Back to Contents

The following tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for euros and dollars (expressed in dollars per euro), based on the Noon Buying Rate as announced by the Federal Reserve Bank of New York for the dates and periods indicated.

	Rate During Period	
Calendar Period	**Period End ($)**	**Average Rate(1) ($)**
2000	0.9388	0.9207
2001	0.8901	0.8909
2002	1.0485	0.9495
2003	1.2597	1.411
2004	1.3538	1.2478

(1) The average of the Noon Buying Rates for euros on the last day of each month during the period.

	Rate During Period	
Last six months	**High $**	**Low $**
2004		
December	1.3625	1.3224
2005		
January	1.3476	1.2954
February	1.3274	1.2773
March	1.3465	1.2877
April	1.3093	1.2819
May	1.2936	1.2349
June (through June 24, 2005)	1.2320	1.2035

On June 24, 2005, the exchange rate for euros and dollars (expressed in dollars per euro), based on the Noon Buying Rate, was $1.2088.

For a discussion of the accounting principles used in translation of foreign currency-denominated assets and liabilities to euros, see Note 2(b) of our Consolidated Financial Statements.

B. Capitalization and indebtedness.

Not Applicable.

C. Reasons for the offer and use of proceeds.

Not Applicable.

D. Risk factors.

Risks Relating to Our Operations

Since our loan portfolio is concentrated in Continental Europe, the United Kingdom and Latin America, adverse changes affecting the Continental European, the United Kingdom or certain Latin American economies could adversely affect our financial condition.

Our loan portfolio is mainly concentrated in Continental Europe (in particular, Spain), the United Kingdom and Latin America. At December 31, 2004, Continental Europe accounted for approximately 49% of our total loan portfolio, while the United Kingdom and Latin America accounted for 40% and 10%, respectively. Therefore, adverse changes affecting the economies of Continental Europe (in particular Spain), the United Kingdom or the Latin American countries where we operate would likely have a significant adverse impact on our loan portfolio and, as a result, on our financial condition, cash flows and results of operations. See “Item 4. Information on the Company—B. Business Overview.”

Some of our business is cyclical and our income may decrease when demand for certain products or services is in a down cycle.

The level of income we derive from certain of our products and services depends on the strength of the economies in the regions where we operate and certain market trends prevailing in those areas. While we attempt to diversify our businesses, negative cycles may adversely affect our income in the future.

Back to Contents

Since our principal source of funds is short term deposits, a sudden shortage of these funds could increase our cost of funding.

Historically, our principal source of funds has been customer deposits (savings, demand and time deposits). At December 31, 2004 (including Abbey), 20.8% of these customer deposits are time deposits in amounts greater than $100,000. Time deposits have represented 59.5% and 51.7% of total customer deposits at the end of 2002 and 2003, respectively, and 49.4% at the end of 2004 (including Abbey). Large-denomination time deposits may 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, there can be no assurance that we will be able to maintain our levels of funding without incurring higher funding costs or liquidating certain assets.

A substantial percentage of our customer base is particularly sensitive to adverse developments in the economy.

Medium- and small-size companies and middle and lower-middle income individuals can be more adversely affected by adverse developments in the economy than large companies and high income individuals. As a result, our substantial lending to these segments of our existing and targeted customer base causes us to assume a relatively higher degree of risk than if we focused more heavily on the other, more economically stable groups.

Risks concerning borrower credit quality and general economic conditions are inherent in our business.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in Spanish, UK, Latin American or global economic conditions, or arising from systemic risks in the financial systems, could reduce the recoverability and value of our assets and require an increase in our level of provisions for credit losses. Deterioration in the economies in which we operate could reduce the profit margins for our banking and financial services businesses.

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

The decrease in interest rates globally has caused an increase in the demand of mortgage loans in the last few years. This has had repercussions in housing prices, which have also risen significantly. As real estate mortgages are one of our main assets, comprising 50.9% of our loan portfolio at December 31, 2004 (including Abbey), we are currently highly exposed to developments in real estate markets. A strong increase in interest rates 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.

The Group may generate lower revenues from brokerage and other commission- and fee-based businesses.

Market downturns are likely to lead to declines in the volume of transactions that the Group executes for its customers and, therefore, to declines in the Group’s non-interest revenues. In addition, because the fees that the Group charges for managing its clients’ portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of the Group’s clients’ portfolios or increases the amount of withdrawals would reduce the revenues the Group receives from its asset management and private banking and custody businesses.

Even the absence of a market downturn, below-market performance by the Group’s mutual funds may result in increased withdrawals and reduced inflows, which would reduce the revenue the Group receives from its asset management business.

Market risks associated with fluctuations in bond and equity prices and other market factors are inherent in the Group’s business. Protracted market declines can reduce liquidity in the markets, making it harder to sell assets and leading to material losses.

The performance of financial markets may cause changes in the value of the Group’s investment and trading portfolios. In some of the Group’s business, protracted adverse market movements, particularly asset price decline, can reduce the level of activity in the market or reduce market liquidity. These developments can lead to material losses if the Group cannot close out deteriorating positions in a timely way. This may especially be the case for assets of the Group for which there are not very liquid markets to begin with. Assets that are not traded on stock exchanges or other public trading markets, such as derivative contracts between banks, may have values that the Group calculates using models other than publicly quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to losses that the Group did not anticipate.

Despite the Group's risk management policies, procedures and methods, the Group may nonetheless be exposed to unidentified or unanticipated risks.

The Group has devoted significant resources to developing its risk management policies, procedures and assessment methods and intends to continue to do so in the future. Nonetheless, the Group's risk management techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the Group's qualitative tools and metrics for managing risk are based upon the Group's use of observed historical market behavior. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. The Group's losses thus could be significantly greater than the historical measures indicate. In addition, the Group's quantified modeling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could harm the Group's reputation as well as its revenues and profits.

Our recent acquisition of Abbey, and any future acquisitions may not be succesful and may be disruptive to our business.

We have acquired controlling interests in various companies, and more recently, we completed the acquisition of Abbey. Although we expect to realize strategic, operational and financial benefits as a result of the Abbey acquisition, we cannot predict whether and to what extent such benefits will be achieved. In particular, the success of the Abbey acquisition will depend, in part, on our ability to realize the anticipated cost savings from assuming the control of Abbey's business. In addition, we will face certain challenges as we work to integrate Abbey's operations into our businesses. Moreover, the Abbey acquisition increased our total assets by 51.7% as of December 31, 2004, thereby presenting us with significant challenges as we work to manage the increases in scale resulting from the acquisition. Our failure to successfully integrate and operate Abbey, and to realize the anticipated benefits of the acquisition, could adversely affect our operating, performing and financial results. See "Item 4. Information on the Company". History and development of the company." Additionally, we may consider other strategic acquisitions and partnerships from time to time. There can be no assurances that we will be successful in our plans regarding the operation of past or future acquisitions and strategic partnerships.

We can give you no assurance that our acquisition and partnership activities will perform in accordance with our expectations. Despite our due diligence efforts, we must necessarily base any assessment of potential acquisitions and partnerships on inexact and incomplete information and assumptions with respect to operations, profitability and other matters that may prove to be incorrect. We can give no assurance that our expectations with regards to integration and synergies will materialize.

Increased competition in the countries where we operate may adversely affect our growth prospects and operations.

Most of the financial systems in which we operate are highly competitive. Recent 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. In particular, price competition in Europe and Latin America has increased recently. Our success in the European and Latin American markets will depend on our ability to remain competitive with other financial institutions. In addition, there has been a trend towards consolidation in the banking industry, which has created larger and stronger banks with which we must now compete. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations. We also face competition from non-bank competitors, such as brokerage companies, department stores (for some credit products), leasing companies and factoring companies, mutual fund and pension fund management companies and insurance companies.

Volatility in interest rates may negatively affect our net interest income and increase our non-performing loan portfolio.

Changes in market interest rates could affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income leading to a reduction in our net interest income. Income from treasury operations is particularly vulnerable to interest rate volatility. Since the majority of our loan portfolio reprices in less than one year, rising interest rates may also bring about an increasing non-performing loan portfolio. Interest rates are highly sensitive to many factors beyond our control, including deregulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

Foreign exchange rate fluctuations may negatively affect our earnings and the value of our assets and shares.

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the price of our securities on the stock exchanges in which our shares and ADRs are traded. These fluctuations will also affect the conversion to U.S. dollars of cash dividends paid in euros on our shares.

In the ordinary course of our business, we have a percentage of our assets and liabilities denominated in currencies other than the euro. Fluctuations in the value of the euro against other currencies may adversely affect our profitability. For example, the appreciation of the euro against some Latin American currencies and the U.S. dollar will depress earnings from our Latin American operations, and the appreciation of the euro against the sterling will depress earnings from our UK operations. Additionally, while most of the governments of the countries in which we operate have not imposed prohibitions on the repatriation of dividends, capital investment or other distributions, no assurance can be given that these governments will not institute restrictive exchange control policies in the future. Moreover, fluctuations among the currencies in which our shares and ADRs trade could reduce the value of your investment.

Back to Contents

Changes in the regulatory framework in the jurisdictions where we operate could adversely affect our business.

A number of banking regulations designed to maintain the safety and soundness of banks and limit their exposure to risk apply in the different jurisdictions in which our subsidiaries operate. Changes in regulations, which are beyond our control, may have a material effect on our business and operations. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, no assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have an adverse affect on our business.

Operational risks are inherent in our business.

Our businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations.

Different disclosure and accounting principles between Spain and the U.S. may provide you with different or less information about us than you expect.

There may be less publicly available information about us than is regularly published about companies in the United States. While we are subject to the periodic reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”), the disclosure required from foreign issuers under the Exchange Act is more limited than the disclosure required from U.S. issuers. Additionally, we present our financial statements under Spanish GAAP which differs from US GAAP. See note 28 to our consolidated financial statements.

In 2005, the Group will adopt International Financial Reporting Standards (“IFRS”), which will affect the financial results as IFRS differ in significant respects from Spanish GAAP.

Until December 31, 2004, the Group prepared its financial statements in accordance with Spanish GAAP. In June 2002, the Council of Ministers of the EU adopted new regulations requiring all listed EU companies, including Banco Santander, to apply IFRS (previously known as “International Accounting Standards” or “IAS”) in preparing their consolidated financial statements from January 1, 2005. Because IFRS emphasizes the measure of the fair value of certain assets and liabilities, applying these standards to our financial statements may have a considerable impact on a number of important areas, including, among others, goodwill and intangible assets, employee benefits and financial instruments, accounting for share-based payments, long-term assets and business combinations. Because our financial statements prepared in accordance with IFRS will differ from our financial statements prepared in accordance with Spanish GAAP, the me th ods used by the financial community to assess our financial performance and value our publicly-traded securities could be affected.

If we are not able to adequately implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and are the subject of sanctions or investigation, our results of operations and our ability to provide timely and reliable financial information may be adversely affected.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the SEC are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We will be evaluating our internal control over financial reporting to allow management to report on, and our registered independent public accounting firm to attest to, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, which we are required to comply with in our annual report which we will file in 2007 for our 2006 fiscal year. As a result, we expect to incur substantial additional expenses and diversion of management’s time. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by our deadline, we cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations since there is presently no precedent available by which to measure compliance adequacy. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities such as the SEC. Any such action could adversely affect our financial results or investors’ confidence in our company and could cause the price of our securities to fall. In addition, if we fail to develop and maintain effective controls and procedures, we may be unable to provide the financial information in a timely and reliable manner.

Back to Contents

Risks Relating to Latin America

Our Latin American subsidiaries' growth, asset quality and profitability may be adversely affected by volatile macroeconomic conditions.

The economy of the 10 Latin American countries where we operate has experienced significant volatility in recent decades, characterized, in some cases, by slow or regressive growth, declining investment and hyperinflation. This volatility has resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. Latin American banking activities (including Retail Banking, Asset Management and Private Banking and Global Wholesale Banking) accounted for €1,284.8 million of our net attributable income for the year ended December 31, 2004 (a decrease of 2.6% from €1,318.5 million for the year ended December 31, 2003). (This figure does not include goodwill amortization of €342.5 million and €1,979.8 million and financing costs of €517.0 million and €542.3 million -taking into account the euro long-term interest rate, net of taxes- at December 31, 2004 and 2003, respectively). Negative and fluctuating economic conditions, such as a changing interest rate environment, impact our profitability by causing lending margins to decrease and leading to decreased demand for higher margin products and services.

Additionally, the recent economic and political crisis in Argentina which led to the conversion by the Argentine government of all the U.S. dollar-denominated debt which was subject to Argentine laws and jurisdictions into Argentine peso-denominated debt had a negative impact on the Group's Argentine banking subsidiaries. The negative effects on the Group's operations in Argentina included losses generated by this forced conversion of U.S. dollar-denominated debt to Argentine pesos at below market rates, lower lending and deposit-making activities, increased restrictions on the transferability of funds and a larger number of defaults by Argentine customers. Although Argentina's economy continued to recover in 2004, and the results of operations of the Group's Argentine banking subsidiaries have also improved, it is possible that, despite its recent economic growth, Argentina could return to a period of economic and political instability. If this were to occur, the financial condition and results of operations of the Group's Argentine subsidiaries could be materially and adversely affected.

Significant competition in some Latin American countries could intensify price competition and limit our ability to increase our market share in those markets.

Because some of the Latin American countries in which we operate (i) only raise limited regulatory barriers to market entry, (ii) generally do not make any differentiation between locally or foreign-owned banks, (iii) have permitted consolidation of their banks, and (iv) do not restrict capital movements, we face significant competition in Latin America from both domestic and foreign commercial and investment banks.

Latin American economies can be directly and negatively affected by adverse developments in other countries.

Financial and securities markets in Latin American countries where we operate are, to varying degrees, influenced by economic and market conditions in other countries in Latin America and beyond. Negative developments in the economy or securities markets in one country, particularly in an emerging market, may have a negative impact on other emerging market economies. These developments may adversely affect the business, financial condition and operating results of our subsidiaries in Latin America.