compared to the same period in 2008. The unemployment rate continued to grow as the rate of unemployed increased from 12.4% in November 2008 to 15.9% in November 2009. Total investment in construction continued in negative territory as the development of new residential projects remained halted due to an oversupply of housing units in the residential market. As of September 2009, the sale of new housing units declined by 4,175 units or 53% to 3,718 units when compared to the same period in 2008. Currently, the excess housing inventory is expected to last for the next couple of years with much of the problem concentrating in the high-end segment of the market. Other construction data as of October 2009 shows, for instance, that the value of construction permits and cement sales declined 32.5% and 30.0% respectively when compared to accumulated figures for the same period

in 2008. On the other hand, sustained inflationary pressure and continuous employment layoffs have seriously eroded consumer purchasing power and confidence level, leading to continue deterioration in the commercial activity. As a result, retail sales adjusted for inflation weakened with total sales declining 2.5% in the third quarter of 2009 when compared to the third quarter of 2008. As these events unveil, the financial conditions of consumers and businesses deteriorated rapidly, leading to 26.3% growth in total bankruptcies between 2008 and 2009 and to a rapid deterioration in asset quality in Puerto Rico's financial system.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

As of December 31, 2009, the Corporation owned nineteen facilities, which consisted of eleven branches and eight parking lots. The Corporation occupies one hundred twenty-two leased branch premises, while warehouse space is rented in one location. In addition, office spaces are rented at Torre Santander building in Hato Rey Puerto Rico, at the Santander Tower in Galeria San Patricio building, in Guaynabo, Puerto Rico, at Professional Office Park IV building, in Río Piedras, Puerto Rico and at the Operational Center in Hato Rey, Puerto Rico. The Corporation's management believes that each of its facilities is well maintained and suitable for its purpose.

ITEM 3. LEGAL PROCEEDINGS

The Corporation is involved as plaintiff or defendant in a variety of routine litigation incidental to the normal course of business. Management believes, based on the opinion of legal counsel, that it has adequate defense with respect to such litigation and that any losses therefrom would not have a material adverse effect on the consolidated results of operations or consolidated financial condition of the Corporation.

Management believes that there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Corporation or its subsidiary is a party or of which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Santander BanCorp's Common Stock, $2.50 par value (the "Common Stock"), is traded on the New York Stock Exchange (the "NYSE") under the symbol "SBP", and on the Madrid Stock Exchange (LATIBEX) under the symbol “XSBP”, respectively. The table below sets forth, for the calendar quarters indicated, the high and low sales prices on the NYSE during such periods.

Period	High	Low	Cash Dividends per Share	Book Value per Share
2009				
1st Quarter	$ 13.49	$ 5.74	$ -	$ 11.70
2nd Quarter	8.13	6.18	-	11.99
3rd Quarter	10.80	5.18	-	12.34
4th Quarter	13.12	9.58	-	12.78
2008				
1st Quarter	$ 14.56	$ 7.06	$ 0.10	$ 12.15
2nd Quarter	15.00	9.23	0.10	12.03
3rd Quarter	15.50	9.63	-	11.91
4th Quarter	14.50	6.63	-	11.83

As of December 31, 2009 the approximate number of record holders of the Corporation's Common Stock was 110, which does not include beneficial owners whose shares are held in record names of brokers and nominees. The last sales price for the Common Stock as quoted on the NYSE on such date was $12.28 per share representing a market capitalization of $572.7 million as of December 31, 2009.

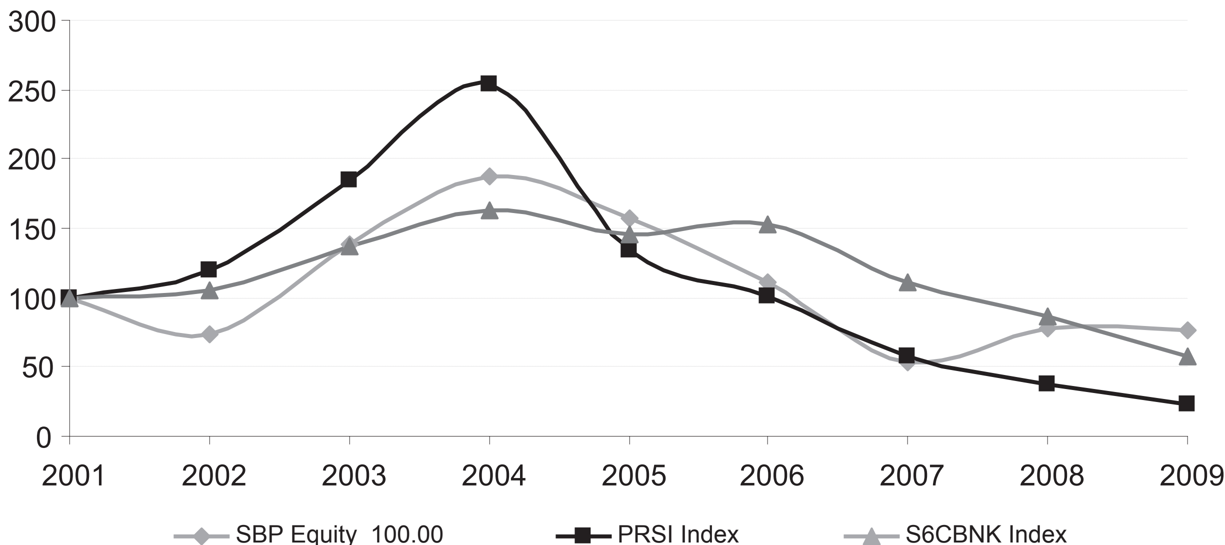
Dividend Policy and Dividends Paid

The payment of dividends by the Corporation will depend on the earnings, cash position and capital needs of the Bank, its subsidiaries, general business conditions and other factors deemed relevant by the Corporation's Board of Directors. The ability of the Corporation to pay dividends may be restricted also by various regulatory requirements and policies of regulatory agencies having jurisdiction over the Corporation and the Bank.

Dividends on the Corporation's common stock are payable when, as and if declared by the Board of Directors of the Corporation, out of funds legally available therefore. The Corporation declared a cash dividend of $0.20 per common share to all stockholders for a total payment of $9.3 million during the year ended December 31, 2008 resulting in an annualized dividend yield of 1.6%. In light of the continuing challenging general economic conditions in Puerto Rico and the global capital markets, the Board of Directors of the Corporation voted during August 2008 to discontinue the payment of the quarterly cash dividend on the Corporation's common stock to strengthen the institution's core capital position. The Corporation may use a portion of the funds previously paid as dividends to reduce its outstanding debt. The Corporation's decision is part of the significant actions it has proactively taken in order to face the on-going challenges presented by the Puerto Rico economy, which among others, include: selling the merchant business to an unrelated third party; maintaining an on-going strict control on operating expenses; an efficiency plan driven to lower its current efficiency ratio; and merging its mortgage banking and commercial banking subsidiaries. While each of the Corporation and its banking subsidiary remain above well capitalized ratios, this prudent measure will preserve and continue to reinforce the Corporation's capital position.

Stock Performance Graph

The graph below shows the cumulative stockholder return of the Common Stock of the Corporation during the measurement period. The graph compares the return of the Common Stock of the Corporation (identified by its official symbol as “SBP”) to the cumulative return of the Puerto Rico Stock Index (PRSI) and the S&P Small Cap Commercial Bank Index (S6CBNK). The performance of the Common Stock and the mentioned indexes are valued using a base value of 100. The Common Stock value as of December 31, 2009 was $12.28. The Board of Directors of the Corporation acknowledges that the market price of the Common Stock is influenced by numerous factors. The stock price shown in the graph is not necessarily indicative of future performance. This stock performance graph should not be deemed to be soliciting material under the proxy rules or incorporated by reference into any filing under the Securities Act or the Exchange Act, unless the Corporation specifically states otherwise.



ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated and other financial and operating information for the Corporation and subsidiaries and certain statistical information as of the dates and for the periods indicated. This information should be read in conjunction with the Corporation's consolidated financial statements and the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations " and "Selected Statistical Information" appearing elsewhere in this Annual Report. The selected Balance Sheet and Statement of Operations data as of and for the year ended December 31, 2009, 2008, 2007, 2006 and 2005 have been derived from the Corporation's consolidated audited financial statements.

Santander BanCorp and Subsidiaries
Selected Financial Data

	Year ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(Dollars in thousands, except per data share)				
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS					
Interest income	$ 482,158	$ 600,771	$ 674,210	$ 618,320	$ 439,605
Interest expense	130,431	244,449	362,531	327,714	212,583
Net interest income	351,727	356,322	311,679	290,606	227,022
Security gains	9,251	5,154	1,265	-	17,842
Loss on extinghuishment of debt	(9,600)	-	-	-	(5,959)
Broker-dealer, asset management and insurance fees	62,688	74,808	68,265	56,973	53,016
Other income	60,107	67,873	78,590	61,496	60,459
Operating expenses	269,067	324,627	344,016	277,783	221,386
Provision for loan losses	152,496	175,523	147,824	65,583	20,400
Income tax (benefit) provision	11,335	(6,524)	4,204	22,540	30,788
Net income (loss)	$ 41,275	$ 10,531	$ (36,245)	$ 43,169	$ 79,806
PER COMMON SHARE DATA					
Net income (loss)	$ 0.88	$ 0.23	$ (0.78)	$ 0.93	$ 1.71
Book value	$ 12.78	$ 11.83	$ 11.50	$ 12.42	$ 12.19
Outstanding shares:					
Average	46,639,104	46,639,104	46,639,104	46,639,104	46,639,104
End of period	46,639,104	46,639,104	46,639,104	46,639,104	46,639,104
Cash Dividend per Share	$ -	$ 0.20	$ 0.64	$ 0.64	$ 0.64
AVERAGE BALANCES					
Loans held for sale and loans, net of allowance for loan losses	$ 5,529,239	$ 6,584,842	$ 6,900,764	$ 6,439,205	$ 5,871,433
Allowance for loan losses	191,738	175,100	125,897	87,465	67,956
Earning assets	6,375,311	8,014,368	8,530,213	8,262,748	7,882,180
Total assets	7,112,754	8,740,670	9,199,712	8,820,630	8,285,992
Deposits	4,645,829	5,558,667	5,221,999	5,054,687	5,082,520
Borrowings	1,565,983	2,314,535	3,093,947	2,876,720	2,415,172
Common equity	569,700	564,238	573,536	563,593	576,226
PERIOD END BALANCES					
Loans held for sale and loans, net of allowance for loan losses	$ 5,273,170	$ 5,967,958	$ 6,911,380	$ 6,836,693	$ 5,954,890
Allowance for loan losses	197,303	191,889	166,952	106,863	66,842
Earning assets	6,124,895	7,186,973	8,519,773	8,598,703	7,933,139
Total assets	6,766,436	7,897,576	9,160,213	9,188,168	8,271,948
Deposits	4,395,560	5,014,902	5,160,703	5,313,974	5,224,650
Borrowings	1,506,754	1,939,384	3,138,730	2,954,515	2,212,245
Common equity	595,897	551,636	536,536	579,220	568,527

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	Year ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
SELECTED RATIOS					
Performance:					
Net interest margin (1)	5.56%	4.50%	3.74%	3.63%	3.02%
Efficiency ratio (2)	56.77%	60.39%	66.32%	66.82%	62.97%
Return on average total assets	0.58%	0.12%	(0.39)%	0.49%	0.96%
Return on average common equity	7.25%	1.87%	(6.32)%	7.66%	13.85%
Dividend payout	0.00%	86.96%	(82.05)%	68.82%	37.43%
Average net loans/average total deposits	119.02%	118.46%	132.15%	127.39%	115.52%
Average earning assets/average total assets	89.63%	91.69%	92.76%	93.68%	95.13%
Average stockholders' equity/average assets	8.01%	6.46%	6.24%	6.39%	6.95%
Fee income to average assets	1.44%	1.37%	1.26%	1.20%	1.15%
Capital:					
Tier I capital to risk-adjusted assets	10.60%	8.41%	7.42%	7.87%	9.09%
Total capital to risk-adjusted assets	15.55%	12.83%	10.55%	10.93%	12.30%
Leverage Ratio	7.98%	6.10%	5.38%	5.81%	6.50%
Asset quality:					
Non-performing loans to total loans	5.30%	3.45%	4.16%	1.54%	1.22%
Annualized net charge-offs to average loans	2.57%	2.23%	1.25%	0.93%	0.38%
Allowance for loan losses to period-end loans	3.61%	3.12%	2.36%	1.54%	1.11%
Allowance for loan losses to non-performing loans	68.07%	90.21%	56.70%	100.01%	90.72%
Allowance for loan losses to non-performing loans plus accruing loans past-due 90 days or more	65.54%	84.84%	55.36%	83.62%	87.17%
Non-performing assets to total assets	4.79%	2.97%	3.39%	1.23%	0.92%
Recoveries to charge-offs	3.25%	2.52%	3.97%	9.30%	18.28%
EARNINGS TO FIXED CHARGES:					
Excluding interest on deposits	1.94x	1.04x	0.82x	1.42x	2.19x
Including interest on deposits	1.39x	1.02x	0.91x	1.20x	1.51x
OTHER DATA AT END OF PERIOD					
Customer financial assets under management	$ 13,501,000	$ 13,413,000	$ 13,263,000	$ 14,154,000	$ 12,960,000
Full services branches	54	57	61	61	64
Consumer retail branches	60	64	68	70	-
Total branches	114	121	129	131	64
ATMs	145	169	140	144	149

(1) On a tax equivalent basis.

(2) Operating expenses less provision for claim receivable in 2008 and intangibles impairment charges in 2007 divided by net interest income on a tax equivalent basis, plus other income excluding securities gains and losses, gain on equity securities, gain on sale of POS and Trust division in 2007, gain on sale of FDIC assessment credits and gain on tax credit purchased in 2006, loss on early termination on repurchase agreements..

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of the Business

Santander BanCorp and subsidiaries is a diversified financial holding company headquartered in San Juan, Puerto Rico, offering a full range of financial products and services to consumers and commercial customers through its subsidiaries. The Corporation's subsidiaries are engaged in the following businesses:

- Commercial Banking – Banco Santander Puerto Rico
- Mortgage Banking – Banco Santander Puerto Rico (Santander Mortgage Corporation during 2007 and prior, which was merged into the Bank at January 1, 2008)
- Securities Brokerage and Investment Banking – Santander Securities Corporation
- Asset Management – Santander Asset Management Corporation
- Consumer Finance – Santander Financial Services, Inc.
- Insurance – Santander Insurance Agency, Inc. and Island Insurance Corporation
- International Banking – Santander International Bank of Puerto Rico, Inc.

Basis of Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and with general practices within the financial services industry, which are described in the notes to the consolidated financial statements. In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounting policies that are critical to the overall financial statements are fully described in the "Critical Accounting Policies" section below.

Forward-Looking Statements

This discussion of financial results contains forward-looking statements about the Corporation. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or phrases like "would be", "will allow", "intends to", "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project", "believe", or similar expressions and are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The future results of the Corporation could be affected by subsequent events and could differ materially from those expressed in forward-looking statements. If future events and actual performance differ from the Corporation's assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements. The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive and regulatory factors and legislative changes, could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Overview of Management's Discussion and Analysis of Financial Condition and Results of Operations

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to the reader. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire document. All accompanying tables, financial statements and notes included elsewhere in this report should be considered an integral part of this analysis.

The Corporation, similarly to other financial institutions, is subject to certain risks, many of which are beyond management's control, though efforts and initiatives are undertaken to manage those risks in conjunction with return optimization. Among the risks being managed are: (1) market risk, which is the risk that changes in market rates and prices will adversely affect the Corporation's financial condition or results of operations, (2) liquidity risk, which is the risk that the Corporation will have insufficient cash or access to cash to meet operating needs and financial obligations, (3) credit risk, which is the risk that loan customers or other counterparties will be unable to perform their contractual obligations, and (4) operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In addition, the Corporation is subject to legal, compliance and reputational risks, among others.

As a provider of financial services, the Corporation's earnings are significantly affected by general economic and business conditions. Credit, funding, including deposit origination and fee income generation activities are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products. The Corporation constantly monitors general business and economic conditions, industry-related trends and indicators, competition from traditional and non-traditional financial services providers, interest rate volatility, indicators of credit quality, demand for loans and deposits, operational efficiencies, including systems, revenue and profitability improvement and regulatory changes in the financial services industry, among others. The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial services providers could adversely affect the Corporation's profitability.

Overview of Financial Results

The Corporation reported a significant increase in net income of $30.7 million or 291.9% to reach $41.3 million for the year ended December 31, 2009 over the net income of $10.5 million for the year ended December 31, 2008. The Corporation reported $0.88 and $0.23 earning per share for the year ended December 31, 2009 and 2008, respectively. The increase in net income was principally due to decreases of $55.6 million and $23.0 million in operating expenses and provision for loans losses, respectively, partially offset by $25.4 million decrease in other income and $17.9 million increase in provision for income tax.

Return on average assets (ROA) of 0.58% and return on average common equity (ROE) of 7.25% reflected improvements of 46 basis points and 538 basis points, respectively, for the year ended December 31, 2009 compared to the year ended December 31, 2008.

The efficiency ratio (on a tax-equivalent basis) also reflected an improvement of 362 basis points to reach 56.77% for the year ended December 31, 2009 from 60.39% for 2008.

The Corporation's financial results for the year ended December 31, 2009 were impacted by the following:

- The net interest margin, on a tax equivalent basis, was 5.56%, a 106 basis points of improvement over 4.50% for the year ended December 31, 2008;

- The provision for loan losses decreased $23.0 million or 13.1% for the year ended December 31, 2009 compared to the same period in 2008. The provision for loan losses represented 103.7% of the net charge-offs for the year ended December 31, 2009 versus 116.6% for the year ended December 31, 2008;

- The allowance for loan losses of $197.3 million as of December 31, 2009 represented 3.61% of total loans, 68.07% of non-performing loans and 230.74% of non-performing loans excluding loans secured by real estate. As of

December 31, 2008, the allowance for loan losses was $191.9 million, represented 3.12% of total loans, 90.21% of non-performing loans and 225.06% of non-performing loans excluding loans secured by real estate;

- Non-interest income decreased $25.4 million or 17.2% for the year ended December 31, 2009 as compared to the same period in 2008. Non-interest income was impacted principally by:

  (i) a gain of $9.3 million on investment securities available for sale partially offset by a loss of $9.6 million on the early termination of a repurchase agreement, compared with a gain of $5.2 million for the same period in the prior year;

  (ii) a decrease in broker-dealer, asset management and insurance fees of $12.1 million;
  (iii) a gain of $3.3 million on the sale of a portion of the Corporation's investment in Visa, Inc. during the third quarter of 2009 compared with a gain of $8.6 million during the first quarter 2008 in connection with Visa's initial public offering;

  (iv) a loss of $7.3 million on derivatives and other financial instruments at fair value compared with a gain of $3.3 million for the same period in prior year,

  (v) an unfavorable valuation adjustment of $7.4 million for loans held for sale recorded during 2008.

- Operating expenses reflected a decrease of $55.6 million or 17.1% as compared with the figures reported in 2008. This decrease was affected principally by:

  (i) $24.8 million decrease in salaries and other employee benefits partially offset by increases of $4.5 million in incentive stock plan expense and a decrease of $2.3 million in expense from loan origination cost being deferred;

  (ii) a provision for claim receivable of $25.1 million from Lehman Brother Inc (LBI) recognized during the third quarter of 2008;

  (iii) decreases of $7.5 million in professional fees, $2.8 million in business promotion, $2.4 million in occupancy cost, $2.1 in insurance expense and $1.2 million in EDP and technical services and amortization

  (iv) partially offset by $6.6 million increase in FDIC assessment due to the assessment systems implemented under the Federal Deposit Insurance Reform Act of 2005 including the emergency special assessment paid on September 30, 2009.

- During 2009, the Corporation sold certain loans, including some classified as impaired, to an affiliate for $142.0 million in cash. These loans had a net book value of $142.0 million comprised of an outstanding principal balance of $149.2 million and a specific valuation allowance of $7.2 million. The type of loans by net book value was $65.5 million in construction loans, $61.2 million in commercial loans and $15.3 million in mortgage loans. No gain or loss was recognized on these transactions

The Corporation's principal source of revenues is net interest income, which is the difference between the interest earned on loans and investments and the interest paid on customer deposits and other interest-bearing liabilities. Net interest income represents approximately 74.2% and 70.7% of the Corporation's total net revenues (defined as net interest income plus other income) for 2009 and 2008, respectively. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on these balances.

Lending activities are one of the most important aspects of the Corporation's operations. The economic environment and uncertainties in Puerto Rico caused reduced lending activity and impacted the quality of the Corporation's loan portfolio

increasing the delinquency rates and charge offs. The net loan portfolio, including loans held for sale, decreased $0.7 billion, or 11.6% reaching $5.3 billion at December 31, 2009, compared to $6.0 billion at December 31, 2008. As of December 31, 2009, the allowance for loan losses reached $197.3 million, $5.4 million or 2.8% increase. The allowance for loan losses comprised $133.9 million related to the commercial banking portfolio and $63.4 million related to the consumer finance portfolio. The ratio of allowance for loan losses to total loans increased to 49 basis points to 3.61% at December 31, 2009 from 3.12% at December 31, 2008.

Although the Corporation has diversified its sources of revenue, interest income from the loan portfolio continues to account for the majority of total revenues, representing 76.1% and 73.2% of total gross revenues for 2009 and 2008, respectively. As a result, the primary influence on the Corporation's operating results is the demand for loans in Puerto Rico, which is significantly affected by economic conditions, competition, the demand and supply of housing, the fiscal policies of the federal and Puerto Rico governments and interest rate levels. Changes in interest rates, the Corporation's principal market risk, can significantly impact its results of operations by affecting net interest income and the gains or losses realized on the sale of loans and securities. As described under "Risk Management", the Corporation uses derivative instruments to hedge, to a limited extent, its interest rate risk in order to protect its net interest income under different interest rate scenarios.

Broker-dealer, asset management and insurance fees accounted for 51.2% and 50.6% of the Corporation's other income and 10.4% and 10.0% of its total revenues for 2009 and 2008, respectively. The Corporation also earns revenues from other sources that are not as dependent on interest levels, such as bank service fees on deposit accounts and credit card fees. Other income, including broker-dealer, asset management and insurance fees, accounted for 20.3% and 19.8% of total revenues for 2009 and 2008, respectively.

Deposits at December 31, 2009 were $4.4 billion, reflecting a decrease of $619.3 million or 12.4% compared to deposits of $5.0 billion as of December 31, 2008.

Total borrowings at December 31, 2009 (comprised of federal funds purchased and other borrowings, Federal Home Loan Bank Advances, commercial paper issued, term and capital notes) reflected a decrease of $432.6 million or 22.3% to $1.5 billion at December 31, 2009 compared with $1.9 billion at December 31, 2008.

As of December 31, 2009 and 2008, the Corporation had $13.5 billion and $13.4 billion in customer financial assets under management, respectively. This is a significant part of the financial assets of Puerto Rico households and reflects the Corporation's strong positioning in its primary market. Customer financial assets under management include bank deposits (excluding brokered deposits), broker-dealer customer accounts, mutual fund assets managed, and trust, institutional and private accounts under management.

SBP common stock price per share was $12.28 as of December 31, 2009 resulting in a market capitalization of $0.6 billion (including affiliated holdings).

During 2009, Santander BanCorp did not declared nor paid dividends per common share to its shareholders of record.

Critical Accounting Policies

The consolidated financial statements of Santander BanCorp are prepared in accordance with accounting principles generally accepted in the United States of America and with general practices within the financial services industry. In preparing the consolidated financial statements, management is required to make judgments, involving significant estimates and assumptions, in the application of its accounting policies about matters that are inherently uncertain. Management arrives at these estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, considering the facts and circumstances at a specific point in time. Changes in those facts and circumstances could produce actual results that differ from those estimates. Detailed below is a discussion of the Corporation's critical accounting policies. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. For a complete discussion of the Corporation's significant and critical accounting policies refer to the notes to the consolidated financial statements and the discussion throughout this document which should be read in conjunction with this section.

Current Accounting Developments

The Corporation's consolidated financial statements provide a complete discussion of the recently issued accounting pronouncements adopted by the Corporation. Refer to Note 1 to the condensed consolidated financial statements.

Allowance for Loan Losses. The Corporation assesses the overall risks in its loan portfolio and establishes and maintains an allowance for probable losses thereon. The allowance for loan losses is maintained at a level sufficient to provide for estimated loan losses based on the evaluation of known and inherent risks in the Corporation's loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a monthly basis.

The determination of the allowance for loan losses is one of the most complex and critical accounting estimates the Corporation’s management makes. The allowance for loan losses is composed of three different components. An asset-specific reserve based on the provisions of accounting standard FASB ASC Topic 310 “Receivables”, an expected loss estimate based on the provisions of FASB ASC Topic 450 “Contingencies”, and an unallocated reserve based on the effect of probable economic deterioration above and beyond what is reflected in the asset-specific component of the allowance.

Commercial, construction loans and certain mortgage loans exceeding a predetermined monetary threshold are identified for evaluation of impairment on an individual basis pursuant FASB ASC Topic 310. The Corporation considers a loan impaired when interest and/or principal is past due 90 days or more, or, when based on current information and events it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. The asset-specific reserve on each individual loan identified as impaired is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except as a practical expedient, the Corporation may measure impairment based on the loan’s observable market price, or the fair value of the collateral, net of estimated disposal costs, if the loan is collateral dependent. Most of the asset-specific reserves of the Corporation’s impaired loans are measured on the basis of the fair value of the collateral. The fair value of the collateral is determined by external valuation specialists and since these values cannot be observed or corroborated with market data, they are classified as Level 3 and presented as part of non-recurring measurement disclosures. The Corporation requests updated appraisal reports for loans that are considered impaired, either annually or every two years depending on the total exposure of the borrower and the type of loan. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired.

A reserve for expected losses is determined under the provisions of FASB ASC Topic 450 for all loans not evaluated individually for impairment. Effective July 1, 2009, the Corporation revised its quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios. Through the end of the second quarter ended June 30, 2009, the Corporation’s quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios was based on a historical loss rate analysis, which relied on historical loss experience over a defined period for pools of loans with common characteristics. The revised quantitative methodology is based on a migration analysis/roll rate and considers both historical loss rates and loss rates based on the likelihood of credit deterioration (expectation of current loans becoming delinquent in monthly increments until they default and are charged-off). The loss factor estimated based on this methodology may be adjusted to incorporate seasonality attributes as well as to reflect recent economic or business trends that may affect the collectability of the portfolio. The loss factor is then applied to the outstanding portfolio at period end to estimate the amount of expected charge offs and the provision for loan losses required to support an adequate allowance for loan losses. The Corporation’s decision to revise and improve its methodology was made after a thorough evaluation of the reliability of the revised methodology including a back testing analysis. Management believes that the revised quantitative methodology provides a more reliable estimate of probable losses on its existing consumer and consumer finance portfolios.

An additional, or unallocated, reserve is maintained to cover the effect of probable economic deterioration above and beyond what is reflected in the asset-specific component of the allowance. This component represents management’s view that given the complexities of the lending portfolio and the assessment process, including the inherent imprecision in the financial models used in the loss forecasting process, there are estimable losses that have been incurred but not yet specifically identified, and as a result not fully provided for in the asset-specific component of the allowance. The level of the unallocated reserve may change periodically after evaluating factors impacting assumptions used in the calculation of the asset specific component of the reserve.

The underlying assumptions, estimates and assessments used by management to determine the components of the allowance for loan losses are periodically evaluated and updated to reflect management’s current view of overall economic conditions and other relevant factors impacting credit quality and inherent losses. Changes in such estimates could significantly impact the allowance and provision for loan losses. The Corporation could experience loan losses that are different from the current estimates made by management. Based on current and expected economic conditions, the expected level of net loan losses and the methodology established to evaluate the adequacy of the allowance for loan losses, management considers that the Corporation has established an adequate position in its allowance for loan losses. Refer to the Non-performing Assets and Past Due Loans section for further information.

Transfers of Financial Assets. The Corporation occasionally engages in transfers of financial assets and accounts for them in accordance with the provisions of FASB ASC Topic 860, "*Transfer and Servicing*". This Topic provides that a transfer of financial assets in which the transferor surrenders control over those financial assets shall be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. A transferor has surrendered control if all of the following conditions are met: (a) the transferred assets have been isolated from the transferor—put presumptively beyond the reach of creditors, even in bankruptcy; (b) each transferee has the right to pledge or exchange the assets it received and no condition constrains the transferee from taking advantage of its right to pledge or exchange; and (c) the transferor does not maintain effective control over the transferred assets through either (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (ii) the ability to unilaterally cause the holder to return specified assets, other than through a cleanup call. In accordance with FASB ASC Topic 860, a gain or loss on the sale is recognized based on the carrying amount of the financial assets involved in the transfer, allocated between the assets transferred and the retained interests based on their relative fair value at the date of transfer. When the Corporation transfers financial assets and the transfer fails any one of the FASB ASC Topic 860 sales criteria, the Corporation is not permitted to derecognize the transferred financial assets and the transaction is accounted for as a secured borrowing.

Income taxes. In preparing the consolidated financial statements, the Corporation is required to estimate income taxes. This involves an estimation of current income tax expense together with an assessment of temporary differences resulting from differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require the Corporation to assume certain positions based on its interpretation of current tax regulations. The Corporation accounts for uncertain tax positions in accordance with FASB ASC Topic 740, "*Income Tax*". Accordingly, the Corporation reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Changes in assumptions affecting estimates may be required in the future and estimated tax liabilities may need to be increased or decreased accordingly. The accrual for uncertain tax positions is adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Corporation's effective tax rate includes the impact of tax contingency accruals and changes to such accruals, including related interest and penalties, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited by the taxing authorities and finally resolved. Favorable resolution of such matters or the expiration of the statute of limitations may result in the release of uncertain tax positions, which are recognized as a reduction to the Corporation's effective rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective rate and may require the use of cash in the year of resolution.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of the Corporation's net deferred tax assets assumes that the Corporation will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change, the Corporation may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations. Management evaluates its deferred tax assets on a quarterly basis and assesses the need for a valuation allowance. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowance from period to period are included in the Corporation's tax provision in the period of change. Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not, the Corporation will not realize the benefits of the deferred tax assets related to Santander Financial Services, Inc and Santander Bancorp (parent company only) amounting to $14.5 million and $0.1 million, respectively, at December 31, 2009 and $20.6 million and $0.1 million, respectively, at December 31, 2008. Accordingly, deferred tax asset valuation allowances of $14.5 million and $0.1 million at December 31, 2009 and $20.6 million and $0.1 million at December 31, 2008, for Santander Financial Services, Inc and Santander Bancorp (parent company only), respectively, were recorded.

The Corporation accounts for uncertain tax positions in accordance with FASB ASC Topic 740. Accordingly, the Corporation reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Goodwill and other intangible assets. The Corporation accounts for goodwill in accordance with FASB ASC Topic 350 "*Intangible-Goodwill and Others*." The reporting units are tested at least annually to determine whether their carrying value exceeds their fair market value. Should this be the case, the value of goodwill or indefinite-lived intangibles may be impaired and written down. Goodwill and other indefinite lived intangible assets are also tested for impairment on an interim basis if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. If there is a determination that the fair value of the goodwill or other identifiable

intangible asset is less than the carrying value, an impairment loss is recognized in an amount equal to the difference. Impairment losses, if any, are reflected in other operating expenses in the consolidated statement of operations.

Tangible and intangible assets with finite useful lives are amortized over their estimated useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. If circumstances and conditions indicate deterioration in the value of tangible assets and intangible assets with finite useful lives, the book value would be adjusted and a loss would be recognized in current operations.

The Corporation uses judgment in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on projections of revenues, operating costs and cash flows of each reporting unit considering historical and anticipated future results, general economic and market conditions as well as the impact of planned business or operational strategies. The valuations employ a combination of present value techniques to measure fair value and consider market factors. Generally, the Corporation engages third party specialists to assist with its valuations. Additionally, judgment is used in determining the useful lives of finite-lived intangible assets. Changes in judgments and projections could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill.

As a result of the purchase price allocations from prior acquisitions and the Corporation's decentralized structure, goodwill is included in multiple reporting units. Due to certain factors such as the highly competitive environment, cyclical nature of the business in some of the reporting units, general economic and market conditions as well as planned business or operational strategies, among others, the profitability of the Corporation's individual reporting units may periodically suffer from downturns in these factors. These factors may have a relatively more pronounced impact on the individual reporting units as compared to the Corporation as a whole and might adversely affect the fair value of the reporting units. If material adverse conditions occur that impact the Corporation's reporting units, the Corporation's reporting units, and the related goodwill would need to be written down to an amount considered recoverable.

The Corporation's goodwill consists of $10.5 million that resulted from the acquisition by the Bank of Banco Central Hispano Puerto Rico, $24.3 million that resulted from the acquisition by Santander Securities of Merrill Lynch's retail brokerage business in Puerto Rico and $86.7 million that resulted from the acquisition of Island Finance.

The value of the goodwill is supported ultimately by revenue from the commercial banking segment, the wealth management segment and the consumer finance segment. A decline in earnings as a result of a lack of growth, or our inability to deliver cost effective services over sustained periods, could lead to a perceived impairment of goodwill, which would be evaluated and, if necessary be recorded as a write-down in the consolidated statement of operations.

On an annual basis, or more frequently if circumstances dictate, management reviews goodwill and evaluates events or other developments that may indicate impairment in the carrying amount. The evaluation for potential impairment is inherently complex, and involves significant judgment in the use of estimates and assumptions.

To determine the fair value of the reporting units being evaluated for goodwill impairment, the Corporation uses the assistance of an independent consultant. The determination of the fair value of the reporting units (acquired segments) involves the use of estimates and assumptions including expected results of operations, an assumed discount rate and an assumed growth rate for the reporting units. Specifically, the independent valuation specialist prepared analyses regarding the fair value of equity of the Corporation's reporting units, Commercial Banking, Wealth Management and Consumer Finance. The consultant may use up to three separate valuation approaches:

Market Multiple Approach: provides indications of value based upon comparisons of the reporting unit to market values and pricing evidence of public companies in the same or similar lines of businesses. Market ratios (pricing multiples) and performance fundamentals relating the public companies' stock prices (equity) or enterprise values to certain underlying fundamental data are applied to the reporting unit to determine indications of its fair value.

Comparable Transaction Approach: includes an examination of recent transactions in which companies involved in the same or similar lines of business to the reporting unit were acquired. Acquisition values and pricing evidence are used in much the same manner as the Market Multiple Approach for indication of the reporting unit's fair value.

Discounted Cash Flow Approach: calculates the present value of the projected future cash flows to be generated by the reporting unit using appropriate discount rates. The discount rates are intended to reflect all associated risks of realizing the projected future cash flows. Terminal values are computed as of the end of the last period for which cash flows are projected to determine an estimate of the values of the reporting unit

as of that future point in time. Discounting the terminal values back to the present and adding the present values of the future cash flows yields indications of the reporting unit's fair value.

Events that may indicate goodwill impairment include significant or adverse changes in the business, economic or political climate; unanticipated competition; adverse action or assessment by a regulator; plans for disposition of a segment; among others.

In assessing the recoverability of goodwill and other intangibles, the Corporation must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Corporation may be required to record impairment charges for these assets not previously recorded. The key assumptions used by management to determine the fair value of the reporting units include company specific risk elements that are consistent with the risks inherent in its current business models for each reporting unit. Changes in judgment and estimates could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill and other intangibles.

Pension and Other Postemployment Benefits. The determination of the Corporation's obligation and expense for pension and other postretirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 to the consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in healthcare costs. Management participates in the determination of these factors, which normally undergo evaluation against industry assumptions, among other factors. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from the Corporation's assumptions are accumulated and amortized over future periods and therefore, generally affect recognized expense and recorded obligation in such future periods. The Corporation uses an independent actuarial firm for the determination of the pension and post-retirement benefit costs and obligations.

The FASB ASC Topic 715, "*Compensation – Retirement Benfits*" requires recognition of a plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to accumulated other comprehensive income (AOCI). Actuarial gains or losses, prior service costs and transition assets or obligations will be subsequently recognized as components of net periodic benefit costs. Additional minimum pension liabilities (AMPL) and related intangible assets are derecognized upon adoption of the standard.

In developing the expected return on plan assets, the Corporation considers the asset allocation, historical returns on the types of assets held in the pension trust, the current economic environment, as well as input from the actuaries, financial analysts and the Corporation's long-term inflation assumptions and interest rate scenarios. The expected rate of return for plan assets was set at 7.5% for the year ended December 31, 2009 and 2008 and 8.5% for the year ended December 31, 2007. In selecting a discount rate, the Corporation considers the long-term corporate bond yield as a guide. At December 31, 2009, 2008 and 2007, the discount rate was 5.91%, 6.00% and 6.50%, respectively, for the Corporation's Plan and 5.80%, 6.00% and 5.75%, respectively, for the Banco Central Hispano (BCH)'s Plan.

Management believes that the assumptions made are appropriate; however, significant differences in actual experience or significant changes in assumptions may materially affect pension obligations and future expense.

Fair Value Measurement. Effective January 1, 2008, the Corporation adopted FASB ASC Topic 820, for all financial instruments accounted for at fair value on a recurring basis. Adoption of FASB ASC Topic 820 did not have a material effect on the Corporation's financial position and results of operations. Illiquidity in the credit markets contributed to the amount of our reported Level 3 instruments, primarily in our trading and loan portfolios. In conjunction with the adoption FASB ASC Topic 820, effective January 1, 2008, the Corporation adopted FASB ASC Topic 825 which provides an option for most financial assets and liabilities to be reported at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. The election is made at the initial adoption, at the acquisition of a financial asset, financial liability or a firm commitment and it may not be revoked. Under the FASB ASC Topic 825 transition provisions, the Corporation has elected to report certain callable brokered certificates of deposits and subordinated notes at fair value with future changes in value reported in earnings. FASB ASC Topic 825 provides an opportunity to mitigate volatility in reported earnings as well as reducing the burden associated with complex hedge accounting requirements.

The Corporation's estimates of fair value for financial instruments are based on the framework established in FASB ASC Topic 820. The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The disclosure of fair value estimates in the FASB ASC Topic 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining such estimates and the level of the hierarchy in which the estimate is disclosed, the highest

priority is given to unadjusted quoted prices in active markets, the lowest priority to unobservable inputs that reflect the Corporation's market assumptions. FASB ASC Topic 820 requires the use of observable inputs when available. Additionally, the level at which a financial instrument is reported is based on the lowest level of any significant input into the estimation of fair value. The three levels of the hierarchy are as follows:

– Level 1 **-** Unadjusted quoted market prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

– Level 2 **-** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

– Level 3 **-** Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Corporation's own assumptions about the assumptions that market participants would use.

The Corporation uses quoted market prices, when available, to determine estimates of fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. When quoted market prices are unavailable, the Corporation obtains fair value estimates from a nationally recognized pricing service that determines fair value estimates based on objectively verifiable information: relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities additional inputs may be necessary. The Corporation reviews the estimates of fair value provided by the pricing service and compares the estimates to the Corporation's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. The Corporation will challenge any prices deemed not to be representative of fair value. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy.

If quoted market prices and an estimate from a pricing service are unavailable, the Corporation produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. See Note 24 to the accompanying consolidated financial statements for further information related to valuation methods used by the Corporation for each type of financial instruments that are carried at fair value.

The Corporation employs control processes to validate the fair value of its financial instruments. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied, and the assumptions are reasonable. These control processes include validation and corroboration procedures over the quotes and prices obtained from brokers and counterparties, as well as reviews of the pricing models' appropriateness by the personnel with relevant expertise, which are independent from the trading desks on a quarterly basis. In addition, the Corporation is considering recently executed comparable transaction and other observable market data for purposes of validating assumptions used in the models.

The Corporation understands that any increases and/or decreases in the aggregate fair value of its assets and liabilities will not materially affect its liquidity and capital resources.

Results of Operations

The following financial discussion is based upon and should be read in conjunction with the Corporation's consolidated financial statements for the years ended December 31, 2009, 2008, and 2007.

The following table sets forth the principal components of the Corporation's net income (loss) for the years ended December 31, 2009, 2008 and 2007 and other selected financial information.

		2009		2008		2007
		(Dollars in thousands)				
Components of net income (loss):						
Net interest income	$	351,727	$	356,322	$	311,679
Provision for loan losses		(152,496)		(175,523)		(147,824)
Other income		122,446		147,835		148,120
Other operating expenses		(269,067)		(324,627)		(344,016)
Provision (benefit) for income tax		11,335		(6,524)		4,204
Net income (loss)	$	41,275	$	10,531	$	(36,245)
Other selected financial information:						
EPS	$	0.88	$	0.23	$	(0.78)
ROA		0.58%		0.12%		(0.39)%
ROE		7.25%		1.87%		(6.32)%
Net interest margin, on a tax equivalent basis		5.56%		4.50%		3.74%
Efficiency Ratio (*)		56.77%		60.39%		66.32%

(*) Operating expenses less provision for claim receivable in 2008 and intangibles impairment charges in 2007 divided by net interest income on a tax equivalent basis plus other income excluding securities gain and losses, gain on equity securities, gain on sale of POS and Trust division in 2007 and loss on early termination on repurchase agreements.

2009 compared to 2008. The Corporation's net income increased $30.7 million or 291.9% for the year ended December 31, 2009 compared to figures reported in 2008. This increase was mainly due to reductions of $55.6 million or 17.1% in other operating expense and $23.0 million or 13.1% in provision for loan losses. These decreases were partially offset by a $25.4 million or 17.2% decrease in other income and $17.9 million or 273.5% increase in provision for income tax. The decrease in operating expenses was principally due to a provision for claim receivable of $25.1 million recognized during the third quarter of 2008 which represent the excess of the value of the securities held by LBI over the amount owned by the Corporation under the securities sold under agreement to repurchase, $18.1 million decrease in salaries and other employee benefits and $12.4 million decrease in other operating expenses. The $25.4 million decrease in other income was mainly due to a decrease of $10.6 million in loss on derivatives and other financial instrument at fair value and a decrease of $12.2 million in broker-dealer, asset management and insurance fees.

2008 compared to 2007. The Corporation's net income increased $46.8 million or 129.1% for the year ended December 31, 2008 compared to figures reported in 2007. This increase was mainly due to an increase of $44.6 million or 14.3% in other net interest income, a decrease in other operating expenses of $19.4 million or 5.6% and a decrease in provision for income tax of $10.7 million or 255.2%. These increases were offset by an increase the provision for loan losses of $27.7 million or 18.7%. The increase in net interest income was due to an improvement of 76 basis points in net interest margin, on a tax equivalent basis. The decrease in operating expenses was principally due to a $43.3 million related to goodwill and other intangible assets impairment charges recognized during 2007, a $16.0 million decrease in stock incentive compensation expense sponsored by Santander Group, a provision for claim receivable of $25.1 million recognized during 2008, a $7.8 million increase in professional fees, a $6.9 million increase in salaries and other personnel expenses, a $3.9 million increase in occupancy cost, a $3.8 million increase in FDIC assessment offset by a decrease of $9.0 million in business promotion and a decrease of $1.8 million in repossessed asset provision and expenses.

Net Interest Income

The Corporation reported net interest income of $351.7 million, $356.3 million and $311.7 million for the years ended December 31, 2009, 2008, and 2007, respectively.

To facilitate the comparison of assets with different tax attributes, the interest income on tax-exempt assets under this heading and under the heading "Change in Interest Income and Interest Expense–Volume and Rate Analysis," has been adjusted by an amount equal to the income taxes which would have been paid had the interest income been fully taxable. This tax equivalent

adjustment is derived using the applicable statutory tax rate and resulted in an adjustment of $2.8 million in 2009, 4.7 million in 2008 and $7.5 million in 2007.

The following table sets forth the principal components of the Corporation's net interest income for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
	(Dollars in thousands)		
Interest income - tax equivalent basis	$ 484,949	$ 605,445	$ 681,755
Interest expense	(130,431)	(244,449)	(362,531)
Net interest income - tax equivalent basis	$ 354,518	$ 360,996	$ 319,224
Net interest margin - tax equivalent basis (1)	5.56%	4.50%	3.74%

(1) Net interest margin for any period equals tax-equivalent net interest income divided by average interest-earning assets for such period.

2009 compared to 2008. For the year ended December 31, 2009, net interest margin, on a tax equivalent basis, was 5.56% compared to net interest margin, on a tax equivalent basis, of 4.50% for the same period in 2008. This increase of 106 basis points in net interest margin, on a tax equivalent basis, was mainly due to a decrease of 106 basis points in the cost of average interest bearing liabilities accompanying of $1.6 billion decrease in average interest bearing liabilities, resulting in a decrease of $114.0 million in interest expense. The reduction of $114.0 million or 46.7% in interest expense was principally due to the significant reductions of 115 basis points in the cost of funds of average interest-bearing deposits from 3.16% for the year ended December 31, 2008 to 2.01% for the year ended December 31, 2009 reflecting the repricing of interest bearing deposits as a result of Federal Reserve's interest rate cuts during 2008. The yield on average interest earning assets increase 5 basis points when compare with prior year. Interest income, on a tax equivalent basis, decrease $120.5 million mainly due to $1.6 billion decrease in average interest earning assets. The decrease of $120.5 million in interest income, on a tax equivalent basis, was due principally to decreases of $89.1 million and $26.6 million in interest income on average loans and average investment securities, respectively.

For the year ended December 31, 2009 average interest earning assets decreased $1.6 billion or 20.5%. The decrease in average interest earning assets compared to the previous year was driven by decreases of $1.1 billion or 16.0% in average net loans, $553.5 million or 48.3% in average investment securities and $30.0 million or 10.5% in average interest bearing deposits. The decrease in average net loans was mainly due to the sale of commercial and construction loans, including some classified as impaired, to an affiliate and repayments on loans, net of originations. The average commercial and construction loans reflected a decrease of $413.6 million or 17.0% and $279.0 million or 73.5%, respectively, for the year ended December 31, 2009 when compared with the same period in 2008 mainly due to the sale of loans to an affiliate and net repayments during the period. There was a decrease in average mortgage loans mainly due to a reduction in mortgage loans origination of $150.3 million when compared with the same period in prior year. There was a decrease in average consumer loans (including consumer finance) of $146.7 million or 12.1% which comprised $110.4 million and $36.3 million decreases in average personal loans and consumer finance, respectively. Also, average leasing portfolio experienced a decrease of $29.2 million or 38.3% was reported since the Corporation has strategically reduced this line of lending.

The decrease in average interest earning assets, also, was impacted by a reduction in average investment securities of $553.5 million or 48.3% mainly due to a sale of investment securities available for sale of $495.4 million during 2009.

The average interest-bearing liabilities decreased $1.6 billion or 22.7% for the year ended December 31, 2009 driven by decreases in average interest bearing deposits and average borrowings of $872.0 million and $748.6 million, respectively, when compared to the year ended December 31, 2008. The decrease or $872.0 million in average interest-bearing deposits was composed of $837.9 million decrease in average brokered deposits and $160.9 million decrease in average other time deposits offset by an increase of $126.8 million average savings and NOW accounts. The $748.6 million decrease in average borrowings was impacted by a reduction in average securities sold under agreements to repurchase of $447.0 million mainly caused the early termination of repurchase agreements of $375 million that were funding investment securities sold during the first quarter of 2009, a decrease in average federal funds and other borrowings of $175.3 million mainly due to the repayment of the outstanding indebtedness incurred under a bridge facility agreement among the Corporation, SFS and National Australia Bank Limited during 2008, a reduction of $119.0 million in average commercial paper and a decrease in average

Federal Home Loan Bank Advances ("FHLB") of $66.0 million for the year ended December 31, 2009 compared with the same period in 2008. These decreases were partially offset by an increase of $58.2 million in average subordinated capital notes due to a subordinated purchase agreement undertook with an affiliate.

2008 compared to 2007. For the year ended December 31, 2008, net interest margin, on a tax equivalent basis, was 4.50% compared with 3.74% for the same period in 2007. The increase of 76 basis points in net interest margin was mainly due to a decrease of 133 basis points in the cost of interest-bearing liabilities together with a decrease of $489.2 million in average interest-bearing liabilities. The Corporation also experienced a decrease in the yield of interest-earning assets of 44 basis points and $515.8 million decrease in average interest-earnings assets. Net Interest income, on a tax equivalent basis, reflected an increase of $41.8 million or 13.1% resulting from a decrease of $118.1 million or 32.6% in interest expense due to a $77.9 million decrease in interest expense in average borrowings (including average term notes and average subordinated notes) offset by a decrease of $76.3 million or 11.2% in interest income, on a tax equivalent basis mainly due to a $53.0 million decrease in interest income on average loans.

The 44 basis points reduction in the yield on the average interest-earnings assets was due to changes in the mix in the interest-earning assets and the repricing of the interest rate during 2008. There was a reduction of $53.0 million or 8.8% in interest income on average net loans accompanied by a $21.9 million or 30.7% decrease in interest income on average investment securities.

Average interest-earning assets decreased $515.8 million or 6.1% to $8.0 billion at December 31, 2008 compared with December 31, 2007. The decrease in average interest-earning assets was driven by decreases in average investment securities of $330.7 million and average net loans of $315.9 million partially offset by a $130.8 million increase in average interest-bearing deposits. The decrease of $330.7 million in average investment securities was due to a $346.7 million sale of investment securities available for sale during the year ended December 31, 2008, which includes $221.4 million of investment securities pledged as collateral to securities sold under agreements to repurchase with LBI. The decrease of $315.9 million in average net loans was driven by a $74.3 million decrease in average commercial loans and $101.3 million decrease in average construction loans principally due to the sale of certain loans, including some classified as impaired, to an affiliate during the period. There were decreases of $36.1 million in average leasing portfolio since the Corporation has strategically reduced this line of lending, of $29.7 million in average mortgage loans and $25.3 million in average consumer loans which comprised a $48.0 million decrease in average personal loans and a $12.2 million decrease in average consumer finance offset by a $34.9 million increase in average credit cards.

There was a reduction of 133 basis points in the average cost of interest-bearing liabilities. The Corporation's interest expense on average interest-bearing liabilities reflected a decreased of 32.6% to $244.5 million for year ended December 31, 2008 from $362.5 million for the same period in 2007. This reduction was due to a decrease in interest expense on average borrowings (including average term notes and average subordinated notes) of $77.9 million or 45.8% for the year ended December 31, 2008 compared to December 31, 2007 and a decrease in interest expense on total average interest-bearing deposits of $40.2 million or 20.9%. There were decreases in interest expense on average time deposits and average savings and NOW accounts of $23.4 million and $16.8 million, respectively, in 2008 compared to the same period in 2007.

Average interest-bearing liabilities reached $7.1 billion as of December 31, 2008, reflecting a decrease of $489.2 million or 6.4% when compared to figures reported in 2007. The reduction in average interest-bearing liabilities was mainly due to a decrease in average borrowings (including term and subordinated notes) of 779.4 million or 25.2% to $2.3 billion in 2008 from $3.1 billion in 2007. The reduction in average borrowings (including term and subordinated notes) was mainly to the payment of the $700 million outstanding indebtedness incurred under the bridge facility agreement among the Corporation, SFS and National Australia Bank Limited during the first quarter of 2008 and the cancellation on September 19, 2008 of $200 million of securities sold under agreements to repurchase with LBI as result of bankruptcy of its parent LBHI. Also, there were decreases in average commercial paper and average term notes of $169.9 million or 44.8% and $18.5 million or 48.5%, respectively, when compared with the same period in prior year. These decreases were partially offset by an increase in average Federal Home Loan Bank Advances of $177.8 million or 18.8%. Average interest-bearing deposits increased $290.2 million or 6.4% to reach $4.8 billion as of December 31, 2008 and include an increase in average other time deposits of $330.8 million or 23.3% offset by decreases of $24.5 million and $16.0 million in average savings and Now accounts and average brokered deposits, respectively, when compared with the figures reported in the prior year. The increase in average interest bearing deposits is mainly due to a certificate of deposit in the amount of $630 million held by Banco Santander, S.A. in Banco Santander Puerto Rico during the first quarter of 2008.

The following table shows average balances and, where applicable, interest amounts earned on a tax-equivalent basis and average rates for the Corporation's assets and liabilities and stockholders' equity for the years ended December 31, 2009, 2008 and 2007.

	Year ended December 31,								
	2009			2008			2007		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)								
Assets									
Interest-earning assets:									
Interest bearing deposits	$ 240,496	$ 541	0.22%	$ 81,851	$ 1,063	1.30%	$ 85,278	$ 3,343	3.92%
Federal funds sold and securities purchased under agreements to resell	14,053	67	0.48%	202,658	4,333	2.14%	68,477	3,456	5.05%
Total interest-bearing deposits	254,549	608	0.24%	284,509	5,396	1.90%	153,755	6,799	4.42%
U.S.Treasury securities	133,740	1,255	0.94%	42,604	1,028	2.41%	91,384	4,090	4.48%
Obligations of other U.S. government agencies and corporations	45,343	1,517	3.35%	417,457	14,122	3.38%	635,219	29,561	4.65%
Corporate Bonds	89,543	1,619	1.81%						
Obligations of the government of Puerto Rico and political subdivisions	147,753	9,565	6.47%	100,610	5,633	5.60%	95,781	5,113	5.34%
Collateralized mortgage obligations and mortgage backed securities	118,946	6,050	5.09%	519,311	24,752	4.77%	588,719	28,422	4.83%
Other	56,198	2,750	4.89%	65,035	3,820	5.87%	64,591	4,076	6.31%
Total investment securities	591,523	22,756	3.85%	1,145,017	49,355	4.31%	1,475,694	71,262	4.83%
Loans :									
Commercial	2,017,909	92,424	4.58%	2,431,527	137,263	5.65%	2,505,825	172,671	6.89%
Construction	100,819	2,942	2.92%	379,857	16,363	4.31%	481,174	38,479	8.00%
Consumer	503,112	79,624	15.83%	613,499	86,960	14.17%	626,580	79,531	12.69%
Consumer Finance	559,823	133,638	23.87%	596,129	141,701	23.77%	608,366	139,075	22.86%
Mortgage	2,492,276	149,841	6.01%	2,662,726	163,360	6.14%	2,692,448	166,192	6.17%
Lease financing	47,038	3,116	6.62%	76,204	5,047	6.62%	112,268	7,746	6.90%
Gross loans	5,720,977	461,585	8.07%	6,759,942	550,694	8.15%	7,026,661	603,694	8.59%
Allowance for loan losses	(191,738)			(175,100)			(125,897)		
Loans, net	5,529,239	461,585	8.35%	6,584,842	550,694	8.36%	6,900,764	603,694	8.75%
Total interest-earning assets/ interest income (tax-equivalent basis)	6,375,311	484,949	7.61%	8,014,368	605,445	7.55%	8,530,213	681,755	7.99%
Total non-interest-earning assets	737,443			726,302			669,499		
Total assets	$ 7,112,754			$ 8,740,670			$ 9,199,712		
Liabilities and stockholders' equity									
Interest-bearing liabilities:									
Savings and NOW accounts	$ 1,817,911	$ 19,016	1.05%	$ 1,691,094	$ 34,944	2.07%	$ 1,715,631	$ 51,785	3.02%
Other time deposits	1,589,018	42,932	2.70%	1,749,942	56,905	3.25%	1,419,185	65,810	4.64%
Brokered deposits	547,419	17,525	3.20%	1,385,318	60,603	4.37%	1,401,310	73,820	5.27%
Total Interest-bearing deposits	3,954,348	79,473	2.01%	4,826,354	152,452	3.16%	4,536,126	191,415	4.22%
Borrowings	1,240,099	35,600	2.87%	2,047,442	78,049	3.81%	2,805,003	153,951	5.49%
Term Notes	20,279	636	3.14%	19,674	631	3.21%	38,223	1,278	3.34%
Subordinated Notes	305,605	14,722	4.82%	247,419	13,317	5.38%	250,721	15,887	6.34%
Total interest-bearing liabilities interest expense	5,520,331	130,431	2.36%	7,140,889	244,449	3.42%	7,630,073	362,531	4.75%
Total non interest-bearing liabilities	1,022,723			1,035,543			996,103		
Total liabilities	6,543,054			8,176,432			8,626,176		
Stockholders' Equity	569,700			564,238			573,536		
Total liabilities and stockholders' equity	$ 7,112,754			$ 8,740,670			$ 9,199,712		
Net interest income		$ 354,518			$ 360,996			$ 319,224	
Net interest spread			5.24%			4.13%			3.24%
Cost of funding earning assets			2.05%			3.05%			4.25%
Net interest margin (tax equivalent basis)			5.56%			4.50%			3.74%

Changes in Interest Income and Interest Expense-Volume and Rate Analysis

The following table allocates changes in the Corporation's tax equivalent interest income and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective interest rates for the years 2009 compared to 2008 and 2008 compared to 2007. Volume and rate variances have been calculated based on activities in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	2009 vs. 2008			2008 vs. 2007		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest Income - tax equivalent basis:						
Federal funds sold and securities purchased under agreements to resell	$ (2,325)	$ (1,941)	$ (4,266)	$ 3,756	$ (2,879)	$ 877
Time deposits with other banks	866	(1,388)	(522)	(129)	(2,151)	(2,280)
Investment securities	(21,760)	(4,839)	(26,599)	(14,810)	(7,097)	(21,907)
Loans, net	(88,124)	(985)	(89,109)	(27,016)	(25,984)	(53,000)
Total interest income	(111,343)	(9,153)	(120,496)	(38,199)	(38,111)	(76,310)
Interest Expense:						
Savings and NOW accounts	2,450	(18,378)	(15,928)	(730)	(16,111)	(16,841)
Other time deposits	(32,251)	(24,800)	(57,051)	14,509	(37,876)	(23,367)
Borrowings	(26,103)	(16,346)	(42,449)	(35,377)	(39,251)	(74,628)
Long-term borrowings	2,863	(1,453)	1,410	(1,239)	(2,007)	(3,246)
Total interest expense	(53,041)	(60,977)	(114,018)	(22,837)	(95,245)	(118,082)
Net interest income (expense) - tax equivalent basis	$ (58,302)	$ 51,824	$ (6,478)	$ (15,362)	$ 57,134	$ 41,772

During 2009, the increase in net interest income on a tax equivalent basis was driven primarily by decreases in volume and rate on interest bearing-liabilities of 106 basis points accompanied by a decrease in volume and yield earned on interest-earning assets of 6 basis points. The increase in net interest income was mainly due to the repricing of interest bearing deposits as a result of Federal Reserve's interest rate cuts during 2008.

During 2008, the increase in net interest income on a tax equivalent basis was driven primarily by decreases in volume and rate on interest bearing-liabilities of 133 basis points accompanied by a decrease in volume and yield earned on interest-earning assets of 44 basis points. The increase in net interest income was attributed to a significant cost of funds reduction and the refinancing of existing debts.

Provision for Loan Losses

2009 compared to 2008. The provision for loan losses decreased $23.0 million or 13.1% to reach $152.5 million for the year ended December 31, 2009 from $175.5 million for the year ended December 31, 2008. The decrease in the provision for loan losses was due primarily to the sale of certain loans including some classified as impaired to an affiliate during the year, a reduction loan portfolio and overall improvement in credit ratios metrics.

2008 compared to 2007. The provision for loan losses increased $27.7 million or 18.7% from $147.8 million for the year ended December 31, 2007 to $175.5 million for the year ended December 31, 2008. The increase in the provision for loan losses was due primarily to increases in non-performing loans due to the deterioration in economic conditions in Puerto Rico, requiring the Corporation to increase the level of its allowance for loan losses.

Refer to the discussions under "Allowance for Loan Losses" and "Risk Management" for further analysis of the allowance for loan losses, the allocation of the allowance by loan category and non-performing assets and related ratios.

Other Income

Other income consists of service charges on deposit accounts, other service fees, including mortgage servicing fees and fees on credit cards, broker-dealer, asset management and insurance fees, gains and losses on sales of securities, gain on sale of mortgage servicing rights, certain other gains and losses and certain other income.

The following table sets forth the components of our other income for the years ended December 31, 2009, 2008 and 2007:

	Year ended December 31,		
	2009	**2008**	**2007**
	(Dollars In thousands)		
Bank service fees on deposit accounts	$ 12,403	$ 12,975	$ 13,603
Other service fees:			
Credit card fees	9,412	8,788	10,872
Mortgage-servicing fees	4,087	3,555	3,010
Trust fees	1,090	1,561	1,914
Confirming advances	1,882	6,200	4,169
Other fees	10,963	11,606	13,633
Broker-dealer, asset management and insurance fees	62,688	74,808	68,265
Gain on sale of securities, net	9,251	5,154	1,265
Gain on sale of loans	5,144	3,253	6,658
Trading gains	3,275	2,608	2,831
Gain (loss) on derivatives and other financial instruments	(7,303)	3,284	249
Other (loss) gains, net	(1,637)	5,739	18,644
Other	11,191	8,304	3,007
	$ 122,446	$ 147,835	$ 148,120

The table below details the breakdown of commissions from broker-dealer, asset management and insurance operations:

	Year ended December 31,		
	2009	**2008**	**2007**
	(Dollars in thousands)		
Broker-dealer	$ 34,281	$ 40,480	$ 32,147
Asset management	25,359	26,833	24,362
Total Santander Securities and subsidiary	59,640	67,313	56,509
Insurance	3,048	7,495	11,756
Total	$ 62,688	$ 74,808	$ 68,265

2009 compared to 2008. For the year ended December 31, 2009, other income reflected a reduction of 25.4 million or 17.2% as compared with figures reported in the prior year. Broker-dealer, asset management and insurance fees reflected a decrease of $12.1 million or 16.2% due decreases of $7.7 million in broker-dealer and asset management fees and $4.4 million in insurance fees due to a reduction in credit life commissions generated from the Bank and Island Finance operations. The broker-dealer operation is carried out through Santander Securities Corporation, whose business includes securities underwriting and distribution, sales, trading, financial planning and securities brokerage services. In addition, Santander Securities provides investment management services through its wholly-owned subsidiary, Santander Asset Management Corporation. The broker-dealer asset management and insurance operations contributed 51.2%, 50.6% and 46.1% of commissions to the Corporation's other income for the year ended December 31, 2009, 2008 and 2007.

The Corporation reported an increase in gain on sale of securities available for sale of $4.1 million. During 2009, the Corporation sold $495.4 million of investment securities available for sale and realized a gain of $9.3 million. This gain was offset by a loss of $9.6 million, included in other gains (losses), on the early termination of repurchase agreements that were funding the securities sold. During 2008, the Corporation sold $346.7 million of investment securities available for sale resulting in a gain of $5.2 million. There was a gain of $3.3 million on the sale of a portion of the Corporation's investment in Visa, Inc. during the third quarter of 2009 compared with a gain of $8.6 million during the first quarter 2008 in connection with Visa's initial public offering. A loss of $7.3 million on derivatives and other financial instruments was recognized at December 31, 2009 compared with a gain of $3.3 million for the same period in prior year mostly resulting from the credit risk component incorporated into the fair value calculation of a subordinated notes and brokered deposits. These decreases were partially offset by an unfavorable valuation adjustment of $7.4 million for loans held for sale recorded during 2008 and $4.4 million increase in loan administration fees collected from loan sold to affiliates.

Bank service charges, fees and other decreased $4.8 million, or 10.9% for the year ended December 31, 2009. These reductions were principally due to $4.3 million decrease in commissions from confirming advances. The confirming advances portfolio experienced a reduction of $8.9 million during 2009 when compared with 2008.

2008 compared to 2007. For the year ended December 31, 2008, other income remained basically flat as compared with figures reported in the prior year. Broker-dealer, asset management and insurance fees reflected an increase of $6.5 million or 9.6% due to increases in broker-dealer and asset management fees of $10.8 million partially offset by a decrease of $4.3 million in insurance fees due to a reduction of $3.1 million and $1.1 million in credit life commissions generated from the Bank and Island Finance operations, respectively. The broker-dealer asset management and insurance operations contributed 50.6% of commissions to the Corporation's other income for the year ended December 31, 2008.

There was a gain of $8.6 million on the sale of a portion of the Corporation's investment in Visa, Inc. in connection with its initial public offering during the first quarter of 2008. A gain on sale of securities of $5.2 million or a $3.9 million increase was recognized for the year ended December 31, 2008. This increase was driven by a sale of investment securities of $346.7 million during 2008, including $221.4 million related to investment securities available for sale held as collateral by LBI under securities sold under agreements to repurchase. The Corporation recognized a $2.3 million gain in connection with the settlement of the securities pledged as collateral to securities sold under agreements to repurchase. Also, the Corporation reported an increase in gain on derivative instruments of $3.0 million for the year ended December 31, 2008 compared with the prior year mainly due to the net effect of incorporating the Corporation's credit risk in the derivative fair value calculation methodology pursuant the adoption of SFAS 157, a $1.0 million increase in swap income, $1.2 million increase in technical assistance collected from affiliates and an additional fees received of $1.0 million as part of the agreement for the sale of the Corporation's merchant business during 2007. These increases were partially offset by an unfavorable valuation adjustment of $7.4 million for loans held for sale, a decrease in other gain of $12.9 due mainly to a $12.2 million in gain of sale of merchant business to an unrelated party during 2007. Also, there was a $3.4 million decrease in gain on sale of loans. The Corporation reported $105.8 million in mortgage loans sold, a reduction of $145.7 million or 57.9%, for the year ended December 31, 2008 compared with $251.4 million mortgage loans sold during 2007.

Bank service charges, fees and other decreased $2.6 million, or 5.3% for the year ended December 31, 2008. These reductions were principally due to a $2.1 million decrease in credit card fees due to the sale of the Corporation's merchant business to an unrelated third party during the first quarter of 2007.

Operating Expenses

The following table sets forth information as to the Corporation's other operating expenses for the years ended December 31, 2009, 2008 and 2007:

	Year ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Salaries	$ 60,241	$ 76,012	$ 72,927
Pension and other benefits	52,594	57,200	72,815
Expenses deferred as loan origination costs	(5,816)	(8,076)	(11,484)
Total personnel costs	107,019	125,136	134,258
Occupancy costs	25,291	27,665	23,767
Equipment expenses	3,907	4,358	4,427
EDP servicing expense, amortization and technical services	40,645	41,860	39,255
Communications	9,038	10,062	10,923
Business promotion	3,864	6,628	15,621
Goodwill and other intangibles impairment charges	-	-	43,349
Other taxes	13,270	13,101	12,334
Other:			
Professional fees	14,609	22,094	14,330
Amortization of intangibles	2,798	3,067	3,828
Printing and supplies	1,435	1,926	2,137
Credit card expenses	6,357	5,041	6,198
Insurance	1,318	3,371	4,029
Examinations & FDIC assessment	12,547	5,952	2,194
Transportation and travel	2,017	2,539	2,981
Repossessed assets provision and expenses	5,031	5,717	7,482
Collections and related legal costs	2,102	1,462	1,239
Provision for claim receivable	-	25,120	-
All other	17,819	19,528	15,664
Total other	66,033	95,817	60,082
Non personnel expenses	162,048	199,491	209,758
Total Other Operating Expenses	$ 269,067	$ 324,627	$ 344,016
Efficiency ratio-on a tax equivalent basis	56.77%	60.39%	66.32%
Personnel cost to average assets	1.50%	1.43%	1.46%
Other operating expenses to average assets	2.28%	2.28%	2.28%
Assets per employee	$ 3,836	$ 4,467	$ 3,494

2009 compared to 2008. The Efficiency Ratio, on a tax equivalent basis, was 56.77% and 60.39% for the year ended December 31, 2009 and 2008, respectively, reflecting an improvement of 362 basis points. This improvement was mainly the result of a reduction in operating expenses. The effect of the $25.1 million provision for claim receivable recognized during 2008 were excluded from operating expenses to determine the Efficiency Ratio, on a tax equivalent basis.

The Corporation's operating expenses reflected a decrease of $55.6 million or 17.1% to $269.1 million for the year ended December 31, 2009 when compared with the year ended December 31, 2008. This decrease was driven by a decrease in net salaries and other employee benefits of $18.1 million and $37.5 million other operating expense. The decrease in total personnel cost of $18.1 million principally attributed to $15.8 million decrease in salaries expense and $9.1 million decrease in other employee benefits (which comprised principally a $5.0 million decrease in bonuses and commissions) partially offset by increases of 4.5 million in incentive stock plan expense and $2.3 million expense of loan origination cost being deferred.

The $37.5 million decrease in other operating expense was principally due a provision for claim receivable of $25.1 million recognized during the third quarter of 2008 which represent the excess of the value of the securities held by LBI over the amount owned by the Corporation under the securities sold under agreement to repurchase. The Corporation also reported decreases of $7.5 million decrease in professional fees due to a decrease in consulting fees related to the review of certain

operational procedures during 2008, $2.8 million in business promotion, $2.4 million in occupancy cost, $2.1 million in insurance expense, $1.2 million in EDP and technical services, $1.0 million in communications and $0.7 million in repossessed assets provision and expense. These expense reductions were partially offset by $6.6 million increase in FDIC assessment due to the assessment systems implemented under the Federal Deposit Insurance Reform Act of 2005 that imposed insurance premiums based on factors such as capital level, supervisory rating, certain financial ratios and risk information and special assessment of 5 basis points, and no more than 10 basis points, of insured depository institutions assets minus Tier 1 capital.

2008 compared to 2007. For the year ended December 31, 2008, the Efficiency Ratio, on a tax equivalent basis, was 60.39% reflecting an improvement of 593 basis points compared to 66.32% for the year ended December 31, 2007. This improvement was mainly the result of higher net interest income and a reduction in operating expenses. The effect of the $43.3 million for goodwill and other intangible assets impairment charges recognized during 2007 and $25.1 million provision for claim receivable recognized during 2008 were excluded from operating expenses to determine the Efficiency Ratio, on a tax equivalent basis.

For the year ended December 31, 2008, operating expenses amounted $324.6 million, a decrease of $19.4 million or 5.6% compared to $344.0 million for the year ended December 31, 2007. The decrease in operating expenses was principally due to a $43.3 million related to goodwill and other intangible assets impairment charges recognized during 2007, a $16.0 million decrease in stock incentive compensation expense sponsored by Santander Group, a provision for claim receivable of $25.1 million recognized during 2008, a $7.8 million increase in professional fees due to an increment in consulting fees related to the adoption of new accounting pronouncements and the review of other operational procedures, a $6.9 million increase in salaries and other personnel expenses mainly due to severance payments related to personnel reductions, a $3.9 million increase in occupancy cost due to the sale and leaseback of the Corporation's two principal properties in December 2007, a $3.8 million increase in FDIC assessment due to the 2007 assessment systems implemented under the Federal Deposit Insurance Reform Act of 2005 that imposed insurance premiums based on factors such as capital level, supervisory rating, certain financial ratios and risk information, offset by a decrease of $9.0 million in business promotion and a decrease of $1.8 million in repossessed asset provision and expenses.

Income Taxes

Under the Puerto Rico Internal Revenue Code, as amended (the "PR Code"), the Corporation and each of its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns in Puerto Rico. The maximum statutory marginal corporate income tax rate is 39%. Furthermore, there is an alternative minimum tax of 22%. The difference between the statutory marginal tax rate and the effective tax rate is primarily due to the interest income earned on certain investments and loans, which is exempt from income tax (net of the disallowance of expenses attributable to the exempt income) and to the disallowance of certain expenses and other items. The PR Code provides dividends received deduction of 100% on dividends received from controlled subsidiaries subject to taxation in Puerto Rico. The Corporation is also subject to municipal license tax at various rates that do not exceed 1.5% of the Corporation's taxable gross income. .

On July 2009, Governor of Puerto Rico signed Act No. 37, which amends Act No. 7 of March 9, 2009. This law imposed a temporary three-year surcharge of 5% commencing on taxable year 2009. Since the 5% surcharge is imposed on the tax liability instead of the income subject to tax, the effect of the 5% surcharge will be that during the temporary period the 39% maximum statutory marginal corporate income tax rate may be increased to 40.95%. Also, the amendments of Act No. 7 of March 9, 2009, particularly to alternative minimum tax ("AMT"), eliminates the deduction for expenses incurred outside Puerto Rico unless these payments are subject to income tax in Puerto Rico.

This law, also, includes a temporary 5% special income tax applicable to Puerto Rico international banking entities, or IBEs, such as Santander International Bank (SIB), which, before this law, was exempt from taxation under Puerto Rico law. This special income tax shall be applicable for taxable years 2009, 2010 and 2011

The Corporation adopted the provisions under FASB ASC Topic 740, "*Income Tax".* These provisions clarify the accounting for uncertainty of income tax recognized in a enterprise's financial statements in accordance with FASB ASC Topic 740. This interpretation prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not, the Corporation will not realize the benefits of the deferred tax assets related to Santander Financial Services, Inc. and Santander Bancorp (parent company only) amounting to $14.5 million and $0.1 million, respectively, at December 31, 2009 and $20.6 million and $0.1 million, respectively, at December 31, 2008. Accordingly, deferred tax asset valuation allowances of $14.5 million and $0.1 million at December 31, 2009 and $20.6 million and $0.1 million at December 31, 2008, for Santander Financial Services, Inc and Santander Bancorp (parent company only), respectively, were recorded.

2009 compared to 2008. The income tax provision was $11.3 million as of December 31, 2009, reflecting an increase of $17.9 million over one year. The Corporation reported an income tax benefit of $6.5 million for the year ended December 31, 2008. The increase in the provision for income tax during 2009 was due in primarily to higher taxable income in 2009 compared to 2008. Refer to Note 17 of the consolidated financial statements for additional information.

2008 compared to 2007. The income tax benefit was $6.5 million a decrease of $10.7 million or 255.2% for the year ended December 31, 2008 compared to provision for income tax $4.2 million for the same period in 2007. The decrease in the provision for income tax during 2008 was due in primarily to lower taxable income in 2008 compared to 2007. Refer to Note 17 of the consolidated financial statements for additional information.

Financial Condition

Assets

The Corporation's total assets as of December 31, 2009 reached $6.8 billion, a $1.1 billion decrease when compared to $7.9 billion as of December 31, 2008. The decrease of $1.1 billion was driven principally by $694.8 million decrease in net loans and $384.5 million decrease in investment securities portfolio partially offset by $44.8 million increase in total cash and cash equivalents.

There was a decrease in other assets of $50.4 million, which consisted mainly of decreases of $78.4 million in derivative assets and $8.8 million in confirming advances. These decreases were partially offset by increases of $25.2 million in prepaid expenses as a result $25.8 million of prepaid FDIC insurance and $12.2 million in real estate owned.

Short Term Investments and Interest-bearing Deposits in Other Financial Institutions

The Corporation sells federal funds, purchases securities under agreements to resell and deposits funds in interest-bearing accounts in other financial institutions to help meet liquidity requirements and provide temporary holdings until the funds can be otherwise invested or utilized. As of December 31, 2009, 2008 and 2007, the Corporation had interest-bearing deposits, federal funds sold and securities purchased under agreements to resell as detailed below:

	2009	2008	2007
	(Dollars in thousands)		
Interest-bearing deposits	$ 12,376	$ 8,370	$ 6,606
Federal funds sold	22,146	64,871	82,434
	$ 34,522	$ 73,241	$ 89,040

Investment Portfolio

The following tables set forth the Corporation's investments in government securities and certain other financial investments at December 31, 2009 and 2008, by contractual maturity, giving comparative carrying and fair values and average yield for each of the categories. The Corporation has evaluated the conditions under which it might sell its investment securities. As a result, most of its investment securities have been classified as available for sale. The Corporation may decide to sell some of the securities classified as available for sale either as part of its efforts to manage its interest rate risk, or in response to

changes in interest rates, prepayment risk or similar economic factors. Investment securities available for sale are carried at fair value and unrealized gains and losses net of taxes on these investments are included in accumulated other comprehensive income or loss, which is a separate component of stockholders' equity.

Gains or losses on sales of investment securities available for sale are recognized when realized and are computed on the basis of specific identification. At December 31, 2009, 2008 and 2007 investment securities available for sale were $0.4 billion, $0.8 billion and $1.3 billion, respectively. The investment securities available for sale reflected a decrease of $384.5 million for the year ended December 31, 2009 compared with the same period in prior year which. This reduction was driven by a sale of $495.4 million investment securities during 2009. The Corporation recognized a $9.3 million gain in connection with the settlement of these securities.

Other investment securities include debt, equity or other securities that do not have readily determinable fair values and are stated at amortized cost. The Corporation includes in this category stock owned to comply with regulatory requirements, such as Federal Home Loan Bank (FHLB) stock.

The Corporation acquires certain securities for trading purposes and carries its trading account at fair value. Financial instruments including, to a limited extent, derivatives, such as option contracts, are used in dealing and other trading activities and are carried at fair value. The Corporation classifies as trading those securities that are acquired and held principally for the purpose of selling them in the near term. Realized and unrealized changes in fair value are recorded separately in the trading profit or loss account as part of the results of operations in the period in which the changes occur. At December 31, 2009, 2008 and 2007, the Corporation had $47.7 million, $64.7 million and $68.5 million of securities held for trading, respectively.

The following table presents the carrying value and fair value of the Corporation's investment securities available for sale by major category as of the December 31, 2009, 2008 and 2007:

	2009		2008		2007	
Available for Sale	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
			(Dollars in thousands)			
U.S. Treasury	$ 175,330	$ 175,330	$ 30,000	$ 30,000	$ 64,455	$ 64,455
U.S. Agency Notes	5,791	5,791	141,916	141,916	609,223	609,223
Corporate Bonds	142,517	142,517				
P.R. Government Obligations	83,435	83,435	148,616	148,616	49,288	49,288
Mortgage-backed Securities	10,535	10,535	481,530	481,530	545,182	545,182
Foreign Securities	-	-	50	50	50	50
	$ 417,608	$ 417,608	$ 802,112	$ 802,112	$ 1,268,198	$ 1,268,198

The tables below summarize the contractual maturity of the Corporation's available for sale and other investment securities at December 31, 2009, 2008 and 2007:

December 31, 2009

	Within One Year		After One Year to Five Years		After Five Years to Ten Years		Over Ten Years		Total		
	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Fair Value	Avg Yield
	(Dollars in thousands)										
U.S. Treasury	$ 99,996	0.67%	$ 75,333	1.58%	$ -	-	$ -	-	$ 175,329	$ 175,329	1.06%
U.S. Agency Notes	5,792	3.98%	-	-	-	-	-	-	5,792	5,792	3.98%
Corporate Bonds	-	-	142,517	1.85%	-	-	-	-	142,517	142,517	1.85%
P.R. Government Obligations	1,193	3.72%	72,355	5.10%	6,546	5.58%	3,341	5.65%	83,435	83,435	5.14%
Mortgage-backed Securities	-	-	-	-	-	-	10,535	5.62%	10,535	10,535	5.62%
Foreign Securities	-	-	-	-	-	-	-	-	-	-	-
Other Securities	55,431	3.50%	-	-	-	-	-	-	55,431	55,431	3.50%
Total Securities	$ 162,412	1.78%	$ 290,205	2.59%	$ 6,546	5.58%	$ 13,876	5.63%	$ 473,039	$ 473,039	2.44%

December 31, 2008

	Within One Year		After One Year to Five Years		After Five Years to Ten Years		Over Ten Years		Total		
	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Fair Value	Avg Yield
	(Dollars in thousands)										
U.S. Treasury	$ 30,000	0.05%	$ -	-	$ -	-	$ -	-	$ 30,000	$ 30,000	0.05%
U.S. Agency Notes	136,007	2.80%	5,909	3.99%	-	-	-	-	141,916	141,916	2.85%
P.R. Government Obligations	1,454	4.23%	133,148	5.23%	9,479	5.18%	4,535	5.55%	148,616	148,616	5.22%
Mortgage-backed Securities	-	-	-	-	195,815	4.39%	285,715	5.41%	481,530	481,530	4.99%
Foreign Securities	-	-	50	4.65%	-	-	-	-	50	50	4.65%
Other Securities	50,382	3.50%	11,250	3.50%	-	-	-	-	61,632	61,632	3.50%
Total Securities	$ 217,843	2.59%	$ 150,357	5.05%	$ 205,294	4.43%	$ 290,250	5.41%	$ 863,744	$ 863,744	4.40%

December 31, 2007

	Within One Year		After One Year to Five Years		After Five Years to Ten Years		Over Ten Years		Total		
	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Avg Yield	Carrying Value	Fair Value	Avg Yield
	(Dollars in thousands)										
U.S. Treasury	$ 64,455	3.92%	$ -	-	$ -	-	$ -	-	$ 64,455	$ 64,455	3.92%
U.S. Agency Notes	253,423	2.84%	355,800	3.91%	-	-	-	-	609,223	609,223	3.40%
P.R. Government Obligations	1,367	3.99%	19,775	4.44%	15,111	5.21%	13,035	5.73%	49,288	49,288	5.00%
Mortgage-backed Securities	-	-	-	-	225,124	4.40%	320,058	5.41%	545,182	545,182	4.99%
Foreign Securities	-	-	50	4.65%	-	-	-	-	50	50	4.65%
Other Securities	64,559	5.50%	-	-	-	-	-	-	64,559	64,559	5.50%
Total Securities	$ 383,804	3.47%	$ 375,625	3.94%	$ 240,235	4.45%	$ 333,093	5.42%	$ 1,332,757	$ 1,332,757	4.24%

Loan Portfolio

The following table analyzes the Corporation's loans by type of loan, including loans held for sale, as of December 31, 2009, 2008, 2007, 2006 and 2005.

	Year ended December 31,									
	2009		2008		2007		2006		2005	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(Dollars in thousands)									
Commercial, industrial and agricultural:										
Retail commercial banking:										
Middle-market	$ 1,249,993	22.8%	$ 1,363,742	22.1%	$ 1,646,046	23.3%	$ 1,692,058	24.4%	$ 1,593,359	26.5%
Agricultural	36,205	0.7%	46,032	0.7%	63,204	0.9%	59,315	0.9%	61,531	1.0%
SBA	38,696	0.7%	51,871	0.8%	63,825	0.9%	66,734	1.0%	69,763	1.2%
Factor liens	9,488	0.2%	10,268	0.2%	18,252	0.3%	20,553	0.3%	16,696	0.3%
Other	-	0.0%	897	0.0%	4,688	0.1%	6,965	0.1%	40,072	0.7%
Retail commercial banking	1,334,382	24.5%	1,472,810	24.0%	1,796,015	25.5%	1,845,625	26.6%	1,781,421	29.6%
Corporate banking	612,197	11.2%	691,976	11.2%	765,310	10.8%	673,566	9.7%	1,205,664	20.0%
Construction	70,707	1.3%	194,026	3.1%	484,237	6.8%	435,182	6.3%	213,705	3.5%
Lease Financing	35,000	0.6%	60,615	1.0%	92,641	1.3%	132,655	1.9%	125,168	2.1%
Total Commercial	2,052,286	37.5%	2,419,427	39.3%	3,138,203	44.3%	3,087,028	44.6%	3,325,958	55.2%
Consumer:										
Personal (installment and other loans)	207,156	3.8%	305,058	5.0%	402,195	5.7%	383,460	5.5%	378,269	6.3%
Automobile	-	0.0%	-	0.0%	-	0.0%	2	0.0%	610	0.0%
Credit Cards	236,789	4.3%	261,531	4.2%	240,858	3.4%	193,260	2.8%	169,416	2.8%
Consumer Finance	558,948	10.2%	578,243	9.4%	611,114	8.6%	625,266	9.0%	-	0.0%
Total Consumer	1,002,893	18.2%	1,144,832	18.5%	1,254,167	17.6%	1,201,988	17.3%	548,295	9.1%
Mortgage:										
Residential	2,412,136	44.1%	2,591,930	42.1%	2,682,362	37.9%	2,649,128	38.1%	2,141,358	35.6%
Commercial	3,158	0.1%	3,658	0.1%	3,600	0.1%	5,412	0.1%	6,121	0.1%
Total Mortgage	2,415,294	44.3%	2,595,588	42.2%	2,685,962	38.0%	2,654,540	38.2%	2,147,479	35.7%
Total Loans, net of unearned interest and deferred fees	$ 5,470,473	100.0%	$ 6,159,847	100.0%	$ 7,078,332	100.0%	$ 6,943,556	100.0%	$ 6,021,732	100.0%

The gross loan portfolio, including loans held for sale, reflected a decrease of $689.4 million or 11.2%, to $5.4 billion at December 31, 2009, compared to the figures reported as of December 31, 2008.

The commercial and construction portfolio experienced a decrease of $218.2 million and $123.3 million, respectively over last year. The reduction in these portfolios was basically due to the sale to an affiliate of $131.2 million of commercial and industrial and construction loans, including some classified as impaired, and $210.3 million of repayments, net of originations for the year ended December 31, 2009.

The Corporation reported decrease in mortgage portfolio of $180.3 million or 7.0% for the year ended December 31, 2009 when compared with the same period in the prior year. For the year ended December 31, 2009 residential mortgage loans origination was $150.3 million or 43.5%, less than the $345.7 million originated during the same period in 2008. For the year ended December 31, 2009, mortgage loans sold and securitized were $169.5 million, a $43.9 million less than mortgage loans sold and securitized during 2008. Also, there was a decrease in consumer loans portfolio (credit cards and personal

installment loans and consumer finance) of $141.9 million or 12.4% which comprised decreases of $97.9 million in personal loans, $24.7 million in credit card and $19.3 million in consumer finance, when compared with the same figures in 2008.

During the year ended December 31, 2009, the Corporation sold certain loans including some classified as impaired to an affiliate for $142.0 million in cash. These loans had a net book value of $142.0 million comprised of an outstanding principal balance of $149.2 million and a specific valuation allowance of $7.2 million. The type of loans sold, at net book value, was $65.5 million in construction loans, $61.2 million in commercial loans and $15.3 million in mortgage loans. No gain or loss was recognized on this transaction.

During 2009, the Corporation has restructured residential real estate loans and commercial loans whose terms have been modified and was already identified as a Trouble Debt Restructuring (TDR's), as stated on FASB ASC Topic 310, "Receivables". This FASB ASC Topic states that a restructuring of a debt constitutes a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Once a loan is determined to be a TDR, then various effects must be considered, such as: identifying the loan as impaired, performing an impairment analysis, applying proper revenue recognition accounting, and reviewing its regulatory credit risk grading. Total restructured loans under this program amounted $95.1 million as of December 31, 2009. Refer to the Allowance for Loan Losses section for further information.

Allowance for Loan Losses

The Corporation assesses the overall risks in its loan portfolio and establishes and maintains an allowance for probable losses thereon. The allowance for loan losses is maintained at a level sufficient to provide for estimated loan losses based on the evaluation of known and inherent risks in the Corporation's loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a monthly basis.

The determination of the allowance for loan losses is one of the most complex and critical accounting estimates the Corporation's management makes. The allowance for loan losses is composed of three different components. An asset-specific reserve based on the provisions of accounting standard FASB ASC Topic 310 "Receivables" (as amended), an expected loss estimate based on the provisions of FASB ASC Topic 450 "Contingencies", and an unallocated reserve based on the effect of probable economic deterioration above and beyond what is reflected in the asset-specific component of the allowance.

Commercial, construction loans and certain mortgage loans exceeding a predetermined monetary threshold are identified for evaluation of impairment on an individual basis pursuant accounting standard Topic 310. The Corporation considers a loan impaired when interest and/or principal is past due 90 days or more, or, when based on current information and events it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. The asset-specific reserve on each individual loan identified as impaired is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except as a practical expedient, the Corporation may measure impairment based on the loan's observable market price, or the fair value of the collateral, net of estimated disposal costs, if the loan is collateral dependent. Most of the asset-specific reserves of the Corporation's impaired loans are measured on the basis of the fair value of the collateral. The fair value of the collateral is determined by external valuation specialists and since these values cannot be observed or corroborated with market data, they are classified as Level 3 and presented as part of non-recurring measurement disclosures.

A reserve for expected losses is determined under the provisions of FASB ASC Topic 450 for all loans not evaluated individually for impairment. Effective July 1, 2009, the Corporation revised its quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios. Through the end of the second quarter ended June 30, 2009, the Corporation's quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios was based on a historical loss rate analysis, which relied on historical loss experience over a defined period for pools of loans with common characteristics. The revised quantitative methodology is based on a migration analysis/roll rate and considers both historical loss rates and loss rates based on the likelihood of credit deterioration (expectation of current loans becoming delinquent in monthly increments until they default and are charged-off). The loss factor estimated based on this methodology may be adjusted to incorporate seasonality attributes as well as to reflect recent economic or business trends that may affect the collectability of the portfolio. The loss factor is then applied to the outstanding portfolio at period end to estimate the amount of expected charge offs and the provision for loan losses required to supports an adequate allowance for loan losses. The Corporation's decision to revise and improve its methodology was made after a thorough evaluation of the reliability of the revised methodology including a back testing analysis. Management

believes that the revised quantitative methodology provides a more reliable estimate of probable losses on its existing consumer and consumer finance portfolios.

The Corporation considers in its allowance for loan and lease losses, debt's modification of terms that may be identified as Troubled Debt Restructurings (TDRs), as stated on FASB ASC Topic 310. This FASB ASC Topic states that a restructuring of a debt constitutes a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. TDRs represent loans where concessions have been granted to borrowers experiencing financial difficulties that the creditor would not otherwise consider. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. These concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties include, for example: (i) the debtor is currently in default on any of its debt; (ii) the debtor has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the debtor will continue to be a going concern; (iv) currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; and (v) based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor. The identification of TDRs is critical in the determination of the adequacy of the allowance for loan losses. Loans classified as TDRs are reported in non-accrual status if the loan was in non-accruing status at the time of the modification. The TDR loan should continue in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after classified as TDR). Loans classified as TDRs are excluded from TDR status if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance after classified) and the loan yields a market rate. The Corporation identifies as TDRs and impaired, residential real estate loans whose terms have been modified under the conditions set forth in FASB ASC Topic 310, as mentioned previously. Although the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g., mortgage loans), it specifically requires that loan modifications considered TDR's be analyzed under its provisions.

For purposes of determining the impairment analysis to be applied on TDR's, the Corporation stratifies these loans into performing loans and non-performing loans. Impairment measure in performing loans was based on the present value of future cash flows discounted at the loan's original contractual rate. The impairment measure on non-performing loans is based on the fair value of the collateral net of dispositions cost. During 2009, the Corporation restructured $95.1 million residential mortgage loans with allowance for loan losses of $6.1 million.

An additional, or unallocated, reserve is maintained to cover the effect of probable economic deterioration above and beyond what is reflected in the asset-specific component of the allowance. This component represents management's view that given the complexities of the lending portfolio and the assessment process, including the inherent imprecision in the financial models used in the loss forecasting process, there are estimable losses that have been incurred but not yet specifically identified, and as a result not fully provided for in the asset-specific component of the allowance. The level of the unallocated reserve may change periodically after evaluating factors impacting assumptions used in the calculation of the asset specific component of the reserve.

The underlying assumptions, estimates and assessments used by management to determine the components of the allowance for loan losses are periodically evaluated and updated to reflect management's current view of overall economic conditions and other relevant factors impacting credit quality and inherent losses. Changes in such estimates could significantly impact the allowance and provision for loan losses. The Corporation could experience loan losses that are different from the current estimates made by management. Based on current and expected economic conditions, the expected level of net loan losses and the methodology established to evaluate the adequacy of the allowance for loan losses, management considers that the Corporation has established an adequate position in its allowance for loan losses. Refer to the Non-performing Assets and Past Due Loans section for further information.

	Year ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Balance at beginning of year	$ 191,889	$ 166,952	$ 106,863	$ 66,842	$ 69,177
Allowance acquired (Island Finance)	-	-	-	35,104	-
Provision for loan losses	152,496	175,523	147,824	65,583	20,400
	344,385	342,475	254,687	167,529	89,577
Losses charged to the allowance:					
Commercial and industrial	21,536	17,782	10,375	9,792	8,044
Construction	2,459	32,257	2,710	-	1,438
Mortage	7,340	1,257	1,768	-	-
Consumer	55,565	44,682	29,281	16,679	17,351
Consumer Finance	63,322	56,444	44,484	38,345	-
Leasing	1,801	2,064	2,742	2,071	986
	152,023	154,486	91,360	66,887	27,819
Recoveries:					
Commercial and industrial	1,614	626	1,192	2,463	1,686
Construction	-	20	-	-	-
Mortage	92	-	-	-	-
Consumer	1,404	1,256	904	1,677	2,646
Consumer Finance	1,452	1,517	1,088	1,314	-
Leasing	379	481	441	767	752
	4,941	3,900	3,625	6,221	5,084
Net loans charged-off	147,082	150,586	87,735	60,666	22,735
Balance at end of year	$ 197,303	$ 191,889	$ 166,952	$ 106,863	$ 66,842
Ratios:					
Allowance for loan losses to year-end loans	3.61%	3.12%	2.36%	1.54%	1.11%
Recoveries to charge-offs	3.25%	2.52%	3.97%	9.30%	18.28%
Net charge-offs to average loans	2.57%	2.23%	1.25%	0.93%	0.38%
Allowance for loan losses to net charge-offs	134.14%	127.43%	190.29%	176.15%	294.00%
Allowance for loan losses to non-performing loans	68.07%	90.21%	56.70%	100.01%	90.72%
Provision for loan losses to:					
Net charge-offs	103.68%	116.56%	168.49%	108.11%	89.73%
Average loans	2.67%	2.60%	2.10%	1.00%	0.34%

The Corporation recognized reserves related to unfunded lending commitments and standby letters of credit from the allowance for the loan losses to other liabilities. Changes in the reserve for unfunded commitments and standby letters of credit were as follows:

	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Balance at beginning of year	$ 1,562	$ 1,835	$ 1,864	$ 1,666	$ 1,269
Provision (credit) for unfunded lending commitments and stand by letters of credit	(114)	(273)	(29)	198	397
Balance at end of year	$ 1,448	$ 1,562	$ 1,835	$ 1,864	$ 1,666

2009 compared to 2008. The Corporation's allowance for loan losses was $197.3 million or 3.61% of period-end loans at December 31, 2009, a 49 basis point increase compared to $191.9 million, or 3.12% of period-end loans at December 31, 2008. The $197.3 million in the allowance for loan losses is comprised of $133.9 million related to the Bank and $63.4 million related to Island Finance entity, with a provision for loan losses of $96.4 million and $56.1 million for each respective segment for the year ended December 31, 2009.

The 49 basis points increment in the ratio of allowance for loan losses to period-end loan for the year ended December 31, 2009 as compared with the same period in 2008 was driven by $77.1 million increase in non-performing loans which amounted $289.8 million as of December 31, 2009 versus $212.7 million as of December 31, 2008. The allowance for loan losses is a current estimate of the losses inherent in the present portfolio based on management's ongoing quarterly evaluations of the loan portfolio. On a quarterly basis, the Corporation reviews and evaluates historical loss experience by loan type, quantitative factors (historical net charge-offs, statistical loss estimates, etc.) as well as qualitative factors (current economics conditions, portfolio composition, delinquency trends, industry concentrations, etc.).

The ratio of the allowance for loan losses to non-performing loans and accruing loans past due 90 days or more was 65.5% and 84.8% at December 31, 2009 and 2008, respectively. Excluding non-performing mortgage loans this ratio was 203.7% at December 31, 2009 compared to 194.4% at December 31, 2008.

The annualized ratio of net charge-offs to average loans for the year ended December 31, 2009 and 2008 was 2.57% and 2.23%, respectively, reflecting an increase of increasing 34 basis points.

2008 compared to 2007. The allowance for loan losses reached $191.9 million as of December 31, 2008, a $24.9 million increase when compared with prior year. The Corporation's allowance for loan losses represented 3.12% of period-end loans at December 31, 2008, a 76 basis points increase over 2.36% reported as of December 31, 2007. At December 31, 2008, the composition of the allowance for loan losses was of $122.8 million related to the Bank with a provision for loan losses of $119.8 million and $69.1 million related to Island Finance, with a provision for loan losses of $55.7 million.

The ratio of allowance for loan losses to non-performing loans was 90.21% reflecting an increase of 3,351 percentage points from to 56.70% during the year ended 2007. Excluding non-performing mortgage loans, this ratio is 225.06% and 82.32% as of December 31, 2008 and 2007, respectively.

The annualized ratio of net charge-off to average loans for the year ended December 31, 2008 was 2.23%, an increase of 98 basis points from 1.25% for the year ended December 31, 2007. Losses charged to the allowance amounted to $154.5 million in 2008, an increase of $63.1 million when compared $91.4 million of losses charged to the allowance in 2007 mainly due to an increment in charge-offs on certain loans sold to an affiliate amounting $34.5 million.

Broken down by major loan categories, the allowance for loan losses for each of the five years in the period ended December 31, 2009 was as follows:

	Year ended December 31,									
	2009		2008		2007		2006		2005	
	Amount	% of loans in each category to Total Loans	Amount	% of loans in each category to Total Loans	Amount	% of loans in each category to Total Loans	Amount	% of loans in each category to Total Loans	Amount	% of loans in each category to Total Loans
	(Dollars in thousands)									
Commercial	$ 37,150	19.1%	$ 36,926	35.2%	$ 29,883	35.8%	$ 29,846	49.3%	$ 27,765	49.3%
Construction	3,518	1.8%	15,496	3.1%	23,735	6.8%	3,128	3.5%	1,456	3.5%
Consumer	56,927	29.3%	46,135	9.2%	33,641	9.5%	20,099	9.4%	30,664	9.4%
Consumer Finance	63,373	32.6%	69,128	9.4%	68,359	8.6%	41,281	-	-	-
Mortgage	32,969	17.0%	22,876	42.1%	7,379	38.0%	9,249	35.7%	2,415	35.7%
Lease financing	366	0.2%	373	1.0%	1,292	1.3%	555	2.1%	2,128	2.1%
Unallocated	3,000		955	-	2,663	-	2,705	-	2,414	-
	$ 197,303	100.0%	$ 191,889	100.0%	$ 166,952	100.0%	$ 106,863	100.0%	$ 66,842	100.0%

Under the caption "Unallocated" the Corporation maintains an unallocated reserve for loan losses of $3.0 million as of December 31, 2009. The unallocated reserve is maintained to cover the effect of probable economic deterioration above and beyond what is reflected in the asset-specific component of the allowance. This component represents management's view that given the complexities of the lending portfolio and the assessment process, including the inherent imprecision in the financial models used in the loss forecasting process, there are estimable losses that have been incurred but not yet specifically identified, and as a result not fully provided for in the asset-specific component of the allowance. The level of the unallocated reserve may change periodically after evaluating factors impacting assumptions used in the calculation of the asset specific component of the reserve.

At December 31, 2009, 2008 and 2007, the portion of the allowance for loan losses related to impaired loans was $28.8 million, $18.4 million and $25.6 million, respectively. Please refer to Notes 1 and 5 to the consolidated financial statements for further information.

Liabilities

The principal sources of funding for the Corporation are its equity capital, core deposits from retail and commercial clients, and wholesale deposits and borrowings raised in the interbank and commercial markets.

As of December 31, 2009 total liabilities amounted $6.2 billion, $1.2 billion or 16.0% less when compared to figures reported as of December 31, 2008. This reduction in total liabilities was principally due to a decrease in total deposits of $619.3 million or 12.4% to $4.4 billion balance reported as of December 31, 2009 and a decrease in total borrowings (comprised of federal funds purchased and other borrowings, securities sold under agreements to repurchase, commercial paper issued, federal home loan advances, term and capital notes) of $432.6 million or 22.3% as of December 31, 2009 from $1.9 billion at December 31, 2008.

Total deposits of $4.4 billion as of December 31, 2009 were composed of $0.3 billion in brokered deposits and $4.1 billion of customer deposits. Compared to December 31, 2008, brokered deposits reflected a decrease of $676.3 million or 69.4% and customer deposits reflected an increase of $56.9 million as of December 31, 2009.

Total borrowings at December 31, 2009 (comprised of federal funds purchased and other borrowings, securities sold under agreements to repurchase, commercial paper issued, federal home loan bank advances and term and capital notes) decreased $432.6 million or 22.3% compared to borrowings at December 31, 2008. This reduction was mainly due to the cancellation of $375 million in securities sold under agreements to repurchase, $125.0 million decrease in federal home loan bank advances partially offset by an increase of $48.0 million in federal funds purchased and $16.5 million in commercial paper issued.

On January 22, 2010, the Corporation and Santander Financial Services, Inc., a wholly owned subsidiary of the Corporation ("Santander Financial"), entered into a collateralized loan agreement (the "Loan Agreement") with Banco Santander Puerto Rico (the "Bank"). Under the Loan Agreement, the Bank advanced $182 million and $430 million (the "Loans") to the Corporation and Santander Financial, respectively. The proceeds of the Loans were used to refinance the outstanding indebtedness incurred under a loan agreement dated September 24, 2009 among the Corporation, Santander Financial and the Bank, and for general corporate purposes. The Loans are collateralized by a certificate of deposit in the amount of $612 million opened by Banco Santander, S.A., the parent of the Corporation, at the Bank and provided as security for the Loans pursuant to the terms of a Security Agreement, Pledge and Assignment between the Bank and Banco Santander, S.A. The Corporation and Santander Financial have agreed to pay an annual fee of 0.10% net of taxes, deductions and withholdings to Banco Santander, S.A. in connection with its agreement to collateralize the Loans with the deposit.

On September 24, 2009, the Corporation and Santander Financial Services, Inc., entered into a collateralized loan agreement (the "Loan Agreement") with Banco Santander Puerto Rico. Under the Loan Agreement, the Bank advanced $190 million and $440 million (the "Loans") to the Corporation and Santander Financial, respectively. The proceeds of the Loans were used to refinance the outstanding indebtedness incurred under a loan agreement dated September 24, 2008 among the Corporation, Santander Financial and the Bank, and for general corporate purposes. The Loans are collateralized by a certificate of deposit in the amount of $630 million opened by Banco Santander, S.A., the parent of the Corporation, at the Bank and provided as security for the Loans pursuant to the terms of a Security Agreement, Pledge and Assignment between the Bank and Banco Santander, S.A. The Corporation and Santander Financial have agreed to pay an annual fee of 0.10% net of taxes, deductions and withholdings to Banco Santander, S.A. in connection with its agreement to collateralize the Loans with the deposit.

On December 10, 2008, the Bank undertook a Subordinated Note Purchase Agreement with Crefisa, Inc, ("Crefisa"), an affiliate, for $60 million due on December 10, 2028 and to pay interest thereon from December 10, 2008 or from the most recent interest payment date to which interest has been paid or duly provided for, semiannually on the tenth (10th) day of June and the tenth (10th) of December of each year, commencing on June 10, 2009, at the rate of 7.5% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any interest payment date will, as provided in such Note Purchase Agreement, be paid to Crefisa at the close of business on the regular record date for such interest, which shall be the tenth (10th) day of the month next preceding the relevant interest payment date.

During October 2006, the Corporation completed the private placement of $125 million Trust Preferred Securities ("Preferred Securities") and issued Junior Subordinated Debentures in the aggregate principal amount of $129 million in connection with the issuance of the Preferred Securities. The Preferred Securities are fully and unconditionally guaranteed (to the extent described in the guarantee agreement between the Corporation and the guarantee trustee, for the benefit of the holders from time to time of the Preferred Securities) by the Corporation. The Trust Preferred Securities were acquired by an affiliate of the Corporation. In connection with the issuance of the Preferred Securities, the Corporation issued an aggregate principal amount of $129,000,000 of its 7.00% Junior Subordinated Debentures, Series A, due July 1, 2037.

The following table sets forth the Corporation's average daily balance of liabilities for the years ended December 31, 2009, 2008 and 2007 by source, together with the average interest rates paid thereon.

	Year ended December 31,								
	2009			2008			2007		
	Average Balance	% of Total Liabilities	Average Cost	Average Balance	% of Total Liabilities	Average Cost	Average Balance	% of Total Liabilities	Average Cost
	(Dollars in thousands)								
Savings deposits	$ 1,817,911	27.8%	1.05%	$ 1,691,094	20.7%	2.07%	$ 1,715,631	19.9%	3.02%
Time deposits	2,136,437	32.6%	2.83%	3,135,260	38.3%	3.75%	2,820,495	32.7%	4.95%
Interest-bearing deposits	3,954,348	60.4%	2.01%	4,826,354	59.0%	3.16%	4,536,126	52.6%	4.22%
Federal funds, repos, and commercial paper and other borrowings	1,240,099	19.0%	2.87%	2,047,442	25.0%	3.81%	2,805,003	32.5%	5.49%
Term and subordinated notes	325,884	5.0%	4.71%	267,093	3.3%	5.22%	284,944	3.3%	6.02%
Total borrowings	1,565,983	24.0%	3.25%	2,314,535	28.3%	3.97%	3,089,947	35.8%	5.54%
Total interest-bearing liabilities	5,520,331	84.4%	2.36%	7,140,889	87.3%	3.42%	7,626,073	88.4%	4.75%
Non-interest-bearing deposits	691,482	10.6%	0.00%	732,314	9.0%	0.00%	685,875	8.0%	0.00%
Other liabilities	331,241	5.0%	0.00%	303,229	3.7%	0.00%	310,228	3.6%	0.00%
Total non-interest-bearing liabilities	1,022,723	15.6%	0.00%	1,035,543	12.7%	0.00%	996,103	11.6%	0.00%
Total Liabilities	$ 6,543,054	100.0%	1.99%	$ 8,176,432	100.0%	2.99%	$ 8,622,176	100.0%	4.20%

The following tables set forth additional details on the Corporation's average deposit base for the years ended December 31, 2009, 2008 and 2007.

	Year ended December 31,		
Average Total Deposits	2009	2008	2007
	(Dollars in thousands)		
Private Demand	$ 690,924	$ 731,645	$ 684,922
Public Demand	558	669	953
Non-interest bearing	691,482	732,314	685,875
Savings Accounts	739,901	641,970	657,044
NOW and Super NOW accounts	474,364	417,654	401,104
Government NOW accounts	603,646	631,470	657,483
Total Savings Accounts	1,817,911	1,691,094	1,715,631
Time deposits:			
Under $100,000	219,543	273,409	262,561
$100,000 and over	1,916,894	2,861,851	2,557,934
Total Time Deposits	2,136,437	3,135,260	2,820,495
Total Interest Bearing Deposits	3,954,348	4,826,354	4,536,126
Total Deposits	$ 4,645,830	$ 5,558,668	$ 5,222,001

The Corporation's most important source of funding is its customer deposits. Total average deposits reached $4.6 billion for the year ended December 31, 2009, a decrease of 16.4% compared with figures reported in 2008. Average interest-bearing deposits decreased $872.0 million or 18.1% to $4.0 billion as of December 31, 2009, which includes a decrease in average other time deposits of $998.8 million or 31.9% offset by an increase of $126.8 million in average savings and Now accounts when compared with the figures reported in prior year. Average non-interest bearing deposits are the least expensive sources of funding used by Corporation and represent 10.6%, 9.0% and 8.0% of the Corporation average total liabilities for the years

ended December 31, 2009, 2008 and 2007, respectively Total average deposits represented 71.0%, 68.0% and 60.6% of the total average liabilities of the Corporation as of December 31, 2009, 2008 and 2007, respectively.

For the year ended December 31, 2009, the Corporation's customer deposits (average balance) consisted of $691.5 million in non interest-bearing-checking accounts and $4.0 billion of interest-bearing deposits. The decrease in average interest-bearing deposits was primarily in time deposits greater than $100,000, which reflected a decrease of $945.0 million or 33.0%.

The following table sets forth the maturities of time deposits of $100,000 or more as of December 31, 2009, 2008 and 2007.

	2009	2008	2007
		(Dollars in thousands)	
Three months or less	$ 1,156,944	$ 702,292	$ 1,105,405
Over three months through six months	180,450	397,697	365,957
Over six months through twelve months	90,064	1,000,911	79,576
Over twelve months	76,303	261,580	948,841
Total	$ 1,503,761	$ 2,362,480	$ 2,499,779

The Corporation's current funding strategy is to continue to use various alternative funding sources taking into account their relative cost, their availability and the general asset and liability management strategy of the Corporation, placing a stronger emphasis on obtaining client deposits and reducing reliance on borrowings maintaining adequate levels of liquidity and to meet funding requirements.

For further information regarding the Corporation's deposits and borrowings, see Notes 11 and 12 to the consolidated financial statements.

Capital and Dividends

The Corporation does not expect favorable or unfavorable trends that would materially affect our capital resources.

As an investment-grade rated entity by several nationally recognized rating agencies, the Corporation has access to a variety of capital issuance alternatives in the United States and Puerto Rico capital markets. The Corporation continuously monitors its capital raising alternatives. The Corporation may issue additional capital in the future, as needed, to maintain its "well-capitalized" status.

Stockholders' equity was $595.9 million or 8.8% of total assets at December 31, 2009, compared to $551.6 million or 7.0% of total assets at December 31, 2008. The $44.3 million change in stockholders' equity was composed by net income of $41.3 million, stock incentive plan expense recognized as capital contribution of $1.1 million, net of payment to ultimate parent, for the period, an increase in minimum pension benefits of $5.0 million. These increases were offset by an increase of $3.1 million of unrealized loss on investment securities available for sale, net of tax, included in accumulated other comprehensive loss.

The Corporation declared a cash dividend of $0.20 and $0.64 per common share during the years ended December 31, 2008 and 2007, respectively. The current annualized dividend yield is 1.6% and 7.4% for the years ended December 31, 2008 and 2007, respectively. In light of the continuing challenging general economic conditions in Puerto Rico and the global capital markets, the Board of Directors of the Corporation voted during August 2008 to discontinue the payment of the quarterly cash dividend on the Corporation's common stock to strengthen the institution's core capital position. The Corporation may use a portion of the funds previously paid as dividends to reduce its outstanding debt. The Corporation's decision is part of the significant actions it has proactively taken in order to face the on-going challenges presented by the Puerto Rico economy. While each of the Corporation and its banking subsidiary remain above well capitalized ratios, these prudent measures will preserve and continue to reinforce the Corporation's capital position.

The Corporation adopted and implemented various Stock Repurchase Programs in May 2000, December 2000 and June 2002. Under these programs the Corporation acquired 3% of the then outstanding common shares. During November 2002, the Corporation started a fourth Stock Repurchase program under which it may acquire 3% of its outstanding common shares. In

November 2002, the Board of Directors authorized the Corporation to repurchase up to 928,204 shares, or approximately 3%, of its shares of outstanding common stock. The Board felt that the Corporation's shares of common stock represented an attractive investment at prevailing market prices at the time of the adoption of the common stock repurchase program and that, given the relatively small amount of the program, the stock repurchases would not have a significant impact on liquidity and capital positions. The program has no time limitation and management is authorized to effect repurchases at its discretion. The authorization permits the Corporation to repurchase shares from time to time in the open market or in privately negotiated transactions. The timing and amount of any repurchases will depend on many factors, including the Corporation's capital structure, the market price of the common stock and overall market conditions. All of the repurchased shares will be held by the Corporation as treasury stock and reserved for future issuance for general corporate purposes.

During the years ended December 31, 2009, 2008 and 2007, the Corporation did not repurchase any shares of common stock. As of December 31, 2009, the Corporation had repurchased 4,011,260 shares of its common stock under these programs at a cost of $67.6 million. Management believes that the repurchase program has not had a significant effect on the Corporation's liquidity and capital positions.

The Corporation has a Dividend Reinvestment Plan and a Cash Purchase Plan wherein holders of common stock have the opportunity to automatically invest cash dividends to purchase more shares of the Corporation's common stock. Shareholders may also make, as frequently as once a month, optional cash payments for investment in additional shares of the Corporation's common stock.

Up to December 31, 2009, the 4thquarter of 2009, the Corporation's stock price traded consistently below (from $9.58 to $13.12) the book value per share of $12.78 as of December 31, 2009. This is mainly attributed to the current condition of the worldwide and Puerto Rico economy which has affected the stock market, where all stocks and specially the ones in the financial sector both in Puerto Rico and the United States have experienced a depression in price. Also, the Corporation's stock experienced a limited float, due to 91% were owned by Santander SA. These situations impact a relatively small changes or trends in volume triggers a significant impact in the share price.

On December 14, 2009, Banco Santander, S.A. announced by press release that it intends to commence a cash tender offer through its wholly-owned subsidiary, Administración de Bancos Latinoamericanos Santander, S.L., for all outstanding publicly-held shares of common stock of the Corporation at $12.25 per share. Banco Santander S.A, which currently owns 90.6% of the outstanding shares of the Corporation, commenced the tender offer during the first quarter of 2010. As soon as reasonably practicable after the consummation of the offer Banco Santander S.A. intends to consummate a short-form merger with the Corporation in which all remaining public stockholders will receive the same price per share as was paid in the offer, without interest. The commencement and completion of the tender offer does not require any approval by the board of directors of the Corporation and Banco Santander, S.A has not asked the board of directors of the Corporation to approve the tender offer. The Corporation's board of directors is evaluating the terms of the proposed offer and has not taken a position with respect to the offer. The complete terms, conditions and other details of the tender offer will be contained in materials filed by Banco Santander S. A. with the U.S. Securities and Exchange Commission when the offer commences.

The Corporation is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. The regulations require the Corporation to meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Corporation's common stock is listed on the New York Stock Exchange ("NYSE") and on the Madrid Stock Exchange (LATIBEX). The symbol on the NYSE and on the LATIBEX for the common stock is "SBP" and "XSBP," respectively. There were approximately 110 holders of record of the Corporation's common stock as of December 31, 2009, not including beneficial owners whose shares are held in names of brokers or other nominees.

As of December 31, 2009, the Bank was classified as a "well capitalized" institution under the regulatory framework for prompt corrective action. At December 31, 2009, the Corporation continued to exceed the regulatory risk-based capital requirements. Tier I capital to risk-adjusted assets and total capital ratios of the Corporation at December 31, 2009 were 10.60% and 15.55%, respectively, and the leverage ratio was 7.98%. Refer to notes 1 and 26 in the consolidated financial statements for additional information.

Capital Adequacy Data

	Actual		For Minimum Capital Adequacy		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount Must be	Ratio Must be	Amount Must be	Ratio Must be
			(Dollars in thousands)			
December 31, 2009:						
Total Capital (to Risk Weighted Assets)						
Santander BanCorp	$ 765,629	15.55%	≥ $ 393,865	≥8.00%	N/A	
Banco Santander Puerto Rico	686,964	15.60%	≥ 352,244	≥8.00%	≥ $ 440,305	≥10.00%
Tier I (to Risk Weighted Assets)						
Santander BanCorp	521,842	10.60%	≥ 196,932	≥4.00%	N/A	
Banco Santander Puerto Rico	571,380	12.98%	≥ 176,122	≥4.00%	≥ 264,183	≥6.00%
Leverage (to average assets)						
Santander BanCorp	521,842	7.98%	≥ 196,075	≥3.00%	N/A	
Banco Santander Puerto Rico	571,380	8.77%	≥ 195,403	≥3.00%	≥ 325,672	>5.00%
December 31, 2008:						
Total Capital (to Risk Weighted Assets)						
Santander BanCorp	$ 726,863	12.83%	≥ $ 453,114	≥8.00%	N/A	
Banco Santander Puerto Rico	662,161	12.87%	≥ 411,725	≥8.00%	≥ $ 514,656	≥10.00%
Tier I (to Risk Weighted Assets)						
Santander BanCorp	476,268	8.41%	≥ 226,557	≥4.00%	N/A	
Banco Santander Puerto Rico	537,395	10.44%	≥ 205,863	≥4.00%	≥ 308,795	≥6.00%
Leverage (to average assets)						
Santander BanCorp	476,268	6.10%	≥ 234,278	≥3.00%	N/A	
Banco Santander Puerto Rico	537,395	6.88%	≥ 234,488	≥3.00%	≥ 390,813	>5.00%
December 31, 2007:						
Total Capital (to Risk Weighted Assets)						
Santander BanCorp	$ 697,009	10.55%	≥ $ 528,134	≥8.00%	N/A	
Banco Santander Puerto Rico	647,482	10.91%	≥ 474,647	≥8.00%	≥ $ 593,309	≥10.00%
Tier I (to Risk Weighted Assets)						
Santander BanCorp	490,259	7.42%	≥ 264,067	≥4.00%	N/A	
Banco Santander Puerto Rico	573,022	9.66%	≥ 237,324	≥4.00%	≥ 355,986	≥6.00%
Leverage (to average assets)						
Santander BanCorp	490,259	5.38%	≥ 273,297	≥3.00%	N/A	
Banco Santander Puerto Rico	573,022	6.84%	≥ 251,493	≥3.00%	≥ 419,155	>5.00%

Goodwill and Intangible Assets

Total goodwill and intangibles at December 31, 2009, 2008 and 2007 consisted of:

	2009	2008	2007
	(Dollars in millions)		
Mortgage Servicing Rights	$ 9.7	$ 10.2	$ 9.6
Advisory Servicing Rights	1.0	1.3	1.6
Trade Name	18.3	18.3	18.3
Non-compete Agreement	-	0.1	0.7
Goodwill:			
Retail Banking	10.5	10.5	10.5
Wealth Management	24.3	24.3	24.3
Consumer Finance	86.7	86.7	86.7
	$ 150.5	$ 151.4	$ 151.7

Goodwill and intangible assets were $121.5 million and $28.9 million at December 31, 2009.

Mortgage-servicing rights arise from the right to service mortgages sold and have an estimated useful life of eight years. The advisory-servicing rights are related to the Corporation's subsidiary acquisition of the right to serve as the investment advisor for First Puerto Rico Tax-Exempt Fund, Inc. acquired in 2002 and for First Puerto Rico Growth and Income Fund Inc. and First Puerto Rico Daily Liquidity Fund Inc. acquired in December 2006. These intangible assets are being amortized over a 10-year estimated useful life. Trade name is related to the acquisition of Island Finance and has an indefinite useful life and is therefore not being amortized but is tested for impairment at least annually. Non-compete agreement was intangible asset related to the acquisition of Island Finance. The non-compete agreement has been fully amortized.

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the consolidated financial statements, the Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements. Also, in the normal course of business, the Corporation enters into contractual agreements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or services with a specific minimum quantity defined a fixed minimum or variable price over a specified period of time, are defined as purchases obligations. At December 31, 2009, the aggregate contractual cash obligations, including purchases obligations and borrowings maturities, were:

	Payments due by Period as of December 31, 2009				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in thousands)				
Contractual Obligations:					
Federal funds purchased and other borrowings	$ 50,000	$ 50,000	$ -	$ -	$ -
Commercial paper	67,482	67,482	-	-	-
Federal Home Loan Bank Advances	1,060,000	735,000	325,000	-	-
Subordinated notes	308,691	-	-	-	308,691
Term notes	20,581	4,802	6,697	9,082	-
Operating lease obligations	122,406	30,933	22,154	18,970	50,349
Pension plan contribution	1,366	1,366	-	-	-
Total	$ 1,630,526	$ 889,583	$ 353,851	$ 28,052	$ 359,040

	Amount of Commitment and expiration period as of December 31, 2009				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Other Commercial Commitments:	(Dollars in thousands)				
Lines of credit and financial guarantees written	41,837	40,612	874	351	-
Commitments to extend credit	1,218,115	1,218,115	-	-	-
Total	$ 1,259,952	$ 1,258,727	$ 874	$ 351	$ -

Recent Accounting Pronouncements

Refer to Note 1 to the consolidated financial statements for a description of each of the pronouncements and management's assessment as to the impact of the adoptions.

ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

The Corporation has specific policies and procedures which structure and delineate the management of risks, particularly those related to credit, interest rate exposure and liquidity risk. Risks are identified, measured and monitored through various committees including the Asset and Liability, Credit and Investment Committees, among others.

Credit Risk Management and Loan Quality

The lending activity of the Corporation represents its core function, and as such, the quality and effectiveness of the loan origination and credit risk areas are imperative to management for the growth and success of the Corporation. The importance of the Corporation's lending activity has been considered when establishing functional responsibilities, organizational reporting, lending policies and procedures, and various monitoring processes and controls.

Critical risk management responsibilities include establishing sound lending standards, monitoring the quality of the loan portfolio, establishing loan rating systems, assessing reserves and loan concentrations, supervising document control and accounting, providing necessary training and resources to credit officers, implementing lending policies and loan documentation procedures, identifying problem loans as early as possible, and instituting procedures to ensure appropriate actions to comply with laws and regulations. Due to the challenging environment, the Corporation implemented during 2006 more stringent underwriting and lending criteria.

Credit risk management for our portfolio begins with initial underwriting and continues throughout the borrower's credit cycle. Experiential judgment in conjunction with statistical techniques are used in all aspects of portfolio management including underwriting, product pricing, risk appetite, setting credit limits, operating processes and metrics to quantify balance risks and returns. In addition to judgmental decisions, statistical models are used for credit decisions. Tolerance levels are set to decrease the percentage of approvals as the risk profile increases. Statistical models are based on detailed behavioral information from external sources such as credit bureaus and/or internal historical experience. These models are an integral part of our credit management process and are used in the assessment of both new and existing credit decisions, portfolio management, strategies including authorizations and line management, collection practices and strategies and determination of the allowance for credit losses.

The Corporation has also established an internal risk rating system and internal classifications which serve as timely identification of potential deterioration in loan quality attributes in the loan portfolio.

Credit extensions for commercial loans are approved by credit committees including the Small Loan Credit Committee, the Regional Credit Committee, the Credit Administration Committee, the Management Credit Committee, and the Board of Directors Credit Committee. A centralized department of the Consumer Lending Division approves all consumer loans.

The Corporation's collateral requirements for loans depend on the financial strength and liquidity of the prospective borrower and the principal amount and term of the proposed financing. Acceptable collateral includes cash, marketable securities, mortgages on real and personal property, accounts receivable, and inventory.

In addition, the Corporation has an independent Loan Review Department and an independent Internal Audit Division, each of which conducts monitoring and evaluation of loan portfolio quality, loan administration, and other related activities, carried on as part of the Corporation's lending activity. Both departments provide periodic reports to the Board of Directors, continuously assess the validity of information reported to the Board of Directors and maintain compliance with established lending policies.

The following table provides the composition of the Corporation's loan portfolio as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
	($ in thousands)	
Commercial and industrial	$ 1,947,809	$ 2,165,613
Consumer - banking operations	443,567	565,833
Consumer Finance:		
Consumer Installment Loans	504,054	686,277
Mortgage Loans	279,456	310,642
	783,510	996,919
Leasing	36,624	64,065
Construction	70,879	194,596
Mortgage Loans	2,385,592	2,553,328
Sub-total	5,667,981	6,540,354
Unearned income and deferred fees/cost:		
Banking operations	328	(290)
Consumer finance	(224,562)	(418,676)
Allowance for loans losses:		
Banking operations	(133,930)	(122,761)
Consumer finance	(63,373)	(69,128)
	$ 5,246,444	$ 5,929,499

The Corporation's gross loan portfolio as of December 31, 2009 and 2008 amounted to $5.7 billion and $6.5 billion respectively, which represented 92.5% and 90.9%, respectively, of the Corporation's total earning assets. The loan portfolio is distributed among various types of credit, including commercial business loans, commercial real estate loans, construction loans, small business loans, consumer lending and residential mortgage loans. The credit risk exposure provides for diversification among specific industries, specific types of business, and related individuals. As of December 31, 2009 and 2008, there was no obligor group that represented more than 2.5% of the Corporation's total loan portfolio. Obligors' resident or having a principal place of business in Puerto Rico comprised approximately 99% of the Corporation's loan portfolio.

As of December 31, 2009 and 2008, the Corporation had over 312,000 and 379,000 consumer loan customers, respectively, and over 8,000 and 7,000 commercial loan customers, respectively, As of such dates, the Corporation had 44 and 50 clients with commercial loans outstanding over $10.0 million, respectively. Although the Corporation has generally avoided cross-border loans, the Corporation had approximately $11.7 and $31.3 million in cross-border loans as of December 31, 2009 and 2008, respectively, which are collateralized with real estate in the United States of America, cash and marketable securities.

The Corporation uses an underwriting system for the origination of residential mortgage loans. These loans are fully underwritten by experienced underwriters. The methodology used in underwriting the extension of credit for each residential mortgage loan employs objective mathematical principles which relate the mortgagor's income, assets, and liabilities to the proposed payment and such underwriting methodology confirmed that at the time of origination (application/approval) the borrower had a reasonable ability to make timely payments on the residential mortgage loan. Also the character of the borrower or willingness to pay is evaluated by analyzing the credit report. We apply the basic principles of the borrower's willingness and ability to pay.

The risk involved with a loan decision is kept in perspective and must be considered in the analysis of a loan. Certain characteristics of the transaction are indicators of risk such as occupancy, loan amount, purpose, product type, property type, loan amount size in relation to borrower's previous credit depth and loan to value, cash out of the transaction, time of

occupancy, etc. Risk will be mitigated, in part, by requiring a higher equity, risk pricing, additional documentation and obtaining and documenting compensating factors.

The purpose of mortgage credit analysis is to determine the borrower's ability and willingness to repay the mortgage debt, and thus, limit the probability of default or collection difficulties. There are four major elements which, typically, are evaluated in assessing a borrower's ability and willingness to repay the mortgage debt and the property to determine it complies with the agency and investor‘s requirement, has marketability, and is a sound collateral for the loan. The elements above mentioned comprised (1) stability documentation, (2) continuity and adequacy of income, (3) credit and assets and (4) collateral.

The Corporation follows the established guidelines and requirements for all government insured or guaranteed loans such as FHA, VA, RURAL, PR government products, as well as conforming loans sold to FHLMC and FNMA. In addition to conforming loans and government insured or guaranteed loans, we also provide loans designed to offer an alternative to individuals who do not qualify for an Agency conforming mortgage loan. These non-conforming loans typically have: (1) LTV higher than 80% with mortgage insurance or additional collateral; (2) the mortgage amount may exceed the FNMA/FHLMC limits and (3) may have different documentation requirements.

The Corporation's underwriting policies take into consideration the worsening macroeconomic conditions in PR. The implementation of more tight underwriting standards to reduce the exposure of risks, has contributed to a significant reduction of mortgage loans originations, and to improve the credit quality of our portfolio. These underwriting criteria reflect the Corporation's effort to minimize the impact of the local recession on its overall loan portfolio, including its mortgage business and protect the value of its franchise from the higher risk levels caused by declining assets quality.

Residential real estate mortgages are one of the Corporation's core products and pursuant to our credit management strategy the Corporation offers a broad range of alternatives of this product to borrowers that are considered mostly prime or near prime or "Band C" (borrowers with Fair Isaac Corporation ("Fico Scores") of 620 or less among other factors including income and its source, nature and location of collateral, loan-to-value and other guarantees, if any). Near prime or "Band C" lending policies and procedures do not differ from our general residential mortgages and consumer lending policies and procedures to other customers. The concentration of residential mortgages loans of the Bank are presented in the followings tables:

	December 31, 2009					
	First mortgage	Second mortgage	Total Mortgage	Vintage % of total	Non-performing loans	% of total loans
	(Dollars in thousands)					
Vintage:						
2009	$ 50,615	$ 385	$ 51,000	2%	$ -	0.00%
2008	108,939	1,567	110,506	5%	2,116	1.91%
2007	252,133	2,528	254,661	11%	13,768	5.41%
2006	528,486	3,823	532,309	22%	43,390	8.15%
2005	554,696	528	555,224	23%	40,410	7.28%
2004 and earlier	879,490	2,402	881,892	37%	49,028	5.56%
Sub- Total	$ 2,374,359	$ 11,233	$ 2,385,592	100%	$ 148,712	6.23%

	December 31, 2008							
	First mortgage	Second mortgage	Consumer mortgage	Other mortgage	Total Mortgage	Vintage % of total	Non-performing loans	% of total loans
	(Dollars in thousands)							
Vintage:								
2008	$ 106,836	$ 2,359	$ -	$ -	$ 109,195	4%	$ 638	0.58%
2007	269,220	2,546		-	271,766	11%	5,701	2.10%
2006	578,086	4,319	31	157	582,593	23%	32,198	5.53%
2005	604,142	636	-	-	604,778	24%	24,251	4.01%
2004	439,674	487		-	440,161	17%	16,256	3.69%
2003 and earlier	543,044	1,578	55	158	544,835	21%	22,953	4.21%
Sub- Total	$ 2,541,002	$ 11,925	$ 86	$ 315	$ 2,553,328	100%	$ 101,997	3.99%

The Corporation originates mortgage loans through three main channels: retail sales force, licensed real estate brokers and purchases from third parties. The production originated through the retail sales force represent 59% and 44% of the total mortgage originations for the years ended December 31, 2009 and 2008, respectively. The Corporation performed strict quality control reviews of third party originated loans, which represented 41% and 56% of the total originated mortgage portfolio for the years ended December 31, 2009 and 2008. The Corporation offered fixed rate first and second mortgages which are almost entirely secured by a primary residence for the purpose of purchase money, refinance, debt consolidation, or home equity loans. Residential real estate mortgages of banking operations represent approximately 42% and 39% of total gross loans at December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the first mortgage portfolio totaled approximately \$2.4 billion and \$2.5 billion, while the second mortgage portfolio was approximately \$11.2 million and \$11.9 million as of December 31, 2009 and 2008, respectively, from banking operations.

The Corporation has not originated option adjustable-rate mortgage products (option ARMs) or variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans, as the Corporation believes these products rarely provide a benefit to our customers. The interest rates impact the amount and timing of origination and servicing fees because consumer demand for new mortgages and the level of refinancing activity are sensitive to changes in mortgage interest rates. The ARMs currently outstanding in the residential mortgage portfolio came from previous acquisitions made by the Corporation. The Corporation also mitigated its credit risk in its residential mortgage loan portfolio through sales and securitizations transactions.

The mortgage real estate loans in the Corporation's consumer finance subsidiary Santander Financial Services, Inc. ("Island Finance") are presented in the followings tables:

	December 31, 2009						
	First mortgage	Second mortgage	ARM mortgage	Total Mortgage*	Vintage % of total	Non-performing loans	% of total loans
	(Dollars in thousands)						
Vintage:							
2009	$ 13,810	$ 121	$ -	$ 13,931	9%	$ -	0.00%
2008	28,033	378	-	28,411	18%	2,289	8.06%
2007	24,811	1,052	1,079	26,942	17%	2,467	9.16%
2006	12,299	899	20,557	33,755	21%	4,545	13.46%
2005	10,824	1,079	17,151	29,054	18%	2,789	9.60%
2004 and earlier	21,457	6,069	-	27,526	17%	4,165	15.13%
Total	$ 111,234	$ 9,598	$ 38,787	$ 159,619	100%	$ 16,255	10.18%

*Net of unearned finance charges and deferred income/cost

	December 31, 2008						
	First mortgage	Second mortgage	ARM mortgage	Total Mortgage*	Vintage % of total	Non-performing loans	% of total loans
	(Dollars in thousands)						
Vintage:							
2008	$ 31,441	$ 696	$ -	$ 32,137	19%	$ 262	0.82%
2007	28,323	1,498	1,246	31,067	19%	572	1.84%
2006	13,409	1,281	22,355	37,045	21%	3,196	8.63%
2005	12,208	1,219	19,953	33,380	20%	3,014	9.03%
2004	11,524	3,108	-	14,632	9%	1,776	12.14%
2003 and earlier	13,129	6,185	-	19,314	12%	2,160	11.18%
Total	$ 110,034	$ 13,987	$ 43,554	$ 167,575	100%	$ 10,980	6.55%

*Net of unearned finance charges and deferred income/cost

The Corporation originates loans to near prime or “Band C” borrowers (customers with Fair Isaac Corporation (“FICO”) scores of 620 or less among other factors, including level of income and its source, loan-to-value (LTV), other guarantees and banking relationships and nature and location of collateral, if any,). The following table provides information on the Corporation’s residential mortgage and consumer installments loans exposure from banking operations and consumer finance business, including near prime or “Band C” loans at December 31, 2009 and 2008.

	December 31, 2009							
	"BAND A" FICO>=660	Avg. LTV	"BAND B" FICO>620 and <660	Avg. LTV	"BAND C" FICO<=620	Avg. LTV	Total Loans	Avg. LTV
	(Dollars in thousands)							
Mortgage Loan Portfolio:								
Banking Operations	$ 1,514,980	72%	$ 251,166	70%	$ 619,446	73%	$ 2,385,592	72%
Consumer Finance	68,339	66%	39,437	67%	51,843	65%	159,619	64%
	$ 1,583,319		$ 290,603		$ 671,289		$ 2,545,211	
Consumer Installment Loans*:								
Banking Operations	$ 284,635	n/a	$ 53,808	n/a	$ 105,124	n/a	$ 443,567	n/a
Consumer Finance	187,747	n/a	109,654	n/a	101,710	n/a	399,111	n/a
	$ 472,382		$ 163,462		$ 206,834		$ 842,678	

*Net of unearned finance charges and deferred income/cost

	December 31, 2008							
	"BAND A" FICO>=660	Avg. LTV	"BAND B" FICO>620 and <660	Avg. LTV	"BAND C" FICO<=620	Avg. LTV	Total Loans	Avg. LTV
	(Dollars in thousands)							
Mortgage Loan Portfolio:								
Banking Operations	$ 1,984,652	80%	$ 308,690	81%	$ 259,986	76%	$ 2,553,328	80%
Consumer Finance	65,516	61%	41,652	62%	60,407	61%	167,575	61%
	$ 2,050,168		$ 350,342		$ 320,393		$ 2,720,903	
Consumer Installment Loans*:								
Banking Operations	$ 427,056	n/a	$ 59,070	n/a	$ 79,707	n/a	$ 565,833	n/a
Consumer Finance	176,334	n/a	119,492	n/a	114,842	n/a	410,668	n/a
	$ 603,390		$ 178,562		$ 194,549		$ 976,501	

*Net of unearned finance charges and deferred income/cost

At December 31, 2009, residential mortgage portfolio categorized as near prime or “Band C” loans was approximately $619.4 million and $51.8 million for banking operations and consumer finance business, respectively, a 26% and 32% of its total residential mortgage portfolio, respectively. The mortgage loans amounts reported in “Band C” as of December 31, 2009 includes $5.1 million or 1.0% of originated loans during the year for banking operations and $2.9 million or 5.6% for consumer finance portfolio. At December 31, 2008, residential mortgage portfolio categorized as near prime or “Band C” loans was approximately $260 million and $60 million for banking operations and consumer finance business, respectively, a 10% and 36% of its total residential mortgage portfolio, respectively. The mortgage loans amounts reported in “Band C” as of December 31, 2008 includes $5.3 million or 1.5% of originated loans during the year for banking operations and $7.9 million or 13% for consumer finance portfolio.

The Corporation’s risk management considers a “FICO” credit score, an indicator of credit rating and credit profile, and loan-to value ratios, the proportional lending exposure relative to property value, as a key determinant of credit performance. The average FICO score for the residential mortgage portfolio of banking operations, as of December 31, 2009 and 2008 was 677 and 706, respectively and an average LTV of 72% as compared to 80% as of December 31, 2008. For its consumer finance business residential mortgages, average FICO score, as of December 31, 2009 and December 31, 2008 was 643 and 648, respectively and an average LTV of 66% as of December 31, 2009 as compared to 61% as of December 31, 2008. The actual rates of delinquencies, foreclosures and losses on these loans could be higher than anticipated during economic slowdowns.

Residential mortgage loan origination for banking operations was $195.4 million for the year ended December 31, 2009 and $345.7 million for the year ended December 31, 2008. The Corporation sold and securitized $169.5 million and $213.4 million for the year ended December 31, 2009 and 2008, respectively, to third parties. Within the sales and securitizations numbers mentioned above, the Corporation sold and securitized $7.7 million and $18.8 million of near prime or “Band C” loans for the year ended December 31, 2009 and 2008, respectively.

The Corporation added strength to the control over its credit activities and does not pursue near prime or “Band C” residential mortgage and consumer installment as a core product of its lending activities. Under the Loss Mitigation Policy (“LMP”), the Corporation evaluates several alternatives for identifying near prime or “Band C” residential mortgage loan borrowers who are at risk of default in order to design and offer loan mitigation strategies, including repayment plans and loan modifications to such borrowers. The objective of the Loss Mitigation Policy is to document the approach to loss mitigation manage and reduce the risk of loss for the consumer and mortgage portfolios and takes into consideration the current stress that consumer and mortgage borrowers are facing in Puerto Rico. The Corporation’s strategy is to maximize the recovery from delinquent and past due consumer and mortgage loans by actively working with borrowers to develop repayment plans that avoid foreclosure or other legal remedies.

The policy applies to the Corporation’s consumer lending business, including personal loans, credit cards and credit lines and mortgage business including conforming, guaranteed & insured mortgages and non-conforming mortgages. Loss mitigation, where applicable, is intended to benefit both the Corporation and the borrower. The Corporation avoids a costly and time consuming foreclosure process while the borrower maintains ownership of his/her home. The Loss Mitigation Policy

describes the Corporation's approach to identifying borrowers with higher risk of default, assessing their ability to pay taking into account various factors, including debt to income ratios; assessing the likelihood of default; explore loss mitigation techniques that might avoid foreclose or other legal remedies and ensuring compliance with the appropriate regulations and policies of each regulatory or investment agency.

During 2009, the Corporation has restructured residential real estate loans and commercial loans whose terms have been modified and was already identified as a Trouble Debt Restructuring (TDR's), as stated on FASB ASC Topic 310, "Receivables". This FASB ASC Topic states that a restructuring of a debt constitutes a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Once a loan is determined to be a TDR, then various effects must be considered, such as: identifying the loan as impaired, performing an impairment analysis, applying proper revenue recognition accounting, and reviewing its regulatory credit risk grading. Total restructured loans under this program amounted $95.1 million as of December 31, 2009. Refer to the Allowance for Loan Losses section for further information.

Industry Risk

Commercial loans, including commercial real estate and construction loans, amounted to $2.1 million as of December 31, 2009. The Corporation accepts various types of collateral to guarantee specific loan obligations. As of December 31, 2009, the use of real estate as loan collateral has resulted in a portfolio of approximately $1.2 billion, or 57.5% of the commercial loan portfolio. In addition, as of such date, loans secured by cash collateral and marketable securities amounted to $209.2 million, or 10.2% of the commercial loan portfolio. Commercial loans guaranteed by federal or local government amounted to $153.4 million as of December 31, 2009, which represents 7.5% of the commercial loan portfolio. The remaining commercial loan portfolio had $85.9 million partially secured by other types of collateral including, among others, equipment, accounts receivable, and inventory. As of December 31, 2009, unsecured commercial loans represented $425.3 million or 20.7% of commercial loans receivable; however, the majority of these loans were backed by personal guarantees.

In addition to the commercial loan portfolio indicated above, as of December 31, 2009, the Corporation had $1.2 billion in unused commitments under commercial lines of credit. These credit facilities are typically structured to mature within one year. As of December 31, 2009, stand-by letters of credit amounted to $41.8 million.

The commercial loan portfolio is distributed among the different economic sectors and there are no concentrations of credit consisting of direct, indirect, or contingent obligations in any specific borrower, an affiliated group of borrowers, or borrowers engaged in or dependent on one industry. The Corporation provides for periodic reviews of industry trends and the credits' susceptibility to external factors.

Government Risk

As of December 31, 2009, $181.1 million of the Corporation's investment securities represented exposure to the U.S. government in the form of U.S. Treasury securities and federal agency obligations. In addition, as of such date, $37.6 million of residential mortgages and $40.4 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies through the Small Business Administration (SBA) and Rural Development Programs. Furthermore, as of December 31, 2009, there were $83.4 million of investment securities representing obligations of the Commonwealth of Puerto Rico, its agencies, instrumentalities and political subdivisions as well as $7.1 million of mortgage loans and $318.8 million in commercial loans issued to or guaranteed by Puerto Rico government agencies, instrumentalities, political subdivisions and municipalities. As of December 31, 2009, the Corporation's credit exposure to the Commonwealth of Puerto Rico and its political subdivisions and municipalities was $409.3 million composed of $141.1 million in municipalities loans, $184.8 million in other government credit facilities and $83.4 million in outstanding bonds and other obligations. The Corporation believes that the credit exposure to the Commonwealth of Puerto Rico and its political subdivisions and municipalities is manageable. The Commonwealth of Puerto Rico has a long-standing record of supporting all of its debt obligations. It has never defaulted in the payment of principal or interest on any public debt. The Corporation's level of exposure is manageable given the fact that its outstanding loans and investment securities have either one or more of the following characteristics: (i) investment grade rated counterparties, (ii) identifiable source of repayment, (iii) high ranking in repayment priority or (iv) tangible collateral. The Corporation has $141.1 million on loans or obligations to various Municipalities for which payments are secured by the full faith, credit and unlimited taxing power of the Municipalities. The Corporation anticipates recovery of the amortized cost of these securities at maturity. Since the Corporation has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, and the contractual term of these investments do not permit the issuer to settle the securities at a price less than the amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

Non-performing Assets and Past Due Loans

The following table sets forth non-performing assets as of December 31, 2009, 2008, 2007, 2006 and 2005.

	Year ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Commercial, Industrial and Agricultural	$ 31,021	$ 30,564	$ 21,236	$ 15,549	$ 14,326
Construction	15,571	13,856	141,140	3,966	3,414
Mortgage	186,202	116,473	80,805	51,341	45,292
Consumer	10,385	13,479	10,818	7,590	4,747
Consumer Finance	43,782	35,508	37,412	24,731	-
Lease Financing	1,908	2,493	2,334	2,783	3,340
Restructured Loans	977	341	693	892	2,560
Total non-performing loans	289,846	212,714	294,438	106,852	73,679
Total repossessed assets	34,486	21,592	16,447	6,173	2,706
Non-performing assets	$ 324,332	$ 234,306	$ 310,885	$ 113,025	$ 76,385
Accruing loans past-due 90 days or more	$ 11,214	$ 13,462	$ 7,162	$ 20,938	$ 2,999
Non-performing loans to total loans	5.30%	3.45%	4.16%	1.54%	1.22%
Non-performing loans plus accruing loans past due 90 days or more to total loans	5.50%	3.67%	4.26%	1.84%	1.27%
Non-performing assets to total assets	4.79%	2.97%	3.39%	1.23%	0.92%
Interest lost	$ 11,888	$ 9,268	$ 7,708	$ 3,112	$ 2,111

Non-performing assets consist of past-due commercial loans, construction loans, lease financing and closed-end consumer loans with principal or interest payments over 90 days on which no interest income is being accrued, and mortgage loans with principal or interest payments over 120 days past due on which no interest income is being accrued, renegotiated loans and other real estate owned.

Once a loan is placed on non-accrual status, interest is recorded as income only to the extent of the Corporation's management expectations regarding the full collectibility of principal and interest on such loans. The interest income that would have been realized had these loans been performing in accordance with their original terms amounted to $11.9 million, $9.3 million and $7.7 million in 2009, 2008 and 2007, respectively.

Non-performing loans to total loans as of December 31, 2009 were 5.30%, 185 basis point increase compared to the 3.45% reported as of December 31, 2008. Non-performing loans at December 31, 2009 amounted to $289.8 million. The Corporation’s non-performing loans reflected an increase of $77.1 million or 36.3% compared to non-performing loans as of December 31, 2008. This change was driven by increases in non-performing mortgage loans of $69.7 million or 59.9% and in non-performing consumer loans (including non-performing consumer finance) of $5.2 million or 10.6%.

Repossessed assets increased $12.9 million or 59.7% to $34.5 million at December 31, 2009, from $21.6 million at December 31, 2008.

As of December 31, 2009, the coverage ratio (allowance for loan losses to total non-performing loans) decreased to 68.07% in 2009 from 90.21% in 2008. Excluding non-performing mortgage loans (for which the Corporation has historically had a minimal loss experience) this ratio is 230.42% at December 31, 2009 compared to 225.06% as of December 31, 2008.

The accrual of interest on commercial loans, construction loans, lease financing and closed-end consumer loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, but in no event is it recognized after 90 days in arrears on payments of principal or interest. Interest on mortgage loans is not recognized after four months in arrears on payments of principal or interest. Income is generally recognized on open-end (revolving credit) consumer loans until the loans are charged off. When interest accrual is discontinued, unpaid interest is

reversed on all closed-end portfolios. Interest income is subsequently recognized only to the extent that it is received. The non accrual status is discontinued when loans are made current by the borrower.

Potential Problem Loans

As a general rule, the Corporation closely monitors certain loans not disclosed under "Non-performing Assets and Past Due Loans" but that represent a greater than normal credit risk. These loans are not included under the non-performing category, but management provides close supervision of their performance. The identification process is implemented through various risk management procedures, such as periodic review of customer relationships, a risk grading system, an internal watch system and a loan review process. This classification system enables management to respond to changing circumstances and to address the risk that may arise from changing business conditions or any other factors that bear significantly on the overall condition of these loans. The principal amounts of loans under this category as of December 31, 2009 and 2008 were approximately $428.5 million and $297.8 million, respectively.

Asset and Liability Management

The Corporation's policy with respect to asset liability management is to maximize its net interest income, return on assets and return on equity while remaining within the established parameters of interest rate and liquidity risks provided by the Board of Directors and the relevant regulatory authorities. Subject to these constraints, the Corporation takes mismatched interest rate positions. The Corporation's asset and liability management policies are developed and implemented by its Asset and Liability Committee ("ALCO"), which is composed of senior members of the Corporation including the President, Chief Accounting Officer, Treasurer and other executive officers of the Corporation. The ALCO reports on a monthly basis to the members of the Bank's Board of Directors.

Market Risk and Interest Rate Sensitivity

A key component of the Corporation's asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or repricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities mature or reprice in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity, which means that an increase in interest rates would have a positive effect on net interest income, while a decrease in interest rates would have a negative effect on net interest income. A negative gap denotes liability sensitivity, which means that a decrease in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The Corporation's one-year cumulative GAP position at December 31, 2009, was negative $0.7 billion or -11.0% of total earning assets. This is a one-day position that is continually changing and is not indicative of the Corporation's position at any other time. This denotes liability sensitivity, which means that an increase in interest rates would have a negative effect on net interest income while a decrease in interest rates would have a positive effect on net interest income. While the GAP position is a useful tool in measuring interest rate risk and contributes toward effective asset and liability management, shortcomings are inherent in GAP analysis since certain assets and liabilities may not move proportionally as interest rates change.

The Corporation's interest rate sensitivity strategy takes into account not only rates of return and the underlying degree of risk, but also liquidity requirements, capital costs and additional demand for funds. The Corporation's maturity mismatches and positions are monitored by the ALCO and managed within limits established by the Board of Directors.

The following table sets forth the repricing of the Corporation's interest earning assets and interest bearing liabilities at December 31, 2009 and may not be representative of interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the repricing period presented due to the differing repricing dates within the period. In preparing the interest rate gap report, the following assumptions was considered, all assets and liabilities are reported according to their repricing characteristics. For example, a commercial loan maturing in five years with monthly variable interest rate payments is stated in the column of "up to 90 days". The investment portfolio is reported considering the effective duration of the securities. Expected prepayments and remaining terms are considered for the residential mortgage portfolio. Core deposits are reported in accordance with their effective duration. Effective duration of core deposits is based on price and volume elasticity to market rates. The Corporation reviews on a monthly basis the effective duration of core deposits. Assets and liabilities with embedded options are stated based on full valuation of the asset/liability and the option to ascertain their effective duration.

Interest Rate Sensitivity
As of December 31, 2009

	0 to 3 Months	3 months to a Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	More than 10 Years	No Interest Rate Risk	Total
				(Dollars in thousands)				
ASSETS:								
Investment Portfolio	$ 99,872	$ 18,689	$ 263,257	$ 22,337	$ 9,725	$ -	$ 106,898	$ 520,778
Deposits with Other Banks	226,841	2,668	-	-	-	-	101,438	330,947
Loan Portfolio:								
Commercial	1,014,360	339,663	190,250	161,354	116,998	67,934	91,020	1,981,579
Construction	47,943	6,501	9,678	1,728	3,524	1,333	-	70,707
Consumer	305,142	183,149	311,450	163,226	24,693	26	15,207	1,002,893
Mortgage	112,797	298,411	563,922	430,735	744,739	130,170	134,520	2,415,294
Fixed and Other Assets	-	-	-	-	-		444,238	444,238
Total Assets	1,806,955	849,081	1,338,557	779,380	899,679	199,463	893,321	6,766,436
LIABILITIES AND STOCKHOLDERS' EQUITY:								
External Funds Purchased:								
Commercial Paper	67,500	-	-	-	-	-	(18)	67,482
Repurchase Agreements	-	-	-	-	-	-	-	-
Federal Funds and other borrowings	535,000	250,000	325,000	-	-	-	-	1,110,000
Deposits:								
Certificates of Deposit	1,179,664	392,284	90,422	12,851	-	204	(6,362)	1,669,063
Demand Deposits and Savings Accounts	184,934	37,028	202,028	159,145	118,055	-	(2,421)	698,769
Transactional Accounts	206,438	367,366	770,070	86,167	597,772	-	(85)	2,027,728
Senior and Subordinated Debt	4,815	-	15,757	-	244,691	60,000	4,009	329,272
Other Liabilities and Capital	-	-	-	-	-	-	864,122	864,122
Total Liabilities and Capital	2,178,351	1,046,678	1,403,277	258,163	960,518	60,204	859,245	6,766,436
Off-Balance Sheet Financial Information								
Interest Rate Swaps (Assets)	1,637,166	23,645	14,068	27,417	1,592,341	36,000	-	3,330,637
Interest Rate Swaps (Liabilities)	(1,762,447)	(23,645)	(13,787)	(27,417)	(1,467,341)	(36,000)	-	(3,330,637)
Caps	-	175	605	-	-	-	-	780
Caps Final Maturity	-	(175)	(605)	-	-	-	-	(780)
GAP	(496,677)	(197,597)	(64,439)	521,217	64,161	139,259	34,076	-
Cumulative GAP	$ (496,677)	$ (694,274)	$ (758,713)	$ (237,496)	$ (173,335)	$ (34,076)	$ -	$ -
Cumulative GAP to earning assets	-7.86%	-10.98%	-12.00%	-3.76%	-2.74%	-0.54%		

Interest rate risk is the primary market risk to which the Corporation is exposed. Nearly all of the Corporation's interest rate risk arises from instruments, positions and transactions entered into for purposes other than trading. They include loans, investment securities, deposits, short-term borrowings, senior and subordinated debt and derivative financial instruments used for asset and liability management.

As part of its interest rate risk management process, the Corporation analyzes on an ongoing basis the profitability of the balance sheet structure, and how this structure will react under different market scenarios. In order to carry out this task, management prepares three standardized reports with detailed information on the sources of interest income and expense: the "Financial Profitability Report", the "Net Interest Income Shock Report" and the "Market Value Shock Report". The former report deals with historical data while the latter two deal with expected future earnings.

The Financial Profitability Report identifies individual components of the Corporation's non-trading portfolio independently with their corresponding interest income or expense. It uses the historical information at the end of each month to track the yield of such components and to calculate net interest income for such time period.

The Net Interest Income Shock Report uses a simulation analysis to measure the amount of net interest income the Corporation would have from its operations throughout the next twelve months and the sensitivity of these earnings to assumed shifts in market interest rates throughout the same period. The important assumptions of this analysis are: (i) rate shifts are parallel and immediate throughout the yield curve; (ii) rate changes affect all assets and liabilities equally; (iii) interest-bearing demand accounts and savings passbooks will run off in a period of one year; and (iv) demand deposit accounts will run off in a period of one to three years. Cash flows from assets and liabilities are assumed to be reinvested at market rates in similar instruments. The object is to simulate a dynamic gap analysis enabling a more accurate interest rate risk assessment.

The ALCO monitors interest rate gaps in combination with net interest margin (NIM) sensitivity and duration of market value equity (MVE).

NIM sensitivity analysis captures the maximum acceptable net interest margin loss for a one percent parallel change of all interest rates across the curve. Duration of market value equity analysis entails a valuation of all interest bearing assets and liabilities under parallel movements in interest rates. The ALCO has established limits of $35 million of NIM sensitivity for a 1% parallel shock and $140 million of MVE sensitivity for a 1% parallel shock.

As of December 31, 2009, it was determined for purposes of the Net Interest Income Shock Report that the Corporation had a potential loss in net interest income of approximately $6.8 million if market rates were to increase 100 basis points immediately parallel across the yield curve, less than the $35.0 million limit. For purposes of the Market Value Shock Report it was determined that the Corporation had a potential loss of approximately $22.1 million if market rates were to increase 100 basis points immediately parallel across the yield curve, less than the $140.0 million limit. The tables below present a summary of the Corporation's net interest margin and market value shock reports, considering several scenarios as of December 31, 2009.

NET INTEREST MARGIN SHOCK REPORT
December 31, 2009

(In millions)	-200 BP's	-100 BP's	-50 BP's	Base Case	+50 BP's	+100 BP's	+200 BP's
Gross Interest Margin	$ 397.8	$ 406.5	$ 405.0	$ 401.6	$ 398.4	$ 394.8	$ 386.2
Sensitivity	$ (3.8)	$ 4.9	$ 3.4		$ (3.2)	$ (6.8)	$ (15.4)

MARKET VALUE SHOCK REPORT
December 31, 2009

(In millions)	-200 BP's	-100 BP's	-50 BP's	Base Case	+50 BP's	+100 BP's	+200 BP's
Market Value of Equity	$ 761.1	$ 783.7	$ 774.1	$ 749.9	$ 750.9	$ 727.8	$ 702.2
Sensitivity	$ 11.2	$ 33.8	$ 24.2		$ 1.0	$ (22.1)	$ (47.7)

As of December 31, 2009 the Corporation had a liability sensitive profile as explained by the negative gap, the NIM shock report and the MVE shock report. Any decision to reposition the balance sheet is taken by the ALCO committee, and is subject to compliance with the established risk limits. Some factors that could lead to shifts in policy could be, but are not limited to, changes in views on interest rate markets, monetary policy, and macroeconomic factors as well as legal, fiscal and other factors which could lead to shifts in the asset liability mix.

Derivatives

The Corporation uses derivative financial instruments mostly as hedges of interest rate risk, changes in fair value of assets and liabilities and to secure future cash flows. Refer to Notes 1 and 22 to the consolidated financial statements for details of the Corporation's derivative transactions as of December 31, 2009 and 2008.

In the normal course of business, the Corporation utilizes derivative instruments to manage exposure to fluctuations in interest rates, currencies and other markets, to meet the needs of customers and for proprietary trading activities. The Corporation uses the same credit risk management procedures to assess and approve potential credit exposures when entering into derivative transactions as those used for traditional lending.

Hedging Activities:

The following table summarizes the derivative contracts designated as hedges as of December 31, 2009, 2008 and 2007, respectively:

	December 31, 2009			
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)	Other Comprehensive Income (Loss)**
Economic Undesignated Hedges				
Interest Rate Swaps	125,000	(492)	(5,702)	-
Totals	$ 125,000	$ (492)	$ (5,702)	$ -

	December 31, 2008			
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)	Other Comprehensive Income (Loss)**
Cash Flow Hedges				
Interest Rate Swaps	-	-	-	1,237
Economic Undesignated Hedges				
Interest Rate Swaps	125,000	5,210	4,311	-
Totals	$ 125,000	$ 5,210	$ 4,311	$ 1,237

	December 31, 2007			
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)	Other Comprehensive Income (Loss)**
Cash Flow Hedges				
Foreign Currency	$ -	$ -	$ -	$ -
Interest Rate Swaps	650,000	(2,027)	-	(1,023)
Fair Value Hedges				
Interest Rate Swaps	937,863	(4,425)	(465)	-
Totals	$ 1,587,863	$ (6,452)	$ (465)	$ (1,023)

* The notional amount represents the gross sum of long and short

** Net of tax

Cash Flow Hedges:

The Corporation designates hedges as Cash Flow Hedges when its main purpose is to reduce the exposure associated with the variability of future cash flows related to fluctuations in short term financing rates (such as LIBOR). At the inception of each hedge, management documents the hedging relationship, including its objective and probable effectiveness. To assess ongoing effectiveness of the hedges, the Corporation compares the hedged item's periodic variable rate with the hedging item's benchmark rate (LIBOR) at every reporting period to determine the effectiveness of the hedge. Any hedge ineffectiveness is recorded currently as a derivative gain or loss in consolidated statements of income.

The Corporation had a $100 million floating-for-fixed interest rate swap designated as cash flow hedges with LBSF. The derivative liability of this swap was $371,736 as of September 19, 2008 and was paid on December 5, 2008. As a result of the bankruptcy filing of LBHI and the default on its contractual payments as of September 19, 2008, the Corporation terminated the swap and the cash flow hedge designation on these swaps. The net loss of $371,000 was reclassified into earnings in the last quarter of 2008.

Economic Undesignated Hedges:

The Corporation adopted the accounting standard FASB ASC Topic 825 effective January 1, 2008 which permit the measurement of selected financial instruments at fair value. The Corporation elected to account at fair value certain of its brokered deposits and subordinated capital notes that were previously designated for fair value hedge accounting in accordance with FASB ASC Topic 815. The selected financial instruments are reported at fair value with changes in fair value reported in condensed consolidated statements of income.

As of December 31, 2009 and December 31, 2008, the economic undesignated hedges have maturities through the year 2032. The weighted average rate paid and received on these contracts is 0.68% and 6.22% as of December 31, 2009 and 3.24% and 6.22% as of December 31, 2008, respectively.

The Corporation had issued fixed rate debt swapped to create a floating rate source of funds. In this case, the Corporation matches all of the relevant economic variables (notional, coupon, payments date and exchanges, etc) of the fixed rate sources of funds to the fixed rate portion of the interest rate swaps, (which it received from counterparty), and pays the floating rate portion of the interest swaps. The effectiveness of these transactions is very high since all of the relevant economic variables are matched. For the year ended December 31, 2009 and 2008, the Corporation recognized a loss of approximately $5.7 million and a gain of $4.3 million, respectively, on these economic hedges, which is included in other income in the consolidated statements of income.

As of December 31, 2008, the Corporation had outstanding interest rate swap agreements with a notional amount of approximately $125 million, maturing through the year 2032. The weighted average rate paid and received on these contracts is 3.24% and 6.22%, respectively. As of December 31, 2008, the Corporation had two subordinated notes aggregating to approximately $125 million, with a fair value of $118.3 million, swapped to create a floating rate source of funds. As a result of the bankruptcy filing of Lehman Brothers Holding, Inc. ("LBHI") and the default on its contractual payments as of September 19, 2008, the Corporation terminated $23.8 million of fixed-for-floating interest rate swaps. The derivative liability of the swaps with Lehman Brothers Special Financing ("LBSF") was $681,535 as of September 19, 2008 and was paid on December 5, 2008. As of December 31, 2009 and 2008, the Corporation has $0.5 million and $5.2 million, respectively, in fair value of these economic undesignated hedges.

Derivative instruments not designated as hedging instruments:

Any derivative not associated to hedging activity is booked as a freestanding derivative. In the normal course of business the Corporation may enter into derivative contracts as either a market maker or proprietary position taker. The Corporation's mission as a market maker is to meet the clients' needs by providing them with a wide array of financial products, which include derivative contracts. The Corporation's major role in this aspect is to serve as a derivative counterparty to these clients. Positions taken with these clients are hedged (although not designated as hedges) in the OTC market with interbank participants or in the organized futures markets. To a lesser extent, the Corporation enters into freestanding derivative contracts as a proprietary position taker, based on market expectations or to benefit from price differentials between financial instruments and markets. The Corporation had $13.8 million of interest rate swaps with LBSF. The derivative liability of these swaps was $166,333 as of September 19, 2008 and was paid on December 5, 2008. As a result of the bankruptcy filing of LBHI and the default on its contractual payments as of September 19, 2008, the Corporation terminated these swaps.

These derivatives are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. These derivatives are carried at fair value and changes in fair value are recorded in earnings. The market and credit risk associated with these activities is measured, monitored and controlled by the Corporation's Market Risk Group, a unit independent from the treasury department. Among other things, this group is responsible for: policy, analysis, methodology and reporting of anything related to market risk and credit risk. The following table summarizes the aggregate notional amounts and the reported derivative assets or liabilities (i.e. the fair value of the derivative contracts) as of December 30, 2009, 2008 and 2007, respectively:

	December 31, 2009		
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)
Interest Rate Contracts			
Interest Rate Swaps	$ 3,330,637	$ 220	$ 107
Interest Rate Caps	780	-	-
Other	3,447	(8)	(101)
Equity Derivatives	210,900	-	-
Totals	$ 3,545,764	$ 212	$ 6

	December 31, 2008		
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)
Interest Rate Contracts			
Interest Rate Swaps	$ 3,548,418	$ (53)	$ (392)
Interest Rate Caps	1,166	-	-
Other	3,862	93	48
Equity Derivatives	236,428	-	(21)
Totals	$ 3,789,874	$ 40	$ (365)

	December 31, 2007		
(Dollars in thousands)	Notional Amounts *	Fair Value	Gain (Loss)
Interest Rate Contracts			
Interest Rate Swaps	$ 3,237,179	$ 257	$ 679
Interest Rate Caps	14,762	-	-
Other	1,451	45	35
Equity Derivatives	267,124	-	-
Totals	$ 3,520,516	$ 302	$ 714

* The notional amount represents the gross sum of long and short

Liquidity Risk

Liquidity risk is the risk that not enough cash will be generated from either assets or liabilities to meet deposit withdrawals or contractual loan funding. The Corporation's general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments at maturity of other liabilities, extend loans and meet working capital needs. The Corporation's principal sources of liquidity are capital, core deposits from retail and commercial clients, and wholesale

deposits raised in the inter-bank and commercial markets. The Corporation manages liquidity risk by maintaining diversified short-term and long-term sources through the Federal funds market, commercial paper program, repurchase agreements and retail certificate of deposit programs. As of December 31, 2009 the Corporation had $1.5 billion in unsecured lines of credit ($0.6 billion available) and $3.7 billion in collateralized lines of credit with banks and financial entities ($2.6 billion available). All securities in portfolio are highly rated and very liquid, enabling us to treat them as a secondary source of liquidity.

The Corporation does not have significant usage or limitations on its ability to upstream or downstream funds as a method of liquidity. However, there are certain tax constraints when borrowing funds (excluding the placement of deposits) from Santander Spain or affiliates because Puerto Rico's tax code requires local corporations to withhold 29% of the interest income paid to non-resident affiliates. The Corporation does not face significant limitations to its ability to downstream funds to its affiliates. The current intra-group credit line for the Corporation is $1.4 billion.

Liquidity is derived from capital, reserves and the securities portfolio. The Corporation has established lines of credit with foreign and domestic banks, has access to U.S. markets through its commercial paper program and also has broadened its relations in the federal funds and repurchase agreement markets to increase the availability of other sources of funds and to augment liquidity as necessary.

On January 22, 2010, the Corporation and Santander Financial Services, Inc., a wholly owned subsidiary of the Corporation ("Santander Financial"), entered into a collateralized loan agreement (the "Loan Agreement") with Banco Santander Puerto Rico (the "Bank"). Under the Loan Agreement, the Bank advanced $182 million and $430 million (the "Loans") to the Corporation and Santander Financial, respectively. The proceeds of the Loans were used to refinance the outstanding indebtedness incurred under a loan agreement dated September 24, 2009 among the Corporation, Santander Financial and the Bank, and for general corporate purposes. The Loans are collateralized by a certificate of deposit in the amount of $612 million opened by Banco Santander, S.A., the parent of the Corporation, at the Bank and provided as security for the Loans pursuant to the terms of a Security Agreement, Pledge and Assignment between the Bank and Banco Santander, S.A. The Corporation and Santander Financial have agreed to pay an annual fee of 0.10% net of taxes, deductions and withholdings to Banco Santander, S.A. in connection with its agreement to collateralize the Loans with the deposit.

On September 24, 2009, Santander BanCorp and Santander Financial Services, Inc., entered into a collateralized loan agreement (the "Loan Agreement") with Banco Santander Puerto Rico. Under the Loan Agreement, the Bank advanced $190 million and $440 million (the "Loans") to the Corporation and Santander Financial, respectively. The proceeds of the Loans were used to refinance the outstanding indebtedness incurred under a loan agreement dated September 24, 2008 among the Corporation, Santander Financial and the Bank, and for general corporate purposes. The Loans are collateralized by a certificate of deposit in the amount of $630 million opened by Banco Santander, S.A., the parent of the Corporation, at the Bank and provided as security for the Loans pursuant to the terms of a Security Agreement, Pledge and Assignment between the Bank and Banco Santander, S.A. The Corporation and Santander Financial have agreed to pay an annual fee of 0.10% net of taxes, deductions and withholdings to Banco Santander, S.A. in connection with its agreement to collateralize the Loans with the deposit.

On December 10, 2008, the Bank undertook a Subordinated Note Purchase Agreement with Crefisa, Inc, ("Crefisa"), an affiliate, for $60 million due on December 10, 2028 and to pay interest thereon from December 10, 2008 or from the most recent interest payment date to which interest has been paid or duly provided for, semiannually on the tenth (10th) day of June and the tenth (10th) of December of each year, commencing on June 10, 2009, at the rate of 7.5% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any interest payment date will, as provided in such Note Purchase Agreement, be paid to Crefisa at the close of business on the regular record date for such interest, which shall be the tenth (10th) day of the month next preceding the relevant interest payment date.

In October 2006, the Corporation also completed the private placement of $125 million Trust Preferred Securities ("Preferred Securities") and issued Junior Subordinated Debentures in the aggregate principal amount of $129 million in connection with the issuance of the Preferred Securities. The Preferred Securities are fully and unconditionally guaranteed (to the extent described in the guarantee agreement between the Corporation and the guarantee trustee, for the benefit of the holders from time to time of the Preferred Securities) by the Corporation. The Trust Preferred Securities were acquired by an affiliate of the Corporation. In connection with the issuance of the Preferred Securities, the Corporation issued an aggregate principal amount of $129,000,000 of its 7.00% Junior Subordinated Debentures, Series A, due July 1, 2037 to the Trust.

The Corporation has a high credit rating, which permits the Corporation to utilize various alternative funding sources. The Corporation's current ratings are as follows:

	Standard & Poor's	Fitch IBCA
Short-term funding	A-1	F1+
Long-term funding	A	AA-

Management monitors liquidity levels each month. The focus is on the liquidity ratio, which compares net liquid assets (all liquid assets not subject to collateral or repurchase agreements) against total liabilities plus contingent liabilities. As of December 31, 2009, the Corporation had a liquidity ratio of 11.24%. At December 31, 2009, the Corporation had total available liquid assets of $718.8 million. The Corporation believes that it has sufficient liquidity to meet current obligations.

The Corporation does not contemplate material uncertainties in the rolling over of deposits, both retail and wholesale, and is not engaged in capital expenditures that would materially affect the capital and liquidity positions. Should any deficiency arise for seasonal or more critical reasons, the Bank would make recourse to alternative sources of funding such as the commercial paper program, its lines of credit with domestic and national banks, unused collateralized lines with Federal Home Loan Banks and others.

Maturity and Interest Rate Sensitivity of Interest-Earning Assets as of December 31, 2009

The following table sets forth an analysis by type and time remaining to maturity of the Corporation's loans and securities portfolio as of December 31, 2009. Loans are stated before deduction of the allowance for loan losses and include loans held for sale.

	As of December 31, 2009					
	Maturities and/or Next Repricing Date					
		After One Year Through Five Years		After Five Years		
	One Year or Less	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates	Total
	(Dollars in thousands)					
Cash and Cash Equivalents and other Interest-bearing deposits	$ 330,947	$ -	$ -	$ -	$ -	$ 330,947
Investment Portfolio	118,545	285,595	-	116,638	-	520,778
Loans:						
Commercial	724,129	354,165	324,007	225,958	318,320	1,946,579
Construction	25,750	6,423	10,401	-	28,133	70,707
Consumer	179,407	135,478	-	129,060	-	443,945
Consumer Finance	182,826	338,547	10,909	16,667	9,999	558,948
Mortgage	411,208	994,657	-	1,009,429	-	2,415,294
Leasing	22,214	9,893	588	2,305	-	35,000
Total	$ 1,995,026	$ 2,124,758	$ 345,905	$ 1,500,057	$ 356,452	$ 6,322,198

Capital Expenditures

The following table reflects capital expenditures for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
	(Dollars in thousands)		
Headquarters/branches	$ 218	$ 412	$ 1,770
Data processing equipment	563	1,829	1,438
Software	3,093	4,419	1,981
Office furniture and equipment	819	2,766	1,257
Total	$ 4,693	$ 9,426	$ 6,446

During 2009 and 2008, the Corporation’s capital expenditures reflected an increase in software due to standard upgrade and improvement procedures.

Environmental Matters

Under various environmental laws and regulations, a lender may be liable as an "owner" or "operator" for the costs of investigation or remediation of hazardous substances at any mortgaged property or other property of a borrower or at its owned or leased property regardless of whether the lender knew of, or was responsible for, the hazardous substances. In addition, certain cities in which some of the Corporation's assets are located impose a statutory lien, which may be prior to the lien of the mortgage, for costs incurred in connection with a cleanup of hazardous substances.

Some of the Corporation's mortgaged properties and owned and leased properties may contain hazardous substances or are located in the vicinity of properties that are contaminated. As a result, the value of such properties may decrease, the borrower's ability to repay the loan may be affected, the Corporation's ability to foreclose on certain properties may be affected or the Corporation may be exposed to potential environmental liabilities. The Corporation, however, is not aware of any such environmental costs or liabilities that would have a material adverse effect on the Corporation's results of operations or financial condition.

Puerto Rico Income Taxes

The Corporation is subject to Puerto Rico income tax. The maximum statutory regular corporate tax rate that the Corporation is subject to under the P.R. Code is 39%. In computing its net income subject to the regular income tax, the Corporation is entitled to exclude from its gross income, interest derived on obligations of the Commonwealth of Puerto Rico and its agencies, instrumentalities and political subdivisions, obligations of the United States Government and its agencies and instrumentalities, certain FHA and VA loans and certain GNMA securities. In computing its net income subject to the regular income tax the Corporation is entitled to claim a deduction for ordinary and necessary expenses, worthless debts, interest and depreciation, among others. The Corporation's deduction for interest is reduced in the same proportion that the average adjusted basis of its exempt obligations bears to the average adjusted basis of its total assets.

The Corporation is also subject to an alternative minimum tax of 22% imposed on its alternative minimum tax net income. In general, the Corporation's alternative minimum net income is an amount equal to its net income determined for regular income tax purposes, as adjusted for certain items of tax preference. To the extent that the Corporation's alternative minimum tax for a taxable year exceeds its regular tax, such excess is required to be paid by the Corporation as an alternative minimum tax. An alternative minimum tax paid by the Corporation in any taxable year may be claimed by the Corporation as a credit in future taxable years against the excess of its regular tax over the alternative minimum tax in such years, and such credits do not expire.

On July 2009, Governor of Puerto Rico signed Act No. 37, which amends Act No. 7 of March 9, 2009. This law imposed a temporary three-year surcharge of 5% commencing on taxable year 2009. Since the 5% surcharge is imposed on the tax liability instead of the income subject to tax, the effect of the 5% surcharge will be that during the temporary period the 39% maximum statutory marginal corporate income tax rate may be increased to 40.95%. Also, the amendments of Act No. 7 of March 9, 2009, particularly to alternative minimum tax (”AMT”), eliminates the deduction for expenses incurred outside

Puerto Rico unless these payments are subject to income tax in Puerto Rico. This law, also, includes a temporary 5% special income tax applicable to Puerto Rico international banking entities, or IBEs, such as Santander International Bank (SIB), which, before this law, was exempt from taxation under Puerto Rico law. This special income tax shall be applicable for taxable years 2009, 2010 and 2011

Under the P.R. Code, corporations are not permitted to file consolidated tax returns with their subsidiaries and affiliates. However, the Corporation is entitled to a 100% dividend received deduction with respect to dividends received from Banco Santander Puerto Rico, Santander Securities Corporation, Santander Insurance Agency, or any other Puerto Rico corporation subject to tax under the P.R. Code and in which the Corporation owns at least 80% of the value of its stock or voting power.

Interest paid by the Corporation to non-resident foreign corporations is not subject to Puerto Rico income tax, provided such foreign corporation is not related to the Corporation. Dividends paid by the Corporation to non-resident foreign corporations and individuals (whether resident or not) are subject to a Puerto Rico income tax of 10%.

The Corporation adopted the provisions under FASB ASC Topic 740, "*Income Tax".* These provisions clarify the accounting for uncertainty of income tax recognized in a enterprise's financial statements in accordance with FASB ASC Topic 740. This interpretation prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Corporation recognizes interest and penalties related to unrecognized tax benefits in income tax expense. For the years ended December 31, 2009 and 2008, the Corporation recognized $1.8 million and $1.3 million of interest and penalties, respectively, for uncertain tax positions. As of December 31, 2009 and 2008, the related accrued interest amounted to approximated $3.2 million and $3.7 million, respectively. As of December 31, 2009 and 2008, the Corporation had $8.1 million and $10.3 million, respectively, of unrecognized tax benefits which, if recognized, would decrease the effective income tax rate in future periods. The Corporation recognized a tax benefit of $2.3 million and $1.1 million for the year ended December 31, 2009 and 2008, respectively, as a result of the expiration of the statute of limitations related to the uncertain tax positions.

United States Income Taxes

The Corporation, the Bank, Santander Securities and Santander Insurance Agency are corporations organized under the laws of Puerto Rico. Accordingly, the Corporation, the Bank, Santander Securities and Santander Insurance Agency are subject to United States income tax under the Internal Revenue Code of 1986, as amended to the date hereof (the "Code") only on certain income from sources within the United States or effectively connected with a United States trade or business.

CERTIFICATION PURSUANT TO SECTION 303A.12(a) OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL

Santander BanCorp's Chief Executive Officer and Chief Accounting Officer have filed with the Securities and Exchange Commission the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to Santander BanCorp's 2009 Form 10-K. In addition, on May 4, 2009, Santander BanCorp's CEO certified to the New York Stock Exchange that he was not aware of any violation by the Corporation of the NYSE corporate governance listing standards. The foregoing certification was unqualified.

Date: March 5, 2010

By: /s/ Juan Moreno Blanco
President and Chief Executive Officer

By:/s/ Roberto Jara
Executive Vice President and
Chief Accounting Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Santander BanCorp
San Juan, Puerto Rico

We have audited the accompanying consolidated balance sheets of Santander Bancorp and subsidiaries (the "Corporation") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Member of
Deloitte Touche Tohmatsu

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santander Bancorp and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

March 5, 2010

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Santander BanCorp and Subsidiaries

Consolidated Balance Sheets
December 31, 2009 and 2008
(Dollars in thousands, except share data)

ASSETS	2009	2008
Cash and Cash Equivalents:		
Cash and due from banks	$ 296,425	$ 217,311
Interest-bearing deposits	10,467	976
Federal funds sold and securities purchased under agreements to resell	22,146	64,871
Total cash and cash equivalents	329,038	283,158
Interest-Bearing Deposits	1,909	7,394
Trading Securities, at fair value	47,739	64,719
Investment Securities Available for Sale, at fair value:		
Securities pledged that can be repledged	-	408,650
Other investment securities available for sale	417,608	393,462
Total investment securities available for sale	417,608	802,112
Other Investment Securities, at amortized cost	55,431	61,632
Loans Held for Sale, net	26,726	38,459
Loans, net	5,246,444	5,929,499
Accrued Interest Receivable	32,651	45,953
Premises and Equipment, net	20,179	19,368
Real Estate Held for Sale	2,818	8,075
Goodwill	121,482	121,482
Intangible Assets, net	28,948	29,842
Other Assets	435,463	485,883
	$ 6,766,436	$ 7,897,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non interest-bearing	$ 698,769	$ 692,963
Interest-bearing, including $12.5 million and $101.4 million at fair value in 2009 and 2008, respectively	3,696,791	4,321,939
Total deposits	4,395,560	5,014,902
Federal Funds Purchased and Other Borrowings	50,000	2,040
Securities Sold Under Agreements to Repurchase	-	375,000
Commercial Paper Issued	67,482	50,985
Federal Home Loan Bank Advances	1,060,000	1,185,000
Term Notes	20,581	19,967
Subordinated Capital Notes, including $120.6 million and $118.3 million at fair value in 2009 and 2008, respectively	308,691	306,392
Accrued Interest Payable	14,015	45,419
Other Liabilities	254,210	346,235
Total liabilities	6,170,539	7,345,940
Contingencies and Commitments (Notes 18, 22 and 23)		
STOCKHOLDERS' EQUITY:		
Series A Preferred stock, $25 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $2.50 par value; 200,000,000 shares authorized, 50,650,364 shares issued; 46,639,104 shares outstanding	126,626	126,626
Capital paid in excess of par value	318,263	317,141
Treasury stock at cost, 4,011,260 shares	(67,552)	(67,552)
Accumulated other comprehensive loss, net of taxes	(20,695)	(22,563)
Retained earnings:		
Reserve fund	141,833	139,250
Undivided profits	97,422	58,734
Total stockholders' equity	595,897	551,636
	$ 6,766,436	$ 7,897,576

The accompanying notes are an integral part of these financial statements.

Santander BanCorp and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands, except per share data)

	2009	2008	2007
Interest Income:			
Loans	$ 460,248	$ 547,973	$ 599,581
Investment securities	21,302	47,402	67,830
Interest-bearing deposits	541	1,063	3,344
Federal funds sold and securities purchased under agreements to resell	67	4,333	3,455
Total interest income	482,158	600,771	674,210
Interest Expense:			
Deposits	79,473	152,452	192,660
Securities sold under agreements to repurchase and other borrowings	36,236	78,680	153,955
Subordinated capital notes	14,722	13,317	15,916
Total interest expense	130,431	244,449	362,531
Net interest income	351,727	356,322	311,679
Provision for Loan Losses	152,496	175,523	147,824
Net interest income after provision for loan losses	199,231	180,799	163,855
Other Income:			
Bank service charges, fees and other	39,837	44,685	47,201
Broker-dealer, asset management and insurance fees	62,688	74,808	68,265
Gain on sale of investment securities available for sale	9,251	5,154	1,265
Gain on sale of loans	5,144	3,253	6,658
Other income	5,526	19,935	24,731
Total other income	122,446	147,835	148,120
Other Operating Expenses:			
Salaries and employee benefits	107,019	125,137	134,258
Occupancy costs	25,291	27,665	23,767
Equipment expenses	3,907	4,358	4,427
EDP servicing, amortization and technical assistance	40,645	41,860	39,255
Communication expenses	9,038	10,062	10,923
Business promotion	3,864	6,628	15,621
Goodwill and other intangibles impairment charges	-	-	43,349
Provision for claim receivable	-	25,120	-
Other taxes	13,270	13,101	12,334
Other operating expenses	66,033	70,696	60,082
Total other operating expenses	269,067	324,627	344,016
Income (loss) before provision (benefit) for income tax	52,610	4,007	(32,041)
Provision (Benefit) for Income Tax	11,335	(6,524)	4,204
Net Income (Loss) Available to Common Shareholders	$ 41,275	$ 10,531	$ (36,245)
Basic and Diluted Earnings (Loss) per Common Share	$ 0.88	$ 0.23	$ (0.78)

The accompanying notes are an integral part of these financial statements.

Santander BanCorp and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
Common Stock:			
Balance at beginning of year	$ 126,626	$ 126,626	$ 126,626
Balance at end of year	126,626	126,626	126,626
Capital Paid in Excess of Par Value:			
Balance at beginning of year	317,141	308,373	304,171
Capital contribution	2,406	9,710	4,202
Payments to ultimate parent for long-term incentive plan	(1,284)	(942)	-
Balance at end of year	318,263	317,141	308,373
Treasury Stock at cost:			
Balance at beginning of year	(67,552)	(67,552)	(67,552)
Balance at end of year	(67,552)	(67,552)	(67,552)
Accumulated Other Comprehensive Loss, net of tax:			
Balance at beginning of year	(22,563)	(24,478)	(44,213)
Unrealized net (loss) gain on investment securities available for sale, net of tax	(3,130)	13,449	18,227
Unrealized net gain (loss) on cash flow hedges, net of tax	-	1,237	(1,023)
Minimum pension benefit (liability), net of tax	4,998	(12,771)	2,531
Balance at end of year	(20,695)	(22,563)	(24,478)
Reserve Fund:			
Balance at beginning of year	139,250	139,250	137,511
Transfer from undivided profits	2,583	-	1,739
Balance at end of year	141,833	139,250	139,250
Undivided Profits:			
Balance at beginning of year	58,734	54,317	122,677
Net income (loss)	41,275	10,531	(36,245)
Transfer to reseve fund	(2,583)	-	(1,739)
Deferred tax benefit amortization	(4)	(4)	(3)
Common stock cash dividends	-	(9,329)	(29,849)
Cummulative effect of adoption of FASB ASC Topic 825	-	3,219	-
Cummulative effect of adoption of FASB ASC Topic 740	-	-	(524)
Balance at end of year	97,422	58,734	54,317
Total stockholders' equity	$ 595,897	$ 551,636	$ 536,536

The accompanying notes are an integral part of these financial statements.

Santander BanCorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
Comprehensive income (Loss)			
Net income (loss)	$ 41,275	$ 10,531	$ (36,245)
Other comprehensive income (loss), net of tax:			
Unrealized holding gains on investment securities available for sale, net of tax	1,573	14,142	18,170
Reclassification adjustment for (losses) gains included in net income (loss), net of tax	(4,703)	(693)	57
Unrealized (losses) gains on investment securities available for sale, net of tax	(3,130)	13,449	18,227
Unrealized gain (loss) on cash flow hedges, net of tax	-	1,237	(1,023)
Minimum pension benefit (liability), net of tax	4,998	(12,771)	2,531
Total other comprehensive income, net of tax	1,868	1,915	19,735
Comprehensive income (loss)	$ 43,143	$ 12,446	$ (16,510)

The accompanying notes are an integral part of these financial statements.

Santander BanCorp and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 41,275	$ 10,531	$ (36,245)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	12,451	15,096	16,276
Deferred tax benefit	(535)	(18,083)	(23,833)
Provision for loan losses	152,496	175,523	147,824
Goodwill and other intangibles impairment charges	-	-	43,349
Gain on sale of investment securities available for sale	(9,251)	(5,154)	(1,265)
Gain on sale of loans	(5,144)	(3,253)	(6,658)
Gain on sale of mortgage-servicing rights	-	-	(132)
Loss (gain) on derivatives and other financial instruments at fair value	7,303	(3,284)	(249)
Gain on trading securities	(3,275)	(2,607)	(2,831)
Valuation loss on loans held for sale	-	7,357	-
Net premium amortization (discount accretion) on securities	368	(2,877)	(6,782)
Net (discount accretion) premium amortization on loans	(2,646)	433	(1,793)
Accretion of debt discount	644	628	-
Share based compensation (benefit) sponsored by the ultimate parent	2,406	(1,210)	14,656
Provision for claim receivable	-	25,120	-
Purchases and originations of loans held for sale	(195,466)	(345,706)	(556,838)
Proceeds from sales of loans held for sale	199,937	437,177	305,183
Repayments of loans held for sale	364	17,109	22,511
Proceeds from sales of trading securities	1,002,635	2,215,946	2,553,127
Purchases of trading securities	(883,665)	(2,101,645)	(2,576,040)
Net change in:			
Decrease in accrued interest receivable	13,302	32,382	22,215
(Increase) decrease in other assets	(10,788)	19,897	(116,664)
Decrease in accrued interest payable	(31,406)	(31,709)	(13,889)
Decrease in other liabilities	(11,683)	(3,469)	(48,111)
Total adjustments	238,047	427,671	(229,944)
Net cash provided by (used in) operating activities	279,322	438,202	(266,189)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase (decrease) in interest-bearing deposits	5,485	(1,955)	46,016
Proceeds from sales of investment securities available for sale	507,256	129,451	149,413
Proceeds from maturities of investment securities available for sale	196,240	8,858,239	36,258,629
Purchases of investment securities available for sale	(346,155)	(8,808,967)	(36,323,477)
Proceeds from maturities of other investment securities	104,526	40,727	16,526
Purchases of other investments	(98,325)	(37,800)	(30,375)
Repayment of securities and securities called	32,006	89,302	100,631
Payments on derivative transactions	-	(1,497)	(434)
Net decrease in loans	422,615	547,090	15,083
Proceeds from sales of mortgage-servicing rights	-	-	132
Proceeds from sale of buildings	-	-	56,750
Purchases of premises and equipment	(1,582)	(5,137)	(3,694)
Net cash provided by investing activities	822,066	809,453	285,200

(Continued)

The accompanying notes are an integral part of these financial statements.

Santander BanCorp and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net decrease in deposits	(618,680)	(149,298)	(168,296)
Net (decrease) increase in federal funds purchased and other borrowings	(77,040)	(765,070)	323,710
Net decrease in securities sold under agreements to repurchase	(375,000)	(60,597)	(194,972)
Net increase (decrease) in commercial paper issued	16,496	(233,497)	74,933
Net decrease in term notes	-	-	(22,158)
Issuance of subordinated capital notes	-	60,000	54
Payments to ultimate parent for long-term incentives plans	(1,284)	(942)	-
Dividends paid	-	(16,790)	(29,849)
Net cash used in financing activities	(1,055,508)	(1,166,194)	(16,578)
NET CHANGE IN CASH AND CASH EQUIVALENTS	45,880	81,461	2,433
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	283,158	201,697	199,264
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 329,038	$ 283,158	$ 201,697

(Concluded)

Supplemental Disclosures of Cash Flow Information:

	2009	2008	2007
		(Dollars in thousands)	
Cash paid during the year for:			
Interest	$ 160,405	$ 274,186	$ 375,045
Income taxes	$ 8,023	$ 10,756	$ 23,648
Non-cash transactions:			
Exercised options in ultimate parent stock recognized as capital contribution	$ -	$ 6,661	$ -
Minimum pension benefit (liability)	$ 4,998	$ (12,771)	$ 2,531
Loan securitization	$ 98,715	$ 107,691	$ 47,093
Assets received in full satisfaction of loans	$ 23,916	$ 16,978	$ 20,250
Reclassification of premises to real estate held for sale	-	$ 8,075	-
Reclassification of real estate held for sale to premises	$ 5,257	$ -	$ -
Settlement by counterparty in bankruptcy of securities sold under agreement to repurchase	$ -	$ 200,228	$ -
Settlement by counterparty in bankruptcy of investment securities available for sale pledged under agreement to repurchase	$ -	$ 225,348	$ -

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies and Other Matters:

The accounting and reporting policies of Santander BanCorp (the "Corporation"), a 91% owned subsidiary of Banco Santander, S.A. (Santander Group), conform with accounting principles generally accepted in the United States of America (hereinafter referred to as "generally accepted accounting principles" or "GAAP") and with general practices within the financial services industry.

Following is a summary of the Corporation's most significant accounting policies:

Nature of Operations and Use of Estimates

Santander BanCorp is a financial holding company offering a full range of financial services (including mortgage banking) through its wholly owned banking subsidiary Banco Santander Puerto Rico (the "Bank"). The Corporation also engages in broker-dealer, asset management, consumer finance, international banking, insurance agency services and insurance products through its subsidiaries, Santander Securities Corporation, Santander Asset Management Corporation, Santander Financial Services, Inc. ("Island Finance"), Santander International Bank, Santander Insurance Agency and Island Insurance Corporation (currently inactive), respectively.

Santander BanCorp is subject to the Federal Bank Holding Company Act and to the regulations, supervision, and examination of the Federal Reserve Board.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, impairment of goodwill and other intangibles, income taxes, and the valuation of foreclosed real estate, deferred tax assets and financial instruments.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation, the Bank and the Bank's wholly owned subsidiary, Santander International Bank; Santander Securities Corporation and its wholly owned subsidiary, Santander Asset Management Corporation; Santander Financial Services, Inc., Santander Insurance Agency and Island Insurance Corporation. All intercompany balances and transactions have been eliminated in consolidation. Effective January 1, 2008, Santander Mortgage Corporation (a formerly wholly owned subsidiary of the Bank) was merged into the Bank and ceased to operate as a separate legal entity.

Cash Equivalents

All highly liquid instruments with a maturity of three months or less, when acquired or generated, are considered cash equivalents.

Securities Purchased/Sold under Agreements to Resell/Repurchase

Repurchase and resell agreements are treated as collateralized financing transactions and are carried at the amounts at which the assets will be reacquired or resold at the contractual maturity. The settlement of these agreements prior to maturity may be subject to early termination penalties.

The counterparties to securities purchased under resell agreements maintain effective control over such securities and accordingly, those securities are not reflected in the Corporation's consolidated balance sheets. The Corporation monitors the

market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral where deemed appropriate.

The Corporation maintains effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated balance sheets.

Investment Securities

Investment securities are classified in four categories and accounted for as follows:

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held to maturity and reported at cost adjusted for premium amortization and discount accretion. The Corporation may not sell or transfer held to maturity securities without calling into question its intent to hold securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value with unrealized gains and losses included in the consolidated statements of operations as part of other income. Financial instruments including, to a limited extent, derivatives, such as option contracts, are used by the Corporation in dealing and other trading activities and are carried at fair value. Interest revenue and expense arising from trading instruments are included in the consolidated statements of operations as part of net interest income.

- Debt and equity securities not classified as either securities held to maturity or trading securities, and which have a readily available fair value, are classified as securities available for sale and reported at fair value, with unrealized gains and losses reported, net of tax, in accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on sales of securities available for sale, which are included in gain (loss) on sale of investment securities in the consolidated statements of operations.

- Investments in debt, equity or other securities, that do not have readily determinable fair values, are classified as other investment securities in the consolidated balance sheets. These securities are stated at cost. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Home Loan Bank (FHLB) stock, is included in this category.

The amortization of premiums is deducted and the accretion of discounts is added to net interest income based on a method which approximates the interest method, over the outstanding life of the related securities. The cost of securities sold is determined by specific identification. For securities available for sale, held to maturity and other investment securities, the Corporation reports separately in the consolidated statements of operations, net realized gains or losses on sales of investment securities and unrealized loss valuation adjustments considered other than temporary, if any.

Derivative Financial Instruments

The Corporation uses derivative financial instruments mostly as hedges of interest rate risk, changes in fair value of assets and liabilities and to secure future cash flows.

All of the Corporation's derivative instruments are recognized as assets or liabilities at fair value. If certain conditions are met, the derivative may qualify for hedge accounting treatment and be designated as one of the following types of hedges: (a) hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"); (b) a hedge of the exposure to variability of cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge") or (c) a hedge of foreign currency exposure ("foreign currency hedge").

Prior to the adoption of Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC or the Codification) Topic 825, *"Fair Value Option"*, in the case of a qualifying fair value hedge, changes in the value of the derivative instruments that have been highly effective were recognized in current period consolidated statements of operations along with the change in value of the designated hedged item attributable to the risk being hedged. If the hedge relationship was terminated, hedge accounting was discontinued and any balance related to the derivative was recognized in current operations, and the fair value adjustment to the hedged item continued to be reported as part of the basis of the item and was amortized to earnings as a yield adjustment. The Corporation hedges certain callable brokered certificates of deposits and

subordinated capital notes by using interest rate swaps. In connection with the adoption of FASB ASC Topic 825,, the Corporation carries certain callable brokered certificates of deposits and subordinated capital notes at fair value with changes in fair value included in other income in the consolidated statements of operations. The cost of funding of the Corporation's borrowings, as well as derivatives, continues to be included in interest expense and income, as applicable, in the consolidated statements of operations. See Note 22 to the consolidated financial statements for more information.

In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that have been highly effective are recognized in other comprehensive income, until such time as those earnings are affected by the variability of the cash flows of the underlying hedged item. If the hedge relationship is terminated, the net derivative gain or loss related to the discontinued cash flow hedge should continue to be reported in accumulated other comprehensive income (loss) and would be reclassified into earnings when the cash flows that were hedged occur, or when the forecasted transaction affects earnings or is no longer expected to occur. In either a fair value hedge or a cash flow hedge, net earnings may be impacted to the extent the changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. If the derivative is not designated as a hedging instrument, the changes in fair value of the derivative are recorded in consolidated statements of operations.

Certain contracts contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated, carried at fair value, and designated as a trading or non-hedging derivative instrument.

Loans Held for Sale

Loans held for sale are recorded at the lower of cost or market computed on the aggregate portfolio basis. The amount, by which cost exceeds market value, if any, is accounted for as a valuation allowance with changes included in the determination of results of operations for the period in which the change occurs. The amount of loan origination cost and fees are deferred at origination of the loans and recognized as part of the gain and loss on sale of the loans in the consolidated statement of operations as part of other income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses, unearned finance charges and any deferred fees or costs on originated loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized using methods that approximate the interest method over the term of the loans as an adjustment to interest yield. Discounts and premiums on purchased loans are amortized to results of operations over the expected lives of the loans using a method that approximates the interest method.

The accrual of interest on commercial loans, construction loans, lease financing and closed-end consumer loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, but in no event is it recognized after 90 days in arrears on payments of principal or interest. Interest on mortgage loans is not recognized after four months in arrears on payments of principal or interest. Income is generally recognized on open-end (revolving credit) consumer loans until the loans are charged off. When interest accrual is discontinued, unpaid interest is reversed on all closed-end portfolios. Interest income is subsequently recognized only to the extent that it is collected. The non accrual status is discontinued when loans are made current by the borrower.

The Corporation leases vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified in FASB ASC Topic 840, "*Leases*," as amended. Aggregate rentals due over the term of the leases less unearned income are included in lease receivable, which is part of "Loans, net" in the consolidated balance sheets. Unearned income is amortized to results of operations over the lease term so as to yield a constant rate of return on the principal amounts outstanding. Lease origination fees and costs are deferred and amortized over the average life of the portfolio as an adjustment to yield.

During 2009, the Corporation restructured residential real estate loans whose terms have been modified. These loans were identified as a Trouble Debt Restructuring (TDR's), as stated on FASB ASC Topic 310, "Receivables". This FASB ASC Topic states that a restructuring of a debt constitutes a TDR's if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Once a loan is

determined to be a TDR, then various effects must be considered, such as: identifying the loan as impaired, performing an impairment analysis, applying proper revenue recognition accounting, and reviewing its regulatory credit risk grading. Total restructured loans under this program amounted $95.1 million as of December 31, 2009. Refer to the Allowance for Loan Losses section for further information.

Off-Balance Sheet Instruments

In the ordinary course of business, the Corporation enters into off-balance sheet instruments consisting of commitments to extend credit, stand by letters of credit and financial guarantees. Such financial instruments are recorded in the consolidated financial statements when they are funded or when related fees are incurred or received. The Corporation periodically evaluates the credit risks inherent in these commitments, and establishes loss allowances for such risks if and when these are deemed necessary.

The Corporation recognized as liabilities the fair value of the obligations undertaken in issuing the guarantees under the standby letters of credit issued or modified after December 31, 2002, net of the related amortization at inception. The fair value approximates the unamortized fees received from the customers for issuing the standby letters of credit. The fees are deferred and recognized on a straight-line basis over the commitment period. Standby letters of credit outstanding at December 31, 2009 had terms ranging from one month to four years.

Fees received for providing loan commitments and letters of credit that result in loans are typically deferred and amortized to interest income over the life of the related loan, beginning with the initial borrowing. Fees on commitments and letters of credit are amortized to other income as banking fees and commissions over the commitment period when funding is not expected.

Allowance for Loan Losses

The allowance for loan losses is a current estimate of the losses inherent in the present portfolio based on management's ongoing quarterly evaluations of the loan portfolio. Estimates of losses inherent in the loan portfolio involve the exercise of judgment and the use of assumptions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance may change in the near term.

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses. This methodology consists of several key elements.

Larger commercial, construction loans and certain mortgage loans that exhibit potential or observed credit weaknesses are subject to individual review. Where appropriate, allowances are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Corporation.

Included in the review of individual loans are those that are impaired as defined by FASB ASC Topic 310 Any allowances for loans deemed impaired are measured based on the present value of expected future cash flows discounted at the loans' effective interest rate or on the fair value of the underlying collateral if the loan is collateral dependent. Commercial business, commercial real estate, construction and mortgage loans exceeding a predetermined monetary threshold are individually evaluated for impairment. Other loans are evaluated in homogeneous groups and collectively evaluated for impairment. Loans that are recorded at fair value or at the lower of cost or fair value are not evaluated for impairment. The Corporation requests updated appraisal reports for loans that are considered impaired, either annually or every two years depending on the total exposure of the borrower and the type of loan. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Impaired loans for which the discounted cash flows, collateral value or fair value exceeds its carrying value do not require an allowance. The Corporation evaluates the collectibity of both principal and interest when assessing the need for loss accrual.

Historical loss rates for commercial and consumer loans may also be adjusted for significant factors that, in management's judgment, reflect the impact of any current condition on loss recognition. Factors which management considers in the analysis include the effect of the national and local economies, trends in the nature and volume of loans (delinquencies, charge-offs,

non-accrual and problem loans), changes in the internal lending policies and credit standards, collection practices, and examination results from bank regulatory agencies and the Corporation's internal credit examiners.

Allowances on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions, actual collection, charge-off experience and other factor that, based on management judgment, reflect the impact of any current condition.

Effective July 1, 2009, the Corporation revised its quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios. Through the end of the second quarter ended June 30, 2009, the Corporation's quantitative methodology for estimating the allowance for loan losses for the consumer and consumer finance portfolios was based on a historical loss rate analysis, which relied on historical loss experience over a defined period for pools of loans with common characteristics. The revised quantitative methodology is based on a migration analysis/roll rate and considers both historical loss rates and loss rates based on the likelihood of credit deterioration (expectation of current loans becoming delinquent in monthly increments until they default and are charged-off). The loss factor estimated based on this methodology may be adjusted to incorporate seasonality attributes as well as to reflect recent economic or business trends that may affect the collectability of the portfolio. The loss factor is then applied to the outstanding portfolio at period end to estimate the amount of expected charge offs and the provision for loan losses required to support an adequate allowance for loan losses. The Corporation's decision to revise and improve its methodology was made after an evaluation of the reliability of the revised methodology including a back testing analysis. Management believes that the revised quantitative methodology provides a more reliable estimate of probable losses on its existing consumer and consumer finance portfolios.

The Corporation considers in its allowance for loan and lease losses, debt's modification of terms that may be identified as TDRs, as stated on FASB ASC Topic 310. This FASB ASC Topic states that a restructuring of a debt constitutes a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. TDRs represent loans where concessions have been granted to borrowers experiencing financial difficulties that the creditor would not otherwise consider. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. These concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties include, for example: (i) the debtor is currently in default on any of its debt; (ii) the debtor has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the debtor will continue to be a going concern; (iv) currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; and (v) based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that its entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and absent the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor. The identification of TDRs is critical in the determination of the adequacy of the allowance for loan losses. Loans classified as TDRs are reported in non-accrual status if the loan was in non-accruing status at the time of the modification. The TDR loan should continue in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after classified as TDR). Loans classified as TDRs are excluded from TDR status if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance after classified) and the loan yields a market rate. The Corporation identifies as TDRs and impaired, residential real estate loans whose terms have been modified under the conditions set forth in FASB ASC Topic 310, as mentioned previously. Although the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g., mortgage loans), it specifically requires that loan modifications considered TDR's be analyzed under its provisions.

For purposes of determining the impairment analysis to be applied on TDR's, the Corporation stratifies these loans into performing loans and non-performing loans. Impairment measure in performing loans was based on the present value of future cash flows discounted at the loan's original contractual rate. The impairment measure on non-performing loans is based on the fair value of the collateral net of dispositions cost. During 2009, the Corporation restructured $95.1 million residential mortgage loans with allowance for loan losses of $6.1 million.

An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when estimating the allowance for individual loans or pools of loans.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Transfers of financial assets are accounted for as sales, when control over the transferred assets is deemed to be surrendered: (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The Corporation recognizes the financial assets and servicing assets it controls and the liabilities it has incurred. At the same time, it ceases to recognize financial assets when control has been surrendered and liabilities when they are extinguished.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization which is computed utilizing the straight-line method over the estimated useful lives of the assets that range between three and fifty years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is lower. Gains or losses on dispositions are reflected in current operations. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred. Costs of renewals and improvements are capitalized. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings when realized.

Real Estate Held for Sale

The Corporation owns certain real estate properties held for sale which are carried at the lower of cost or fair value, less estimated selling costs.

Other Real Estate

Other real estate, normally obtained through foreclosure or other workout situations, is included in other assets and stated at the lower of fair value or carrying value less estimated costs to sell. Upon foreclosure, the recorded amount of the loan is written-down, if applicable, to the fair value less estimated costs of disposal of the real estate acquired, by charging the allowance for loan losses. Subsequent to foreclosure, any losses in the carrying value of the asset resulting from periodic valuations of the properties are charged to expense in the period incurred. Gains or losses on disposition of other real estate and related maintenance expenses are included in current operations.

Goodwill and Intangible Assets

The Corporation accounts for goodwill in accordance with FASB ASC Topic 350, "*Intangible-Goodwill and Others*." The reporting units are tested for impairment annually to determine whether their carrying value exceeds their fair market value. Should this be the case, the value of goodwill or indefinite-lived intangibles may be impaired and written down. Goodwill and other indefinite lived intangible assets are also tested for impairment on an interim basis if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. If there is a determination that the fair value of the goodwill or other identifiable intangible asset is less than the carrying value, an impairment loss is recognized in an amount equal to the difference. Impairment losses, if any, are reflected in operating expenses in the consolidated statements of operations.

In accordance with FASB ASC Topic 360 "Property, Plant and Equipment", the Corporation reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicates that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on the estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss is based on the fair value of the asset compared to its carrying value. If the fair value of the asset is determined to be less that the carrying value, an impairment loss is incurred in the amount equal to the difference. Impairment losses, if any, are reflected in operating expenses in the consolidated statements of operations.

The Corporation uses judgment in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on projections of revenues, operating costs and cash flows of each reporting unit considering historical and anticipated future results, general economic and market conditions as well as the impact of planned business or operational strategies. The

valuations employ a combination of present value techniques to measure fair value and consider market factors. Generally, the Corporation engages third party specialists to assist with its valuations. Additionally, judgment is used in determining the useful lives of finite-lived intangible assets. Changes in judgments and projections could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill. Effective January 1, 2009, the Corporation adopted FASB ASC Topic 820-65, "*Transition related to FASB Staff Position FAS 157-2, Effective date of FASB Statement No. 157*" for fair value measurement of goodwill, intangible assets and non-recurring measurements. The adoption of this accounting standard for nonfinancial assets and nonfinancial liabilities did not have a material impact on the Corporation's consolidated financial statements and disclosures.

As a result of the purchase price allocations from prior acquisitions and the Corporation's decentralized structure, goodwill is included in multiple reporting units. Due to certain factors such as the highly competitive environment, cyclical nature of the business in some of the reporting units, general economic and market conditions as well as planned business or operational strategies, among others, the profitability of the Corporation's individual reporting units may periodically suffer from downturns in these factors. These factors may have a relatively more pronounced impact on the individual reporting units as compared to the Corporation as a whole and might adversely affect the fair value of the reporting units. If material adverse conditions occur that impact the Corporation's reporting units, the Corporation's reporting units, and the related goodwill would need to be written down to an amount considered recoverable.

Mortgage-servicing Rights

Mortgage-servicing rights ("MSRs") represent the cost of acquiring the contractual rights to service loans for others. On a quarterly basis the Corporation evaluates its MSRs for impairment and charges any such impairment to current period earnings. In order to evaluate its MSRs the Corporation stratifies the related mortgage loans on the basis of their risk characteristics which have been determined to be: type of loan (government-guaranteed, conventional, conforming and non-conforming), interest rates and maturities. Impairment of MSRs is determined by estimating the fair value of each stratum and comparing it to its carrying value. No impairment loss was recognized for each of the three years in the period ended December 31, 2009.

MSRs are also subject to periodic amortization. The amortization of MSRs is based on the amount and timing of estimated cash flows to be recovered with respect to the MSRs over their expected lives. Amortization may be accelerated or decelerated to the extent that changes in interest rates or prepayment rates warrant.

Mortgage Banking

Mortgage loan servicing includes collecting monthly mortgagor payments, forwarding payments and related accounting reports to investors, collecting escrow deposits for the payment of mortgagor property taxes and insurance, and paying taxes and insurance from escrow funds when due. No asset or liability is recorded by the Corporation for mortgages serviced, except for mortgage-servicing rights arising from the sale of mortgages, advances to investors and escrow advances.

The Corporation recognizes as a separate asset the right to service mortgage loans for others whenever those servicing rights are acquired. The Corporation acquires MSRs by purchasing or originating loans and selling or securitizing those loans (with the servicing rights retained) and allocates the total cost of the mortgage loans sold to the MSRs (included in intangible assets in the accompanying consolidated balance sheets) and the loans based on their relative fair values. Further, mortgage-servicing rights are assessed for impairment based on the fair value of those rights. MSRs are amortized over the estimated life of the related servicing income. Mortgage loan-servicing fees, which are based on a percentage of the principal balances of the mortgages serviced, are credited to income as mortgage payments are collected.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. At December 31, 2009 and 2008, the unpaid principal balances of mortgage loans serviced for others amounted to approximately $1,357,000,000 and $1,281,000,000, respectively. In connection with these mortgage-servicing activities, the Corporation administered escrow and other custodial funds which amounted to approximately $3,874,000 and $4,001,000 at December 31, 2009 and 2008, respectively.

Trust Services

In connection with its trust activities, the Corporation administers and is custodian of assets amounting to approximately $131,000,000 and $200,000,000 at December 31, 2009 and 2008, respectively. Due to the nature of trust activities, these

assets are not included in the Corporation's consolidated balance sheets. The Corporation's Trust Division is focusing its efforts on transfer and paying agent and Individual Retirement Account (IRA) services.

Broker-dealer and Asset Management Commissions

Commissions of the Corporation's broker-dealer operations are composed of brokerage commission income and expenses recorded on a trade date basis and proprietary securities transactions recorded on a trade date basis. Investment banking revenues include gains, losses and fees net of syndicate expenses, arising from securities offerings in which the Corporation acts as an underwriter or agent. Investment banking management fees are recorded on offering date, sales concessions on trade date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Revenues from portfolio and other management and advisory fees include fees and advisory charges resulting from the asset management of certain funds and are recognized over the period when services are rendered.

Insurance Commissions

The Corporation's insurance agency operation earns commissions on the sale of insurance policies issued by unaffiliated insurance companies. Commission revenue is reported net of the provision for commission returns on insurance policy cancellations, which is based on management's estimate of future insurance policy cancellations as a result of historical turnover rates by types of credit facilities subject to insurance.

Treasury Stock

Treasury stock is recorded at cost and is carried as a reduction of stockholders' equity in the consolidated balance sheets. As of December 31, 2009 treasury stock has not been retired or reissued.

Income Taxes

The Corporation uses the asset and liability balance sheet method for the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Corporation accounts for uncertain tax positions in accordance with FASB ASC Topic 740, "*Income Taxes*". Accordingly, the Corporation reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Earnings Per Common Share

Basic and diluted earnings per common share are computed by dividing net income available to common stockholders, by the weighted average number of common shares outstanding during the period. The Corporation's average number of common shares outstanding, used in the computation of earnings per common share was 46,639,104 for the years ended December 31, 2009 and 2008. Basic and diluted earnings per common share are the same since no stock options or other potentially dilutive common stock equivalents were outstanding during the years ended December 31, 2009, 2008 and 2007.

Recent Accounting Pronouncements that Affect the Corporation

The adoption of these accounting pronouncements had the following impact on the Corporation's consolidated statements of operations and financial condition:

- *FASB ASC Topic 855, "Subsequent Events"*. In May 2009, the FASB issued FASB ASC Topic 855, which establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Topic sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, (iii) the

disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This FASB ASC Topic should be applied to the accounting and disclosure of subsequent events. This FASB ASC Topic does not apply to subsequent events or transactions that are within the scope of other applicable accounting standards that provide different guidance on the accounting treatment for subsequent events or transactions. This FASB ASC Topic was effective for interim and annual periods ending after June 15, 2009. The adoption of this Topic did not have a material impact on the Corporation's consolidated financial statements and disclosures.

- *FASB ASC Topic 105, "The FASB Accounting Standard Codification™ and the Hierarchy of Generally Accepted Accounting Principles".* In June 2009, the FASB issued FASB ASC Topic 105, which became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchanges Commissions (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this FASB ASC Topic, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become non-authoritative. This FASB ASC Topic identify the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. Also, arranged these sources of GAAP in a hierarchy for users to apply accordingly. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and non-authoritative. This FASB ASC Topic is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this topic did not have a material impact on the Corporation's consolidated financial statements disclosures.

- *FASB ASC Topic 320-65, "Transition Related to FSP FASB 115-2 and FASB 124-2, Recognition and Presenation of Other-Than-Temporary Impairments ".* In April 2009, the FASB issued FASB ASC Topic 320 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FASB ASC Topic does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FASB ASC Topic shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. This FASB ASC Topic does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FASB ASC Topic requires comparative disclosures only for periods ending after initial adoption. The adoption of this Topic did not have a material impact on the Corporation's consolidated financial statements and disclosures.

- *Accounting Standard Update (Update) No. 2009-12*, *Investment in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. In September 2009, the FASB issued an Update to amend the FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* for the fair value measurement of investments in certain entities that calculates net asset value per share (or its equivalent). The Update permits, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the this Update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of FASB ASC Topic 946, *Financial Services —* Investment Companies, as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The Update also requires disclosures by major category of investment about the attributes of investments within the scope this Update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in GAAP on investments in debt and equity securities in FASB ASC Topic 320, *Investments — Debt and Equity Securities*. The disclosures are required for all investments within the scope of this Update regardless of whether the fair value of the investment is measured using the practical expedient. This Update applies to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or non recurring basis and, as of the reporting entity's measurement date, if the investment meets certain criteria. This Update is effective for the interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued.

The Corporation is evaluating the impact that the following recently issued accounting pronouncements may have on its consolidated financial statements and disclosures.

- *Accounting Standard Update (Update) No.2010-02*, "*Accounting and Reporting for Decreases in Ownership of a Subsidiary*", an Accounting Standard Update. In January 2010, the FASB issued a Subtopic 810-10, "Noncontrolling Interests in Consolidated Financial Statements". This Update address the implementation issues related to the changes in ownership provisions in the consolidation process. This Update establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The guidance in this Update also improves the disclosures for fair value measurements relating to retained investments in a deconsolidated subsidiary or a preexisting interest held by an acquirer in a business combination. The amendments in this Update are effective beginning in the period that an entity adopts this Subtopic 810-10. If an entity has previously adopted Statement 160 as of the date the amendments in this Update are included in the Accounting Standards Codification, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this Update should be applied retrospectively to the first period that an entity adopted Statement 160.

- *Accounting Standard Update (Update) No. 2009-16, "Accounting for Transfer of Financial Assets".* In June 2009, the FASB issued additional guidance under FASB ASC Topic 860, "*Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities"*, which improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Board undertook this project to address (i) practices that have developed since the issuance of FASB ASC Topic 860, that are not consistent with the original intent and key requirements of that statement and (ii) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This additional guidance requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. This additional guidance must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This additional guidance must be applied to transfers occurring on or after the effective date.

- *Accounting Standard Update (Update) No.2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities"*. In June 2009, the FASB issued FASB ASC Topic 810, which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics (i)The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (ii)The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This FASB Topic requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. This FASB ASC Topic shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

- Accounting *Standard Update (Update) No.2010-09,"Amendments to Certain Recognition and Disclosure Requirements"*. In January 2010, the FASB issued an updated to amend the Sub-topic 855-10, *Subsequent Events.* This Update provides amendments to Subtopic 855-10 as follows: (1) an entity that either (a) is an SEC filer or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets) is required to evaluate subsequent events through the date that the financial statements are issued. If an entity meets neither of those criteria, then it should evaluate subsequent events through the date the financial statements are available to be issued; (2) the glossary of Topic 855 is amended to include the definition of *SEC filer.* An SEC filer is an entity that is required to file or furnish its financial statements with either the SEC or, with respect to an entity subject to Section 120) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section. It does not include an entity that is not otherwise an SEC filer whose financial statements are included in a submission by another SEC filer; (3) an entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements; (4) the glossary of Topic 855 is amended to remove the definition of *public entity.* The definition of a public entity in Topic 855 was used to determine the date through which subsequent events should be evaluated. Based on the amendments, that definition is no longer necessary for purposes of Topic 855; (5) the scope of the reissuance disclosure requirements is refined to include revised financial statements only. The term *revised financial statements* is added to the glossary of Topic 855. Revised financial statements include financial statements revised either as a result of correction of an error or retrospective application of U.S. generally accepted accounting principles. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Additionally, the Board has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in this Update are effective upon issuance of the final Update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010.

- *Accounting Standard Update (Update) No.2010-01*, "*Accounting for Distribution to Shareholders with Components of Stock and Cash",* an EITF Developed Accounting Standard Update. In January 2010, the FASB issued a ASC Topic 505 to address diversity in practice related to the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can elect to receive in the aggregate. Historically, some entities have accounted for the stock portion of the distribution as a new share issuance that is reflected in earning per share (EPS) prospectively. Other entities have accounted for the stock portion of the distribution as a stock dividend by retroactively restating shares outstanding and EPS for all periods presented. This Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. This Update affect entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate. Such a scenario is common for real estate investment trusts, but this Update apply to other kinds of entities as well. This Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25- 14 and 260-10-45-45 through 45-47 of the FASB ASC. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis.

2. Trading Securities:

Proceeds from sales of trading securities during 2009, 2008 and 2007 were approximately $1,002,764,000, 2,215,946,000 and $2,553,127,000, respectively. Net realized gains of approximately $1,970,000, $4,157,000 and $2,660,000 were recognized during 2009, 2008 and 2007, respectively. During 2009 and 2007, unrealized holding gains of $912,000 and $3,000 were recognized, respectively. During 2008 an unrealized holding loss of $1,327,000 was recognized. Trading gains on futures transactions of $393,000 and $168,000 were realized in 2009 and 2007, respectively, and a loss on futures transactions of $222,000 was realized in 2008.

3. Investment Securities Available for Sale:

The amortized cost, gross unrealized gains and losses, fair value and weighted average yield of investment securities available for sale by contractual maturity are as follows:

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(Dollars in thousands)				
Treasury and agencies of the United States Government:					
Within one year	$ 105,521	$ 267	$ -	$ 105,788	0.85%
After one year to five years	74,939	414	20	75,333	1.58%
	180,460	681	20	181,121	1.15%
Corporate Bonds:					
After one year to five years	141,513	1,004	-	142,517	1.85%
Commonwealth of Puerto Rico and its subdivisions:					
Within one year	1,190	3	-	1,193	3.72%
After one year to five years	71,527	831	3	72,355	5.10%
After five years to ten years	6,420	127	1	6,546	5.58%
Over ten years	3,305	36	-	3,341	5.65%
	82,442	997	4	83,435	5.14%
Mortgage-backed securities:					
Over ten years	10,239	296	-	10,535	5.62%
	$ 414,654	$ 2,978	$ 24	$ 417,608	2.29%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(Dollars in thousands)				
Treasury and agencies of the United States Government:					
Within one year	$ 164,844	$ 1,164	$ 1	$ 166,007	2.30%
After one year to five years	5,658	251	-	5,909	3.99%
	170,502	1,415	1	171,916	2.36%
Commonwealth of Puerto Rico and its subdivisions:					
Within one year	1,460	-	6	1,454	4.23%
After one year to five years	133,185	347	384	133,148	5.23%
After five years to ten years	9,545	29	95	9,479	5.18%
Over ten years	4,505	33	3	4,535	5.55%
	148,695	409	488	148,616	5.22%
Mortgage-backed securities:					
After five years to ten years	193,630	2,258	73	195,815	4.39%
Over ten years	282,235	3,525	45	285,715	5.41%
	475,865	5,783	118	481,530	4.99%
Foreign securities:					
Within one year	50	-	-	50	4.65%
	$ 795,112	$ 7,607	$ 607	$ 802,112	4.47%

The duration of long-term (over one year) investment securities in the available for sale portfolio is approximately 1.7 years at December 31, 2009, comprised of approximately 0.9 years for treasuries and agencies of the United States Government, 2.3 for corporate bonds, 2.1 years for instruments in the Commonwealth of Puerto Rico and its subdivisions and 3.4 years for mortgage backed securities.

The number of positions, fair value and unrealized losses at December 31, 2009 and 2008, of investment securities available for sale that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, are as follows:

	December 31, 2009								
	Less than 12 months			12 months or more			Total		
	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses
				(Dollars in thousands)					
Treasury and agencies of the United States Government	3	$ 20,028	$ 20	-	$ -	$ -	3	$ 20,028	$ 20
Commonwealth of Puerto Rico and its subdivisions	1	355	1	2	6,997	3	3	7,352	4
	4	$ 20,383	$ 21	2	$ 6,997	$ 3	6	$ 27,380	$ 24

	December 31, 2008								
	Less than 12 months			12 months or more			Total		
	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses	Number of Positions	Fair Value	Unrealized Losses
				(Dollars in thousands)					
Treasury and agencies of the United States Government	1	$ 30,000	$ 1	-	$ -	$ -	1	$ 30,000	$ 1
Commonwealth of Puerto Rico and its subdivisions	1	705	72	14	19,338	416	15	20,043	488
Mortgage-backed securities	-	-	-	4	33,091	118	4	33,091	118
	2	$ 30,705	$ 73	18	$ 52,429	$ 534	20	$ 83,134	$ 607

The Corporation evaluates its investment securities for other-than-temporary impairment on a quarterly basis or earlier if other factors indicate that potential impairment exists. An impairment charge in the consolidated statements of operations is recognized when the decline in the fair value of the securities below their cost basis is judged to be other-than-temporary. The Corporation considers various factors in determining whether it should recognize an impairment charge, including, but not limited to the length of time and extent to which the fair value has been less than its cost basis, expectation of recoverability of its original investment in the securities and the Corporation's intent to sell and the situation that it most likely-than-not that the Corporation will be required to sell the security prior to recovery of the carrying amount of the investment.

As of December 31, 2009 and 2008, management concluded that there was no other-than-temporary impairment in its investment securities portfolio.

The unrealized losses in the Corporation’s investments in debt securities were caused by changes in market interest rates and not credit quality. All debt securities are investment grade, as rated by major rating agencies. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Corporation evaluates debt securities for other-than-temporary impairment based on any of the following triggering events (1) the Corporation has the intent to sell the security, (2) it is more likely than not that the Corporation will be required to sell the security before recovery, or (3) the Corporation does not expect to recover the entire amortized cost basis of the security. Upon evaluation of these triggering events, the Corporation believes that none of such conditions are present at December 31, 2009 and 2008 because the Corporation has sufficient capital and liquidity to operate its business and it has no requirements

or needs to sell such securities, and the Corporation is not subject to any contractual arrangements that would require the Corporation to sell such securities.

Contractual maturities on certain securities, including mortgage-backed securities, could differ from actual maturities since certain issuers may have the right to call or prepay these securities.

The weighted average yield on investment securities available for sale is based on amortized cost, therefore it does not give effect to changes in fair value.

Proceeds from sales of investment securities available for sale were approximately $507,256,000, $129,451,000 and $149,413,000 in 2009,2008 and 2007, respectively. Gains of approximately $9,251,000, $5,154,000 and $1,265,000 were realized in 2009 and 2008, respectively.

4. Assets Pledged:

At December 31, 2009 and 2008, investment securities and loans were pledged to secure deposits of public funds and Federal Home Loan Bank advances. The classification and carrying amount of pledged assets, which the secured parties are not permitted to sell or repledge as of December 31 were as follows:

	2009	2008
	(Dollars in thousands)	
Investment securities available for sale	$ 156,982	$ 227,658
Other investment securities	47,700	53,325
Loans	2,309,556	2,511,098
	$ 2,514,238	$ 2,792,081

Pledged securities that the creditor has the right or contract to repledge, are presented separately on the consolidated balance sheets. At December 31, 2008, investment securities with a carrying value of approximately $408,650,000 were pledged to securities sold under agreements to repurchase.

5. Loans:

The Corporation's loan portfolio at December 31 consists of the following:

	2009	2008
	(Dollars in thousands)	
Commercial and industrial	$ 1,947,809	$ 2,165,613
Consumer	443,567	565,833
Consumer finance	783,510	996,919
Leasing	36,624	64,065
Construction	70,879	194,596
Mortgage	2,385,592	2,553,328
	5,667,981	6,540,354
Net unearned income and deferred (fee)/costs:		
Commercial, industrial and others	328	(290)
Consumer finance	(224,562)	(418,676)
Allowance for loan losses	(197,303)	(191,889)
Loans, net	$ 5,246,444	$ 5,929,499

During the year ended December 31, 2009, the Corporation sold certain loans including some classified as impaired to an affiliate for $142.0 million in cash. These loans had a net book value of $142.0 million comprised of an outstanding principal balance of $149.2 million and a specific valuation allowance of $7.2 million. The type of loans sold, at net book value, was $65.5 million in construction loans, $61.2 million in commercial loans and $15.3 million in mortgage loans. During the year ended December 31, 2008, the Corporation sold certain loans including some classified as impaired to an affiliate for $300.1 million in cash. These loans had a net book value of $300.1 million comprised of an outstanding principal balance of $334.6 million and a specific valuation allowance of $34.5 million. The type of loans sold at net book value, was $212.3 million in construction loans and $87.8 million in commercial loans. No gain or loss was recognized on these transactions.

At December 31, the recorded investment in loans that were considered impaired is as follows:

	2009	2008
	(Dollars in thousands)	
Impaired loans which require allowance	$ 176,181	$ 77,562
Impaired loans that did not require allowance	76,178	23,317
Total impaired loans	$ 252,359	$ 100,879
Allowance for impaired loans	$ 28,843	$ 18,410
Impaired loans measured based on fair value of collateral	$ 159,322	$ 87,637
Impaired loans measured based on discounted cash flows	$ 93,037	$ 13,242
Interest income recognized on impaired loans	$ 536	$ 554

The average balance of impaired loans for the years ended December 31, 2009 and 2008 was approximately $156.1 million and $143 million, respectively.

The following schedule reflects the approximate outstanding principal amount and the effect on earnings of non-accruing loans and past due loans still on an interest accrual basis.

	2009	2008	2007
	(Dollars in thousands)		
Principal balance as of December 31	$ 289,846	$ 212,714	$ 294,438
Interest income which would have been recorded had the loans not been classified as non-accruing	$ 11,888	$ 9,268	$ 7,708
Loans past due ninety days or more and still accruing interest	$ 11,214	$ 13,462	$ 7,162

6. Allowance for Loan Losses:

Changes in the allowance for loan losses are summarized as follows:

	Year ended December 31,		
	2009	2008	2007
	(Dollars in thousands)		
Balance at beginning of year	$ 191,889	$ 166,952	$ 106,863
Provision for loan losses	152,496	175,523	147,824
	344,385	342,475	254,687
Losses charged to the allowance:			
Commercial and industrial	21,536	17,782	10,375
Construction	2,459	32,257	2,710
Mortgage	7,340	1,257	1,768
Consumer	55,565	44,682	29,281
Consumer Finance	63,322	56,444	44,484
Leasing	1,801	2,064	2,742
	152,023	154,486	91,360
Recoveries:			
Commercial and industrial	1,614	626	1,192
Construction	-	20	-
Mortgage	92	-	-
Consumer	1,404	1,256	904
Consumer Finance	1,452	1,517	1,088
Leasing	379	481	441
	4,941	3,900	3,625
Net loans charged-off	147,082	150,586	87,735
Balance at end of year	$ 197,303	$ 191,889	$ 166,952

7. Premises and Equipment:

The Corporation's premises and equipment at December 31 are as follows:

	Useful life in years	2009	2008
		(Dollars in thousands)	
Land		$ 2,251	$ 1,037
Buildings	50	8,172	1,110
Equipment	3-10	41,574	43,649
Leasehold improvements	Various	29,573	30,230
		81,570	76,026
Accumulated depreciation and amortization		(61,391)	(56,658)
Premises and Equipment, net		$ 20,179	$ 19,368

Depreciation and amortization of premises and equipment for the years ended December 31, 2009, 2008 and 2007 were approximately $6.0 million, $7.2 million and $8.1 million, respectively.

As of December 31, 2009, the Corporation owned 19 facilities, which consisted of eleven branches and eight parking lots. The Corporation occupies 122 leased branch premises, while warehouse space is rented in one location. In addition, office spaces are rented at Torre Santander building in Hato Rey Puerto Rico, at the Santander Tower in Galeria San Patricio building, in

Guaynabo, Puerto Rico, at Professional Office Park IV building, in Río Piedras, Puerto Rico and at the Operational Center in Hato Rey, Puerto Rico. The Corporation's management believes that each of its facilities is well maintained and suitable for its purpose.

8. Real Estate Held for Sale:

The Corporation owns certain real estate properties held for sale which are carried at the lower of cost or fair value, less estimated selling cost.

During 2009 and 2008, the Corporation had $2.8 million and $8.1 million, respectively, of real estate held for sale. During 2009, eight sites which were previously classified as held for disposition were reclassified to Property and Equipment because these sites are no longer being actively marketed for sale. The effect on the consolidated statements of operations related to the reclassification of these sites from real estate held for sale was limited to depreciation expense and was not material.

9. Goodwill and Other Intangible Assets:

Goodwill

The Corporation has assigned goodwill to reporting units at the time of acquisition. Goodwill was allocated to the Commercial Banking segment, the Wealth Management segment and the Consumer Finance segment as follows:

	2009	2008
	(Dollars in thousands)	
Commercial Banking	$ 10,537	$ 10,537
Wealth Management	24,254	24,254
Consumer Finance	86,691	86,691
	$ 121,482	$ 121,482

Goodwill assigned to the Commercial Banking segment is related to the acquisition of Banco Central Hispano Puerto Rico in 1996, the goodwill assigned to the Wealth Management segment is related to the acquisition of Merrill Lynch's retail brokerage business in Puerto Rico by Santander Securities Corporation in 2000 and the goodwill assigned to the Consumer Finance segment is related to the acquisition of Island Finance in 2006. The Corporation performed its annual impairment assessments as of October 1, 2009, 2008 and 2007 with the assistance of the independent valuation specialist. Based on management's assessment of the value of the Corporation's goodwill at October 1, 2009, 2008 and 2007, which includes an independent valuation, among others, management determined that the Corporation's goodwill and other intangibles were impaired in 2007.

As a result of the unfavorable economic environment in Puerto Rico, Island Finance's short-term financial performance and profitability declined significantly during 2007, caused by reduced lending activity and increases in non-performing assets and charge-offs. The Corporation, with the assistance of an independent valuation firm, performed an interim impairment test of the goodwill and other intangibles of Island Finance as of July 1, 2007. FASB ASC Topic 350 provides a two-step impairment test. The first step of the impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. The Corporation completed the first step of the impairment test and determined that the carrying amount of the goodwill and other intangible assets of Island Finance exceeded their fair value, thereby requiring performance of the second step of the impairment test to calculate the amount of the impairment. Based upon the completed impairment test, the Corporation determined that the actual non-cash impairment charges as of July 1, 2007 were $43.3 million, which included $26.8 of goodwill and $16.5 million of other intangibles assets (comprised of $9.2 million of customer relationships, $5.4 million of trade name and $1.9 million of non-compete agreement). These impairment charges did not result in cash expenditures and will not result in future cash expenditures.

The gross carrying value and accumulated impaired loss to goodwill at December 31, 2009 and 2008, are presented below:

	Gross Amount	Accumulated Impairment Charges	Carrying Amount
		(Dollars in thousands)	
Balance at beginning of the year	$ 148,300	$ 26,818	$ 121,482
Balance at end of the year	$ 148,300	$ 26,818	$ 121,482

Other Intangible Assets

Other intangible assets at December 31, were as follows:

	2009	2008
	(Dollars in thousands)	
Commercial Banking - Mortgage-servicing rights	$ 9,686	$ 10,175
Wealth Management - Advisory-servicing rights	962	1,267
Consumer Finance:		
Trade name	18,300	18,300
Non-compete agreement	-	100
	$ 28,948	$ 29,842

Mortgage-servicing rights arise from the right to service mortgages sold and have an estimated useful life of eight years. The advisory-servicing rights are related to the Corporation's subsidiary acquisition of the right to serve as the investment advisor for First Puerto Rico Tax-Exempt Fund, Inc. acquired in 2002 and for First Puerto Rico Growth and Income Fund Inc. and First Puerto Rico Daily Liquidity Fund Inc. acquired in December 2006. These intangible assets are being amortized over a 10-year estimated useful life. Trade name is related to the acquisition of Island Finance and has an indefinite useful life and is therefore not being amortized but is tested for impairment at least annually. Non-compete agreement was an intangible asset related to the acquisition of Island Finance. The non-compete agreement has been fully amortized.

The following table reflects the components of other intangible assets at December 31:

	2009			
	Gross Amount	Accumulated Amortization	Accumulated Impairment Charges	Carrying Amount
	(Dollars in thousands)			
Commercial Banking - Mortgage-servicing rights	$ 20,286	$ 10,600	$ -	$ 9,686
Wealth Management - Advisory-servicing rights	3,050	2,088	-	962
Consumer Finance:				
Trade name	23,700	-	5,400	18,300
	$ 47,036	$ 12,688	$ 5,400	$ 28,948

	2008			
	Gross Amount	Accumulated Amortization	Accumulated Impairment Charges	Carrying Amount
	(Dollars in thousands)			
Commercial Banking - Mortgage-servicing rights	$ 18,382	$ 8,207	$ -	$ 10,175
Wealth Management - Advisory-servicing rights	3,050	1,783	-	1,267
Consumer Finance:				
Trade name	23,700	-	5,400	18,300
Non-compete agreements	5,300	3,256	1,944	100
	$ 50,432	$ 13,246	$ 7,344	$ 29,842

Amortization of the other intangible assets for the period ended December 31, 2009, 2008 and 2007 were approximately $2.8 million, $3.1 million and $3.8 million, respectively.

The estimated amortization expense for each of the next five years and thereafter of the finite lived intangible assets is the following:

Year	Amortization (in thousands)
2010	$ 2,498
2011	2,351
2012	1,998
2013	1,347
2014	1,129
Thereafter	1,325
	$ 10,648

10. Other Assets:

Other assets at December 31 consist of the following:

	2009	2008
	(Dollars in thousands)	
Deferred tax assets, net (See note 17)	$ 54,793	$ 56,542
Accounts receivable, net of allowance for claim receivable of $25.1 million in 2008	45,368	40,581
Repossesed assets, net	34,486	22,306
Software, net	7,643	7,295
Prepaid expenses	13,272	13,835
Prepaid FDIC insurance	25,764	-
Income tax credit, net	15,350	19,645
Customers' liabilities on acceptances	391	610
Derivative assets (See note 22)	118,788	197,192
Confirming advances	113,692	122,540
Other	5,916	5,337
	$ 435,463	$ 485,883

Amortization of software assets for the years ended December 31, 2009, 2008 and 2007 was approximately $3.6 million, $4.8 million and $4.4 million, respectively.

The Corporation had counterparty exposure to Lehman Brothers, Inc. ("LBI") in connection with the sale of securities sold under agreements to repurchase amounting to $200.2 million at September 19, 2008 under a Master Repurchase Agreement. LBI was placed in a Securities Investor Protection Corporation ("SIPC") liquidation proceeding on September 19, 2008. The filing of the SIPC liquidation proceeding was an event of default under the terms of the Master Repurchase Agreement, which resulted in the acceleration of repurchase dates under the Master Repurchase Agreement to September 19, 2008. This action resulted in a reduction in the Corporation's total assets of $225.3 million and a reduction in its total liabilities of $200.2 million in 2008. During 2009, the Corporation filed a claim for the amount $25.1 million, which is the amount it is owed by LBI as a result of the acceleration of the repurchase date and the exercise by the Corporation of its rights under the Master Repurchase Agreement, plus incidental expenses and damages. During 2008, the Corporation recognized a claim receivable from LBI for $25.1 million and has established a valuation allowance for the same amount since management, in consultation with legal counsel, believed that based on current information and events, it was probable that the Corporation will be unable to collect all amounts due. The tax effect related to the recognition of this valuation allowance was a deferred tax benefit of $9.8 million. Management, in consultation with legal counsel, believes that based on current information and events, it is probable that the Corporation will be unable to collect all amounts due. During the last quarter of 2009, management decided to write-off the $25.1 claim receivable and derecognized the valuation allowance for the same amount as of December 31, 2009. Also, the deferred tax assets of $9.8 million was reversed.

The Law 197 of Puerto Rico ("Law 197") of 2007 grants certain credits to home buyers on the purchase of certain qualified new or existing homes. The incentives were as follows: (a) for a newly constructed home that will constitute the individuals principal residence, a credit equal to 20% of the sales price or $25,000, whichever is lower; (b) for newly constructed homes that will not constitute the individuals principal residence, a credit of 10% of the sales price or $15,000, whichever is lower; and (c) for existing homes a credit of 10% of the sales price or $10,000, whichever is lower. The loan tax credits were generally granted to home buyers by the financial institutions financing the home acquisition and later claimed on the financial institution's tax return as a tax credit. Credits available under Law 197 needed to be certified by the Puerto Rico Secretary of Treasury and the total amount of credits available under the law was $220,000,000, which was depleted in December of 2008.

The loan tax credits do not expire and may be used against income taxes, including estimated income taxes, for tax years commencing after December 31, 2007 in three installments, subject to certain limitations. In addition, the loan tax tax credits may be ceded, sold or otherwise transferred to any other person; and any tax credit not used in a given tax year, may be claimed as a refund but only for taxable years commencing after December 31, 2010. The Corporation had $15.4 million of unused loan tax credits certified by the Secretary at December 31, 2009.

The FDIC amended its regulations requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment of $25.8 million for these periods was paid on December 31, 2009, along with the Corporation's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009.

11. Deposits:

At December 31, 2009 and 2008, interest-bearing deposits, including time deposits, amounted to $3,697 million and $4,322 million, respectively. At December 31, 2009 and 2008, time deposits amounted to approximately $1,669 million and $2,617 million, respectively, of which approximately $105 million and $299 million, respectively, mature after one year.

Maturities of time deposits for the next five years and thereafter follow:

Year	Amount (In thousands)
2010	$ 1,564,084
2011	64,829
2012	25,010
2013	6,375
2014	7,272
Thereafter	1,493
	$ 1,669,063

The detail of deposits and interest expense are as follows:

	2009		2008		2007	
	Carrying Amount	Interest Expense	Carrying Amount	Interest Expense	Carrying Amount	Interest Expense
			(Dollars in thousands)			
Non interest bearing						
Private demand	$ 698,488	$ -	$ 692,681	$ -	$ 755,077	$ -
Public demand	281	-	282	-	380	-
	698,769	-	692,963	-	755,457	-
Savings deposits						
Savings	827,032	9,369	675,885	16,923	608,195	20,673
NOW and other transactions	1,200,696	9,647	1,029,206	18,021	1,025,490	31,112
	2,027,728	19,016	1,705,091	34,944	1,633,685	51,785
Certificates of deposits						
Under $100,000	165,302	6,940	254,368	8,886	271,782	13,715
$100,000 and over	1,503,761	53,517	2,362,480	108,622	2,499,779	127,160
	1,669,063	60,457	2,616,848	117,508	2,771,561	140,875
	$ 4,395,560	**$ 79,473**	**$ 5,014,902**	**$ 152,452**	**$ 5,160,703**	**$ 192,660**

12. Other Borrowings:

Following are summaries of borrowings as of and for the periods indicated:

	December 31, 2009		
	Federal Funds Purchased and Other Borrowings	Securities Sold Under Agreements to Repurchase	Commercial Paper Issued
	(Dollars in thousands)		
Amount outstanding at year-end	$ 50,000	$ -	$ 67,482
Average indebtedness outstanding during the year	$ 14,824	$ 76,849	$ 90,454
Maximum amount outstanding during the year	$ 50,000	$ 375,000	$ 175,000
Average interest rate for the year	0.21%	4.42%	1.34%
Average interest rate at year-end	0.21%	0.00%	0.48%

	December 31, 2008		
	Federal Funds Purchased and Other Borrowings	Securities Sold Under Agreements to Repurchase	Commercial Paper Issued
	(Dollars in thousands)		
Amount outstanding at year-end	$ 2,040	$ 375,000	$ 50,985
Average indebtedness outstanding during the year	$ 190,097	$ 523,873	$ 209,480
Maximum amount outstanding during the year	$ 751,000	$ 625,006	$ 625,000
Average interest rate for the year	4.21%	4.87%	3.60%
Average interest rate at year-end	0.09%	4.35%	0.75%

Federal funds purchased and other borrowings, securities sold under agreements to repurchase and commercial paper issued mature as follows:

	December 31, 2009	December 31, 2008
	(In thousands)	
Federal funds purchased and other borrowings:		
Within thirty days	$ 50,000	$ -
Over ninety days	-	2,040
Total	$ 50,000	$ 2,040
Securities sold under agreements to repurchase:		
Within thirty days	$ -	$ -
Thirty to ninety days	-	75,000
Over ninety days	-	300,000
Total	$ -	$ 375,000
Commercial paper issued:		
Within thirty days	$ 67,482	$ 50,985

As of December 31, 2008 the weighted average maturity of Federal funds purchased and other borrowings over ninety days was 11.97 months.

As of December 31, 2008, securities sold under agreements to repurchase (classified by counterparty) were as follows:

	December 31, 2008		
	Balance of Borrowings	Fair Value of Underlying Securities	Weighted-Average Maturity in Months
	(Dollars in thousands)		
JP Morgan Chase Bank, N.A.	$ 375,000	$ 408,650	10.98

The following investment securities were sold under agreements to repurchase:

	December 31, 2008				
Underlying Securities	Carrying Value of Underlying Securities	Balance of Borrowings	Fair Value of Underlying Securities	Weighted-Average Interest Rate Securities	Weighted-Average Interest Rate Borrowings
	(Dollars in thousands)				
Mortgage-backed securities	$ 408,650	$ 375,000	$ 408,650	5.12%	4.35%

13. Federal Home Loan Bank Advances:

Advances from Federal Home Loan Bank consisted of the following:

	December 31, 2009	December 31, 2008
	(Dollars in thousands)	
Non-callable advances at 2.63% average fixed rate with maturities during 2009	$ -	$ 310,000
Non-callable advances at 2.33% and 2.98% average fixed rate with maturities during 2010	735,000	500,000
Non-callable advances at 3.85% average fixed rate with maturities during 2011	325,000	325,000
Non-callable advances at 4.28% average floating rate tied to 3-month LIBOR with maturities during 2009	-	50,000
	$ 1,060,000	$ 1,185,000

The Corporation had $2.0 billion and $2.1 billion in mortgage loans and investment securities pledged as collateral for Federal Home Loan Bank advances as of December 31, 2009 and 2008, respectively.

14. Term Notes, Subordinated Capital Notes and Trust Preferred Securities:

Term notes payable outstanding at December 31, consisted of the following:

	2009	2008
	(Dollars in thousands)	
Term notes maturing January 29, 2010 linked to the S&P 500 index	$ 4,815	$ 4,815
Term notes maturing May 31, 2011 with a spread of 0.25%:		
Linked to the S&P 500	4,000	4,000
Linked to the Dow Jones Euro STOXX 50	3,000	3,000
Term notes maturing May 25, 2012 linked to the Euro STOXX 50	5,000	5,000
Term notes maturing May 25, 2012 linked to the NIKKEI	5,000	5,000
	21,815	21,815
Unamortized discount	(1,234)	(1,848)
	$ 20,581	$ 19,967

Subordinated Capital Notes

Subordinated capital notes at December 31 consisted of the following:

	2009	2008
	(Dollars in thousands)	
Subordinated notes with fixed interest of 7.50% maturing December 10, 2028	$ 60,000	$ 60,000
Subordinated notes with fixed interest of 6.30% maturing June 1, 2032, at fair value	73,122	72,076
Subordinated notes with fixed interest of 6.10% maturing June 1, 2032, at fair value	47,429	46,206
Subordinated notes with fixed interest of 6.75% maturing July 1, 2036	129,000	129,000
	309,551	307,282
Unamortized discount	(860)	(890)
	$ 308,691	$ 306,392

Trust Preferred Securities

At December 31, 2006, the Corporation had established a trust for the purpose of issuing trust preferred securities to the public in connection with the acquisition of Island Finance. In connection with this financing arrangement, the Corporation completed the private placement of $125 million Preferred Securities and issued Junior Subordinated Debentures in the aggregate principal amount of $129 million in connection with the issuance of the Preferred Securities. The Preferred Securities are classified as subordinated notes (included on the table for subordinated capital notes above) and the dividends are classified as interest expense in the accompanying consolidated statements of operations.

15. Reserve Fund:

The Banking Law of Puerto Rico requires that a reserve fund be created and that annual transfers of at least 10% of the Bank's annual net income be made, until such fund equals 100% of total paid-in capital, on common and preferred stock. Such transfers restrict the retained earnings, which would otherwise be available for dividends. At December 31, 2009 and 2008, the reserve fund amounted to approximately $141.8 million and $139.3 million, respectively.

16. Common Stock Transactions:

During 2008, the Corporation declared and paid a cash dividend of $0.20 per common share, respectively. The current annualized dividend yield was 1.6% for the year ended December 31, 2008. In light of the continuing challenging general economic conditions in Puerto Rico and the global capital markets, the Board of Directors of the Corporation voted during August 2008 to discontinue the payment of the quarterly cash dividend on the Corporation's common stock to strengthen the institution's core capital position. The Corporation's decision is part of the significant actions it has proactively taken in order to face the on-going challenges presented by the Puerto Rico economy. While each of the Corporation and its banking subsidiary remain above well capitalized ratios, these prudent measures will preserve and continue to reinforce the Corporation's capital position.

The Corporation adopted and implemented Stock Repurchase Programs in May 2000, December 2000 and June 2001. Under these programs, the Corporation acquired 3% of its then outstanding common shares. During November 2002, the Corporation started a fourth Stock Repurchase Program under which it may acquire up to 3% of its outstanding common shares. As of December 31, 2009 and 2008, a total of 4,011,260 common shares with a cost of approximately $67,552,000 had been repurchased under these programs and are recorded as treasury stock in the accompanying consolidated balance sheets.

The Corporation started a Dividend Reinvestment and Cash Purchase Plan in May 2000 under which holders of common stock have the opportunity to automatically invest cash dividends to purchase more shares of the Corporation. Stockholders may also make, as frequently as once a month, optional cash payments for investment in additional shares of common stock.

17. Income Tax:

The Corporation is subject to regular or the alternative minimum tax, whichever is higher. The effective tax rate is lower than the statutory rate primarily because interest income on certain United States and Puerto Rico debt securities is exempt from Puerto Rico income taxes.

The Corporation is also subject to federal income tax on its United States (U.S.) source income. However, the Corporation had no taxable U.S. income for each of the three years in the period ended December 31, 2009. The Corporation is not subject to federal income tax on U.S. Treasury securities that qualify as portfolio interest.

On July 2009, the Governor of Puerto Rico signed Act No. 37, which amends Act No. 7 of March 9, 2009. This law imposed a temporary three-year surcharge of 5% commencing on taxable year 2009. Since the 5% surcharge is imposed on the tax liability instead of the income subject to tax, the effect of the 5% surcharge will be that during the temporary period, the 39% maximum statutory marginal corporate income tax rate effectively increased to 40.95%. Also, the amendments of Act No. 7 of March 9, 2009, particularly to alternative minimum tax (”AMT”), eliminates the deduction for professional services expenses incurred outside Puerto Rico unless these payments are subject to income tax in Puerto Rico.

The components of the provision for income tax for the years ended December 31 are as follows:

	2009	2008	2007
	(Dollars in thousands)		
Current tax provision	$ 11,870	$ 11,559	$ 28,037
Deferred tax benefit	(535)	(18,083)	(23,833)
Provision (benefit) for income tax	$ 11,335	$ (6,524)	$ 4,204

The difference between the income tax provision (benefit) and the amount computed using the statutory rate is due to the following:

	2009		2008		2007	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in thousands)			
Income tax at statutory rate	$ 21,544	41%	$ 1,563	39%	$ (12,496)	(39%)
Benefits of net tax exempt income	(2,379)	(5%)	(5,917)	(148%)	(6,247)	(19%)
Deferred tax valuation allowance change	(6,146)	(12%)	(2,458)	(61%)	23,103	72%
Adjustment in deferred tax due to change in tax rate	1,583	3%	-	-	-	-
Other	(3,267)	(6%)	288	7%	(156)	0%
(Benefit) provision for income tax	$ 11,335	21%	$ (6,524)	(163%)	$ 4,204	14%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities at December 31, were as follows:

	2009	2008
	(Dollars in thousands)	
Deferred Tax Assets:		
Valuation of mortgage loans	$ 2,639	$ 2,869
Allowance for loan losses	43,618	39,613
Long term incentive plans	2,198	3,939
Deferred gain on sale of properties	4,274	4,560
Postretirement and pension benefits	14,931	18,126
Reserve for insurance cancellations	1,510	1,499
Valuation on claim receivable	-	9,797
Alternative minimum tax	2,372	-
Reserve for repossesed assets	6,557	3,071
Other	4,647	6,878
	82,746	90,352
Deferred Tax Liabilities:		
Net deferred loan origination costs	(533)	(971)
Unrealized gain on investment securities available for sale	(94)	(1,777)
Unrealized gain on derivatives	(508)	(1,972)
Valuation subordinated note	(1,404)	(2,620)
Goodwill and other intangibles	(7,792)	-
Mortgage-servicing rights and other	(3,033)	(5,735)
	(13,364)	(13,075)
Valuation allowance	(14,589)	(20,735)
Deferred tax asset, net	$ 54,793	$ 56,542

Under the Puerto Rico Income Tax Law, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management believes it is more likely than not, the Corporation will not realize the benefits of the deferred tax assets related to Santander Financial Services, Inc. and Santander Bancorp (parent company only) amounting to $14.5 million and $0.1 million, respectively, at December 31, 2009 and $20.6 million and $0.1 million, respectively, at December 31, 2008. Accordingly, a

deferred tax asset valuation allowance of $14.5 million and $0.1 million at December 31, 2009 and $20.6 million and $0.1 million at December 31, 2008, for Santander Financial Services, Inc and Santander Bancorp (parent company only), respectively, were recorded.

Under the Puerto Rico Income Tax Law, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns.

The Corporation adopted the provisions of FASB ASC Topic 740 on January 1, 2007. A reconciliation of beginning and ending amount of the accrual for uncertain income tax positions, including interest and penalties, is as follows:

	For the years ended		
	December 31, 2009	December 31, 2008	December 31, 2007
		(in thousands)	
Balance at begining of the year	$ 31,570	$ 16,507	$ 12,676
Gross increases for tax positions of prior years	4,153	15,429	2,980
Gross decreases for tax positions of prior year	(1,664)	(1,931)	-
Gross increases for tax positions of current year	4,564	2,523	2,424
Release of contingencies	(7,868)	(958)	(1,573)
Balance at end of the year	$ 30,755	$ 31,570	$ 16,507

The Corporation's policy is to report interest and penalties related to unrecognized tax benefits in income tax expense. For the years ended December 31, 2009, 2008 and 2007, the Corporation recognized $1.8 million, $1.3 million and $1.4 million of interest and penalties, respectively, for uncertain tax positions. As of December 31, 2009 and 2008, the related accrued interest amounted to approximated $3.2 million and $3.7 million, respectively. As of December 31, 2009 and 2008, the Corporation had $8.1 million and $10.3 million, respectively, of unrecognized tax benefits which, if recognized, would decrease the effective income tax rate in future periods.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity, and the addition or elimination of uncertain tax positions. As of December 31, 2009, the years 2005 through 2008 remain subject to examination by the Puerto Rico tax authorities. The Corporation does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

18. Contingencies and Commitments:

The Corporation is involved as plaintiff or defendant in a variety of routine litigation incidental to the normal course of business. Management believes, based on the opinion of legal counsel, that it has adequate defense with respect to such litigation and that any losses therefrom will not have a material adverse effect on the consolidated results of operations or consolidated financial position of the Corporation.

The Corporation leases certain operating facilities under non-cancelable operating leases, including leases with related parties, and has other agreements expiring at various dates through 2027. Rent expense charged to operations related to these leases was approximately $15,559,000, $13,570,000 and $10,271,000 for 2009, 2008 and 2007, respectively. At December 31, 2009, the minimum unexpired commitments for leases and other commitments are as follows:

Year	Leases	Other commitments (In thousands)	Total
2010	$ 13,143	$ 17,790	$ 30,933
2011	11,590	-	11,590
2012	10,564	-	10,564
2013	9,842	-	9,842
2014	9,128	-	9,128
Thereafter	50,349	-	50,349
	$ 104,616	$ 17,790	$ 122,406

19. Employee Benefits Plan:

Pension Plan

The Corporation maintains two inactive qualified noncontributory defined benefit pension plans. One plan covers substantially all active employees of the Corporation (the "Plan") before January 1, 2007, while the other plan was assumed in connection with the 1996 acquisition of Banco Central Hispano de Puerto Rico (the "BCH"). The Corporation's Plan uses a December 31 measurement date for both plans.

The Corporation requires recognition of a plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to accumulated other comprehensive loss (AOCL) pursuant the FASB ASC Topic 715. Actuarial gains or losses, prior service costs and transition assets or obligations will be subsequently recognized as components of net periodic benefit costs. Additional minimum pension liabilities (AMPL) and related intangible assets are derecognized upon adoption of the standard.

Amounts included in AOCL (pre-tax) as of December 31, 2009 were as follows:

	Pension Plans (Dollars in thousands)
Net transition asset	$ (13)
Net loss	38,291
	$ 38,278

The amounts in AOCL that are expected to be recognized as components of net periodic benefit cost during 2010 are as follows:

	Pension Plans (Dollars in thousands)
Amortization of net transition asset	$ (2)
Amortization of net actuarial loss	1,516
	$ 1,514

The following presents other changes in plan assets and benefit obligation recognized in AOLC.

	2009	2008
	(Dollars in thousands)	
Net loss (gain)	$ (2,908)	$ 13,577
Amortization of net gain	(1,171)	(231)
Amortization of transition obligation	2	2
Total recognized in other comprehensive income	$ (4,077)	$ 13,348

The following presents the funded status of the Corporation's Plan at December 31, based on the actuarial assumptions described below.

	2009	2008
	(Dollars in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 40,415	$ 36,923
Interest cost	2,359	2,355
Actuarial loss	1,289	2,820
Benefits paid	(1,898)	(1,683)
Projected benefit obligation at end of year	42,165	40,415
Change in plan assets:		
Fair value of plan assets at beginning of year	28,019	35,740
Actual return on plan assets	6,297	(8,028)
Employer contributions	1,833	1,990
Benefit paid	(1,898)	(1,683)
Fair value of plan assets at end of year	34,251	28,019
Funded status	(7,914)	(12,396)
Net actuarial loss	16,024	20,103
Net transition asset	(13)	(15)
Net amount recognized	$ 8,097	$ 7,692
Amounts recognized on the consolidated balance sheets consist of:		
Accrued benefit liability	$ (7,914)	$ (12,396)
Accumulated other comprehensive income	16,011	20,088
Net amount recognized	$ 8,097	$ 7,692
(Decrease) increase in minimum liability included in other comprehensive income	$ (4,077)	$ 13,348
Projected benefit obligation	$ 42,165	$ 40,415
Accumulated benefit obligation	$ 42,165	$ 40,415
Fair value of plan assets	$ 34,251	$ 28,019

For each of the three years in the period ended December 31, the pension costs for the Corporation's Plan included the following components:

	2009	2008	2007
	(Dollars in thousands)		
Interest cost	$ 2,359	$ 2,355	$ 2,279
Expected return on assets	(2,100)	(2,729)	(2,718)
Net loss amortization	1,169	229	411
Net periodic pension (benefit) cost	$ 1,428	$ (145)	$ (28)

Assumptions used to determine benefit obligation for the Corporation's Plan as of December 31, included:

	2009	2008	2007
Discount rate	5.91%	6.00%	6.50%
Rate of compensation increase	n/a	n/a	n/a

Assumptions used to determine net periodic pension cost for the Corporation's Plan as of December 31 included:

	2009	2008	2007
Discount rate	6.00%	6.50%	5.75%
Rate of compensation increase	n/a	n/a	n/a
Expected return on plan assets	7.50%	7.50%	8.50%

In developing the expected long-term rate of return assumption, the Corporation evaluated input from the consultant and the Corporation's long-term inflation assumptions and interest rate scenarios. Projected returns by consultant are based on the same asset categories as the plan using well known broad indices. Expected returns are based by historical returns with adjustments to reflect a more realistic future return. Adjustments are done by categories taking into consideration current and future market conditions. The Corporation also considered historical returns on its plan assets. The Corporation anticipates that the Plan's portfolio will generate annual long term rate of returns of at least 7.50%.

The Corporation's Plan asset allocations at December 31, by asset category are as follows:

	2009	2008
Asset Category:		
Equity securities	53%	50%
Debt securities	46%	48%
Other	1%	2%
Total	100%	100%

The expected contribution to the Corporation's Plan for 2010 is $3,173,000.

The following presents the funded status of the BCH Plan at December 31, based on the actuarial assumptions described below:

	2009	2008
	(Dollars in thousands)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 32,746	$ 32,931
Interest cost	1,840	2,008
Actuarial gain	(76)	(470)
Benefits paid	(2,062)	(1,723)
Projected benefit obligation at end of year	32,448	32,746
Change in plan assets:		
Fair value of plan assets at beginning of year	21,560	27,625
Actual return on plan assets	4,792	(6,298)
Employer contributions	2,003	1,956
Benefits paid	(2,062)	(1,723)
Fair value of plan assets at end of year	26,293	21,560
Funded status	(6,155)	(11,186)
Net actuarial loss	22,267	26,281
Net amount recognized	$ 16,112	$ 15,095
Amounts recognized on the consolidated balance sheets consist of:		
Accrued benefit liability, net of prepaid benefit cost	$ (6,155)	$ (11,186)
Accumulated other comprehensive income	22,267	26,281
Net amount recognized	$ 16,112	$ 15,095
(Decrease) increase in minimum liability included in other comprehensive income	$ (4,014)	$ 7,532
Projected benefit obligation	$ 32,448	$ 32,746
Accumulated benefit obligation	$ 32,448	$ 32,746
Fair value of plan assets	$ 26,293	$ 21,560

For each of the three years in the period ended December 31, 2009 and 2008 and November 30, 2007, the pension costs for the BCH Plan included the following components. Effective November 30, 1996, the benefits in this plan were frozen.

	2009	2008	2007
		(Dollars in thousands)	
Interest cost	$ 1,840	$ 1,853	$ 1,838
Expected return on assets	(1,612)	(2,092)	(2,170)
Net loss amortization	758	520	513
Net periodic pension cost	$ 986	$ 281	$ 181

The following presents other changes in plan assets and benefit obligation recognized in AOLC.

	2009	2008
	(Dollars in thousands)	
Net loss (gain)	$ (3,257)	$ 8,095
Amortization of net loss (gain)	(757)	(563)
Amortization of transition obligation (asset)	-	-
Total recognized in other comprhensive income	$ (4,014)	$ 7,532

Assumptions used to determine benefit obligation for the BCH Plan as of December 31, 2009 and 2008 and November 30, 2007 included:

	2009	2008	2007
Discount rate	5.80%	6.00%	5.75%
Rate of compensation increase	n/a	n/a	n/a

Assumptions used to determine net periodic pension cost for the BCH Plan as of December 31, 2009 and 2008 and November 30, 2007 included:

	2009	2008	2007
Discount rate	6.00%	5.75%	5.75%
Rate of compensation increase	n/a	n/a	n/a
Expected return on plan assets	7.50%	7.50%	8.50%

In developing the expected long-term rate of return assumption, the Corporation evaluated input from the BCH Plan's consultant and the Corporation's long-term inflation assumptions and interest rate scenarios. Projected returns by consultant are based on the same asset categories as the plan using well known broad indices. Expected returns are based by historical returns with adjustments to reflect a more realistic future return. Adjustments are done by categories taking into consideration current and future market conditions. The Corporation also considered historical returns on BCH Plan assets. The Corporation anticipates that the BCH Plan's portfolio will generate annual long term rate of returns of at least 7.50%.

The Corporation's asset allocations for the BCH Plan at December 31 by asset category are as follows:

	2009	2008
Asset Category:		
Equity securities	53%	49%
Debt securities	47%	49%
Other	-	2%
Total	100%	100%

The expected contribution to the BCH Plan for 2010 is $1,086,000.

The Corporation’s investment policy with respect to the Corporation’s Plan and the BCH Plan is to optimize, without undue risk, the total return on investment of the Plan assets after inflation, within a framework of prudent and reasonable portfolio risk. The investment portfolio is diversified in multiple asset classes to reduce portfolio risk, and assets may be shifted between asset classes to reduce volatility when warranted by projections of the economic and/or financial market environment, consistent with ERISA diversification principles. The Corporation’s target asset allocations for both plans are 60% equity and 40% fixed/variable income. As circumstances and market conditions change, these allocations may be amended to reflect the most appropriate distribution given the new environment consistent with the investment objectives.

Expected future benefit payments for the plans at the end of their respective fiscal years are as follows:

	Corporation's Plan	BCH Plan
	(Dollars in thousands)	
2010	$ 1,817	$ 2,119
2011	1,860	2,534
2012	1,918	2,203
2013	2,000	3,028
2014	2,029	3,349
2015 through 2019	11,728	15,357

The fair values of the Corporation’s Pension Plan Assets at December 31, 2009, by asset category, are as follows:

Assets Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity Securities:				
US Large Cap	$ 13,308	$ -	$ -	$ 13,308
US Small Cap	8,597			8,597
International Large cap (a)	5,950			5,950
Emerging Markets	2,282			2,282
Cash	46			46
Mutual Funds (b)	5,762			5,762
Mortgage Back Securities		3,451		3,451
US Corporate Bonds (c)		5,791		5,791
US Treasuries	8,901			8,901
Municipal Bonds (d)		5,333		5,333
Interest Bearing Deposits	1,123			1,123
Total Assets at Fair Value	**$ 45,969**	**$ 14,575**	**$ -**	**$ 60,544**

(a) These categories are comprised of actively managed exchange traded funds with underlying investments in international large cap and emerging markets equity securities.

(b)Approximately 27% of mutual funds invest in international bonds, 30% in US high yield bonds, 21% in commodities, and 22% invest in real estate investments.

(c)This category represents investment grade bonds of US issuers from diverse industries.

(d)This category includes approximately 30% of Puerto Rico municipal bonds and70% in US municipal bonds.

Determination of Fair Value

The following is a description of the valuation inputs and techniques used to measure the fair value of pension plan assets.

Equity Securities and Funds

For common stocks, mutual funds, and exchange-traded funds, fair value is based on quoted market prices for identical securities, and accordingly, are classified as Level 1.

Mortgage Backed Securities

The mortgage backed securities held in the pension plan are backed 100% by Puerto Rico mortgages. Fair values are measured using model-based valuation techniques which incorporate observable rates adjusted for prepayment assumptions and other factors based on the characteristics of the underlying pool of mortgages. These inputs are observable in the market and therefore have been classified as Level 2.

US Corporate Bonds

Generally, fair values for US corporate bonds are estimated using discounted cash flow techniques based on observable market data. Therefore, these securities have been classified as Level 2. However, values are based on quoted market prices of identical securities, if traded on a daily basis.

US Government and Municipal Bonds

US Government and municipal bonds securities held in the pension plans consist mainly of US Treasury notes, US municipal Bonds, and Puerto Rico municipal bonds. The fair value of US Treasury notes is generally based on actual quoted market prices for identical securities traded in active markets and therefore has been classified as Level 1. US and Puerto Rico municipal bonds are valued using observable market inputs and therefore have been classified as Level 2.

Interest Bearing Deposits

Interest Bearing Deposits consist of money market accounts with short term maturities and therefore the carrying value approximates fair value.

Savings Plans

The Corporation also provides three contributory savings plans pursuant to Section 1165(e) of the Puerto Rico Internal Revenue Code for substantially all the employees of the Corporation. Investments in the plans are participant-directed, and employer matching contributions are determined based on the specific provisions of each plan. Employees are fully vested in the employer’s contribution after three and five years of service, respectively. The Corporation's contributions for the years ended December 31, 2009, 2008 and 2007, amounted to $188,000, $1,110,000 and $1,476,000, respectively. Effective March 2009, the Corporation amended the plans to suspend monthly contributions.

20. Long Term Incentive Plans:

Santander Group sponsors various non-qualified share-based compensation programs for certain of its employees and those of its subsidiaries, including the Corporation. All of these plans have been approved by the Board of Directors of the Corporation. A summary of each of the plans follows:

- A long term incentive plan for certain eligible officers and key employees which contains service, performance and market conditions. This plan provides for settlement in cash or stock of Santander Group to the participants and is classified as a liability plan. Accordingly, the Corporation accrued a liability and recognized monthly compensation expense over the fourteen month vesting period through January 2008. The Corporation recognized a reversal of compensation expense under this plan amounting to $4.1 million due to a favorable change in plan valuation during the year ended December 31, 2008 and $10.3 million of compensation expense for the same period in 2007. As options were exercised during 2008, $6.7 million was reclassified from liabilities to capital paid in excess of par value, as a capital contribution.

- The grant of 100 shares of Santander Spain stock to all employees of Santander Group's operating entities as part of the celebration of Santander Group 150th Anniversary during 2007. The Corporation recognized compensation expense under this plan amounting to $4.3 million in 2007. The shares granted were purchased by an affiliate and recorded as a capital contribution in the Corporations' 2007 consolidated statement of changes in stockholders equity.

- A long term incentive plan for certain eligible officers and key employees which contains service, performance and market conditions. This plan comprehends two cycles, one expired in 2009 and another expiring in 2010. This plan provides for settlement in stock of Santander Group to the participants and is classified as an equity plan. Accordingly, the Corporation recognizes monthly compensation expense over the two and three year cycles and credits additional paid in capital. The Corporation recognized compensation expense under this plan amounting to $2.0 million and 2.9 million and $0.2 million for the years ended December 31, 2009, 2008 and 2007, respectively.

- A long term incentive plan for certain eligible officers and key employees which contains service, performance and market conditions. This plan comprehends one cycle expiring in 2011. This plan provides for settlement in stock of Santander Group to the participants and is classified as an equity plan. Accordingly, the Corporation recognizes monthly compensation expense and credits additional paid in capital. The Corporation recognized compensation expense under this plan amounting to $0.4 million for the year ended December 31, 2009.

21. Related Party Transactions:

The Corporation engages in transactions with affiliated companies in the ordinary course of business. At December 31, 2009, 2008 and 2007 and for the years then ended, the Corporation had the following balances and/or transactions with related parties:

	2009	2008	2007
		(Dollars in thousands)	
Deposits from related parties	$ 789,845	$ 695,948	$ 17,344
Interest-bearing deposits with affiliates	1,441	3,757	1,106
Other borrowings from an affiliate	60,000	60,000	-
Loans to directors, officers, and related parties (on substantially the same terms and credit risks as loans to third parties)	2,644	2,604	3,288
Technical assistance income for services rendered	4,016	3,651	2,769
Operating expenses for EDP services received	18,349	17,288	13,461
Technical assistance expense for software development	789	753	199
Rental income	573	439	441
Fair value of derivative financial instruments purchased from affiliates	(102,129)	(158,552)	(26,917)
Fair value of derivative financial instruments sold to affiliates	-	(1,417)	354
Loans sold to an affiliate	142,017	300,097	10,465

22. Derivative Financial Instruments:

The Corporation's principal objective in holding interest rate swap agreements is the management of interest rate risk and changes in the fair value of assets and liabilities. The following summarizes the derivatives used by the Corporation in managing interest rate and fair values exposures:

Interest Rate Swaps. An interest rate swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the manner in which the cash flows will be calculated. It involves the promise by one party to pay cash flows equivalent to the interest on a notional principal amount at a predetermined fixed rate for a given period of time. In return for this promise, this party receives cash flows equivalent to the interest on the same notional principal amount at a variable rate index for the same period of time. The variable interest rate received by the Corporation is London Interbank Offered Rate (LIBOR).

Interest Rate Caps and Floors. In a cap agreement, a cash flow is generated if the price or rate of an underlying variable rises above a certain threshold (or "cap") price. In a floor agreement, a cash flow is generated if the price or rate of an underlying variable falls below a certain threshold (or "floor") price.

Indexed Options. Options are generally over-the-counter (OTC) contracts that the Corporation enters into in an order to receive the appreciation of a specified Stock Index (e.g. Dow Jones Industrial Composite Stock Index, S&P 500, Nikkei, and Dow Jones Euro Stock) over a specified period in exchange for a premium paid at the contract's inception. The option period is determined by the contractual maturity of the certificates of deposits tied to the performance of the Index.

Loan Commitment. Commitment to a borrower by a lending institution that it will loan a specific amount at a certain rate on a particular piece of real estate.

As of December 31, 2009, the Corporation had the following derivative financial instruments outstanding:

	Notional Value	Fair Value	Gain (Loss) for the year ended December 31, 2009
		(Dollars in thousands)	
ECONOMIC UNDESIGNATED HEDGES			
Interest rate swaps	$ 125,000	$ (492)	$ (5,702)
OTHER DERIVATIVES			
Options	105,450	3,789	16
Embedded options on stock-indexed deposits	105,450	(3,789)	(16)
Interest rate caps	390	(8)	5
Customer interest rate caps	390	8	(5)
Customer interest rate swaps	1,655,318	112,031	(64,416)
Interest rate swaps-offsetting position of customer swaps	1,675,319	(111,811)	64,810
Interest rate swaps	-	-	(287)
Loan commitments	3,447	(8)	(101)
			$ (5,696)

As of December 31, 2008, the Corporation had the following derivative financial instruments outstanding:

	Notional Value	Fair Value	Gain (Loss) for the year ended Dec. 31, 2008	Other Comprehensive Gain* for the year ended Dec. 31, 2008
	(Dollars in thousands)			
CASH FLOW HEDGES				
Interest rate swaps	$ -	$ -	$ -	$ 1,237
ECONOMIC UNDESIGNATED HEDGES				
Interest rate swaps	125,000	5,210	4,311	-
OTHER DERIVATIVES				
Options	118,214	3,774	(18,995)	-
Embedded options on stock-indexed deposits	118,214	(3,774)	18,974	-
Interest rate caps	583	(13)	(20)	-
Customer interest rate caps	583	13	20	-
Customer interest rate swaps	1,729,209	176,447	130,778	-
Interest rate swaps-offsetting position of customer swaps	1,729,209	(176,787)	(131,991)	-
Interest rate swaps	90,000	287	821	-
Loan commitments	3,862	93	48	-
			$ 3,946	$ 1,237

* Net of tax

Prior to the adoption of FASB ASC Topic 825, changes in the value of the derivatives instruments qualifying as fair value hedges that have been highly effective were recognized in the current period results of operations along with the change in the value of the designated hedged item. If the hedge relationship was terminated, hedge accounting was discontinued and any balance related to the derivative was recognized in current operations, and fair value adjustment to the hedge item continued to be reported as part of the basis of the item and was amortized to earnings as a yield adjustment. After adoption of FASB ASC Topic 825 for certain callable brokered certificates of deposit and subordinated capital notes, the hedge relationship was terminated, and both previously hedged items and the respective hedging derivatives are presented at fair value with changes recorded in the current period results of operations.

The Corporation hedges certain callable brokered certificates of deposit and subordinated capital notes by using interest rate swaps. Prior to the adoption of FASB ASC Topic 825 as of January 1, 2008, these swaps were designated for hedge accounting treatment under FASB ASC Topic 815. For designated fair value hedges, the changes in the fair value of both the hedging instrument and the underlying hedged instrument were included in other income and the interest flows were included in the net interest income in the consolidated statements of operations. In connection with the adoption of FASB ASC Topic 825, the Corporation elected the fair value option for certain callable brokered certificates of deposit and subordinated capital notes and is no longer required to maintain hedge accounting documentation to achieve a similar financial statements outcome.

As of December 31, 2009, the Corporation had outstanding interest rate swap agreements with a notional amount of approximately $125 million, maturing through the year 2032. The weighted average rate paid and received on these contracts is 0.68% and 6.22%, respectively. As of December 31, 2009, the Corporation had two subordinated notes aggregating approximately $125 million, with a fair value of $120.6 million, swapped to create a floating rate source of funds. For the year ended December 31, 2009, 2008 and 2007, the Corporation recognized a loss of approximately $5.7 million, a gain of $4.3 million and a loss of $465,000, respectively, on these economic hedges, which is included in other income in the consolidated statements of operations.

As of December 31, 2008, the Corporation had outstanding interest rate swap agreements with a notional amount of approximately $125 million, maturing through the year 2032. The weighted average rate paid and received on these contracts is 3.24% and 6.22%, respectively. As of December 31, 2008, the Corporation had two subordinated notes aggregating to approximately $125 million, with a fair value of $118.3 million, swapped to create a floating rate source of funds. As a result of the bankruptcy filing of Lehman Brothers Holding, Inc. (“LBHI”) and the default on its contractual payments as of

September 19, 2008, the Corporation terminated $23.8 million of fixed-for-floating interest rate swaps. The derivative liability of the swaps with Lehman Brothers Special Financing (“LBSF”) was $681,535 as of September 19, 2008 and was paid on December 5, 2008.

The Corporation issues certificates of deposit, individual retirement accounts and notes with returns linked to the different equity indexes, which constitute embedded derivative instruments that are bifurcated from the host deposit and recognized on the consolidated balance sheets. The Corporation enters into option agreements in order to manage the interest rate risk on these deposits and notes; however, these options have not been designated for hedge accounting, therefore gains and losses on the market value of both the embedded derivative instruments and the option contracts are marked to market through results of operations and recorded in other income in the consolidated statements of operations. For the year ended December 31, 2009, a loss of approximately $16,000 was recorded on embedded options on stock-indexed deposits and notes and a gain of approximately $16,000 was recorded on the option contracts. For the year ended December 31, 2008, a gain of approximately $19.0 million was recorded on embedded options on stock-indexed deposits and notes and a loss of approximately $19.0 million was recorded on the option contracts. For the year ended December 31, 2007, a loss of approximately $0.1 million was recorded on embedded options on stock-index deposits and notes and a gain of approximately $0.1 million was recorded on the option contracts.

The Corporation enters into certain derivative transactions to provide derivative products to customers, which includes interest rate caps, collars and swaps, and simultaneously covers the Corporation’s position with related and unrelated third parties under substantially the same terms and conditions. These derivatives are not linked to specific assets and liabilities on the consolidated balance sheets or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. These derivatives are carried at fair value with changes in fair value recorded as part of other income. For the year ended December 31, 2009, 2008 and 2007, the Corporation recognized a net gain of $394,000 and a net loss of $1,213,000 and $364,000 on these transactions, respectively.

To a lesser extent, the Corporation enters into freestanding derivative contracts as a proprietary position taker, based on market expectations or on benefits from price differentials between financial instruments and markets. These derivatives are not linked to specific assets and liabilities on the consolidated balance sheets or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. For the year ended December 31, 2009, 2008 and 2007, the Corporation recognized a net loss of $287,000 and a net gain of $821,000 and $315,000, respectively, on these transactions. There were no outstanding freestanding derivatives contracts as of December 31, 2009.

The Corporation enters into loan commitments with customers to extend mortgage loans at a specified rate. These loan commitments are written options and are measured at fair value pursuant to FASB ASC Topic 820 and FASB ASC Topic 815. As of December 31, 2009 and December 31, 2008, the Corporation had loan commitments outstanding for approximately $3.4 million and $3.9 million, respectively. The Corporation recognized a net loss of $101,000 for the year ended December 31, 2009 and a net gain of $48,000 and $35,000 for the years ended December 31, 2008 and 2007 on these commitments.

The Corporation is exposed to certain risk relating to its ongoing business operations. The primary risk managed by using derivative instruments is the interest rate risk. The following table presents the fair value of derivative instruments in the consolidated balance sheet:

(Dollars in thousands)	Balance Sheet Location	Assets Derivatives Fair Value as of			
		December 31, 2009		December 31, 2008	
Derivatives not designated as hedging instruments under FASB ASC Topic 815:					
Interest rate swaps	Other assets	$	114,991	$	193,312
Interest rate caps	Other assets		8		13
Options	Other assets		3,789		3,774
Loan commitment	Other assets		-		93
Total		$	118,788	$	197,192

	Balance Sheet Location	Liabilities Derivatives Fair Value as of			
		December 31, 2009		December 31, 2008	
Derivatives not designated as hedging instruments under FASB ASC Topic 815:					
Interest rate swaps	Other liabilities	$	115,263	$	187,525
Interest rate caps	Other liabilities		8		13
Options	Other liabilities		3,789		3,774
Loan commitment	Other liabilities		8		-
Total		$	119,068	$	191,312

The following table presents the effect of the derivative instruments on the consolidated statements of operations:

(Dollars in thousands)	Location of Gain or (Loss) recognized in Income on Derivatives	Gain or (Loss) recognized in Income on derivatives for the year ended December 31, 2009	
Derivatives not designated as hedging instruments under FASB ASC Topic 815:			
Interest rate swaps	Interest Income (Expense)	$	6,020
Interest rate swaps	Other Income (Loss)		(5,141)
Loan commitment	Other Income (Loss)		(101)
Total		$	778

Contingent Features

Certain of the Corporation’s derivative instruments contain provisions that require the Corporation’s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation’s debt were to fall below investment grade, it would be a violation of these provisions and the counterparties to the derivative instruments could demand immediate payment or immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009 and 2008 was $4.1 million and $15.5 million, respectively, for which the Corporation has posted collateral of $2.2 million and $9.2 million, respectively, in the normal course of business.

23. Financial Instruments with Off-Balance Sheet Risk:

In the normal course of business, the Corporation is a party to transactions of financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments may include commitments to extend credit, standby letters of credit, financial guarantees and interest rate caps, swaps and floors written. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in the different classes of financial instruments.

FASB ASC Topic 460, "*Guarantees*", establishes accounting and disclosure requirements for guarantees, requiring that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. FASB ASC Topic 460 defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party, based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. The Corporation considers the following off-balance sheet lending-related arrangements to be guarantees under FASB ASC Topic 460: standby letters of credit and commitments to extend credit.

The fair value at inception of the obligation undertaken when issuing the guarantees and commitments that qualify under FASB ASC Topic 460 approximates the unamortized fees received from the customers. The fair value of the liability recorded at inception is amortized into income as lending & deposit-related fees over the life of the guarantee contract.

The Corporation's exposure to credit loss, in the event of nonperformance by the counterparties to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written, is represented by the contractual notional amounts of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Standby letters of credit and other commitments to extend credit are subject to the Corporation's internal risk rating systems. The contract amount of financial instruments with off-balance sheet risk, whose amounts represent credit risk as of December 31, 2009 and 2008, was as follows:

	2009	2008
	(Dollars in thousands)	
Standby letters of credit and financial guarantees written	$ 41,837	$ 95,660
Commitments to extend credit, approved loans not yet disbursed and unused lines of credit	$ 1,218,115	$ 1,193,875

The Corporation issues financial standby letters of credit to guarantee the performance of its customers to third parties. If the customer fails to meet its financial performance obligation to the third party, then the Corporation would be obligated to make the payment to the guaranteed party. At December 31, 2009 and 2008, the Corporation's liabilities include $254,000 and $1,102,000, respectively, which represents the fair value of the obligations undertaken in issuing the guarantees under the standby letters of credit issued or modified after December 31, 2002. The fair value approximates the unamortized fees received from the customers for issuing the standby letters of credit. The fees are deferred and recognized on a straight-line basis over the commitment period. Standby letters of credit outstanding at December 31, 2009 had terms ranging from one month to four years. The contract amounts of the standby letters of credit of approximately $41,837,000 and $95,660,000 at December 31, 2009 and 2008, respectively, represent the maximum potential amount of future payments the Corporation could be required to make under the guarantees in the event of non-performance by all its customers. These standby letters of credit typically expire without being drawn upon. Management does not anticipate any material losses related to these guarantees.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment

amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties and real estate. The Corporation holds collateral as guarantee for most of these financial instruments. The Corporation's commitment to extend credit, approved loans not yet disbursed and unused lines of credit amounted to approximately $1.2 billion at December 31, 2009 and 2008 and had a fair value of $1.2 million, as of both dates.

24. Fair Value of Financial Instruments:

Effective January 1, 2008, the Corporation adopted FASB ASC Topic 820, which provides a framework for measuring fair value.

The Corporation also adopted FASB ASC Topic 825 on January 1, 2008. FASB ASC Topic 825 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation elected to adopt the fair value option for callable brokered certificates of deposits and subordinated notes on the adoption date. FASB ASC Topic 825 requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption.

The following table summarizes the impact of adopting the fair value option for certain financial instruments on January 1, 2008. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption FASB ASC Topic 825.

(Dollars in thousands)

	Ending Balance as of December 31, 2007 (Prior to Adoption)*	Adoption Net Gain (Loss)	Opening Balance as of January 1, 2008 (After Adoption)
Impact of Electing the Fair Value Option under Topic 825:			
Callable Brokered Certificates of Deposits	$ (763,476)	$ 64	$ (763,412)
Subordinated Capital Notes	(123,686)	5,134	(118,552)
Cumulative-effect Adjustments (pre-tax)	$ (887,162)	5,198	$ (881,964)
Income Tax Impact		(1,979)	
Cumulative-effect Adjustment Increase to Retained Earmings, net of tax		$ 3,219	

*Net of debt issue cost, placement fees and basis adjustments as of December 31, 2007

Fair Value Hierarchy

FASB ASC Topic 820 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. treasury, other U.S. government, agency mortgage-backed debt securities and FDIC insured corporate bonds that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include

securities with quoted prices that are traded less frequently than exchange-traded instruments, securities and derivative contracts and financial liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain mortgage-backed debt securities, corporate debt securities, derivatives contracts, callable brokered certificates of deposits, subordinated notes and Puerto Rico open-ended funds.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain Puerto Rico corporate debt securities, Puerto Rico closed-ended funds, and certain derivative contracts.

Recurring Measurements

The following table presents for each of these hierarchy levels, the Corporation's assets and liabilities that are measured at fair value on a recurring basis, including financial instruments for which the Corporation has elected the fair value option at December 31, 2009 and December 31, 2008.

(Dollars in thousands)	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Trading Securities	$ 100	$ 39,376	$ 8,263	$ 47,739
Investment Securities Available for Sale	323,638	93,970	-	417,608
Derivative Assets	-	118,541	247	118,788
Total Assets reported at Fair Value	$ **323,738**	$ **251,887**	$ **8,510**	$ **584,135**
Liabilities:				
Deposits (1)	$ -	$ 12,476	$ -	$ 12,476
Subordinated Capital Notes (2)	-	120,551	-	120,551
Derivative Liabilities	-	118,813	255	119,068
Total Liabilities reported at Fair Value	$ **-**	$ **251,840**	$ **255**	$ **252,095**

	2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Trading Securities	$ 117	$ 35,083	$ 29,519	$ 64,719
Investment Securities Available for Sale	171,916	630,196	-	802,112
Derivative Assets	463	195,993	736	197,192
Total Assets reported at Fair Value	$ **172,496**	$ **861,272**	$ **$ 30,255**	$ **1,064,023**
Liabilities:				
Deposits (1)	$ -	$ 101,401	$ -	$ 101,401
Subordinated Capital Notes (2)	-	118,282	-	118,282
Derivative Liabilities	-	190,669	643	191,312
Total Liabilities reported at Fair Value	$ **-**	$ **410,352**	$ **643**	$ **410,995**

(1) Amounts represent certain callable brokered certificates of deposits for which the Corporation has elected the fair value option under FASB ASC Topic 825.

(2) Amounts represent certain subordinated capital notes for which the Corporation has elected the fair value option under FASB ASC Topic 825.

Level 3 assets and liabilities were 1.5% and 0.10% of total assets reported at fair value and total liabilities carried at fair value, respectively, as of December 31, 2009 and 2.8% and 0.16% as of December 31, 2008, respectively.

The following table presents the reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2009 to December 31, 2009 and January 1, 2008 to December 31, 2008:

(Dollars in thousands)

	Balance January 1, 2009	Net realized/unrealized loss included in Earnings	Net realized/unrealized loss included in Other Comprehensive Income	Transfers in and/or out of Level 3	Purchases, issuances and settlements	Balance December 31, 2009	Unrealized losses still held (2)
Trading Securities (1)	$ 29,519	$ (1,824)	$ -	$ -	$ (19,432)	$ 8,263	$ 7
Derivatives, net	93	(101)	-	-	-	(8)	(101)
	$ 29,612	$ (1,925)	$ -	$ -	$ (19,432)	$ 8,255	$ (94)

	Balance January 1, 2008	Net realized/unrealized gains included in Earnings	Net realized/unrealized gains included in Other Comprehensive Income	Transfers in and/or out of Level 3	Purchases, issuances and settlements	Balance December 31, 2008	Unrealized gains (loss) still held (2)
Trading Securities (1)	$ 20,150	$ 1,888	$ -	$ -	$ 7,481	$ 29,519	$ 45
Derivatives, net	45	48	-	-	-	93	93
	$ 20,195	$ 1,936	$ -	$ -	$ 7,481	$ 29,612	$ 138

(1) Changes in fair value and gains and losses from sales for these instruments are recorded in other income while interest revenue and expense are included in the net interest income based on the contractual coupons on the consolidated statements of income. The amounts above do not include interest.
(2) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held at December 31, 2009 and 2008.

The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets and liabilities for the years ended December 31, 2009 and 2008. These amounts include gains and losses generated by derivative contracts and trading securities, which were carried at fair value prior to the adoption of FASB ASC Topic 825.

(Dollars in thousands)

	Total Gains (Losses) For the year ended December 31, 2009		December 31, 2008	
	Trading Securities	Net Derivatives	Trading Securities	Net Derivatives
Classification of gains and losses (realized/unrealized) included in earnings for the period :				
Other income (loss)	$ (1,824)	$ (101)	$ 1,888	$ 48

The table below summarizes changes in unrealized gains or losses recorded in earnings for the years ended December 31, 2009 and 2008 for Level 3 assets and liabilities that are still held at December 31, 2009 and 2008. These amounts include changes in fair value for derivative contracts and trading securities, which were carried at fair value prior to the adoption of Topic 825.

(Dollars in thousands)	Changes in Unrealized Gains (Loss) For the year ended			
	December 31, 2009		December 31, 2008	
	Trading Securities	Net Derivatives	Trading Securities	Net Derivatives
Classification of unrealized gains (losses) included in earnings for the period :				
Other income	$ 7	$ (101)	$ 45	$ 93

Determination of Fair Value

The following is a description of the valuation methodologies used for instruments recorded at fair value and for estimating fair value for financial instruments not recorded, but disclosed at fair value. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

Short-Term Financial Instruments

Short-term financial instruments, including cash and cash equivalents, interest-bearing deposits placed, federal funds purchased and other borrowings, commercial paper issued, accrued interest receivable and payable, certain other assets and liabilities, are carried at historical cost. The carrying amount is a reasonable estimate of fair value of these instruments. These financial instruments generally expose the Corporation to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market.

Trading Securities

Trading securities are recorded at fair value and consist primarily of mortgage-backed securities, Puerto Rico government obligations, corporate debt, and equity securities. Fair value is generally based on quoted market prices. Level 1 securities owned include those identical securities traded in active markets. Level 2 securities owned include those securities for which market prices are not available and fair values are estimated based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. Level 2 trading securities primarily include Puerto Rico government obligations and Puerto Rico open-ended funds Level 3 trading securities primarily include Puerto Rico corporate debt securities and Puerto Rico fixed-income closed-ended funds. At December 31, 2009, the majority of these instruments were valued based on dealer indicative quotes and recent trade activity.

The Corporation holds certain equity securities for which the net asset value is used for valuation purposes. The equity securities held by the Corporation have limited observable activity, therefore are classified within level 2 or 3 of the fair value hierarchy.

The table below summarizes those securities owned open-ended and closed-ended funds outstanding as of December 31, 2009 for which the Corporation uses the net asset value for valuation purposes.

(Dollars in thousands)

		Fair Value	Redemption Frequency
Closed-ended funds (1)	$	7,037,646	N/A
Open-ended fixed income funds (2)		1,644,909	Daily, Weekly
Open-ended equity funds (3)		1,541,742	Daily
	$	10,224,297	

(1) These funds seek to provide shareholders with a high level of current income consistent with the preservation of capital, its investment policies and prudent investment management. These funds will invest not less than 67% of its assets in Puerto Rico securities and up to 33% in U.S. securities. The fair value of the funds' investments, which include municipal securities - bonds issued by Puerto Rico and United States governments and agencies, mortgage-backed securities, corporate bonds and preferred stock, are obtained from third-party pricing services providers and by broker-dealers. Market inputs utilized in the pricing evaluatiohin process include, primarily, all or some of the following: benchmark yields, reported trades, broker-dealers quotes, issuer spreads, two-sided markets, bid-offer price or spread, benchmark securities, bids, offers, reference data, benchmark curves including but not limited to Treasury benchmarks, LIBOR and swap curves, and industry and economic events. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. Short-term securities having a maturity of 60 days or less are valued at amortized cost, which approximates fair value. All Puerto Rico fixed income securities valuations provided by broker-dealers are priced using the average of two quotes, if available.

(2) These funds seek to provide shareholders with a high level of current income consistent with the preservation of capital, its investment policies and prudent investment management. There are two funds under this category, one hold not less than 67% of its assets in Puerto Rico securities and up to 33% in U.S. securities, and the other hold not less than 20% of its assets in Puerto Rico securities and up to 80% in non-Puerto Rico securities. The fair value of the funds' investments, which include municipal securities - bonds issued by Puerto Rico and United States governments and agencies, mortgage-backed securities, corporate bonds and preferred stock, are obtained from third-party pricing services providers and by broker-dealers. Market inputs utilized in the pricing evaluation process include, primarily, all or some of the following: benchmark yields, reported trades, broker-dealers quotes, issuer spreads, two-sided markets, bid-offer price or spread, benchmark securities, bids, offers, reference data, benchmark curves including but not limited to Treasury benchmarks, LIBOR and swap curves, and industry and economic events. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. Short-term securities having a maturity of 60 days or less are valued at amortized cost, which approximates fair value. All Puerto Rico fixed income securities valuations provided by broker-dealers are priced using the average of two quotes, if available.

(3) These funds seek to provide shareholders long-term growth of capital. These funds will invest up to 80% of its assets in common stock and other equity securities of U.S. and foreign companies with small, medium and large market capitalization, including exchanged-traded funds. One of the funds can also invest in alternative investments. Each fund will invest at least 20% of its assets in Puerto Rico securities. The fair value of the securities is determined on the basis of the valuations provided by dealers or independent pricing services. Equity securities are valued at the official closing price of, or the last reported sales price on, the exchange or market on which such securities are traded, as of the close of business on the day the securities are being valued, or lacking any sales, at the last available bid price. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. Short-term securities having a maturity of 60 days or less are valued at amortized cost, which approximates fair value. All Puerto Rico fixed income securities valuations provided by broker-dealers are priced using the average of two quotes, if available.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as discounted cash flow methodologies, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 Investment securities available for sale include those identical securities traded in active markets, such as U.S. treasury and agency securities. Level 2 securities primarily include Puerto Rico Government securities and mortgage-backed securities.

Other Investment Securities

Federal Home Loan Bank (FHLB) stocks are recorded under the cost method of accounting. There are restrictions on the sale of FHLB stocks, however they are redeemable at par. The carrying amount is a reasonable estimate of fair value.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market. Fair values for loans held for sale are based on observable inputs, such as observable market prices, credit spreads and interest rate yield curves when available. In instances when significant valuation assumptions are not readily observable in the market, instruments are valued based on the best available data in order to approximate fair value. This data may be internally developed and considers types of loans, conformity of loans, delinquency statistics and risk premiums that a market participant would require, and accordingly may be classified as Level 3 in a non-recurring fair value measurement.

Loans

Loans are not recorded at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for disclosure purposes. However, any allowance for collateral dependent loans deemed impaired is measured based on the fair value of the underlying collateral and its estimated disposition costs. The fair value of collateral is determined by external valuation specialists, and accordingly classified as Level 3 inputs for impaired loans in a non-recurring fair value measurement disclosure.

The fair value for disclosure purposes are estimated for portfolios of loans held to maturity with similar financial characteristics, such as loan category, pricing features and remaining maturity. Loans are segregated by type such as commercial, consumer, mortgage, construction, and other loans. Each loan category is further segmented based on similar market and credit risk characteristics. The fair value is calculated by discounting the contractual cash flows using discount rates that reflect the current pricing for loans with similar characteristics and remaining maturity. Fair values consider the credit risk of the counterparties.

Derivatives

For exchange-traded contracts, fair value is based on quoted market prices, and accordingly, classified as Level 1. For non-exchange traded contracts, fair value is based on internally developed proprietary models or discounted cash flow methodology using various inputs. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument.

The determination of the fair value of many derivatives is mainly derived from inputs that are observable in the market place. Such inputs include yield curves, publicly available volatilities, floating indexes, foreign exchange prices, and accordingly, are classified as Level 2 inputs.

Level 3 derivatives include interest rate lock commitments (IRLC), the fair value for which is derived from the fair value of related mortgage loans primarily based on observable inputs. In estimating the fair value of an IRLC, the Corporation assigns a probability to the loan commitment based on an expectation that it will be exercised and the loan will be funded. In addition, certain OTC equity linked options are priced by counterparties, and accordingly are classified as Level 3 inputs.

Valuations of derivative assets and liabilities reflect the value of the instruments including the values associated with counterparty risk., With the issuance of FASB ASC Topic 820, these values must also take into account the Corporation's own credit standing, thus including in the valuation of the derivative instrument the value of the net credit differential between the counterparties to the derivative contract. The Corporation does not determine credit value adjustment on derivative assets

and liabilities where Santander Group and/or its affiliates are the counterparties, because it believes there is no material exposure to counterparty credit risk. Effective January 1, 2008, the Corporation updated its methodology to include the impact of both counterparty and its own credit standing.

Deposits and Subordinated Capital Notes

Under FASB ASC Topic 825, the Corporation elected to carry callable brokered certificates of deposits and subordinated notes at fair value. The fair value of callable brokered certificates of deposits, included within deposits, and subordinated capital notes is determined using discounted cash flow analyses over the full term of the instruments. The valuation uses an industry-standard model for the instruments with callable option components. The model incorporates such observable inputs as yield curves, publicly available volatilities and floating indexes and accordingly, is classified as Level 2 inputs. Effective January 1, 2008, the Corporation updated its methodology to include the impact of its own credit standing.

Deposits, other than those recorded at fair value under FASB ASC Topic 825, are carried at historical cost. For FASB ASC Topic 825 disclosures, fair value of deposits with no stated maturity, such as demand deposits, savings and NOW accounts, money market and checking accounts is equal to the amount payable on demand as of December 31, 2008. The fair value of fixed maturity certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities, including adjustments to reflect the current credit worthiness of the Corporation.

Securities Sold under Agreements to Repurchase and Federal Home Loan Bank Advances

Securities sold under agreements to repurchase and Federal Home Loan Bank advances are carried at historical cost. For FASB ASC Topic 825 disclosures, the fair value is determined by discounting cash flows by market rates currently offered for similar instruments.

Term Notes

Term notes are carried at historical cost. For FASB ASC Topic 825 disclosures, the fair value is determined using discounted cash flows method, which considers an estimated discount rate currently offered for similar borrowings, including adjustments to reflect the current credit worthiness of the Corporation.

Standby Letters Of Credit and Commitments to Extend Credit

Standby letters of credit, financial guarantees, commitments to extend credit, and unused lines of credit generally have stated maturities within one year and are recorded off-balance sheet. As such, valuation techniques discussed herein are for estimating fair value for disclosure purposes. The unamortized fees collected for theses instruments are considered a reasonable approximation of fair value.

Non-Recurring Measurements for Assets

The following table presents the carrying value of those assets measured at fair value on a non-recurring basis, for which impairment was recognized during the year ended December 31, 2009 and 2008.

(Dollars in thousands)

	Carrying Value as of Dec. 31, 2009	Carrying Value as of December 31, 2009 Using			Valuation Allowance as of Dec. 31, 2009
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Loans, net(1)	$ 183,691	$ -	$ -	$ 183,691	$ 27,811
Repossesed Assets (2)	25,182	-	-	25,182	7,021
	$ 208,873	$ -	$ -	$ 208,873	$ 34,832

(1) Amount represented loans measured for impairment during the period based on the fair value of the collateral using the practical expedient in FASB ASC Topic 310.
(2) Amount represented real estate owned properties measured for impairment during the period based on the fair value of the collateral accordance with the adoption of FASB ASC Topic 820.

(Dollars in thousands)

	Carriying Value as of Dec. 31, 2008	Carrying Value as of December 31, 2008 Using			Valuation Allowance as of Dec. 31, 2008
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Loans, net(1)	$ 59,152	$ -	$ -	$ 59,152	$ 18,410

(1) Amount represented loans measured for impairment during the period based on the fair value of the collateral using the practical expedient in FASB ASC Topic 310.

Callable Brokered Certificates of Deposits and Subordinated Capital Notes

The Corporation elected to account at fair value certain of its callable brokered certificates of deposits and subordinated capital notes that were hedged with interest rate swaps designated for fair value hedge accounting in accordance with FASB ASC Topic 815. As of December 31, 2009 and 2008, these callable brokered certificates of deposits had been cancelled and subordinated capital notes had a fair value of $120.6 million and $118.3million, respectively and principal balance of $125.0 million. Interest expense on these items is recorded in Net Interest Income whereas net gains (losses) resulting from the changes in fair value of these items, were recorded within Other Income on the Corporation's consolidated statements of operations. Electing the fair value option allows the Corporation to avoid the burden of complying with the requirements for hedge accounting under FASB ASC Topic 815 (e.g., documentation and effectiveness assessment) without introducing earnings volatility. Subsequent to the adoption of FASB ASC Topic 825, debt issuance costs are recognized in Net Interest Income when incurred. Interest rate risk on the callable brokered certificates of deposits and subordinated capital notes measured at fair value under FASB ASC Topic 825 continues to be economically hedged with callable interest rate swaps with the same terms and conditions.

The following table represents changes in fair value for the year ended December 31, 2009 and 2008 which includes the interest expense on callable brokered certificates of deposits and interest expense on subordinated capital notes. Interest expense on callable brokered certificates of deposits and subordinated capitals notes that the Corporation has elected to carry at fair value under the provisions of FASB ASC Topic 825 are recorded in interest expense in the consolidated statements of operations based on their contractual coupons.

(Dollars in thousands)	For the year ended December 31, 2009		
	Changes in Fair Value included in Interest Expense	Changes in Fair Value included in Other Income	Total Changes in Fair Value included in Earnings
Callable Brokered Certificates of Deposits	$ (1,959)	$ 662	$ (1,297)
Subordinated Capital Notes	(7,775)	(2,269)	(10,044)
Total	$ (9,734)	$ (1,607)	$ (11,341)

(Dollars in thousands)	For the year ended December 31, 2008		
	Changes in Fair Value included in Interest Expense	Changes in Fair Value included in Other Income	Total Changes in Fair Value included in Earnings
Callable Brokered Certificates of Deposits	$ (18,245)	$ (4,159)	$ (22,404)
Subordinated Capital Notes	(7,775)	270	(7,505)
Total	$ (26,020)	$ (3,889)	$ (29,909)

The impact of changes in the Corporation's credit risk on subordinated capital notes for the year ended December 31, 2009 and 2008 presented in the table below has been calculated as the difference between the fair value of those instruments as of the reporting date and the theoretical fair values of those instruments calculated by using the yield curve prevailing at the end of the reporting period, adjusted up or down for changes in credit spreads from the transition date to the reporting date.

(Dollars in thousands)	For the year ended					
	December 31, 2009			December 31, 2008		
	Gain (Loss) related Credit Risk	Gain (Loss) not related Credit Risk	Total Gains (Losses)	Gain (Loss) related Credit Risk	Gain (Loss) not related Credit Risk	Total Gains (Losses)
Subordinated Capital Notes	$ (8,223)	$ (1,821)	$ (10,044)	$ 6,667	$ (14,172)	$ (7,505)

FASB ASC Topic 825 Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates as of December 31, 2009 and 2008, for financial instruments, as defined by FASB ASC Topic 825, excluding short-term financial assets and liabilities, for which carrying amounts approximate fair value, and excluding financial instruments recorded at fair value on a recurring basis. The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding risk characteristics of various financial instruments, current economic conditions, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined

with precision. Changes in assumptions could significantly affect the estimates. In addition, the fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Consolidated balance sheets financial instruments:				
ASSETS:				
Other investment securities	$ 55,431	$ 55,431	$ 61,632	$ 61,632
Loans held for sale	$ 26,726	$ 26,643	$ 38,459	$ 38,740
Loans (1)	$ 5,034,942	$ 4,725,493	$ 5,929,499	$ 5,862,539
LIABILITIES:				
Deposits - interest-bearing	$ 3,696,791	$ 3,698,246	$ 4,321,939	$ 4,311,104
Securities sold under agreements to repurchase	$ -	$ -	$ 375,000	$ 365,314
Federal Home Loan Bank Advances	$ 1,060,000	$ 1,070,542	$ 1,185,000	$ 1,159,619
Subordinated capital note (2)	$ 189,000	$ 197,979	$ 189,000	$ 203,516
Term notes	$ 20,581	$ 21,030	$ 19,967	$ 22,977

	December 31, 2009		December 31, 2008	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
	(Dollars in thousands)			
Off balance sheet financial instruments:				
Standby letters of credit and financial guarantees written	$ 41,837	$ (254)	$ 95,660	$ (1,102)
Commitments to extend credit, approved loans not yet disbursed and unused lines of credit	$ 1,218,115	$ (1,218)	$ 1,193,875	$ (1,194)

(1) This amount does not include loans measured for impairment during the period based on the fair value of the collateral using the practical expedient in FASB ASC Topic 310.
(2) This amount does not include subordinated capital notes of $120.6 million and $118.3 million as of December 31, 2009 and 2008, respectively, measured at fair value under FSAB ASC Topic 825.

25. Significant Group Concentrations of Credit Risk:

Most of the Corporation's business activities are with customers located within Puerto Rico. The Corporation has a diversified loan portfolio with no significant concentration in any economic sector.

26. Regulatory Matters:

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and the Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios, as indicated below, of Total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). In management's opinion, the Corporation and the Bank met all capital adequacy requirements to which they were subject as of December 31, 2009 and 2008.

At December 31, 2009 and 2008, the Corporation's required and actual regulatory capital amounts and ratios are as follows:

	December 31, 2009			
	Required		Actual	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total Capital (to Risk Weighted Assets)	$ 393,865	8%	$ 765,629	15.55%
Tier I Capital (to Risk Weighted Assets)	$ 196,932	4%	$ 521,842	10.60%
Leverage Ratio	$ 196,075	3%	$ 521,842	7.98%

	December 31, 2008			
	Required		Actual	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total Capital (to Risk Weighted Assets)	$ 453,114	8%	$ 726,863	12.83%
Tier I Capital (to Risk Weighted Assets)	$ 226,557	4%	$ 476,268	8.41%
Leverage Ratio	$ 234,278	3%	$ 476,268	6.10%

As of December 31, 2009, the Bank qualified as a well-capitalized institution under the regulatory framework. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk based and Tier I leverage ratios as set forth in the table below. At December 31, 2009, there are no conditions or events that management believes to have changed the Bank's category since the regulator's last examination.

At December 31, 2009 and 2008, the Bank's required and actual regulatory capital amounts and ratios follow:

	December 31, 2009					
	Required		Actual		Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Ratio	
	(Dollars in thousands)					
Total Capital (to Risk Weighted Assets)	$ 352,244	8%	$ 686,964	15.60%	≥	10%
Tier I Capital (to Risk Weighted Assets)	$ 176,122	4%	$ 571,380	12.98%	≥	6%
Leverage Ratio	$ 195,403	3%	$ 571,380	8.77%	≥	5%

	December 31, 2008					
	Required		Actual		Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Ratio	
	(Dollars in thousands)					
Total Capital (to Risk Weighted Assets)	$ 411,725	8%	$ 662,161	12.87%	≥	10%
Tier I Capital (to Risk Weighted Assets)	$ 205,863	4%	$ 537,395	10.44%	≥	6%
Leverage Ratio	$ 234,488	3%	$ 537,395	6.88%	≥	5%

27. Segment Information:

Types of Products and Services

The Corporation has five reportable segments: Commercial Banking, Mortgage Banking, Consumer Finance, Treasury and Investments and Wealth Management. Insurance operations and International Banking are other lines of business in which the Corporation commenced its involvement during 2000 and 2001, respectively, and are included in the "Other" column below since they did not meet the quantitative thresholds for disclosure of segment information.

Measurement of Segment Profit or Loss and Segment Assets

The Corporation's reportable business segments are strategic business units that offer distinctive products and services that are marketed through different channels. These are managed separately because of their unique technology, marketing and distribution requirements.

The following present financial information of reportable segments as of and for the years ended December 31, 2009, 2008 and 2007. General corporate expenses and income taxes have not been added or deducted in the determination of operating segment profits. The "Other" column includes insurance and international banking operations and the items necessary to reconcile the identified segments to the reported consolidated amounts. Included in the "Other" column are expenses of the internal audit, investors' relations, strategic planning, administrative services, mail, marketing, public relations, electronic data processing departments and comptroller's departments. The "Eliminations" column includes all intercompany eliminations for consolidation purposes.

	December 31, 2009							
	Commercial Banking	Mortgage Banking	Consumer Finance	Treasury and Investments	Wealth Management	Other	Eliminations	Consolidated Total
	(Dollars in thousands)							
Total external revenue	$ 215,301	$ 159,323	$ 138,794	$ 23,259	$ 64,333	$ 53,355	$ (49,761)	$ 604,604
Intersegment revenue	-	-	-	2,595	189	46,977	(49,761)	-
Interest income	174,868	151,728	135,588	17,505	2,688	42,377	(42,596)	482,158
Interest expense	16,657	49,293	26,180	32,900	926	39,247	(34,772)	130,431
Depreciation and amortization	4,452	2,669	876	870	1,500	2,084	-	12,451
Segment income (loss) before income tax	27,681	82,566	15,892	(19,662)	21,782	(65,135)	(10,514)	52,610
Segment assets	2,541,267	2,446,855	681,855	595,807	133,882	1,379,671	(1,012,901)	6,766,436

	December 31, 2008							
	Commercial Banking	Mortgage Banking	Consumer Finance	Treasury and Investments	Wealth Management	Other	Eliminations	Consolidated Total
	(Dollars in thousands)							
Total external revenue	$ 308,646	$ 166,480	$ 142,986	$ 53,627	$ 73,145	$ 49,416	$ (45,694)	$ 748,606
Intersegment revenue	17,320	-	-	-	557	27,817	(45,694)	-
Interest income	257,835	165,729	142,428	50,930	2,941	22,002	(41,094)	600,771
Interest expense	64,700	73,179	27,160	89,669	2,249	20,875	(33,383)	244,449
Depreciation and amortization	4,367	2,538	2,988	945	1,307	2,951	-	15,096
Segment income (loss) before income tax	29,911	79,906	6,262	(69,225)	22,027	(57,163)	(7,711)	4,007
Segment assets	3,641,521	2,679,466	659,054	1,210,654	149,149	631,091	(1,073,359)	7,897,576

	December 31, 2007							
	Commercial Banking	Mortgage Banking	Consumer Finance	Treasury and Investments	Wealth Management	Other	Eliminations	Consolidated Total
	(Dollars in thousands)							
Total external revenue	$ 351,120	$ 190,889	$ 144,027	$ 75,821	$ 64,378	$ 46,671	$ (50,576)	$ 822,330
Intersegment revenue	9,458	13,571	-	-	2,074	25,473	(50,576)	-
Interest income	299,105	168,238	140,881	71,418	2,667	24,607	(32,706)	674,210
Interest expense	99,409	102,038	36,898	116,669	3,613	30,081	(26,177)	362,531
Depreciation and amortization	4,092	2,066	3,645	816	1,220	4,437	-	16,276
Segment income (loss) before income tax	79,406	51,596	(57,991)	(47,203)	16,359	(66,544)	(7,664)	(32,041)
Segment assets	4,014,385	2,752,186	684,115	1,533,832	130,229	541,792	(492,326)	9,164,213

Reconciliation of Segment Information to Consolidated Amounts

Information for the Corporation's reportable segments in relation to the consolidated totals at December 31, follows:

	2009	2008	2007
	(Dollars in thousands)		
Revenues:			
Total revenues for reportable segments	$ 601,010	$ 744,884	$ 826,235
Other revenues	53,355	49,416	46,671
Elimination of intersegment revenues	(49,761)	(45,694)	(50,576)
Total consolidated revenues	$ 604,604	$ 748,606	$ 822,330
Total income before tax of reportable segments	$ 128,259	$ 68,881	$ 42,167
Loss before tax of other segments	(65,135)	(57,163)	(66,544)
Elimination of intersegment profits	(10,514)	(7,711)	(7,664)
Consolidated income (loss) before tax	$ 52,610	$ 4,007	$ (32,041)
Assets:			
Total assets for reportable segments	$ 6,399,666	$ 8,339,844	$ 9,114,747
Assets not attributed to segments	1,379,671	631,091	541,792
Elimination of intersegment assets	(1,012,901)	(1,073,359)	(492,326)
Total consolidated assets	$ 6,766,436	$ 7,897,576	$ 9,164,213

28. Quarterly Results (Unaudited):

The following table reflects the unaudited quarterly results of the Corporation during the years ended December 31, 2009, 2008 and 2007.

	Quarters Ended 2009			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
Interest Income	$ 128,675	$ 120,076	$ 118,080	$ 115,327
Net Interest Income	84,393	86,175	88,055	93,104
Net Interest Income after Provision for Loan Losses	43,293	52,439	47,366	56,133
Income (Loss) before Provision for Income Tax	(716)	20,910	7,666	24,750
Net Income (Loss)	(31)	12,084	10,471	18,751
Earnings (Loss) per Common Share	-	0.26	0.22	0.40

	Quarters Ended 2008			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
Interest Income	$ 159,029	$ 153,436	$ 148,011	$ 140,295
Net Interest Income	84,599	91,045	92,406	88,272
Net Interest Income after Provision for Loan Losses	45,024	52,530	46,846	36,399
Income (Loss) before Provision for Income Tax	25,939	7,281	(18,493)	(10,720)
Net Income (Loss)	17,722	6,516	(8,162)	(5,545)
Earnings (Loss) per Common Share	0.38	0.14	(0.18)	(0.11)

	Quarters Ended 2007			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
Interest Income	$ 167,077	$ 168,242	$ 170,149	$ 168,742
Net Interest Income	79,402	78,197	76,039	78,041
Net Interest Income after Provision for Loan Losses	57,378	47,347	28,689	30,441
Income before Provision for Income Tax	19,383	5,505	(55,011)	(1,918)
Net Income (Loss)	11,729	4,096	(50,099)	(1,971)
Earnings (Loss) per Common Share	0.25	0.09	(1.07)	(0.05)

29. Santander BanCorp (Parent Company Only) Financial Information*:*

The following financial information presents the financial position of the Parent Company only, as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2009.

The net income of Santander Bancorp (parent company only) nominally is not equal to the consolidated net income of Santander BanCorp and subsidiaries, because it includes a transaction between Santander BanCorp's wholly owned subsidiaries, Banco Santander Puerto Rico and Santander Securities Corporation, which has a different accounting treatment in the stand-alone financial statements of each of these entities. Such transaction is eliminated in consolidation.

Santander Bancorp

Balance Sheet Information
December 31, 2009 and 2008
(Dollars in thousands)

	2009	2008
ASSETS		
Cash and due from banks	$ 3,528	$ 3,430
Interest-bearing deposits	21,600	-
Total cash and cash equivalents	25,128	3,430
Loans	191,361	221,256
Investment in Subsidiaries	821,637	772,249
Accrued Interest Receivable	5,680	5,928
Other Assets	506	9,297
	$ 1,044,312	$ 1,012,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
Borrowings	$ 190,000	$ 200,000
Subordinated Capital Notes, including $120.6 million and $118.3 million at fair value in 2009 and 2008, respectively	248,691	246,392
Accrued Interest Payable	5,666	7,724
Other Liabilities	3,460	5,195
Total liabilities	447,817	459,311
STOCKHOLDERS' EQUITY:		
Common stock, $2.50 par value; 200,000,000 shares authorized, 50,650,364 shares issued; 46,639,104 shares outstanding at December 31, 2009 and 2008	126,626	126,626
Capital paid in excess of par value	566,286	565,165
Treasury stock at cost, 4,011,260 shares at December 31, 2009 and 2008	(67,552)	(67,552)
Accumulated other comprehensive loss from unconsolidated subsidiaries, net of tax	(20,695)	(22,563)
Deficit	(8,170)	(48,827)
Total stockholders' equity	596,495	552,849
	$ 1,044,312	$ 1,012,160

Santander BanCorp

Statements of Operations Information
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
Interest Income:			
Loans	$ 11,271	$ 13,914	$ 17,883
Interest-bearing deposits	143	818	1,867
Total interest income	11,414	14,732	19,750
Interest Expense:			
Borrowings	7,454	7,549	13,931
Term and subordinated capital notes	10,494	13,325	16,157
Total interest expense	17,948	20,874	30,088
Net interest loss	(6,534)	(6,142)	(10,338)
Provision for loan losses	-	740	-
Net interest loss after provision for loan losses	(6,534)	(6,882)	(10,338)
Other Income (Loss) :			
Derivative gains (losses)	(7,972)	6,770	(10)
Equity in earnings (losses) of subsidiaries	54,539	15,017	(24,524)
Total other income (loss)	46,567	21,787	(24,534)
Other Operating Expenses:			
Professional fees	737	881	844
Other taxes	574	586	(615)
Other operating expenses	1,170	911	774
Total other operating expenses	2,481	2,378	1,003
Income (loss) before provision (benefit) for income tax	37,552	12,527	(35,875)
(Benefit) Provision for Income Tax	(3,109)	2,723	(88)
Net Income (Loss)	$ 40,661	$ 9,804	$ (35,787)

Santander BanCorp

Statements of Cash Flows Information
Years Ended December 31, 2009, 2008 and 2007
(Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 40,661	$ 9,804	$ (35,787)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in (earnings) losses of subsidiaries, net of dividends received	(48,539)	48,868	54,487
Deferred tax (benefit) provision	(3,109)	2,723	(88)
Provision for loan losses	-	740	-
Loss (gain) on derivatives	7,972	(6,770)	10
Net discount accretion on debt	30	32	55
Net premiun amortization on loans	72	109	177
Decrease (increase) in other assets and accrued interest receivable	5,472	(5,083)	3,968
(Decrease) increase in other liabilities and accrued interest payable	(684)	4,479	(5,087)
Total adjustments	(38,786)	45,098	53,522
Net cash provided by operating activities	1,875	54,902	17,735
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in loans	29,823	13,364	27,178
Investment in subsidiary	-	(55,000)	-
Net cash provided by (used in) investing activities	29,823	(41,636)	27,178
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of borrowings	190,000	200,000	235,000
Repayment of borrowings	(200,000)	(235,000)	(275,000)
Dividends paid	-	(16,790)	(29,849)
Net cash used in financing activities	(10,000)	(51,790)	(69,849)
NET CHANGE IN CASH AND CASH EQUIVALENTS	21,698	(38,524)	(24,936)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,430	41,954	66,890
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 25,128	$ 3,430	$ 41,954

30. Subsequent Events:

On February 23, 2010, the Compensation Committee of the Board of Directors of the Corporation approved the participation of fifty-three Corporation officers in the fourth cycle of the Banco Santander, S.A Performance Shares Plan and the award of restricted stock units to said employees thereunder. The participants include six of the Corporation's executive officers who were "named executive officers" for purposes of the Corporation's proxy statement for the 2009 Annual Meeting of Shareholders. The Performance Shares Plan is an equity-based plan that provides long-term incentive opportunities for certain executive officers and managers of Banco Santander S.A. and its affiliates. Under the Performance Shares Plan, participants receive shares of Banco Santander S.A. common stock (American Depositary Shares, in the case of native U.S. and Puerto Rico participants) upon satisfaction of certain pre-established service and performance requirements. Banco Santander S.A. makes awards under the Performance Shares Plan in cycles, with one cycle ending each year. The fourth cycle (or "I-12 Plan") is for the three-year 2009 through 2011 period with payout of shares no later than July 31, 2012.

The Corporation has evaluated all subsequent events through the date this Annual Report on Form 10-K was filed with the SEC as significant subsequent events.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Corporation maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that material information, which is required to be timely disclosed, is accumulated and communicated to management in a timely manner. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a−15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of the Corporation’s Chief Executive Officer and Chief Accounting Officer. Based upon that evaluation, the Chief Executive Officer and Chief Accounting Officer concluded that the Corporation’s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Corporation in the Corporation’s reports that it files or submits under the Exchange Act is accumulated and communicated to management, including its Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a−15(f) and 15d−15(f) under the Securities Exchange Act of 1934. The Corporation’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP").

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management has assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2009 based on the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in their Internal Control − Integrated Framework. In making its assessment of internal control over financial reporting, management has concluded that the Corporation’s internal control over financial reporting was effective as of December 31, 2009.

The Corporation's independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of the Corporation’s internal control over financial reporting. Their report appears herein.

Change in Internal Control Over Financial Reporting

None

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the captions “Principal Holders of Capital Stock”, “Section 16(a) Beneficial Ownership Reporting Compliance”, “Board of Directors”, “Nominees for Election”, “Meetings of the Board of Directors and Committees”, “Executive Officers” and “Corporate Governance” of the Corporation’s definitive Proxy Statement to be filed with the SEC on or about March 26, 2010, is incorporated herein by reference

The Corporation has adopted a Code of Business Conduct within the meaning of Item 406(b) of Regulation S-K of the Securities Exchange Act of 1934, as amended. This Code applies to the directors, the President and CEO, the CAO, and other executive officers of the Corporation and its subsidiaries in order to achieve a conduct that reflects the Corporation’s ethical principles. The Corporation’s Code of Business Conduct was amended during fiscal year 2005 to expressly apply to the directors of the Corporation, as required by the NYSE’s Corporate Governance Rule 303A.10. The Corporation has posted a copy of the Code of Business Conduct, as amended, on its website at www.santandernet.com. The Corporation also adopted Corporate Governance Guidelines which are available on the Investor Relations website at www.santandernet.com, as required by the NYSE’s Corporate Governance Rule 303A.09. Copies of the Code of Business Conduct and the Corporate Governance Guidelines may be obtained free of charge from the Corporation’s website at the abovementioned internet address.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption “Compensation of Executive Officers” of the definitive Proxy Statement to be filed with the SEC on or about March 26, 2010, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the caption “Principal Holders of Capital Stock” of the definitive Proxy Statement to be filed with the SEC on or about March 26, 2010, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the caption “Transactions with Related Parties” of the definitive Proxy Statement to be filed with the SEC on or about March 26, 2010, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption “Disclosure of Audit Fees” of the definitive Proxy Statement to be filed with the SEC on or about March 26, 2010, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

A. The following documents are incorporated by reference from Item 8 hereof:

(1) Consolidated Financial Statements:
Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2009 and 2008
Consolidated Statements of Operations for the Years Ended December 31, 2009, 2008, and 2007
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2009, 2008 and 2007
Consolidated Statements of Comprehensive (Loss) Income for the Years Ended December 31, 2009, 2008 and 2007
Consolidated Statements of Cash Flows for the Years Ended December 31 2009, 2008 and 2007
Notes to Consolidated Financial Statements December 31, 2009, 2008 and 2007

(2) Financial Statement Schedules are not presented because the information is not applicable or is included in the Consolidated Financial Statements described in A (1) above or in the notes thereto.

(3) The exhibits listed on the Exhibit Index on page 154 of this report are filed herewith or are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized

SANTANDER BANCORP
(REGISTRANT)

Dated: 03/05/2010 By: S/JUAN MORENO BLANCO
President and Chief Executive Officer

Dated: 03/05/2010 By: S/ ROBERTO JARA
Executive Vice President and
Chief Accounting Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of this Registrant and in the capacities and on the dates indicated.

S:\GONZALO DE LAS HERAS	Chairman	03/05/2010
S:\ JESUS M. ZABALZA	Director	03/05/2010
S:\ VICTOR ARBULU	Director	03/05/2010
S:\ ROBERTO VALENTIN	Director	03/05/2010
S:\ STEPHEN FERRISS	Director	03/05/2010
S:\ MARIA CALERO	Director	03/05/2010
S:\ JOSE R. GONZALEZ	Director	03/05/2010

EXHIBIT INDEX

Exhibit No.	Description	Reference
(3.1)	Amendment to the Articles of Incorporation	Exhibit 3.1-10Q-06/30/09
(10.0)	Code of Ethics	Exhibit 8-K-04/01/09
(10.1)	Loan Agreement Agreement between Santander BanCorp, Santander Financial Services, Inc. and Banco Santander Puerto Rico	Exhibit 8K-09/30/09
(12)	Computation of Ratio of Earnings to Fixed Charges	Exihbit 12
(21)	Subsidiaries of Registrant	Exhibit 21
(31.1)	Certification from the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31.1
(31.2)	Certification from the Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31.2
(32.1)	Certification from the Chief Executive Officer and Chief Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.2

Santander BanCorp

Appendix A

Santander
(Banco Santander, S.A., the majority shareholder of Santander BanCorp)

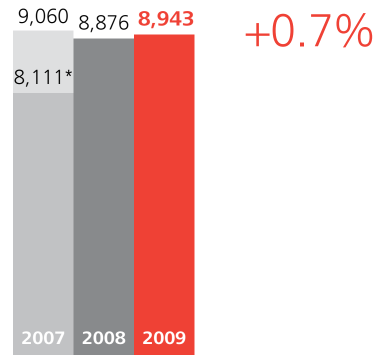
Key Group figures

Balance sheet and income statement (Million euros)	2009	2008	% 2009/2008	2007	2007*
Total assets	**1,110,529**	1,049,632	5.8	912,915	
Customer loans (net)	**682,551**	626,888	8.9	571,099	
Managed customer funds	**900,057**	826,567	8.9	784,872	
Shareholders' funds	**70,006**	63,768	9.8	51,945	
Total managed funds	**1,245,420**	1,168,355	6.6	1,063,892	
Net interest income	**26,299**	20,945	25.6	14,443	
Gross income	**39,381**	33,489	17.6	26,441	
Net operating income	**22,960**	18,540	23.8	14,417	
Results from discontinued operations	**9,427**	9,030	4.4	8,327	
Attributable profit to the Group	**8,943**	8,876	0.7	8,111	9,060
Ratios (%)					
Efficiency (with amortization)	**41.7**	44.6		45,5	
ROE	**13.90**	17.07		19.61	21.91
ROA	**0.86**	0.96		0.98	1.09
RoRWA	**1.74**	1.86		1.76	1.95
Core capital(1)	**8.6**	7.5		6.3	
Tier 1(1)	**10.1**	9.1		7.7	
Ratio BIS(1)	**14.2**	13.3		12.7	
Tangible capital/tangible assets(2)	**4.3**	3.6		3.4	
Ratio of basic financing(3)	**76.0**	75.1		74.9	
Non-performing loan (NPL) ratio	**3.24**	2.04		0.95	
NPL coverage	**75**	91		151	
The share and capitalization					
Number of shares in circulation (million)	**8,229**	7,994	2.9	6,254	
Share price (euros)	**11,550**	6,750	71.1	13,790	
Market capitalization (million euros)	**95,043**	53,960	76.1	92,501	
Shareholders' funds per share (euros)(4)	**8,04**	7.58		7.23	
Share price/shareholders' funds per share (times)(4)	**1,44**	0.89		1.91	
PER (share price/attributable profit per share) (times)(4)	**11,05**	5.53		11.56	
Attributable profit per share (euros)(4)	**1,0454**	1,2207	(14.4)	1,1924	1,3320
Diluted attributable profit per share (euros)(4)	**1,0382**	1,2133	(14.4)	1,1809	1,3191
Dividend per share (euros)(4)	**0,6000**	0,6325	(5.1)	0,6068	
Total shareholder return	**4,919**	4,812	2.2	4,070	
Other figures					
Number of shareholders	**3,062,633**	3,034,816	0.9	2,278,321	
Number of employees	**169,460**	170,961	(0.9)	131,819	
Continental Europe	**49,870**	48,467	2.9	47,838	
United Kingdom	**22,949**	24,379	(5.9)	16,827	
Latin America	**85,974**	96,405	(10.8)	65,628	
Sovereign	**8,847**				
Corporate activities	**1,820**	1,710	6.4	1,526	
Number of branches	**13,660**	13,390	2.0	11,178	
Continental Europe	**5,871**	5,998	(2.1)	5,976	
United Kingdom	**1,322**	1,303	1.5	704	
Latin America	**5,745**	6,089	(5.6)	4,498	
Sovereign	**722**				

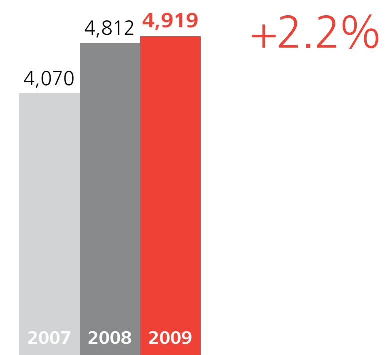
(*) Includes capital gains and extraordinary allowances
(1) 2007 in BIS 1 criteria
(2) (Capital +Reserves +Minority Interests +Profits -Treasury stock -Dividends -Valuation adjustments -Goodwill-Intangibles) / (Total assets-Goodwill-Intangibles)
(3) (Deposits+medium and long-term wholesale financing+capital)/total assets (without trading derivatives)
(4) 2007 and 2008 adjusted to the capital increase at the end of 2008 with preferential subscription rights

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

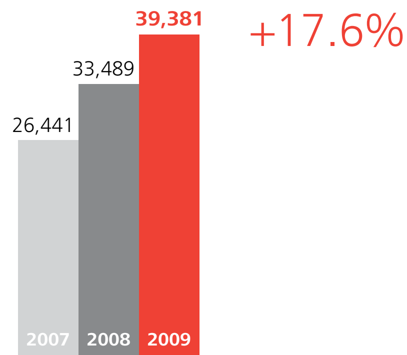
Ordinary attributable profit
Millions euros



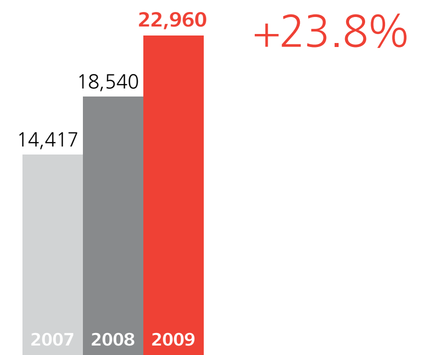
Total shareholder return
Millions euros



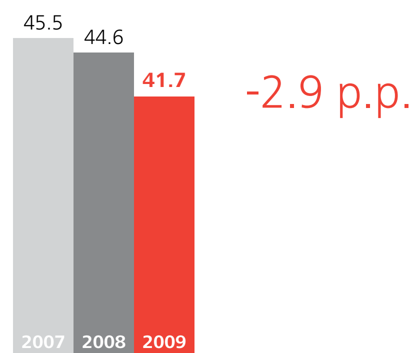
Gross income
Millions euros



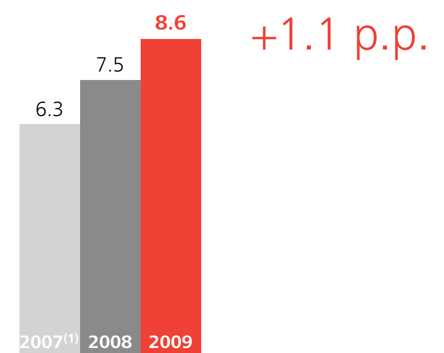
Net operating income
Millions euros



Efficiency
%



Core capital
%



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

Corporate governance

Banco Santander's corporate governance model

Balanced and committed board of directors

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

Equality of shareholders' rights

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

Maximum transparency, particularly in remunerations

A business model recognized by external institutions. Santander has been in the FTSE4Good and DJSI indices since 2003 and 2000, respectively.

The board of directors in 2009

- For the fourth year running, a meeting was dedicated solely to the Group's strategy.
- The board's new regulations were approved.
- The CEO presented eight management reports and the third vice-chairman, responsible for the risks division, presented six reports on risks.
- Business in Brazil and in the rest of Latin America, Santander Consumer Finance, Sovereign and Banesto was analyzed, as well as other issues such as the Group's image and reputation, the marketing of products and services, sustainability, the Group's structure and offshore centers and Santander Universities.
- The executive committee and the board discussed and agreed to the IPO for 17% (before the capital increase) of Banco Santander (Brazil) and the sale of Banco de Venezuela.
- The remuneration of directors remained unchanged from 2008.
- The annual bonus for executive directors was also kept at the same amount as in 2008, which, on average, was 14% less than in 2007.

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

Banco Santander has a unitary and balanced board whose members are recognized for their professional capacity, integrity and independence. Almost half of the board's members are independent directors and seven of them are or have been chairmen of Spanish or international banks.

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

In the last few years the importance for companies of having strong corporate governance that meets the highest international standards as well as a board with an integral strategic outlook and, in the case of banks, one that pays particular attention to risk management, has been increasingly highlighted.

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

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

The board of directors and risk management

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

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

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

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

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

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

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

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

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

Corporate governance
Board of directors

Director
Mr Luis Ángel Rojo Duque

Director
Mr Rodrigo Echenique Gordillo

Director
Lord Terence Burns

Director
Mr Abel Matutes Juan

Director
Mr Antonio Basagoiti García-Tuñón

Director
Mr Antonio Escámez Torres

Director
Mr Guillermo de la Dehesa Romero

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

Fourth Vice-Chairman
Mr Manuel Soto Serrano

First vice-chairman
Mr Fernando de Asúa Álvarez

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

Director
Mr Luis Alberto Salazar-Simpson Bos

Secretary general and of the Board
Mr Ignacio Benjumea Cabeza de Vaca

Director
Ms Isabel Tocino Biscarolasaga

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

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

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

Second vice-chairman and Chief Executive Officer
Mr Alfredo Sáenz Abad

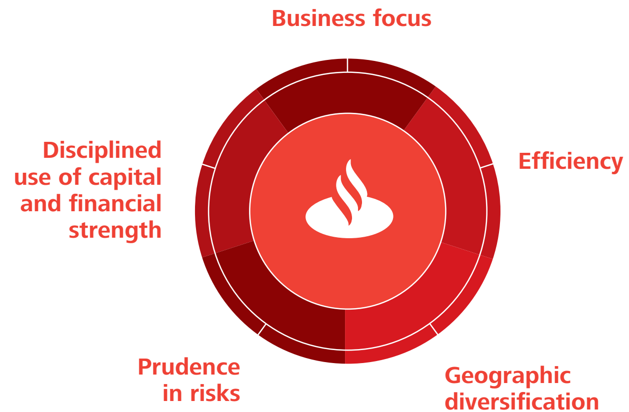
Third vice-chairman
Mr Matías Rodríguez Inciarte

Director
Mr Francisco Luzón López

Director
Mr Juan Rodríguez Inciarte

The Santander business model

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



The business focus

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

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

The most lasting relations and greater value added are generated and maintained in branches. The network of 13,660 branches, the largest of an international bank, enables Santander to develop the full potential of its retail banking business. The Bank also provides service through other around-the-clock channels, such as online and telephone banking. Of note in 2009 was the opening of a new contact center in Querétaro, Mexico, whose cutting-edge technology will give service not only to customers in Mexico but also in other Latin American countries.

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

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

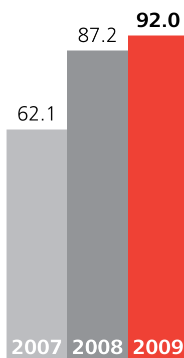
Santander has a broad range of financial products and services with which to seek to satisfy customers' needs. Also, a hallmark of the Bank, in all its markets, is its anticipation and dynamism when launching new products.

The key to success: people

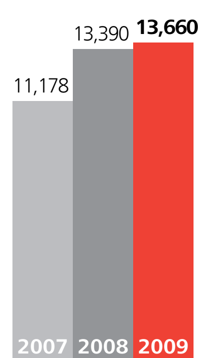
The 169,460 employees of Banco Santander worldwide are well trained and motivated to make the customer their first priority every day. The Bank has human resources policies to attract, train and retain the best talent at the international level, in order to support the strategy and sustainable business growth.

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

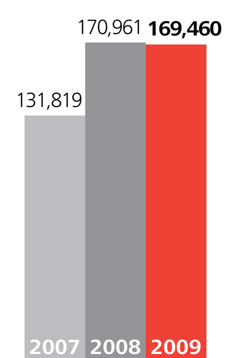
Customers
Million



Branches
Number



Employees
Number



Efficiency

is transforming cost savings into more value for customers and shareholders

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

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

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

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

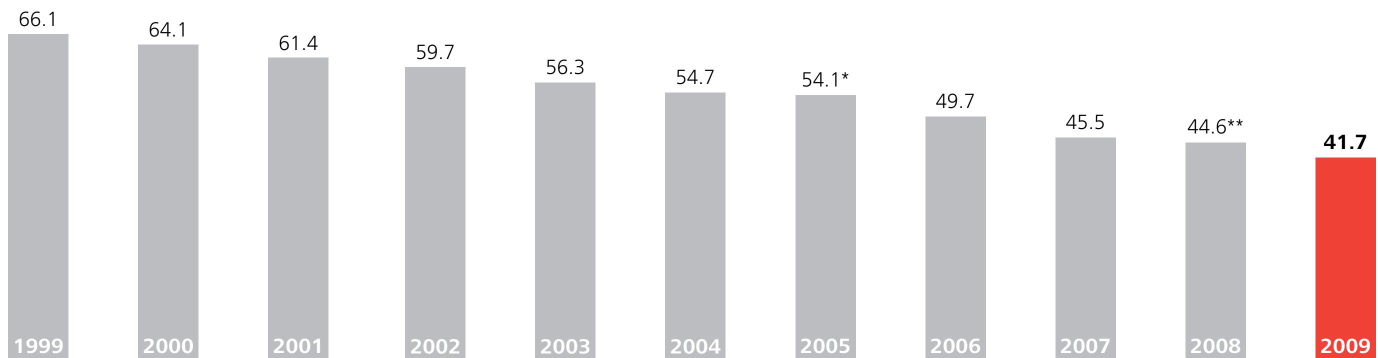
The case of Santander in the UK

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

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

The Group's efficiency ratio

%



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

Geographic distribution

has given us a leadership position in eight core markets

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

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

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

UNITED STATES - SOVEREIGN

Customers (Millions)	1.7
Branches	722
Employees	8,847
Market share(7)	3%

BRAZIL

Customers (Millions)	22.5
Branches	3,593
Employees	50,961
Market share(1)	10%
Ranking(1)(6)	3

MEXICO

Customers (Millions)	8.7
Branches	1,093
Employees	12,466
Market share(1)	15%
Ranking(1)	3

CHILE

Customers (Millions)	3.2
Branches	498
Employees	11,751
Market share(1)	19%
Ranking(1)	1

ARGENTINA

Customers (Millions)	2
Branches	298
Employees	5,780
Market share(3)	10%
Ranking (1) (6)	1

Main countries

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

UNITED KINGDOM

Customers (Millions)	25.6
Branches	1,322
Employees	22,949
Market share[1]	10%
Ranking[5]	3

GERMANY

Customers (Millions)	6.0
Branches	144
Employees	3,336
Market share[2]	15%
Ranking[4]	1

PORTUGAL

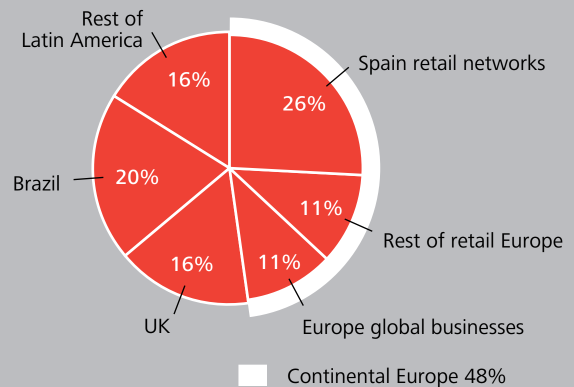
Customers (Millions)	1.9
Branches	763
Employees	6,294
Market share[1]	10%
Ranking[1]	4[6]

SPAIN

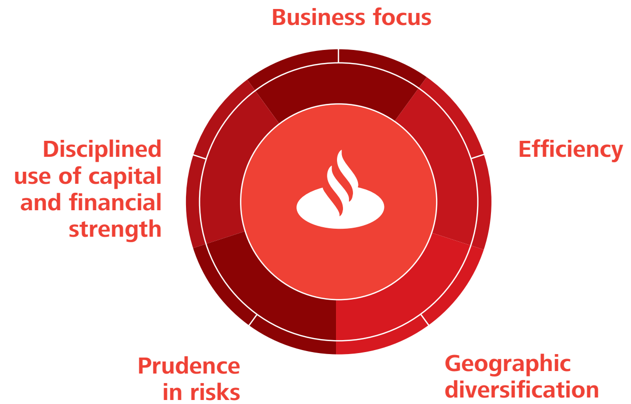
Customers (Millions)	14.7
Branches	4,865
Employees	33,262
Market share[1]	16%
Ranking[1]	1

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

Attributable profit by geographic areas
% of total operating areas



Banco Santander’s business model



Prudence in risks

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

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

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

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

Santander has a low and predictive risk profile

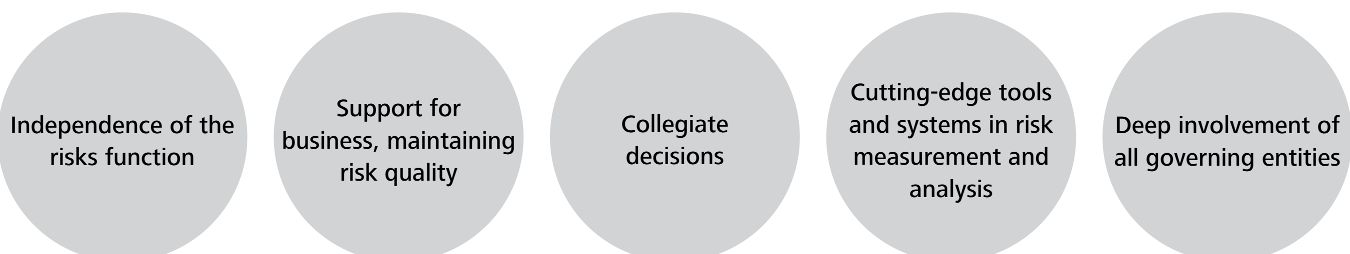
Retail banking is responsible for 85% of Banco Santander’s risk. As it is very close to its customers, Santander knows their risks well and this enables it to act rigorously and with anticipation when admitting, monitoring and recovering loans. Santander’s risks are highly diversified and their concentration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

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

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

During 2009, the Bank reorganized in Spain the function of loan recovery as a new business unit, which led to more active management of recoveries and to a reduction in bad debt entries and lower growth in doubtful loans. This new model of recoveries is being exported successfully to other markets such as Brazil, Chile and Mexico.

Banco Santander’s risk management principles



Disciplined use of capital and financial strength

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

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

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

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

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

Working for a more solid financial system

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

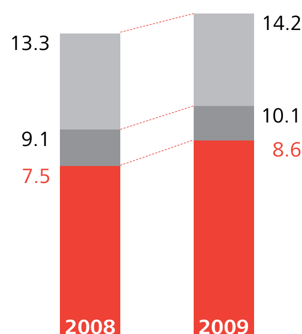
Banco Santander's position regarding the main issue can be summarized as follows:

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

Capital ratios

%

Core capital
Tier I
Ratio BIS



Basic financing ratio*

%

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

The brand

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

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

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

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

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

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

Image and brand plan 2006-2009

- The image and brand plan, whose main objective was to consolidate the Bank as one of the world's top 10 financial brands, was completed in 2009. Today, Santander is among the top three financial brands according to Brand Finance.

- In 2009, significant steps were taken to install the Santander brand in the banks most recently acquired by Banco Santander in key markets.

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

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

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

- Corporate sponsorship continues to be an ideal platform for fostering business via the launch of commercial promotions for customers and non-customers and of products linked to these sponsorships, for the unification of the Bank's global image and its international positioning. The maximum optimization has been achieved, exploiting all its advantages and activating all the tools they offer, in order to strengthen the Bank's relations with customers, shareholders and employees.

- Santander completed its third year of sponsoring the Vodafone McLaren Mercedes team and its second year of sponsoring the Santander Libertadores Cup. In 2009, the return on the sponsorships continued to be very high (€4 for every euro invested).

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

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

Management of corporate marketing

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

INVESTOR INFORMATION

Investor Assistance

Investor requests and inquiries for assistance should be directed to the address listed below, or call the Investor Relations Department at (787) 777-4240, Fax (787) 777-4193, Email: investor.relations@bspr.com

Santander BanCorp
Attn. Investor Relations Department
PO Box 362589
San Juan, PR 00936-2589
For more information, visit the Company's website at www.santandernet.com

Transfer Agent Information

Contact our transfer agent, BNY Mellon Shareowners Services, at the address listed below for the following services:

- to report lost certificates,
- non-receipt of dividend checks, or
- change in registration.

BNY Mellon Shareowners Services
480 Washington Boulevard
Jersey City, N.J. 07310-1900
Tel.: (800) 851-9677

Internet site: www.bnymellon.com

For telephone assistance, call:

Domestic Shareholders	(800) 851-9677
Domestic Hearing Impaired	(800) 231-5469
Foreign Shareholders	(201) 680-6610
Foreign Hearing Impaired	(201) 680-6578

ANNOUNCEMENTS

Stockholders' Meeting

The annual stockholders' meeting of Santander BanCorp will be held on Monday, April 26th, 2010, at 10:00 a.m. in the conference room located on the parking level of:

Santander Tower at San Patricio
B-7 Tabonuco Street
Guaynabo, Puerto Rico

Annual and Quarterly Reports
Corporate Code of Conduct
Corporate Governance Guidelines

To obtain a copy of the Corporation's Annual Report, Forms 10-Q and Form 10-K for the year ended December 31, 2009 (without exhibits), as well as our Corporate Code of Conduct and Corporate Governance Guidelines, stockholders are invited to visit our website at www.santandernet.com or contact our Investor Relations Department at investor.relations@bspr.com or via telephone at (787) 777-4240, Fax (787) 777-4193.

Internet Availability of Materials for the Annual Meeting

The proxy statement, the proxy card, the notice of annual meeting and the Corporation's Annual Report to Shareholders are available at http://bnymellon.mobular.net/bnymellon/sbp.

NYSE Corporate Governance Listing Standards

The CEO's annual certification regarding NYSE's corporate governance listing standards has been made and filed with the NYSE during 2009, as required by Corporate Governance Rule 303A.

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