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differ from the actual dollar amounts that were translated into pesetas in the preparation of our Consolidated Financial Statements.

(2) The average of the Noon Buying Rates on the last day of each full month during the period.

On January 1, 1999, the peseta became a member currency of the euro, at a fixed conversion rate of €1.00 to Pta. 166.386. Amounts stated in pesetas relating to dates subsequent to January 1, 1999, are accordingly translated into dollars following a two step procedure: first, the peseta amounts are converted into euros at the fixed conversion rate of €1.00 to Pta. 166.386; and second, such euro amounts are translated into dollars using the Noon Buying Rate of dollars per euro.

Beginning January 1, 2002, participating European Union member states such as Spain issued new euro-denominated bills and coins for use in cash transactions. The participating member states have withdrawn the bills and coins denominated in their respective currencies from circulation, and they are no longer legal tender for any transactions. Accordingly, Spain has withdrawn bills and coins denominated in pesetas.

The following table sets 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 for the dates and periods indicated.

Calendar Period	Rate During Period	
	Period End ($)	Average Rate(1) ($)
1999	1.0070	1.0588
2000	0.9388	0.9207
2001	0.8901	0.8909
2002	1.0485	0.9495

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

Last six months	Rate During Period	
	High $	Low $
2002		
December	1.0485	0.9927
2003		
January	1.0861	1.0361
February	1.0875	1.0708
March	1.1062	1.0545
April	1.1180	1.0621
May	1.1853	1.1200

On June 26, 2003, the exchange rate for euros and dollars (expressed in dollars per euro), based on the Noon Buying Rate, was $1.1429.

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. See “Item 4. Information on the Company—B. Business Overview—Monetary Policy and Exchange Controls” for information concerning the peseta in the context of the European Monetary Union.

B. Capitalization and indebtedness.

See “Consolidated Balance Sheet Data” in Item 3. “Key Information—A. Selected Financial Data.”

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 Spain and Latin America, adverse changes affecting the Spanish or Latin American economies could adversely affect our financial condition.

Our loan portfolio is mainly concentrated in Spain and Latin America. At December 31, 2002, 55.9% of our loans were made to Spanish resident borrowers and 20.49% of our loans were made by our Latin American subsidiaries. Therefore, adverse changes affecting the Spanish or Latin America economies in which 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.

Different disclosures 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 U.S. 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 27 to our consolidated financial statements.

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

Historically, our principal sources of funds have been customer deposits (savings, demand and time deposits). At December 31, 2002, 19.7% of these customer deposits are time deposits in amounts greater than $100,000. Time deposits have represented 59.4%, 57.8% and 59.5% of total customer deposits at the end of 2000, 2001 and 2002, respectively. 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 the liquidation of 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 groups.

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 has increased recently. Our success in the European 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 funds and pension funds 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 the 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 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. 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.

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.

Our recent and future acquisitions and strategic partnerships may be disruptive.

We acquired controlling interests in various companies and engaged in other strategic partnerships. See “Item 4. Information on the Company—A. History and development of the Company.” Additionally, we may consider other strategic acquisitions and partnerships from time to time. While we are optimistic about the acquisitions we made, there can be no assurances that we will be successful in our plans regarding the operation of these or other 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.

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 11 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 America banking activities (including Commercial Banking, Asset Management and Private Banking and Global Wholesale Banking) accounted for €1,382.7 million of our net attributable income for the year ended December 31, 2002 (a decrease of 8.2% from €1,506.9 million for the year ended December 31, 2001) (This figure does not include goodwill amortization of €1,043.2 million and €1,648.4 million; financing costs of €756.9 million and €452.0 million -taking into account the euro long-term interest rate, net of taxes- at December 31, 2002 and 2001, respectively, and the special provision reserve for Argentina of €1,244 million made in 2001). Negative and fluctuating economic conditions, such as a changing interest rate environment, impacts our profitability by causing lending margins to decrease and leading to decreased demand for higher margin products and services.

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 only raise limited regulatory barriers to market entry, generally do not make any differentiation between locally or foreign-owned banks, have permitted consolidation of their banks and do not restrict capital movements, we face significant competition in Latin America from both domestic and foreign commercial and investment banks.

We are exposed to foreign exchange and, in some instances, political risks as well as other geographical risks related to the Latin American countries in which we operate, which could cause an adverse impact on our business.

We operate in the banking business in Latin American countries and our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social and political conditions. We are confronted with different legal and regulatory requirements in many jurisdictions, including different tax regimes and laws relating to the repatriation of funds or nationalization of assets. Our international operations also expose us to different local business risks and challenges, such as exchange rate risks, management and control of an international organization and other political risks, which could adversely affect our business.

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.

Our subsidiaries in Argentina may be adversely affected by the current economic condition in Argentina.

By the end of 2001, Argentina suffered a deep social and economic deterioration accompanied by political and economic instability. In reaction to these events, Argentina has imposed severe economic restrictions including (i) suspending payments on Argentina's external debt; (ii) abrogating the convertibility of the Argentine peso (iii) converting U.S. dollar denominated bank-deposits into Argentine peso (ARP)-denominated deposits at an exchange rate of ARP1.40 per $1.00; (iv) converting U.S dollar denominated debts into ARP denominated debts at an exchange rate of ARP1.00 for each U.S. dollar (except internal federal and provincial government debt, which is converted at ARP1.40 per $1.00); (v) restricting bank withdrawals and transfers abroad; (vi) closing down the Argentine banking system for extended periods (vii) enacting changes in the bankruptcy law to protect debtors; (viii) amending the charter of the Argentine Central Bank to provide for increased money supply; and (ix) requiring the sale by all banks of all their foreign currency within Argentina to the Central Bank at an exchange rate of ARP1.40 per $1.00 (this requirement is currently suspended). The resultant shock of these events has caused increased inflation, a volatile exchange rate and reduced economic activity.

It is impossible to predict how the Argentine government will ultimately address the crisis that continues to affect the Argentine economy. The rapid and radical nature of the recent changes in the Argentine social, political, economic and legal environment, including with respect to tax regulations, and the absence of a clear political consensus or any particular set of economic policies, have created great uncertainty. Mr. Néstor Kirchner is the new president of Argentina; his presidential term began on May 25, 2003. How the new president of Argentina will affect the composition of the Argentine government, the laws it promulgates and the economy, and ongoing discussions with the International Monetary Fund regarding a restructuring of the Argentine government's debt, add to the current unstable political and economic environment.

Within this framework, the Argentine banking sector and the Group (by virtue of its ownership of Banco Río and its other Argentine operations) have been affected, in particular, by losses generated by the forced conversion of dollar denominated debt to pesos at below market rates, lower lending and deposit-taking activities, the inability to manage our Argentine business due to forced extended holdings restrictions on transfer of money (including dividends) and a higher probability of our Argentine customers defaulting. We also face an increased potential for defaults among customers heavily invested in, or dependent upon, the Argentine economy and an increased risk based on guarantees and other instruments with recourse to Grupo Santander issued to or in support of their Argentine operations (See in Note 1 to our financial statements the accounting treatments given to this risk).

In light of the uncertainty prevailing in Argentina's economic and political environment, our strategy in this country has been focused on preserving liquidity levels, decreasing sovereign risk exposure, strengthening credit risk control and optimizing the volume and structure of equity. In 2001, we established a special reserve amounting to €1,287.0 million. As of December 31, 2002, the special reserve amounted to €1,623.0 million that covers in full the net book value of and goodwill of our investments in companies located in Argentina, the risk arising from intercompany transactions, as well as the new regulatory requirements on provisions for country risk with third parties as a result of the change in the classification of Argentina. We expect that the deteriorated economic and political environment in Argentina will continue to have a negative impact on our financial condition and results of operations, including as a result of causing us to increase the coverage on our cross-border exposure to obligors in Argentina.

The Argentine government has historically exercised significant influence over the economy. In responding to the on-going crisis, the Argentine government has promulgated numerous, far-reaching and, at times, inconsistent laws and regulations affecting the economy.

We cannot assure you that laws and regulations currently governing the economy will not continue to change in the future or that any changes will not adversely affect our business, financial condition or results of our operations in the country, or with other counterparties located in the country.

Additional risks to investing in Argentina in light of the social and political crises include the potential for: (i) civil unrest, rioting, looting, nationwide protests, widespread social unrest and strikes; (ii) expropriation, nationalization and forced renegotiation or modification of existing contracts; (iii) additional restrictions on repatriation of investments and transfer of funds abroad; (iv) adverse changes to taxation policies, including retroactive tax claims; and (v) further changes in laws and policies of Argentina affecting foreign trade and investment.