

**D. Risk Factors**

**Risks Relating to us**

***Since our loan portfolio is highly concentrated in Spain, adverse changes affecting the Spanish economy could have a material adverse effect on our financial condition.***

We historically have developed our lending business in Spain, which continues to be our main place of business. As of December 31, 2005, business activity in Spain accounted for 70.3% of our loan portfolio. See "Item 4. Information on the Company—Selected Statistical Information—Loans by Geographic Area". Any adverse changes affecting the Spanish economy are likely to have a significant adverse impact on our loan portfolio and, as a result, on our financial condition and results of operations.

***A substantial percentage of our customer base is particularly sensitive to adverse developments in the economy, which renders our lending activities relatively riskier than if we lent primarily to higher-income customer segments.***

Medium- and small-size companies and middle and lower middle income individuals typically have less financial strength than large companies and high-income individuals and accordingly can be expected to be more negatively affected by adverse developments in the economy. As a result, it is generally accepted that lending to these segments of our existing and targeted customer base represents a relatively higher degree of risk than lending to other groups.

A substantial portion of our loan portfolio consists of residential mortgages and consumer loans to middle and lower middle income customers and commercial loans to medium- and small -size companies. Consequently, during periods of slowdown in economic activity we may experience higher levels of past due amounts which could result in higher levels of allowance for loan losses. We cannot assure you that we will not suffer substantial adverse effects on our base loan portfolio to these customer segments in the event of adverse developments in the economy.

***Increased exposure to real estate in Spain makes us more vulnerable to developments in this market.***

The sound economic growth, the strength of the labor market and a decrease in interest rates in Spain have caused an increase in the demand for mortgage loans in the last few years. This has had repercussions in housing prices, which have also risen significantly. As residential mortgages are one of our main assets, comprising 44% and 46% of our loan portfolio at December 31, 2004 and 2005, respectively, we are currently highly exposed to developments in real estate markets. A strong increase in interest rates or unemployment in Spain might have a significant negative impact in mortgage payment delinquency rates. An increase in such delinquency rates could have an adverse effect on our business, financial condition and results of operations.

***Highly-indebted households and corporations could endanger our asset quality and future revenues.***

Spanish households and firms have reached, in recent years, a high level of indebtedness, which represents increased risk for the Spanish banking system. The increase of loans referenced to variable interest rates makes debt service on such loans more vulnerable to changes in interest rates than in the past. The increase in households' and firms' indebtedness also limits their ability to incur additional debt, decreasing the number of new products we may otherwise be able to sell them.

***A sudden shortage of funds could cause an increase in our costs of funding and an adverse effect on our operating revenues.***

Historically, one of our principal sources of funds has been savings and demand deposits. Time deposits represented 29.8% and 29.1% of our total funding at December 31, 2004 and 2005, respectively. Large-denomination time deposits may, under some circumstances, such as during periods of significant changes in market interest rates for these types of deposit products and resulting increased competition for such funds, be a less stable source of deposits than savings and demand deposits. In addition, since we rely heavily on short-term deposits for our funding, we cannot assure you that, in the event of a sudden or unexpected shortage of funds in

the banking systems or money markets in which we operate, we will be able to maintain our current levels of funding without incurring higher funding costs or having to liquidate certain of our assets.

***We face increasing competition in our business lines.***

The markets in which we operate are highly competitive. Financial sector reforms in the markets in which we operate have increased competition among both local and foreign financial institutions, and we believe that this trend will continue. For example, the adoption of the euro as the common currency throughout the European Union ("EU") is making it easier for European banks to compete against us in Spain. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which we must now compete.

We also face competition from non-bank competitors, such as:

- department stores (for some credit products);
- leasing companies;
- factoring companies;
- mutual funds;
- pension funds; and
- insurance companies.

We cannot assure you that this competition will not adversely affect our business, financial condition and results of operations.

***Our business is particularly vulnerable to volatility in interest rates.***

Our results of operations are substantially dependent upon the level of our net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Interest rates are highly sensitive to many factors beyond our control, including deregulation of the financial sectors in the markets in which we operate, monetary policies pursued by the European Union and national governments, domestic and international economic and political conditions and other factors.

Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby negatively affect our results of operations. For example, an increase in interest rates could cause our interest expense on deposits to increase more significantly and quickly than our interest income from loans, resulting in a reduction in our net interest income.

In addition, income from treasury operations is particularly vulnerable to interest rate volatility. Since approximately 64% of our loan portfolio consists of variable interest rate loans maturing in more than one year, rising interest rates may also bring about an increase in the non-performing loan portfolio.

***Our financial statements and periodic disclosure under securities laws may not give you the same information as financial statements prepared under U.S. accounting rules and periodic disclosures provided by domestic U.S. issuers.***

Publicly available information about public companies in Spain is generally less detailed and not as frequently updated as the information that is regularly published by or about listed companies in the United States. In addition, although we are subject to the periodic reporting requirements of the United States Securities Exchange Act of 1934 (the "Exchange Act"), the periodic disclosure required of foreign issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Finally, we maintain our financial accounts and records and prepare our financial statements in conformity EU-IFRS, which differs in certain respects from U.S. GAAP, the financial reporting standard to which many investors in the United States may be more accustomed.

## Risks Relating to Latin America

### ***Political events in Mexico could adversely affect our operations.***

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant effect on Mexican private sector entities in general, and on our Mexican subsidiaries in particular.

Mexico's presidential elections were held on July 2, 2006. As of the date of this annual report, the outcome of the election is unknown. A vote recount is currently underway, and the results of the election could be contested. The uncertainty over the results of the election could result in political and economic instability and social unrest, which could adversely affect the business, financial condition and results of operations of our Mexican subsidiaries. Moreover, any new administration could implement significant changes in laws, public policies and government programs, which could have a material adverse effect on the business, financial condition and results of operations of our Mexican subsidiaries.

### ***The devaluation of the Argentine peso, high inflation and other adverse macroeconomic conditions in Argentina and related emergency measures adopted by the Argentine Government in 2001 and 2002 have had, and may continue to have, a material adverse effect on our business, financial condition and results of operations.***

The Argentine economy experienced a severe crisis in 2001 and 2002, marked by the continued movement of capital out of Argentina, the end of convertibility of the Argentine peso, devaluation, and the return of inflation. The crisis had a strong impact on the financial system and jeopardized the solvency and liquidity of banks. In 2004 and 2005, the Argentine economy stabilized and experienced significant growth, but uncertainty regarding the scope, sustainability and pace of the recovery remained. The Argentine economic and social situation has quickly deteriorated in the past and may quickly deteriorate in the future and we cannot assure you that the Argentine economy will continue to experience sustained growth.

The emergency measures adopted by the Argentine government in response to the economic crisis at the end of 2001 and during 2002 that affected our results of operations included: freezing public debt payments, ending convertibility between the Argentinean peso and the dollar, imposing cash withdrawal limits on savings accounts, re-scheduling of term deposit maturities and converting dollar assets and liabilities to Argentine pesos at different exchange rates.

As a result of the emergency measures described above, we have written off our entire investment in Argentina to date. However, despite our provisions and write-downs, a deterioration in the Argentine economy or further emergency measures adopted by the government in Argentina could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that the laws and regulations currently governing the Argentinean economy will not change in the future, or that any changes which may occur will not adversely affect our business, financial condition or results of our operations in the country, or the business which we transact with counterparties located in the country.

### ***Our Latin American subsidiaries' growth, asset quality and profitability may be affected by volatile macroeconomic conditions, including government default on public debt, in the Latin American countries where they operate.***

The Latin American countries in which we operate have experienced significant economic volatility in recent decades, characterized by slow growth, declining investment and significant inflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the