

**Börsenzulassungsspekt vom
Dezember 2004**



Banco Espanol de Credito, S.A.
(incorporated with limited liability under the laws of Spain)

Börsenzulassungsspekt

Für die Zulassung der
200.000 Stück
5,5% Non-Cumulative Perpetual Preferred Securities
von 2004 (die "Vorzugszertifikate")

- Emissionspreis: EUR 1.000,- je Vorzugszertifikat-

- ISIN DE000A0DE4Q4
- German Security Code/WKN A0DE4Q

nach § 35 BörsG zum Amtlichen Handel an der Frankfurter Wertpapierbörse.

Inhalt

- Offering Circular dated 3 November 2004
- geprüfter Konzern-Jahresabschluss der Banco Espanol de Credito, S.A zum 31. Dezember 2002 und 2003
- ungeprüfter Zwischenbericht zum 30. September 2004 der Banco Espanol de Credito, S.A.
- Verfügbare Dokumente
- Zusätzliche Angaben

Offering Circular dated 3 November 2004



Banco Español de Crédito, S.A.

(incorporated with limited liability under the laws of Spain)

Series 2 Euro 200,000,000 5.5% Non-Cumulative Perpetual Preferred Securities

Issue price: 100%

Series 2 Euro 200,000,000 5.5% Non-Cumulative Perpetual Preferred Securities of Euro 1,000 liquidation preference each (the "**Preferred Securities**") are being issued by Banco Español de Crédito, S.A. ("**Banesto**" or the "**Issuer**") on 5th November 2004 (the "**Closing Date**").

The Preferred Securities will entitle holders to receive (subject to the limitations described under "**Conditions of the Preferred Securities**") non-cumulative cash distributions ("**Distributions**") accruing from the Closing Date at a rate of 5.5% per annum of the liquidation preference of Euro 1,000 per Preferred Security. Distributions are payable on 5th May and 5th November of each year commencing on 5th May 2005 (each, a "**Distribution Payment Date**").

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank of Spain), in whole, on any Distribution Payment Date provided that the Preferred Securities shall not be redeemable prior to 5th November 2009 unless they cease to qualify as Tier 1 capital pursuant to Spanish banking regulations, at the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined on page 7) to the date fixed for redemption.

In the event of the liquidation of the Issuer, holders of Preferred Securities will be entitled to receive (subject to the limitations described under "**Conditions of the Preferred Securities**"), in respect of each Preferred Security, its liquidation preference of Euro 1,000, plus any accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the liquidation distribution.

The Issuer and its consolidated subsidiaries are referred to herein as the "**Group**".

The Preferred Securities are expected, upon issue, to be assigned an A2 rating by Moody's Investors Services, Inc. ("**Moody's**") and a BBB+ rating by Standard & Poor's Rating Services, a division of the McGraw Hill Companies Inc. ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Potential holders are alerted to the statements on pages 2 and 3 regarding the tax treatment in Spain of income in respect of the Preferred Securities and to the disclosure requirements imposed on the Issuer relating to the identity of certain holders of Preferred Securities. In particular, income in respect of the Preferred Securities will be subject to withholding tax if certain information regarding holders is not received by the Issuer on time as described herein.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited prior to the Closing Date with Clearstream Banking AG, Frankfurt am Main ("**Clearstream Banking Frankfurt**"). The Preferred Securities are also eligible for clearing and settlement through Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), which are both accountholders of Clearstream Banking Frankfurt. Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg are together referred to herein as the "**Clearing Systems**".

Application has been made to list the Preferred Securities on the Official Segment of the stock market of Euronext Amsterdam N.V. ("**Euronext Amsterdam**"). This Offering Circular constitutes a Prospectus for the purposes of the application for listing on Euronext Amsterdam. Application will be made to list the Preferred Securities on the Official Market of the Frankfurt Stock Exchange (the "**Frankfurt Stock Exchange**").

The Preferred Securities have not been, and will not be, registered under the United States Securities Act of 1933 the "**Securities Act**") and are subject to United States tax law requirements. The Preferred Securities are being offered outside the United States by the Managers (as defined in "**Subscription and Sale**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

ABN AMRO

Deutsche Bank

JPMorgan

3rd November 2004

The Issuer, having made all reasonable enquiries confirms that (i) this document contains all information with respect to the Issuer, the Group and the Preferred Securities which is material in the context of the issue and offering of the Preferred Securities, (ii) the statements contained in it relating to the Issuer and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this document with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iii) there are no other facts in relation to the Issuer, the Group or the Preferred Securities the omission of which would, in the context of the issue and offering of the Preferred Securities, make any statement in this document misleading in any material respect and (iv) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer accepts responsibility for the information contained in this Offering Circular.

*This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see **"Documents Incorporated by Reference"** below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.*

*The Managers (as defined in **"Subscription and Sale"**) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Preferred Securities or their distribution.*

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Preferred Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Offering Circular.

This Offering Circular does not constitute an offer of or an invitation to subscribe for or purchase, any Preferred Securities.

*The distribution of this Offering Circular and the offering, sale and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Preferred Securities and on distribution of this Offering Circular and other offering material relating to the Preferred Securities, see **"Subscription and Sale"**.*

In particular, the Preferred Securities have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Preferred Securities may not be offered, sold or delivered in the United States or to U.S. persons.

In this Offering Circular, unless otherwise specified, references to "€", "EUR" or "Euro" are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

This Offering Circular may only be used for the purposes for which it has been published.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of: (a) individual holders who are resident in Spain; and (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July). The Issuer is required, pursuant to Spanish law, to submit to the Spanish tax authorities details relating to the identity and residence of the holders of the Preferred Securities. Holders in respect of whom such information is not provided in accordance with procedures described herein to the Issuer will receive payments subject to Spanish withholding, currently at the rate of 15%. The Issuer will not gross up

payments in respect of any such withholding tax in any of the above cases. (See “Conditions of the Preferred Securities – Taxation” on page 16 and “Taxation and Disclosure of Holder Information in Connection with Payments of Distributions” on page 48.)

The Clearing Systems are expected to follow certain procedures to facilitate the Issuer in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see “Conditions of the Preferred Securities – Form and Status” on page 18). The procedures agreed and more fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

The Issuer may, in the future, make a withholding on payments to holders of Preferred Securities who are subject to corporation tax in Spain if currently held opinions of the Spanish tax authorities change (see “Taxation and Disclosure of Holder Information in Connection with Payments of Distributions – 2. Legal Entities with Tax Residency in Spain” on page 49).

In connection with the issue of the Preferred Securities, J.P. Morgan Securities Ltd. (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules. When conducted by Dutch persons or entities anywhere in the world or by non-Dutch persons or entities in The Netherlands, such stabilising will be conducted in accordance with the rules of the Further Conduct of Business Regulation to the Dutch Securities Market Supervision Act (*Nadere Regeling gedragstoezicht effectenverkeer 2002*) and will in any event be discontinued within 30 days after the Closing Date. Stabilisation transactions conducted on the stock market of Euronext Amsterdam must be conducted by a member of Euronext Amsterdam.

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Documents Incorporated by Reference

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the published annual audited financial statements (on both a consolidated basis and a non-consolidated basis) of the Issuer for the years ending 31st December 2003, 31st December 2002 and 31st December 2001;
- (2) the published semi-annual interim unaudited financial statements of the Issuer (on a consolidated basis) for the six month period ending 30th June 2004;
- (3) the published semi-annual interim unaudited financial statements of the Issuer (on a consolidated basis) for the six month period ending 30th June 2003;
- (4) the published interim unaudited financial statements of the Issuer (on a consolidated basis) for the nine month period ending 30th September 2004; and
- (5) the articles of association (*estatutos sociales*) of the Issuer.

The Issuer will, at the specified offices of the Paying Agents, provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Written or telephone requests for such documents should be directed to the specified offices of any Paying Agent.

Summary

The following summary has been extracted without material adjustment from, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Circular with which it should be read in conjunction. Spanish laws and regulations may differ from laws and regulations in other jurisdictions, and investors should therefore not assume that the Preferred Securities have the same features as preference shares or other similar instruments in any other jurisdiction.

Issuer:	Banco Español de Crédito, S.A. (" Banesto ", the " Bank " or the " Issuer ").
Group:	The Bank and its consolidated subsidiaries.
Issue size:	Euro 200,000,000.
Issue details:	<p>Series 2 Euro 200,000,000 5.5% Non-Cumulative Perpetual Preferred Securities (<i>participaciones preferentes</i>) (the "Preferred Securities"), each with a liquidation preference of Euro 1,000.</p> <p>The Preferred Securities will be governed by the laws of Spain.</p> <p>The Bank will request that the Preferred Securities qualify as Tier I capital of the Group pursuant to Spanish banking regulations.</p>
Liquidation Preference:	Euro 1,000 per Preferred Security.
Use of Proceeds:	<p>The proceeds of the issue of the Preferred Securities, after paying any issue expenses, will be, in accordance with Law 13/1985, of 25th May, on investment ratios, capital adequacy and information requirements for financial intermediaries (<i>Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros</i>) ("Law 13/1985"), as amended by Law 19/2003, of 4th July, on foreign capital movements and financial transactions and on certain measures to prevent money laundering (<i>Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales</i>) ("Law 19/2003") available to absorb losses of the Bank if and when they occur once there is a reduction in the shareholder's equity to zero and its reserves have been exhausted. The funds raised from the issue of the Preferred Securities will be used for the Group's general corporate purposes.</p>
Distributions (<i>retribución</i>):	<p>The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions ("Distributions"). Distributions on the Preferred Securities will accrue from the Closing Date and will be payable, subject to the Limitations on Distributions described below, out of the Issuer's own legally available resources and distributable items on 5th May and 5th November in each year commencing on 5th May 2005 (each a "Distribution Payment Date").</p> <p>Distributions will be payable semi-annually at the distribution rate of 5.5% per annum of the Liquidation Preference (the "Distribution Rate"). The Distribution amount payable will be computed by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security and multiplying the product by the number of days in such Distribution Period divided by 360 (the number of days to be</p>

calculated on the basis of a year of 360 days with 12 30-day months) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Limitations on Distributions:

Distributions shall not be payable to the extent that:

(a) the aggregate of such Distributions, together with any other distributions previously paid during the then-current Fiscal Year (as defined below) and any distributions proposed to be paid during the then-current Distribution Period (as defined below) in each case on or in respect of Parity Securities (as defined below) (including the Preferred Securities) would exceed the Distributable Profits (as defined below) of the immediately preceding Fiscal Year; or

(b) even if Distributable Profits are sufficient, to the extent that under applicable Spanish banking regulations affecting financial institutions which fail to meet their required capital ratios, the Bank would be prevented at such time from making payments on Parity Securities issued by it.

If Distributions are not paid on the Preferred Securities on or prior to a Distribution Payment Date in respect of the relevant Distribution Period or are paid partially, as a consequence of the above Limitations on Distributions, the right of the holders of the Preferred Securities to receive a Distribution or an unpaid part thereof in respect of the relevant Distribution Period will be extinguished.

If Distributions are not paid on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations set out above, then the Issuer shall not (i) pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities, until such time as the Issuer shall have resumed the payment in full of Distributions on all outstanding Preferred Securities for two succeeding consecutive Distribution Payment Dates; or (ii) declare or pay any distribution or dividend and, where applicable, will procure that no distribution or dividend is declared or paid, on any Parity Securities during the then Fiscal Year until such time as the Issuer shall have resumed the payment of, or set aside payment with respect to, full or *pro rata* payment of dividends or distributions on all outstanding Preferred Securities.

“Distribution Period” means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next succeeding Distribution Payment Date;

“Distributable Profits” means in respect of any Fiscal Year of the Issuer the reported net profit (calculated in compliance with the regulations of the Bank of Spain) of the Issuer, determined after tax and extraordinary items for such year, as derived from the non-consolidated audited profit and loss account of the Issuer, irrespective of whether shareholders’ meeting approval is still pending, prepared in accordance with generally applicable accounting standards in Spain, Bank of Spain requirements and guidelines, each as in effect at the time of such preparation. In the event that on any Distribution Payment Date, the profit and loss account of the Issuer referred to above has not been audited, the Distributable Profits shall be determined by reference to the non-

	consolidated profit and loss account of the Issuer sent to the Bank of Spain for the period ending 31st December of the previous Fiscal Year;
	“Fiscal Year” means the accounting year of the Issuer, as set out in its by-laws; and
	“Parity Securities” means (as the case may be) any preferred securities (<i>participaciones preferentes</i>) or other securities or instruments equivalent to preferred securities issued by the Issuer and ranking <i>pari passu</i> with respect to the participation in profits and assets of the Issuer, or by any subsidiary of the Issuer which are guaranteed by the Issuer, including (but not limited to) the preference shares issued by Banesto Holdings, Ltd. and the preferred securities issued by Banesto Preferentes, S.A., which are entitled to the benefit of a guarantee ranking <i>pari passu</i> with the Issuer’s obligations under the Preferred Securities.
Ranking of the Preferred Securities:	<p>The Preferred Securities will rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) <i>pari passu</i> with each other and with any Parity Securities and (c) senior to the Issuer’s ordinary shares and any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities.</p> <p>The Issuer may not issue any preferred securities or securities or other instruments equivalent to preferred securities ranking senior to the Preferred Securities.</p>
Optional Redemption:	The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain in whole at the Redemption Price per Preferred Security on any Distribution Payment Date provided that the Preferred Securities shall not be redeemable prior to 5th November 2009 unless they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.
Liquidation Distribution:	The Liquidation Preference per Preferred Security plus, if applicable, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.
Liquidation Rights:	<p>Except in certain circumstances, the Preferred Securities will confer no right to participate in profits or surplus assets of the Issuer.</p> <p>In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer or a reduction in the Issuer’s shareholders’ equity pursuant to Article 169 of the Spanish Corporations Law (<i>Ley de Sociedades Anónimas</i>), the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer the Liquidation Distribution after payment in full, in accordance with Spanish law, of all creditors of the Issuer, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank <i>pari passu</i> with or junior to the Issuer’s obligations under the Preferred Securities and holders of ordinary shares and any other class of share capital or securities issued by the Issuer and expressed to rank junior to the Preferred Securities. Such entitlement will rank equally among the Preferred Securities and any Parity Securities issued by the Issuer.</p>

Purchases:	None of the Issuer or any of its Subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 5th November 2009. In the event that such purchases are permitted by law before 5th November 2009, they may be made by tender, in the open market or by private agreement.
Pre-emptive rights:	The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities.
Voting Rights:	The Preferred Securities shall not confer an entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Issuer.
Withholding Tax:	<p>Save as set out below, all payments of Distributions and other amounts in respect of the Preferred Securities will be made free and clear of withholding taxes of the Kingdom of Spain, subject to customary exceptions.</p> <p>The payment of Distributions and other amounts in respect of the Preferred Securities will be subject to Spanish withholding taxes, in the circumstances described below. In such circumstances, the Issuer will not pay any additional amounts to holders of Preferred Securities.</p> <p>Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15%, in the case of: (a) individual holders who are resident in Spain; and (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991, of 5th July).</p> <p>In addition, holders in respect of whom information regarding their identity and tax residence is not received by the Bank will receive payments subject to Spanish withholding tax currently at the rate of 15%. See "Conditions of the Preferred Securities – Taxation" on page 16.</p>
Disclosure of identity of holders:	<p>Under Law 13/1985 (as amended by Law 19/2003), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities.</p> <p>The Clearing Systems are expected to follow certain procedures to facilitate the collection of details referred to above from holders of the Preferred Securities (see "Conditions of the Preferred Securities – Taxation" on page 16). If the Clearing Systems are, in the future, unable to comply with any requirements which may be imposed upon them, whether by law, regulation or otherwise, they may refuse to allow the Preferred Securities to be cleared through the Clearing Systems and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities.</p> <p><i>The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to</i></p>

ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

Form:

The Preferred Securities will be issued in bearer form and will be represented by a single global Preferred Security deposited with Clearstream Banking Frankfurt prior to the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg, which are both accountholders of Clearstream Banking Frankfurt.

Accordingly, for so long as the Preferred Securities are so deposited, holders will have no direct rights against the Issuer and such rights will only be exercisable via the relevant clearing system. Definitive Preferred Securities will only be issued directly to holders in exceptional circumstances.

Ratings:

The Preferred Securities are expected, on issue, to be assigned an A2 rating by Moody's and a BBB+ rating by S&P.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Governing Law:

The Preferred Securities will be governed by the laws of Spain.

Listing:

Application will be made to list the Preferred Securities on Euronext Amsterdam and on the Frankfurt Stock Exchange.

Substitution of Issuer:

Subject to certain restrictions, the Issuer may be substituted as principal obligor in respect of the Preferred Securities. See "Conditions of the Preferred Securities – Substitution".

Conditions of the Preferred Securities

The Preferred Securities are issued by virtue of the resolutions of (i) the shareholders' meeting of the Issuer held on 27th December 2001 and (ii) the board of directors of the Issuer held on 21st September 2004 (together, the **"Corporate Resolutions"**) and in accordance with Law 13/1985, of 25th May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) (**"Law 13/1985"**), as amended by Law 19/2003, of 4th July, on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*) (**"Law 19/2003"**).

The Preferred Securities will be created by virtue of a public deed registered with the Mercantile Registry of Madrid on or prior to the Closing Date (as defined below) (the **"Public Deed of Issuance"**).

Paragraphs in italics are a summary of certain procedures of Clearstream Banking AG, Frankfurt am Main (**"Clearstream Banking Frankfurt"**), Euroclear Bank S.A./N.V. as operator of the Euroclear System (**"Euroclear"**) and Clearstream Banking, société anonyme (**"Clearstream, Luxembourg"**) together with Clearstream Banking Frankfurt and Euroclear, the **"Clearing Systems"**) and certain other information applicable to the Preferred Securities and do not form part of the Conditions of the Preferred Securities. The Clearing Systems may, from time to time, change their procedures.

1. Definitions

For the purposes of the Preferred Securities, the following expressions shall have the following meanings:

"Agent Bank" means JPMorgan Chase Bank and includes any successor agent bank appointed in accordance with the Paying Agency Agreement;

"CET" means Central European Time;

"Closing Date" means 5th November 2004;

"Distributions" means the non-cumulative cash distributions determined in accordance with paragraph 2.2 below;

"Distribution Payment Date" means 5th May and 5th November in each year commencing on 5th May 2005;

"Distribution Period" means the period from and including one Distribution Payment Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next succeeding Distribution Payment Date;

"Distributable Profits" means in respect of any Fiscal Year of the Issuer the reported net profit (calculated in compliance with the regulations of the Bank of Spain) of the Issuer, **determined after tax and extraordinary items for such year, as derived from the non-consolidated audited profit and loss account of the Issuer, irrespective of whether shareholders' meeting approval is still pending, prepared in accordance with generally applicable accounting standards in Spain, Bank of Spain requirements and guidelines, each as in effect at the time of such preparation.** In the event that on any Distribution Payment Date, the profit and loss account of the Issuer referred to above has not been audited, the Distributable Profits shall be determined by reference to the non-consolidated profit and loss account of the Issuer sent to the Bank of Spain for the period ending 31st December of the previous Fiscal Year;

"Fiscal Year" means the accounting year of the Issuer, as set out in its by-laws;

"Group" means the Issuer together with its consolidated Subsidiaries;

"Liquidation Distribution" means, subject to the limitation set out under paragraph 2.7 below, the Liquidation Preference per Preferred Security plus an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution;

"Liquidation Preference" means Euro 1,000 per Preferred Security;

"Offering Circular" means the offering circular dated 3rd November 2004 relating to the Preferred Securities;

"Parity Securities" means (as the case may be) any preferred securities (*participaciones preferentes*) or other securities or instruments equivalent to preferred securities issued by the Issuer and ranking *pari passu* with respect to the participation in profits and assets of the Issuer, or by any subsidiary of the Issuer which are guaranteed by the Issuer, including (but not limited to) the preference shares issued by Banesto Holdings, Ltd. and the preferred securities issued by Banesto Preferentes, S.A., which are entitled to the benefit of a guarantee ranking *pari passu* with the Issuer's obligations under the Preferred Securities;

"Paying Agency Agreement" means the paying agency agreement dated 3rd November 2004 relating to the Preferred Securities;

"Paying Agents" means the Principal Paying Agent and the other agents named therein and includes any successors thereto appointed from time to time in accordance with Clause 12 (Changes in Agents) of the Paying Agency Agreement;

"Payment Business Day" means a day on which banks in the relevant place of presentation are open for presentation and payment of bearer securities and for foreign exchange dealings and on which TARGET is operating;

"Preferred Securities" means the preferred securities described in this Offering Circular;

"Principal Paying Agent" means JPMorgan Chase Bank (or any successor Principal Paying Agent appointed by the Issuer from time to time and notice of whose appointment is published in the manner specified in paragraph 8 below);

"Redemption Price" means the Liquidation Preference plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption per Preferred Security;

"Special General Meeting" means a meeting of holders of Parity Securities of the Issuer;

"Subsidiary" means any entity over which the Issuer may have, directly or indirectly, control in accordance with Article 4 of the Securities Market Act (*Ley del Mercado de Valores*); and

"TARGET" means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System.

2. Distributions

2.1 Subject to paragraph 2.5, Distributions on the Preferred Securities will accrue from the Closing Date and are payable in arrear on each Distribution Payment Date.

2.2 Distributions payable on the Preferred Securities will accrue at a rate of 5.5% (the **"Distribution Rate"**) per annum of the Liquidation Preference thereof.

2.3 The Agent Bank will in relation to each Distribution Period, calculate the amount of Distribution payable in respect of each Preferred Security for such Distribution Period. The Distribution will be calculated by applying the Distribution Rate to the Liquidation Preference of such Preferred Security and multiplying the product by the number of days in such Distribution Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

2.4 The Issuer will be discharged from its obligations(s) to pay Distributions declared on the Preferred Securities by payment to the Agent Bank for the account of the holder of the relevant Preferred Securities on or after the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the Agent Bank.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, it will be postponed to the next Payment Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Payment Business Day. In neither case will any further interest accrue.

In order to facilitate compliance with Law 13/1985, as amended by Law 19/2003, Royal Decree 1778/2004, Royal Decree 4/2004 and Order of 22nd December 1999, the Issuer, the Principal Paying Agent, the Clearing Systems and their respective participants have initially established certain procedures to ensure that each payment (where applicable subject to withholding in accordance with paragraph 7 (Taxation)) shall be received for the account of such person as the Clearing Systems or their respective participants, as the case may be, have certified to be the beneficial owner (*titular*) of the relevant Preferred Security in their "certificate for own account investments" or "certificate for third party investments" as of the Distribution Payment Date in accordance with the procedures described in the Paying Agency Agreement. (See also "Taxation and Disclosure of Holder Information in Connection with Payments of Distributions" in the Offering Circular).

The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

It is intended that the Preferred Securities will be represented by a global Preferred Security in bearer form for the total number of the Preferred Securities. Such global Preferred Security will be delivered into the physical custody of Clearstream Banking Frankfurt prior to the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg, which are both accountholders of Clearstream Banking Frankfurt. The Clearing Systems will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.

2.5 Distributions shall not be payable to the extent that:

2.5.1 the aggregate of such Distributions, together with any other distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities (including the Preferred Securities) would exceed the Distributable Profits of the immediately preceding Fiscal Year; or

2.5.2 even if Distributable Profits are sufficient, to the extent that under applicable Spanish banking regulations affecting financial institutions which fail to meet their required capital ratios, the Issuer would be prevented at such time from making payments on Parity Securities issued by it.

Except for the limitations set out above, Distributions on the Preferred Securities will be payable, on each Distribution Payment Date, out of the Issuer's own legally available resources and distributable items.

2.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities as a result of the limitations set out in paragraph 2.5 above or are paid partially, then the right of the holders of the Preferred Securities to receive a Distribution or an unpaid part thereof in respect of the relevant Distribution Period will be extinguished and the Issuer will have no obligation to pay the Distribution accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

2.7 If, as a result of the limitations described in paragraph 2.5 above, a Distribution is not paid in full on the Preferred Securities and any Parity Securities, all distributions paid upon the Preferred Securities and any Parity Securities will be paid *pro rata* in relation to the liquidation preference of such securities. Therefore, the Distribution amount to be received by the holders of Preferred Securities on such Distribution Payment Date will depend on the total liquidation preference amount of the outstanding Preferred Securities and Parity Securities, and on the distributions scheduled to be paid on such securities (but for such limitations), each as of the time of such payment.

2.8 If Distributions are not paid on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations set out above, then the Issuer

shall not (i) pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities, until such time as the Issuer shall have resumed the payment in full of Distributions on all outstanding Preferred Securities for two succeeding consecutive Distribution Payment Dates; or (ii) declare or pay any distribution or dividend and, where applicable, will procure that no distribution or dividend is declared or paid, on any Parity Securities until such time as the Issuer shall have resumed the payment of, or set aside payment with respect to, full or *pro rata* payment of Distributions on all outstanding Preferred Securities.

2.9 Save as described in this paragraph 2, the Preferred Securities will confer no right to participate in the profits of the Issuer.

3. Liquidation Distribution

3.1 In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer or a reduction in the Issuer's shareholders' equity pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer the Liquidation Distribution after payment in full, in accordance with Spanish law, of all creditors of the Issuer, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to the Issuer's obligations under the Preferred Securities and holders of ordinary shares and any other class of share capital or securities issued by the Issuer and expressed to rank junior to the Preferred Securities. Such entitlement will rank equally among the Preferred Securities and any Parity Securities issued by the Issuer.

3.2 After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in paragraph 3.1, such Preferred Security will confer no further right or claim to any of the remaining assets of the Issuer.

4. Optional Redemption

4.1 The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain in whole at the Redemption Price per Preferred Security on any Distribution Payment Date (the "**Redemption Date**") provided that the Preferred Securities shall not be redeemable prior to 5th November 2009 unless they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.

4.2 The decision to redeem the Preferred Securities must be irrevocably notified by the Issuer upon not less than 30 nor more than 60 days' notice prior to the Redemption Date in accordance with paragraph 8 below.

4.3 If the Issuer gives notice of redemption of the Preferred Securities, then by 12:00 (London time) on the Redemption Date, the Issuer will:

4.3.1 irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

4.3.2 give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to the holders of the Preferred Securities.

4.4 If the notice of redemption has been given, and the funds deposited as required, then on the date of such deposit:

4.4.1 Distributions on the Preferred Securities called for redemption (save in respect of any accrued Distributions prior to the Redemption Date) shall cease;

4.4.2 such Preferred Securities will no longer be considered outstanding; and

4.4.3 the holders will no longer have any rights as holders except the right to receive the Redemption Price.

4.5 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Issuer improperly withholds or refuses to pay the Redemption Price of the Preferred Securities, Distributions will continue to accrue at the rate specified from the Redemption Date to the date of actual payment of the Redemption Price.

5. Purchases of Preferred Securities

In order to comply with certain Spanish capital adequacy regulations in force as at the Closing Date, neither the Issuer nor any Subsidiary shall at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 5th November 2009. Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before 5th November 2009, then, subject to the applicable law then in force, the Issuer or any Subsidiary may at any time and from time to time purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

Any Preferred Securities so purchased by the Issuer shall be cancelled immediately.

6. Exercise of Rights by Holders of Preferred Securities

6.1 Amendment to the terms and conditions of the Preferred Securities

6.1.1 Any amendment to the terms and conditions of the Preferred Securities shall be approved by the holders of the Preferred Securities. Such amendments will be approved with the written consent of holders of at least two-thirds of the holders of the outstanding Preferred Securities or by a resolution of the holders of the outstanding Preferred Securities convened for such purposes with the quorum and majorities set out below.

6.1.2 Such resolution shall be made by an absolute majority of holders of the Preferred Securities present or represented with an attendance of two-thirds of the outstanding Preferred Securities, and will be binding on all the holders of the Preferred Securities issued and outstanding, including those not in attendance and dissenters.

6.1.3 If two-thirds of holders of the Preferred Securities in circulation are not represented by those attending, the holders of Preferred Securities may re-convene one day after the first meeting and the resolution may then be taken by an absolute majority of those in attendance. The resolution shall be binding on holders of the Preferred Securities as described above.

6.1.4 Meetings of holders of the Preferred Securities will be convened (i) so long as any Preferred Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (*Börsenpflichtblatt*) (which is expected to be the *Börsen-Zeitung*) and in the Federal Gazette (*Bundesanzeiger*), (ii) so long as any Preferred Security is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation and (iii) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

6.2 Further issuances of preferred securities

6.2.1 If the Issuer has paid in full the most recent distribution payable on each series of the Issuer's outstanding Parity Securities, the Issuer may without the consent or sanction of the holders of its Parity Securities: (i) take any action required to issue additional Parity Securities or authorise, create and issue one or more other series of Parity Securities of the Issuer ranking equally with the Preferred Securities, as to the participation in the profits and assets of the Issuer, without limit as to the amount (including the issue of preferred securities having the same terms and conditions as the Preferred Securities in all respects (or in all respects except for the first distribution payment) so as to form a single series with the Preferred Securities, provided such further preferred securities comply with Spanish capital adequacy rules in force at the time of their issue); (ii) take any action required to authorise, create and issue one or more other classes or series of shares of the Issuer ranking junior to the Preferred Securities, as to the participation in the profits or assets of the Issuer or (iii) take any action required to guarantee any issue of Parity Securities by any Subsidiary.

6.2.2 However, if the Issuer has not paid in full the most recent distribution payable on each series of outstanding Parity Securities, then the prior consent of the holders of the outstanding Parity Securities of the Issuer will be required to carry out such actions. Such

consent may be granted in writing by the holders of at least two-thirds of the aggregate liquidation preference of all Parity Securities issued and outstanding, or with the sanction of a resolution passed at a Special General Meeting of holders.

6.2.3 A Special General Meeting, which will be constituted by all holders of Parity Securities of the Issuer, will be called by the board of directors of the Issuer.

6.2.4 The quorum shall be the holders of Parity Securities holding two-thirds of the aggregate liquidation preference of all Parity Securities issued and outstanding. If the attendance of two-thirds of the aggregate liquidation preference of Parity Securities issued and outstanding cannot be obtained, such Special General Meeting may be re-convened one day after the first meeting and such meeting shall be validly convened irrespective of the aggregate nominal amount of Parity Securities present or represented and the resolution at such re-convened meeting may be adopted by absolute majority of the liquidation preference of the attendees. This resolution shall be binding on all holders of Parity Securities, including those not in attendance and dissenters.

6.2.5 All holders of Parity Securities who are able to show that they held their securities five days prior to the date of the Special General Meeting shall be entitled to attend with the right to speak and vote. Holders of Parity Securities shall prove that they held Parity Securities in the manner and subject to the requirements set out in the announcement published when convening such Special General Meeting. Holders of the Parity Securities may delegate their representation to another person, by an individual signed letter for each meeting.

6.2.6 The convening of a Special General Meeting will be carried out in accordance with the rules governing the calling and holding of meetings of holders of each series of Parity Securities.

6.3 Voting rights, Pre-emptive Rights and other provisions

6.3.1 The holders of the Preferred Securities will have no voting rights.

6.3.2 The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities.

6.3.3 Neither the Issuer nor any Subsidiary may issue, or guarantee the issue of, any preferred securities or securities or other instruments equivalent to preferred securities ranking, either directly or via a guarantee, senior to the Preferred Securities, unless the terms and conditions of the Preferred Securities are amended so as to rank *pari passu* with any such issue of senior securities.

6.3.4 No vote in respect of the Preferred Securities will be required for the Issuer to redeem and cancel the Preferred Securities.

6.3.5 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described under paragraphs 6.1 and 6.2 above, neither the Issuer nor any Subsidiary, to the extent that it is a holder of Preferred Securities or Parity Securities, as the case may be, shall be so entitled to vote.

6.3.6 The Preferred Securities may be transferred in accordance with the procedures established therefor with the relevant Clearing System.

7. Taxation

7.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as would have been received had no such withholding or deduction been required.

7.2 The Issuer shall not be required to pay any additional amounts as referred to in paragraph 7.1 in relation to any payment in respect of Preferred Securities:

- (i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with The Kingdom of Spain other than the mere holding of Preferred Securities; or
- (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer, or the Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as set out in order to comply with Law 13/1985, as amended by Law 19/2003, Royal Decree 1778/2004 of 30th July, Royal Legislative Decree 4/2004 of 5th March and Order of 22nd December 1999; or
- (iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
- (iv) where the withholding or deduction referred to in paragraph 7.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a holder of Preferred Securities who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to another paying agent in a Member State of the European Union; or
- (vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5th July); or
- (vii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish Corporation Tax if the Spanish tax authorities determine that the Preferred Securities do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27th July 2004 and require a withholding to be made.

A list of the tax havens referred to in paragraph 7.2(vi) as at the date of the Offering Circular is set out on page 50 of the Offering Circular.

7.3 For the purposes of paragraph 7, the **"Relevant Date"** means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of Preferred Securities, notice to that effect shall have been duly given to the holders of Preferred Securities in accordance with paragraph 8 below.

See "Taxation and Disclosure of Holder Information in Connection with Payments of Distributions" for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer relating to the identity of holders of Preferred Securities.

8. Notices

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (*Börsenpflichtblatt*) (which is expected to be the *Börsen-Zeitung*) and in the Federal Gazette (*Bundesanzeiger*), (ii) so long as any Preferred Security is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation and (iii) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

In accordance with their published rules and regulations, each of Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg will notify holders of securities accounts with it to which any Preferred Securities are credited of any such notices received by it.

9. Form and Status

The Preferred Securities will be issued in bearer form.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Issuer to Clearstream Banking Frankfurt. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg, which are both accountholders of Clearstream Banking Frankfurt. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant clearing system. It is anticipated that only in exceptional circumstances (such as the closure of Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg and failure to comply with the terms and conditions of the Preferred Securities by the Issuer) will definitive Preferred Securities be issued directly to such accountholders.

The Preferred Securities rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities and (c) senior to the Issuer's ordinary shares and any other class of share capital or securities issued by it and expressed to rank junior to the Preferred Securities.

10. Use of Proceeds

The net proceeds of the Preferred Securities are Euro 197,000,000 and will be used for the Group's general corporate purposes.

In accordance with Law 13/1985, as amended by Law 19/2003, the funds raised from the issue of the Preferred Securities will be available to absorb losses of the Issuer if and when they occur once there is a reduction in the shareholders' equity to zero and its reserves have been exhausted.

11. Agents

The Issuer shall at all times maintain a Paying Agent with a specified office in a European Member State that will not be obliged to withhold or deduct tax pursuant to European Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN council meeting of 26th-29th November 2000 on the taxation of savings income or complying with or introduced in order to conform with such directive.

In acting under the Paying Agency Agreement and in connection with the Preferred Securities, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the holders of the Preferred Securities.

The initial Paying Agents and their initial specified offices are listed in the Paying Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that if, and for so long as, the Preferred Securities are listed on Euronext Amsterdam and the Frankfurt Stock Exchange and the rules of such exchanges so require, the Issuer shall maintain a Paying Agent having its specified office in Amsterdam and Frankfurt am Main.

Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given to the holders of the Preferred Securities.

12. Prescription

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within three years of the relevant payment date.

13. Substitution

For the purposes of this clause, "Issuer" shall include any future Substituted Issuer (as defined below).

The Issuer may, without the consent of the holders of Preferred Securities but, subject to the prior consent of the Bank of Spain, if required, be replaced and substituted by any company of which 100% of the shares or other equity interests (as the case may be) carrying the right to vote are directly or indirectly owned by Banco Español de Crédito, S.A. (or its successors or assigns ("Banesto") as principal obligor (in such capacity, the "Substituted Issuer") in respect of the Preferred Securities provided that:

- (i) the Substituted Issuer shall undertake in favour of each holder of Preferred Securities to be bound by the Terms and Conditions of the Preferred Securities and the provisions of the Paying Agency Agreement as fully as if the Substituted Issuer had been named in the Preferred Securities and the Paying Agency Agreement as the principal obligor in respect of the Preferred Securities in place of the Issuer (or any previous substitute);
- (ii) Banesto shall unconditionally and irrevocable guarantee in favour of each holder of Preferred Securities the payment of all sums payable by the Substituted Issuer as such principal obligor;
- (iii) holders of Preferred Securities shall be indemnified and held harmless against all taxes or duties which arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective or any expenses or costs whatsoever, which may be incurred or levied against such holder as a result of any substitution pursuant to this paragraph and which would not have been so incurred or levied had such substitution not been made (and, without limiting the foregoing, any and all taxes or duties which are imposed on any such holder by any political sub-division or taxing authority of any country in which such holder resides or is subject to any such tax or duty and which would not have been so imposed had such substitution not been made);
- (iv) all action, conditions and things required to be taken, fulfilled and done, including all necessary governmental and regulatory approvals and consents, for such substitution and for the giving by Banesto of the guarantee in respect of the obligations of the Substituted Issuer shall have been taken, fulfilled and done and are in full force and effect;
- (v) each stock exchange which has the Preferred Securities listed thereon shall have confirmed that following the proposed substitution of the Substituted Issuer the Preferred Securities would continue to be listed on such stock exchange;
- (vi) the Issuer shall have delivered to the Principal Paying Agent or procured the delivery to the Principal Paying Agent of (a) a legal opinion from a leading firm of lawyers in the country of incorporation of the Substituted Issuer, to the effect that the Preferred Securities and the Paying Agency Agreement constitute legal, valid and binding and enforceable obligations of the Substituted Issuer, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Issuer for the Issuer; and (b) a legal opinion from a leading firm of Spanish lawyers to the effect that the Paying Agency Agreement and the guarantee constitute legal, valid and binding and enforceable obligations of Banesto, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Issuer for the Issuer;
- (vii) there are no outstanding unpaid amounts in respect of the Preferred Securities on the date of substitution of the Substituted Issuer for the Issuer;
- (viii) any credit rating assigned to the Preferred Securities will remain the same or be improved when the Substituted Issuer replaces and is substituted for the Issuer in respect of the Preferred Securities;
- (ix) the Issuer shall have given prior notice of such substitution to the holders of Preferred Securities in accordance with paragraph 8 above, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to holders of Preferred Securities, will be available for inspection at the specified offices of the Principal Paying Agent; and

- (x) the substitution of the Substituted Issuer for the Issuer shall, if so required, be published in the Official Gazette of the Mercantile Registry (BORME) and registered with the relevant Mercantile Registry, prior the date of substitution of the Substituted Issuer for the Issuer.

14. Governing Law and Jurisdiction

14.1 Governing Law

The Preferred Securities shall be governed by, and construed in accordance with, Spanish law.

14.2 Jurisdiction

The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "Proceedings") may be brought in such courts. The Issuer irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

Capitalisation of the Group

The following table sets forth the unaudited consolidated capitalisation of the Group at 30th June 2004:

	<i>(Thousands of Euros) (unaudited)</i>
Long-term debt:	
Subordinated debt	1,872,316
Other long-term debt	7,651,436
Total long-term debt⁽¹⁾	9,523,752
Stockholders' equity:	
Capital and Reserves	2,802,456
Net income	271,414
Less treasury stock	(4,361)
Less Losses on consolidated companies	(193,382)
Total stockholders' equity⁽¹⁾	2,876,127
Total capitalisation	12,399,879

Except for the issues described in the footnote to the table, there has been no material change in the capitalisation of the Group since 30th June 2004.

The share capital of the Issuer at 30th June 2004 is 1,027,608,545 made up of 694,330.098 issued and fully paid up ordinary shares of nominal value EUR 1.48 each and of a single class. There are no other classes of shares.

- (1) Since 30th June 2004, long-term debt (and, hence, total capitalisation) has increased as a result of:
- (a) the issue by Banesto of EUR 1,750 million of *cédulas hipotecarias* on 16th September 2004; and
 - (b) the issue by the Group of EUR 2,000 million of senior debt guaranteed by Banesto on 4th October 2004.

Banco Español de Crédito, S.A. and its Group

Banco Español de Crédito, S.A. ("Banesto" or the "Bank"), together with its consolidated subsidiaries (the "Group"), is one of the largest financial groups in Spain, with total assets of EUR 59,575 million at 30th June 2004. Banesto's business consists primarily of providing commercial banking services in Spain, focusing on the individual, small and medium-sized business sectors. The Bank also engages in wholesale banking and capital and money markets activities. The Group operated through 1,695 offices at 30th June 2004, one of the largest commercial bank networks in Spain at that date in terms of the number of branches.

In May 2002 the Shareholders' Meeting resolved to reduce the par value of the Bank's shares by EUR 0.15 to EUR 2.03 per share and modify the Bank's bylaws accordingly. This amount was paid to shareholders on 19th September 2002. In November 2002 the Bank's capital stock was increased by the issuance at par of 81,670,694 ordinary shares of EUR 2.03 per share. On 4th February 2003, the Shareholders' Meeting resolved to reduce the par value of the Bank's Shares by EUR 0.26 per share, with reimbursement to the shareholders. After this capital reduction, the Bank's capital stock amounted to EUR 1,229.0 million divided into 694,330,098 registered shares of a par value of EUR 1.77 each. On 4th February 2004, the Shareholders' Meeting resolved to reduce the par value of the Bank's Shares by EUR 0.29 per share, with reimbursement to the shareholders. The current capital stock amounts to EUR 1,027.6 million divided into 694,330,098 registered shares of a par value of EUR 1.48 each.

The Bank was incorporated on 1st May 1902 for an indefinite term and it commenced its operations on 1st July 1902. Historically, the Bank has concentrated on its current core business of commercial banking in Spain.

Banesto's registered office is at Gran Vía de Hortaleza 3, Madrid, Spain. The business address of the members of the Board of Directors of Banesto is at the registered office of the Bank.

At 30th June 2004, Banco Santander Central Hispano, S.A. owned 88.5% of the Bank's capital stock (88.5% on 30th June 2003).

Management of the Bank

Banesto is managed by a Board of Directors which, in accordance with Banesto's by-laws, must consist of at least five and no more than twelve members who are elected to a five-year term by the shareholders of Banesto. Members of the board may be re-elected. One fifth of the Board of Directors is renewed annually at the Annual General Meeting of Shareholders on the basis of time spent in office.

The Board of Directors must meet at least once every three months and in addition may meet at the discretion of the Chairman. The Chairman has the power to call meetings of the Board of Directors, either on his own initiative or at the request of at least three members of the Board.

The members of the Board of Directors as of the date of this Offering Circular are as follows:

Name	Title	Since
Ana P. Botín-Sanz de Sautuola y O'Shea	Chairman	13th February 2002
Victor Manuel Menéndez Millán	Vice-Chairman	25th August 1994 ¹
Federico Outón del Moral	Chief Executive Officer	7th March 2002
Juan Delibes Liniers	Member	23rd August 1994
Matias Rodríguez Inciarte	Member	24th August 1994
José Corral Lope	Member	22nd August 1994
David Arce Torres	Member	22nd August 1994
Rafael del Pino Calvo-Sotelo	Member	4th February 2003
Isabel Polanco Moreno	Member	4th February 2003
Francisco Daurella Franco	Member	4th February 2004
José Luis López Combarros	Member	29th July 2004

Note:

¹ Appointed as Member on 25th August 1994 and as Vice-Chairman on 13th June 2000

The business address of the Board of Directors is Avenida Gran Vía de Hortaleza, 3, Madrid.

The Board of Directors delegates powers to a number of committees, including the Executive Committee, the Audit and Compliance Committee and the Appointments and Remuneration Committee.

The Executive Committee has power to take day to day administrative and management decisions and regularly informs the Board of Directors of the decisions it has taken at its meetings. The Executive Committee met 49 times in 2003.

The Executive Officers as of the date of this Offering Circular are as follows:

Name	Title
Ana P. Botín-Sanz de Sautuola y O'Shea	Chairman
Victor Menéndez Millán.....	Member
Federico Outón del Moral.....	Member
Juan Delibes Liniers	Member
Jaime Pérez Renovaes.....	Secretary (Non-member)

Business Performance in 2003

Attributable net income of the Group was EUR 442.04 million for the year ended 31st December 2003, a 1.4% increase from EUR 435.91 million in 2002. Growth came largely from the positive performance of business.

Net interest income totalled EUR 1,045.82 million for the year ended 31st December 2003, a rise of 5.8% compared with 2002. This slight growth is the result of growth in business volumes as well as the continuous rise in market interest rates. The ratio of net interest income to average total assets decreased to 1.91% for the year ended 31st December 2003 from 2.23% during 2002.

Net commission revenues increased by 7.0% to EUR 462.37 million for the year ended 31st December 2003.

Operating expenses (personnel, general and depreciation) for the year ended 31st December 2003 rose by only 0.3% compared with 2002. Personnel and general expenses were 0.1% higher than for the previous year. However, the efficiency ratio improved to 47.24% for the year ended 31st December 2003 from 50.32% in 2002.

Operating profits for the year ended 31st December 2003 amounted to EUR 710.23 million, a 14.3% increase compared to 2002, thanks to higher net operating revenues and containment of operating costs.

As at 31st December 2003, loan loss provisions stood at EUR 171.4 million, 44.9% more than in 2002. Non-performing loan coverage increased to 318% at 31st December 2003 from 255% at 31st December 2002.

Consolidated net income grew by 1.1% from EUR 444.3 million in 2002, to EUR 449.1 million in 2003, of which EUR 442.0 million belonged to the Group and EUR 7.1 million were minority interests.

Business Performance in the first half of 2004

Attributable net income of the Group was EUR 271.41 million during the six month period ending 30th June 2004, a 11.6% increase from EUR 243.12 million in the same period of 2003. Growth came largely from the positive performance of business.

Net interest income totalled EUR 559.35 million during the six month period ending 30th June 2004 a rise of 7.2% compared with the same period in 2003. This slight growth is the result of growth in business volumes combined with a negative impact of continuous fall in market interest rates. The ratio of net interest income to average total assets decreased to 1.92% for the six month period ending 30th June 2004 from 1.93% during the same period of 2003.

Net commission revenues increased by 10.2% to EUR 248.86 million during the six month period ending 30th June 2004.

Operating expenses (personnel, general and depreciation) for the six month period ended 30th June 2004 rose by only 1.42%. Personnel and general expenses were 2.3% higher than for same period in 2003. However, the efficiency ratio improved to 45.90% at 30th June 2004 from 48.87% at 30th June 2003.

Operating profits during the six month period ending 30th June 2004 amounted to EUR 417.46 million, a 16% increase compared to the same period in 2003, thanks to higher net operating revenues and containment of operating costs.

As at 30th June 2004, loan loss provisions stood at EUR 99.2 million, 16.00% more than in 30th June 2003, due mainly to the allocation to generic and anticyclical provisions as a consequence of the growth in the lending portfolio of the Bank. Non-performing loan coverage increased to 359.87% at 30th June 2004 from 281.02% at 30th June 2003.

Consolidated net income grew by 12.0% from EUR 246.7 million for the six months ended 30 June 2003, to EUR 276.4 million for the six months ended 30 June 2004, of which EUR 271.4 million belonged to the Group and EUR 5.0 million were minority interests.

Description of Operations

Retail Banking

Banesto is principally a domestic retail banking group. At 30th June 2004, Banesto's retail banking activities were carried out through the Group's 1,695 branches located throughout Spain in more than 1,000 municipalities and two abroad. The Bank's retail banking activities involve a wide range of banking and financial services, including deposit taking, personal loans, asset management, mortgage lending, short and medium-term financing of businesses, electronic bank transfer, credit and debit card transactions and private banking activities.

Mortgage Lending. In 2004, Banesto offered a wide range of mortgage lending products in order to increase its guaranteed loans to the private sector. Mortgage lending increased by 43%. In the first six months of 2004, approximately 20,500 families borrowed mortgage loans with Banesto, representing 44.2% of total lending by Banesto in the first six months of 2004 and a mortgage market share of 7.6%, according to data provided by the Bank of Spain.

Small and Medium-sized business. At 30th June 2004, Banesto had more than 237,000 clients active in the small and medium-sized business segment. Clients classified as small are those whose annual revenues range between EUR 300,000 and EUR 3 million. Clients classified as medium-sized are those whose annual revenues range between EUR 3 million and EUR 100 million. Following the strategy of increasing Banesto's presence in the small and medium-sized business sector, Banesto organised its branches providing services to small-sized businesses through 1,570 branches, with 127 branches particularly focused on medium-sized businesses.

Insurance. Banesto provides life insurance products, homeowners' insurance and car insurance, through its subsidiary Compañía Aseguradora Banesto Seguros, S.A. ("Banesto Seguros"). These products are marketed through Banesto's branch network. At 30th June 2004, Banesto Seguros had issued more than 360,000 risk and savings insurance policies. Premium income amounted to EUR 216 million and income before taxes was EUR 8.8 million.

Wholesale Banking

Corporate Banking and Large Companies. The Bank provides short, medium and long term financing, bill-discounting, foreign trade financing, electronic banking and payment management services to large Spanish companies principally through dedicated corporate branches in Madrid and Barcelona. Total loans granted in corporate banking amounted to EUR 6.3 billion in June 2004, 5.6% more than in 2003.

International Banking. As part of the plan to refocus Banesto's operations on the domestic banking sector, management has significantly reduced Banesto's presence outside Spain, limiting its international banking activities primarily to those necessary to serve Spanish customers abroad, principally through the provision of trade finance. The International Banking unit will continue to provide support for the development of the Bank's business with its domestic clients in the areas of corporate banking, treasury and capital markets.

Private Banking. Banesto provides private banking services to individuals with at least 800,000 euros in assets for investment. At 30th June 2004, Banesto provided these services to 7,082 clients, through a network of 42 account managers. Banesto offers to its private banking clients, in addition to the services provided to personal banking clients, a wide range of customised solutions.

Treasury and Capital Markets

Treasury. Through its treasury unit, the Bank conducts activity in the treasury and capital markets. Banesto is a market maker in Spanish government securities and its treasury operations include dealing in the interbank funding market, domestic and foreign debt and equity markets, and the foreign exchange and swap, forward contract, and other derivatives markets, both for its own account and for the account of clients. The focus of the Bank's foreign exchange and derivatives activity is to manage its own and customers' interest rate and foreign exchange risks. Through its broker-dealer subsidiary, Banesto Bolsa, Banesto conducts equity operations for its individual and institutional clients.

Banesto uses derivatives for both trading and risk management purposes. Banesto's trading activities in derivatives consist primarily of operations to hedge or alter the interest rate or currency characteristics of its debt securities portfolios and treasury funding.

The principal types of derivatives issued and held by Banesto are interest rate swaps, forward rate agreements, stock options, interest rate options and futures, foreign currency forwards, foreign currency options, and foreign currency swaps.

In order to improve management's co-ordination of the overall liquidity needs of the Group, the capital markets department has been merged into treasury operations. In addition, treasury operations conducted in the branch offices in Spain as well as abroad are co-ordinated through the Group's treasury department in Madrid, allowing for better management of treasury operations on a group-wide basis.

Employees

At 30th June 2004, Banesto employed 9,850 people. The terms and conditions of employment in private sector banks in Spain are negotiated on an industry-wide basis with the trade unions representing bank employees. This process has historically produced collective agreements binding upon all the private banks and their employees.

Since 1998, the Bank has offered certain employees the possibility of taking early retirement before the age stipulated in the current collective labour agreement. Accordingly, since 1998, the Bank has recorded allowances to cover the supplementary liabilities to employees taking early retirement and the salary commitments to these employees from the time of early retirement to the date of effective retirement.

In accordance with the express authorisation from the Bank of Spain on 19th December 2003, 13th December 2002 and 21st December 2001 and as approved by the Special Shareholders' Meetings of the Bank on 2nd December 2003, 30th December 2002 and 27th December 2001, these allowances were recorded in 2003, 2002 and 2001 with a charge of EUR 74,360 thousand, EUR 144,430 thousand and EUR 175,791 thousand respectively, to unrestricted reserves and the simultaneous recognition of EUR 40,040, EUR 77,770 thousand and EUR 94,657 thousand of prepaid taxes, respectively.

Assets

Composition of Loan Portfolio

The following table analyses, by domicile and type of customer, loans granted by the Bank, including loans to non-consolidated members of the Bank, at 30th June 2003 and 2004. The analyses by type of customer are based principally on the requirements of the Bank of Spain.

	6 months ended 30th June	
	2004	2003
	<i>(Thousands of Euros)</i> <i>(unaudited)</i>	
Public sector	892,781	939,393
Private sector	32,448,459	26,049,670
– Commercial bills	3,629,100	3,352,672
– Secured loans	15,908,509	11,449,978
– Other credits and loans	12,910,850	11,247,020
Non-resident sector	2,661,809	3,129,326
Ordinary lending	36,003,049	30,118,389
Non-performing loans	254,598	268,095
Total	36,257,647	30,386,484

Capital Adequacy

Stockholders' equity amounted to EUR 2,604,713 (RRPP).

The Basle Committee on Banking Regulations and Supervisory Practices (the "Basle Committee") has developed guidelines for the measurement of capital adequacy of international banking organisations. These guidelines set minimum capital adequacy ratios of 4% for Tier 1 capital and 8% for total capital (Tier 1 and Tier 2). The Bank estimates that its Tier 1 capital ratios, calculated in accordance with Basle Committee guidelines, and its total capital ratios (Tier 1 and Tier 2) at 30th June 2004 and 31st December 2003 were as set forth below.

	June 04 <i>(unaudited)</i>	Dec 03 <i>(audited)</i>
Tier 1	6.94%	6.95%
Tier 2	5.18%	3.19%
Total	12.12%	10.14%

The Bank does not expect that implementation of the new Basle Capital Accord (Basle II) will have any significant impact on the solvency of the Group.

Allowances for Possible Credit Losses

The following table analyses the allowance for credit losses of the Group for the periods indicated.

	6 months ended 30th June	
	2004	2003
	<i>(Thousands of Euros) (unaudited)</i>	
Allowances for credit losses at beginning of period.....	872,115	706,676
Allowances	141,046	120,521
– General purpose allowance.....	22,387	23,129
– Specific allowance.....	43,310	43,673
– Allowance for the statistical coverage of credit losses	75,349	53,719
Available funds	(12,836)	(11,529)
Other movements	(35,980)	(19,116)
Allowance for credit losses at end of period.....	964,345	796,552

Non-performing Loans

The Group's total non-performing loans were EUR 267.968 million and EUR 283.448 million at 30th June 2004 and 2003 respectively. The movements in non-performing loans during 2003 and 2004 at the Bank are set forth in the table below.

	6 months ended 30th June	
	2004	2003
	<i>(Thousands of Euros, except for percentages) (unaudited)</i>	
Balance at the beginning of period	274,094	277,118
Entries	63,960	51,617
Recoveries	(36,513)	(41,452)
Write-offs	(33,73)	(3,835)
Balance at end of period	267,968	283,448
NPL ratio (%).....	0.62	0.75
Coverage ratio (%)	359.87	281.02

Supervision and Regulation

Bank of Spain

The Bank of Spain, established in its present form in 1962, is a public law entity (*entidad de derecho público*) which operates as Spain's autonomous central bank and is also a member of the European System of Central Banks. Except in its performance of public functions, the Bank of Spain's relations with third parties are governed by private law and its actions are subject to the civil and business law codes.

The Bank of Spain has the following supervisory powers over Spanish credit institutions, subject to rules and regulations issued by the Ministry of Economy and Finance: (i) to conduct periodic inspections of Spanish credit institutions to test compliance with current regulations concerning, among other matters, preparation of financial statements, account structure and credit policies; (ii) to advise a credit institutions board of directors and management when its dividend policy is deemed inconsistent with the credit institution's financial results; (iii) to undertake extraordinary inspections of credit institutions concerning any matter relating to their banking activities; and (iv) to participate with other authorities in appropriate cases in the imposition of penalties applicable to credit institutions for infringement or violation of applicable regulations.

In addition, the Bank of Spain may investigate Spanish branches of EU credit institutions (i) under its own supervisory authority, (ii) by way of co-operation with the supervising

authorities of the EU country in which the credit institution is located, or (iii) to establish that the relevant branch is generally conducting its activities in the public interest.

Law 13/1994 of 1st June on the autonomy of the Bank of Spain (*Ley de Autonomía del Banco de España*), as amended, which vests responsibility for the implementation of monetary policy in the Bank of Spain, repealed Law 26/1983 of 26th December on the imposition of liquidity ratios of financial intermediaries, effective 3rd June 1994 and provides that frozen funds relating to minimum reserves which are required to be maintained in accordance with the By-Laws of the European System of Central Banks may be deposited with the Bank of Spain. Ruling (CE) no. 2818/98 of the European Central Bank of 1st December 1998 on the application of minimum reserves provides that a reserve ratio of 2% shall apply to certain categories of liabilities and that such reserves shall be maintained with the respective Central Bank in a euro-denominated account.

Investment Ratio

The Spanish Government has in the past required private banks to invest a portion of certain Qualifying Liabilities in certain kinds of public sector of public-interest financing (the “investment ratio”). Pursuant to a Royal Decree liberalising the Spanish economy, the investment ratio was reduced progressively beginning in January 1989 and was abolished as of 31st December 1992. The law which establishes the investment ratio has not been abolished, however, and the Government could reimpose the ratio, subject to European Union (“EU”) requirements.

Capital Adequacy Requirements

The Bank and each of its Spanish bank subsidiaries are subject to capital adequacy requirements pursuant to Law 13/1985 of 25th May 1985 on Investment and Information obligations and Own Resources, as amended, which became effective on 1st January 1993 and adapted Spain’s capital adequacy rules to EU requirements. Credit institutions that fail to comply with these capital adequacy requirements are subject to restrictions on dividends. Such banks (and their directors and executive officers) also may be subject to fines and other sanctions.

The principal characteristics of the capital adequacy requirements introduced by Law 13/92 of 1st June 1992, on Own Resources and Supervision on a consolidated basis, as amended, are a distinction between “core” and “complementary” capital and the adoption of a ratio of stockholders’ equity to risk-weighted assets. Core capital generally includes voting equity, certain non-voting equity, most reserves and generic allowances less participations in other financial institutions, treasury stock and financing for the acquisition (by persons other than the issuer’s employees) of the issuer’s shares. Complementary capital generally includes certain non-voting equity, revaluation and similar reserves, and subordinated and perpetual debt. The computation of both core and complementary capital is subject to provisions limiting the type of stockholding and the level of control which these stockholdings grant a banking group. The level of non-perpetual subordinated debt taken into account for the calculation of complementary capital may not exceed 50% of core capital and the total amount of complementary capital admissible for computing total capital may not exceed the total amount of core capital.

The consolidated total of core and complementary capital of a banking group calculated in the manner described above may not be less than 8% of a bank’s risk-weighted assets net of specified provision and amortisations. The calculation of total risk-weighted assets implies minimum multipliers of 0%, 20%, 50% and 100% of a bank’s assets. Loans to the Spanish Government or OECD and EU countries’ central banks and debt securities of Spanish autonomous communities (authorised by the Spanish Government) receive a 0% weighting. Loans to autonomous communities, to EU and OECD regional and local governments, to banks, savings banks and brokerage firms and to multilateral development banks receive at least a 20% weighting. Residential mortgage loans receive at least a 50% weighting. All other loans are weighted at 100%; however, such weighting may be lower if the loan is guaranteed or secured. Off-balance sheet liabilities are also included in the calculation of risk-weighted assets. Because the Bank is more than 88.50%-owned by BSCH the capital requirements applicable to it and each other financial entity more than 90%-owned by BSCH are reduced by 40% from the ratios described above.

At 30th June 2004, the Bank's ratio of total capital to risk-weighted assets under Law 13/92 was 9.30%, which exceeded the required ratio of 4.8%. At 30th June 2004, all of the Bank's Spanish subsidiary banks were in compliance with these capital adequacy requirements.

Pursuant to Bank of Spain Circular 4/1991, as amended by Circular 6/1994, the computation of core capital is subject to reductions of capital in amounts equivalent to unrealised losses of investment securities that are not charged to income and are accounted as assets.

Credit institutions which fail to comply with the above ratios by more than 20% are required to devote all of their net profits to increasing their capital ratios. Banks which fail to meet either ratio by 20% or less must obtain prior approval of the Bank of Spain to distribute any dividends and must devote at least 50% of net profits to increasing their capital ratios. In addition, failure to comply with the Bank's ratios and capital adequacy requirements may give rise to fines and other sanctions.

The Basle Committee, which includes the supervisory authorities of twelve major industrial countries, has adopted an international framework (the "Basle Accord") for capital measurement and capital standards of banking institutions. The framework provides (i) definitions for "Tier 1" (core) capital and "Tier 2" (supplemental) capital, (ii) a system for weighting assets and off-balance sheet items according to credit risk, and (iii) a requirement that banks engaged in international operations maintain Tier 1 capital of at least 4% of risk-weighted assets and "total" capital (Tier 1 capital plus up to an equal amount of Tier 2 capital) of at least 8% of risk-weighted assets. Spain is not party to the Basle Accord, and therefore has not implemented this capital framework as such, although Spain's current capital requirements are in many aspects similar to the requirements imposed by the Basle Accord, as the Basle accord is the framework on which the EC directive 89/299/EC of 17th April 1989 is based, which in itself is the basis for the Spanish Law 13/92. Each national authority which is a party to the Basle Accord has implemented the accord in a significantly different fashion. Based purely in the capital framework itself, and making such assumptions that it considers appropriate, the Group calculates that at 30th June 2004 its capital ratios as calculated under the Basle Accord would have been (i) a total capital to risk-weighted assets ratio of 12.12%, and (ii) a Tier 1 capital to risk-weighted assets ratio of 6.94%.

Concentration on Risk

Pursuant to Royal Decree 1343/1992 of 6th November 1992 which implements Law 13/1992, exposure to a single person or group may not exceed 25% (20% in the case of exposure to an affiliate) of a group's stockholders' equity. Exposure to a person or a group exceeding 10% of a group's stockholder's equity is deemed a concentration and the total amount of exposure represented by all such concentrations may not exceed 800% of the group's stockholder's equity. Any exposure to a person or group exceeding 10% of a group's stockholder's equity will be deemed a concentration beginning that date, and the total amount of exposure represented by all of such concentrations will not be permitted to exceed 800% of stockholder's equity. Law 13/1992's concentration limits apply only at the top tier of a bank holding company and, accordingly, do not apply to Banesto on a stand-alone basis.

Legal Reserves and Other Reserves

The Group is subject to the legal reserve requirements applicable to Spanish companies pursuant to Article 214 of the Spanish Corporations Law. In addition, the Group must allocate profits of certain other reserves as described under Note 24 to the Consolidated Financial Statements in the 2003 Annual Report of Banesto.

Regulation of Fees and Interest Rates

In March 1987, interest rates on deposits, and fees and commissions chargeable in addition to interest, were substantially deregulated. Interest rates on most kinds of loans and deposits are no longer subject to a maximum limit. Banks must publish their preferential rates, rates applied on overdrafts, and fees and commissions charged in connection with banking transactions and communicate the same to the Bank of Spain. Banking clients must be provided with written disclosure adequate to permit them to ascertain real net transaction costs. Subject to such disclosure requirements, the level of fees and commissions is generally regulated. The foregoing regulations are enforced by the Bank of Spain in response to bank client complaints.

Corporate Governance and Corporate Social Responsibility

One of Banesto's key strategies is providing customers with the best levels of attention and quality of service. To this end, Banesto has put in place certain mechanisms such as the creation of the post of Customer Ombudsman in the first quarter of 2003, the conduct of satisfaction studies and the installation of information boards and mail boxes in all branches in 2004. In addition, Banesto has a Purchases Committee, responsible for supervising relations with suppliers and distributors.

Also one of Banesto's guiding principles is its policy of maximum transparency aimed at guaranteeing that its minority and institutional shareholders, the market and society in general have clear and full information in order to evaluate all aspects of the Bank's performance. Following the recommendations of the Special Commission for Fostering Transparency and Security in Markets and in Listed Companies (the "**Aldama Report**"), Banesto publishes an annual report on corporate governance. Banesto included in its 2002 annual report a summary of the main measures taken during the year, such as approving the Regulations of the Board of Directors, creating the Appointments and Remuneration Committee and the Audit and Compliance Committee and incorporating two non-executive directors. The recommendations of the Aldama report became legally binding on listed companies pursuant to Law 26 of 17th July 2003. Banesto's annual reports are not limited to fulfilling the requirements laid down by law. Instead they aim to fully reflect the Bank's governing structure and decision-making processes, the obligations of directors and, in general, any issues that shareholders consider important for understanding the management of the Bank.

In December 2003, Banesto began a programme, involving all of its employees, for fostering collaboration with humanitarian organisations. The programme (called Solidarity X 2) was developed by the Banesto Cultural Foundation whose board includes directors of the Bank.

The Banesto Cultural Foundation has committed itself to matching each contribution made by an employee to humanitarian organisations. The budget for 2004 is EUR250,000, 80% of which will be used to match contributions of less than EUR1,000 and the remaining 20% to match larger contributions. Banesto and the Banesto Cultural Foundation collaborate with charities such as Aldeas Infantiles, Manos Unidas, UNICEF, FAO, IUVE, Spanish Red Cross Foundation and Intermón Oxfam.

Summary Consolidated Financial Information relating to the Group

The following tables set out in summary form certain key data, balance sheet and income statement information relating to the Issuer. Such information is derived from the audited consolidated and unconsolidated financial statements of the Issuer as at and for the years ended 31st December 2001, 31st December 2002 and 31st December 2003 and from the unaudited consolidated financial statements of the Issuer as at and for the six months ended 30th June 2003 and 30th June 2004.

Key consolidated data for the six months ended 30th June 2003 and 2004

BALANCE SHEET

	2004	2003	Change
	<i>(Thousands of Euros)</i>		
Total Assets.....	59,575,028	59,298,651	0.5%
Risk weighted assets	43,075,747	37,403,022	15.2%
Shareholder's Equity	2,604,713	2,440,697	6.7%
Total Lending ⁽¹⁾	38,011,736	31,275,535	21.5%
Total Customer Funds	51,212,389	42,987,530	19.1%
NPL Ratio (%)	0.62	0.75	—
NPL Coverage Ratio (%)	359.87	281.02	—

(1) Adjusted for loan securitizations

P & L ACCOUNT

	2004	2003	Change
	<i>(Thousands of Euros)</i>		
Net Interest Income	559,352	521,633	7.2%
Net Commission Income	248,863	225,747	10.2%
Net Operating Revenue	848,371	784,403	8.2%
Operating Expenses	374,927	366,604	2.3%
Net Operating Income	417,455	359,837	16.0%
Profit Before Tax	398,667	347,294	14.8%
Net Attributable Profit	271,414	243,115	11.6%
Cost / Income Ratio ⁽¹⁾	45.90%	48.87%	—

(1) 12 months calculated

OTHER

	2004	2003	Change
Employees.....	9,850	9,785	65
Branches.....	1,695	1,685	10

	2004	2003
Ratio Bis	12.12%	9.21%
Tier 1	6.94%	7.18%
ROE	17.84%	17.19%
ROA	0.85%	0.87%

	2004	2003
Per share		
Closing period price	9.76	7.65
Period EPS	0.39	0.35
Book value per share.....	4.14	3.87
P/E ⁽¹⁾	14.41	11.42
P/BV	2.36	1.98

(1) 12 months calculated

CAPITAL ADEQUACY

	2004	2003
	<i>(Thousands of Euros)</i>	
Share Capital and Reserves	2,885,463	2,692,944
Minority Interest	195,402	66,835
Deductions	(90,021)	(72,835)
Tier 1	2,990,844	2,686,944
Core Capital	2,795,442	2,620,109
Tier 2	2,229,512	758,096
Total Equity	5,220,356	3,445,040
Risk Weighted assets	43,075,747	37,403,022
Tier 1 (%)	6.94	7.18
Tier 2 (%)	5.18	2.03
Total (%)	12.12	9.21

PROVISIONS EVOLUTION

	2004	2003
	<i>(Thousands of Euros)</i>	
Initial balance	872,115	706,676
Allocations	141,046	120,521
Prov, released.....	(12,836)	(11,529)
Write-offs	(35,980)	(19,116)
Final balance	964,345	796,552
NPL coverage ratio	359.87%	281.02%

NPL EVOLUTION

	2004	2003
	<i>(Thousands of Euros)</i>	
Initial balance	274,094	277,118
Additions	63,960	51,617
Recoveries	(36,513)	(41,452)
Write-offs	(33,573)	(3,835)
Final balance	267,968	283,448
NPL Ratio	0.62%	0.75%

PROVISIONS

	2004	Coverage ratio (%)
	<i>(Thousands of Euros)</i>	
Specific	203,105	75.79
Statistical	410,679	153.26
Generic	350,561	130.82
Total	964,345	359.87

Key consolidated data for the years ended 31st December 2002 and 2003

BALANCE SHEET

	2003	2002	%
	<i>(Thousands of Euros)</i>		
Total Assets	57,931,344	49,711,818	16.5
Risk weighted assets	39,316,110	34,014,937	15.6
Shareholder's Equity	2,805,815	2,619,826	7.1
Total Lending ⁽¹⁾	34,218,123	28,448,513	20.3
Total Customer Funds	46,707,353	38,660,321	20.8
NPL Ratio	0.70%	0.83%	—
NPL Coverage Ratio	318.18%	255.01%	—

(1) Adjusted for loan securitizations

P & L ACCOUNTS

	2003	2002	%
	<i>(Thousands of Euros)</i>		
Net Interest Income	1,045,822	988,300	5.8
Net Commission Income	462,368	432,097	7.0
Net Operating Revenue	1,564,204	1,467,348	6.6
Operating Expenses	738,975	738,411	0.1
Net Operating Income	710,231	621,636	14.3
Profit Before Tax	639,840	575,145	11.2
Net Attributable Profit	442,039	435,913	1.4
Cost / Income Ratio	47.24%	50.32%	—

OTHER

	2003	2002	Change
Employees.....	9,840	9,851	(11)
Branches.....	1,689	1,677	12

	2003	2002
Bis Ratio	10.14%	10.39%
Tier 1	6.95% ⁽¹⁾	7.69%
ROE ⁽²⁾	17.42%	17.30%
ROA ⁽²⁾	0.82%	0.91%

(1) Includes EUR 0.29 payment due to par value reduction, to be realized in 2004

(2) Adjusted to a 30% tax rate

	2003	2002
Per share		
EPS	0.64	0.63
Book value per share.....	4.04	3.77
P/E ⁽¹⁾	14.92	11.26
P/BV ⁽¹⁾	2.35	1.87

(1) Updated to 31st December 2003. 2002 related to IPO final price (EUR 7.50)

CAPITAL ADEQUACY

	2003	2002
	<i>(Thousands of Euros)</i>	
Share Capital and Reserves	2,608,857 ⁽¹⁾	2,622,976
Minority Interest.....	190,642	70,869
Deductions	(74,754)	(77,489)
Tier 1	2,732,745	2,616,356
Core Capital	2,534,103	2,545,487
Tier 2	1,254,799	917,793
Total Equity.....	3,987,544	3,534,149
Risk Weighted assets	39,316,110	34,014,937
Tier 1 (%)	6.95	7.69
Tier 2 (%)	3.19	2.70
Total (%)	10.14	10.39

(1) Includes EUR 0.29 payment due to par value reduction, to be realised in 2004

PROVISIONS EVOLUTION

	2003	2002
	<i>(Thousands of Euros)</i>	
Initial balance	706,676	596,674
Allocations	244,871	202,360
Prov. released.....	(24,970)	(18,190)
Write-offs	(54,462)	(74,168)
Final balance	872,115	706,676
NPL coverage ratio	318.18%	255.01%

NPL EVOLUTION

	2003	2002
	<i>(Thousands of Euros)</i>	
Initial balance	277,118	254,217
Additions	102,913	181,097
Recoveries	(78,102)	(110,681)
Amortisation	(27,835)	(47,515)
Final balance	274,094	277,118
NPL Ratio	0.70%	0.83%

PROVISIONS

	2003	Coverage ratio (%)
Specific	213,306	77.82
Statistical	335,294	122.33
Generic	323,515	118.03
Total	872,115	318.18

Consolidated Balance Sheets as of 31st December 2003, 2002 and 2001

ASSETS

	2003	2002	2001
	<i>(Thousands of Euros)</i> <i>(audited)</i>		
CASH ON HAND AND ON DEPOSIT AT CENTRAL BANKS:			
Cash on hand	196,471	184,963	148,988
Cash at Bank of Spain.....	629,496	403,864	244,231
Cash at Other central banks.....	704	321	407
	826,671	589,148	393,626
GOVERNMENT DEBT SECURITIES.....	4,010,157	4,030,213	3,876,553
DUE FROM CREDIT ENTITIES:			
Demand deposits.....	706,362	819,842	782,888
Other.....	11,375,697	7,631,385	5,975,428
	12,082,059	8,451,227	6,758,316
LOANS AND CREDITS	31,272,248	26,722,364	23,597,348
DEBENTURES AND OTHER FIXED-INCOME SECURITIES.....	3,354,331	3,865,061	4,721,471
COMMON STOCKS AND OTHER EQUITY SECURITIES	490,724	369,998	283,619
INVESTMENTS IN NON-GROUP COMPANIES.....	33,796	43,030	26,323
INVESTMENTS IN GROUP COMPANIES.....	505,046	452,837	419,704
INTANGIBLE ASSETS:			
Incorporation and preopening expenses	27	22	79
Other deferred charges	64,402	69,095	61,372
	64,429	69,117	61,451
CONSOLIDATION GOODWILL:			
Fully consolidated companies	5,727	4,587	4,854
Companies accounted for by the equity method.....	—	—	—
	5,727	4,587	4,854
PROPERTY AND EQUIPMENT:			
Land and buildings for own use	320,097	316,617	320,019
Other property	84,146	102,027	138,415
Furniture, installations and other	334,059	358,781	386,302
	738,302	777,425	844,736
CAPITAL SUBSCRIBED BUT NOT PAID	—	—	—
TREASURY STOCK.....	4,398	3,150	—
OTHER ASSETS.....	3,390,635	3,211,030	2,779,797
ACCRUAL ACCOUNTS.....	966,090	923,895	921,280
LOSSES AT CONSOLIDATED COMPANIES.....	186,731	198,736	232,368
CONSOLIDATED LOSS FOR THE YEAR	—	—	—
TOTAL ASSETS.....	57,931,344	49,711,818	44,921,446
MEMORANDUM ACCOUNTS	18,445,842	15,889,259	14,679,352

LIABILITIES AND EQUITY

	2003	2002	2001
	<i>(Thousands of Euros)</i> <i>(audited)</i>		
DUE TO CREDIT INSTITUTIONS:			
Demand deposits.....	492,670	240,607	168,140
Other deposits.....	13,071,761	12,061,334	10,600,087
	13,564,431	12,301,941	10,768,227
CUSTOMER DEPOSITS:			
Savings deposits			
– Demand	14,911,076	10,083,020	9,937,628
– Time	6,026,248	6,814,967	6,298,394
Other deposits			
– Demand	—	—	—
– Time	7,700,710	8,603,164	8,302,446
	28,638,034	25,501,151	24,538,468
MARKETABLE DEBT SECURITIES:			
Bonds and debentures outstanding	5,658,337	2,601,600	1,235,401
Promissory notes and other securities	—	—	—
	5,658,337	2,601,600	1,235,401
OTHER LIABILITIES.....	2,455,600	2,220,105	1,682,121
ACCRUAL ACCOUNTS.....	866,043	918,272	669,583
PROVISIONS FOR CONTINGENCIES AND EXPENSES:			
Pension allowance	2,409,433	2,390,073	2,316,694
Provision for taxes.....	—	—	—
Other provisions.....	367,377	391,243	425,280
	2,776,810	2,781,316	2,741,974
GENERAL RISK ALLOWANCE	—	—	—
NEGATIVE CONSOLIDATION DIFFERENCE	15,375	18,440	5,030
CONSOLIDATED INCOME FOR THE YEAR:			
Group.....	442,039	435,913	421,721
Minority interests	7,054	8,334	9,134
	449,093	444,247	430,855
SUBORDINATED DEBT	762,074	468,078	698,234
MINORITY INTERESTS.....	190,642	70,869	83,165
CAPITAL STOCK	1,228,964	1,409,490	1,335,598
ADDITIONAL PAID-IN CAPITAL.....	—	—	—
RESERVES	1,098,511	823,669	595,571
RESERVES AT CONSOLIDATED COMPANIES	227,430	152,640	137,219
TOTAL LIABILITIES AND EQUITY	57,931,344	49,711,818	44,921,446

Consolidated Statements of Income for the years ended 31st December 2003, 2002 and 2001

	2003	2002	2001
	<i>(Thousands of Euros)</i>		
	<i>(audited)</i>		
	<i>(Debit) Credit</i>		
INTEREST INCOME:	1,973,971	1,877,231	2,246,659
Of which: fixed-income securities	355,144	389,002	446,632
INTEREST EXPENSE	(960,585)	(915,357)	(1,292,547)
INCOME FROM EQUITY SECURITIES:			
Common stocks and other equity securities	14,321	10,746	5,830
Investments in non-Group companies	589	711	921
Investments in Group companies	17,526	14,969	8,986
	32,436	26,426	15,737
NET INTEREST INCOME	1,045,822	988,300	969,849
FEES COLLECTED	554,936	511,598	495,550
FEES PAID	(92,568)	(79,501)	(75,153)
GAINS (LOSSES) ON FINANCIAL TRANSACTIONS	56,014	46,951	40,556
GROSS OPERATING INCOME	1,564,204	1,467,348	1,430,802
OTHER OPERATING REVENUE	7,038	13,587	9,750
GENERAL ADMINISTRATIVE EXPENSES:			
Personnel expenses	(544,058)	(543,463)	(549,383)
Of which:			
Wages and salaries	(393,328)	(404,776)	(408,997)
Employee welfare expenses	(103,434)	(105,797)	(110,440)
Of which: Pensions	(12,874)	(14,501)	(15,025)
Other administrative expenses	(194,917)	(194,948)	(196,216)
	(738,975)	(738,411)	(745,599)
DEPRECIATION, AMORTIZATION AND WRITE-DOWN OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS	(95,096)	(93,274)	(84,069)
OTHER OPERATING EXPENSES	(26,940)	(27,614)	(34,845)
NET OPERATING REVENUE	710,231	621,636	576,039

	2003	2002	2001
	<i>(Thousands of Euros)</i> <i>(audited)</i> <i>(Debit) Credit</i>		
NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD:			
Equity in income of companies accounted for by the equity method	100,096	86,485	75,422
Equity in losses of companies accounted for by the equity method	(7,298)	(16,819)	(3,843)
Value adjustments for collection of dividends	(18,042)	(14,338)	(8,567)
	74,756	55,328	63,012
AMORTIZATION OF CONSOLIDATION GOODWILL....	(878)	(789)	(3,014)
GAINS ON GROUP TRANSACTIONS:			
Gains on disposal of investments in fully consolidated companies	—	—	523
Gains on disposal of investments in companies accounted for by the equity method	5,054	7,410	2,219
Gains on transactions involving Parent Company shares and Group financial liabilities	—	—	—
Reversal of negative consolidation differences	3,065	1,916	—
	8,119	9,326	2,742
LOSSES ON GROUP TRANSACTIONS:			
Loss on disposal of investments in fully consolidated companies	—	—	—
Loss on disposal of investments accounted for by the equity method	(6)	(41)	(93)
Loss on transactions involving Parent Company shares and Group financial liabilities	(2,761)	(2,959)	—
	(2,767)	(3,000)	(93)
WRITE-OFFS AND CREDIT LOSS PROVISIONS (net)	(171,375)	(118,260)	(146,733)
WRITE-DOWN OF LONG-TERM FINANCIAL INVESTMENTS (net)	687	(272)	(754)
PROVISION TO GENERAL RISK ALLOWANCE	—	—	—
EXTRAORDINARY INCOME	151,913	140,859	128,445
EXTRAORDINARY LOSS	(130,846)	(129,683)	(98,855)
INCOME BEFORE TAXES	639,840	575,145	520,789
CORPORATE INCOME TAX	(188,023)	(129,438)	(83,951)
OTHER TAXES	(2,724)	(1,460)	(5,983)
CONSOLIDATED INCOME FOR THE YEAR	449,093	444,247	430,855
INCOME ATTRIBUTED TO MINORITY INTERESTS	7,054	8,334	9,134
INCOME ATTRIBUTED TO THE GROUP	442,039	435,913	421,721

Consolidated Balance Sheets as of 30th June 2004 and 2003

ASSETS

	June 2004	June 2003
	<i>(Thousands of Euros)</i> <i>(unaudited)</i>	
CASH ON HAND AND ON DEPOSIT AT CENTRAL BANKS:		
Cash on hand	176,657	157,080
Cash at Bank of Spain	348,022	424,398
Cash at Other central banks	589	309
	525,268	581,787
GOVERNMENT DEBT SECURITIES	3,973,861	4,744,710
DUE FROM CREDIT ENTITIES:		
Demand deposits	317,252	320,368
Other	9,339,000	12,814,231
	9,656,252	13,134,599
LOANS AND CREDITS	35,362,991	29,655,951
DEBENTURES AND OTHER FIXED-INCOME SECURITIES	3,391,691	3,982,848
COMMON STOCKS AND OTHER EQUITY SECURITIES	513,014	846,820
INVESTMENTS IN NON-GROUP COMPANIES	44,590	43,711
INVESTMENTS IN GROUP COMPANIES	526,581	471,586
INTANGIBLE ASSETS:		
Incorporation and preopening expenses	34	13
Other deferred charges	70,426	66,490
	70,460	66,503
CONSOLIDATION GOODWILL:		
Fully consolidated companies	15,005	4,191
Companies accounted for by the equity method	0	0
	15,005	4,191
PROPERTY AND EQUIPMENT:		
Land and buildings for own use	294,891	317,731
Other property	90,484	95,011
Furniture, installations and other	313,634	338,201
	699,009	750,943
CAPITAL SUBSCRIBED BUT NOT PAID	—	—
TREASURY STOCK	4,361	1,915
OTHER ASSETS	3,632,613	3,818,902
ACCRUAL ACCOUNTS	965,950	997,437
LOSSES AT CONSOLIDATED COMPANIES	193,382	196,748
CONSOLIDATED LOSS FOR THE YEAR	—	—
TOTAL ASSETS	59,575,028	59,298,651
MEMORANDUM ACCOUNTS		

LIABILITIES AND EQUITY

	June 2004	June 2003
	<i>(Thousands of Euros)</i> <i>(unaudited)</i>	
DUE TO CREDIT INSTITUTIONS:		
Demand deposits	522,772	391,970
Other deposits	9,651,051	18,009,166
	10,173,823	18,401,136
CUSTOMER DEPOSITS:		
Savings deposits		
– Demand	15,141,100	13,584,497
– Time	6,069,966	6,068,546
Other deposits		
– Demand		
– Time	8,956,546	8,154,671
	30,167,612	27,807,714
MARKETABLE DEBT SECURITIES:		
Bonds and debentures outstanding	7,651,436	3,671,844
Promissory notes and other securities	—	—
	7,651,436	3,671,844
OTHER LIABILITIES	2,803,341	2,639,187
ACCRUAL ACCOUNTS	873,985	828,255
PROVISIONS FOR CONTINGENCIES AND EXPENSES:		
Pension allowance	2,371,827	2,341,136
Provision for taxes	—	—
Other provisions	372,598	349,890
	2,744,425	2,691,026
GENERAL RISK ALLOWANCE		
NEGATIVE CONSOLIDATION DIFFERENCE	13,843	16,907
CONSOLIDATED INCOME FOR THE YEAR:		
Group	271,414	243,115
Minority interests	4,975	3,607
	276,389	246,722
SUBORDINATED DEBT	1,872,316	289,665
MINORITY INTERESTS	195,402	66,835
CAPITAL STOCK	1,027,609	1,228,964
ADDITIONAL PAID-IN CAPITAL		
RESERVES	1,501,263	1,177,909
RESERVES AT CONSOLIDATED COMPANIES	273,584	232,487
TOTAL LIABILITIES AND EQUITY	59,575,028	59,298,651

Consolidated Statements of Income for the six months ended 30th June 2004 and 2003

	June 2004	June 2003
	<i>(Thousands of Euros)</i> <i>(unaudited)</i> <i>(Debit) Credit</i>	
INTEREST INCOME:	981,541	1,004,113
Of which: fixed-income securities.....	158,352	183,500
INTEREST EXPENSE.....	(448,010)	(506,870)
INCOME FROM EQUITY SECURITIES:		
Common stocks and other equity securities	7,243	8,228
Investments in non-Group companies.....	90	543
Investments in Group companies	18,488	15,619
	25,821	24,390
NET INTEREST INCOME.....	559,352	521,633
FEES COLLECTED	303,586	271,362
FEES PAID	(54,723)	(45,615)
GAINS (LOSSES) ON FINANCIAL TRANSACTIONS	40,156	37,023
GROSS OPERATING INCOME.....	848,371	784,403
OTHER OPERATING REVENUE	3,337	4,444
GENERAL ADMINISTRATIVE EXPENSES:		
Personnel expenses.....	(280,435)	(273,593)
Of which:		
Wages and salaries.....	(209,221)	(204,453)
Employee welfare expenses	(51,590)	(50,797)
Of which: Pensions.....	(5,082)	(5,363)
Other administrative expenses	(94,492)	(93,011)
	(374,927)	(366,604)
DEPRECIATION, AMORTIZATION AND WRITE-DOWN OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS.....	(46,118)	(48,539)
OTHER OPERATING EXPENSES	(13,208)	(13,867)
NET OPERATING REVENUE	417,455	359,837

	June 2004	June 2003
	<i>(Thousands of Euros)</i> <i>(unaudited)</i> <i>(Debit) Credit</i>	
NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD:		
Equity in income of companies accounted for by the equity method	71,814	50,116
Equity in losses of companies accounted for by the equity method	(2,296)	(3,032)
Value adjustments for collection of dividends	18,578	(16,135)
	50,940	30,949
AMORTIZATION OF CONSOLIDATION GOODWILL	(3,197)	(396)
GAINS ON GROUP TRANSACTIONS:		
Gains on disposal of investments in fully consolidated companies ..	—	—
Gains on disposal of investments in companies accounted for by the equity method	132	487
Gains on transactions involving Parent Company shares and Group financial liabilities	147	—
Reversal of negative consolidation differences	1,532	1,533
	1,811	2,020
LOSSES ON GROUP TRANSACTIONS:		
Loss on disposal of investments in fully consolidated companies.....	—	—
Loss on disposal of investments accounted for by the equity method	—	(1)
Loss on transactions involving Parent Company shares and Group financial liabilities	—	(1,643)
	—	(1,644)
WRITE-OFFS AND CREDIT LOSS PROVISIONS (net)	(99,222)	(85,504)
WRITE-DOWN OF LONG-TERM FINANCIAL INVESTMENTS (net)	(199)	255
PROVISION TO GENERAL RISK ALLOWANCE	—	—
EXTRAORDINARY INCOME	92,238	100,999
EXTRAORDINARY LOSS	(61,159)	(59,222)
INCOME BEFORE TAXES	398,667	347,294
CORPORATE INCOME TAX	(121,474)	(98,788)
OTHER TAXES	(804)	(1,784)
CONSOLIDATED INCOME FOR THE YEAR.....	276,389	246,722
INCOME ATTRIBUTED TO MINORITY INTERESTS	4,975	3,607
INCOME ATTRIBUTED TO THE GROUP	271,414	243,115

Consolidated Companies Comprising the Banco Español de Crédito Group as at 30th June 2004

Company	Line of Business	Direct % Ownership	Indirect % Ownership	Total % Ownership
A.G. Activos y Participaciones, S.A.	Securities investment	—	99.87	99.87
Agrícola Los Juncales, S.A.	Real estate	99.99	0.01	100.00
Aljarafe Golf, S.A.	Real estate	79.58	—	79.58
Banco Alicantino de Comercio, S.A.	Banking	99.99	0.01	100.00
Banesto Banca Privada Gestión, S.A. S.G.I.I.C.	Mutual fund manager	99.99	0.01	100.00
Banesto Banco de Emisiones, S.A.	Banking	99.99	0.01	100.00
Banesto Bolsa, S.A. Sdad. Valores y Bolsa	Stock market	99.99	0.01	100.00
Banesto Delaware, Ltd.	Finance	100.00	—	100.00
Banesto e-Business, S.A.	Securities investment	99.99	0.01	100.00
Banesto Factoring, S.A. Establecimiento Financiero de Crédito	Factoring	99.87	0.13	100.00
Banesto Finance, Ltd.	Finance	100.00	—	100.00
Banesto Holdings, Ltd.	Securities investment	100.00	—	100.00
Banesto Issuances, Ltd.	Finance	100.00	—	100.00
Banesto Preferentes, S.A.	Finance	99.76	0.24	100.00
Banesto Renting, S.A.	Finance	99.99	0.01	100.00
Banesto Securities	Finance	—	100.00	100.00
Banesto Servicios y Tecnología Aplicada, S.A.	Services	99.99	0.01	100.00
Cambios Sol, S.A.	Finance	—	70.00	70.00
Corpoban, S.A.	Securities investment	—	99.88	99.88
Corporación Industrial y Financiera de Banesto, S.A.	Securities investment	99.88	—	99.88
Dudebasa, S.A.	Finance	99.99	0.01	100.00
Elerco, S.A.	Leasing	—	99.88	99.88
Formación Integral, S.A.	Training	99.99	0.01	100.00
Gedinver e Inmuebles, S.A.	Finance	99.99	0.01	100.00
Geoban, S.A.	Services	—	100.00	100.00
Gescoban Soluciones, S.A.	Finance	74.00	26.00	100.00
Grupo Inmobiliario La Corporación Banesto, S.A.	Securities investment	—	99.87	99.87
Hualle, S.A.	Securities investment	99.99	0.01	100.00
Ingeniería de Software Bancario, S.L.	IT	51.00	—	51.00
Inmobiliaria Laukariz S.A.	Real estate	99.99	0.01	100.00
Larix Limited	Real estate	100.00	—	100.00
Mercado de Dinero, S.A.	Securities investment	74.00	26.00	100.00
Nordin, S.A.	Real estate	99.99	0.01	100.00
Oil-Dor, S.A.	Filling stations	—	99.87	99.87
Santander Gestión de Activos, S.G.I.I.C., S.A. ...	Mutual fund manager	20.00	—	20.00
Santander Pensiones. E.G.F.P, S.A.	Pension fund manager	20.00	—	20.00
Sercopyme, S.A.	Services	99.99	0.01	100.00
Sodepro, S.A.	Finance	99.99	0.01	100.00
Wex Point Finance, S.L.	Services	50.97	—	50.97

Nonconsolidable Companies of Banco Español de Crédito as of as at 30th June 2004⁽¹⁾

Company	Line of Business	Direct % Ownership	Indirect % Ownership	Total % Ownership
Agrícola Tabaibal, S.A.	Agriculture	—	74.20	74.20
Aparcamientos y Construcciones, S.A.	Real estate	99.99	0.01	100.00
Banesto B2C Escaparate, S.L.	Technology	—	100.00	100.00
Banesto Ceuta y Melilla, S.A.	S.I.M.CA.V.	99.99	—	99.99
Banestur, S.A.	Tourism	74.00	26.00	100.00
Clínica Sear, S.A.	Healthcare	—	50.52	50.52
Club Zaudin Golf, S.A.	Services	—	75.67	75.67
Compañía Aseguradora Banesto Seguros, S.A.	Insurance	99.99	0.01	100.00
Costa Canaria de Veneguera, S.A.	Real estate	37.08	37.12	74.20
Crinaria, S.A.	Hospitality	48.01	51.99	100.00
Depósitos Portuarios, S.A.	Services	11.00	88.89	99.89
Deposoltenegolf, S.A.	Sports operation	99.90	0.10	100.00
Dinsa Customer Services, S.A.	IT	99.99	0.01	100.00
Diseño e Integración de Soluciones, S.A.	IT	—	100.00	100.00
Efearvi, S.A.	Real estate	—	99.90	99.90
Grupo Eurociber, S.A.	Services	—	100.00	100.00
Grupo Golf del Sur, S.A.	Real estate	99.90	0.10	100.00
Inmobiliaria Urbis, S.A.	Real estate	51.56	0.01	51.80
Inversiones Turísticas, S.A.	Hospitality	99.99	0.01	100.00
Larix Chile Inversiones Limitada	Real estate	—	100.00	100.00
Merciver, S.L.	Hotel operation	99.91	0.09	100.00
Programa Hogar Montigalá, S.A.	Real estate	—	99.88	99.88
Proyecto Europa, S.A.	Counseling	99.99	0.01	100.00
Tuberías Industriales y Calderería, S.A.	Mech. assemb. and maint.	—	99.87	99.87
Virtual Payments, S.L.	Technology	—	100.00	100.00
Wex Point España, S.L.	Services	48.97	26.01	74.98

(1) These are companies in respect of which Banesto owns more than 50% of the share capital, but which do not consolidate with the Group due to the nature of their activities.

Associated Companies of Banco Español de Crédito as at 30th June 2004

Company	Line of Business	Direct % Ownership	Indirect % Ownership	Total % Ownership
Aguas de Fuensanta, S.A.	Food	36.77	7.55	44.32
Alcadesa Holding, S.A.	Real estate	—	49.93	49.93
Alcadesa Inmobiliaria, S.A.	Real estate	—	49.93	49.93
Alcadesa Servicios, S.A.	Services	—	49.93	49.93
Centro Desarrollo Invest. Apli. Nuevas Tecnologías	Technology	49.00	—	49.00
Compañía Concesionaria del Túnel de Soller, S.A.....	Construction	32.70	—	32.70
Polígono Industrial Gerona, S.A.	Real estate	—	29.96	29.96
Sistemas 4B, S.A.....	Services	12.97	—	12.97
Vector Software Factory, S.L.....	Technology	—	22.50	22.50

Cash flow statements for the years ended 31st December 2003, 2002 and 2001

The statements of changes in the Group's consolidated financial position for 2003, 2002 and 2001 are as follows:

	2003	2002	2001
	<i>Thousands of Euros</i>		
Source of funds:			
From operations			
Income for the year	449,093	444,247	430,855
Net additions to special provisions and allowances	309,269	97,807	216,053
Direct write-down of assets	175	650	746
Depreciation and amortization expense	151,933	94,209	111,107
Gains on the sale of treasury stock, investments and fixed assets	(33,938)	(54,957)	(56,056)
Losses on the sale of treasury stock, investments and fixed assets	3,616	9,185	5,471
	<u>880,148</u>	<u>591,141</u>	<u>708,176</u>
Net variation in borrowed funds and lending			
External capital contributions in share issue	—	165,824	—
Subordinated debt securities issued	293,996	—	28,859
Fixed-income securities (net decrease)	519,544	702,750	893,126
Debt securities	3,056,737	1,366,199	582,103
Deposits (net increase)	3,136,883	962,683	1,091,020
Sale of long-term investments			
Sale of investments in Group and associated companies	13,441	24,070	—
Sale of property and equipment and intangible assets	127,721	421,023	169,144
Other asset items less liability items (net variation)	—	80,651	22,686
	<u>7,148,322</u>	<u>3,723,200</u>	<u>2,786,938</u>
Total funds obtained	<u>8,028,470</u>	<u>4,314,341</u>	<u>3,495,114</u>
Application of funds			
Refund of equity investments			
Due to capital reduction	180,526	91,899	73,519
Due to acquisition of treasury stock	1,248	40	—
Lending, less financing, at Bank of Spain and credit institutions	2,605,865	354,719	57,135
Loans and credits (net increase)	4,793,911	3,287,611	3,122,599
Fixed-income securities (net increase)	—	—	—
Short-term equity securities	121,324	88,092	11,944
Debt securities	—	—	—
Acquisition of long-term investments			
Acquisition of, and increases in, investments in Group and associated companies	55,928	54,122	55,449
Additions to property and equipment and intangible assets	138,493	437,858	174,468
Other asset items less liability items	131,175	—	—
Total application of funds	<u>8,028,470</u>	<u>4,314,341</u>	<u>3,495,114</u>

2004 third quarter results

On 6th October 2004, Banesto published its interim consolidated financial statements for the nine month period ending on 30th September 2004. These results show no material adverse change in the financial position of Banesto since publication of the results for the six month period ending on 30th June 2004.

Taxation and Disclosure of Holder Information in Connection with Payments of Distributions

The following is a general description of certain tax considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities. Prospective purchasers of Preferred Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain, The Netherlands and Germany of acquiring, holding and disposing of Preferred Securities and receiving any payments under the Preferred Securities. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Taxation in Spain

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Offering Circular:

(a) of general application, Additional Provision two of Law 13/1985, of 25th May on investment ratios, own funds and information obligations of financial intermediaries, as promulgated by Law 19/2003, of 4th July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;

(b) for individuals with tax residency in Spain which are Individual Income Tax (IRPF) taxpayers, Royal Legislative Decree 3/2004, of 5th March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30th July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;

(c) for legal entities resident for tax purposes in Spain which are Corporation Tax taxpayers, Royal Legislative Decree 4/2004, of 5th March promulgating the Consolidated Text of the Corporation Tax Law, and Royal Decree 1777/2004, of 30th July promulgating the Corporation Tax Regulations; and

(d) for individuals and entities who are not resident for tax purposes in Spain which are non-resident income tax taxpayers, Royal Legislative Decree 5/2004, of 5th March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30th July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of Preferred Securities, the acquisition and transfer of the Preferred Securities will be exempt from indirect taxes in Spain, i.e. exempt from Capital Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24th September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28th December regulating such tax.

1. Individuals with Tax Residency in Spain

1.1 Individual income tax (*impuesto sobre la renta de las personas físicas*)

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 23.2 of the Individual Income Tax Law, and must be included in the general portion of the investor's taxable income.

Both types of income are subject to a withholding on account at the rate of 15%.

If the period during which such income is generated exceeds two years a reduction of 40% will be applied, for the effect of both withholdings and inclusion in taxable income.

1.2 Wealth tax (*impuesto sobre el patrimonio*)

Individuals with tax residency in Spain under an obligation to pay wealth tax must take into account the amount of the Preferred Securities which they hold as at 31st December in each year when calculating their wealth tax liabilities.

1.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)

Individuals with tax residency in Spain who acquire ownership or other rights over any Preferred Securities by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or state rules.

2. Legal Entities with Tax Residency in Spain

2.1 Corporation tax (*impuesto sobre sociedades*)

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal entities with tax residency in Spain for Corporation Tax purposes in accordance with the rules for this tax.

In accordance with Section 57.s) of the Corporation Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Application has been made for the Preferred Securities to be traded on Euronext Amsterdam and the Frankfurt Stock Exchange and they will therefore, upon admission to trading on Euronext Amsterdam or the Frankfurt Stock Exchange, fulfil the requirements laid down by the legislation for exemption from withholding. The Directorate General for Taxation (*Dirección General de Tributos – “DGT”*), on 27th July 2004, issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that the Preferred Securities be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Preferred Securities falls within this exemption as the Preferred Securities are to be placed outside Spain and in the international capital markets and none of the entities initially placing the Preferred Securities is resident in Spain. Consequently, the Issuer will not make any withholding on Distributions to Spanish Corporation Tax taxpayers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, the Issuer will be bound by that opinion and with immediate effect, make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of 22nd December 1999 will be followed. No reduction percentage will be applied. (Please see “Disclosure of Holder Information in Connection with Payments of Distributions” below).

2.2 Wealth tax (*impuesto sobre el patrimonio*)

Legal entities are not subject to Wealth Tax.

2.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)

Legal entities with tax residency in Spain which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Preferred Securities in their taxable income for Spanish Corporation Tax purposes.

3. Individuals and Legal Entities with no tax residency in Spain

3.1 Non-resident income tax (*impuesto sobre la renta de no residentes*)

(a) With permanent establishment in Spain

Ownership of the Preferred Securities by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Preferred Securities form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the legal rules applicable to income deriving from such Preferred Securities are the same as those previously set out for Corporation Tax taxpayers.

(b) With no permanent establishment in Spain

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt. This exemption is not applicable if such income is obtained through countries or territories classified as tax havens (being those included in Royal Decree 1080/1991, of 5th July), in which case such income will be subject to Non-Resident Income Tax in Spain at the rate of 15% which the Issuer will withhold.

For these purposes it is necessary to comply with certain information obligations relating to the identity of the holders of Preferred Securities, in the manner detailed under "Disclosure of Holder information in connection with payments of distributions" as laid down in section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated the Issuer will apply a withholding of 15% and the Issuer will not, as a result, be under any obligation to pay additional amounts.

3.2 Wealth tax (*impuesto sobre el patrimonio*)

To the extent that income deriving from the Preferred Securities is exempt from Non-Resident Income Tax, individuals who do not have tax residency in Spain who hold such Preferred Securities will be exempt from Wealth Tax.

Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally not be subject to Wealth Tax.

If the provisions of the foregoing two paragraphs do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that rights deriving from the Preferred Securities can be exercised in Spanish territory.

Non-resident legal entities are not subject to Wealth Tax.

3.3 Inheritance and gift tax (*impuesto sobre sucesiones y donaciones*)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance Tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable regional and State legislation.

Non-resident entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

4. Tax havens

Pursuant to Royal Decree 1080/1991, of 5th July the following are each considered to be a tax haven:

Principality of Andorra,
Netherlands Antilles, Aruba,
Kingdom of Bahrain,
Sultanate of Brunei,
Republic of Cyprus,
United Arab Emirates,
Gibraltar,
Hong-Kong,
The Island of Anguila,
Islands of Antigua and Barbuda,
The Bahamas,
The Island of Barbados,
The Bermuda Islands,
Cayman Islands,
The Cook Islands,
The Republic of Dominica,
Grenada,
Fiji Islands,

Channel Islands
(Jersey and Guernsey),
Jamaica,
Republic of Malta,
Falkland Islands,
Isle of Man,
Marianas Islands,
Mauritius,
Montserrat,
Republic of Nauru,
Solomon Islands,
Saint Vincent & the Grenadines,
Saint Lucia,
Republic of Trinidad and Tobago,
Turks and Caicos Islands,
Republic of Vanuatu,
British Virgin Islands,
Virgin Islands
(of the United States),

Hashemite Kingdom of Jordan,
Republic of Lebanon,
Republic of Liberia,
Principality of Liechtenstein, Grand
Duchy of Luxembourg
Area (as regards the income
received by the Companies referred
to in paragraph 1 of Protocol
annexed Avoidance of Double
Taxation Treaty, dated 3rd June,
1986),
Macao,
Principality of Monaco,
Sultanate of Oman,
Republic of Panama,
Republic of San Marino,
Republic of Seychelles,
Republic of Singapore.

5. Disclosure of holder information in connection with payments of distributions

The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The following is a summary only and is subject to the Clearing Systems' discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

5.1 Legal Entities with tax residency in Spain subject to Spanish Corporation Tax

In accordance with procedures established in the Paying Agency Agreement, a list of those holders that are Spanish Corporation Tax taxpayers must be received specifying the name, address, Tax Identification Number, ISIN code of the Preferred Securities, number of Preferred Securities held at each Distribution Payment Date, gross income and amount withheld, substantially in the form set out below (see Annex III below).

5.2 Individuals and Legal Entities with no tax residency in Spain

The information obligations to be complied with in order to apply the exemption are those laid down in Section 12 of Royal Decree 2281/1998 ("Section 12"), as promulgated by Royal Decree 1778/2004, being the following:

In accordance with sub-section 1 of such Section 12, a return must be made by the Issuer to the Spanish tax authorities specifying the following information with respect to the Preferred Securities:

- (a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Preferred Securities.

In accordance with sub-section 3 of such Section 12, for the purpose of preparing the return referred to in sub-section 1 of Section 12, the following documentation must be obtained on each payment of income evidencing the identity and country of tax residency of each holder of Preferred Securities:

- (a) if the non-resident holder of Preferred Securities acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16th September 1991, promulgated pursuant to Royal Decree 1285/1991 (see Annex I below), of 2nd August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment in Spain;
- (b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and country of tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);
- (c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);
- (d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the country of tax residency of the holder of Preferred Securities. These certificates will be valid for one year as from the date of issue.

In accordance with sub-section 4 of Section 12, for the purpose of implementing the exemption provided for, the following procedure must be followed: on the due date of each Distribution the Issuer must transfer the net amount to the entities referred to in paragraphs

(a), (b) and (c) resulting from applying the general withholding rate (currently 15%) to the whole of the Distribution. If the certificates referred to are received prior to expiry of the Distribution Period, the Issuer will pay the amounts withheld to the extent that they correspond with the information provided.

In the case of both paragraph 6.1 and paragraph 6.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received in accordance with the procedures established in the Paying Agency Agreement, which may be inspected during normal business hours at the specified office of each Paying Agent.

If complete documentation is not received in respect of an eligible holder of Preferred Securities by the Distribution Date, such holder may obtain a quick refund of the full amount of withholding tax withheld by ensuring that the documentation described above is received no later than 10:00 am (CET) on the 10th calendar day of the month following the relevant Distribution Date (or if such date is not a Business Day, the Business Day immediately preceding such date) (the “Quick Refund Deadline”). For the avoidance of doubt, no interest will be payable on any such amounts.

Holders of Preferred Securities entitled to a refund but in respect of whom the relevant documentation is not received on or before a Quick Refund Deadline may seek a full refund of withholding tax directly with the Spanish tax authorities.

Taxation in The Netherlands

Holders of Preferred Securities who are individuals and are resident or deemed to be resident in The Netherlands (“**Holders**”), or who have elected to be treated as Dutch resident Holders for Dutch tax purposes, are subject to Dutch income tax on a deemed return regardless of the actual income derived from the Preferred Securities or gain or loss realised upon disposal or redemption of the Preferred Securities, provided that the Preferred Securities are held as a portfolio investment and are not held in the context of any business or substantial interest. The deemed return amounts to 4% of the average value of the Holder’s net assets in the relevant fiscal year (including the Preferred Securities) and is taxed at a flat rate of 30%.

Corporate Holders that are resident or deemed to be resident in The Netherlands, without being exempt from Dutch corporate tax, will be subject to Dutch corporate tax on all income and gains realised in connection with the Preferred Securities.

Taxation in Germany

The following section is a short summary of certain German taxation principles that may be or may become relevant with respect to the Preferred Securities. This section does not purport to be a comprehensive description of all of the German tax consequences that may be relevant to holders of the Preferred Securities. The summary is based on German domestic tax laws currently in force and as applied in practice as of the date of this Offering Circular. Provisions may change at short-term notice, possibly with retroactive effect.

There is some uncertainty as to how the German tax authorities and/or tax courts will treat the Preferred Securities. The Preferred Securities may qualify as debt or equity instruments for German tax purposes. Prospective holders of the Preferred Securities are advised to consult their tax advisers as regards the tax consequences of the acquisition, holding and disposition or transfer without consideration, respectively, of the Preferred Securities. Only these advisers will be able to take into account appropriately the details relevant to the taxation of the respective holders of the Preferred Securities.

1. Withholding tax

German withholding tax on interest (Zinsabschlag) will be deducted from payments on the Preferred Securities to an investor who is tax resident in Germany or who is not tax resident in Germany but holds the Preferred Securities as assets of a German permanent establishment (**German Investor**) if the Preferred Securities are kept or administered in a domestic securities deposit account by, or if the Preferred Securities are presented for payment at the office (**At-The-Counter-Transaction**) of, a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution or a German Issuer (**German Disbursing Agent**) at a rate of 30% (in the case of an At-The-Counter-Transaction the tax rate is 35%) plus a 5.5% solidarity surcharge thereon.

If the Preferred Securities have been acquired through a German Disbursing Agent and have since then been held in a securities deposit account with or have been administered by such German Disbursing Agent the assessment base for withholding tax upon redemption or disposal could be an amount equal to the difference between the issue price or the purchase price and the sale proceeds or redemption proceeds. If this is not the case the assessment base could be an amount equal to 30% of the sale proceeds or redemption proceeds. The withholding tax and solidarity surcharge thereon are credited against the German income tax and solidarity surcharge liability.

2. Taxation as debt instruments

If the German tax authorities qualify the Preferred Securities as debt instruments and the income derived therefrom as interest income, German Investors will be subject to German income tax or corporate income tax respectively (each plus solidarity surcharge thereon) with any payment received on the Preferred Securities. In case the Preferred Securities are held as business assets in a German permanent establishment any payments will also be subject to trade tax.

Capital gains from the sale of the Preferred Securities by German Investors will in any case be subject to German income tax or corporate income tax (each plus solidarity surcharge thereon) and if the Preferred Securities are held as business assets in a German permanent establishment, capital gains will also be subject to trade tax.

3. Tax consequences in case the Preferred Securities are qualified as equity

3.1 Taxation of Dividends

50% of the dividends received by a German Investor who is an individual (**German Individual Investor**) will be subject to German income tax (plus solidarity surcharge thereon).

Accordingly, only 50% of the expenses economically related to the dividend income are deductible for income tax purposes. In addition, 100% of the dividends are subject to trade tax if the German Individual Investor holds the Preferred Securities as business assets unless the German Individual Investor has continuously held a shareholding of at least 10% in the nominal capital of the Issuer since the beginning of the assessment period.

95% of the dividends received by a corporate German Investor (**German Corporate Investors**) are in principle exempt from German corporate income tax. The entire income is subject to trade tax unless the German Corporate Investor has continuously held a shareholding of at least 10% in the nominal capital of the Issuer since the beginning of the assessment period in which case only 5% of the dividends would be subject to trade tax. If the German Corporate Investor is a credit institution or financial services institution within the meaning of the German Banking Act (*Kreditwesengesetz*) and if the Preferred Securities have been recorded in the trading book, dividends are fully subject to corporate income tax (plus solidarity surcharge thereon) and trade tax. The same applies if the Preferred Securities were acquired by a financial enterprise as defined in the German Banking Act to achieve short-term capital gains from trading activities. Dividends are also subject to corporate income tax (plus solidarity surcharge thereon) and trade tax, if the German Corporate Investor is a health insurance, a life insurance or a pension fund and if the Preferred Securities are held as a regulated investment.

3.2 Taxation of Capital gains

German Individual Investors are subject to income tax (plus solidarity surcharge thereon) with 50% of the capital gains from the sale of the Preferred Securities if the Preferred Securities are either sold within one year after the acquisition of the Preferred Securities, if a German Individual Investor holds the Preferred Securities as business asset or if a German Private Investor at any time during the five years preceding the sale, directly or indirectly held an interest of 1% or more in the Issuer. In addition capital gains from the disposition of the Preferred Securities will be subject to trade tax if the German Individual Investor holds the Preferred Securities as business assets.

95% of the Capital gains received by a German Corporate Investor from the sale of the Preferred Securities are in principle tax exempt. If the Preferred Securities are held by a credit institution or financial services institution within the meaning of the German Banking Act (*Kreditwesengesetz*) and if the Preferred Securities have been recorded in the trading book,

capital gains from the disposal of Preferred Securities are fully subject to corporate income tax (plus solidarity surcharge thereon) and trade tax. The same applies if the Preferred Securities were acquired by a financial enterprise as defined in the German Banking Act to achieve short-term capital gains from trading activities. Capital gains are also subject to corporate income tax (plus solidarity surcharge thereon) and trade tax, if the German Corporate Investor is a health insurance, a life insurance or a pension fund and if the Preferred Securities are held as a regulated investment (*Kapitalanlage*).

Losses from the sale of the Preferred Securities are in principle deductible only if and to the extent that the corresponding capital gains would be taxable. However, the deduction of such losses is subject to additional restrictions.

4. Gift or inheritance tax

A transfer of the Preferred Securities as a gift or by reason of death will be subject to German inheritance or gift tax if the holder of the Preferred Securities, or the heir, donee or other beneficiary is a German resident for German gift or inheritance tax purposes according to the specific rules of the German Gift and Inheritance Tax Act. This may in particular be the case if the holder of the Preferred Securities, heir, donee or other beneficiary is:

- (a) an individual having at the time of the donation or death its residence or habitual abode in Germany or if the individual is a German citizen who has not been living abroad for more than five years without having a residence in Germany; or
 - (b) a corporation having its seat or central place of management in Germany,
- or the Preferred Securities belong to business assets attributable to a permanent establishment or a permanent representative in Germany.

5. Other taxes

There are no transfer, stamp or similar taxes which would apply to the sale or transfer or the Preferred Securities in Germany. Net worth tax is currently not levied in Germany.

EU Savings Tax Directive

On 3rd June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1st July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Set out below are Annexes I, II and III. Sections in English have been translated from the original Spanish. In the event of any discrepancy, the Spanish version shall prevail.

ANNEX I

Modelo de certificación en inversiones por cuenta propia

Form of Certificate for Own Account Investments

(nombre) (name)

(domicilio) (address)

(NIF) (fiscal ID number)

(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,

(function), in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

CERTIFICO:

CERTIFY:

1. Que el nombre o razón social de la Entidad que represento es:

that the name of the Entity I represent is..... :

2. Que su residencia fiscal es la siguiente:

that its residence for tax purposes is:.....

3. Que la Entidad que represento está inscrita en el Registro de

that the institution I represent is recorded in the..... Register of.....

(país estado, ciudad), con el número

(country, state, city), under number

4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)

that the institution I represent is supervised by (Supervision body)

en virtud de (normativa que lo regula)

under..... (governing rules).

Todo ello en relación con:

All the above in relation to:

Identificación de los valores poseídos por cuenta propia

Identification of securities held on own account.....

Importe de los rendimientos

Amount of income

Lo que certifico en a de de 20

I certify the above in..... on the of of 20.....

ANNEX II

Modelo de certificación en inversiones por cuenta ajena

Form of Certificate for Third Party Investments

(nombre) (name)

(domicilio) (address)

(NIF) (fiscal ID number)

(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004, (function), in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/ 2004,

CERTIFICO:

CERTIFY:

1. Que el nombre o razón social de la Entidad que represento es:

that the name of the Entity I represent is:

2. Que su residencia fiscal es la siguiente:

that its residence for tax purposes is:

3. Que la Entidad que represento está inscrita en el Registro de

that the institution I represent is recorded in the Register of

(país estado, ciudad), con el número

(country, state, city), under number

4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)

that the institution I represent is supervised by (Supervision body)

en virtud de (normativa que lo regula)

under (governing rules).

5. Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscal de acuerdo con las normas reglamentarias en vigor.

That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the amounts and the relevant amounts is accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

Lo que certifico en a de de 20

I certify the above in on the of of 20

RELACIÓN ADJUNTA A CUMPLIMENTAR:

TO BE ATTACHED:

Identificación de los valores:

Identification of the securities

Listado de titulares:

List of beneficial owners:

Nombre / País de residencia / Importe de los rendimientos

Name / Country of residence / Amount of income

ANNEX III

Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del impuesto sobre sociedades y a los establecimientos permanentes sujetos pasivos del impuesto sobre la renta de no residentes (a emitir por las entidades citadas en el art. 12.3.a) del RD 1778/2004)

Certificate for application of the exemption on withholding to spanish corporation tax taxpayers and to permanent establishments of non-resident income tax taxpayers (to be issued by entities mentioned under article 12.3.a) of RD 1778/2004)

(nombre) (name)

(domicilio) (address).....

(NIF) (fiscal ID number)

(en calidad de), en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1778/2004,

(function), in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1778/2004,

CERTIFICO:

CERTIFY:

1. Que el nombre o razón social de la Entidad que represento es:

that the name of the Entity I represent is:.....

2. Que su residencia fiscal es la siguiente:

that its residence for tax purposes is:.....

3. Que la Entidad que represento está inscrita en el Registro de

that the institution I represent is recorded in the..... Register of.....

(país estado, ciudad), con el número

(country, state, city), under number

4. Que la Entidad que represento está sometida a la supervisión de (Organo supervisor)

that the institution I represent is supervised by (Supervision body)

en virtud de

(normativa que lo regula)

under..... (governing rules).

5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España de sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.

That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporations Tax taxpayers and permanent establishment in Spain of Non-Resident Income Tax taxpayers, and are recipients of the referred income.

6. Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.

That the Entity I represent keeps, at the disposal of the Issuer, a photocopy of the card evidencing the Fiscal Identification Number of the holders included in the attached list.

Lo que certifico en a de de 20

I certify the above in.....on the ofof 20

RELACIÓN ADJUNTA

TO BE ATTACHED

Identificación de los valores:

Identification of the securities

Razón social / Domicilio / Número de identificación fiscal / Número de valores / Rendimientos brutos / Retención al 15%

Name / Domicile / Fiscal Identification Number / Number of securities / Gross income / Amount withheld at 15%.

Subscription and Sale

ABN AMRO Bank N.V., Deutsche Bank AG London and J.P. Morgan Securities Ltd. as lead managers (the “Lead Managers” and “Managers”) have, in a subscription agreement dated 3rd November 2004 (the “Subscription Agreement”) and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Preferred Securities at their issue price of Euro 1,000 per Preferred Security less a combined management, underwriting and selling commission of 1.5%. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Preferred Securities. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Preferred Securities.

United States of America

The Preferred Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager will represent in the Subscription Agreement that it has offered and sold the Preferred Securities, and agrees that it will offer and sell the Preferred Securities (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Preferred Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Manager will agree that, at or prior to confirmation of sale of Preferred Securities, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Preferred Securities from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”), Preferred Securities must be issued and delivered outside the United States and its possessions in connection with their original issue. Each Manager will represent that it has not offered, sold or delivered, and agrees that it will not offer, sell or deliver, directly or indirectly, Preferred Securities within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Preferred Securities, each Manager will represent that it has not communicated, and agree that it will not communicate, directly or indirectly, with a prospective purchaser if either such Manager or such purchaser is within the United States or its possessions or otherwise involve such Manager’s U.S. office in the offer or sale of Preferred Securities. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

United Kingdom

Each Manager will represent, warrant and undertake in the Subscription Agreement to the Issuer that:

(a) *No offer to public*: it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in

an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) *Financial promotion*: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the United Kingdom.

Spain

The Preferred Securities will not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law save in compliance with the requirements of the Spanish Securities Market Law of 28th July 1988, as amended and restated, and Royal Decree 291/1992 of 27th March, on issues and public offers for the sale of securities ("RD 291/92"), as amended and restated, and other applicable regulations. Accordingly, the Preferred Securities have not been offered and will not be offered to persons in the Kingdom of Spain in any way that would constitute an offer to the public.

This Offering Circular has not been registered with the *Comisión Nacional del Mercado de Valores* (the Spanish securities commission) and therefore it is not intended for any public offer of the Preferred Securities in Spain.

Federal Republic of Germany

Each Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the "Act") of the Federal Republic of Germany has been published with respect to the Preferred Securities and that it will comply with the Act and any other laws and legal and regulatory requirements applicable in the Federal Republic of Germany with respect to the issue, sale and offering of securities. In particular, each of the Managers has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Preferred Securities otherwise than in accordance with the Act. However, application will be made to list the Preferred Securities on the Frankfurt Stock Exchange.

Belgium

This Offering Circular will not be submitted to the Belgian Banking, Finance and Insurance Commission and, accordingly, the Preferred Securities may not be distributed by way of public offering in Belgium.

General

No action can be taken in any jurisdiction that would, or is intended to, permit a public offering of the Preferred Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular or any other offering material comes are required to comply with all applicable securities laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Preferred Securities or has in its possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at its own expense.

General Information

1. The creation and issue of the Preferred Securities has been authorised by resolutions of (i) the shareholders' meeting of the Issuer held on 27th December 2001 and (ii) the board of directors of the Issuer held on 21st September 2004.
2. Save as disclosed herein, there are no, nor have there been any, legal, arbitration or administrative proceedings involving the Issuer or any of its subsidiaries (and no such proceedings are pending or threatened) which have or may have had during the twelve months prior to the date of this Offering Circular a significant effect on the financial position of the Issuer or of the Group taken as a whole. Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings which could have, or during the last two financial years had, a material effect on the Issuer's financial position.
3. Save as disclosed herein, since 31st December 2003 (being the last day of the financial period in respect of which the most recent published audited annual accounts of the Issuer were prepared), there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of the Issuer or of the Group taken as a whole.
4. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the specified office of each Paying Agent:
 - (a) the *estatutos* of the Issuer;
 - (b) the Public Deed of Issuance of the Preferred Securities;
 - (c) the Paying Agency Agreement; and
 - (d) the Subscription Agreement.
5. The documents referred to in this Offering Circular and relating to the Issuer may be inspected at the offices of the Frankfurt Paying Agent.
6. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations thereof) may be obtained free of charge during normal business hours at the specified office of each Paying Agent:
 - (a) the audited consolidated and unconsolidated financial statements of the Issuer for the years ended 31st December 2001, 2002 and 2003;
 - (b) the unaudited consolidated financial statements of the Issuer for the six months ended 30th June 2004;
 - (c) the unaudited consolidated financial statements of the Issuer for the nine months ended 30th September 2004; and
 - (d) the latest published unaudited interim consolidated and audited year-end consolidated and unconsolidated financial statements of the Issuer.
7. The Issuer publishes quarterly unaudited consolidated interim financial statements.
8. The financial statements of the Issuer and of the Group were audited in 2001 by Arthur Andersen and in 2002 and 2003 by Deloitte & Touche España, S.L. With regard to the Issuer, the auditors' reports on the non-consolidated financial statements for the financial years 2001, 2002 and 2003 contained unqualified opinions. With regard to the Group, the auditors' reports on the consolidated financial statements for the financial years 2001, 2002 and 2003 contained unqualified opinions.
9. The Preferred Securities have been accepted for clearance through Clearstream Banking, Frankfurt, Euroclear and Clearstream, Luxembourg. The German Securities Code (WKN) is A0DE4Q, the ISIN is DE000A0DE4Q4, the common code is 020498072 and the fondscod is 15034. The Clearing Systems are expected to follow certain procedures to facilitate the Issuer in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see "Conditions of the Preferred Securities – Form and Status" on page 18). The procedures

agreed and fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

10. As long as the Preferred Securities are listed on Euronext Amsterdam, the Issuer will comply with the provisions set forth in Article 2.1.20, sections a-g of Schedule B of the Listing and Issuing Rules (Fondsenreglement) of Euronext Amsterdam N.V..

11. Recent developments regarding the Issuer will be published on the Issuer's website (www.banesto.es). Information on the Issuer's website does not form part of this Offering Circular and may not be relied upon in connection with any decision to invest in the Preferred Securities.

12. The Issuer does not publish outlooks or other forward looking statements because it is not in accordance with the Issuer's internal general and corporate governance policies to publish such outlooks or statements, nor is it the policy of many Spanish financial institutions to do so.

REGISTERED OFFICE OF THE ISSUER

Banco Español de Crédito, S.A.
Mesena 80
28033 Madrid

PRINCIPAL PAYING AGENT AND AGENT BANK

JPMorgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT

AMSTERDAM PAYING AGENT AND AMSTERDAM LISTING AGENT

ABN AMRO Bank N.V.
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

FRANKFURT PAYING AGENT

J.P.Morgan AG
Grueneburgweg 2
60322 Frankfurt am Main

LEGAL ADVISERS

*To the Managers as to Spanish law and
English law*

Clifford Chance S.L.
Paseo de la Castellana 110
28046 Madrid
Spain

To the Issuer as to Spanish law

Legal Department
Banco Español de Crédito, S.A.
Mesena 80
28033 Madrid

AUDITORS OF THE ISSUER

Deloitte, S.L.
Raimundo Fernández Villaverde, 65
28003 Madrid
Spain

Audited Financial Statements 2003

Summary of the Year

Balance Sheet

Millions of euros

	2003	2002	Absolute change	% change
Total assets	57,931.34	49,711.82	8,219.52	16.5
Risk weighted assets	39,316.11	34,014.94	5,301.17	15.6
Shareholders' equity	2,805.82	2,619.83	185.99	7.1
Total managed assets	46,707.35	38,660.32	8,047.03	20.8
On-balance sheet funds	34,296.37	28,102.75	6,193.62	22.0
Managed funds	12,410.98	10,557.57	1,853.41	17.6
Lending (1)	34,762.39	28,838.35	5,924.04	20.5
Non-performing loans	274.09	277.12	-3.03	-1.1
NPL ratio (%)	0.70	0.83	-	-
NPL coverage (%)	318.18	255.01	-	-
BIS capital ratio (%)	10.14	10.39	-	-
Tier 1	6.95	7.69	-	-

(1) Excluding non-performing loans (2) Including guarantees.

Income Statement

Millions of euros

	2003	2002	Absolute change	% change
Net interest revenue	1,045.82	988.30	57.52	5.8
Net operating revenue	1,564.20	1,467.35	96.85	6.6
Operating costs	834.07	831.68	2.39	0.3
Net operating income	710.23	621.64	88.59	14.3
Operating costs/Net operating revenue (%)	47.24	50.32	-	-
Income before taxes	639.84	575.15	64.69	11.2
Net attributable income	442.04	435.91	6.13	1.4
ROA (*)	0.82	0.91	-	-
ROE (*)	17.42	17.30	-	-

(*) With an estimated tax burden of 30%.

Data per share

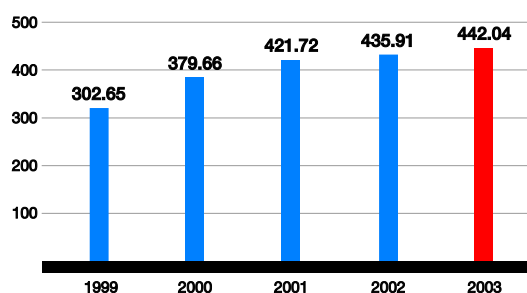
Earnings	0.64	0.63	0.01	1.6
Book value per share	4.04	3.77	0.27	7.2
P/E Ratio	14.92	11.26	-	-
Price/book value (%)	2.35	1.87	-	-

Other figures

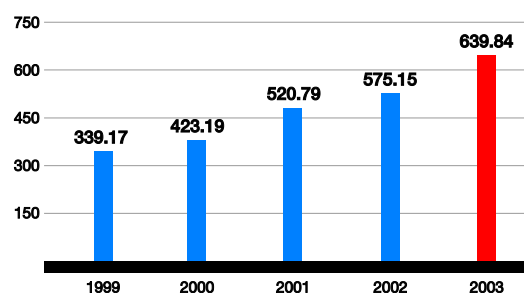
Employees	9,840	9,851	-11	-0.1
Branches	1,687	1,677	10	-

Net Attributable Income

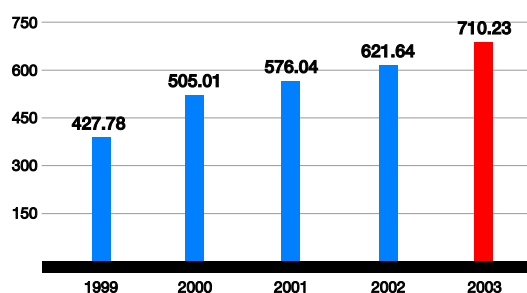
Millions of euros

**Income before Taxes**

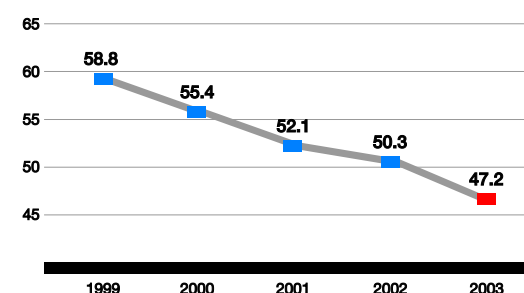
Millions of euros

**Net Operating Income**

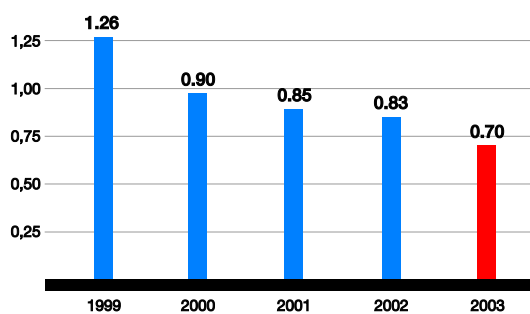
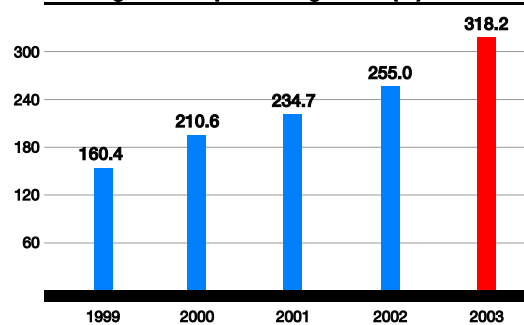
Millions of euros

**Efficiency Ratio**

Operating Costs/Net Operating Revenue (%)

**Non-performing Loans**

Non-performing Loans/Credit Risk (%)

**Coverage of Non-performing Loans (%)**



Dear Shareholder,

An improving economic environment

It gives me great pleasure to tell you about the 2003 results. I will concentrate on the most significant developments and also take this opportunity to set out our goals for 2004.

The environment in 2003 was a difficult one for our business, with cuts in interest rates and volatility in the markets, although offset, to some extent, by the upturn in the economy which resulted in good growth in the financial sector.

The fourth quarter economic indicators for the United States and Japan were encouraging, signalling greater growth opportunities although there are still problems in some of the large Euro zone economies such as Germany and France. The European Central Bank's repo rate reached an all time low in June of 2%.

The global economic slowdown was felt less in Spain, with GDP growth in 2003 of 2.4%, very notable compared with the performance of other European economies. The estimates for 2004 are optimistic, with growth of around 3%.

Business focused on Spain

2003 results

Banesto has focused on its domestic market and will continue to do so. Spain is an attractive market, with a growth potential that is higher than that of other European countries.

Income before taxes up 11.2%

We surpassed the goals for 2003 that we set at the beginning of the year. Income before taxes was 11.2% higher at €640 million and net attributable income increased 1.4% to €442 million. Growth in net attributable income was a lot lower than in income before taxes because Banesto has used up the tax credit stemming from the cleaning up of the bank and so the corporate tax charge is higher.

The efficiency ratio improved from 50.3% to 47.2%

Banesto distinguished itself in efficiency, which is measured in terms of operating costs as a percentage of total revenues. The ratio improved from 50.3% to 47.2%. This enabled us to again be better than the average for commercial banks (48.5% in September 2003).

Credit risk quality and the level of provisions also improved. The ratio of non-performing loans (NPLs) dropped from 0.83% in 2002 to 0.70% in 2003. NPL coverage continued to climb and strengthen Banesto's balance sheet, rising from 255% to 318%.

We are growing in all business areas

The change taking place at Banesto can be seen from our position in the market. Banesto has become the number one bank in Spain in business growth; we have grown in all customer segments to a significant extent. Our banking model contributes value to each customer segment and is based on systematic implementation of our internal plans and projects, human resources and technology,

Net operating revenue rose three times faster than in 2002

Lending grew 20.5% to €34,762 million and our market share was an estimated 0.59 points higher at the end of 2003 than a year earlier. Total managed funds increased 20.8% to €46,707 million, with an estimated gain in market share of 1.03 points. Net operating revenue rose 6.6%, three times the pace of 2002.

The return on the Banesto share since the offering was 30%

Return on the Banesto share

The capital stock was increased by 11.76% in November 2002 in order to make the Banesto share more liquid. Between November 27 2002 and the end of 2003 the Banesto share price performed better than the Ibex-35 index, Ibex Financials and other comparable listed companies. The return, on the basis of the offering price of €7.5 and the price at the end of 2003 (€9.5) and including payment of €0.26 per share, was 30%.

Entry into the Ibex-35

Banesto's entry into the Ibex-35 index as of January 2004 is a recognition of the bank's performance in the stock market and the level of liquidity of the share. It is also a positive valuation by the market of the results of the last few years and a recognition of the strategy and organic growth business model, which still has some way to go in the Spanish financial market.

As regards the remuneration for shareholders in 2003 the Board has proposed to the AGM a gross payment of €0.29 per share (disbursement of €201 million).

19 Spanish and international firms track Banesto

Under its broad corporate social responsibility and corporate governance plan Banesto is committed to providing transparent information and maintaining direct and continuous communication with markets. We held meetings during 2003 with 150 institutions, and 19 Spanish and international firms monitor our bank, a number that is comparable with that of the largest European banks. We made five presentations of results, three to particular sectors organized by financial institutions, both in Europe and North America, and in London, Frankfurt, Paris, Zurich, Milan, Dublin, Edinburgh, New York, Chicago, Boston, Atlanta, San Diego, San Francisco, Denver, Austin, and Montreal.

The customer is the focus of our different activities

Business Model

Banesto is a bank which puts the customer at the centre of its activities. We have teams specialized in customer profiles. Retail Banking tends to the needs of individual customers, small businesses and shops and distributes its services via 1,558 branches. Banking for Companies does business with medium-sized companies via 124 special offices and more than 400 account managers. Wholesale Banking specializes in large companies.

Our organization

With this business model Banesto is working to endow the bank with the capacity to learn more quickly than our competitors, seeking a sustainable comparative advantage in a changing and increasingly competitive environment. We want Banesto to be the best bank in customer service, and in employee satisfaction.

We have been chosen as the best bank for whom to work

Banesto is dedicating more time to managing its more than 9,800 employees, so that learning and resolving problems form part of our way of providing service to customers. We created in 2003 three inter area teams with 117 people to support us in enhancing the skills of our employees. According to a well known economic magazine, we are the best employer in the banking sector in Spain. We are convinced there are no limits to improving the quality of our staff and we have set challenges in all of these areas for 2004.

Reconciling professional and family life

Management of people is closely linked to business challenges. Our policies in the field of human resources cover five areas: reconciling professional and family life, optimization of efficiency, management and strengthening of talent, remuneration and providing incentives to create value and qualitative renewal of staff. We are promoting equality of opportunity measures. In March 2003 we were accorded the status of "Equal Opportunity Employer" after joining the Optimum Programme of Spain's Institute of the Woman which is co-financed by the European Social Fund. Only 34 companies in Spain have this status.

Number one on-line bank for companies and individual customers

We have one of the most advanced technology architectures in Europe. This gives us the edge over our competitors, enabling us to develop operational and business processes that are difficult to copy. Banesnet Empresas has for some time been the leading on-line bank for companies; recently Banesnet Particulares became the number one Internet bank for individual customers, according to the ranking by the independent consultancy AQMetrix.

Winning the IATA tender

We won the tender in November 2003 to provide banking services to the International Air Transport Association (IATA). As a result, we are going to develop clearing and settlement banking systems for airline tickets in Spain and Andorra. We won this contract, in competition with Spain's main banks as a result of designing a solution which improves IATA's processes and productivity, thanks to our leading-edge technology and knowledge of the business.

ISBAN: the largest Spanish software company

And it is not that we have not chosen the best technology, for we are able to create our own. In September 2003 we presented the Banksphere products for new banking business channels. Banksphere facilitates centralized management of customers and products via any distribution channel and makes it possible for standard and open systems to be compatible. Banksphere is a product of our company Ingeniería de Software Bancario S.L. (ISBAN), created with Santander Central Hispano after our technology platform was chosen for the Santander Group's renewal plan. It aims to become the European leader in computer solutions for retail banking.

Our products and service

The products and service we are offering are the result of the creativity of our staff, an increasingly consolidated business culture, which distinguishes us from other organizations, and our leadership in using the best technology. We are offering innovative products and services, such as

Many channels at
the service of customers

Banespyrme, the Plan Comercios, the Visa Banesto 1-2-3 card, dynamic management funds and pension plans.

In services, we are noted for having many channels for meeting the needs of our customers and other collectives. These channels enable customers to choose the most convenient place and time for availing themselves of Banesto's services. The bank has branches, ATMs, collaborating agents, financial agents, services via telephone banking and on-line banking (Banesnet Particulares, Banesnet Empresas and Banesto Broker).

Single brand,
more solid

Banco de Vitoria

On December 2, at the Extraordinary Meeting of Shareholders, the decision was taken to integrate Banco de Vitoria into Banesto. This joining of forces enables Banesto to offer its customers a single and more solid brand and one with more branches.

Corporate
governance

Corporate Social Responsibility

A responsible company these days must compete not only in products but also in business conduct. Banesto is making a big effort to improve its corporate governance and corporate social responsibility. This stems from our firm belief that sustainable growth requires changes in aspects as important as the markets, values, the cultural of transparency inside and outside the company, management of technology, models of alliances and collaboration, corporate governance and corporate social responsibility, as well as innovative management.

Unit of Shareholder
Relations created

Banesto is going to be in the vanguard of good corporate governance as it is one of the first companies to approve Regulations of Shareholders' Meetings, Regulations of the Board of Directors, an Annual Report on Corporate Governance and pioneering corporate by-laws, which enable shareholders to exercise their rights through different communication channels, putting at their disposal excellent technological resources. The creation of the Unit of Relations with Shareholders and a newly designed website give our shareholders access to all the information they need to know their rights, the organization of management and the rules governing the Bank.

Selecting directors

Our commitment to corporate governance also extends to the composition of the Board. The selection of directors by the Board and submitted to the Shareholders' Meeting for approval must reflect the criteria established by the Appointments and Remuneration Committee regarding the composition of the Board, as well as the conditions that candidates must meet. Banesto's criteria go beyond the recommendations made in reports published in Spain, which suggest distributing non-executive directors between independent and proprietary ones on the basis of the composition of the capital stock. The Board proposed to the Shareholders' Meeting an increase in the total number of directors to 11 and the incorporation of two new non-executive directors which, in accordance with the Board's Regulations, are independent ones (bringing their total to five).

Transparent information

We are promoting a culture of transparent information so that all agents can evaluate for themselves the quality of our bank. This transparency was recognized in March 2003 when Spain's Association of Economic Journalists awarded us its Information Transparency Prize.

The environment, solidarity, research and sponsorship

We will continue our activities in the fields of the environment, solidarity, research and sponsorship. These actions are of a strategic nature and we are committed to them. During 2003 we reduced the consumption of paper by a further 3.8%.

Solidarity x 2

Banesto wants to promote and disseminate humanitarian measures. In this context it developed the Solidarity x 2 programme, under which the Banesto Cultural Foundation matches contributions made by employees to humanitarian organizations. Our technology facilitates this programme and automatically transfers the amounts to the accounts of the organizations the same day as the employee makes a donation.

We are collaborating with humanitarian organizations

In 2003 we helped to ease the damage to Galicia caused by the sinking of the Prestige oil tanker. Banesto, together with its Cultural Foundation, is collaborating with charities such as Aldeas Infantiles, the Spanish Red Cross Foundation, Intermón Oxfam, IUVE, Manos Unidas and UNICEF among others.

We are also participating to a significant extent in music, education and agriculture as well as supporting different trade fairs for agriculture and cattle around Spain.

Priorities for 2004

Investment in people and technology

Banesto is determined to be the best retail bank in Spain, the bank for SMEs and shops, for companies and the reference for individual customers. We will continue to invest in training our employees and in our state-of-the-art technology. In 2004 we will continue to enhance our position as the bank for SMEs and shops, deepen the project for means of payment and strengthen our leadership in the distribution of treasury products to customers.

Three new projects

Three more new projects have joined the other ones: one for forging closer links with customers, one to measure and improve our services and one to improve transactional banking. These will help to enhance relations with clients and increase the profitability of individual and corporate customers.

Our project for individual customers focuses on increasing the degree of loyalty of our current customers. Our challenge is to make every customer a sales person for Banesto. In products and services, Banesto is making a strong bid in transactional banking. This is a profitable investment for our customers and for the bank, because as well contributing solutions that boost productivity it makes electronic banking easy and useful.

Organizational improvements, Q10 Programme to measure our internal and external quality

Lastly, we believe that a company which has advanced but simple processes has a competitive advantage that is difficult to copy. The issue at heart is to learn new working methods and manage the talent of our employees, learn quickly and resolve problems efficiently. The Q10 Programme is designed to measure and improve the quality of our service, as perceived by customers and by our

2004+2 Plan

more than 9,800 employees. We continue to firmly believe in enhancing our human resources and we are going to measure the quality of our leadership.

Our three year plan, Plan 2004+2, contains all these projects. Our goals are:

- An annual gain in market share of 0.25 points.
- An efficiency ratio of 42%.
- A ROE of more than 18%.
- A ratio of non-performing loans below the average of the banking sector.

Banesto believes that companies are creative. Our job is to put our skills and creativity at the service of all of you, maximizing your investment. I would like you to share with me the success of 2003 and our enthusiasm for continuing to build together a bank that is the best one for the customer, the best place to work and the best one in which to invest, all within a framework of social responsibility.



Ana P. Botín-Sanz de Sautuola
Executive Chairman



Governing Bodies

BOARD OF DIRECTORS

EXECUTIVE CHAIRMAN

Ana P. Botín-Sanz de Sautuola y O'Shea
Executive Director

VICE-CHAIRMAN

Víctor Menéndez Millán
Non-executive director

CHIEF EXECUTIVE OFFICER

Federico Outón del Moral
Executive Director

DIRECTORS

Matías Rodríguez Inciarte
Non-executive director (proprietary)

José Corral Lope
Non-executive director (proprietary)

David Arce Torres
Non-executive director (proprietary)

Juan Delibes Liniers
Executive Director

Isabel Polanco Moreno
Non-executive director (independent)

Rafael del Pino y Calvo-Sotelo
Non-executive director (independent)

SECRETARY

Juan Carlos Rodríguez Cantarero

VICE SECRETARY

Jaime Pérez Renovales



EXECUTIVE COMMITTEE

CHAIRMAN

Ana P. Botín-Sanz de Sautuola y
O'Shea

MEMBERS

Víctor Menéndez Millán
Federico Outón del Moral
Juan Delibes Liniers

SECRETARY (NON-MEMBER)

Jaime Pérez Renovales

AUDITING AND COMPLIANCE COMMITTEE

CHAIRMAN

Víctor Menéndez Millán

MEMBERS

José Corral Lope
Matías Rodríguez Inciarte

SECRETARY (NON-MEMBER)

Juan Carlos Rodríguez Cantarero

APPOINTMENTS AND REMUNERATIONS COMMITTEE

CHAIRMAN

Ana P. Botín-Sanz de Sautuola y
O'Shea

MEMBERS

Víctor Menéndez Millán
Isabel Polanco Moreno

SECRETARY (NON-MEMBER)

Jaime Pérez Renovales

In the front from left to right:

Rafael Vega, Executive Vice-President of Business Development; **José María Nus**, Executive Vice-President of Investment and Risks; **Federico Outón**, CEO; **Pedro Larena**, Executive Vice-President of Retail Banking; **José Antonio García Cantera**, Executive Vice-President of Wholesale Banking.

In the back from left to right:

José Nieto, Deputy Executive Vice-President of Companies; **José María Fuster**, Deputy Executive Vice-President of Resources; **Miguel Sanz**, Deputy Executive Vice-President of Human Resources; **Juan Delibes**, Director and Executive Vice-President of Financial Planning and Control and **Jaime Pérez-Renovales**, Secretary General.



The Bank's Activity in 2003 > Overview

Banesto is a bank with the capacity to create value and preserve it. And our earnings are positively viewed by the market. The latest recognition was Banesto's entry into the Ibex-35 stock market index.

How to create value at Banesto?

How to preserve it?

Banesto is a bank with a capacity to create and preserve value. And our results are being recognized by the market. The latest recognition was Banesto's incorporation to the Ibex-35 index of the Madrid Stock Exchange. We saw a notable rise in the demand for information in 2003 by stockbrokers, a sign of the interest sparked since the November 2002 placement of shares and because of our value.

The restructuring of Banesto in order to make the customer the focus of our activity, which was one of the

objectives in 2003, is bearing fruit. This can be seen in the sections in this annual report on each business area. We are working with the target of becoming the best retail bank in Spain, the bank for SMEs and the reference for individual customers.

Our risk management is noteworthy, and our technology is leading edge even when compared to that of some international banks.

Another of our assets is Banesto's employees. We are attaching considerable importance to training on a continuous basis. The investment being made in human resources is notable.

It is clear from our earnings and our capacity to create value that Banesto has the ability to take advantage of growth opportunities in strategic areas.

We set goals that are fulfilled. One example is 2003 when we exceeded our forecasts. We try to be flexible in order to anticipate the needs of our customers and those that the market and regulators demand. Banesto has a team that is studying how to prepare ourselves for fulfilling the new international solvency recommendations for banks (BIS II). We also have corporate governance mechanisms to ensure that we meet the decisions and strategies we implement. We are measuring the creation of value, the quality of

management and making a special effort in providing information on corporate governance, which we are making available to all agents interested in Banesto in the second part of this annual report.

We want agents to take the appropriate decisions on our bank, both in the short and the long term. This report sets out the contribution of each business area to the corporate value.



Commercial Banking: the Bank for SMEs and the reference for individual customers

2003 was an excellent year for Retail Banking. We comfortably surpassed our expectations for business and revenue growth. The range of products and services for business with companies also improved.

Commercial Banking

2003 was a successful year as a result of the launch of key lending programmes for SMEs, shops and individual customers. The main drivers for surpassing goals to attract new customers and retain current ones and forge closer links were the Banespyme programme for the modernization and development of SMEs and the powerful generation of new products and financial solutions for individuals.

Of note in 2003 was the generation of value and differentiation in the Visa Banesto 1-2-3 credit card market. This card has improved our base value proposal for customers; the discounts of 1%, 2% and 3% in supermarkets, large shops and petrol reached 5% at key shopping times of the year. This product resulted in the issue of

almost 500,000 new cards in just one year, a record in Spain's banking history.

Activity related to the development of services and lending products was also noteworthy in 2003. Banesto was the first bank to launch a new concept of business management in mutual funds in Spain. These are known as dynamic management funds, because they seek a maximum return within the range of risks selected by the customer, and the capital is 100% guaranteed. These funds were the most popular ones from the first quarter when they were put at the disposal of customers.

The consumer credit area was developed via Credinet, using auto financing via networks of dealers as the main plank. Growth was exponential in 2003.

These and other retail banking services launched in 2003 underscored Banesto's strength in generating value for customers and the high level of quality attained by Banesto in the marketing of its new products and services. Growth in revenue by service and customer surpassed the initial goal of 8%.

Banesto's on-line bank

Banesto's on-line bank complements the activity and productivity of the branch network, and its quality is recognised; our Banesnet service for companies has been the leader in its field for some time, and recently Banesnet Particulares also became the number one for individual customers, according to the ranking by the independent consultancy AQMetrix.

As well as focusing on measuring and describing the range of products and services via the Internet channel, this classification examines other aspects such as navigation and design, speed and availability of the application and user attention, all of them notable areas for Banesto. We also made progress in offering our customers the capacity to contract specific products over the Internet such as mutual funds, pension plans and personal loans.

We continued to expand the customer base and developed an annual plan to increase the current number threefold by the end of 2004.



The testimony of our customers

"In 2003 we made a major effort to modernize and expand our plants, and we could always count on the support of Banesto.

It was also necessary to modernize our processes. Banesto's

Banespyme programme has been very useful, providing us with specific solutions such as BanesNet Empresas, the on-line bank which enables us to make and receive our payments for Spain and abroad from our terminals, saving

trips, paper and above all time; in short, cutting our costs."

José Cándido Rastrollo Massé
Manager
Transformaciones Inoxidables de Badajoz, S.L.

"Banespyme gives us specific solutions for modernization."

Retail Banking **Banesto is a customer bank and therefore focuses on improving and increasing its value proposal.**

INDIVIDUAL CUSTOMERS

The segment for individual customers conducted its business in 2003 in a difficult environment of low interest rates and a volatile market.

Despite of this, and supported by new products and services, we managed to put at the disposal of our branch network and managers the necessary tools for attracting and retaining customers. This produced a gain in market share for both funds and loans.

This segment began to develop the activities needed to make us the reference bank for individual customers, with high value added products including mortgages, cards and mutual funds.

MORTGAGES

- "Oferta Hipotecaria Integral"
- "Hipoteca Cuota Blindada"

CARDS

- Credit 1-2-3
- Debit ORO

MUTUAL FUNDS

- "Banesto Garantizado"
- "Banesto Triple Oportunidad"

PENSION PLANS

- "Banesto Líder"
- "Banesto Futuro"

Of particular note was the contribution made to this segment by winning the tender for Spain's courts. This enabled us to position ourselves in a niche where we are a benchmark in services and tend to demanding collectives (attorneys and lawyers), because of efficient daily management and technology.

We captured 150,000 new customers in this segment. Net operating revenue rose 6% and revenue from services increased 3%, all of this backed by the business drive of the branch network.

Personal Banking

A new business model for this segment was launched in 2003, focused on customers with more than €200,000 available.

This segment is growing in Spain and the level of specialization in it is not yet very developed. Our business model is based on three elements:

- Staff specialized in financial advice, with deep knowledge of the markets, savings/lending products and taxation.
- A range of value added products, adapted for these



The testimony of our customers

"Our obsession has always been to give our customers the best quality and top service, and thus a key factor has been to demand the same from our suppliers.

Banesto, through its programme Banespyme for the modernization of small- and medium-

sized companies, has provided us with technological solutions that have enabled us to improve our customer service. The TPV GPRS allows us to charge our customers on the spot, quickly and economically, while BanesNet Empresas, Banesto's on-line bank for companies, has

facilitated financial management and achieved significant cost savings. It is only by working with the best that one can become the best."

Ángel Chicharro
Sole Administrator
Ciriaco S.L.

"Only by working with the best can we become the best."

customers, with particular emphasis on mutual funds – both own and third party –, and on tailor-made structured products.

- An excellent level of service supported by a personal banking service centre, which guarantees a direct connection with customers, and the best on-line bank for individual customers.

Private Banking

The investor profile in private banking is highly diversified. We are seeking to optimize the risk-return binomial, adapting investments to their financial and tax requirements. We have a team of expert financial advisers and specialized managers. We also have tools to design investments. We study a customer's portfolio and design changes for it in order to offer alternatives that guarantee their investment. This is done by using an

innovative computer tool for the optimization of portfolios. In order to guarantee a good service, we have fixed-income and equity products, currencies, futures and options and mutual funds, including our own and those of the main international fund management entities either directly or through a specialized management service. We also have discretionary portfolios, SIMCAVs, insurance products, which complement our range of traditional banking products and services.

We are designing structured products tailored to suit the risk profile of customers and adapting the maturity to their liquidity needs. We have been very successful in managing absolute return products for those customers who do not want to be submitted to the uncertainty of markets and want a return higher than that of fixed income and minimum volatility.

Mortgages

2003 was the year when Banesto's mortgage business model was consolidated, providing us with excellent results and growth well above that of the market average. We gained 74 b.p. in market share among commercial banks.

We continued to develop our three traditional channels: promoter promotions, real estate developers and the branch network, and increasingly Internet.

The key factor behind the excellent performance of real estate developers is the high quality of service provided by our specialized managers, enabling us to provide better solutions. Another channel that developed well in 2003 was real estate agents, linked to the growth of our

portfolio of real estate developer finance and where future growth expectations are significant.

We have one of the widest ranges of products and now include change of home mortgages and mortgages with a cap among our offer.

Real estate developer finance grew strongly, focused on housing. We are financing projects for the construction of around 25,000 homes, helping our clients with specialized managers.

As part of our tracking of mortgages, we made a detailed analysis of customer profiles and the sensitivity to less favourable environments. We believe that our low risk profile enables us to face this phase of growth confidently.



The launch of the Banesto 1-2-3 card was very successful. More than 500,000 new cards were issued.

SMEs

Banesto continued to make itself the reference bank for SMEs in Spain. In 2003 we focused on three areas which enabled us to do business with SMEs in a different way, and with innovative products and solutions.

The Banespyme programme to modernize SMEs focused on providing technological solutions. We held more than 60 meetings around Spain which were attended by more than 25,000 businessmen.

We paid particular attention to developing a network of managers who have been trained in service and advice for companies and who know the needs of SMEs.

We published a magazine for SMEs, with real examples and specific proposals, and developed a website (www.banespyme.com) with a series of advantages and offers

for Banesto's company clients. We also created new products such as the Flat Rate Account and the Banespyme card.

These actions enabled us to capture more than 30,000 new customers in 2003, helping to make us a reference bank for SMEs and to lay the groundwork in becoming their bank in 2004.

Shops

Under the Shops Plan launched in May 2003 more than 16,000 new shop accounts and 16,000 new point-of-sale terminals with GPRS technology were opened. We increased the number of active shops in the 4B statistics by more than 50%.

This plan is one of the keys to making Banesto the retail bank *par excellence*.

We designed specific products for shops which meet all financial and technological needs, help management and achieve customer affinity.

We launched the innovative GPRS point-of-sale terminal in June. This is a type of data phone exclusively offered by Banesto which contributes significant advantages including total mobility (no electricity or telephone

connection is needed for it to operate) and it achieves cost savings in communications and higher transmission speed.

As a strategy to support direct sales, we signed more than 40 agreements with associations of shops at the Spain wide level and more than 100 local agreements.

In order to support the launch, we have endowed each regional area of Spain with a team to tend to retailers. We also implemented a training plan with specific courses for new staff and meetings on the plan. The aim is to build up a specialized network that provides the best service and advice.



In 2003 ibanesto.com consolidated itself as one of the reference on-line banks in Spain.

Banespyme Comercio was created to carry on from Banespyme and capture new shops, enhancing Banesto's image in this market in Spain. Banesto took a strategic position in strengthening customer loyalty by acquiring a majority stake in Wex Point. This company has a revolutionary system whose main feature is to reward the purchases made by retail clients with points that can be exchanged for money in any of the shops that are part of the programme.

ibanesto

2003 was a very important year in the consolidation of ibanesto.com as one of Spain's reference on-line banks, particularly in the sector for mortgages which continued to grow via this channel. We doubled both the volume of operations as well as the number of customers.

The main figures in terms of volume were the 113% rise in mortgages, 110% in current accounts and 168% in deposits of securities.

In mortgages, a product where we were pioneers in Internet, we received more than 20,000 proposals in 2003. We continued to improve our market share and increased our offer as a strategy to optimize our funds in the face of our competitors who moved into this channel in 2003 in a big way.

We also achieved large synergies from Banesto's 1-2-3 payment cards, integrated into ibanesto's normal operations. The results were positive in securities and derivatives; we doubled the volume of securities deposited which together with the good performance of the stock market pushed up the effective value by 168%.

As a result of our agreements and non-branded products we attained 30% of the total business volume. Of particular note was the agreement with Patagon, those with Endesa and with Recoletos (under the brand bancodeldeporte.com).

The good results and the experience gained by ibanesto.com in contracting products and management via Internet are part of Banesto's multichannel strategy in 2004. We believe this strategy is vital in the current market where customers demand more and better services and want to be able to conduct operations via many channels.



The testimony of our customers

"Despite the disadvantages it had with the other banks that were closer to us and not knowing Osborne very profoundly or having the same amount of time for analysis, Banesto surprised us with its capacity of response. Not only was it able to understand in depth the key factors of our business and the future,

but it also provided solutions to those that were already on the table, helping us to make them viable. All this was done in record time, something unusual in the banking world.

Banesto's flexibility, offering us a solution tailored to our needs and preparing and putting at our disposal its staff, was a key

element in choosing the bank.

As a result, Osborne now knows of the existence of a dynamic entity with the dimension and management capacity to be taken into account in all our future decisions."

Tomás Osborne
Grupo Osborne, S.A.

"Banesto's flexibility, offering us a solution tailored to our needs and preparing and putting at our disposal its staff, was a key element in choosing the bank."

Banking for Companies
Banking for Companies enjoyed an excellent year in 2003. This was a year when business growth expectations and revenue were comfortably exceeded. The range of products and services for the company business area also improved.

Looking back, we can say that at the beginning of the year the most optimistic analysts painted a panorama of modest growth, with some problems in the development of business activity. At the same time interest rates were at historic lows, making it more difficult to maintain spreads. Lastly tougher competition was envisaged in the domestic market after the big Spanish banks said they would concentrate more on their home market after a period of international expansion.

It gives us great satisfaction to be able to say today that we amply surpassed the targets set at the beginning of 2003. Lending grew 23% in the segment for companies, and without easing up on maintaining credit risk quality. We continue to have the best non-performing loan ratios.

All of this was made possible by the excellent collaboration between company account managers and risk managers. Both are close to the customer,

which helps to raise knowledge of the issues and accelerate decision-making.

Funds also grew strongly during 2003. Of note in the overall growth of 15% were current accounts.

These two items together with revenue from services helped to produce a record level of net operating revenue in the segment for companies.

The four main factors behind this success were teams, customers, collaboration between areas and management of payments.

Teams

Banking for Companies has a highly specialized management team, which is more akin to a team of advisors and salesmen. It detects the needs and finds the solutions to satisfy them, sometimes even before the company's chief financial officer is aware of them.

A major step forward was taken in 2003 with the consolidation of a management model whose main feature is a high degree of decentralization. It has a very flat structure and considerable efforts were made to bring the levels of decision-making as close as possible to the customer. Today, a tiny proportion of the thousands of operations handled need the approval of decision-making centres higher up the chain of command.

This has been made possible by the excellent working relationship between company account managers and risk managers, which in most cases are in the same building.

Customers

At Banesto the customer is the focus of our strategies. Steps were taken in 2003 to optimize the range of solutions. A Customer Management Relationship strategy is going to help us



The testimony of our customers

"Famosa began an ambitious expansion and internationalization project in 2003 in order to consolidate the group as the leading producer of toys in Spain and Portugal, and position it within the group of leaders in the European market.

We needed a bank that would help us with a

long-term financial structure and also assist us in the day to day running of the company with making and receiving payments, coverage, etc.

We found in Banesto a bank that understands our needs. It designed for us the financial structure that best suits the features of our

business and led the financing of the project.

The magnificent employees and the bank's technology platform also made for agile and efficient daily management."

Manuel Rubiales
General Manager
Famosa

"Banesto is a bank that understands our needs."

better identify the needs of our customers.

The greatest novelties, however, occurred in the capturing of new customers. Traditionally we have had the problem of finding for our potential customers something that enabled us to make the first approach.

The creation of the Banesto Institute has filled this hole. Today's figures underscore the success. The Institute is a meeting point for businessmen and company executives and has a strong practical component. It deals with those matters of interest for its target public, presented by the main specialists in Spain (ESE, IBM, Garrigues, etc).

The Institute gives us the opportunity to transmit our offer and vision of a bank that wants to become the financial partner of companies in a more receptive environment. It also helps us to know

better the concerns of our natural markets.

This activity has not made us neglect others already underway. Of note here is our collaboration over the years with the Institute of Family-Owned Companies. As well as the 14 meetings that we held with its different associations around Spain, its annual congress, held in Cordoba, enabled us to review the state of companies, projects and operations and gain access to the decisions of these companies.

Collaboration with other areas

This was one of the activities developed during 2003 of which we are most proud. And not just because of its significant direct contribution to results but because of its potential in other areas. We distributed typical treasury area products among medium-sized companies. This process is complex because of the difficulty of adequately forming a network accustomed to distributing typical products for company banking. In

order to do this we launched a training programme jointly with Banking for Companies, Treasury and Training.

The mobilization of managers was accompanied by the launching of products by the Treasury area on the basis of prevailing market conditions. It was combined with the establishment of a series of business teams in the Treasury unit providing support over the telephone or personally.

As a result we have strengthened a niche activity which was underdeveloped. This model of collaboration will be used in other areas which should act as suppliers of products for the network of companies. By working together we can go much further, both by incorporating new customers as well as increasing the number of products per client.

Management of payments
Banesto is well placed in the

Spanish financial system to manage the collection of payments and make the payments of the most demanding customers. As a result of our network and our technological capacity, we can offer the best solutions for the day-to-day management of our customers.

Several steps were taken during 2003, such as a call centre which manages the down payments of the amounts to be paid to the suppliers of our customers (Suppliers Payment product).

Such activities are the way to forge links with customers, so that they continue to regard us as their main financial partner.

In order to strengthen our position as the leading bank in management of companies, we are focusing on improving our capacity in this field. Our goal is to have the services and products and be chosen when companies make their decisions.



Wholesale Banking: Specialized products for large companies

We focused in 2003 on the four objectives that we set at the beginning of the year: profitability, efficiency, credit risk quality and growth. These will continue to be the pillars of our business.

Wholesale Banking

Banesto decided to merge the Corporate Banking and Treasury and Capital Markets areas in September 2002 in order to provide a full service to large and medium-sized companies, and at the same time optimize our platform of products and channels. 2003 was the first full year with this new structure, and both the response of customers and the results confirmed the wisdom of the move.

With our large customer base and considerable potential in cross-selling, the idea in 2004 is to achieve further progress in the benefits resulting from a full range of customer products.

The Wholesale Banking Area consists of five units which

work together to achieve these objectives: Corporate Banking, Treasury, Banesto Bolsa, our broker-dealer, Capital Markets and international business, whose main office abroad is in New York.

Corporate Banking

Corporate Banking met its main goals in 2003, increasing the number of customers in Spain and deepening the business relationship with them. We did this through a wider range of higher value added products.

More than 40 companies are clients of Corporate Banking, and the business model is based on a long-term relationship. Our managers

manage operations, introduce and jointly manage value added products from other areas of Banesto and take advantage of the business opportunities generated in other areas. A good example of this is the agreement between Banesto and the courts, through which a large number of insurance companies have been captured as customers, thereby maximizing even more the relation with the issue of guarantees on the account of the insurance companies.

The average loan in Corporate Banking was €6,253 million in 2003, 5.4% more than in 2002. As a result, net operating revenue was 10.1% higher.

Banesto is one of the three leading banks in Corporate Banking in Spain.

The Corporate Banking branch in Bilbao was integrated during 2003 into the new regional unit for companies in the Basque Country, as a result of Banesto's absorption of Banco de Vitoria.

Treasury

The goal in this area in 2003 was to deepen the policy of achieving more business with customers. In 2003 the number of customers who opted for hedging and other specific products was more than three times that of 2002, and growth that year had been considerable. Growth was also



The testimony of our customers

"Makro's relation with the Banesto Group began in 1973 when the company started to operate in Spain. Since then, we have found in Banesto a bank that is ready to understand and support our

activities. Its response to Makro's financial needs and services has always been quick and professional.

It has been particularly important for Makro's expansion, which has

given us a presence in almost all of Spain, to have the backing of Banesto's network."

**José Luis Utasa
Fernández
General Manager of
Makro**

"Makro began to work with the Banesto Group in 1973."

very strong in terms of the revenue generated for coverage. Over the last two years, net operating revenue tripled.

We took measures in training, product development and distribution during 2003 in order to improve our customer service. We created a Market Making area, which unified the areas of Trading and Distribution for customers. The purpose of this new unit is to refocus the management books in order to facilitate the creation of products for final customers.

We trained a large number of managers from all areas in hedging and Treasury products. As a result of the training programmes, an increasing number of small- and medium-sized companies opted for hedging products. The introduction of new tools at Retail Banking also enabled us to do more business in structured deposits.

As a result of Treasury's new focus on distribution, revenue linked to final customers grew significantly during 2003, generating around two-thirds of the total compared with more than half in 2002. This new strategy and its results reduced volatility and market risk.

The business plans for 2004 and subsequent years continue to strengthen activities aimed at final customers, particularly the sale of hedging products.

Banesto Bolsa

Banesto Bolsa's goal in 2003 was to increase its share of the Spanish market. We were helped in this by the competitive advantages of our leading edge technology and our specialization in the tracking of Spanish stocks.

We increased our market share among existing customers and captured 30 new institutional clients. Market share in 2003 rose by 109 b.p. to 4.51%, putting Banesto Bolsa in fifth place and lifting our position in the ranking from 8th in 2002 and 12th in 2001.

Business in the Spanish equities market improved in 2003. The volume brokered rose 11%, due to a better performance by European and US markets. As a result of this increase and the higher market share, revenue from commissions rose 5%.

Capital Markets

Banesto became one of the leaders and main players in Spain's capital markets in 2003; it was ranked second in terms of the number of operations.

In 2003 it underwrote a total of 47 operations (28 in 2002) amounting to €2,512 million (€1,016 million in 2002), 247% more than in 2002.

We continued to be active in different debt products, such as project financing, financing of acquisitions, financing of assets, syndicated loans and financial advice.

2003 saw major Spanish companies going to the market for syndicated loans. Banesto was the underwriter and director for most of the operations, such as Endesa (€1,500 million); Sogecable (€1,350 million); Enagas (€1,000 million); FCC (€800 million); Uralita (€525 million);



The testimony of our customers

"Banesto has been our main bank since 1998. The bank made a long-term decision, with beneficial results for both parties, in a sector that has had its good and its delicate moments.

Uni2's relation with Banesto is very good,

enabling and facilitating good results. There is a high degree of confidence between both sides which aids fluid management and understanding. These are the main features of our relation. The most noteworthy aspects of Banesto's way of doing business

with Uni2 are its agility, commitment, capacity of reaction, response and support."

Marc Rennard
Chairman of Uni2

"Since 1998, when Uni2 began, Banesto has been our main bank."

Probitas Farma (€225 million) and Tecmed (€160 million).

In project finance in the energy sector, we were the only underwriter and leader of the largest project for renewable energy in Spain in 2003. This was the €140 million loan for Unión Fenosa Energías Especiales, a pioneering project that combines 130Mw of wind power and mini hydraulic energy. We also signed a €34 million project finance loan with ACS for wind power and mandates for a second loan of €54 million.

In infrastructure, we consolidated our position as the reference bank with mandates to finance the Toledo-Consuegra motorway ("Autovía de los Viñedos") and a toll road ("Autopista de Peaje Eje-Aeropuerto") for Dragados and OHL, respectively.

As regards the financing of acquisitions, Banesto led and underwrote operations with among others Inveralla, Torreal and ACF Capital for the purchase of 100% of Damosa, and for Sacresa's purchase of 5.1% of Metrovacesa. We also issued the guarantee before the National Securities Market Commission and the associated loan for Hoteles Hesperia to finance the takeover bid for NH Hoteles. In the last two cases, Banesto was the sole director, underwriter and financial advisor.

Of note among Banesto's desire to offer the widest range of financial products was arranging, together with other banks, of a €120 million subordinated debt issue for Osborne convertible into shares.

Lastly, Banesto was involved in providing advice for different companies, mainly operations to finance infrastructure. Of

note in 2003 was that provided to the ACS-Dragados consortium in the tender for the Figueras-Perpiñan high speed train and the FCC-Ploder consortium in the tender for five toll roads.

In the Equity Market Area we advised companies in operations related to placements, takeover bids, mergers and acquisitions of unlisted companies, the purchase and sale of companies, mergers, incorporation of strategic partners, business plans and valuations.

2003 was one of the most active years in takeover bids for listed companies. Banesto was the sole financial advisor in the bid by Grupo Inversor Hesperia for 26.10% of NH Hoteles. This activity was in sharp contrast with 2002 when there were no placements.

In mergers and acquisitions, we positioned Banesto as one of the reference banks among medium-sized Spanish companies.

We also continued to support large Spanish companies in corporate operations, providing advice to Cintra, Grupo Ferrovial, the privatization of Empresa Nacional de Autopistas (ENA) and the construction firm OHL in its divestment of its environmental business.



Risk Management: A top quality portfolio
whose risk is foreseeable

Banesto perceives risk management as a competitive advantage and as a key factor for creating shareholder value.

Risk management: Banesto, a bank whose risk is foreseeable

Banesto perceives risk management as a competitive advantage and as a key factor for creating shareholder value. This can only be done by maximizing the relation between risk and return by establishing structures, information systems, procedures and tools that enable loans to be admitted and tracked systematically and efficiently.

Banesto assumes risks as a result of its lending activity, off-balance sheet operations and own account hedging and trading activities. These risks can be classified into the following categories:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Environmental Risk

Dynamics of risk management: new trends

The new trends that guide our risk management can be summed up as improved risk intelligence and management of processes:

- 1 Improved risk intelligence implies progress in the following aspects:
 - Analysis of the environment: the increasingly volatile environment makes deep analysis necessary, thereby identifying the market's "failures".

- Consumer financing risk: progress is being made here in classifying clients and the structure of risks is being adapted to the phenomena of multi channels and point-of-sale financing.

- Risk-return focus: risk management does not consist of minimizing the risk, but maximizing the relation between the return and the risk. This makes the creation of an internal risk measurement model vital.

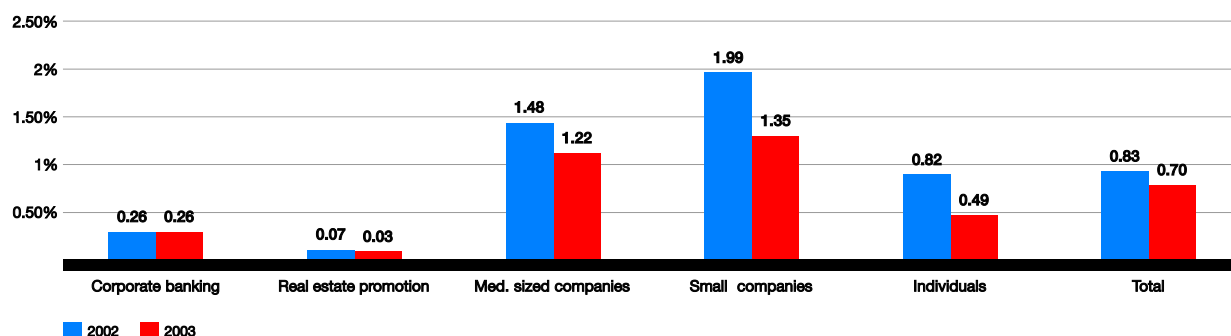
- Improved measurement of market risks: the growing sophistication of the products used in the markets areas makes it necessary to have

systems to measure the associated risks.

- 2 Improved risk management: in order to enhance the efficiency and quality of the service given to customers, Banesto is constantly reviewing its risk processes, focusing on:

- Increasing the capacity of on-line response, as it helps to improve customer service.
- Each customer has a stable limit of risks which is reviewed every month.
- Improve the standardization of monitoring processes and renewal of portfolio operations.

Non-performing loans by segments



Banesto is a bank whose credit risk quality is foreseeable and it has no other volatility factors than those arising from the economic cycle.

Basic principles

Risk management at Banesto is guided by the following principles:

• INVOLVEMENT OF SENIOR MANAGEMENT

The Executive Committee formulates the risk policies, sets the limits of the powers granted to decision-making bodies, establishes the limits and gives its opinion on operations whose level of risk exceeds the powers granted to the bodies.

• INDEPENDENCE

The risk area is independent of the business units.

• ADVANCED METHODOLOGIES TO MEASURE AND ASSESS RISKS

Banesto has the necessary tools and analysis methodology to correctly manage the risks assumed (automatic scoring systems, internal ratings, return on risk adjusted capital (RORAC), value at risk (VaR), back testing and stress testing.

• THE RISK POLICIES MUST GO HAND IN HAND WITH SUSTAINED AND PROFITABLE GROWTH

The enlargement of the customer base and management of risk levels per customer enable us to reach the desirable level of risk diversification by customer and economic sector.

• IMPORTANCE OF REVIEWING THE COUNTERPARTIES

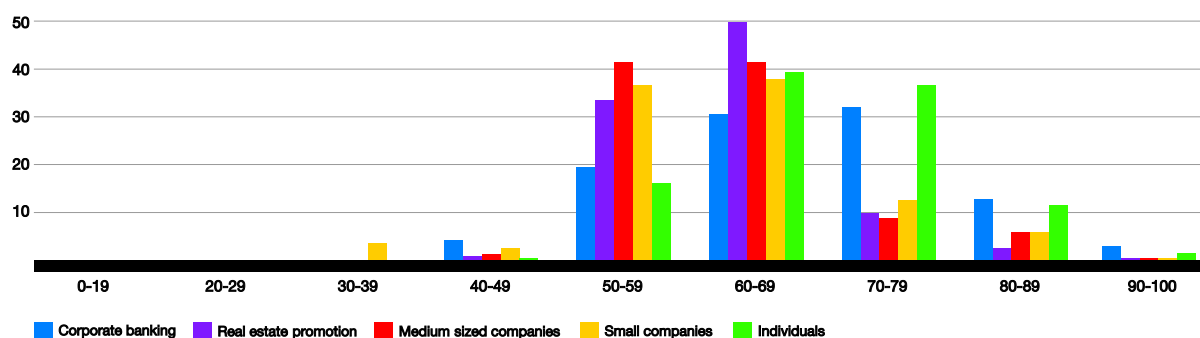
Just as important as risk admission is its tracking. Banesto has an early warning system for risks that enables it to manage its positions on a preventative basis.

• RISK MANAGEMENT IS A BASIC PILLAR OF THE POLICY FOR PRICING AND ASSIGNING CAPITAL TO BUSINESS AREAS

Given that good risk management does not mean minimizing risks but maximizing the return/risk relation risk analysis, through internal ratings, is a key instrument in the pricing policy, the allocation of capital to the different business units and for measuring the generation of value.

The main risks to which banks are exposed are credit, market, operational and liquidity risks. As well as these risks, as of 2002 training processes have been put into place and a model for analysis and customer classification that includes the environmental policies to be applied is being defined.

Distribution by rating of lending by customer segments (% of the total)



Banesto has a culture of prudence which is solidly established as a key element of its risks policy.

Credit Risk

Credit risk is when a counterparty does not meet its contractual obligations and produces losses for the bank.

The purpose of risk management at Banesto is to identify, measure, control and evaluate the different exposures, as well as establish the risk adjusted return.

1 Risk admission

Banesto has a structure of risks differentiated by customer segment – retail, companies, real estate promotion and corporate.

1a Retail risk

Banesto has put into place advanced solutions to integrate the strategies for admission of clients in order to ensure an increasingly accurate and consistent admission policy through different channels and in different parts of Spain. Our solutions produce increasing levels of productivity while maintaining credit quality.

The systems to evaluate clients provide performance statistics that are combined with admission scoring and external information. This achieves better quality results in automatic

decision taking. These risk evaluation systems make proactive management possible by identifying high credit quality clients. These clients are then targeted with business actions and campaigns of preconceived lending operations that help to create a high quality portfolio.

The automatic systems provide support for the analysts at the Risk Analysis Centre (RAC), where the admission process is completed with analysis of operations that because of their features require detailed review. The RAC, operating since 1996, consists of credit analysts specialized in the main businesses of retail banking. The centralizing of the admission process ensures homogeneous application of the admission criteria and a

high capacity to quickly adapt to changes in risk policies. The management experience gained in these years has made CAR a highly specialized centre, with a high degree of productivity and a technical capacity at the service of the network.

Management of retail banking portfolio provides increasing levels of accuracy in risk evaluation, consistency and objectivity in risk admission, high productivity and continuous support for business management. These elements moreover are enhancing the quality of customer service and responsibility with Banesto's other stakeholders – shareholders, employees and society in general.

**Monitoring of clients
Figures at 31.12.03**

% of total



**Monitoring of clients
Figures at 31.12.02**

% of total



The Bank deploys advanced risk management techniques based on intensive use of technology and modern methods of risk measurement.

1b Company risk

The unit for company risk focuses on those customers or groups of clients with turnover of more than €2 million, and who are not part of the corporate risk unit. The relative importance of the customers segmented in this unit merits tailor-made treatment. They are placed in portfolios assigned by risk analysts.

There is a system of risk attribution delegated to Banesto's regional headquarters and company centres. The system used is one of "double signature". This means that the decision taken by Banesto has to be shared by the risk analyst and by the customer's business manager. This in line with Banesto's philosophy

that "risk is the responsibility of whoever proposes it". One of the key figures here is the manager of company risk (MCR), located close to clients and the business manager, who facilitates better knowledge of risk. The powers of each MCR are assigned on the basis of knowledge and experience. When the risk assumed is more than the powers granted the decision is taken at the regional headquarters, which also has powers in these matters. If the risk is still too high, it is managed on a centralized basis.

The organizational structure of risk is completed with very developed information systems which provide quick treatment of data and communication. All of this enhances the quality of the risk assumed and the service given to customers.

1c Real estate developers risk

Banesto has made a major effort to adapt its structure and the quality of its staff to the requirements of this type of risk. This has led to specialized treatment of this activity, which enables us to assign an internal rating to the real estate developer and to each project. A specific risks unit was established in central services which has three areas: economic, urban development and legal. This structure is replicated in those areas of Spain where the volume of business justifies it. Like the risk area for companies, real estate also has certain powers.

MASTER SCALE OF RATING BY CUSTOMER SEGMENTS

TMA	MASTER SCALE	LARGE COMPANIES	MEDIUM-SIZED COMPANIES	SMALL COMPANIES	MORTGAGES	CONSUMER
0.02% —	100 —	90 —	90 —	90 —	90 —	90 —
0.05% —	90 —	—	—	—	—	—
0.10% —	80 —	—	—	—	—	—
0.23% —	70 —	—	—	—	—	—
0.52% —	60 —	—	—	—	—	—
1.16% —	50 —	—	—	—	—	—
2.62% —	40 —	—	—	—	—	—
5.91% —	30 —	—	—	—	—	—
13.31% —	20 —	—	—	—	—	—
30.00% —	10 —	10 —	10 —	10 —	10 —	10 —
Non-performing loans	0 —	—	—	—	—	—

Banesto's lending policy specializes by type of customer, products and geographic area.

Significant investment has also been made over the years in training, endowing staff with specific methodology and tools of analysis for management of this type of risk.

1d Corporate risk

The Corporate Risks Unit is responsible for the global risk management of these clients. Risk treatment is conducted by sectors, type of operations and geographic area. Analysts have these clients, sectors and operations assigned. There is a team of experts at the centralized level and resources in Madrid, Barcelona and New York. These specialized offices facilitate geographic proximity and better knowledge of clients and operations by analysts. These teams conduct studies and are in direct or indirect contact with the clients' account managers on a regular basis.

The unit uses a proven methodology for analysis and risk management, which has an immediate capacity of response to the issues raised. The risks of clients are classified, enabling the operational limits to be managed smoothly. The philosophy is that each client is assigned a risk limit.

Return on Risk Adjusted Capital (RORAC) methodology was introduced in 2001, and this has already given us experience in the use of internal ratings, advanced systems of pricing and allocation of capital.

The international area also has a team of experts which manages the risk of the counterparties at the global level and the risk

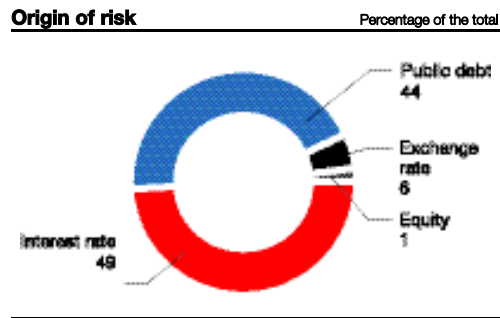
of emerging countries. The methodology used is based on assigning risk limits by client or counterparty, combined with a country limit. Banesto's position in emerging countries stems from the coverage and service it wants to provide to its clients in their regular foreign trade activities. The profile is thus conservative and is also largely covered by front rank banks.

Debt issues and securitizations

	Amount Million euros	Average maturity (years)
Issues of debt and securitizations	2,000	2
Subordinated debt	500	10 (*)
Mortgage bonds	1,500	7
Preferred shares	131	Perpétua (*)
Mortgage securitization	1,500	6
SMEs securitization	60	5
	5,691	

(*) With possibility of redemption in the fifth year

Origin of risk



Banesto's risk management is guided by principles of efficiency based on the quality and speed of response to our customers.

2 Risk monitoring

Banesto is fully aware of the importance of having an early warning system as problems in risks never arise when the loan is granted. We have a monitoring system based on the following pillars:

- Early Warning Risk System (EWRS) which every month looks at 20 significant credit risk variables, and includes internal and external information. This aims to identify possible liquidity or solvency problems in loans of more than €6,000.
- Tracking of irregular contracts.
- Review of internal ratings of customers by the units responsible for granting loans every three or six months.

- Teams in regional headquarters who solely track loans in retail banking and for companies.
- Integration of tracking tasks into the agenda of Banesto employees, with daily committee meetings in all branches and monthly tracking meetings.

The EWRS enables us to identify those counterparties that require special watch. They are assigned a specific policy (track, secure, reduce and extinguish). Banesto regards this systematic and periodic review of the health of its credit portfolio as a key element of its risk management.

3 Recoveries

Risk management also covers the recovery of unpaid loans. This activity is managed bearing in mind the complexity and amount of each case. There are specialized managers for large and complex loans.

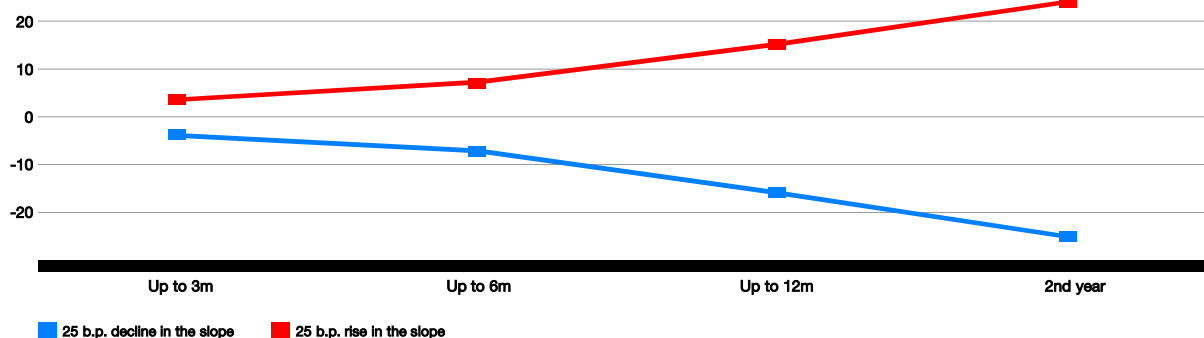
Risk adjusted return and the new agreement of the Bank for International Settlements (BIS)

The overriding purpose of our internal risk adjusted model, based on concepts of expected loss, unexpected loss and economic capital, is to develop a model that measures and manages risk in accordance with the requirements of the Bank of Spain of an anti cyclical provision (FONCEI), and have advanced models for calculating capital needs, as set out in the BIS II proposal that will come into effect at the end of 2006.

Of particular note in Banesto's internal risk management model is a Return on Risk Adjusted Capital (RORAC) system. RORAC is based on a system of internal rating that affects all counterparties and operations from the start of a business relation to the end of it. The rating is constantly reviewed

Sensitivity of net interest revenue

Millions of euros



Risk management at Banesto is very focused on the retail segment and on strongly diversified growth in lending.

during the process of monitoring. Each internal rating is associated, on the basis of experience, with expected probabilities of non payment and this with losses for each operation and client (Rate of Anticipated Non-Performing Loan, or RANL). The diversity introduced by the ratings of different segments is corrected by a master scale that relates them with the RANL.

Knowledge of the RANL, together with the exposure to each client and the average rate of recovery (severity), enables us to calculate the expected loss and gives the model a capacity to forecast. The concept of expected loss enables us to estimate the underlying losses in the portfolio and make adequate provisions.

Economic capital is needed to cover unexpected losses, as the expected ones have already been provisioned. In order to establish the unexpected losses,

it is necessary to know the degree of diversification of the portfolio and the external rating objective set. This enables one to establish the economic capital consumed for each loan, each level of external rating and the diversification factor and so calculate the return obtained for shareholders. This methodology calculates the minimum risk price that remunerates the economic capital at the rate required by shareholders (currently 25%). It also enables us to distinguish those operations or clients that create value (return on economic capital or RORAC higher than the goal set) from those that destroy it.

In short, the RORAC methodology enables Banesto to:

- Determine the amount of capital needed to maintain the volume of risks assumed for a objective of a certain financial solvency.

- Understand where shareholders' capital is invested and the return from it.
- Identify the operations, clients or segments that create or destroy value. This is done by identifying a risk price that covers the financing cost, the operating costs, the loan-loss provisions and the remuneration required by shareholders on economic capital.

Market Risk

This stems from the uncertainty over the future performance of markets, inherent in financial activity. For the purposes of market risk measurement and control, Banesto is able to distinguish between risk management inherent in the bank's structural position and management of positions in the trading portfolio (fixed income, equities, and derivatives).

Risk admission

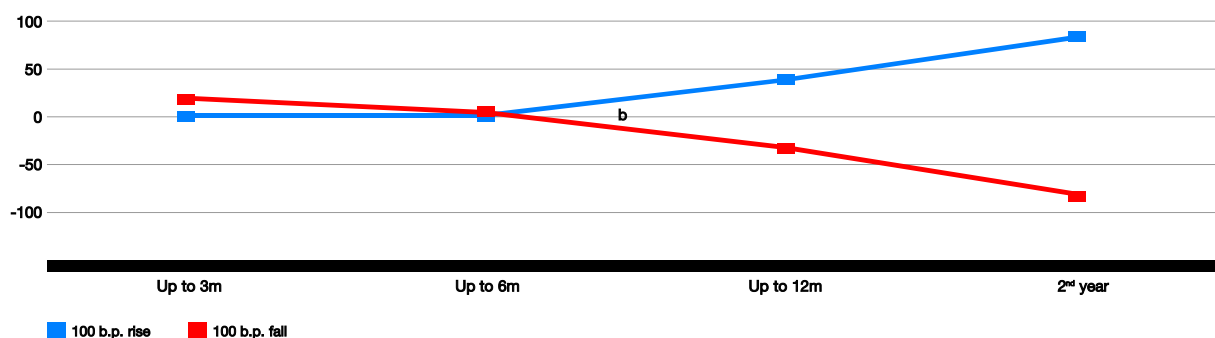
1 Management of structural market risk

The Assets and Liabilities Committee (ALC) is responsible for structural market risk management and the monitoring and implementation of the policies and decisions taken by the Financial Management Unit.

Because of the very nature of Banesto's business, the

Sensitivity of net interest revenue

Millions of euros



The central plank of credit management is applying a risk/return focus (both past and future).

exchange-rate risk in positions not included in those of treasury is very limited. Indeed the bank's policy is to hedge any currency risk that could arise in its ordinary operations. In the same way there is almost no risk in equities. As a result structural market risks at Banesto essentially mean interest rate risk. On this basis, 94.5% of Banesto's balance sheet is in euros, 4.88% in US dollars and 0.27% in other currencies, for which interest rate risk management and measurement is in dollars and, above all, in euros.

In order to make risk management more effective and achieve greater coherence in business management, the bank has had since early 2003 a system that transfers all the interest rate risk of the business areas to the ALC.

As a result, the earnings of these areas are not affected by interest rate risk at all. The system consists of a series of transfer prices for which the ALC gives a counterparty to each transaction of the business units in interest rate conditions (fixed/variable, periodicity of repricing, etc) identical to the counterparties with customers, but applying market rates for the corresponding period, so that the risk is transferred and the unit maintains the business margin. Simulation tools are used in structural interest rate risk management to calculate the sensitivity of net interest revenue and of economic capital to different interest rate scenarios (parallel shifts of the yield curve, changes in the slope, etc).

The methodology and tools used provide a high degree of flexibility for carrying out different interest rate risk analysis as we start from the individual information of each contract, with all the real data on each one's settlement conditions.

On the basis of the analysis, the ALC adopts the investment/financing and hedging strategies that it deems opportune in order to optimise the return/risk binomial.

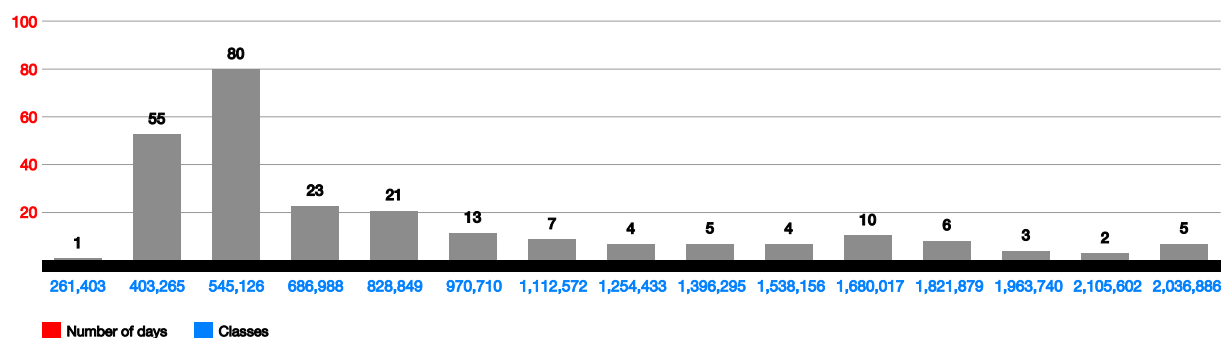
Banesto's interest rate risk management policies are as follows:

- The risk in euro and dollar positions is measured and managed. In other currencies the positions are hedged so that the risk is eliminated. The positions in euros account for 95% of the total balance.

- The risk is managed on a global basis. Net interest revenue stability is the main objective followed by protection of the economic value of capital.

The graph shows the impact on net interest revenue of a change of 100 basis points in the euro interest rate curve (parallel shift) during the first 24 months.

For some time now Banesto has been maintaining a relatively high level of coverage in the face of possible interest rate cuts during the past few years and so the impact of a drop in interest rates on net interest revenue is moderate. This policy enabled us to partially offset the impact of interest rate cuts during these years. Interest rates at the moment are at historical lows and the market, in general, gives a low probability to further cuts.

Histogram of risk. VaR in euros

For some years now Banesto has been moving towards the future requirements of Basel II and the best practices of the banking industry.

We therefore reduced the duration of our coverage, with a low sensitivity during the first year and increasing it as of the second.

In terms of the economic value of capital, the coverage levels are high, with a rise of €67.2 million for an increase of 100 basis points in interest rates.

Like any other commercial bank, Banesto is sensitive to the yield slope. The part of the curve that is relevant for this analysis is from short term to 12 months. In order to measure the sensitivity without mixing with parallel shifts we keep the six months interest rate fixed and increase/decrease the one day rate and that for 12 months by the same amount so as to change the slope by 25 basis points. The graph shows the impact of these variations. Management of liquidity risk

must ensure the bank has access to the funds it needs to meet its payment commitments at reasonable prices. The bank has a wide range of tools and measurements for liquidity risk management. The main ones are the formulation of Gap tables, daily for the shortest maturities and with larger groupings for longer maturities, measurements of the net position in the money markets, ratios, etc. Banesto attaches great importance to liquidity management and has a very conservative policy in the positions it maintains.

We try to ensure that the net position in the money markets is always maintained at reasonable values through forward planning of the finance needed in the capital markets and taking measures in the balance sheet. The steps taken

during 2003 are set out in the chart on page 34.

In addition, both interest rate and liquidity management are backed up by stress-testing. This provides information on interest rate and liquidity risk in extreme situations or a crisis in the markets. We have contingency plans for possible crises that hit the markets. The tables on interest rate gaps and liquidity gaps at 31.12.03 are included in the Management Report.

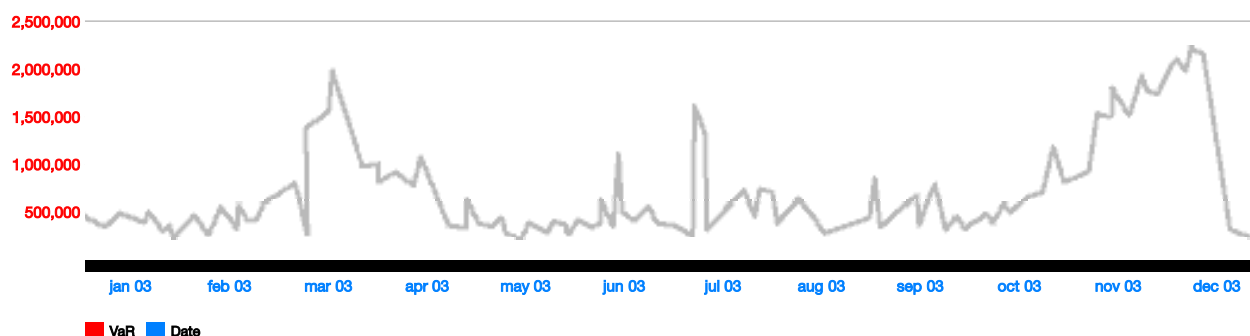
2 Management of treasury market risk

Value at Risk (VaR) methodology is used to manage and control interest rate, exchange rate and equity risks.

VaR provides a single market risk figure that embraces both interest rate and exchange rate risk as well as equity risk. The figure gives the maximum expected loss from adverse movements in the market over one day and with a confidence level of 99%. In other words, with a confidence level of 99% we expect the average daily losses to exceed that predicted by the VaR one in every 100 days.

VaR performance in 2003 in euro units

Jan-Dec 03



Banesto's risk management is proactive in both the admission process as well as in tracking and recoveries.

The market risk management process is complemented by:

- Establishment of limits for some currencies.
- Establishment of limits in the private fixed-income portfolio.
- Establishment of stop loss limits.
- Stress-testing.
- Verifying the reliability of VaR methodology with back-testing.

The maximum level of risk was reached on December 12 (€2,247,463), due to a sharp rise in volatility in the markets, and the minimum level on May 19 (€261,403). The average risk in 2003 was €740,420 (20.85% of the limit).

Back-testing

Back-testing verifies the reliability of VaR methodology for market risk measurement. A comparative analysis is made between the daily results and the estimates of the VaR. According to the hypothesis assumed in VaR methodology, these results should not exceed the estimated VaR by more than 1% of the days.

In addition, other tests are made such as contrasting the average value and the change in the distribution of the results observed and contrasts of normality in order to verify other hypotheses assumed in VaR methodology.

Banesto's analysis of back-testing has been verified by the auditing departments of the Santander Group and by rating agencies such as IBCA, Moody's and Standard & Poor's, and it meets the

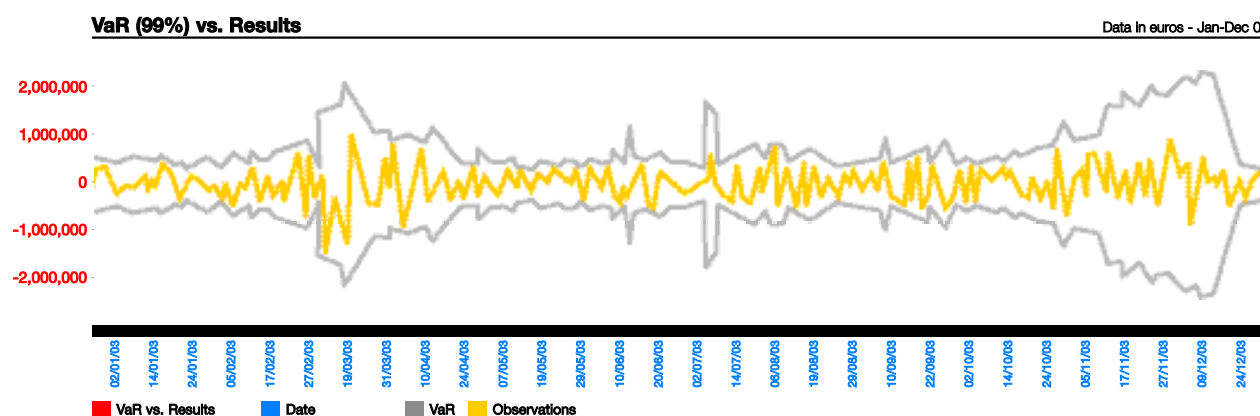
minimum requirements recommended by the Bank for International Settlements regarding the contrasting of internal measurement systems and market risk management.

Stress-testing

Stress-testing consists of evaluating the impact of extreme movements in financial variables on the results of a portfolio.

Banesto carries out three types of stress scenarios:

- The first is based on an historic analysis of financial variables, in search of extreme situations. The maximum variations for the different variables are taken and their impact on the value of the portfolio is analyzed.
- The second scenario replicates the movements of the variables in a specific crisis environment: the scenario simulated is September 11 2001 and its impact on the value of the bank's current portfolio is studied.



The Bank has been gradually incorporating to its risk analysis processes the environmental impact of its customers' business.

- The third stress scenario is also a specific one and is applied to equities. The impact of September 11 on the portfolio's gamma and vega is studied.

Operational Risk

The existence of a deep culture of operational management, with tools and good practices, has been a solid base for the launch of a new Operational Risk Management Framework. This will enable Banesto to fulfil the most advanced requirements of future regulations on bank solvency (New Capital Agreement/BIS II), one of whose novelties is the establishment of regulatory capital for operational risk.

This new framework, taking advantage of the bank's high level of technology, will have tools for integrated management of operational risk using the latest developments.

The first one, developed internally during 2003, is the Data Base of Losses from Operational Risk, which classifies these losses on the basis of the types of

operational risk and business lines, using the standards of methodology and quality of future regulations.

Environmental Risk

In order to contribute to more sustained development, as of 2002 employees are being trained in this issue and a model for analysis and customer classification that includes the environmental policies to be applied is being defined.



Technology: Competitive advantage at the service of customers

Our technology provides quality services and excellence, concepts that are our hallmarks.

Technology at Banesto is a key factor that distinguishes us from our competitors and puts us in a good position even at the international level.

Our technology provides quality services and excellence, concepts that are our hallmarks.

Our technological solutions have the sufficient potential to support the performance of our business and that of our customers in an increasingly competitive environment. During 2003 we were committed to constantly improving our systems in order to adjust ourselves to an increasingly demanding market, and we reduced the launch time of technological and organizational innovations.

2003 was a good example of our global technology strategy, with the efficient support of all areas in the launch of new products and services, including:

1 The Visa Banesto 1-2-3 card, which has made us the reference entity in Spain's card market. This was made possible by a novel and aggressive proposal, together with significant technological

developments in multi-channel contracting and in risk admission policies. As well as the standard incentives in the card's programme (1% in large stores, 2% in supermarkets and 3% at petrol stations), customers can increase them through specific campaigns and additional discounts in shops or groupings of shops. Banesto obtained a record 500,000 new cards.



In 2003, and in line with other years, technology was a key factor that distinguished Banesto from its competitors.

2 One of the goals of 2003 was to be a reference for SMEs and shops. Our technology is able to offer products and services aimed at covering the needs of these sectors. Of note was the GPRS point of sale terminal and the flat rate account which covers all transactional needs.

The GPRS point of sale terminal illustrates well how one can take advantage of new technologies to provide innovative solutions for our customers. The GPRS was very successful in giving our customers three clear added values:

- Mobility
- Lower telephone costs
- Speedy transactions

3 Banesto won in 2003 the tender to manage the deposit accounts and appropriations of the Justice Ministry, the largest called by the government. The contract came into effect on January 1.

We met this challenge well, developing the support system for deposit accounts and appropriations in record time, carrying out the migration processes in the periods set and operating the system to the full satisfaction of the Justice Ministry and associated collectives.

The system, created with the latest technologies, has been very successful, with the number of users using it almost five times higher than for the old system.

4 Transactional banking, which for Banesto is the channelling and management of flows of payments and collection of payments and financing, has undergone significant technological developments, all of it with common goals:

- Provide customers with the maximum flexibility.
- Guarantee high quality service.
- Ensure cost efficiency.

The strength of the solutions put at the disposal of our customers, many of them tailored to their needs, is enhanced by the use of a multi channel strategy. The bulk of our solutions are available from our on-line bank for individuals (Banesnet Particulares) and companies (Banesnet Empresas).

Banesnet Empresas and Banesnet Particulares are ranked first in the list that is regularly published by Aqmetrix, the independent consultancy (www.Aqmetrix.com).

We won the tender to provide banking services to the International Air Transport Association (IATA) which involves developing clearing and settlement functions for tickets. This was made possible by the constant evolution of our system and our search for innovative business solutions through technology.



We continued to develop our Intranet in 2003 as a channel to make corporate communication more fluid.

We competed for the contract with some of Spain's leading banks. Our solution is specifically made for IATA, supported by our own solid systems and incorporates many of the concepts and technologies used in Banesto systems - on-line, processes of beginning to end (STP) and multi channel.

5 We continued to develop our Intranet during 2003 as a vehicle to make corporate communication more efficient. In the first half of the year all employees had access to Intranet, following a large investment in overhauling equipment and a substantial improvement in broad band in our offices.

The deployment of this platform is in line with the intranetization of our systems, which in 2003 made substantial progress. Banesto's Intranet is the central point that brings together the "tools" needed every day. Progress was also made in personalizing contents through the use of portals which group the different systems and tools that each function needs.

2003 was also a year when we modernized Banesto's internal systems, to the benefit of management organization. The project renewed the systems of purchases, supplies, budgetary control, logistics, stocks, management of assets, investments and premises. All these systems were integrated into a single architecture through the business planning tool peoplesoft, which is fully integrated into Banesto's intranet.

In order to support the sales network, we established a system to manage incidents which automatically directs the matters to the different suppliers of services, reducing the need to involve personnel and the time to resolve the problems.



Human Resources: The best employer among banks

Banesto was chosen as the third best employer in Spain and the first in the financial sector, according to a study by a well known economic magazine of 118 companies from all sectors.

Banesto's human resources area is strongly associated with business challenges. We regard the commitment of our employees as a key plank for increasing the benefits for all those associated with the bank – customers, shareholders, employees and society in general.

This commitment is achieved by ensuring the satisfaction of all our employees. Satisfaction is the best way to attain excellent service for customers.

Banesto was chosen as the third best Spanish company for whom to work and the first in the financial sector in a study carried out among 118 companies from all sectors by a well known Spanish magazine. The result of this perception indicator is the fruit of our human resources plan, which seeks to create value over the medium and long term through sustainable growth. The plan has four spheres:

- Reconcile professional and family life
- Optimization of efficiency
- Management and strengthening of talent
- Remuneration and incentives to create value
- Hiring of new staff

Reconciliation data and social quality indicators

The drive in equality of opportunity and to reconcile professional and family life resulted in a plan in 2003 and measures covering five main areas:

COMMUNICATION AREAS

- Plan to Communicate the programme to all employees
- Permanent space for disseminating the programme's measures
- Mail box for suggestions and contact person
- Link with the Optimum Programme
- Monitoring of the programme in human resources committees
- Creation of a permanent committee
- Information on actions in internal and external presentations
- Items on equality of opportunity in satisfaction questionnaire

Professional Capital (current profile)	2003	2002
Total employees	9,840	9,851
Average age	40.85	40.75
Average number of years with Banesto	18.39	18.14
Diversity (% of women/total employees)	28.4	26.00
% of employees with a university degree	54.5	50
Average length of time in current post (years)	3.59	3.13
Average experience in current centre (years)	3.69	3.35
% of employees in business posts in branches	72.8	72.10

Social Return (return on human factor)	2003	2002
Human factor cost: Personnel costs/Total operating costs	73.62	73.60
ROI in human capital: income before depreciation per employee/Personnel costs per employee	1.45	1.29
Value added of human capital: income before depreciation/ Average number of employees	79.71	68.05
Efficiency of salary cost: Personnel costs/Total revenue	34.78	37.04

SELECTION

- Make people in human resources involved in selection more aware
- Transmit the principles of equality of opportunity to consultancies, temporary job agencies.
- Draw up job offers and tests in non-sexist language, in equality of conditions, priority for women

TRAINING

- Training actions in equality of opportunity in course for new employees and access to management
- Module of equality of opportunity for all employees: E-learning
- Increase the number of women in executive courses
- Facilitate access to training in out of office hours

PROMOTION

- Make people involved more sensitive to equality of opportunity
- Ensure transparency and objectivity
- Conduct studies on women employees with high potential
- Conduct work shops to detect possible barriers

CONCILIATION

- Facilitate flexible working hours
- Tele-work
- Economic help to look after dependents
- Period of reduced responsibilities in order to take on family responsibilities
- Leave of absence for up to five years for family responsibilities
- Accumulation of breastfeeding hours to maternity leave: 2 extra weeks
- Priority in holiday arrangements for employees with small children

- Work shops to receive suggestions
- Dissemination of the law for reconciling family and working life

OTHERS

- Information on female labour health
- Maternity management framework
- Coverage of maternity leave
- Protection of maternity

Optimization of efficiency

Banesto achieves this by adjusting its structures to the needs of customers. The number of employees directly linked to business was more than 95% of the total in 2003, and special care was taken over the specialization of employees so that they can respond to the needs of the different segments.

Optimization of efficiency is also being achieved by encouraging collaboration between the different areas. The increased efficiency of our employees is bearing fruit and has gone a long way.

Human Potential (capacity to improve)	2003	2002
Incorporations/total employees (new employees)	6.85	3.51
Training hours per employee	26.1	20.69
Training costs/Personnel expenses	1.26	0.96
Quality of selection: persons selected/interviewed	3.33	3.70
% of employees with valuation of skills	78.38	72.16
Ideas contributed to the ideas contest	442	-
Total CVs managed	65,000	40,000
Total on-line training hours	19,939	-
% of employees/ total employees using on-line training	75.00	-
Number of participants in training/total employees	62.82	-
Evaluation of satisfaction of participants in training	8.67	-
Social Quality (social policies)	2003	2002
% of employees on a permanent contract	96.73	97.69

Management and strengthening of talent

Integrated management of leadership, business culture, remuneration and professional development are the key elements in this sphere.

The focus is the monitoring of careers and personalized management plans. This ensures renewal of executives and makes development and personal fulfilment possible, as well as favouring equality of opportunity.

Training in executive skills, which accounts for more than 20% of total training hours, is helping to create a culture capable of involving employees in a common goal, strengthening participation and the promotion of development.

Other equally important actions involve greater training and are aimed at improving efficiency and competitiveness. They encourage a culture of

integration and closer links between customers and employees, with a strong practical element, methods and techniques to improve the phases of selling products and services, enhancing business effectiveness and preparing risk management based on monitoring and anticipation.

The use of technology associated with training courses via Internet is a strategic line that Banesto also uses to promote learning.

Remuneration and incentives to create value

Performance related pay was strengthened in 2003, and mechanisms were created for this. For example, these payments are no longer annual but quarterly and the amounts were increased.

We made progress in the individualization of the amounts paid, with a salary framework that takes into account the levels of remuneration. The objective is to reward more those who contribute the most.

New staff: attracting talent

Banesto is a reference company for those seeking professional development opportunities. We have one of the fullest and most modern selection systems of Spain's large companies. We received 65,000 CVs in 2003, 62.5% more than in 2002, and more than 5,000 were given tests.



Financial Information

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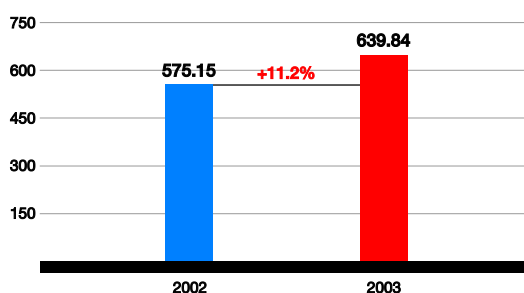
CONSOLIDATED INCOME STATEMENT

Millions of euros

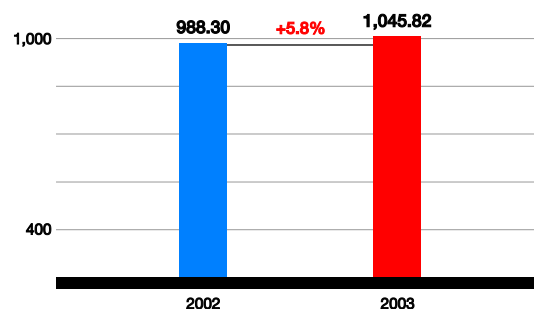
	2003	2002	% Variation
Interest and similar revenues	1,987.38	1,886.56	5.3
Interest and similar expenses	960.59	915.36	4.9
Dividends from stakes in companies	19.03	17.09	11.3
Net interest revenue	1,045.82	988.30	5.8
Net fees and commissions	462.37	432.10	7.0
From mutual and pension funds	162.18	150.41	7.8
From services	300.19	281.68	6.6
Basic revenue	1,508.19	1,420.40	6.2
Results from Financial Operations	56.01	46.95	19.3
Net operating revenue	1,564.20	1,467.35	6.6
General administrative expenses	738.98	738.40	0.1
a/ personnel	544.06	543.46	0.1
b/ general	194.92	194.94	0.0
Depreciation and amortization of fixed and intangible assets	95.10	93.27	2.0
Other operating income and expenses	-19.90	-14.03	41.9
Net operating income	710.23	621.64	14.3
Net income from equity accounted companies	80.11	61.65	29.9
Amortization of goodwill in consolidation	0.88	0.79	11.3
Write-offs and loan loss provisions	171.38	118.26	44.9
Writedown of investment securities	-0.69	0.27	--
Net extraordinary income	21.06	11.18	88.4
Income before taxes	639.84	575.15	11.2
Corporate tax	190.75	130.90	45.7
Net income	449.09	444.25	1.1
Minority interests	7.05	8.33	-15.4
Net attributable income	442.04	435.91	1.4

Income before taxes

Millions of euros

**Net Interest Revenue**

Millions of euros

**2003 Income statement**

The Banesto Group generated income before taxes of €638.8 million, 11.2% more than in 2002

The Group enjoyed a positive year, thanks to continued high business volumes and development of new projects and plans together with strict control of costs and adequate management of risk. The result was higher revenues, gains in market share, a further improvement in the efficiency ratio and non-performing loans at historically low levels.

Net attributable income rose by only 1.4% to €442.0 million, due to the 45.7% increase in the corporate tax charge following the gradual expiry of the tax credit for prior years. The tax burden was almost 30%.

ROE was 17.42%, slightly up on 17.30% in 2002. The figures are based on homogeneous tax charges for both years. Earnings per share rose from €0.63 in 2002 to €0.64 in 2003.

Net interest revenue

Net interest revenue was 5.8% higher than in 2002 at €1,045.8 million, despite coming under strong pressure from interest rate cuts.

Defence of customer spreads and a high volume of business offset this pressure and net interest revenue was €58 million higher than in 2002.

The table sets out the structure of net interest revenue, with the average balances during the year, revenues and costs, interest paid and interest received for each item.

Average total assets amounted to €54,624 million, 23.1% more than in 2002. Growth came largely from customer lending, which accounted for 42.4% of the total and contributed 61.7% of total revenue. This underscored the quality of net interest revenue.

The average yield on assets in 2003 was 3.67% compared to 4.29% in 2002. The average cost of funds dropped to 1.76%. As a result, the greater activity, resulting in an increase in revenue from a volume effect of €149.5 million, offset the impact of lower interest rates.

Analysis of net interest revenue

ASSETS

Millions of euros

	December 2003			December 2002		
	Average balance	Revenue	% Int. rate	Average balance	Revenue	% Int. rate
Central banks and government debt	4,737.13	227.28	4.80	4,146.61	231.36	5.58
Due from credit entities	10,863.99	289.66	2.67	5,898.69	177.56	3.01
Customer loans	28,608.34	1,237.57	4.33	23,829.18	1,214.46	5.10
Securities portfolio	4,973.71	186.07	3.74	5,171.58	208.08	4.02
Average interest earning assets	49,183.17	1,940.59	3.95	39,046.07	1,831.46	4.69
Fixed assets	749.21	0.00	0.00	799.21	0.00	0.00
Other assets	4,691.55	65.82	1.40	4,517.03	72.19	1.60
Average total assets	54,623.92	2,006.41	3.67	44,362.31	1,903.65	4.29

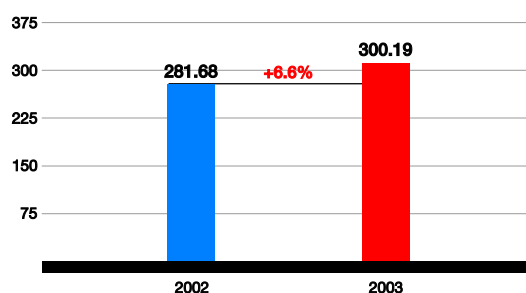
LIABILITIES

Millions of euros

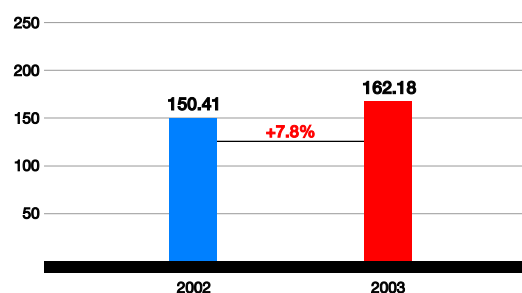
	December 2003			December 2002		
	Average balance	Costs	% Int. rate	Average balance	Costs	% Int. rate
Due to credit entities	13,121.89	284.81	2.17	8,700.46	261.35	3.00
Customer funds	28,131.12	503.40	1.79	23,991.35	493.82	2.06
Debt securities	3,749.42	143.10	3.82	2,388.77	98.69	4.13
Subordinated debt	520.70	20.31	3.90	584.79	32.60	5.58
Total interest bearing liabilities	45,523.12	951.62	2.09	35,665.37	886.46	2.49
Other liabilities	6,570.27	8.96	0.14	6,418.21	28.89	0.45
Shareholders' equity	2,530.53	0.00	0.00	2,278.74	0.00	0.00
Average total funds	54,623.92	960.59	1.76	44,362.31	915.36	2.06
Net interest revenue	-	1,045.82	1.91	-	988.30	2.23

Fees and Commissions from Services

Millions of euros

**Fees and Commissions from Mutual and Pension Funds**

Millions of euros

**Net fees and commissions**

Net fees and commissions grew 7% to €462.4 million. The following table itemises the activities.

Both commissions from mutual and pension funds, as well as those from services, rose significantly. Managed funds amounted to €162.2 million, 7.8% more than in 2002. Although balances rose by 17.6%, this growth is not reflected in the rise in revenue because, due to the fall in balances in 2002, the increase in the average yearly balance was 11%. In addition, average commissions were a little lower than in 2002 because of the change in the composition of the structure of funds.

As regards commissions from services, all lines were higher than in 2002. Of particular note were the rises of 15.7% and 27.1% respectively in that from risks and distribution of insurance products. As well as commissions from traditional means of payment, whose growth was more moderate, collection and payment services including cards. These increased 35.6% to €57.5 million because of the success of Visa Banesto 1-2-3. The number of these cards rose from 476,000 at the end of 2002 to 675,000 a year later.

Commissions paid amounted to €90.4 million, 13.7% higher than in 2002. Growth was due to greater business and most of the payments were for agents and collaborators.

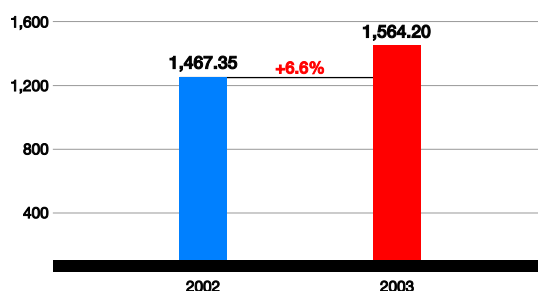
Fees and Commissions

Millions of euros

	2003	2002	% Var.
Fees and commissions collected	552.77	511.60	8.0
Risk operations	64.18	55.47	15.7
Collection and payment services	217.53	206.38	5.4
Securities services	34.12	33.33	2.4
Mutual and pension funds	162.18	150.41	7.8
Other commissions	74.76	66.00	13.3
Commissions paid	90.40	79.50	13.7
Net fees and commissions	462.37	432.10	7.0

Net Operating Revenue

Millions of euros



Net Operating Revenue by Business Areas

%



Results from Financial Operations

Results from financial operations increased 19.3% to €56.0 million.

Millions of euros

	2003	2002	% Var.
Trading operations and hedging	5.07	9.35	-45.7
Distribution to customers	27.34	14.57	88.3
Securitization of assets	14.59	14.07	3.6
From exchange rate differences	9.01	8.96	0.4
Total	56.01	46.95	19.3

A significant factor at play was the growth in the distribution of treasury products to customers. They accounted for almost 50% of the gains, 88.3% more than in 2002 and enhanced the degree of recurrency. Trading gains also include commissions from securitization funds which amounted to €14.6 million (€14.1 million in 2002).

The gains most linked to the performance of markets, currencies and management of positions, amounted to €14.1 million, 23% less than in 2002. The drop was due to lower trading activity, in line with Banesto's policies for the year.

Net operating revenue

Net operating revenue was 6.6% higher than in 2002 at €1,564.2 million. Its composition reflects a more solid structure and a high degree of recurrency, with net interest revenue excluding dividends, net fees and commissions and earnings from the distribution of treasury products to customers accounting for 97% of total net operating revenue (which rose 96%).

Net operating revenue by business areas

The following table sets out the distribution and growth of net operating revenue by business areas:

Millions of euros

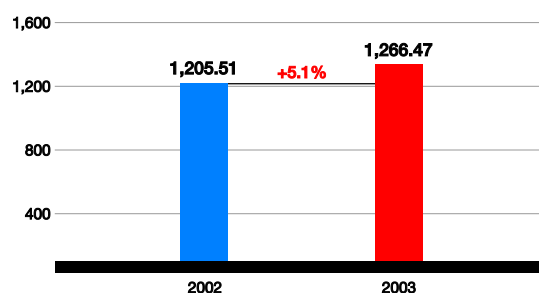
	2003	2002	% Var.
Commercial	1,266.47	1,205.51	5.1
Domestic corporate	128.59	116.79	10.1
Markets and International	99.94	95.72	4.4
Corporate activities	69.20	49.33	40.3
Total	1,564.20	1,467.35	6.6

Domestic Banking (retail, companies and corporate) generated close to 90% (€1,395.1 million) of net operating revenue and Markets and International 6.4%.

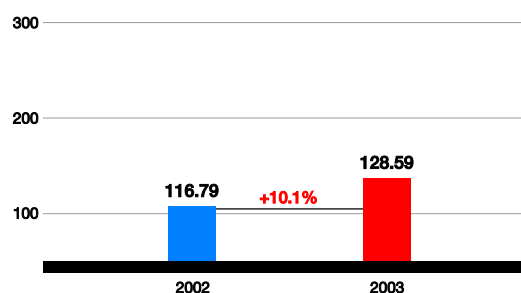
Net operating revenue from Corporate Activities including asset management, dividends received, earnings from securitization and other revenues and costs not assigned to business areas

**Net Operating Revenue
Commercial Banking**

Millions of euros

**Net Operating Revenue
Domestic Corporate Banking**

Millions of euros



rose by €19.9 million, largely due to the higher dividends from equity stakes, chiefly Inmobiliaria Urbis and Banesto Seguros.

Commercial Banking

Millions of euros

	2003	2002	% Var.
Net interest revenue	845.28	815.37	3.7
Net fees and commissions	395.91	368.50	7.4
Results from financial operations	25.28	21.64	16.8
Net operating revenue	1,266.47	1,205.51	5.1

Net interest revenue rose 3.7%, due to growth in both lending and funds, and this was achieved with a defence of customer spreads, despite the downward pressure from lower interest rates.

The 17.6% rise in the capturing of mutual and pension funds, the rise in transactional accounts, the success in pension plans and cards, together with active management of customers and growth in the distribution of treasury products, resulted in a 7.4% increase in revenue from fees and commissions and 16.8% in trading gains.

Net operating revenue increased 5.1% to €1,266 million.

Domestic Corporate Banking

Millions of euros

	2003	2002	% Var.
Net interest revenue	80.34	74.44	7.9
Net fees and commissions	39.38	36.20	8.8
Results from financial operations	8.87	6.15	44.2
Net operating revenue	128.59	116.79	10.1

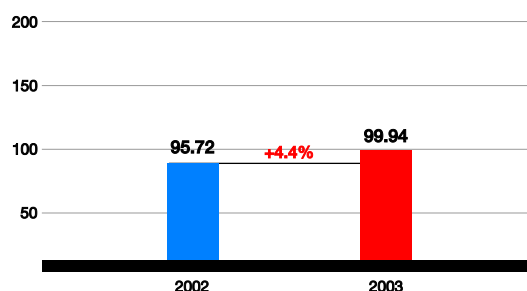
Net interest revenue grew 7.9%, the result of greater lending and a better return.

The rise in transactions by Corporate Banking customers and the larger volume of guarantees for these companies produced a rise of 8.8% in commissions, while the distribution of treasury products to these clients produced an increase of 44.2% in trading gains.

Net operating revenue rose 10.1% to €129 million.

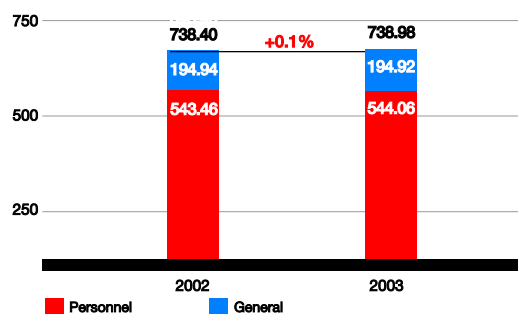
Net Operating Revenue Markets and International

Millions of euros



Operating Expenses

Millions of euros



Markets and International

Millions of euros

	2003	2002	% Var.
Net interest revenue	62.72	62.31	0.7
Net fees and commissions	23.23	22.50	3.2
Results from financial operations	13.99	10.91	28.2
Net operating revenue	99.94	95.72	4.4

Distribution to clients in this area increased significantly. It was developed under the framework of a medium-term plan, which produced recurrent earnings, added value to the range of products and reduced risks in treasury activity.

International business was lower and was affected not only by risk limits but also by the euro's strengthening against the dollar and the impact of this on converting other currencies to euros.

Nevertheless, net operating revenue rose 4.4% to €100 million. Net interest revenue increased 0.7% to €62.7 million, net fees and commissions 3.2% to €23.2 million and trading gains 28.2% to €14 million.

It is important to also point out that there was a further improvement in the degree of recurrency, with 71% of the total coming from the distribution of products to clients and only 29% from activity directly related to the markets (56% and 44%, respectively, in 2002).

Operating expenses

Once again operating expenses – personnel, general and depreciation – remained stable. At €834.1 million they were only 0.3% higher than in 2002.

Personnel and general costs together rise by 0.1%, improving the efficiency ratio to 47.2% from 50.3% in 2002.

Personnel costs rose 0.1% to €544.1 million, the result of a drop in the average number of employees – not the year-end figure which was almost the same – and a rise in the average cost in a similar percentage. We continued the policy of early retirements (350 employees). A fund of €114.4 million was established for this purpose, of which €74.4 million was charged to reserves.

General costs also remained stable and at €194.9 million were almost the same as in 2002. This was due to lower IT expenses, communications, premises, contributions and taxes and rises in other costs, mainly advertising.

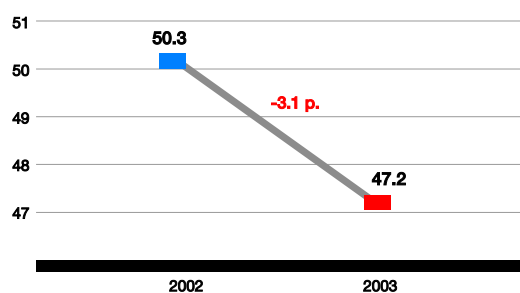
Depreciation increased 2.0% to €95.1 million over the previous year.

In other revenue and costs the main item was the contribution to the Deposit Guarantee Fund of €19.9 million (€14 million in 2002).

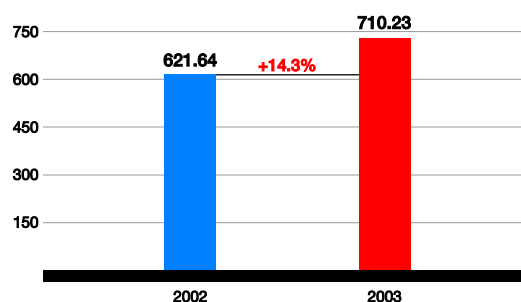
The higher contribution was the result of two factors – the rise in the contribution because of the larger volume of liabilities and the lower revenue from estates being rented, an activity which is increasingly marginal because of Banesto's divestment of these non-strategic assets.

Efficiency Ratio

Operating expenses/Net operating revenue (%)

**Net Operating Income**

Millions of euros



	Millions of euros		
	2003	2002	% Var.
Personnel expenses	544.06	543.46	0.1
Wages and salaries	393.33	404.78	-2.8
Social security	103.43	105.80	-2.2
Others	47.30	32.89	43.8
Other general expenses	194.92	194.94	0.0
Premises, installations and material	50.39	51.84	-2.8
IT and communications	59.72	61.60	-3.1
Advertising	15.15	15.38	-1.5
Other concepts	59.14	55.90	5.8
Taxes (excluding income tax)	10.52	10.22	2.8
Total operating expenses	738.98	738.40	0.1
Depreciation	95.10	93.27	2.0
Total	834.07	831.68	0.3
Efficiency ratio (%)	47.24	50.32	

Net Operating Income

Higher net operating revenue and containment of operating expenses produced a rise of 14.3% in net operating income to €710.2 million.

Income from Group transactions and equity-accounted companies

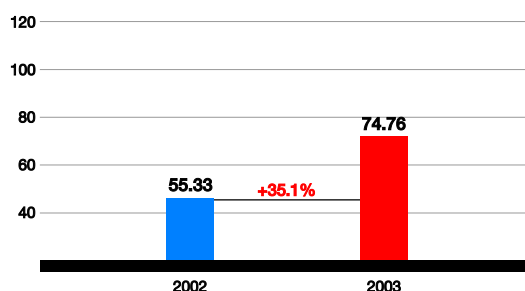
Income from equity-accounted companies increased from €55.3 million in 2002 to €74.8 million in 2003. These figures include the correction made for distribution of dividends which in 2003 amounted to more than €3.7 million than in 2001, largely due to Inmobiliaria Urbis and Banesto Seguros. Discounting this effect, income from equity accounted companies was 33.2% higher than in 2002. The rise was the result of better ordinary income.

Gains on Group transactions were €5.4 million, down from €6.3 million in 2002.

Amortization of goodwill in consolidation amounted to €0.9 million, in line with that in 2002.

Income from Equity-accounted Companies

Millions of euros



Allocations for Loan-loss Provisions

Millions of euros



Loan-loss Provisions and Writedowns

Loan-loss provisions increased 44.9% to €171.4 million. The rise was due to the larger volume of lending, as generic and statistical provisions accounted for 79% of the total. In addition, recovery of country-risk provisions amounted to €6.5 million in 2003 compared with €21.6 million in 2002. Net provisions, excluding country-risk, were 19% higher at €220.1 million, below the growth in lending and so underscoring credit risk quality.

Millions of euros

	2003	2002	% Var.
Net loan-loss provisions	213.59	163.25	30.8
Specific	84.48	66.11	27.8
Generic 1%-0.5%	43.81	21.35	105.2
Statistical	91.79	97.36	-5.7
Country risk	-6.49	-21.57	-69.9
Loan-loss recoveries and others	-42.21	-44.99	-6.2
Total	171.38	118.26	44.9

Of the loan-loss provisions made in 2003, €43.8 million were generic (€21.3 million in 2002). The allocation to the fund for statistical coverage was €91.8 million, bringing the total to €335 million, 77% of the maximum need.

Loan-loss recoveries amounted to €42.2 million, 6.1% less than in 2002, and ordinary allocations were €84.5 million (€66 million in 2002).

Recoveries from net writedowns of investment securities amounted to €0.7 million (€0.3 million in 2002).

Loan-loss Provisions

Millions of euros

**Extraordinary Income**

This concept includes different items. The main components are:

Millions of euros

	2003	2002	% Var.
Sale of foreclosed real estate	20.08	4.33	363.7
Income from prior years	-6.09	-7.37	-17.4
Other extraordinary income	8.89	31.49	-71.8
Extraordinary allocation to pension funds	-27.05	-30.33	-10.8
Net allocation to special reserves	25.23	13.06	93.3
Total	21.06	11.18	88.5

- Extraordinary allocation to pension funds of €27.1 million, 10.8% less than in 2002 including the annual allocation resulting from the regulations published in 2000 of €14.2 million.
- Net losses from prior years amounted to €6.1 million, down from €7.4 million in 2002.
- Revenue from the sale of foreclosed assets of €20.1 million (€4.3 million in 2002).
- Other net extraordinary income including that from the disposal of other assets and other income and charges of a non-recurrent nature of €8.9 million (€31.5 million in 2002).

- Recovery of €25.2 million of special reserves from the elimination or materializing of contingencies covered in previous paragraphs.

Income

Income before taxes increased 11.2% to €639.8 million.

This is the best way to judge Banesto's performance because of the gradual expiry of the tax credit that existed in prior years. The corporate tax charge rose 45.7%.

Net income amounted to €449.1 million, of which €7.1 million were minority interests. Net attributable income was 1.4% higher at €442.0 million.

Balance Sheet

ASSETS

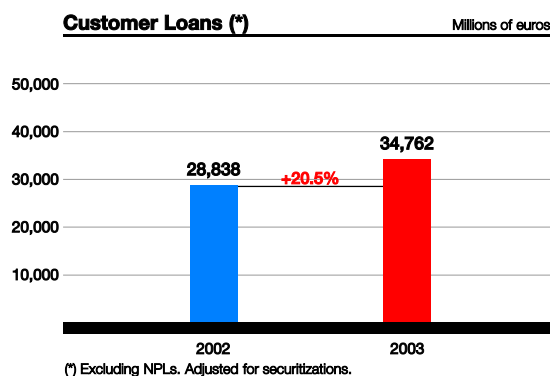
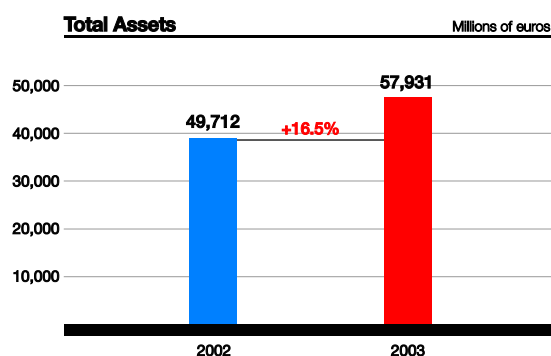
Millions of euros

	2003	2002	% Variation
Cash on hand and at central banks	826.67	589.15	40.3
Government debt securities	4,010.16	4,030.21	-0.5
Due from credit entities	12,082.06	8,451.23	43.0
Customer loans	31,272.25	26,722.36	17.0
Bonds and other securities	3,354.33	3,865.06	-13.2
Equities	1,029.57	865.87	18.9
Intangible assets	64.43	69.12	-6.8
Goodwill in consolidation	5.73	4.59	24.9
Fixed assets	738.30	777.42	-5.0
Own shares	4.40	3.15	39.6
Other assets	3,390.64	3,211.03	5.6
Accrual accounts	966.09	923.89	4.6
Losses from consolidated companies	186.73	198.74	-6.0
Total assets	57,931.34	49,711.82	16.5

LIABILITIES

Millions of euros

	2003	2002	% Variation
Due to credit entities	13,564.43	12,301.94	10.3
Customer funds	28,638.03	25,501.15	12.3
Marketable debt securities	5,658.34	2,601.60	117.5
Other liabilities	2,455.60	2,220.10	10.6
Accrual accounts	866.04	918.27	-5.7
Provisions for contingencies and expenses	2,776.81	2,781.32	-0.2
Negative difference in consolidation	15.38	18.44	-16.6
Subordinated financing	762.07	468.08	62.8
Minority interests	190.64	70.87	169.0
Share capital and reserves	2,327.48	2,233.16	4.2
Reserves at consolidated companies	227.43	152.64	49.0
Consolidated income for the year	449.09	444.25	1.1
Total liabilities	57,931.34	49,711.82	16.5



Balance Sheet

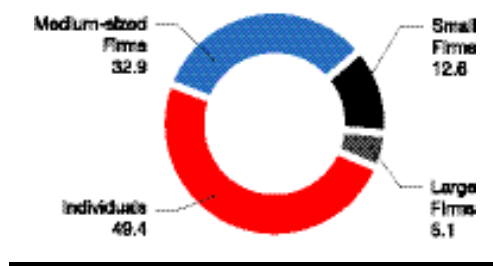
The Banesto Group's on-balance sheet assets totalled €57,931 million and it also had pension and mutual funds, insurance products and funds amounting to €12,411 million. Total assets were 16.7% higher at €70,342 million.

The main changes during 2003 were:

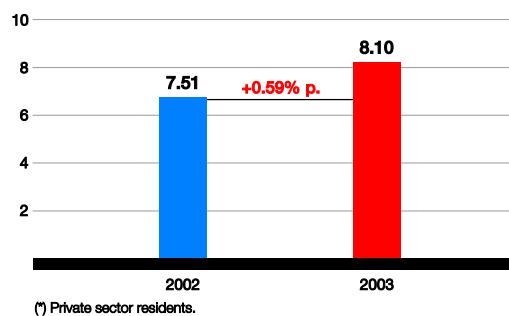
- Customer lending, which covers both ordinary lending as well as net doubtful loans, rose 17.0% to €31,272 million. This growth, however, does not fully reflect the increase in business because the Group had new securitization operations in 2003 amounting to €1,500 million. Including their impact, growth was 20.5%.
- The portfolio of investment securities declined by €347 million (7.3%). This was the result of a rise in equities due largely to an increase in the value of the equity-accounted companies, their earnings, purchase of trading portfolios and a fall in fixed income from sales and redemptions.
- Tangible assets declined 5.0% because of net divestment in property arising from foreclosures.
- Customer deposits rose 12.3% to €28,638 million.
- Marketable debt securities increased by €3,057 million, with €1,500 million of this net change coming from an issue of mortgage bonds in May 2003 and €2,000 million from a long-term debt issue by Banesto Banco de Emisiones.
- Total funds managed by the Group, including customer deposits, mutual and pension funds, insurance, bonds and debt securities increased 20.8% to €46,707 million.

- Subordinated debt rose by €294 million as a result of the cancellation of an issue of €152 million, made by Banesto Finance, and placement of a new issue of €500 million by Banesto Banco Emisiones and the exchange rate difference from the conversion to euros of dollar denominated issues.
- Minority interests rose 169% and include €131.1 million of preference shares issued in December 2003 by Banesto Preferentes, S.A.
- Share capital stood at €1,229 million at the end of 2003, €180.5 million less than a year earlier because of the return to shareholders of €0.26 per share approved at the AGM in February.
- Reserves include as an increase the prior year's income and as a decrease €74.4 million allotted to an early retirement fund.

**Customer Loans:
Contribution to Growth by Segments** %



Market Share-Customer Loans (*) %



Customer Loans

The Group's lending, excluding doubtful loans net of provisions and adjusted for securitizations, amounted to €34,762 million at the end of 2003, 20.5% more than a year earlier.

The following table sets out lending in 2003 and 2002:

Lending	2003	2002	% Var.
Millions of euros			
Public sector	759.77	844.69	-10.1
Private sector	31,860.83	25,520.46	24.8
Commercial bills	3,832.43	3,221.59	19.0
Secured loans	15,662.62	11,077.98	41.4
Other credits and loans	12,365.78	11,220.89	10.2
Non-resident sector and others	2,141.79	2,473.20	-13.4
Total	34,762.39	28,838.35	20.5

Excluding non-performing loans.

Lending to the private sector rose 24.8% to €31,861 million, with a satisfactory performance by all types of credit.

Commercial bills increased 19.0% to €3,832 million. The volume of paper discounted during 2003 amounted to €15,009 million, 9.4% more than in 2002. This growth was aided by the positive performance of the companies segment and the drive of the SMEs Plan.

Secured loans grew 41.4%. New loans to finance homes amounted to €3,965 million, 51% more than in 2002.

Other loans increased 10.2% to €12,366 million. Consumer credit rose 35%.

Lending to the public sector dropped 10.1% to €760 million and that to the non-resident sector declined 13.4% because of the reduction in international lending and particularly the dollar's slide against the euro.

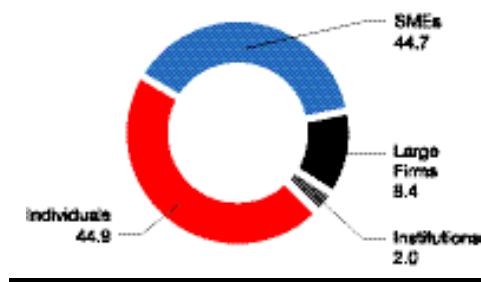
As a result of growth higher than that of its competitors, the Banesto Group continued to gain market share (0.59 points in 2003 to 8.10%)

Growth in lending was balanced in all segments. This is shown in the graphs below which set out the distribution by amounts, type of customer and economic sector.

As well as loans the Group has other non-lending risks (guarantees, documentary credits and other sureties) which at the end of 2003 amounted to €7,245 million, 17.4% more than in 2002.

Customer Loans: Clients

%



Customer Loans by Amounts

%

**Guarantees by type of operation**

Millions of euros

	2003	2002	% Var.
Guarantees and other sureties	6,964.03	5,905.79	17.9
Guarantees for commercial paper and bills of exchange	193.42	138.98	39.2
Other obligations	6,770.61	5,766.81	17.4
Documentary credits	280.49	266.61	5.2
Total	7,244.52	6,172.40	17.4

Non-performing Loans

Risk management is one of the Group's basic management priorities. Growth in lending during 2003 went hand in hand with an efficient risk management policy. Non-performing loans did not change significantly and the ratio was lower than in 2002. Including guarantees of doubtful recovery they amounted to €274.1 million, 1.1% less than in 2002, while lending grew 20.5%.

As a result of firm management of risk tracking and of loan-loss recoveries, new entries of non-performing loans amounted to €102.9 million, 43% less than in 2002, and recoveries declined 29.4% to €78.1 million. Write-offs amounted to €27.8 million, down from €47 million in 2002.

The NPL ratio (non-performing loans as a percentage of total lending) declined from 0.83% in 2002 to an historic low of 0.70% in 2003. The ratio was lower than the banking sector's average and in line with the goal set by the Banesto Group.

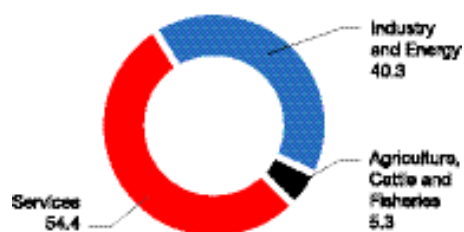
Loan-loss provisions amounted to €872.1 million, 23.4% more than in 2002.

Provisions made in 2003 amounted to €244.9 million, of which €91.8 million was for statistical coverage. This fund now totals €335 million, 77% of the total need. The fund is conceived to be completed during an economic cycle of six to eight years and so far around half that time has passed.

Other loan-loss provisions amounted to €153.1 million, of which €43.8 million was for the generic provision arising from the growth in lending and €109.3 million specific provisions. Loan-loss recoveries amounted to €25.0 million, 37.3% more than in 2002.

Customer Loans by Sectors (*)

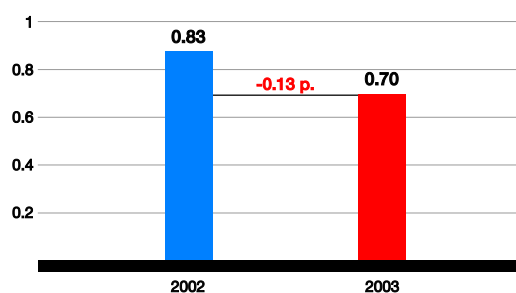
%



(*) Excluding individuals.

Ratio of Non-performing Loans

NPLs / Credit Risk (%)



Millions of euros

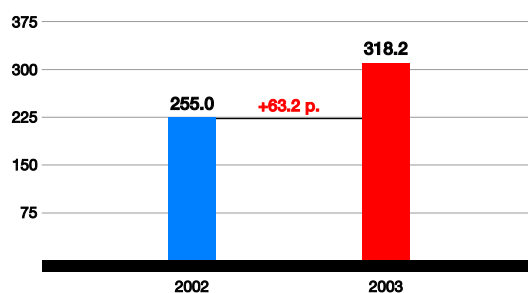
	2003	2002
Non-performing loans		
Balance at January 1	277.12	254.22
Entries	102.91	181.10
Recoveries	-78.10	-110.68
Write-offs	-27.84	-47.52
Balance at December 31	274.09	277.12
Provisions		
Balance at January 1	706.68	596.68
Net provisions	244.87	202.36
Provisions released	-24.97	-18.19
Other movements	-54.46	-74.17
Balance at December 31	872.12	706.68
Detail of provisions		
	872.12	706.68
Specific	213.31	190.58
Statistical	335.29	243.79
Generic	323.52	272.31
NPL ratio (%)	0.70	0.83
NPL coverage (%)	318.18	255.01

Including guarantees and excluding country risk.

The combination of stable non-performing loans and provisions lifted NPL coverage, excluding country risk, by 63.2 points to 318.2%, above the average level for commercial banks in Spain.

Coverage of Non-performing Loans

%

**Country Risk**

The Group's exposure to country risk is low, reflecting its selective policy as we only become involved in operations which, on the basis of their risk and profitability, are adequate for Banesto and which also satisfy the international financing needs of our customers. We always control and limit risks according to the specific circumstances of each country. In accordance with Bank of Spain criteria, country risk stood at €11.5 million at the end of 2003 (€21.4 million in 2002). Provisions amounted to €2.8 million, 24.1% of the exposure.

	Millions of euros		
	2003	2002	% Var.
Doubtful countries	5.29	12.07	-56.2
Countries in temporary difficulties	6.18	9.32	-33.7
Total subject to provisions	11.47	21.39	-46.4
Provisions established	2.76	5.62	-50.9
Coverage ratio (%)	24.06	26.27	--

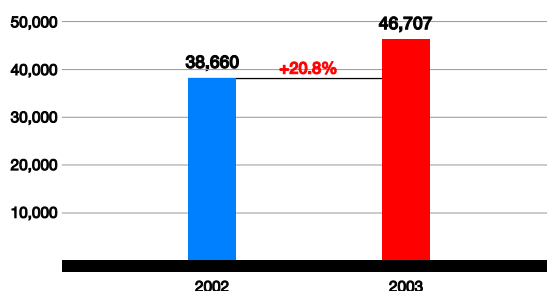
Foreclosed assets

The Banesto Group continued its policy of selling foreclosed assets allotted during the process of loan-loss recoveries. The balance stood at €99.6 million at the end of 2003, 23.2% less than a year earlier.

	Millions of euros	
	2003	2002
Foreclosed property		
Balance at January 1	129.67	186.20
Entries	20.82	15.22
Sales	-50.85	-71.75
Balance at December 31	99.64	129.67
Provisions		
Balance at January 1	90.31	121.57
Allocations	9.36	6.12
Recoveries	-29.84	-37.31
Balance at December 31	69.83	90.31
Coverage ratio (%)	70.08	69.65

Customer Funds

Millions of euros



Customer Funds:

Contribution to Growth by Segments (*)



(*) Excluding accounts of the courts.

Provisions made in 2003 amounted to €9.2 million and recovery of provisions from the sale of assets was €29.7 million. The balance of provisions stood at €69.8 million, 70.1% coverage, which given the market value of these assets is sufficient.

Customer Funds

Customer funds, including mutual and pension funds and insurance-based savings plans amounted to €46,707 million, 20.8% more than in 2002.

On-balance sheet funds rose 22.0% to €34,296 million. All components performed well apart from the non-resident sector which was affected by the euro's sharp rise against the dollar, the currency in which most of these deposits are denominated.

Public sector funds grew 136.6% to €5,350 million thanks to Banesto winning the tender as of January 1 2003, to manage the deposits of the judicial system.

Private sector funds rose 1.4% to €21,005 million. The change in each type of deposit was affected by the spread management and improved product mix policy. The result was growth of 20.4% in current accounts and declines in time deposits and repos. This was in line with the Group's policy of capturing balances with a higher spread (current accounts and mutual funds).

Issuance of bonds and debt securities increased 117.5% to €3,057 million. Of particular note was a €1,500 million issue of mortgage bonds in May 2003 and placement of €2,000 million of long-term debt by Banesto Banco de Emisiones, S.A.

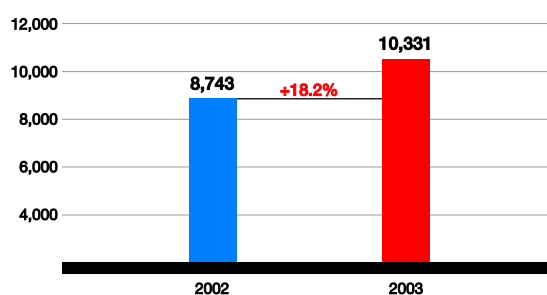
Customer Funds

Millions of euros

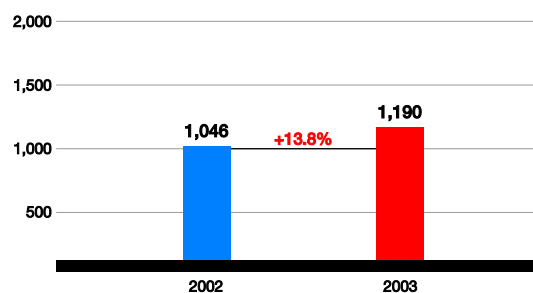
	2003	2002	% Var.
Public sector	5,350.32	2,261.76	136.6
Private sector	21,005.16	20,711.33	1.4
Current and savings accounts	11,285.14	9,375.59	20.4
Time deposits	4,282.40	4,807.13	-10.9
Repos and other accounts	5,437.62	6,528.61	-16.7
Non-resident sector	2,282.56	2,528.06	-9.7
Bonds and debt securities	5,658.34	2,601.60	117.5
On-balance sheet funds	34,296.37	28,102.75	22.0
Managed funds	12,410.98	10,557.57	17.6
Mutual funds	10,330.51	8,743.00	18.2
Pension funds	1,190.35	1,045.99	13.8
Insurance-savings policies	890.12	768.58	15.8
Total managed funds	46,707.35	38,660.32	20.8

Mutual Funds

Millions of euros

**Pension Funds**

Millions of euros



Off-balance sheet funds rose 17.6% to €12,411 million.

Mutual Funds

Millions of euros

	2003	2002	% Var.
Money market	4,139.94	3,357.47	23.3
Fixed income	1,805.85	2,384.58	-24.3
Mixed	484.04	641.15	-24.50
Equity	275.68	256.81	7.4
International	298.05	296.73	0.4
Guaranteed	1,784.01	1,553.09	14.9
Dynamic Management	1,170.64	35.89	n.s.
Simcavs	372.30	217.28	70.3
Total	10,330.51	8,743.00	18.2

The balance of mutual funds at the end of 2003 stood at €10,331 million, 18.2% more than a year earlier. One factor at play was the launch of the range of Dynamic Management Funds, which already account for 11% of the Group's managed funds.

Pension funds amounted to €1,190 million at the end of 2003, 13.8% more than in 2002.

Individual funds have the lion's share of total funds.

Pension Funds

Millions of euros

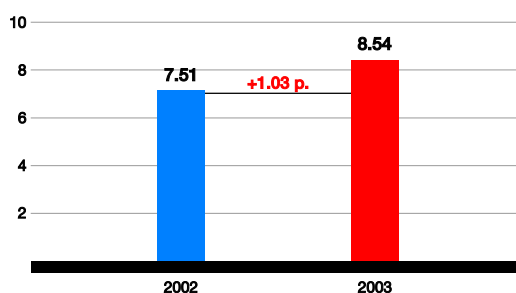
	2003	2002	% Var.
Individuals	1,185.39	1,042.29	13.7
Associated	0.42	0.45	-6.7
Occupational	4.54	3.25	39.7
Total	1,190.35	1,045.99	13.8

The adequate structure of customer funds is shown in the tables below. The funds of individuals account for 69.8% of the total and the share of balances of less than €250,000 is also noteworthy (73.9%).

The positive performance of customer funds during 2003 enabled us to continue to gain market share (8.45%, up 1.03 points, for deposits and mutual funds).

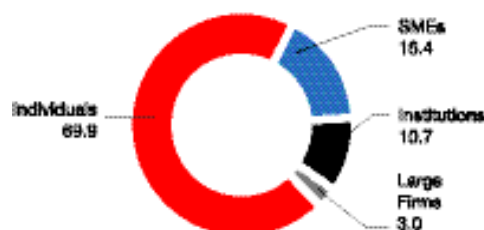
Market Share-Managed Funds (*)

%



Customer Funds: Clients

%



Shareholders' Equity

The Banesto Group's capital base rose 12,8% to €3,447.3 million.

The amount prior to December 31 2003 already envisaged the return to shareholders of €0.29 per share, a proposal submitted to the AGM on February 4 2004.

Capital stock dropped by €180.5 million in 2003 due to the capital reduction and the return of contributions to shareholders agreed at the AGM, which took effect in May.

Reserves increased because of retained earnings and dropped by €74.4 million because of the establishment of an early retirement fund.

The Group's core equity was strengthened with a €131 million issue of preference shares by a subsidiary which was fully subscribed and disbursed in December 2003.

Tier 2 equity rose by €275.1 million, due to a €500 million issue of subordinated debt and the redemption of an earlier issue of €152 million, as well as the impact of the euro's rise against the dollar on issues made in this currency.

Banco Santander Central Hispano was the majority shareholder at the end of 2003, with a direct and indirect stake of 88.60%. The section called "The Banesto share" gives full information on shareholders.

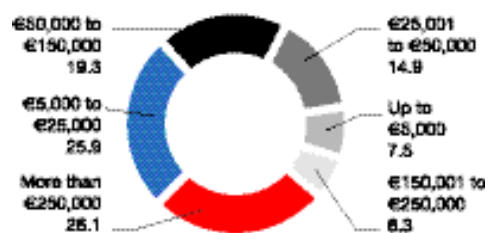
Shareholders' Equity

Millions of euros

	2003	2002	% Var.
Capital and Reserves	2,608.86	2,442.48	6.8
Deductions	-74.75	-77.49	-3.5
Minority interests	198.64	70.87	180.3
Preference shares	187.19	67.33	178.0
Other minority interests	11.45	3.54	223.4
Core capital	2,732.75	2,435.86	12.2
Tier 2	714.57	439.47	62.6
Qualifying capital	3,447.32	2,875.33	19.9

Customer Funds: Amounts

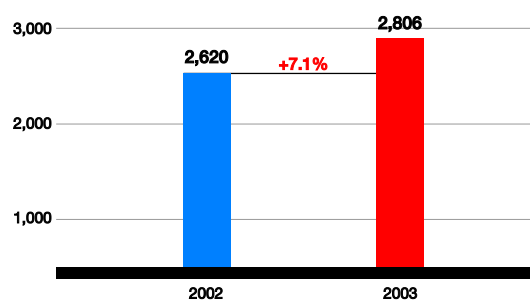
%



(*) Excluding the accounts of the courts.

Shareholders' Equity

Millions of euros



On the basis of Bank of Spain regulations, Banesto had an equity surplus above the minimum requirement of around €570 million. However as Banco Santander Central Hispano is the majority shareholder of Banesto, the capital adequacy requirement is 4.8% and not 8%, making the surplus 75%.

Using the guidelines of the Bank for International Settlements (BIS), and taking into account the capital reduction, the capital adequacy ratio at the end of 2003 was 10.14% of risk-weighted assets, with a Tier I of 6.95% and core capital of 6.45%. This comfortable situation enables Banesto to meet its growth objectives on a sound equity footing.

Moody's and Fitch Ibcra revised their long-term ratings of Banesto upward and Fitch Ibcra also did so for the short-term rating.

The following table sets out Banesto's ratings:

Rating agencies	Long term	Short term
Moody's	A a 3	P1
Standard & Poor's	A+	A1
Fitch Ibcra	AA-	F1+

Financial information of Banesto's main subsidiaries

Banco Español de Crédito is the parent company of the Banesto Group. The Group's main activity is commercial banking in Spain, particularly retail banking for individuals, SMEs, businesses and professionals.

It has direct and indirect stakes in financial, insurance, industrial, commercial and real estate companies.

In banking and financial activity it has Banco de Vitoria, Banesto Banco de Emisiones, Banesto Factoring and Banesto Renting. Banco de Vitoria, whose absorption by Banesto was approved in December 2003, channels the Group's banking activity in the Basque country.

Banesto Banco de Emisiones is the Group's financial vehicle, capturing funds through issues of commercial paper, long-term debt and subordinated financing. These funds are loaned to Banco Español de Crédito which uses them to finance the Group's ordinary activity.

Banesto Factoring and Banesto Renting are two wholly owned subsidiaries of Banesto, which design and conduct factoring and renting operations, either directly or through the distribution channels of the Banesto Group.

Banesto Bolsa, Banesto Seguros and Inmobiliaria Urbis are the other main subsidiaries.

Banesto Bolsa is the Group's broker-dealer. During 2003 it focused on brokerage activity and substantially reduced its own account trading. The volume of third party operations increased significantly and resulted in a market share gain of 1.7 points to 5.1%. Income before taxes dropped to €8.3 million, due to the lower volume of trading. However commissions received (a basic source of income) increased 20% to €14 million, strengthening revenue recurrency.

Banesto Seguros is the Group's insurance company. It focuses on covering the products distributed by Banesto's network. Premium income rose significantly in 2003, with life-risk up 25% and non-life 23%. Technical provisions amounted to €2,166 million, 7.9% more than in 2002 and income before taxes was €15.3 million. A better indicator for judging the performance is to add the commissions paid to the bank for selling insurance to the income before taxes. This figure of €37.4 million was 18.2% higher than in 2002.

Banesto owned 50.8% of Inmobiliaria Urbis at the end of 2003. Its main activity is the promotion of medium-sized homes throughout Spain. It also has property for rent, which is almost 100% occupied. Its ordinary income grew 39% in the first nine months, the latest period which it has reported on, and net income rose 20%. The company is financially very strong, enabling it to respond to possible investment opportunities. Its shares are listed and the price rose 37.7% in 2003.

Corporación Industrial y Financiera de Banesto, S.A., following a period of divestment, has reduced the volume of its non-monetary assets to a very low level and most of them are in real estate.

Banesto also owns the hardware, software and related services company Dinsa Soluciones and Dinsa Customer Services, which integrates and manages technological infrastructure and provides the products and services for information systems. As a result of the evolution of this market, the main business is now related to infrastructure and services. The reorganization has boosted revenue and although both companies made a loss in 2003, they improved significantly over 2002 and are well placed to return to profit in 2004.

Lastly, Banesto owns 51% of Ingeniería de Software Bancario (Isban) and Banco Santander Central Hispano 49%. This company develops and maintains Banesto's IT platform, its banking systems, the systems for operational requirements and for the business of both Banesto and Santander Central Hispano and selling solutions to other entities.

The main figures of these Group companies are set out below.

Banks

Millions of euros

	Banesto		Banco Vitoria (*)		Banesto B. Emisiones	
	2003	2002	2003	2002	2003	2002

INCOME STATEMENT

Net interest revenue	990.4	904.4	33.1	31.7	0.80	0.95
Net fees and commissions	406.9	380.9	16	14.7	-0.09	-0.11
Results from financial operations	69.1	31.2	1.7	1.0	0.07	0.13
Net operating revenue	1,466.4	1,316.4	50.8	47.4	0.78	0.97
Operating expenses	771.8	770.6	23.7	24.0	0.12	0.43
Other net income	-21.9	-20.2	-0.2	-0.3	0.00	0.00
Net operating income	672.7	525.5	26.9	23.1	0.66	0.54
Net provisions	170.5	105.1	6.3	6.1	0.00	0.00
Extraordinary income	49.9	77.7	3.0	2.0	-0.02	0.00
Income before taxes	552.1	498.2	23.6	19.0	0.64	0.54

BALANCE SHEET

Customer loans	29,798.9	25,745.1	1,353.7	1,093.3	0.2	0.0
Government debt securities	3,961.3	3,844.5	47.6	58.3	0.0	0.0
Investment securities	8,333.4	8,470.3	201.8	194.3	0.0	0.0
Due from credit entities	12,668.8	9,371.7	415.7	432.8	6,442.4	3,407.0
Other assets	5,894.5	5,032.0	78.0	48.1	448.9	407.6
Total assets/liabilities	60,656.9	52,463.6	2,096.8	1,826.7	6,891.5	3,814.6
Customer funds	29,739.2	26,583.1	1,166.6	1,096.2	0.0	0.0
Marketable debt securities	2,500.0	1,000.0	0.0	0.0	6,000.0	3,600.0
Subordinated financing	893.2	468.1	0.0	0.0	500.0	0.0
Due to credit entities	18,814.4	15,863.6	729.0	531.9	93.1	0.0
Other liabilities	6,097.2	6,029.4	67.7	78.9	220.9	152.5
Capital, reserves and earnings	2,612.9	2,519.4	133.5	119.7	77.5	62.1

(*) Absorption by Banesto approved at the Shareholders' Meeting of December 2, 2003 and effective as of January 1, 2003. Banesto's accounts therefore include the earnings of Banco de Vitoria for 2003. This table, however, includes these earnings in Banco de Vitoria and not in Banesto, in order to make comparisons easier

Other companies

Millions of euros

	Banesto Bolsa		Banesto Factoring		Banesto Renting		Banesto Seguros	
	2003	2002	2003	2002	2003	2002	2003	2002

INCOME STATEMENT

Net interest revenue	3.16	2.73	2.54	2.83	5.37	3.91	41.14	35.63
Net fees and commissions	13.97	11.65	1.72	1.41	-0.06	-0.13	-22.11	-19.48
Results from financial operations	-0.68	4.30	0.00	0.27	0.0	0.01		0.00
Net operating revenue	16.45	18.68	4.25	4.51	5.31	3.79	19.03	16.15
Operating expenses	7.76	7.66	1.22	1.18	2.82	2.58	3.76	3.98
Other net income	-0.42	-0.14	0.01	0.01	0.00	0.00	0.00	0.00
Net operating income	8.27	10.88	3.05	3.33	2.50	1.21	15.27	12.17
Net provisions	0.00	0.05	2.99	0.85	0.40	0.64	0.00	0.00
Extraordinary income	0.02	0.00		0.00	-0.57	-0.41	0.00	0.00
Income before taxes	8.29	10.83	0.06	2.48	1.53	0.16	15.27	12.17

BALANCE SHEET

Customer loans	5.6	7.1	336.4	173.8	136.8	94.8(*)	29.5	30.4
Investment securities	6.1	5.6	0.2	0.2	0.0	0.0	2,204.2	2,041.8
Due from credit entities	147.5	159.9	0.0	0.0	1.6	0.6	6.4	2.7
Other assets	1.4	1.1	5.7	1.2	20.4	13.3	34.4	28.7
Total assets/liabilities	160.6	173.7	342.3	175.2	158.8	108.7	2,774.5	2,103.5
Customer funds	2.6	81.1	0.0	0.00	0.0	0.0	2,166.3	2,008.5(**)
Subordinated financing	0.0	0.0	0.0	0.00	0.0	0.0	10.0	10.00
Due to credit entities	60.4	11.4	274.6	141.7	150.1	99.9	0.0	0.00
Other liabilities	21.6	13.6	49.8	21.7	5.7	6.7	37.4	29.7
Capital, reserves and earnings	75.9	67.7	17.9	11.8	3.0	2.0	60.8	55.3

(*) Includes assets to let.

(**) Technical provisions.

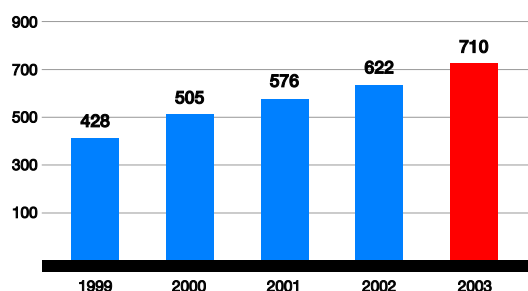
Consolidated Income Statement

Millions of euros

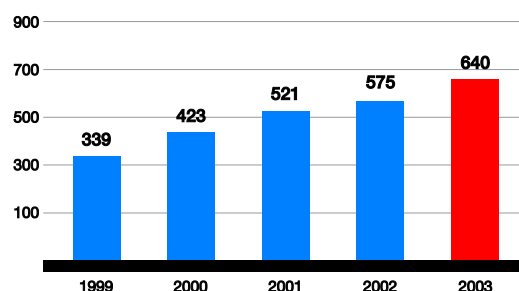
	2003	2002	2001	2000	1999
Interest and similar revenues	2,006.41	1,903.65	2,262.40	2,112.07	1,686.34
Interest and similar expenses	960.59	915.35	1,292.55	1,209.04	802.54
Net interest revenue	1,045.82	988.30	969.85	903.04	883.79
Fees and commissions collected	552.77	511.59	495.55	500.99	467.76
Fees and commissions paid	90.40	79.50	75.15	82.24	81.80
Basic revenue	1,508.19	1,420.39	1,390.25	1,321.78	1,269.75
Results from financial operations	56.01	46.95	40.55	30.29	5.50
Net operating revenue	1,564.20	1,467.34	1,430.80	1,352.07	1,275.25
General administrative expenses	738.98	738.40	745.60	749.32	750.41
a/ personnel	544.06	543.46	549.38	558.32	566.08
b/ general	194.92	194.94	196.22	191.00	184.33
Depreciation and amortization of fixed and intangible assets	95.10	93.27	84.07	82.07	78.58
Other operating income and expenses	-19.90	-14.03	-25.10	-15.66	-18.47
Net operating income	710.23	621.64	576.04	505.01	427.78
Net income from equity accounted companies	74.76	55.33	63.01	72.61	29.57
Amortization of goodwill in consolidation	0.88	0.79	3.01	1.82	2.67
Gains on Group transactions	5.35	6.33	2.65	1.75	50.70
Write-offs and loan loss provisions	171.38	118.26	146.73	101.25	53.66
Writedown of investment securities	-0.69	0.27	0.75	0.61	3.95
Net extraordinary income	21.07	11.17	29.59	-52.49	-108.59
Income before taxes	639.84	575.15	520.79	423.19	339.17
Corporate tax	190.75	130.90	89.93	32.89	25.41
Net income	449.09	444.25	430.86	390.31	313.76
Minority interests	7.05	8.34	9.14	10.65	11.11
Net attributable income	442.04	435.91	421.72	379.66	302.65

Net Operating Income

Millions of euros

**Income before Taxes**

%

**1999-2003 performance**

This section gives a series of tables and charts, which show the Group's performance over the past five years. This gives a broader perspective of the progress made in business and in the income statement.

All the items of the income statement performed well. Net operating revenue rose 22.7% between 1999 and 2003 to €1,564.2 million, with 18.3% growth in net interest revenue and 20% in net fees and commissions.

Operating expenses (personnel and general expenses) and depreciation remained stable over the five year period. In current euros they increased by only 0.6%, as the result of policies to reduce the head count, mainly early retirements, streamlining of costs and optimization of networks.

The combined effect of higher revenues and lower operating costs produced a significant improvement in the efficiency ratio (operating costs as a percentage of net operating revenue) from 58.8% in 1999 to 47.2% in 2003. This figure is better than the sector's average.

Net operating income grew 66% to €710.2 million (cumulative annual growth of close to 11%).

Over this period the Group implemented a conservative policy for loan-loss provisions and for special reserves. As a result, coverage of non-performing loans was 318.2% in 2003 and coverage of foreclosed assets was 70.1%, up from 160.4% and 55.2% in 1999.

Income before taxes rose 88.7% to €639.8 million and net attributable income increased 46.1% to €442 million.

As a result, ROE increased, on the basis of an estimated tax burden of 30%, from 13.2% to 17.4%.

Consolidated Balance Sheet

Millions of euros

	2003	2002	2001	2000	1999
Assets					
Cash on hand and at central banks	826.67	589.15	393.63	335.21	981.91
Government debt securities	4,010.16	4,030.21	3,876.55	6,121.01	6,425.50
Due from credit entities	12,082.06	8,451.23	6,758.32	9,036.80	8,987.26
Customer loans	31,272.25	26,722.36	23,597.35	20,621.30	18,500.61
Investment securities	4,383.89	4,730.93	5,451.12	4,044.89	2,221.66
Intangible assets	64.43	69.12	61.45	28.67	13.72
Goodwill in consolidation	5.73	4.59	4.85	15.09	5.64
Property and equipment	738.30	777.42	844.74	898.78	996.48
Own shares	4.40	3.15	0.00	0.00	0.00
Other assets	3,390.64	3,211.03	2,779.80	2,439.76	1,090.55
Accrual accounts	966.09	923.89	921.28	838.88	550.82
Losses from consolidated companies	186.73	198.73	232.37	216.47	189.13
Total assets	57,931.34	49,711.82	44,921.45	44,596.85	39,963.28
Liabilities					
Due to credit entities	13,564.43	12,301.94	10,768.23	13,045.43	12,143.56
Customer funds	28,638.03	25,501.15	24,538.47	23,447.45	21,727.60
Marketable debt securities	5,658.34	2,601.60	1,235.40	653.30	751.40
Other liabilities	2,455.60	2,220.10	1,682.12	1,162.20	1,515.42
Accrual accounts	866.04	918.27	669.58	738.08	428.31
Provisions for contingencies and expenses	2,776.81	2,781.31	2,741.97	2,480.51	567.68
Negative difference in consolidation	15.38	18.44	5.03	5.03	8.97
Subordinated financing	762.07	468.08	698.23	669.38	631.25
Minority interests	190.64	70.86	83.17	82.92	96.43
Share capital and reserves	2,327.48	2,233.15	1,931.17	1,803.23	1,684.37
Reserves at consolidated companies	227.43	152.64	137.22	119.03	94.52
Consolidated income for the year	449.09	444.24	430.86	390.31	313.76
Total liabilities	57,931.34	49,711.82	44,921.45	44,596.85	39,963.28

Customer Loans

Millions of euros

	2003	2002	2001	2000	1999
Public sector	759.77	844.69	797.27	802.81	985.69
Private sector	31,860.83	25,520.46	22,258.79	19,525.41	16,612.02
Commercial bills	3,832.43	3,221.59	3,170.93	2,991.66	2,559.70
Secured loans	15,662.62	11,077.98	8,934.51	7,220.87	5,974.12
Other credits and loans	12,365.78	11,220.89	10,153.35	9,312.87	8,078.19
Non-resident sector	2,141.79	2,473.20	2,387.03	1,858.17	1,094.39
Ordinary lending	34,762.39	28,838.35	25,443.09	22,186.39	18,692.10
Non-performing loans (net)	-544.27	-389.84	-333.68	-298.76	-191.48
Total	34,218.12	28,448.51	25,109.41	21,887.63	18,500.61

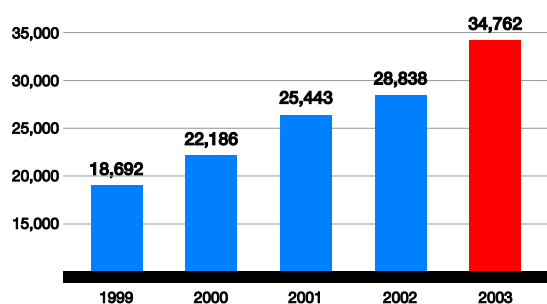
*Adjusted for securitizations.***Customer Funds**

Millions of euros

	2003	2002	2001	2000	1999
Public sector	5,350.32	2,261.76	1,049.99	710.87	624.67
Private sector	21,005.16	20,711.33	20,263.27	19,529.96	18,534.88
Current and savings accounts	11,285.14	9,375.59	9,142.05	8,659.84	8,594.69
Time deposits	4,282.40	4,807.13	4,410.68	6,129.04	5,398.16
REPOS	5,437.62	6,528.61	6,704.01	4,740.87	4,542.03
Non-resident sector	2,282.56	2,528.06	3,225.22	3,206.62	2,568.05
Bonds and debt securities	5,658.34	2,601.60	1,235.40	653.30	751.40
On-balance sheet funds	34,296.37	28,102.75	25,773.87	24,100.75	22,479.01
Mutual funds	10,330.51	8,743.00	8,644.75	7,538.39	7,894.17
Pension funds	1,190.35	1,045.99	1,076.03	1,051.49	991.85
Insurance - savings policies	890.12	768.58	569.71	379.11	155.75
Managed funds	12,410.98	10,557.57	10,290.49	8,968.99	9,041.76
Total managed funds	46,707.35	38,660.32	36,064.36	33,069.74	31,520.77

Customer Loans

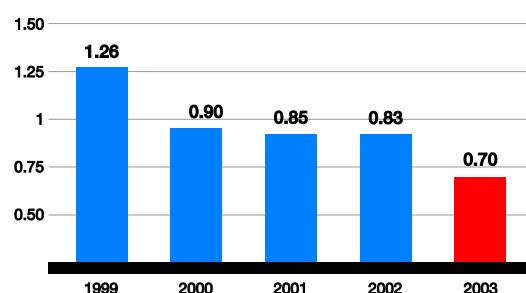
Millions of euros



Excluding NPLs. Adjusted for securitizations.

Non-performing Loans

NPLs/Credit risk (%)



Consolidated Balance Sheet

The table reflects the transformation of the structure of the balance sheet between 1999 and 2003. Total assets rose 45% to €57,931 million.

Lending

Lending rose 86% between 1999 and 2003 to €34,762 million. The main driver, in line with our policies, was lending to the private sector whose balance at the end of 2003 was €31,861 million (+91.8%). The change by components improved the structure of lending. Commercial bills grew 49.8%, secured loans rose 162%, moving from 36% of private sector lending in 1999 to 49%, and other credits and loans increased 53%.

The gain in market share over five years was 1.50 points to 8.10%.

The performance of non-performing loans was also positive:

- The balance of doubtful loans and NPLs was 4.8% lower despite 86% growth in lending. The NPL ratio dropped from 1.26% in 1999 to 0.70% in 2003, lower than the sector's average.
- NPL coverage increased over the same period from 160.4% to 318.2%, also higher than the sector's average.

Customer Funds

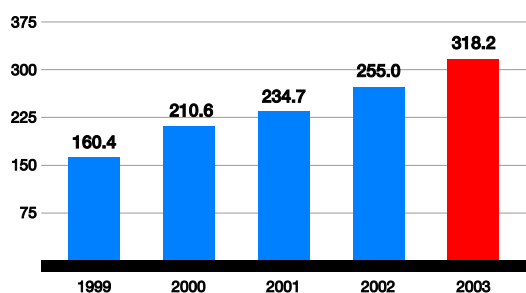
Total funds (deposits, mutual and pension funds and insurance-based savings) rose 48% to €46,707 million over the five year period.

Deposits increased 52.6% (+€11,817 million) and off-balance sheet funds rose 37.3% (+€3,369 million).

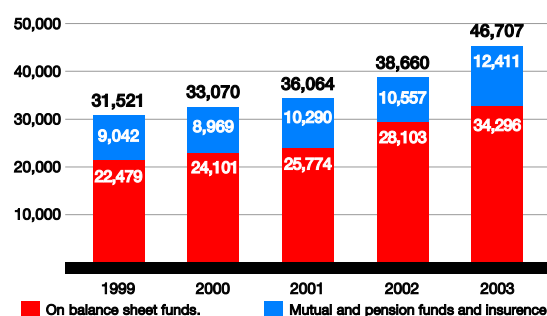
The gain in the market share of deposits and mutual funds was 1.64 points to 8.54% at the end of 2003.

Coverage of Non-performing Loans

%

**Managed Funds**

Millions of euros

**Shareholders' Equity**

Shareholders' equity rose from €1,892 million in 1999 to €2,609 million in 2003. Growth came from the capital increase of €166 million in November 2002 and retained earnings and decrease from reductions of capital with the return of contributions to shareholders and the establishment of early retirement funds charged to freely available reserves amounting to €687 million.

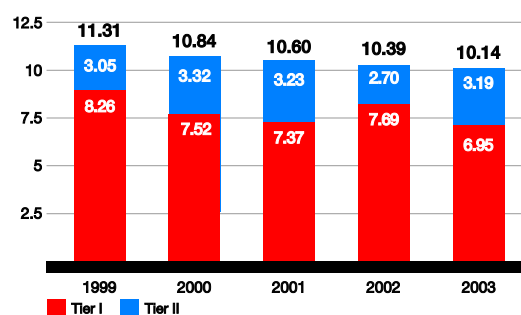
The BIS ratio remained at an adequate level. At the end of 2003 it was 10.14%, with Tier 1 of 6.95% and core capital of 6.45%.

Rating agencies have recognised the progress made by Banesto in business growth, profitability and solvency and this is reflected in continuous improvements in ratings.

Long-term ratings	1999	Current
Moody's	A1	A a 3
Standard & Poors	A	A+
Fitch Ibc	A+	AA-

BIS Ratio

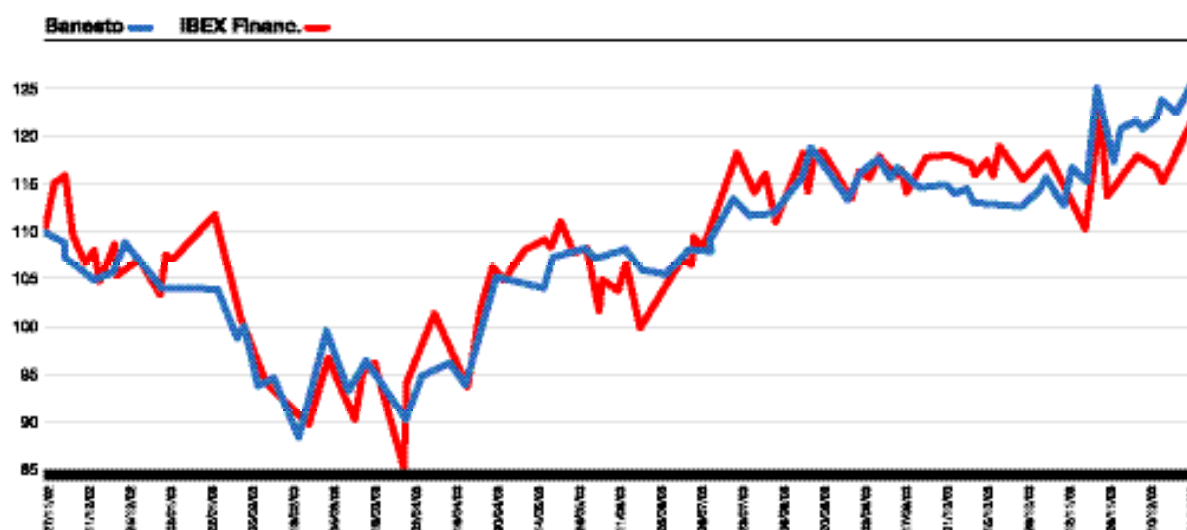
%





The Banesto Share

Banesto's share price rose 34%.



The share rose 34% in 2003, from €7.07 to €9.50.

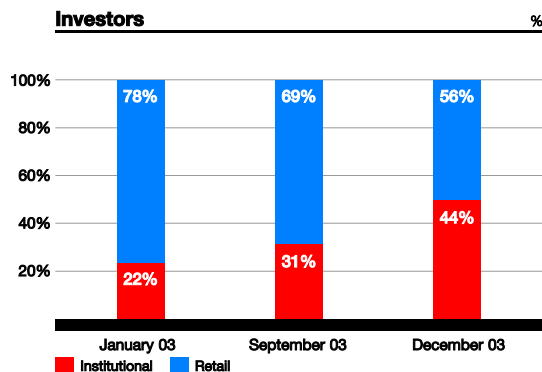
Banesto's capital stock consists of 694,330,098 ordinary shares of €1.77 nominal value each. They are traded on Spain's four stock markets via the continuous market.

Banesto joined the Ibex-35 index of the Bolsa de Madrid

on January 2, 2004, with a weighting of 0.47%. Its weighting in the Bolsa de Madrid general index is 0.2% and it is also part of the Ibex financials index (1.2%). The share price rose 34% in 2003 to €9.50. This increase does not include the payment made to shareholders of €0.26

per share as a result of the reduction in the nominal value made in May 2003. The Banesto share price performance was in line with that of other financial stocks and the stock market in general in the first months of 2003. Its lowest price for the year was reached in February.

Investors



Banesto became a new member of the Ibex-35 stock index in January 2004.

The Ibex financials rose 30% in 2003 compared with a 34% rise for Banesto.

Including the payment to shareholders as a result of the reduction in the capital, the total return on the Banesto share was 38%.

The proposal of Banesto's Board is to assign all the profits to reserves, maintaining the shareholder remuneration policy via the reduction in the nominal value of €201 million (€0.29 per share). This is 11.5% more than that paid in 2003.

We believe this is the most beneficial formula for shareholders and for Banesto, because it better balances the structure of shareholders' equity between capital and reserves. The payment will be made after authorization is obtained.

On the basis of a price of €9.50 at the end of 2003, the main valuation multiples are: PER 14.9 times and price/book value 2.3 times.

The trading volume was on an upward trend in 2003. The average daily turnover at the end of the year was 391,765 shares and the average price during 2003 was €7.58, which gave an average daily volume of €3.0 million.

Prior to the share offering at the end of 2002, a campaign was launched to transmit the strength of the Banesto stock as an investment for individuals and institutional investors.

The campaign was two-pronged, with presentations and meetings with investors and brokers enhancing coverage of the stock. These analysts create opinion and disseminate information.

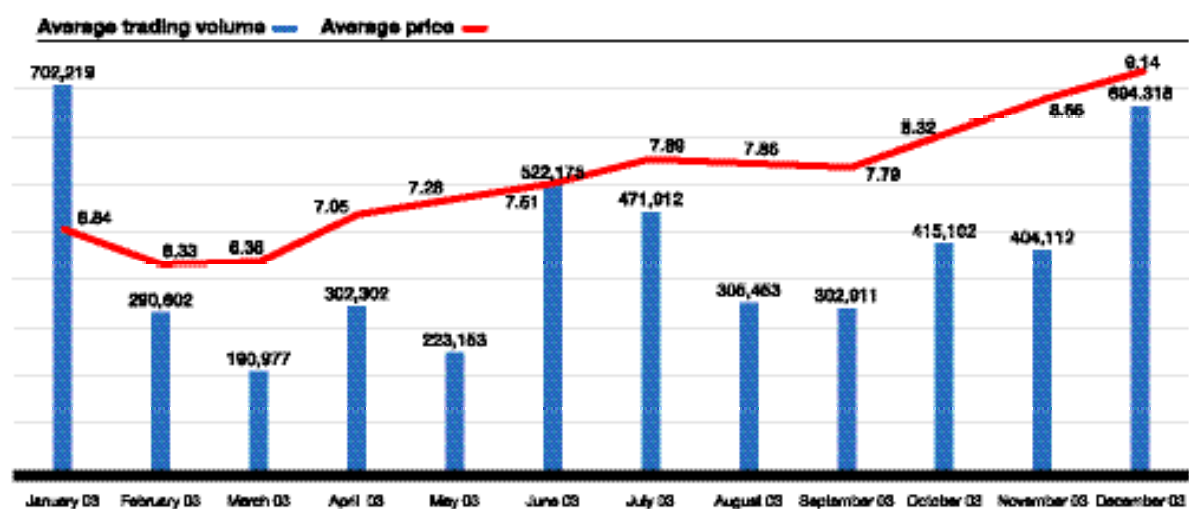
As regards institutional investors, there were 150 meetings between senior executives of Banesto and investors in the main financial centres in Europe and the US.

During 2003 there was a change in the composition of shareholders, with retail investors losing ground to institutional ones. At the end of the year, institutional investors held 44% of the shares and retail ones 56%. These figures were in line with those of comparable banks. Of note was the relative share of international institutional investors (24% of the free-float).

The number of brokers covering the Banesto share rose in 2003 to 19, in line with the number covering the main European banks. This is noteworthy because it means that institutional investors are receiving more information throughout the world. Of the brokers, 58% had a positive recommendation on Banesto.



We will propose in 2004 a dividend payment resulting from a reduction of €0.29 in the nominal value of each share, 11.5% more than in 2003.





Legal Documents

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Responsibility for the information

The Board of Directors of Banco Español de Crédito, S.A. expressly undertakes the general function of supervision of the Group's operations and discharges its duties in this respect directly and on a non-delegation basis.

Its Audit and Compliance Committee is entrusted, inter alia, with the following duties in the areas of information, accounting control and assessment of the compliance system:

1. To propose the appointment of the auditors, the terms of their engagement, the scope of their services and, if appropriate, their revocation or non-renewal.
2. To review the Bank's financial statements and the Group's consolidated financial statements, monitoring compliance with legal requirements and the proper application of generally accepted accounting principles.
3. To serve as a communication channel between the Board of Directors and the auditors, and assess the findings of each audit and the replies of the management team to the auditors' recommendations.
4. To be familiar with the financial reporting process and the internal control systems.
5. To ensure the independence of the auditors, monitoring any situations or matters which might jeopardize their independence and, specifically, to check the percentage that the fees paid in all connections represent with respect to the auditors' total revenues. The fees paid to the auditors, including information on the fees paid for non-audit professional services, must be disclosed in the notes to the annual financial statements.
6. To revise, before public disclosure, the periodic financial information (additional to the annual financial information) furnished to the markets and to their supervisory bodies, making sure that this information is prepared in accordance with the same principles and practices as those used for the financial statements.
7. To monitor compliance with the Group's Code of Conduct in connection with the securities markets, with the anti-money laundering manuals and procedures and, in general, with the Banks' rules of governance and compliance.

For these purposes, the Audit and Compliance Committee meets with the Controller and with Internal Audit of the Bank and the Group and with the external auditors to analyze their reports and recommendations.

Our external auditors, Deloitte, examine each year the financial statements of substantially all the companies composing the Banco Español de Crédito Group to issue their professional opinion thereon. The external auditors are regularly informed of our controls and procedures; they define and perform their audit tests with full freedom and have free access to the Bank's Chairman, Deputy Chairman and CEO, to set forth their conclusions and

discuss their recommendations for improving the efficiency of the internal control systems.

The Chairman of the Audit and Compliance Committee meets periodically with the external auditors to ensure the effectiveness of their audit and to analyze any situations which might jeopardize their independence. In this connection, following the most advanced practices in shareholder information transparency (as described in Note 30 to the consolidated financial statements), it is hereby reported that the fees incurred by the Group for the annual audits performed by the Deloitte worldwide organization amounted to €1,036 thousand in 2003.

To facilitate analysis of the situations which might jeopardize the independence of our auditors from a quantitative and qualitative standpoint, we set forth below significant information relating to the criteria established by the O'Malley Panel and in other relevant international documents for the purpose of evaluating the effectiveness of the external audit function:

1. Ratio of the fees billed by the auditors for non-audit work to the audit fees:

This ratio is 0.39 times in the case of our main auditor.

Under the Regulations governing the Bank's Board of Directors, the audit firm cannot be engaged to perform other services which might jeopardize its independence. The services commissioned from our auditors meet the independence requirements stipulated by Law 44/2002 on Financial System Reform Measures.

2. The relative importance of fees generated by a client with respect to the total fees of the audit firm:

The Banesto Group has adopted the policy of not engaging audit firms if the audit fees for all services would exceed 2% of their total revenue in the preceding year.

In 2003, Deloitte España and the Deloitte worldwide organization billed the Group for less than 0.4% and 0.006%, respectively, of their total revenues.

Based on the foregoing, the Audit and Compliance Committee considers that there are no objective reasons to question the independence of our auditors.

The consolidated financial statements included in this Annual Report, which were prepared by the directors of Banco Español de Crédito, S.A. from the accounting records of the Bank and of its subsidiary and associated companies, are presented in accordance with Bank of Spain Regulations.

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco Español de Crédito, S.A.:

1. We have audited the consolidated financial statements of Banco Español de Crédito, S.A. (the "Bank") and of the companies composing, together with the Bank, the Banco Español de Crédito Group (the "Group"), which consist of the consolidated balance sheets as of December 31, 2003, 2002 and 2001, and the related consolidated statements of income and notes to consolidated financial statements for the years then ended. The preparation of these consolidated financial statements is the responsibility of the Bank's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. As explained in Notes 1, 2-j, 20, 24 and 25, with express prior authorization from the Bank of Spain, in 2003, 2002 and 2001 the Bank recorded an allowance - with a charge to unrestricted reserves of €74,360 thousand, €144,430 thousand and €175,791 thousand, respectively, and simultaneously recording the related prepaid tax of €40,040 thousand, €77,770 thousand and €94,657 thousand, respectively - to cover the commitments to employees who took early retirement in those years.
3. In our opinion, the 2003, 2002 and 2001 consolidated financial statements referred to above present, in all material respects, a true and fair view of the consolidated net worth and financial position of the Banco Español de Crédito Group as of December 31, 2003, 2002 and 2001, and of the consolidated results of its operations and of the consolidated funds obtained and applied by it in the years then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a consistent basis.
4. The accompanying management report for 2003 contains the explanations which the directors of the Bank consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the management report is consistent with that contained in the consolidated financial statements for 2003. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the consolidated companies.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692

Carlos Giménez Lambea

January 16, 2004

Deloitte & Touche España, S.L. inscrita en el Registro Mercantil de Madrid, Tomo 1.1670, folio 188, sección 8, hoja M-14114
Inscripción 41, C.I.F. B-79104462. Domicilio Social: Raimundo Fernández Villaverde, 65. 28003 Madrid

A member firm of
Deloitte Touche Tohmatsu

**BANCO ESPAÑOL DE CRÉDITO, S.A. AND COMPANIES COMPOSING,
TOGETHER WITH THE BANK, THE BANCO ESPAÑOL DE CRÉDITO GROUP**

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003, 2002 AND 2001 (NOTES 1, 2, 3 AND 4)

Thousands of Euros

ASSETS	2003	2002	2001
CASH ON HAND AND DEPOSITS AT CENTRAL BANKS:			
Cash on hand	196,471	184,963	148,988
Bank of Spain	629,496	403,864	244,231
Other central banks	704	321	407
	826,671	589,148	393,626
GOVERNMENT DEBT SECURITIES (Note 5)	4,010,157	4,030,213	3,876,553
DUE FROM CREDIT INSTITUTIONS (Note 6):			
Demand deposits	706,362	819,842	782,888
Other	11,375,697	7,631,385	5,975,428
	12,082,059	8,451,227	6,758,316
LOANS AND CREDITS (Note 7)	31,272,248	26,722,364	23,597,348
DEBENTURES AND OTHER FIXED-INCOME SECURITIES (Note 8)	3,354,331	3,865,061	4,721,471
COMMON STOCKS AND OTHER EQUITY SECURITIES (Note 9)	490,724	369,998	283,619
INVESTMENTS IN NON-GROUP COMPANIES (Note 10)	33,796	43,030	26,323
INVESTMENTS IN GROUP COMPANIES (Note 11)	505,046	452,837	419,704
INTANGIBLE ASSETS (Note 12):			
Incorporation and preopening expenses	27	22	79
Other deferred charges	64,402	69,095	61,372
	64,429	69,117	61,451
CONSOLIDATION GOODWILL (Note 22):			
Fully consolidated companies	5,727	4,587	4,854
Companies accounted for by the equity method	-	-	-
	5,727	4,587	4,854
PROPERTY AND EQUIPMENT (Note 13):			
Land and buildings for own use	320,097	316,617	320,019
Other property	84,146	102,027	138,415
Furniture, fixtures and other	334,059	358,781	386,302
	738,302	777,425	844,736
CAPITAL SUBSCRIBED BUT NOT PAID	-	-	-
TREASURY STOCK (Note 23)	4,398	3,150	-
OTHER ASSETS (Note 14)	3,390,635	3,211,030	2,779,797
ACCRUAL ACCOUNTS (Note 15)	966,090	923,895	921,280
LOSSES AT CONSOLIDATED COMPANIES (Note 24)	186,731	198,736	232,368
CONSOLIDATED LOSS FOR THE YEAR	-	-	-
TOTAL ASSETS	57,931,344	49,711,818	44,921,446
MEMORANDUM ACCOUNTS (Note 27)	18,445,842	15,889,259	14,679,352

The accompanying Notes 1 to 32 and Exhibits I, II, III, IV, V, VI and VII are an integral part of these consolidated balance sheets.

LIABILITIES AND EQUITY	2003	2002	2001
DUE TO CREDIT INSTITUTIONS (Note 16):			
Demand deposits	492,670	240,607	168,140
Other deposits	13,071,761	12,061,334	10,600,087
	13,564,431	12,301,941	10,768,227
Savings deposits-			
Savings deposits-			
Demand	14,911,076	10,083,020	9,937,628
Time	6,026,248	6,814,967	6,298,394
Other deposits-			
Demand	-	-	-
Time	7,700,710	8,603,164	8,302,446
	28,638,034	25,501,151	24,538,468
MARKETABLE DEBT SECURITIES (Note 19):			
Bonds and debentures outstanding	5,658,337	2,601,600	1,235,401
Promissory notes and other securities	-	-	-
	5,658,337	2,601,600	1,235,401
OTHER LIABILITIES (Note 18)	2,455,600	2,220,105	1,682,121
ACCRUAL ACCOUNTS (Note 15)	866,043	918,272	669,583
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 20):			
Pension allowance	2,409,433	2,390,073	2,316,694
Provision for taxes	-	-	-
Other provisions	367,377	391,243	425,280
	2,776,810	2,781,316	2,741,974
GENERAL RISK ALLOWANCE	-	-	-
NEGATIVE CONSOLIDATION DIFFERENCE (Note 22)	15,375	18,440	5,030
CONSOLIDATED INCOME FOR THE YEAR (Note 24):			
Group	442,039	435,913	421,721
Minority interests	7,054	8,334	9,134
	449,093	444,247	430,855
SUBORDINATED DEBT (Note 21)	762,074	468,078	698,234
MINORITY INTERESTS (Note 22)	190,642	70,869	83,165
CAPITAL STOCK (Note 23)	1,228,964	1,409,490	1,335,598
ADDITIONAL PAID-IN CAPITAL	-	-	-
RESERVES (Note 24)	1,098,511	823,669	595,571
RESERVES AT CONSOLIDATED COMPANIES (Note 24)	227,430	152,640	137,219
TOTAL LIABILITIES AND EQUITY	57,931,344	49,711,818	44,921,446

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 32). In the event of a discrepancy, the Spanish-language version prevails.

**BANCO ESPAÑOL DE CRÉDITO, S.A. AND COMPANIES COMPOSING,
TOGETHER WITH THE BANK, THE BANCO ESPAÑOL DE CRÉDITO GROUP**

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001 (NOTES 1, 2, 3 AND 4)**

Thousands of Euros

	(Debit) Credit		
	2003	2002	2001
INTEREST INCOME (Note 30):	1,973,971	1,877,231	2,246,659
Of which: fixed-income securities	355,144	389,002	446,632
INTEREST EXPENSE (Note 30)	(960,585)	(915,357)	(1,292,547)
INCOME FROM EQUITY SECURITIES (Note 30):			
Common stocks and other equity securities	14,321	10,746	5,830
Investments in non-Group companies	589	711	921
Investments in Group companies	17,526	14,969	8,986
	32,436	26,426	15,737
NET INTEREST INCOME	1,045,822	988,300	969,849
FEES COLLECTED (Note 30)	554,936	511,598	495,550
FEES PAID	(92,568)	(79,501)	(75,153)
GAINS (LOSSES) ON FINANCIAL TRANSACTIONS (Note 30)	56,014	46,951	40,556
GROSS OPERATING INCOME	1,564,204	1,467,348	1,430,802
OTHER OPERATING INCOME (Note 30)	7,038	13,587	9,750
GENERAL ADMINISTRATIVE EXPENSES:			
Personnel expenses (Note 30)	(544,058)	(543,463)	(549,383)
Of which:			
Wages and salaries	(393,328)	(404,776)	(408,997)
Employee welfare expenses	(103,434)	(105,797)	(110,440)
Of which: Pensions (Note 20)	(12,874)	(14,501)	(15,735)
Other administrative expenses (Note 30)	(194,917)	(194,948)	(196,216)
	(738,975)	(738,411)	(745,599)
DEPRECIATION, AMORTIZATION AND WRITE-DOWN OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Notes 12 and 13)	(95,096)	(93,274)	(84,069)
OTHER OPERATING EXPENSES	(26,940)	(27,614)	(34,845)
NET OPERATING INCOME	710,231	621,636	576,039
NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD:			
Equity in income of companies accounted for by the equity method	100,096	86,485	75,422
Equity in losses of companies accounted for by the equity method	(7,298)	(16,819)	(3,843)
Value adjustments for collection of dividends	(18,042)	(14,338)	(8,567)
	74,756	55,328	63,012
AMORTIZATION OF CONSOLIDATION GOODWILL (Note 22)	(878)	(789)	(3,014)

(Continued)

	(Debit) Credit		
	2003	2002	2001
GAINS ON GROUP TRANSACTIONS:			
Gains on disposal of investments in fully consolidated companies	-	-	523
Gains on disposal of investments in companies accounted for by the equity method	5,054	7,410	2,219
Gains on transactions involving Parent Company shares and Group financial liabilities	-	-	-
Reversal of negative consolidation differences (Note 22)	3,065	1,916	-
	8,119	9,326	2,742
LOSSES ON GROUP TRANSACTIONS:			
Loss on disposal of investments in fully consolidated companies	-	-	-
Loss on disposal of investments accounted for by the equity method	(6)	(41)	(93)
Loss on transactions involving Parent Company shares and Group financial liabilities	(2,761)	(2,959)	-
	(2,767)	(3,000)	(93)
WRITE-OFFS AND CREDIT LOSS PROVISIONS (net) (Note 7)	(171,375)	(118,260)	(146,733)
WRITE-DOWN OF LONG-TERM INVESTMENTS (net)	687	(272)	(754)
PROVISION TO GENERAL RISK ALLOWANCE	-	-	-
EXTRAORDINARY INCOME (Note 30)	151,913	140,859	128,445
EXTRAORDINARY LOSS (Note 30)	(130,846)	(129,683)	(98,855)
INCOME BEFORE TAXES	639,840	575,145	520,789
CORPORATE INCOME TAX (Note 25)	(188,023)	(129,438)	(83,951)
OTHER TAXES	(2,724)	(1,460)	(5,983)
CONSOLIDATED INCOME FOR THE YEAR	449,093	444,247	430,855
INCOME ATTRIBUTED TO MINORITY INTERESTS (Note 24)	7,054	8,334	9,134
INCOME ATTRIBUTED TO THE GROUP	442,039	435,913	421,721

The accompanying Notes 1 to 32 and Exhibits I, II, III, IV, V, VI and VII are an integral part of these consolidated statements of income.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 32). In the event of a discrepancy, the Spanish-language version prevails.

**BANCO ESPAÑOL DE CRÉDITO, S.A.
AND COMPANIES COMPOSING, TOGETHER WITH
THE BANK, THE BANCO ESPAÑOL DE CRÉDITO GROUP**

NOTES

**TO CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

1. Basis of presentation of the consolidated financial statements, consolidation principles, determination of net worth and charge to reserves

Basis of presentation of the consolidated financial statements

The consolidated financial statements of Banco Español de Crédito, S.A. ("the Bank") and the companies composing, together with the Bank, the Banco Español de Crédito Group ("the Group") are presented in the formats stipulated by Bank of Spain Circular 4/1991 and successive amendments thereto and, accordingly, give a true and fair view of the Group's net worth, financial position and results of operations.

These consolidated financial statements were prepared from the individual accounting records of the Bank and of each of the companies which, together with the Bank, compose the Group, and include certain adjustments and reclassifications required to conform the accounting methods and presentation criteria applied by certain consolidated companies, mainly the companies abroad, to those applied by the Bank (see Note 2).

The consolidated financial statements of the Group for the year ended December 31, 2003, which were prepared by the Bank's directors, have not yet been approved by the Shareholders' Meeting. However, it is considered that these consolidated financial statements will be approved without any changes.

In view of the business activity carried on by the companies composing the Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its net worth, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to consolidated financial statements.

In 1995 and 1996, the former directors of the Bank, who had been replaced by decision of the Bank of Spain's Executive Council on December 28, 1993, filed claims challenging certain corporate resolutions adopted by the Shareholders' Meetings in 1994 and 1995 approving, inter alia, the Bank's financial restructuring plan and the 1993 and 1994 financial statements of the Bank and the Group. In 2000 Madrid Appellate Court decisions rejected all the appeals filed by the plaintiffs in connection with the claim filed challenging the legality of the resolutions adopted by the Banesto Shareholders' Meeting approving the financial restructuring plan; the plaintiffs subsequently filed cassation appeals against these decisions. The claim filed against the resolutions adopted by the Shareholders' Meeting approving the 1993 financial statements of Banesto was rejected by the Court of First Instance and the plaintiffs subsequently filed an appeal before the Provincial Appellate Court. In 2001, the Provincial Appellate Court rejected

the appeal in full and the appellants subsequently filed a cassation appeal. The claim filed against the approval of the 1994 financial statements of Banesto was also rejected in 2000 by the Court of First Instance and this decision was subsequently appealed by the plaintiffs. In 2003, the Provincial Appellate Court rejected the appeal in full and the appellants gave notice of their intention to file a cassation appeal, which was rejected by the Provincial Appellate Court. Additionally, claims were filed in 1998 and 1999 challenging certain resolutions adopted by the Shareholders' Meetings in 1997 and 1998 approving, inter alia, the 1996 and 1997 financial statements of the Bank and the Group. In 2000, these claims were also rejected by the courts and these court decisions were subsequently appealed against by the plaintiffs. In 2002, the appeal was rejected and the plaintiffs gave notice of their intention to file a cassation appeal, which was rejected by the Provincial Appellate Court. This Court declared that the decision handed down rejecting the appeal is final. The Bank's directors and its legal advisers consider that these claims will not have any effect.

The consolidated financial statements were prepared by applying the accounting principles and generally accepted valuation methods described in Note 2. All obligatory accounting principles and valuation methods with a significant effect on the consolidated financial statements were applied in preparing them.

Consolidation principles

In accordance with Bank of Spain Circulars 4/1991 and 5/1993, the Group is defined as including all the companies which are directly and/or indirectly 20% or more owned by the Bank, engage in business activities directly relating to those of the Bank and, together with the Bank, constitute a single decision-making unit.

Exhibit I lists the subsidiaries composing the Group as of December 31, 2003, showing the percentage of direct and indirect ownership by the Bank at that date and other relevant data.

The subsidiaries listed in Exhibit I were fully consolidated, except for SCH Gestión S.G.I.I.C., S.A., SCH Pensiones, EGFP, S.A., Ingeniería de Software Bancario, S.L. and Wex Point Finance, S.L., which were proportionally consolidated. All material accounts and transactions between these companies and between them and the Bank were eliminated in consolidation. The equity of third parties in the Group's net worth is presented under the "Minority Interests" (see Note 22) and "Consolidated Income for the Year - Minority Interests" captions in the accompanying consolidated balance sheets (see Note 24).

Other investments

As of December 31, 2003, the Bank had direct and/or indirect holdings of more than 20% in the capital stock of other companies (see Exhibits II and III). As required by Bank of Spain Circular 4/1991 and subsequent amendments thereto, the Bank valued these holdings in its consolidated financial statements by the equity method, since due to their line of business or to the fact that the Bank does not control these companies, they were not fully or proportionally consolidated.

The remaining equity investments are presented in the accompanying consolidated balance sheets in accordance with the methods described in Note 2-e.

The salient changes and events in the Group in 2003, 2002 and 2001 were as follows:

2003

1. On December 2, 2003, the Special Shareholders' Meetings of Banco Español de Crédito, S.A. and of Banco de Vitoria, S.A. resolved to approve the merger by absorption of the latter into the former, with the dissolution without liquidation of the absorbed company and the transfer en bloc, on a universal basis, of its assets and liabilities to Banco Español de Crédito, S.A., which acquired by way of universal succession the rights and obligations of Banco de Vitoria, S.A. The merger public deed was formally executed on January 7, 2004. On January 8, 2008, the Vitoria Mercantile Registrar placed on record that there were no register-related obstacles to the merger of the two companies. The Bank considers that the merger public deed will be registered in the Madrid Mercantile Registry in the next few days.

An exchange ratio was established for the merger whereby the shareholders of Banco de Vitoria, S.A. will receive 13 Banco Español de Crédito, S.A. shares of €1,77 par value each for every 5 Banco de Vitoria, S.A. shares of €2.15 euros par value each. Based on the report of the independent appraiser appointed by the Mercantile Registry in accordance with current legislation, this exchange ratio was determined on the basis of the actual values of the net assets of the merging companies. The Banco Español de Crédito, S.A. shares to be exchanged for the Banco de Vitoria, S.A. shares will be obtained from Banesto's treasury stock as of December 31, 2003 (see Note 23).

The date from which the transactions performed by the absorbed company will be deemed to have been performed by Banco Español de Crédito, S.A. for accounting purposes is January 1, 2003.

2. Effective implementation of the merger of Banco Español de Crédito, S.A. and Banco del Desarrollo Económico Español, S.A. was approved by the Special Shareholders' Meetings of the two companies on December 20, 2002. The Banco Español de Crédito, S.A. shares exchanged in 2003 for Banco del Desarrollo Económico Español, S.A. shares were obtained from the treasury stock of Banco Español de Crédito, S.A. as of December 31, 2002 (see Note 23).
3. Contribution of 48.97% of the capital on the formation of Wex Point España, S.L.
4. Subscription, on a capital increase, to 50.97% of the capital of Wex Point Finance, S.L.
5. Subscription to 100% of the capital stock on the incorporation of Banesto Preferentes, S.A.
6. Sale to third parties outside the Group of all the holding in Integración en Negocios y Tecnología, S.A.
7. Sale to third parties outside the Group of 99.87% of the capital stock of Uniseco, S.A.

2002

1. Subscription to 51% of the capital of Ingeniería de Software Bancario, S.L. upon the formation of this company.
2. Dissolution with liquidation of Brightsun Ltd.
3. Subscription to the capital increases made by Banesto Banco de Emisiones, S.A., Inmobiliaria Laukariz, S.A., Inversiones Turísticas, S.A., Elerco, S.A. and Costa Canaria de Veneguera, S.A.
4. Sale to third parties outside the Group of 80% of the capital stock of Alfabeto 98, S.A.
5. On December 30, 2002, the Special Shareholders' Meetings of Banco Español de Crédito, S.A. and Banco de Desarrollo Económico Español, S.A. approved the merger by absorption of the latter into the former with the dissolution without liquidation of the absorbed company and the transfer en bloc, on a universal basis, of its assets and liabilities to Banco Español de Crédito, S.A., which acquired by way of universal succession the rights and obligations of Banco de Desarrollo Económico Español, S.A.

2001

1. Dissolution without liquidation of Dolman, S.A., Plataforma Sesenta y Uno, S.A. and Compañía Española Productora de Algodón Nacional, S.A., pursuant to Article 266 of the Spanish Corporations Law, through the overall transfer of their assets and liabilities to their sole shareholder, Banco Español de Crédito, S.A. Article 107 of Corporate Income Tax Law 43/1995 is applicable to these transactions.
2. Sale to third parties outside the Group of all of the capital stock of Variations International, S.A.
3. Exchange of all of the shares of Banesto Pensiones, E.G.F.P., S.A., for 20% of SCH Pensiones, E.G.P.F., S.A., due to the merger by absorption of the former by the latter. The amount at which the shares received in the exchange were recorded was equal to the book value of the shares delivered (€6,621 thousand).
4. Dissolution without liquidation, pursuant to Article 266 of the Spanish Corporations Law, of Comline, S.A., Compra por Catálogo, S.A., Grupo de Empresas de Utilidad Mutua, S.A., Ticket Line, S.A. and Venta por Correo, S.A., through the overall transfer of their assets and liabilities to their sole shareholder, Mercado de Dinero, S.A.
5. Sale to third parties outside the Group of all of the capital stock of La Pradera del Rincón, S.A.
6. Sale to third parties outside the Group of 93.25% of Galaxia Televisión, S.A.
7. Merger by absorption of Dragados Inmobiliaria, S.A. into Inmobiliaria Urbis, S.A. At 2001 year-end the Group held 53.77% of the shares of the post-merger company.

In compliance with Article 107 of Corporate Income Tax Law 43/1995, the following information is disclosed:

- a) In the transactions described above involving the overall transfer of assets and liabilities to Banco Español de Crédito, S.A., no assets were included in the accounting records of the acquiror company at a value different from that recorded in the accounting records of the transferor entities.
- b) There were no tax benefits for the transferor entities with respect to which the acquiror has to meet certain requirements.
- c) The last balance sheets of the transferor entities are included in Exhibit V to these consolidated financial statements.

In accordance with standard practice, the consolidated financial statements do not include the tax effect of transferring to the Bank the accumulated reserves and retained earnings of the other consolidated companies and the holdings accounted for by the equity method, since it is considered that no funds will be transferred and that these funds will be used as self-financing resources at each of these companies. In any case, the net effect would not be material.

Determination of net worth

As a result of application of the current regulations for the presentation of the financial statements of credit institutions, in evaluating the net worth of the Group as of December 31, 2003, 2002 and 2001, the balances of the following captions in the accompanying consolidated balance sheets should be taken into consideration:

	Thousands of Euros		
	2003	2002	2001
Capital stock (Note 23)	1,228,964	1,409,490	1,335,598
Reserves (Note 24)	1,098,511	823,669	595,571
Reserves at consolidated companies (Note 24)	227,430	152,640	137,219
Treasury stock (Note 23)	(4,398)	(3,150)	-
Losses at consolidated companies (Note 24)	(186,731)	(198,736)	(232,368)
Consolidated income for the year – Group	442,039	435,913	421,721
Net worth per books at year-end	2,805,815	2,619,826	2,257,741

The Bank at individual level and the consolidated Group of which the Bank is the parent company are required to maintain minimum computable capital on the basis of their risk assets and commitments. As of December 31, 2003, 2002 and 2001, the computable capital of the Bank and the Group exceeded the requirements of the currently applicable regulations.

Charge to reserves

Pursuant to Rule 13. of Bank of Spain Circular 4/1991, as amended by Bank of Spain Circular 5/2000, and with express prior authorization from the Bank of Spain, in 2003, 2002 and 2001, the

Bank completed the coverage, with a charge to unrestricted reserves, of all the commitments to employees who took early retirement in each year up to the date of effective retirement (see Note 2-j). The charges to reserves -amounting to €74,360 thousand, €144,430 thousand and €175,791 thousand, respectively, net of the tax effect arising from the timing differences of €40,040 thousand, €77,770 thousand and €94,657 thousand, respectively, applicable to the actuarial commitments (see Notes 2-j, 20, 24 and 25)- were approved by the Special Shareholders' Meetings of the Bank on December 2, 2003, December 30, 2002 and December 27, 2001.

2. Accounting policies and valuation methods

The main accounting principles and valuation methods applied in preparing the consolidated financial statements were as follows:

a) Recognition of revenues and expenses

Revenues and expenses are generally recognized for accounting purposes on an accrual basis, the interest method being applied for transactions whose settlement periods exceed 12 months.

In accordance with the accounting principle of prudence and Bank of Spain regulations, the interest on nonperforming, disputed or doubtful loans, including interest subject to country risk, is not recognized as revenues until it is realized.

b) Foreign currency transactions

The balances denominated in foreign currencies were translated to euros at the official average ("fixing") exchange rates prevailing in the Spanish spot foreign currency market on December 31, 2003, 2002 and 2001, except for:

1. The balances in currencies not officially traded in Spain, which were translated to euros basically through the U.S. dollar, using the local currency/U.S. dollar exchange rate ruling in the respective country and subsequently translating the amount in dollars so obtained to euros at the official Spanish 2003, 2002 and 2001 year-end exchange rate.
2. The income statements of the consolidated companies abroad were translated at the average 2003, 2002 and 2001 exchange rates.
3. The balances arising from nonhedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions, which were translated to euros using the exchange rates published by the Bank of Spain for this purpose. The exchange differences disclosed were recorded under the "Gains (Losses) on Financial Transactions" caption in the consolidated statements of income.

The balances arising from hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions, which were translated to euros at the average 2003, 2002 and 2001 year-end exchange rates

prevailing in the spot currency market. The premium/discount arising between the contract exchange rate for forward transactions and the exchange rate for the spot transactions hedging them is accrued over the useful life of the forward transaction, with a balancing entry in the statement of income, and is recorded as an adjustment to hedging expenses or revenues.

The amounts of capital assigned to the Bank's branches abroad are funded in foreign currencies and, accordingly, the exchange differences arising from these investments are offset by the exchange differences arising on the related financing.

The exchange differences arising in translation to euros of the balance sheets of the consolidated companies abroad are recorded under the "Reserves at Consolidated Companies" and "Losses at Consolidated Companies" captions in the consolidated balance sheets, net of the portion of the differences relating to minority interests. The amounts recorded in this connection were €121 thousand, €205 thousand and €65 thousand at 2003, 2002 and 2001 year-end, respectively (see Note 24).

The equivalent euro value of asset and liability items denominated in foreign currencies was as follows:

	Thousands of Euros	
	Assets	Liabilities
December 31, 2003	2,365,739	3,272,560
December 31, 2002	2,922,210	3,042,040
December 31, 2001	3,839,243	4,009,591

c) Loans and credits, other receivables and credit loss allowance

Accounts receivable, which are basically reflected under the "Loans and Credits" and "Due from Credit Institutions" captions on the asset side of the consolidated balance sheets, are recorded at the effective amounts advanced to or drawn by the debtors, except for assets at a discount with initial maturity at up to 12 months, which are reflected at face value, the difference between this amount and the amount drawn being recorded under accrual accounts.

The "Credit Loss Allowance" is intended to cover the losses, if any, which might arise in the full recovery of all lending transactions, and of the related accumulated interest receivable, arranged by the Group.

The "Credit Loss Allowance" was calculated as follows:

1. Risks in Spain and abroad, excluding country risk:

- a. Specific allowances: on a case-by-case basis, based on the loan recovery expectations and, as a minimum, by application of the coefficients stipulated by Bank of Spain Circular 4/1991. The balance of the specific allowances is increased by provisions from period income and is

decreased by chargeoffs of debts deemed to be uncollectible or which have been nonperforming for more than three years (six years in the case of mortgage loans) and by releases, where appropriate, of the provisions recorded for debts subsequently recovered (see Note 7).

- b. General-purpose allowance: additionally, in accordance with Bank of Spain regulations, a general-purpose allowance, equal to 1% of the loans, private-sector fixed-income securities, off-balance-sheet risks, contingent liabilities and doubtful assets for which provision is not mandatory (0.5% for mortgage loans and financial leases for completed housing units financed for less than 80% of the appraised value and ordinary mortgage securitization bonds) has been set up to cover risks not specifically identified but which might arise in the future.

2. Country risk: on the basis of the estimated classification of the degree of debt-servicing difficulty being experienced in each country.
3. Allowance for the statistical coverage of credit losses: additionally, Bank of Spain Circular 9/1999 introduced a requirement to record an allowance for the statistical coverage of credit losses based on the past experience of the Spanish credit system. Provisions must be recorded to this allowance periodically, with a charge to the statement of income, for the positive difference between the credit risk multiplied by certain coefficients and the net specific provisions to this allowance, until the allowance reaches a level equal to three times the amount resulting from weighting the credit risk by its coefficient. If the resulting difference were negative, the amount would be credited to the consolidated statement of income with a charge to the allowance recorded in this connection to the extent of the available balance.

The "Credit Loss Allowance" is presented as a reduction of the balance of the "Loans and Credits", "Due from Credit Institutions" and "Debentures and Other Fixed-Income Securities" captions on the asset side of the consolidated balance sheets, except that the provisions to cover the losses, if any, that may arise from the Group's off-balance-sheet risks, are included under the "Provisions for Contingencies and Expenses - Other Provisions" caption on the liability side of the consolidated balance sheets (see Notes 6, 7, 8 and 20).

d) Government debt securities, debentures and other fixed-income securities

The securities composing the Group's fixed-income securities portfolio as of December 31, 2003, 2002 and 2001, have been classified as follows:

1. Securities assigned to the trading portfolio, which consists of securities held for the purpose of obtaining gains at short term, are stated at their year-end market price or, in the absence thereof, at the market price on the last market day preceding that date.

2. Securities assigned to the held-to-maturity investment portfolio, which consists of securities which the Group has decided to hold until final maturity basically because it has the financial capability to do so, are stated, pursuant to Bank of Spain instructions, at adjusted acquisition cost. The acquisition cost is adjusted daily by the amount resulting from accruing by the interest method the positive or negative difference between the redemption value and the acquisition cost over the residual life of the security.

3. Securities assigned to the available-for-sale securities portfolio (which consists of the securities not assigned to either of the two portfolios described above) are stated at the lower of adjusted acquisition cost, as defined in paragraph 2 above, or market value. The market value of listed securities in this portfolio is deemed to be the market price on the last day of trading each year and that of unlisted securities to be the discounted present value of the future financial flows arising from the securities, calculated at the market interest rates prevailing on that date. The unrealized losses, if any, arising from comparison of the adjusted acquisition cost and the market value are charged to accrual accounts or to income with a balancing entry in the security price fluctuation allowance. Unrealized gains are not recorded for accounting purposes.

The unrealized losses on securities sold to third parties under repurchase agreement are only written off in respect of the portion corresponding to the period from the expected repurchase date to the maturity date.

In the event of disposal of these securities, the losses with respect to the adjusted acquisition cost are recorded with a charge to income. Gains (if they exceed the losses charged to income in the year) are credited to income only for the portion, if any, exceeding the security price fluctuation allowance required at year-end and charged to accrual accounts.

The net unrealized gain disclosed by comparing the adjusted acquisition cost and the market value of the securities included under the "Government Debt Securities" and "Debentures and Other Fixed-Income Securities" captions in the consolidated balance sheets as of December 31, 2003, amounted to €149,105 thousand and €83,828 thousand, respectively (€232,810 thousand and €101,364 thousand, respectively, as of December 31, 2002, and €116,885 thousand and €38,692 thousand, respectively, as of December 31, 2001 - see Notes 5 and 8).

e) Equity securities

Equity securities are individually valued at the lower of acquisition cost, revalued where appropriate pursuant to the applicable enabling legislation, or market value at year-end; however, as indicated in Note 1, the Group's holdings of more than 20% in the capital stock of unlisted nonconsolidated entities and of more than 3% in the capital stock of listed nonconsolidated entities are recorded at the fraction of the net worth of the subsidiary or associated company represented by

such holdings, adjusted, if appropriate, by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the valuation date.

The market value of the other equity securities was determined as follows:

1. Listed securities: lower of average market price in the last quarter of the year or market price on the last day of trading in the year.
2. Unlisted securities: underlying book value of the holding per each investee's latest available financial statements (unaudited in some cases) considering the unrealized gains, if any, disclosed at the time of acquisition and still existing at the time of valuation.

The unrealized losses disclosed by application of the foregoing valuation methods are covered by the security price fluctuation allowance, which is reflected as a reduction of the balances of the related captions on the asset side of the accompanying consolidated balance sheets (see Notes 9, 10 and 11), and by other allowances (see Note 20). The major investments as of December 31, 2003, are listed in Exhibits II and III.

f) Intangible assets

Incorporation and preopening expenses are recorded at cost, net of accumulated amortization. These expenses basically represent lawyers' fees and public deed execution and registration expenses and are amortized on a straight-line basis over five years.

The deferred charges relate to software expenses, which are amortized on a straight-line basis over a maximum period of three years; to capital increase expenses, which are amortized over a maximum period of five years; and to goodwill arising from the acquisition by the Bank from 1999 to 2002 of the business of 309 branch offices from Banco Santander Central Hispano, S.A, which is being amortized over a maximum period of 20 years. During this period, the branch offices acquired will foreseeably generate revenues exceeding the unamortized balances as of December 31, 2003, 2002 and 2001, which amounted to €56,523 thousand €55,645 thousand and €58,358 thousand, respectively (see Note 29).

The amortization charged to consolidated income in 2003, 2002 and 2001 in this connection amounted to €7,716 thousand, €6,066 thousand and €3,828 thousand, respectively (see Note 12).

g) Consolidation goodwill and negative consolidation differences

These captions in the consolidated balance sheets reflect the asset and liability consolidation differences, respectively, which arose on the acquisition of holdings in subsidiaries and associated companies. As required by Bank of Spain

regulations, the unrealized gains, if any, of each of the subsidiary and associated companies were taken into account in calculating goodwill.

Goodwill is amortized on a straight-line basis over ten years, on the basis of the nature of the related investments, unless there are doubts as to its recovery, in which case it is written off immediately. It is considered that the companies which gave rise to goodwill (see Note 22) will, during the remaining amortization period of this goodwill, generate income exceeding the unamortized balances at each year-end.

The negative consolidation differences are credited to income as and when unfavorable results are obtained at the company concerned, which were already expected at the date of acquisition of the holding, or when they relate to a realized gain.

h) Property and equipment

Operating property and equipment—

Property and equipment are carried at cost, revalued where appropriate pursuant to the applicable enabling legislation, net of the related accumulated depreciation (see Note 13).

Property and equipment are depreciated by the straight-line method basically at the following annual rates based on the years of estimated useful life of the related assets:

Annual Depreciation Rate

Buildings for own use	2%
Furniture and fixtures	7.5%
Office and data processing equipment	25%

Upkeep and maintenance expenses are expensed currently.

Property and equipment acquired through foreclosure

These property and equipment items are stated at the lower of the book value of the assets used to acquire them or the appraised value of the asset acquired.

If these assets are not disposed of or added to the Group's operating property and equipment, an allowance is recorded on the basis of the time elapsed since their acquisition, the nature of the asset and/or the characteristics of the appraisal.

These allowances are presented as a reduction of the balance of the "Property and Equipment - Other Property" caption in the consolidated balance sheets (see Note 13).

i) Treasury stock

As of December 31, 2003 and 2002, Banco Español de Crédito, S.A. held 100,192 and 10,000 shares of treasury stock, respectively, the purpose of which was to cater for the share exchange with the shareholders of Banco de Vitoria, S.A. and of Banco del Desarrollo Económico Español, S.A. upon the

merger by absorption of these companies (see Notes 1 and 23). Additionally, another Group company held 970,094 shares and 830,000 shares of Banco Español de Crédito, S.A. as of December 31, 2003 and 2002, respectively.

These shares are reflected at cost, net of the required allowance, if any, which is determined as the lower of underlying book value or market price.

None of the Group companies held any Bank shares as of December 31, 2001.

j) Pension plan

In-house allowances:

Under the collective labor agreement currently in force, certain Spanish consolidated companies have undertaken to make payments to certain employees, or to their beneficiary rightholders, to supplement the social security benefits for retirement, permanent disability, death of spouse or death of parent.

The assumptions used in the actuarial studies conducted by independent actuaries to determine the pension commitments to serving and retired employees and all the commitments to early retirees included, inter alia, the GRM/F-95 tables and an assumed annual interest rate of 4%, therefore complying with current regulations on this matter. These actuarial studies were performed on an individual basis using the projected unit credit method. This method consists of the straight-line allocation of the estimated cost per employee based on the ratio of each employee's years of past service to his or her total expected years of service.

Pursuant to Bank of Spain Circular 5/2000 which, inter alia, specified the transitional system for adaptation to the new pension commitment regulations, credit institutions that opt to maintain their pension allowances in-house (which is the case of the credit institutions composing, together with the Bank, the Banco Español de Crédito Group) must record the difference between the pension commitments as of December 31, 1999, and the commitments calculated by applying the new valuation methods as an in-house pension allowance, with a balancing entry in an asset accrual account which must be reduced each year, with a charge to the consolidated statement of income, by at least one-tenth of the beginning balance. This initial difference amounted to €134,681 thousand as of December 31, 1999. To make this reduction, in 2003, 2002 and 2001, €13,168 thousand, €13,197 thousand and €14,158 thousand, respectively, were recorded with a charge to the "Extraordinary Loss" caption in the 2003, 2002 and 2001 consolidated statements of income. Consequently, as of December 31, 2003, the balance of this asset accrual account amounted to €79,005 thousand.

Also, the Circular stipulates that if an entity covers, fully or partially, the exposure for pension commitments by taking out insurance contracts, the insured commitments (determined as the amount of the net level premium reserves to be recorded by

the insurer) must be recorded under the "Provisions for Contingencies and Expenses – Pension Allowance" caption, with a charge to the "Other Assets" caption in the consolidated balance sheets.

Additionally, if the interest rates on investments relating to the insurance contracts exceed those applied in calculating the commitments to employees (4%), the resulting valuation differences (and exclusively such differences) are recorded as an in-house pension allowance, with a balancing entry in an asset account, which is reduced (with a charge to the "Interest Expense" caption in the consolidated statements of income - see Note 30) at the appropriate rate so that, taken together with the allocable cost resulting from the increase in the recorded in-house pension allowance arising from the rate of return used to calculate it, it is equal to the increase in value of the assets added (recorded with a credit to the "Interest Income" caption in the consolidated statements of income - Note 30), thus neutralizing the effect on income.

Following are the main aggregates in the aforementioned studies at the end of 2003, 2002 and 2001:

	Thousands of Euros		
	2003	2002	2001
Discounted present value:			
Vested pensions of retired employees (*)	1,548,281	1,534,349	1,525,561
Accrued pensions of serving employees	261,566	287,641	365,403
Salary commitments to employees retired early	664,902	647,259	518,575
Long-service bonuses and other commitments	8,025	6,081	6,497
Total commitments incurred	2,482,774	2,475,330	2,416,036

(*) Including employees retired early.

These commitments are covered as follows:

	Thousands of Euros		
	2003	2002	2001
In-house allowance	744,091	748,674	636,823
Insurance policies taken out with Group insurance entities (*)	1,143,573	1,090,269	1,021,964
Insurance policies taken out with non-Group insurance entities (*)	521,769	551,130	657,907
Pension allowance (Note 20)	2,409,433	2,390,073	2,316,694
Difference pursuant to the coverage schedule stipulated by the Regulations (**)	79,005	92,173	105,370
Total amount	2,488,438	2,482,246	2,422,064

(*) Pursuant to Bank of Spain Circular 5/2000, these amounts were recorded under the "Provisions for Contingencies and Expenses – Pension Allowance" caption (see Note 20) with a charge to the "Other Assets" caption in the consolidated balance sheets (see Note 14).

(**) Pursuant to Bank of Spain Circular 5/2000, these amounts were recorded under the "Provisions for Contingencies and Expenses – Pension Allowance" caption in the accompanying consolidated balance sheets, and were offset for the same amounts, by the asset account with a charge to which the allowance was recorded.

1. Pension commitments to retired and serving employees:

The discounted present value of the pension commitments to the Group's retired employees, of the pensions to be received by employees taking early retirement from the retirement date and of the pension commitments to the Group's serving employees amounted to €1,809,847 thousand, €1,821,990 thousand and €1,890,964 thousand as of December 31, 2003, 2002 and 2001, respectively. This actuarial liability was covered by an in-house allowance (of €65,500 thousand, €88,418 thousand and €105,723 thousand, respectively); by policies arranged with insurance companies, one of which is Compañía Aseguradora Banesto Seguros, S.A. (of €1,665,342 thousand, €1,641,399 thousand and €1,679,871 thousand, respectively); and the remaining amount (€79,005 thousand, €92,173 thousand and €105,370 thousand, respectively), relates to the difference permitted pursuant to the coverage schedule stipulated in the "Regulations on the Instrumentation of Employers' Pension Commitments to Employees".

2. Early retirements:

In 1996, and since 1998, the Bank has offered certain employees the possibility of taking early retirement before the age stipulated in the current collective labor agreement. Accordingly, in those years the Bank recorded allowances to cover the supplementary liabilities to employees taking early retirement and the salary commitments to these employees from the time of early retirement to the date of effective retirement.

In accordance with the express authorizations from the Bank of Spain on December 19, 2003, December 13, 2002 and December 21, 2001, and as approved by the Special Shareholders' Meetings of the Bank on December 2, 2003, December 30, 2002 and December 27, 2001, these allowances were recorded in 2003, 2002 and 2001 with a charge of €74,360 thousand, €144,430 thousand and €175,791 thousand, respectively, to unrestricted reserves and the simultaneous recognition of €40,040 thousand, €77,770 thousand and €94,657 thousand of prepaid taxes, respectively (see Notes 20, 24 and 25).

The actuarial liability relating to the salary commitments to these employees through the date of effective retirement is covered by an in-house allowance, which amounted to €669,271 thousand at 2003 year-end.

Provisions and payments-

The pension cost incurred by the Group in 2003, 2002 and 2001 amounted to €129,818 thousand, €137,160 thousand and €122,799 thousand, respectively, and is recorded under the "Interest Expense", "General Administrative Expenses - Personnel Expenses" and "Extraordinary Loss" captions in the consolidated statements of income for those years (see Notes 20 and 30).

€59,439 thousand, €66,910 thousand and €60,439 thousand, respectively, of these amounts as of December 31, 2003, 2002

and 2001, were offset, for the same amount, by the positive valuation differences arising from investment of the assets assigned to the insurance contracts covering the pension commitments; these amounts are recorded under the "Interest Income" caption in those years' consolidated statements of income (see Note 30).

Payments to pensioners amounted to €202,136 thousand, €158,938 thousand and €128,136 thousand, respectively, in 2003, 2002 and 2001 (see Note 20), of which €144,153 thousand, €105,345 thousand and €77,777 thousand, respectively, were paid with a charge to the Group's in-house allowance and the remainder with funds received from insurance companies.

External funds:

In 2002, the provisions of Royal Decree 1588/1999 enacting the Regulations on the Instrumentation of Employers' Pension Commitments to Employees and Beneficiaries were applied by the Bank to the insurance policies entered into in 1996 with a non-Group insurance company to cover pension commitments to current and former executives and members of the Board of Directors who are or were serving employees of the Bank. Consequently, pursuant to Bank of Spain Circular 5/2000, these funds are external and, accordingly, must not be recorded in the consolidated balance sheets as of 2003 and 2002 year-end. As of those dates, the net level premium reserves recorded by the aforementioned non-Group insurance company amounted to €54,892 thousand and €60,220 thousand, respectively.

k) Futures transactions

The Group uses futures instruments both to hedge its asset and liability positions and in other transactions (see Note 28).

These instruments include, inter alia, unmatured foreign currency purchase and sale transactions, unmatured securities purchase and sale transactions, financial futures on securities and interest rates, options purchased and written, forward rate agreements (FRAs) and financial swaps (interest rate swaps - IRSs-, cross-currency swaps and foreign currency swaps).

For the specific accounting treatment of the foreign currency transactions, see Note 2-b.

Pursuant to Bank of Spain regulations, transactions involving these instruments must be recorded in memorandum accounts based on either the future rights and commitments with a potential effect on net worth, or on the balances required to reflect the transactions, without an impact on the Group's net worth. Accordingly, these instruments' notional amount (theoretical value of the contracts) does not reflect the total credit or market risk assumed by the Group.

The premiums collected and paid for options sold and purchased, respectively, are recorded as an asset by the purchaser under the "Other Assets" caption (see Note 14) and as a liability by the writer under the "Other Liabilities" caption (see Note 18) in the consolidated balance sheets.

Transactions aimed at eliminating or significantly reducing market risk, which are performed to reduce the Group's actual risk exposure in its management of correlated assets, liabilities and futures transactions, were treated as hedging transactions. The gains or losses arising on these transactions were accrued symmetrically to the revenues or expenses arising from the hedged items.

Nonhedging transactions arranged on organized markets, also called trading transactions, were valued at market price, and market price variances were recorded in full in the consolidated statements of income. The credit risk on these transactions is minimized in organized markets.

The gains or losses arising from trading transactions arranged outside organized markets are not recognized in the consolidated statements of income until they are effectively settled. However, provisions were recorded with a charge to income for potential net losses, if any, on each type of risk disclosed by valuations of positions at year-end each year. The types of risks considered for these purposes are interest rate, underlying asset price and currency risks.

l) Severance costs

Under current Spanish labor legislation, employers are required to pay severance to employees terminated without just cause. There is no staff reduction plan making it necessary to record a provision in this connection.

m) Corporate income tax

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income. Permanent differences are defined as differences between the taxable income and the income per books before taxes that do not reverse in subsequent years.

However, in accordance with the principle of prudence, timing differences giving rise to a deferred tax asset are not recorded in the accounts and are treated, for all effects and purposes, as permanent differences, except for the discounted present value of the provisions to the pension allowance for the portion relating to payments expected to be made to pensioners in a maximum period of ten years, the provisions to the allowance for early retirements (see Note 2-j) and the amount of the provisions to the allowance for statistical coverage recorded in accordance with Bank of Spain regulations.

In accordance with the principle of prudence, the unused double taxation and investment tax credits earned in prior years have not been recorded in assets (see Note 25). Entitlement to these tax credits is conditional upon compliance with the regulatorily stipulated requirements.

3. Banco Español de Crédito, S.A.

The individual financial statements of the Group's parent company, Banco Español de Crédito, S.A., as of December 31, 2003, 2002 and 2001, represented substantially all the Group's consolidated assets and 96.95%, 87.6% and 87.2%, respectively, of its consolidated net income and 85.32%, 83.2% and 88.1%, respectively, of its reserves. The Bank's individual financial statements were prepared basically in accordance with the accounting principles and valuation methods described in Note 2.

As of December 31, 2003, 2002 and 2001, the Bank conducted its business in Spain through 1,622, 1,609 and 1,656 branch offices located throughout the country and had a controlling interest in a finance group which provides services in the fields of financing, factoring, capital markets, etc. As of December 31, 2003, the Bank had 35 agents to which Bank of Spain Circular 5/1995 was applicable; the detail is shown in Exhibit VI. As additional support for its international activities, the Bank also has two branches abroad and controls certain financial institutions which operate exclusively outside Spain.

The Bank's summarized 2003, 2002 and 2001 balance sheets and statements of income and of changes in financial position are as follows:

Banco Español de Crédito, S.A.

Summarized balance sheets as of December 31, 2003, 2002 and 2001

Thousands of Euros

ASSETS-	2003	2002	2001
Cash on hand and deposits at central banks	715,744	580,148	363,792
Government debt securities	3,961,293	3,844,472	3,798,469
Due from credit institutions	12,685,333	8,791,568	6,814,558
Loans and credits	29,798,921	25,745,109	23,184,683
Debentures and other fixed-income securities	6,733,634	6,991,175	8,956,472
Common stocks and other equity securities	451,319	338,535	140,749
Investments in non-Group companies	6,456	5,259	5,259
Investments in Group companies	1,142,014	1,135,308	1,086,112
Intangible assets	58,813	63,028	59,002
Property and equipment	685,610	722,736	793,360
Treasury stock	398	35	-
Other assets	3,463,975	3,285,257	2,958,774
Accrual accounts	969,980	960,976	928,310
Total assets	60,673,490	52,463,606	49,089,540
Memorandum accounts	18,362,537	15,499,845	14,760,292
LIABILITIES AND EQUITY-	2003	2002	2001
Due to credit institutions	18,814,384	15,863,582	15,187,369
Customer deposits	29,739,162	26,583,109	25,737,256
Marketable debt securities	2,500,000	1,000,000	-
Other liabilities	2,519,348	2,345,764	1,947,224
Accrual accounts	894,580	1,044,250	702,154
Provisions for contingencies and expenses	2,683,351	2,703,036	2,695,446
Income for the year	428,545	404,468	369,417
Subordinated debt	893,219	468,078	698,234
Capital stock	1,228,964	1,409,490	1,335,598
Reserves	971,937	641,829	416,842
Total liabilities and equity	60,673,490	52,463,606	49,089,540

Banco Español de Crédito, S.A.
Summarized statements of income
for the years ended December 31, 2003, 2002 and 2001

Thousands of Euros

	2003	2002	2001
Interest income	2,073,066	1,978,010	2,290,087
Interest expense	(1,119,686)	(1,103,211)	(1,413,421)
Income from equity securities	37,020	29,561	40,470
Net interest income	990,400	904,360	917,136
Fees collected	491,850	455,536	427,461
Fees paid	(84,958)	(74,690)	(64,845)
Gains (losses) on financial transactions	69,123	31,147	39,164
Gross operating income	1,466,415	1,316,353	1,318,916
Other operating income	5,715	7,739	7,538
General administrative expenses	(683,981)	(683,796)	(691,491)
Depreciation, amortization and write-down of property and equipment and intangible assets	(87,783)	(86,802)	(78,706)
Other operating expenses	(27,638)	(27,969)	(33,970)
Net operating income	672,728	525,525	522,287
Write-offs and credit loss provisions (net)	(166,551)	(112,612)	(141,360)
Write-down of long-term investments (net)	(3,951)	7,559	30,137
Extraordinary income	191,972	193,688	101,611
Extraordinary loss	(125,522)	(115,919)	(74,189)
Income before taxes	568,676	498,241	438,486
Corporate income tax and other taxes	(140,131)	(93,773)	(69,069)
Income for the year	428,545	404,468	369,417

Banco Español de Crédito, S.A.
Summarized statements of changes in financial position
for the years ended December 31, 2003, 2002 and 2001

Thousands of Euros

	2003	2002	2001
Source of funds-			
From operations-			
Income for the year	428,545	404,468	369,417
Net provisions to general-purpose and special allowances	268,679	138,026	199,686
Direct write-down of assets	136	517	614
Depreciation and amortization expense	147,299	86,802	78,706
Gains on the sale of treasury stock, investments and fixed assets	(31,477)	(40,284)	(32,464)
Losses on the sale of treasury stock, investments and fixed assets	3,520	3,017	4,130
	816,702	592,546	620,089
Net variation in borrowed funds and lending-			
External capital contributions in share issue	-	165,824	-
Subordinated debt securities issued	425,141	-	28,959
Fixed-income securities	130,061	1,921,986	-
Lending, less financing, at Bank of Spain and credit institutions	-	-	833,123
Customer deposits	3,156,053	1,845,853	2,225,733
Debt securities	1,500,000	-	-
Sale of long-term investments-			
Sale of investments in Group and associated companies	41,405	36,477	28,510
Sale of property and equipment and intangible assets	117,306	394,999	120,847
	5,369,966	4,365,139	3,237,072
Total funds obtained	6,186,668	4,957,685	3,857,161
Application of funds-			
Refund of investments			
Due to capital reduction	180,526	91,899	73,519
Due to acquisition of treasury stock	363	35	-
Loans and credits	4,290,177	2,664,320	3,013,975
Subordinated debt securities issued	-	230,156	-
Lending, less financing, at Bank of Spain and credit institutions	1,078,559	1,517,153	-
Fixed-income securities	-	-	543,175
Short-term equity securities	112,429	198,427	70,979
Acquisition of long-term investments-			
Acquisition of, and increase in, investments in Group and associated companies	53,652	69,350	23,106
Additions to property and equipment and intangible assets	131,542	400,102	180,486
Other asset items less liability items (net variation)	339,420	(213,757)	(48,079)
Total funds applied	6,186,668	4,957,685	3,857,161

4. Distribution of the Bank's income

The proposed distribution of the Bank's 2003 net income that the Board of Directors will submit for approval by the Shareholders' Meeting, and the proposed distribution of 2002 and 2001 net income are as follows:

	Thousands of Euros		
	2003	2002	2001
Net income	428,545	404,468	369,417
Distribution to:			
Legal Reserve	42,855	40,447	36,942
Voluntary reserves	385,690	364,021	332,475
	428,545	404,468	369,417

5. Government debt securities

The detail of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Trading portfolio—			
Treasury bills	65,490	-	-
Other listed debt securities traded by the book-entry system	56,457	35,919	66,962
	121,947	35,919	66,962
Available-for-sale securities portfolio—			
Treasury bills	30,903	77,869	330,667
Other listed debt securities traded by the book-entry system	184,277	767,319	370,161
	215,180	845,188	700,828
Held-to-maturity investment portfolio—			
Other listed debt securities traded by the book-entry system	3,683,689	3,149,113	3,111,494
	3,683,689	3,149,113	3,111,494
	4,020,816	4,030,220	3,879,284
Security price fluctuation allowance	(10,659)	(7)	(2,731)
	4,010,157	4,030,213	3,876,553

The average annual interest rate on the Treasury bills was 2.7%, 4.2% and 3.8% in 2003, 2002 and 2001, respectively. The balances of the "Other Listed Debt Securities Traded under the Book-Entry System" accounts in the foregoing detail include debentures, bonds and government debt securities. The average annual interest rate on these securities in those years was 4.8 %, 4.6% and 7.3%, respectively.

€13,120,049 thousand, €9,262,955 thousand and €11,353,822 thousand (effective amount) of the foregoing assets and of the assets acquired under resale agreement, which are recorded

under the "Due from Credit Institutions" (see Note 6) and "Loans and Credits" (see Note 7) captions in the consolidated balance sheets as of December 31, 2003, 2002 and 2001, respectively, had been sold to the Bank of Spain, to other financial intermediaries and to customers, and, accordingly, these amounts are included under the "Due to Credit Institutions - Other Deposits" (see Note 16) and "Customer Deposits" (see Note 17) captions in the consolidated balance sheets at those dates.

€145,388 thousand, €42,227 thousand and €47,612 thousand (effective amount) were transferred from the trading portfolio to the available-for-sale securities portfolio in 2003, 2002 and 2001, respectively, at the market price at the transfer date, net of the accrued interest. Also, securities in the available-for-sale securities portfolio were sold for €647,667 thousand, €265,417 thousand and €2,253,401 thousand, giving rise to gains of €18,961 thousand, €12,308 thousand and €620 thousand in 2003, 2002 and 2001, respectively, which are recorded under the "Gains (Losses) on Financial Transactions" caption in the consolidated statements of income for those years (see Note 30).

The detail of the variations in 2003, 2002 and 2001 in the available-for-sale securities portfolio and in the held-to-maturity investment portfolio, disregarding the security price fluctuation allowance, is as follows:

	Thousands of Euros	
	Available-for-Sale Securities Portfolio	Held-to-Maturity Investment Portfolio
Balances at January 1, 2001	1,871,937	4,027,172
Purchases and transfers	1,440,018	310,380
Sales and redemptions	(2,639,885)	(1,214,320)
Variation due to adjusted acquisition cost (Note 2-d)	28,758	(11,738)
Balances at December 31, 2001	700,828	3,111,494
Purchases and transfers	674,265	320,008
Sales and redemptions	(533,432)	(273,191)
Variation due to adjusted acquisition cost (Note 2-d)	3,527	(9,198)
Balances at December 31, 2002	845,188	3,149,113
Purchases and transfers	133,436	1,159,393
Sales and redemptions	(766,308)	(611,601)
Variation due to adjusted acquisition cost (Note 2-d)	2,864	(13,216)
Balances at December 31, 2003	215,180	3,683,689

The detail of the book and market values of the balances of the "Fixed-Income Securities - Available-for-Sale Securities Portfolio" and "Fixed-Income Securities - Held-to-Maturity Investment Portfolio" captions as of December 31, 2003, 2002 and 2001, is as follows:

Thousands of Euros						
	DECEMBER 31, 2003		DECEMBER 31, 2002		DECEMBER 31, 2001 (*)	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Fixed-income securities-						
Available-for-sale securities portfolio (*)	204,521	230,993	845,181	879,511	698,097	692,913
Held-to-maturity investment portfolio	3,683,689	3,806,322	3,149,106	3,347,586	3,111,494	3,233,563
	3,888,210	4,037,315	3,994,287	4,227,097	3,809,591	3,926,476

(*) The difference between the book value and the market value of the fixed-income securities in the available-for-sale securities portfolio is covered by the security price fluctuation allowance recorded with a charge to accrual accounts (see Note 2-d).

The breakdown, by maturity, of the balance of these captions as of those dates, disregarding the security price fluctuation allowance, was as follows:

Thousands of Euros					
	Maturity				
	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
December 31, 2003					
Fixed-income securities-					
Trading portfolio	25,798	13,275	28,832	54,042	121,947
Available-for-sale securities portfolio	20,633	11,312	48,659	134,576	215,180
Held-to-maturity investment portfolio	-	533,559	1,197,872	1,952,258	3,683,689
	46,431	558,146	1,275,363	2,140,876	4,020,816
December 31, 2002					
Fixed-income securities-					
Trading portfolio	4,672	2,518	16,300	12,429	35,919
Available-for-sale securities portfolio	28,388	60,021	167,350	589,429	845,188
Held-to-maturity investment portfolio	-	603,471	1,473,675	1,071,967	3,149,113
	33,060	666,010	1,657,325	1,673,825	4,030,220
December 31, 2001					
Fixed-income securities-					
Trading portfolio	15,482	1,303	31,232	18,945	66,962
Available-for-sale securities portfolio	154,204	145,473	62,205	338,946	700,828
Held-to-maturity investment portfolio	256,382	11,272	2,086,292	757,548	3,111,494
	426,068	158,048	2,179,729	1,115,439	3,879,284

Government debt securities with a face value of €36,235 thousand, €26,228 thousand and €29,534 thousand were securing certain own or third-party commitments as of December 31, 2003, 2002 and 2001, respectively. Some of these securities were securing loans granted to the Group by the Bank of Spain (see Note 16).

The detail of the variations in the security price fluctuation allowance in 2003, 2002 and 2001, is as follows:

	Thousands of Euros		
	2003	2002	2001
Beginning balances	7	2,731	2,790
Provision/(release) charged/(credited) to income for the year	10,654	(2,720)	(20)
Other variations	(2)	(4)	(39)
Ending balances	10,659	7	2,731

6. Due from credit institutions

The breakdown of the balances of this caption in the consolidated balance sheets, by currency and type, is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency-			
In euros	11,141,649	7,598,670	5,591,027
In foreign currencies	940,410	852,57	1,167,289
	12,082,059	8,451,227	6,758,316
By type-			
Demand deposits-			
Current accounts	230	-	-
Other accounts	706,132	819,842	782,888
	706,362	819,842	782,888
Other-			
Deposits at credit and financial institutions	4,317,201	2,403,749	2,047,183
Assets acquired under resale agreement (Note 5)	7,051,839	5,227,625	3,928,496
Other accounts	6,661	13	50
	11,375,701	7,631,387	5,975,729
Less- Credit loss allowance (Note 2-c)	(4)	(2)	(301)
	11,375,697	7,631,385	5,975,428
	12,082,059	8,451,227	6,758,316

The detail, by due date, of the balance of the "Due from Credit Institutions - Other" (excluding "Other Accounts" and "Credit Loss Allowance") caption in the foregoing table and of the average annual interest rates at each year-end is as follows:

Thousands of Euros						
	Up to 3 Months	3 Months To 1 Year	1 to 5 Years	Over 5 Years	Total	Average Interest Rate at Year-end
December 31, 2003						
Deposits at credit and financial institutions	3,393,204	855,971	53,541	14,485	4,317,201	2.2%
Assets acquired under resale agreement	5,997,466	1,054,373	-	-	7,051,839	2.1%
	9,390,670	1,910,344	53,541	14,485	11,369,040	
December 31, 2002						
Deposits at credit and financial institutions	2,306,519	68,966	7,551	20,713	2,403,749	3.5%
Assets acquired under resale agreement	4,323,802	903,823	-	-	5,227,625	2.9%
	6,630,321	972,789	7,551	20,713	7,631,374	
December 31, 2001						
Deposits at credit and financial institutions	1,953,585	34,680	39,298	19,620	2,047,183	5.2%
Assets acquired under resale agreement	3,315,920	612,576	-	-	3,928,496	3.6%
	5,269,505	647,256	39,298	19,620	5,975,679	

7. Loans and credits

The detail of the balances of this caption in the consolidated balance sheets, by currency and borrower sector, is as follows:

Thousands of Euros			
	2003	2002	2001
By currency-			
In euros	30,136,578	25,141,881	21,510,263
In foreign currency	1,135,670	1,580,483	2,087,085
	31,272,248	26,722,364	23,597,348
By borrower sector-			
Public authorities	760,091	845,060	797,887
Other resident borrowers	29,161,137	24,037,313	20,935,242
Nonresident borrowers	2,154,777	2,491,571	2,438,759
Less- Credit loss allowance (Note 2-c)	(803,757)	(651,580)	(574,540)
	31,272,248	26,722,364	23,597,348

The detail of the balances of the "Nonresident Borrowers" account as of December 31, 2003, 2002 and 2001, by geographical area, is as follows:

	Thousands of Euros		
	2003	2002	2001
Other EU countries	1,153,232	1,146,758	849,200
United States of America	73,312	55,520	42,621
Other OECD countries	355,579	52,011	55,742
Latin America	465,905	990,417	1,178,633
Other countries	106,749	246,865	312,563
	2,154,777	2,491,571	2,438,759

The detail, by maturity and by loan type and status, of the "Loans and Credits" caption as of December 31, 2003, 2002 and 2001, disregarding the balance of the "Credit Loss Allowance" account, is as follows:

	Thousands of Euros		
	2003	2002	2001
By maturity-			
Up to 3 months	6,206,559	5,873,377	6,739,692
3 months to 1 year	5,689,285	5,309,774	5,383,943
1 to 5 years	6,704,322	6,200,549	3,840,296
Over 5 years	13,475,839	9,990,244	8,207,957
	32,076,005	27,373,944	24,171,888
By loan type and status-			
Commercial bills	3,970,843	3,399,081	3,278,264
Financial bills	-	3,990	-
Secured loans	13,300,732	9,830,532	7,660,230
Assets acquired under resale agreement (Note 5)	2,360,368	2,394,760	1,469,729
Other term loans	10,997,187	10,295,732	10,359,171
Overdrafts and other	482,661	605,171	602,654
Financial leases	704,724	582,931	560,977
Doubtful assets	259,490	261,747	240,863
	32,076,005	27,373,944	24,171,888

As of December 31, 2003, 2002 and 2001, there were no loans for material amounts without fixed maturity dates.

From 1999 to 2003 the Bank securitized loans amounting to approximately €4,016 thousand and all the securities issued were subscribed by securitization funds (set up by Santander de Titulización, Sociedad Gestora de Fondos de Titulización, S.A.). As of December 31, 2003, 2002 and 2001, the securitization bonds outstanding at those dates issued by these Funds (the total face value of which amounted to €1,257,508 thousand, €1,421,343 thousand and

€1,066,220 thousand, respectively) were owned by the Group (see Note 8).

Leased assets are reflected in the "Financial Leases" account in the foregoing detail at the principal amount of the lease payments outstanding, excluding financial charges and VAT, plus the residual value at which the purchase option may be exercised.

The advances and loans granted by the Group to the members of the Bank's Board of Directors as of December 31, 2003, 2002 and 2001, amounted to €74 thousand, €731 thousand and €590 thousand, respectively. These transactions earned average annual interest of 0.25%, 1.97%, and 2.07%, respectively, and had average maturities of three to ten years. No loan repayments were made in 2002. €111 thousand and €14 thousand of these loans were repaid in 2003 and 2001, respectively. Also, as of December 31, 2003, 2002 and 2001, these borrowers were the guarantors of other loans amounting to €480 thousand, €949 thousand and €939 thousand, respectively. These are ordinary operating transactions of the Group.

As of December 31, 2003, 2002 and 2001, the Group had recorded loans amounting to €86,216 thousand, €84,590 thousand and €87,030 thousand, respectively, relating to the financing granted to its employees for the acquisition of shares of Banco Español de Crédito, S.A. and of Banco Santander Central Hispano, S.A.

In addition, the Bank has in certain cases financed acquisitions of its shares by third parties, and granted loans to third parties secured by shares of the Bank or of Banco Santander Central Hispano, S.A. As of December 31, 2003, 2002 and 2001, these financing and guarantee arrangements, net of the credit loss allowance, amounted to €4,261 thousand, €8,835 thousand and €8,114 thousand, respectively, and a restricted reserve was recorded for the book value thereof, net of the related credit loss allowance, as required by Articles 75, 79, 80 and 81 of the revised Corporations Law (see Note 24).

Credit loss allowance

The variations in 2003, 2002 and 2001 in the balances of the credit loss allowance were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	651,580	574,540	516,671
Add- Net provisions charged to income for the year-			
Period provision	245,973	215,676	224,077
Allowance released	(32,563)	(53,081)	(22,902)
	213,410	162,595	201,175
Add / (Less)-			
Transfers to "Provisions for Property and Equipment" (Note 13)	(2,121)	(1,068)	(1,310)
Transfers to "Credit Loss Allowance for Debentures and Other Fixed-Income Securities" (Note 8)	-	-	(13,360)
Bad debt write-offs and other net variations	(59,112)	(84,487)	(128,636)
Balances at year-end	803,757	651,580	574,540

The €42,210 thousand, €44,985 thousand and €55,188 thousand, respectively, of written-off assets recovered and the €175 thousand, €650 thousand and €746 thousand, respectively, of direct loan write-offs in 2003, 2002 and 2001 are presented as a reduction of and as an addition to, respectively, the balance of the "Write-offs and Credit Loss Provisions" caption in the consolidated statements of income for those years.

8. Debentures and other fixed-income securities

The breakdown, by currency, listing status, type and issuer sector, of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency-			
In euros	3,226,029	3,587,704	4,414,133
In foreign currencies	136,906	289,007	320,781
	3,362,935	3,876,711	4,734,914
By listing status-			
Listed securities	3,339,563	3,812,862	4,662,372
Unlisted securities	23,372	63,849	72,542
	3,362,935	3,876,711	4,734,914
By type-			
Public-sector securities	18,258	18,742	18,323
Bonds and debentures	2,269,119	2,587,399	1,707,505
Corporate promissory notes	-	-	14,715
Other securities	1,075,558	1,270,570	2,994,371
	3,362,935	3,876,711	4,734,914
By issuer sector-			
Public authorities	18,258	18,742	18,323
Official credit institutions	2,582	1,340	89
Other resident credit institutions	422,522	377,306	68,742
Other resident sectors	1,360,143	1,567,880	1,722,220
Nonresidents	1,559,430	1,911,443	2,925,540
	3,362,935	3,876,711	4,734,914
Less- Security price fluctuation allowance (Note 2-d)	(654)	(66)	(83)
Less- Credit loss allowance (Note 7)	(7,950)	(11,584)	(13,360)
	3,354,331	3,865,061	4,721,471

As of December 31, 2003, 2002 and 2001, the "Bonds and Debentures" caption in the foregoing table included, inter alia, the bonds issued by Fondo de Titulización Hipotecaria Banesto 1, Banesto 2, Banesto 3, Banesto 4 and Fondo de Titulización FTPYME Banesto I (see Note 7). The average annual interest rate on these bonds was 4%, 4.3% and 4.9% in 2003, 2002 and 2001, respectively. €1,043,559 thousand, €1,239,444 thousand and €1,469,239 thousand of these assets had been pledged to the Bank of Spain for the secured lending system as of December 31, 2003, 2002 and 2001, respectively (see Note 16).

The book and market values of the amounts included in this caption of the consolidated balance sheets as of those dates were as follows:

Thousands of Euros						
	DECEMBER 31, 2003		DECEMBER 31, 2002		DECEMBER 31, 2001	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Trading portfolio	363,904	363,904	439,344	439,344	257,473	257,473
Available-for-sale securities portfolio	2,647,609	2,712,465	3,078,611	3,158,765	4,112,454	4,146,324
Held-to-maturity investment portfolio	342,818	361,790	347,106	368,316	351,544	356,366
	3,354,331	3,438,159	3,865,061	3,966,425	4,721,471	4,760,163

The average annual interest rate of the fixed-income securities on hand as of December 31, 2003, 2002 and 2001, was 3.4%, 4.0% and 4.7%, respectively. The effect of discounting to present value the fixed-income securities with an interest rate lower than the average cost of the Group's borrowed funds is not material.

The total balance of the "Public-Sector Securities" account relates to securities issued by the Spanish public sector.

€477,255 thousand of the total fixed-income securities on hand as of December 31, 2003, mature in 2004.

The variations in the balance of the available-for-sale securities portfolio and the held-to-maturity investment portfolio of this caption in the consolidated balance sheets, disregarding the security price fluctuation allowance and the credit loss allowance, were as follows:

Thousands of Euros	
Balance at January 1, 2001	3,383,588
Purchases	7,034,354
Sales, redemptions and other	(6,053,475)
Variation due to adjusted acquisition cost (Note 2-d)	112,974
Balance at December 31, 2001	4,477,441
Purchases	3,799,323
Sales, redemptions and other	(4,995,041)
Variation due to adjusted acquisition cost (Note 2-d)	155,644
Balance at December 31, 2002	3,437,367
Purchases	911,691
Sales, redemptions and other	(1,486,493)
Variation due to adjusted acquisition cost (Note 2-d)	136,466
Balance at December 31, 2003	2,999,031

The variations in the balances of the "Security Price Fluctuation Allowance" account in 2003, 2002 and 2001 were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	66	83	84
Add/(Less)- Net provision/release charged /credited to income for the year	588	(30)	-
Add/(Less)- Amounts used for sales, write-downs and other	-	13	(1)
Balances at the end of the year	654	66	83

9. Common stocks and other equity securities

This caption in the consolidated balance sheets includes the shares of companies less than 3% owned, if listed, and less than 20% owned, if unlisted, by the Group, and units in capital market mutual funds. The detail of the balances of this caption as of December 31, 2003, 2002 and 2001, by currency and listing status, is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency:			
In euros	496,522	380,686	293,596
	496,522	380,686	293,596
By listing status:			
Listed securities (*)	443,748	336,670	248,222
Unlisted securities	52,774	44,016	45,374
	496,522	380,686	293,596
Less- Security price fluctuation allowance	(5,798)	(10,688)	(9,977)
	490,724	369,998	283,619

(*) Including €8,213 thousand, €4,386 thousand and €11,795 thousand of investments in credit institutions.

The variations in the balances of this caption in the consolidated balance sheets, disregarding the security price fluctuation allowance, were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	380,686	293,596	283,269
Purchases and subscriptions	6,447,636	8,139,686	8,229,712
Sales and redemptions	(6,331,800)	(8,052,596)	(8,219,385)
Balances at year-end	496,522	380,686	293,596

Most of the additions and retirements related to purchases and sales of units in capital market mutual funds and to variations in the trading portfolio.

As of December 31, 2003, 2002 and 2001, the book and market values of the foregoing balances, classified as either trading or available-for-sale securities portfolio, were as follows:

Thousands of Euros						
	December 31, 2003		December 31, 2002		December 31, 2001	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Available-for-sale securities portfolio	139,188	149,120	77,154	84,916	111,951	118,496
Trading portfolio	351,536	351,536	292,844	292,844	171,668	171,668
	490,724	500,656	369,998	377,760	283,619	290,164

The variations in the balances of the "Security Price Fluctuation Allowance" account in 2003, 2002 and 2001 were as follows:

Thousands of Euros			
	2003	2002	2001
Balances at the beginning of the year	10,688	9,977	9,353
Add- Net provision/(release) charged/(credited) to income for the year --			
Period provision	598	2,012	5,394
Allowance released	(417)	(299)	(3,153)
	181	1,713	2,241
Less- Amounts used for sales, write-downs and other	(5,071)	(1,002)	(1,617)
Balances at year-end	5,798	10,688	9,977

10. Investments in non-Group companies

This caption in the consolidated balance sheets reflects the Group's investments in associated companies, i.e. companies which, although not part of the economic group, have a lasting relationship with the Group, as defined in Bank of Spain Circular 4/1991.

The detail of the balances of this caption, by currency and listing status, as of December 31, 2003, 2002 and 2001, is as follows:

Thousands of Euros			
	2003	2002	2001
Unlisted securities denominated in euros	48,689	57,986	57,231
Less- Security price fluctuation allowance	(14,893)	(14,956)	(30,908)
	33,796	43,030	26,323

Exhibit III lists these investee companies as of December 31, 2003, showing the percentages of direct and indirect ownership by the Group and other relevant information.

The variations in 2003, 2002 and 2001 in the balances of this caption in the consolidated balance sheets, disregarding the security price fluctuation allowance, were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	57,986	57,231	57,816
Additions	774	1,487	424
Retirements	(10,071)	(732)	(1,009)
Balances at year-end	48,689	57,986	57,231

The variations in the balances of the "Security Price Fluctuation Allowance" account in 2003, 2002 and 2001 were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	14,956	30,908	36,080
Add/(Less)- Net provision/(release) charged/(credited) to income for the year	(284)	-	(64)
Add/(Less)- Amounts used for sales, write-downs and other	221	(15,952)	(5,108)
Balances at year-end	14,893	14,956	30,908

11. Investments in Group companies

This caption in the consolidated balance sheets reflects the investments in Group companies more than 50% owned which are not fully or proportionally consolidated because their business activities are not directly related to those of the Group. The percentages of the Group's direct and indirect ownership in these companies at 2003 year-end and other relevant information are disclosed in Exhibit II.

As of December 31, 2003, 2002 and 2001, no significant capital increases were in the process of subscription and there were no investments in credit institutions.

The breakdown, by currency and listing status, of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency:			
In euros	535,009	491,230	460,037
In foreign currencies	-	18	1,914
	535,009	491,248	461,951
By listing status:			
Listed securities	332,411	299,616	280,013
Unlisted securities	202,598	191,632	181,938
	535,009	491,248	461,951
Less- Security price fluctuation allowance	(29,963)	(38,411)	(42,247)
	505,046	452,837	419,704

The variations in 2003, 2002 and 2001 in the balances of this caption in the consolidated balance sheets, disregarding the security price fluctuation allowance, were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	491,248	461,951	420,685
Additions	55,154	52,635	66,658
Retirements	(11,393)	(23,338)	(25,392)
Balances at year-end	535,009	491,248	461,951

The salient events which gave rise to the variations in the investments in Group companies in 2003, 2002 and 2001 were as follows:

2003

- Contributions of €8,124 thousand to offset losses at Hualle, S.A. and of €1,419 thousand to offset losses at Mercado de Dinero, S.A.
- Contribution of 48.97% of the capital on the formation of Wex Point España, S.L.
- Subscription, on a capital increase, to 50.97% of the capital of Wex Point Finance, S.L.
- Increase in the value of the investments accounted for by the equity method as a result of the income generated by them in the year.

5. Sale to third parties outside the Group of 99.87% of the capital stock of Uniseco, S.A.

2002

1. Dissolution with liquidation of Brightsun Ltd.
2. Subscription of the capital increases of Inversiones Turísticas, S.A. and Costa Canaria de Veneguera, S.A.
3. Sale to third parties outside the Group of 80% the capital stock of Alfabeto 98, S.A.
4. Elerco, S.A. was fully consolidated for the first time.
5. Increase in the value of the investments accounted for by the equity method as a result of the income generated by them in the year.

2001

1. Sale to third parties outside the Group of all the capital stock of Variations International, S.A.
2. Dissolution without liquidation, pursuant to Article 266 of the Spanish Corporations Law, of Dolman, S.A. and Compañía Española Productora de Algodón Nacional, S.A., through the overall transfer of the assets and liabilities to their sole shareholder, Banco Español de Crédito, S.A.
3. Reduction of the par value of the shares of Inmobiliaria Urbis, S.A. from €1.30 to €1.19 per share.
4. Increase in the value of the investments accounted for by the equity-method as a result of the income generated by them in the year.

The variations in the balances of the "Security Price Fluctuation Allowance" account in 2003, 2002 and 2001 were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	38,411	42,247	54,947
Less- Net release credited to income for the year	(425)	(249)	(991)
Less- Amounts used in sales, write-downs and other	(8,023)	(3,587)	(11,709)
Balances at year-end	29,963	38,411	42,247

Exhibit IV shows the notifications made by the Group as required by Article 86 of the revised Corporations Law and Article 53 of Securities Market Law 24/1988.

12. Intangible assets

The variations in the balances of this caption in the consolidated balance sheets were as follows:

	Thousands of Euros	
	Incorporation and Preopening Expenses	Other Deferred Charges
Balances at January 1, 2001	71	28,597
Additions	34	37,455
Retirements	(1)	(877)
Amortization (Note 2-f)	(25)	(3,803)
Balances at December 31, 2001	79	61,372
Additions	10	13,930
Retirements	(34)	(174)
Amortization (Note 2-f)	(33)	(6,033)
Balances at December 31, 2002	22	69,095
Additions	21	3,149
Retirements	-	(142)
Amortization (Note 2-f)	(16)	(7,700)
Balances at December 31, 2003	27	64,402

13. Property and equipment

The variations in 2003, 2002 and 2001 in the balances of the "Property and Equipment" accounts and in the related accumulated depreciation were as follows:

	Thousands of Euros			
	Land and Buildings for Own Use	Other Property (*)	Furniture Fixtures and Other	Total
Revalued cost-				
Balances at January 1, 2001	396,596	388,699	1,029,641	1,814,936
Additions	10,326	40,855	123,287	174,468
Retirements	(9,292)	(160,349)	(81,393)	(251,034)
Balances at December 31, 2001	397,630	269,205	1,071,535	1,738,370
Additions	19,280	19,719	384,919	423,918
Retirements	(16,959)	(75,463)	(786,619)	(879,041)
Balances at December 31, 2002	399,951	213,461	669,835	1,283,247
Additions	19,546	24,188	91,590	135,324
Retirements	(10,629)	(62,403)	(77,878)	(150,910)
Balances at December 31, 2003	408,868	175,246	683,547	1,267,661
Accumulated depreciation and provisions (Note 2-h)-				
Balances at January 1, 2001	71,433	186,625	658,103	916,161
Net provisions (releases)	7,979	(35,919)	71,600	43,660
Retirements	(1,801)	(33,643)	(44,470)	(79,914)
Transfers from "Credit Loss Allowance" (Note 7)	-	1,310	-	1,310
Transfer from "Specific Allowance for Other Assets" (Note 14)	-	12,417	-	12,417
Balances at December 31, 2001	77,611	130,790	685,233	893,634
Net provisions (releases)	7,897	(17,164)	78,287	69,020
Retirements	(2,174)	(3,260)	(452,466)	(457,900)
Transfers from "Credit Loss Allowance" (Note 7)	-	1,068	-	1,068
Balances at December 31, 2002	83,334	111,434	311,054	505,822
Net provisions (releases)	8,004	(12,039)	79,103	75,068
Retirements	(2,567)	(10,416)	(40,669)	(53,652)
Transfers from "Credit Loss Allowance" (Note 7)	-	2,121	-	2,121
Balances at December 31, 2003	88,771	91,100	349,488	529,359
Net book value as of December 31, 2003	320,097	84,146	334,059	738,302
Net book value as of December 31, 2002	316,617	102,027	358,781	777,425
Net book value as of December 31, 2001	320,019	138,415	386,302	844,736

(*) Approximately 56.86%, 60.75% and 69.17% of the balance of "Revalued Cost" and 76.65%, 81.05% and 92.95% of the balance of "Accumulated Depreciation and Provisions" as of December 31, 2003, 2002 and 2001, respectively, relate to property and equipment acquired through foreclosure of other assets (see Note 2-h).

As of December 31, 2003, 2002 and 2001, the Group had no rights on leased assets.

The Bank and one of the nonconsolidable Spanish Group companies revalued their property and equipment pursuant to Royal Decree-Law 7/1996 and to previous revaluation laws.

14. Other assets

The detail of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Tax receivables (*)	529,045	495,190	399,015
Options purchased	276,132	257,166	26,700
Checks drawn on credit institutions	103,023	118,173	97,143
Insurance contract linked to pension and similar obligations (**)	1,318,108	1,278,602	1,274,649
Difference due to assignment of investments of assets under pension-related insurance contracts (**)	347,234	362,797	405,222
Items to be adjusted for futures transactions	687,310	603,248	396,644
Other items	282,112	255,579	341,361
Less- Specific allowance for other assets	(152,329)	(159,725)	(160,937)
	3,390,635	3,211,030	2,779,797

(*) Including deferred tax assets amounting to €503,236 thousand, €463,306 thousand and €356,320 thousand at December 31, 2003, 2002 and 2001, respectively (see Notes 2-m and 25).

(**) See Notes 2-j and 20.

The variations in the balances of the "Specific Allowance for Other Assets" account in 2003, 2002 and 2001 were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	159,725	160,937	159,551
Add/(Less)-			
Transfer to/from "Provisions for Contingencies and Expenses - Other Provisions" (Note 20)	(3,896)	(1,398)	13,794
Transfer to "Allowances for Property and Equipment" (Note 13)	-	-	(12,417)
Net release credited to income (Note 30)	(4,120)	(2,007)	(13,511)
Amounts used, write-downs and other	620	2,193	13,520
Balances at year-end	152,329	159,725	160,937

15. Accrual accounts

The detail of the balances of the asset and liability "Accrual Accounts" captions in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Asset accrual accounts-			
Prepaid interest on funds taken at a discount	10	18	28
Unmatured accrued interest revenues on investments not taken at a discount	363,034	323,681	409,508
Prepaid expenses	7,694	3,685	1,811
Other accruals (*)	595,352	596,511	509,933
	966,090	923,895	921,280
Liability accrual accounts-			
Interest revenues collected early on investments taken at a discount	69,601	55,961	38,058
Unmatured costs incurred on funds not taken at a discount	242,869	228,153	191,129
Accrued expenses	123,126	123,252	94,902
Other accrual accounts	430,447	510,906	345,494
	866,043	918,272	669,583

(*) Including €144,561 thousand, €203,585 thousand and €238,518 thousand paid in business acquisitions from Banco Santander Central Hispano, S.A. relating to the market price of the unamortized financial assets and liabilities as of December 31, 2003, 2002 and 2001.

16. Due to credit institutions

The breakdown, by currency and type of transaction, of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency-			
In euros	12,157,892	11,459,216	9,203,756
In foreign currencies	1,406,539	842,725	1,564,471
	13,564,431	12,301,941	10,768,227
By type-			
Demand deposits-			
Current accounts	113	3,345	1,894
Other accounts	492,557	237,262	166,246
	492,670	240,607	168,140
Other deposits-			
Bank of Spain-			
Credit account drawdowns	915,473	1,000,022	957,927
Assets sold under repurchase agreement (Note 5)	-	1,249,995	-
	915,473	2,250,017	957,927
Time deposits	3,161,436	4,708,150	4,566,413
Assets sold under repurchase agreement (Note 5)	8,630,701	4,637,899	4,847,762
Other accounts	364,151	465,268	227,985
	13,071,761	12,061,334	10,600,087
	13,564,431	12,301,941	10,768,227

As of December 31, 2003, 2002 and 2001, the limit assigned by the Bank of Spain to the Group for the system of credit lines guaranteed by public-sector funds and other assets amounted to €1,017,470 thousand, €1,213,980 thousand and €1,570,420 thousand, respectively (see Notes 5 and 8).

The detail, by due date, of the balances of the "Other Deposits" account in the foregoing table, and of the average interest rates at those dates, is as follows:

	Thousands of Euros					
	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total	Average Interest Rate at Year-end
December 31, 2003						
Bank of Spain:						
Credit account drawdowns	915,473	-	-	-	915,473	2.0%
Time deposits	1,820,168	1,075,135	147,293	118,840	3,161,436	2.2%
Assets sold under repurchase agreement	7,477,188	1,153,513	-	-	8,630,701	2.1%
Other accounts	-	9,922	155,309	198,920	364,151	4.6%
	10,212,829	2,238,570	302,602	317,760	13,071,761	
December 31, 2002						
Bank of Spain:						
Credit account drawdowns	1,000,022	-	-	-	1,000,022	3.1%
Assets sold under repurchase agreement	1,249,995	-	-	-	1,249,995	3.2%
Time deposits	3,383,852	1,092,096	125,202	107,000	4,708,150	3.3%
Assets sold under repurchase agreement	4,313,956	323,943	-	-	4,637,899	3.0%
Other accounts	-	100	275,500	189,668	465,268	5.0%
	9,947,825	1,416,139	400,702	296,668	12,061,334	
December 31, 2001						
Bank of Spain:						
Credit account drawdowns	957,927	-	-	-	957,927	3.5%
Time deposits	2,880,757	1,543,642	142,014	-	4,566,413	3.8%
Assets sold under repurchase agreement	4,466,570	381,192	-	-	4,847,762	3.4%
Other accounts	-	-	43,550	184,435	227,985	5.4%
	8,305,254	1,924,834	185,564	184,435	10,600,087	

17. Customer deposits

The detail of the balances of this caption in the consolidated balance sheets, by currency and depositor sector, is as follows:

	Thousands of Euros		
	2003	2002	2001
By currency-			
In euros	27,211,631	23,859,836	22,883,556
In foreign currencies	1,426,403	1,641,315	1,654,912
	28,638,034	25,501,151	24,538,468
By depositor sector-			
Public authorities	5,350,316	2,261,758	1,049,986
Other residents	21,005,156	20,711,333	20,263,267
Nonresidents	2,282,562	2,528,060	3,225,215
	28,638,034	25,501,151	24,538,468

The detail, by geographical area, of the balances of the "Nonresidents" account as of December 31, 2003, 2002 and 2001, in the foregoing table, is as follows:

	Thousands of Euros		
	2003	2002	2001
Other EU countries	767,599	621,133	1,435,203
United States of America	145,546	88,976	101,117
Other OECD countries	541,295	198,433	212,864
Latin America	721,412	1,441,559	1,300,584
Other countries	106,710	177,959	175,447
	2,282,562	2,528,060	3,225,215

The detail, by type, of the balances of the "Other Residents" account as of December 31, 2003, 2002 and 2001, in the foregoing table, is as follows:

	Thousands of Euros		
	2003	2002	2001
Demand deposits	6,011,397	4,648,181	4,542,769
Savings deposits	5,273,747	4,727,414	4,599,277
Time deposits	4,282,397	4,807,128	4,410,680
Assets sold under repurchase agreement (Note 5)	5,437,615	6,525,074	6,704,013
Other accounts	-	3,536	6,528
	21,005,156	20,711,333	20,263,267

The detail, by due date, of the balances of the "Savings Deposits - Time" and "Other Deposits - Time" captions in the accompanying consolidated balance sheets as of December 31, 2003, 2002 and 2001, is as follows:

	Thousands of Euros		
	2003	2002	2001
Savings deposits - Time-			
Up to 3 months	3,215,274	3,840,571	5,013,587
3 months to 1 year	2,149,081	2,821,211	37,969
1 to 5 years	661,893	153,185	1,214,712
Over 5 years	-	-	32,126
	6,026,248	6,814,967	6,298,394
Other deposits - Time-			
Up to 3 months	6,456,419	7,484,598	6,462,511
3 months to 1 year	1,073,612	909,608	1,688,450
1 to 5 years	170,679	208,958	104,429
Over 5 years	-	-	47,056
	7,700,710	8,603,164	8,302,446

18. Other liabilities

The detail of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Allowance for income lock-in	262,334	276,902	309,613
Tax collection accounts	499,507	565,354	538,296
Items to be adjusted arising from futures transactions	741,083	593,720	284,879
Options written	303,780	240,534	164,243
Sundry payables (consignments, guarantees, etc.)	235,574	361,708	206,846
Other items	413,322	181,887	178,244
	2,455,600	2,220,105	1,682,121

The variations in 2003, 2002 and 2001 in the balances of the "Provisions for Contingencies and Expenses" caption in the consolidated balance sheets were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	276,902	309,613	132,005
Add/(Less)-			
Net release credited to income for the year (Note 30)	(67,290)	(48,523)	(37,245)
Sale of branches to Banco Santander Central Hispano, S.A. (Note 29)	-	24,405	214,802
Other variations	52,722	(8,593)	51
Balances at year-end	262,334	276,902	309,613

19. Marketable debt securities

The balances of this caption in the consolidated balance sheets as of December 31, 2003, 2002 and 2001, relate to bonds and debentures issued by Banesto Issuances Ltd., which bore average annual interest of 2.6%, 3.4% and 3.5% for the years then ended, respectively, and to the face value of the mortgage bonds issued by the Bank on March 22, 2002 and May 12, 2003 amounting to €1,000 million and €1,500 million, respectively. These mortgage bonds bear fixed annual interest of 5.75% and 4%, respectively, payable annually, and mature on March 27, 2017 and May 12, 2010, although the issuer has an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage bonds stipulated by mortgage market regulations.

Of those securities, €1,004,002 thousand mature in 2004.

20. Provisions for contingencies and expenses

The breakdown of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Pension allowance (Note 2-)	2,409,433	2,390,073	2,316,694
Other provisions-			
Allowance for off-balance-sheet risks (Note 2-c)	71,169	60,720	57,555
Other provisions	296,208	330,523	367,725
	367,377	391,243	425,280
	2,776,810	2,781,316	2,741,974

The balance of the "Other Provisions" account in the foregoing table relates basically to provisions recorded to cover specific liabilities of a certain or contingent nature.

The variations in 2003, 2002 and 2001 in the balances of the "Provisions for Contingencies and Expenses" caption in the consolidated balance sheets were as follows:

Thousands of Euros						
	2003		2002		2001	
	Pension Allowance	Other Provisions	Pension Allowance	Other Provisions	Pension Allowance	Other Provisions
Balances at the beginning of the year	2,390,073	391,243	2,316,694	425,280	2,104,596	375,913
Add/ (Less)–						
Net provisions charged to period income	129,818 (*)	5,796	137,160 (*)	5,216	122,799 (*)	65,291
Provision for commitments to employees taking early retirement–						
Charged to unrestricted reserves (Notes 1, 2-j and 24)	74,360	-	144,430	-	175,791	-
Charged to prepaid taxes (Notes 1, 2-j and 25)	40,040	-	77,770	-	94,657	-
Variation in net level premium reserves at insurance companies	(19,422)	-	(38,472)	-	(30,625)	-
Transfer from/to "Specific Allowance for Other Assets" (Note 14)	-	3,896	-	1,398	-	(13,794)
Payments to pensioners and early retirees (Note 2-j)	(202,136)	-	(176,878)	-	(158,938)	-
Transfer from/to "Other Provisions"	-	-	-	-	8,414	(8,414)
Other transfers, amounts used, write-downs, recoveries and other	(3,300)	(33,558)	(70,631)	(40,651)	-	6,284
Balances at year-end	2,409,433	367,377	2,390,073	391,243	2,316,694	425,280

(*) Of which €89,899 thousand, €93,128 thousand and €81,435 thousand relate to the financial cost allocated to the recorded pension allowance, €12,874 thousand, €14,501 thousand and €15,735 thousand to personnel expenses and €27,045 thousand, €29,531 thousand and €25,629 thousand to extraordinary losses for the years 2003, 2002 and 2001, respectively (see Notes 2-j and 30).

21. Subordinated debt

The detail of the balances of this caption in the consolidated balance sheets is as follows:

Issuer	Thousands of Euros			Currency	Interest Rate	Maturity
	2003	2002	2001			
Banesto Finance, Ltd.-						
Subordinated bonds	143,309	172,595	205,379	USD	3-month Libor + 0.5% for the first year and between 0.875% and 1.4% thereafter	Perpetual (*)
Subordinated bonds	118,765	143,034	170,203	USD	7.5%	March 2007
Subordinated bonds	-	152,449	152,449	EUR	5.25%	June 2008
Banesto Delaware, Ltd.-						
Subordinated bonds	-	-	170,203	USD	8.25%	July 2002
Banesto Banco Emisiones, S.A						
Subordinated debentures	500,000	-	-	EUR	3-month Euribor + 0.4%	Sept. 2013
	762.074	468.078	698.234			

(*) Cancelable from October 21, 2010, or before that date with prior written authorization from the Bank of Spain.

These are subordinated issues and, therefore, for debt seniority purposes they are junior to all general creditors. None of these issues is convertible into Bank shares. The issues are guaranteed by Banco Español de Crédito, S.A., at which the funds raised are deposited.

The total charge to income for the cost of subordinated debt in 2003, 2002 and 2001 amounted to €20,311 thousand, €32,603 thousand and €45,952 thousand, respectively.

22. Consolidation goodwill, negative consolidation difference and minority interests

The detail, by company, of the balances of these captions in the accompanying consolidated balance sheets is as follows:

Consolidation Goodwill		Thousands of Euros		
	2003	2002	2001	
Proportionally consolidated company-				
Wex Point Finance, S.L.	1,917	-	-	
	1,917	-	-	
Fully consolidated companies-				
Banesto Bolsa, S.A., S.V.B.	-	17	85	
Banco de Vitoria, S.A.	2,750	3,337	3,363	
Corporación Industrial y Financiera de Banesto, S.A.	1,060	1,233	1,406	
	3,810	4,587	4,854	
	5,727	4,587	4,854	
Negative Consolidation Difference		Thousands of Euros		
	2003	2002	2001	
Proportionally consolidated companies:				
SCH Gestión S.G.I.I.C., S.A.	5,030	5,030	5,030	
Ingeniería de Software Bancario, S.L.	10,345	13,410	-	
	15,375	18,440	5,030	
Minority Interests		Thousands of Euros		
	2003	2002	2001	
Deposit institutions:				
Banco de Desarrollo Económico Español, S.A.	-	24	27	
Banco de Vitoria, S.A.	371	352	2,066	
Other:				
Corporación Industrial y Financiera de Banesto, S.A.	661	618	624	
Banesto Holdings, Ltd.	56,044	67,325	77,558	
Aljarafe Golf, S.A.	2,409	2,537	2,878	
Banesto Preferentes, S.A.	131,144	-	-	
Oil-Dor, S.A.	13	13	12	
	190,642	70,869	83,165	

The variations in 2003, 2002 and 2001, in the balances of these captions in the consolidated balance sheets were as follows:

Consolidation Goodwill		Thousands of Euros	
	2003	2002	2001
Balances at the beginning of the year	4,587	4,854	15,094
Additions	2,018	522	40
Amortization	(878)	(789)	(3,014)
Other variations	-	-	(7,266)
Balances at year-end	5,727	4,587	4,854

Negative Consolidation Difference		Thousands of Euros	
	2003	2002	2001
Balances at the beginning of the year	18,440	5,030	5,030
Additions	-	15,326	-
Retirements	(3,065)	(1,916)	-
Balances at year-end	15,375	18,440	5,030

Minority Interests		Thousands of Euros	
	2003	2002	2001
Balances at the beginning of the year	70,869	83,165	82,923
Inclusion and exclusion of new companies in/from the Group and change in percentages of ownership	131,078	(2,063)	(106)
Exchange differences and other	(11,305)	(10,233)	348
Balances at year-end	190,642	70,869	83,165

The "Minority Interests" in Banesto Holdings Ltd. relate basically to the US\$ 100 million nonvoting preferred stock issue launched by this company in 1992, which is guaranteed by the Bank and carries entitlement to a fixed annual dividend of 10.5%. These shares are fully or partially redeemable at the issuer's option, subject to prior consent by the Bank of Spain. The balance outstanding as of December 31, 2003, 2002 and 2001, amounted to US\$ 77,295,400.

The "Minority Interests" in Banesto Preferentes, S.A. relate to the €131,144 thousand non-voting preferred stock issue launched by this company in December 2003, which is secured by the Bank and carries entitlement to an annual dividend of Euribor + 0.20%. These shares are fully or partially redeemable from December 2008 at the issuer's option and subject to prior consent by the Bank of Spain.

23. Capital stock and treasury stock

As of December 31, 2003, the capital stock of Banco Español de Crédito, S.A., the only capital stock included in the accompanying consolidated balance sheet as a result of the consolidation process, consisted of 694,330,098 fully subscribed and paid registered shares of €1.77 par value each (694,330,098 and 612,659,404 shares of €2.03 and €2.18 par value each as of December 31, 2002 and 2001, respectively), all with identical voting and dividend rights and listed on the Spanish stock exchanges. On February 24, 2001, May 30, 2002 and February 4, 2003, the Bank's Shareholders' Meetings resolved to reduce the capital stock by €0.12, €0.15 and €0.26 per share, respectively.

As of December 31, 2003, the Bank's majority shareholder was the Santander Central Hispano Group, which held 88.60% of the Bank's capital stock (88.46% and 98.57% as of December 31, 2002 and 2001, respectively).

2003-

On February 4, 2003, the Bank's Shareholders' Meeting resolved to reduce the par value of the shares by €0.26 to €1.77 per share and to modify the Bank's bylaws accordingly. Also, this Shareholders' Meeting authorized the Board of Directors for the purpose of the derivative acquisition of shares and its Parent Company by the Bank and its subsidiaries within the legally stipulated limits during a maximum period of 18 months from the date of the Shareholders' Meeting. Additionally, the Shareholders' Meeting resolved to authorize the Board of Directors to increase the Bank's capital stock, at one or several times, by up to one-half of the capital stock existing at the time of grant of this authorization, with or without additional paid-in capital, through the issuance of voting or nonvoting shares, within the periods and in the terms stipulated by the applicable legislation, amending, as appropriate, Article 5 of the bylaws.

On February 4, 2003, the Board of Directors of Banco Español de Crédito, S.A. resolved to deliver 85 Bank shares free of charge to all of its employees, for which purpose the Bank's treasury stock was used.

On April 23, 2003, the Board of Directors of Banco Español de Crédito, S.A. resolved to pay €0.26 per share on May 20, 2003, as a refund of contributions due to capital reduction, through the reduction by this amount of all the Bank's shares outstanding.

As of December 31, 2003, the Bank held 100,192 shares of treasury stock for the purpose of delivering to the shareholders of Banco de Vitoria, S.A. the shares resulting from the exchange ratio established in the Merger Plan (see Note 1) and another Group company held 970,094 Bank shares with an acquisition cost, net of the required allowance, of €4,398 thousand (see Note 24).

On January 13, 2004, the Bank's Board of Directors resolved to submit for approval by the Shareholders' Meeting a capital reduction of €0.29 per share, by way of refund to the shareholders. Following this reduction, the Bank's capital stock will amount to €1,027,608,545, consisting of 694,330,098 shares of €1.48 par value each. Additionally, the Board resolved to submit for approval by the Shareholders' Meeting the authorization for the derivative acquisition of own shares by the Bank and its subsidiaries and the delegation of powers to the Board of

Directors for the issuance of fixed-income securities convertible into and/or exchangeable for Bank shares, and of warrants or other similar securities carrying the right to subscribe or acquire Bank shares.

2002-

On October 1, 2002, the Board of Directors of Banco Español de Crédito, S.A. resolved to increase the Bank's capital stock by €165,823,769.58 through the issuance and placement of 81,686,586 new shares of €2.03 par value each. The issue took place at par, i.e. at a price of €2.03 per share, without additional paid-in capital. 81,670,694 shares were finally subscribed. They all belong to the same class and series as the shares outstanding at that date, and are represented by book entries and numbered sequentially from 612,659,405 through 694,330,098. Accordingly, the shares have the same voting and dividend rights as the outstanding shares, and will carry entitlement to a share in corporate earnings and in net assets resulting from liquidation from the time that the Board of Directors declares the capital increase to have been subscribed to and paid. Accordingly, the shares to be issued will carry the right to receive such interim and final dividends as may be paid to the Bank's shareholders from that time.

On May 30, 2002, the Shareholders' Meeting resolved to reduce the par value of the shares by €0.15 to €2.03 per share and modify the Bank's bylaws accordingly. This amount was paid to shareholders on September 19, 2002. In addition, this Meeting authorized the Board of Directors for the purpose of the derivative acquisition of own shares by the Bank and its subsidiaries within the legally stipulated limits during a maximum period of 18 months from the date of that Shareholders' Meeting, revoking the resolutions adopted by the Bank's Special Shareholders' Meeting on December 27, 2001 to delist all the shares composing the Bank's capital stock and to prepare a tender offer to purchase them.

As of December 31, 2002, the Bank owned 10,000 shares of treasury stock for the purpose of delivering to the shareholders of Banco de Desarrollo Económico Español, S.A. the shares resulting from application of the share exchange ratio established in the Merger Plan (see Note 1), and another Group company held 830,000 shares of Banco Español de Crédito, S.A. the acquisition cost of which amounted to €6,109 thousand. These shares are recorded under the "Treasury Stock" caption in the consolidated balance sheet as of that date, net of a specific allowance of €2,959 thousand (see Note 24).

24. Reserves, reserves at consolidated companies, losses at consolidated companies and income attributed to minority interests

The variations in 2003, 2002 and 2001 in the balances of the "Reserves", "Reserves at Consolidated Companies" and "Losses at Consolidated Companies" captions in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros		
	2003	2002	2001
Balances at the beginning of the year	777,573	500,422	296,664
Distribution of prior year's income	435,913	421,721	379,659
Net charge for early retirements (Notes 1, 2-j and 20)	(74,360)	(144,430)	(175,791)
Variation due to exchange differences at foreign companies (Note 2-b) and other variations	84	(140)	(110)
Balances at year-end	1,139,210	777,573	500,422

Reserves

The detail of the balances of this caption in the consolidated balance sheets is as follows:

	Thousands of Euros		
	2003	2002	2001
Restricted reserves-			
Legal reserve	173,606	113,159	96,217
Reserve for treasury stock acquired by the Bank (Notes 2-i and 23) and for loans to purchase shares of the Bank and of Banco Santander Central Hispano, S.A. (Note 7)	4,659	8,870	8,114
Reserve for redenomination of capital in euros	2,480	2,480	2,480
Unrestricted reserves	917,766	699,160	488,760
	1,098,511	823,669	595,571

Under Articles 75, 79, 80 and 81 of the revised Corporations Law, a restricted reserve was recorded for an amount equal to the book value of the financing and guarantees provided to third parties to acquire Bank or Banco Santander Central Hispano, S.A. shares, net of the related credit loss allowances. This reserve will become unrestricted when the circumstances which gave rise to its mandatory recording cease to exist.

Legal reserve

Under the revised Corporations Law, 10% of the income for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of capital stock. Until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves at consolidated companies and losses at consolidated companies

The detail, by company, of the balances of the reserves and losses at consolidated companies is as follows:

Reserves at Consolidated Companies

Thousands of Euros

	2003	2002	2001
Fully consolidated companies:			
A.G. Activos y Participaciones, S.A.	73,903	55,225	47,792
Corporación Industrial y Financiera de Banesto, S.A.	5,317	-	13,749
Banesto Bolsa, S.A., S.V.B.	31,889	24,736	24,113
Banco de Vitoria, S.A.	40,926	30,609	19,492
Dudebasa, S.A.	11,824	12,591	10,786
SCH Pensiones, E.G.F.P., S.A.	4,616	4,221	4,662
Oil-Dor, S.A.	8,212	4,030	211
Other companies	11,610	5,097	4,123
	188,297	136,509	124,928
Companies accounted for by the equity method:			
Banesto Seguros, S.A.	4,667	3,729	3,717
Sistemas 4B, S.A.	986	987	1,103
Crínaria, S.A.	6,336	6,131	6,142
Inmobiliaria Urbis, S.A.	22,697	1,050	-
Other companies	4,447	4,234	1,329
	39,133	16,131	12,291
	227,430	152,640	137,219

Losses at Consolidated Companies

Thousands of Euros

	2003	2002	2001
Fully consolidated companies:			
Grupo Inmobiliario La Corporación S.A.	12,267	12,260	9,868
Banesto Holding, Ltd.	7,532	8,044	8,055
Sercopyme, S.A.	34,526	35,014	35,413
Gedinver e Inmuebles, S.A.	29,402	30,620	38,517
Nordin, S.A.	18,712	24,320	39,829
Agrícola los Juncas, S.A.	334	1,478	4,634
Other companies	9,191	23,240	10,940
	111,964	134,976	147,256
Companies accounted for by the equity method:			
Dinsa, S.A.	23,778	12,466	13,968
Inmobiliaria Urbis, S.A.	-	-	22,513
Inversiones Turísticas, S.A.	15,168	15,274	15,262
Aparcamientos y Construcciones, S.A.	10,901	10,921	10,822
Other companies	24,799	24,894	22,482
	74,646	63,555	85,047
Translation differences (Note 2-b)	121	205	65
	186,731	198,736	232,368

€61,539 thousand €34,037 thousand and €38,568 thousand of the balances of the "Reserves at Consolidated Companies" caption in the consolidated balance sheets as of December 31, 2003, 2002, and 2001, respectively, relate to restricted reserves. As of December 31, 2003 and 2002, these restricted reserves included the restricted reserve recorded by a Group company which, as of those dates, held 970,094 and 830,000 shares of Banco Español de Crédito, S.A. (see Note 23).

Income attributed to minority interests

The detail, by company, of the balances of this caption in the consolidated statements of income is as follows:

	Thousands of Euros		
	2003	2002	2001
Banesto Holdings, Ltd.	7,013	8,366	9,047
Other companies	41	(32)	87
	7,054	8,334	9,134

25. Tax matters

Since 1999 the Bank has filed consolidated tax returns as part of the corporate Group of which Banco Santander Central Hispano, S.A. is the parent company (see Note 23).

The balance of the "Customer Deposits – Other Deposits" caption in the accompanying consolidated balance sheets includes the liability for the various applicable taxes.

As indicated in Notes 1, 2-j and 20, in 2003, 2002 and 2001 the Bank recorded prepaid tax of €40,040 thousand, €77,770 thousand and €94,657 thousand, respectively, for the salary commitments to early retirees through the date of their effective retirement.

Since 1999 the companies which through 1998 were part of the consolidated tax group headed by Banco Español de Crédito, S.A. have filed consolidated tax returns together with the consolidated tax Group headed by Banco Santander Central Hispano, S.A. Following is the estimated reconciliation of the income per books to the taxable income prepared on the assumption that the consolidated Group headed by Banco Español de Crédito, S.A. existed as of December 31, 2003, 2002 and 2001:

	Thousands of Euros		
	2003	2002	2001
Income per books	449,093	444,247	430,855
Permanent differences:			
Increases-			
Banco Español de Crédito, S.A.	176,125	108,198	370,591
Other individual companies and consolidation adjustments	50,607	72,343	62,439
Decreases-			
Banco Español de Crédito, S.A.	(68,598)	(263,120)	(218,991)
Other individual companies and consolidation adjustments	(13,556)	(12,048)	(174,143)
Timing differences:			
Increases	299,553	332,216	217,368
Decreases	(391,549)	(395,340)	(123,207)
Taxable income	501,675	286,496	564,912

However, the dividends of approximately €10,297 thousand, €12,591 thousand and €37,485 thousand as of December 31, 2003, 2002 and 2001, respectively, received from companies belonging to the consolidated tax group will be eliminated in the consolidated tax group's return. Also, positive adjustments of €61,637 and €32,929 thousand and negative adjustments of €185,623 thousand, respectively, will be made to income from intercompany transactions.

For the purpose of determining the corporate income tax expense recorded by the Group, regard should be had to the fact that the tax losses incurred at the Group companies before the extinction of the consolidated tax Group headed by Banco Español de Crédito, S.A. can only be carried forward for offset by the entities at which they arose. After filing the 2003, 2002 and 2001 tax returns, the tax losses qualifying for carryforward at the Banco Español de Crédito Group companies amounted to approximately €132,997 thousand, €133,421 thousand and €171,493 thousand, respectively.

In 2003 and 2002 the Banco Español de Crédito Group obtained gains on the transfer of assets for consideration of €93,895 and €48,631, respectively, to which the tax credit for reinvestment of extraordinary income stipulated in Article 36 ter of Corporate Income Tax Law 43/1995 is applicable. Also, Banco Español de Crédito, S.A., as the parent company of this Group, has requested from the State Tax Agency that the provisions of Article 21 of the aforementioned Law be applied to the Group for the years from 1996 through 2000, for the purposes of Transitory Provision Three of Law 24/2001 on Tax, Administrative, Labor and Social Security Measures.

The Bank has the years from 1999 open for review by the tax inspection authorities for corporate income tax and for the other main taxes. The Bank is currently undergoing a tax audit for corporate income tax and for the other main taxes applicable to it for 1999 and 2000. However, the Bank's directors and its tax advisers consider that the tax charge, if any, which might arise from these inspections by the tax authorities would not materially affect the consolidated financial statements for the years ended December 31, 2003, 2002 and 2001.

The varying interpretations which can be made of certain tax regulations applicable to the Group's operations might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's directors and its tax advisers consider that the tax charge, if any, which might arise from future inspections by the tax authorities would not materially affect the Group's financial statements for the years ended December 31, 2003, 2002 and 2001.

The Banco Español de Crédito Group companies included in the consolidated tax group, the parent company of which is Banco Santander Central Hispano, S.A., are Banco Español de Crédito, S.A., Corporación Industrial y Financiera de Banesto, S.A., Banesto Bolsa, S.A., S.V.B., and 41, 45 and 44 other companies, respectively, as of December 31, 2003, 2002 and 2001.

The other Group companies will file individual tax returns in accordance with the tax regulations applicable in their countries of residence.

In compliance with the requirements of Article 107 of Corporate Income Tax Law 43/1995, following is a disclosure of the data affecting the merger by absorption of Banco de Desarrollo Económico Español, S.A. (Bandesco) into Banco Español de Crédito, S.A., as discussed in Note 1:

- a) The depreciable assets of Banco del Desarrollo Económico Español, S.A. relate to its property and equipment and have been depreciated from the date of their acquisition, which was made during the life of this company, on the basis of the depreciation rates approved by Royal Decree 537/1997.
- b) The latest balance sheet of Banco del Desarrollo Económico Español, S.A. is attached hereto as Exhibit VII.
- c) No valuation differences arose on the inclusion of the assets of the transferor entity.
- d) In accordance with the provisions of Article 104 of Corporate Income Tax Law 43/1995, the absorbing entity is subrogated to all the applicable tax rights and obligations of the transferor entity and, in particular, to those provided for in Articles 21 and 36 ter of the aforementioned Law.

The information referred to in Article 107 of Corporate Income Tax Law 43/1995 on the transactions defined in Article 97 of this Law and carried out in 2001 was disclosed in the notes to 2001 financial statements to which we refer, in accordance with Article 107.3 of the Law.

In compliance with the requirements of Article 107 of Corporate Income Tax Law 43/1995, it is hereby noted that the assets to be acquired by Banco Español de Crédito, S.A. through the merger by absorption of Banco de Vitoria, S.A. (see Note 1) will be recorded in its books at the same book value as that which they had at Banco de Vitoria. Also, Banesto will be subrogated to all the tax rights and obligations existing as of January 1, 2003 and, in particular, to those affecting the tax benefits for reinvestment, the detail of which is shown in Note 21 of the notes to the 2002 financial statements of Banco de Vitoria, to which we refer.

26. Legal matters

On March 28, 1994, the Bank of Spain issued a resolution whereby it called for bids for the 73.45% of the capital stock of Banco Español de Crédito, S.A. relating to the capital increase of €1,081,822 thousand approved by the Special Shareholders' Meeting on March 26, 1994, which was fully subscribed by the Deposit Guarantee Fund.

As stipulated in the aforementioned auction conditions, the Deposit Guarantee Fund will be liable to Banco Santander, S.A. (currently Banco Santander Central Hispano, S.A.), as the successful bidder, and on behalf of Banco Español de Crédito, S.A., for the economic losses for the latter arising from any legal proceedings against it which may be initiated during a period of two years from the date of publication of the auction conditions, pursuant to firm and final court decisions, as a result of associative disputes relating to events which occurred prior to the execution of the purchase and sale contract for

the shares obtained by auction. Pursuant to the aforementioned auction conditions, the successful bidder waived any rights arising from the above-mentioned guarantee in favor of Banco Español de Crédito, S.A. The claim filed by Carlisle Ventures, Inc. against Banco Español de Crédito, S.A., based on the share subscription agreements entered into by the two companies in connection with the capital increase of August 1993 at the Bank, met the aforementioned requirements to qualify for coverage by the Deposit Guarantee Fund.

Accordingly, after a firm court decision was handed down and the Bank had met its financial liabilities arising therefrom, the Deposit Guarantee Fund indemnified the Bank in 2001 for the payments made.

27. Memorandum accounts

The detail of the balances of this caption in the consolidated balance sheets, which include, inter alia, the Group's main commitments and contingent liabilities that arose in the normal course of its operations, is as follows:

	Thousands of Euros		
	2003	2002	2001
Contingent liabilities:			
Assets assigned to sundry obligations	42,026	68,506	168,139
Guarantees and other sureties provided	6,964,034	5,905,789	5,464,639
Other contingent liabilities	280,487	266,611	230,310
	7,286,547	6,240,906	5,863,088
Commitments:			
Balances drawable by third parties-			
Credit institutions	404,540	457,396	616,280
Public authorities	654,455	465,091	605,868
Other residents	7,481,293	6,387,635	6,037,206
Nonresidents	298,107	320,922	135,638
	8,838,395	7,631,044	7,394,992
Other commitments	2,320,900	2,017,309	1,421,272
	11,159,295	9,648,353	8,816,264
	18,445,842	15,889,259	14,679,352

28. Futures transactions

The detail as of December 31, 2003, 2002 and 2001, by type of derivative, of the unmatured notional or contractual amounts of futures transactions arranged by the Group is as follows:

	Thousands of Euros		
	2003	2002	2001
Unmatured foreign currency purchase and sale transactions:			
Purchases	2,839,763	2,049,221	3,580,100
Sales	1,597,398	1,659,925	2,498,768
Financial asset purchase and sale transactions:			
Purchases	1,919,146	181,418	616,732
Sales	769,102	361,951	1,757,300
Securities and interest rate futures:			
Purchased	278,141	327,249	353,704
Sold	857,200	477,901	634,625
Options:			
On securities–			
Purchased	4,943,219	4,002,177	2,034,636
Written	5,036,093	3,959,953	4,057,332
On interest rates–			
Purchased	1,566,436	2,137,340	682,950
Written	990,672	2,097,397	682,950
On foreign currencies–			
Purchased	373,218	263,390	158,656
Written	373,344	271,238	154,969
Other interest rate transactions:			
Forward rate agreements (FRAs)	63,000	2,100,000	2,800,000
Interest rate swaps (IRSs)	36,981,365	31,632,470	28,951,161

The notional amounts of these transactions do not necessarily reflect the volume of credit risk and other types of economic risk inherent therein assumed by the Group, since the net position in these financial instruments is the result of offset and/or combination of them. Most of the unmatured forward transactions were arranged to hedge the effects of fluctuations in interest rates, exchange rates or market prices. Any estimated potential loss on transactions of this type at year-end is adequately provisioned or offset by estimated potential gains on transactions of the same nature (see Note 2-k).

29. Transactions with Santander Central Hispano Group companies, associated companies and nonconsolidable Banco Español de Crédito Group companies

The detail of the Group's major balances with the other Santander Central Hispano Group companies (see Note 23), associated companies and nonconsolidable Banco Español de Crédito Group subsidiaries as of December 31, 2003, 2002 and 2001, is as follows:

	Thousands of Euros		
	2003	2002	2001
Assets-			
Due from credit institutions	3,998,658	3,182,821	696,738
Loans and credits	573,456	402,841	433,679
	4,572,114	3,585,662	1,130,417
Liabilities-			
Due to credit institutions	1,644,294	2,771,651	2,385,649
Customer deposits	291,554	252,234	76,001
	1,935,848	3,023,885	2,461,650
Memorandum accounts-			
Contingent liabilities	328,754	211,559	204,878
Commitments	100,010	60,618	125,901
	428,764	272,177	330,779
Statement of income-			
Debit-			
Interest expense	23,077	36,524	25,424
Fees paid	23	-	9,707
Credit-			
Interest income	131,725	39,353	132,247
Income from equity securities	19,525	15,680	10,147
Fees collected	6,639	7,131	3,925

As part of the branch network reorganization process implemented by the Santander Central Hispano Group in 2002 and 2001, Banco Español de Crédito, S.A. acquired the business of 20 and 174 branch offices from Banco Santander Central Hispano, S.A. and transferred to this entity the business of another 27 and 225 branch offices.

Banco Español de Crédito, S.A. paid €24,733 thousand (including VAT) for the business acquired in 2002 (€224,906 thousand in 2001). The unamortized balances are recorded under the "Intangible Assets – Other Deferred Charges" and "Accrual Accounts" captions on the asset side of the consolidated balance sheets as of each year-end (see Note 2-f).

The price collected for the business sold in 2002, which amounted to €25,027 thousand (€227,996 thousand in 2001), was credited, net of VAT and of sale expenses, to the "Other Liabilities – Allowance for Income Lock-in" caption in the consolidated balance sheets as of December 31, 2003, 2002 and 2001 (see Note 18).

30. Statement of income

Following is certain relevant information in connection with the consolidated statements of income:

a) Geographical breakdown

The following table shows the geographical breakdown of the main balances in the consolidated statements of income by country of location of the Group branches and companies giving rise to them:

	Thousands of Euros		
	2003	2002	2001
Interest income-			
Spain	1,956,423	1,843,664	2,030,745
Other European countries	-	-	164,423
America	17,548	33,567	51,491
	1,973,971	1,877,231	2,246,659
Income from equity securities-			
Spain	32,436	26,426	15,737
	32,436	26,426	15,737
Fees collected-			
Spain	6,655	13,262	9,629
Other European countries	-	-	31
America	383	325	90
	554,936	511,598	495,550
Other operating income-			
Spain	6,655	13,262	9,629
Other European countries	-	-	31
America	383	325	90
	7,038	13,587	9,750
Interest expense-			
Spain	952,574	900,415	1,110,359
Other European countries	-	-	147,950
America	8,011	14,942	34,238
	960,585	915,357	1,292,547
Gains on financial transactions-			
Spain	55,554	45,936	37,180
Other European countries	448	940	3,371
America	12	75	5
	56,014	46,951	40,556

b) Breakdown by type of transaction

The detail, by type of transaction, of certain captions in the consolidated statements of income is as follows:

	Thousands of Euros		
	2003	2002	2001
Interest income-			
Bank of Spain and other central banks	9,042	11,312	16,387
Due from credit institutions	295,037	185,623	414,117
Fixed-income securities	355,144	389,002	446,632
Loans and credits	1,255,309	1,224,374	1,309,071
Other revenues	59,439	66,920	60,452
	1,973,971	1,877,231	2,246,659
Fees collected-			
Contingent liabilities	51,146	42,671	39,776
Collection and payment services	243,476	229,367	214,470
Securities services	222,505	202,987	212,381
Other transactions	37,809	36,573	28,923
	554,936	511,598	495,550
Interest expense-			
Bank of Spain	23,206	29,857	51,533
Due to credit institutions	268,519	232,175	396,293
Deposits	470,433	458,443	673,381
Bonds and other marketable debt securities	88,190	69,133	43,888
Cost allocable to the recorded pension allowance (Notes 2-j and 20)	89,899	93,128	81,435
Other interest	20,338	32,621	46,017
	960,585	915,357	1,292,547
Gains (losses) on financial transactions-			
Fixed-income securities trading portfolio	111,520	(216,482)	9,811
Fixed-income securities investment portfolio	21,592	11,862	655
Equity securities portfolio	1,599	(16,676)	(27,059)
Sale of financial assets	11,177	14,681	16,051
Securities and interest rate futures transactions-			
Financial futures	(102,328)	243,416	3,096
Options	905	11,746	13,649
Forward transactions settled by differences	179	(96)	51
Provisions recorded	(10,322)	(6,187)	(3,082)
Other futures transactions	14,848	28,818	5,664
Exchange differences	13,304	8,552	18,895
Securities accounts payable	(6,460)	(32,683)	2,825
	56,014	46,951	40,556

As regards derivatives transactions, as of December 31, 2003, 2002 and 2001, provisions had been recorded with a charge to the consolidated statements of income for those years for the net potential losses on trading transactions arranged outside organized markets (see Note 2-k).

**General administrative expenses-
Personnel expenses-**

The average number of employees at the Group in 2003, 2002 and 2001, by professional category, was as follows:

	Thousands of Euros		
	2003	2002	2001
Senior management	25	26	26
Other line personnel	7,287	7,449	7,703
Clerical staff	2,135	2,486	3,079
General services	17	20	26
Staff at subsidiaries and branches abroad	73	71	93
Other nonbanking companies	326	247	227
	9,863	10,299	11,154

Directors' compensation and other benefits

On February 4, 2003, the Shareholders' Meeting set at €5 million the fixed annual compensation of the Board of Directors for 2003. The individual compensation payable out of this amount to each director as attendance and bylaw-stipulated directors' fees was agreed on by the Board of Directors, based on a report from the Appointments and Compensation Committee. The Board members generally received €178,000 in this connection.

Additionally, the "General Administrative Expenses - Personnel Expenses" caption includes the compensation of executive directors for items other than those mentioned in the preceding paragraph, which amounted to €4,062 thousand in 2003, €10,996 thousand in 2002 and €10,602 thousand in 2001.

In 2003, 2002 and 2001 the pension commitments to Group executives who were also on the Bank's Board of Directors (both serving and retired) amounted to €1,980 thousand, €20,759 thousand and €5,017 thousand, respectively. The capital guaranteed by life insurance policies for these directors who are also employees amounted to €751 thousand, €1,797 thousand and €1,706 thousand as of December 31, 2003, 2002 and 2001, respectively.

Detail of investments in companies with similar business activities

In accordance with the requirements of Article 127 ter of the Spanish Corporations Law, introduced by Law 26/2003, amending Securities Market Law 24/1988, and the Revised Corporations Law, in order to enhance the transparency of listed corporations, following is a detail of the companies whose business activity is identical, similar or complementary to Banesto's corporate purpose, of the percentage of ownership held by the Board members in these companies, and of the function, if any, that they discharge therein:

HOLDER	INVESTEES COMPANY	PERCENTAGE OF OWNERSHIP (*)	FUNCTION
Dña. Ana P. Botín-Sanz de Sautuola y O'Shea	Banco Santander Central Hispano	0,256 % (**)	Director of Banco Santander Central Hispano
	Bankinter	Less than 0.05% of capital stock	-
D. Víctor Menéndez Millán	AMRO Bank	Less than 0.05% of capital stock	-
	BBVA	Less than 0.05% of capital stock	-
	Banco Santander Central Hispano	Less than 0.05% of capital stock	-
D. Federico Outón del Moral	Banco Santander Central Hispano	Less than 0.05% of capital stock	-
	BBVA	Less than 0.05% of capital stock	-
D. Matías Rodríguez Inciarte	Banco Santander Central Hispano	Less than 0.05% of capital stock (**)	Third Vice-President and Executive Director of Banco Santander Central Hispano
	Banco Popular	Less than 0.05% of capital stock (**)	-
D. José Corral Lope	Banco Santander Central Hispano	Less than 0.05% of capital stock	-
D. David Arce Torres	Banco Santander Central Hispano	Less than 0.05% of capital stock	Internal Audit Manager at Banco Santander Central Hispano
D. Juan Delibes Liniers	Banco Santander Central Hispano	Less than 0.05% of capital stock	-
Dña. Isabel Polanco Moreno	-	-	-
D. Rafael del Pino y Calvo-Sotelo	Bankinter	Less than 0.05% of capital stock	-
	BBVA	Less than 0.05% of capital stock	-
	Societe Generale	Less than 0.05% of capital stock	-

(*) This detail shows the specific percentage of ownership if it exceeds 0.05%. Otherwise, it simply indicates that the percentage of ownership is less than 0.05%, since such holdings are considered to be non-material, taking into account that the investments in credit institutions which must be notified to the Bank of Spain are those equal to or exceeding 0.25% of capital stock (Article 19 of Royal Decree 1245/1995) and that those which must be notified to the Spanish National Securities Market Commission (CNMV) are those representing 5% of capital stock (Royal Decree 377/1991).

(**) As recorded in the CNMV Register of Significant Investments, Ms. Ana P. Botín-Sanz de Sautuola y O'Shea is the holder of 1 2,233,216 Banco Santander Central Hispano, S.A. shares and Mr. Matías Rodríguez Inciarte is the holder of 557,811 Banco Santander Central Hispano, S.A. shares.

**General administrative expenses –
Other administrative expenses–**

The detail of the balances of this caption in the consolidated statements of income is as follows:

	Thousands of Euros		
	2003	2002	2001
Buildings, fixtures and materials	50,386	51,846	53,866
Computer hardware and communications equipment	59,718	61,600	66,821
Advertising and publicity	15,151	15,376	15,087
Lawyers and legal matters	990	1,185	1,304
Technical reports	8,654	6,020	5,133
Guard and cash transport services	8,074	10,380	8,648
Governing and supervisory bodies	129	53	74
Levies and taxes	10,521	10,231	10,364
Other general expenses	41,294	38,257	34,919
	194,917	194,948	196,216

The fees paid to the auditors of the parent company of the Banco Español de Crédito Group for auditing the Bank's individual financial statements and the Group's consolidated financial statements, and those of certain Spanish and foreign subsidiaries for 2003, 2002 and 2001, amounted to €1,036 thousand, €1,005 thousand and €1,005 thousand, respectively, and €412 thousand, €270 thousand and €138 thousand relate to the fees paid to the aforementioned auditors for other services provided mainly in relation to the preparation of mandatory reports required by regulators. Additionally, expenses of €137 thousand, €141 thousand and €159 thousand were incurred relating to the fees paid to audit firms other than the auditors of the parent company for auditing certain subsidiaries' 2003, 2002 and 2001 financial statements, respectively, and €360 thousand, €268 thousand and €0 thousand relating to the fees paid to these audit firms for other services provided mainly in relation to the preparation of mandatory reports required by official agencies.

Extraordinary income/Extraordinary loss

The balance of the "Extraordinary Income" caption in the 2003, 2002 and 2001 consolidated statements of income includes mainly €17,577 thousand, €17,832 thousand and €9,329 thousand, respectively, relating to interest revenues earned in prior years and €33,938 thousand, €47,547 thousand and €56,056 thousand, respectively, relating to gains on the sale of property and equipment and long-term investments.

The balance of the "Extraordinary Loss" caption in the 2003, 2002 and 2001 consolidated statements of income includes basically €27,045 thousand, €29,531 thousand and €25,629 thousand, respectively, of provisions to the pension allowance (see Notes 2-j and 20), €3,616 thousand, €3,788 thousand and €5,471 thousand, respectively, of losses on the sale of property and equipment, €59,024 thousand, €55,645 thousand and €27,485 thousand, respectively, relating to the amortization of the amount paid for the business of certain branch offices acquired from Banco Santander Central Hispano, S.A. (see Notes 15 and 29) and accumulated prior years' losses of €23,671 thousand, €25,198 thousand and €17,526 thousand, respectively.

Also, in the aforementioned years there were net provisions (releases) to/(from) specific allowances of (€65,614 thousand), (€45,314 thousand) and €14,535 thousand, respectively (see Notes 14, 18 and 20), which are recorded, according to their sign, under these captions in the consolidated statements of income, and €12,312 thousand, €18,188 thousand and €36,581 thousand, respectively, of releases, net of provisions, of allowances for noncurrent assets (see Note 13).

31. Statements of changes in financial position

The statements of changes in the Group's financial position for 2003, 2002 and 2001 are as follows:

	Thousands of Euros		
	2003	2002	2001
Source of funds:			
From operations-			
Income for the year	449,093	444,247	430,855
Net additions to special provisions and allowances	309,269	97,807	216,053
Direct write-down of assets	175	650	746
Depreciation and amortization expense	151,933	94,209	111,107
Gains on the sale of treasury stock, investments and fixed assets	(33,938)	(54,957)	(56,056)
Losses on the sale of treasury stock, investments and fixed assets	3,616	9,185	5,471
	880,148	591,141	708,176
Net variation in borrowed funds and lending-			
External capital contributions in share issue	-	165,824	-
Subordinated debt securities issued	293,996	-	28,859
Fixed-income securities (net decrease)	519,544	702,750	893,126
Debt securities	3,056,737	1,366,199	582,103
Deposits (net increase)	3,136,883	962,683	1,091,020
Sale of long-term investments-			
Sale of investments in Group and associated companies	13,441	24,070	-
Sale of property and equipment and intangible assets	127,721	421,023	169,144
Other asset items less liability items (net variation)	-	80,651	22,686
	7,148,322	3,723,200	2,786,938
Total funds obtained	8,028,470	4,314,341	3,495,114
Application of funds-			
Refund of equity investments			
Due to capital reduction	180,526	91,899	73,519
Due to acquisition of treasury stock	1,248	40	-
Lending, less financing, at Bank of Spain and credit institutions	2,605,865	354,719	57,135
Loans and credits (net increase)	4,793,911	3,287,611	3,122,599
Fixed-income securities (net increase)	-	-	-
Short-term equity securities	121,324	88,092	11,944
Debt securities	-	-	-
Acquisition of long-term investments-			
Acquisition of, and increases in, investments in Group and associated companies	55,928	54,122	55,449
Additions to property and equipment and intangible assets	138,493	437,858	174,468
Other asset items less liability items	131,175	-	-
Total aplicaciones efectuadas	8,028,470	4,314,341	3,495,114

32. Explanation added for translation to English

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

Exhibit I

**Consolidated Companies Composing the
Banco Español de Crédito Group as of December 31, 2003**

Thousands of Euros

Company	Location	Line of Business	Percentage of Ownership			Company Data as of December 31, 2003		
			Direct	Indirect	Total	Capital Stock	Reserves	Income (Loss) (*)
A.G. Activos y Participaciones, S.A.	Madrid	Securities investment	-	99.87	99.87	4,701	152,055	4,891
Agrícola Los Juncuales, S.A.	Madrid	Real estate	99.99	0.01	100.00	601	9,378	2,960
Aljarafe Golf, S.A.	Seville	Real estate	79.58	-	79.58	16,817	(4,072)	(439)
Banco Alcantino de Comercio, S.A.	Madrid	Banking	99.99	0.01	100.00	9,016	40	6
Banco de Vitoria, S.A.	Vitoria	Banking	99.70	-	99.70	22,948	94,046	-
Banesto Banca Privada Gestión, S.A. S.G.I.I.C.	Madrid	Mutual fund manager	99.99	0.01	100.00	1,500	(125)	42
Banesto Banco de Emisiones, S.A.	Madrid	Banking	99.99	0.01	100.00	24,040	53,060	416
Banesto Bolsa, S.A., Sdad. Valores y Bolsa	Madrid	Stock market	99.99	0.01	100.00	4,959	62,687	5,385
Banesto Delaware, Ltd.	N. York	Finance	100.00	-	100.00	82	222	(68)
Banesto e-Business, S.A.	Madrid	Securities investment	99.99	0.01	100.00	6,000	(5,673)	(581)
Banesto Factoring, S.A. Establecimiento Financiero de Crédito	Madrid	Factoring	99.87	0.13	100.00	4,875	12,956	75
Banesto Finance, Ltd.	Cayman Island	Finance	100.00	-	100.00	8	230	1
Banesto Holdings, Ltd	Guernsey	Securities investment	100.00	-	100.00	63,192	(6,799)	7,732
Banesto Issuances, Ltd.	Cayman Island	Finance	100.00	-	100.00	538	91	103
Banesto Preferentes, S.A.	Madrid	Finance	99.76	0.24	100.00	131,204	-	68
Banesto Renting, S.A.	Madrid	Finance	99.99	0.01	100.00	1,120	885	997
Banesto Servicios y Tecnología Aplicada, S.A.	Madrid	Services	99.99	0.01	100.00	4,117	(21)	1
Corpoban, S.A.	Madrid	Securities investment	-	99.88	99.88	36,270	26,352	2,378
Corporación Industrial y Financiera de Banesto, S.A.	Madrid	Securities investment	99.88	-	99.88	133,992	238,217	5,299
Dudebasa, S.A.	Madrid	Finance	99.99	0.01	100.00	22,105	12,698	(115)
Elenco, S.A.	Madrid	Leasing	-	99.88	99.88	122	36,616	1,378
Formación Integral, S.A.	Madrid	Training	99.99	0.01	100.00	672	269	59
Gedlinver e Inmuebles, S.A.	Madrid	Finance	99.99	0.01	100.00	3,348	3,665	1,560
Geoban, S.A.	Madrid	Services	-	100.00	100.00	120	631	(83)
Gescoban Soluciones, S.A.	Madrid	Finance	74.00	26.00	100.00	90	(458)	181
Grupo Inmobiliario La Corporación Banesto, S.A.	Madrid	Securities investment	-	99.87	99.87	601	8,563	(1,740)
Hualle, S.A.	Madrid	Securities investment	99.99	0.01	100.00	62	-	(117)
Ingeniería de Software Bancario, S.L. (**)	Madrid	IT	51.00	-	51.00	61,327	(3,904)	(6,254)
Inmobiliaria Laukariz S.A.	Madrid	Real estate	99.99	0.01	100.00	120	14,169	174
Larix Limited	Island of Man	Real estate	100.00	-	100.00	3	1,661	(85)
Mercado de Dinero, S.A.	Madrid	Securities investment	74.00	26.00	100.00	60	-	248
Nordin, S.A.	Madrid	Real estate	99.99	0.01	100.00	60	(1,136)	1,611
Oil-Dor, S.A.	Madrid	Filling stations	-	99.87	99.87	60,100	70,382	5,863
SCH Gestión, S.G.I.I.C., S.A. (**)	Madrid	Mutual fund manager	20.00	-	20.00	23,320	29,970	50,303
SCH Pensiones. E.G.F.P, S.A. (**)	Madrid	Pension fund manager	19.31	0.69	20.00	39,085	5,555	6,005
Sercopyme, S.A.	Madrid	Services	99.99	0.01	100.00	17,321	2,062	207
Sodepro, S.A.	Vitoria	Finance	-	99.70	99.70	2,644	851	145
Wex Point Finance, S.L. (**)	Madrid	Services	50.97	-	50.97	761	3,388	(500)

(*) The results of the companies as of December 31, 2003, are pending approval by the respective Shareholders' Meetings.

(**) Proportionally consolidated company.

Note: The directors have opted to omit the net value of these investments per the books of the Bank and/or of the subsidiaries on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves. Also, this list does not include the direct or indirect holdings in inactive companies or companies in the process of liquidation.

Exhibit II

The main companies (representing 99.98% of the investments in these companies) are included in this list:

Nonconsolidable Companies as of December 31, 2003

Thousands of Euros

Company	Location	Line of Business	Percentage of Ownership			Company Data as of December 31, 2003		
			Direct	Indirect	Total	Capital Stock	Reserves	Income (Loss) (*)
Agrícola Tabalbal, S.A.	G. Canaria	Agriculture	-	74.20	74.20	540	(303)	78
Aparcamientos y Construcciones, S.A.	Madrid	Real estate	99.99	0.01	100.00	2,791	(535)	(26)
Banesto B2C Escaparate, S.L.	Madrid	Technology	-	100.00	100.00	2,460	(2,700)	(272)
Banesto Ceuta y Melilla, S.A.	Madrid	S.I.M.C.A.V.	99.99	-	99.99	5,259	313	188
Banestur, S.A.	Madrid	Tourism	74.00	26.00	100.00	216	(91)	89
Clínica Sear, S.A.	Madrid	Healthcare	-	50.52	50.52	803	6,523	110
Club Zaudin Golf, S.A.	Seville	Services	-	75.67	75.67	303	15,038	(320)
Compañía Aseguradora Banesto Seguros, S.A.	Madrid	Insurance	99.99	0.01	100.00	19,264	31,643	10,112
Costa Canaria de Veneguera, S.A.	Gran Canaria	Real estate	37.08	37.12	74.20	21,671	(4,742)	(1,399)
Crinaria, S.A.	Gran Canaria	Hospitality	48.01	51.99	100.00	2,348	5,867	(1)
Depósitos Portuarios, S.A.	Madrid	Services	11.00	88.89	99.89	60	17	(30)
Deposoltenegolf, S.A.	Tenerife	Sports operation	99.90	0.10	100.00	700	11,539	8,779
Desarrollo Informático, S.A.	Madrid	IT	99.99	0.01	100.00	1,720	13	(1,386)
Diseño e Instalación de Redes y Telecomunicaciones, S.A.	Madrid	IT	-	100.00	100.00	902	3,725	(3,715)
Efearvi, S.A.	Madrid	Real estate	-	99.90	99.90	607	(813)	(37)
Grupo Eurociber, S.A.	Madrid	Services	-	100.00	100.00	754	(233)	2
Grupo Golf del Sur, S.A.	Tenerife	Real estate	99.90	0.10	100.00	140	9,100	69
Inmobiliaria Urbis, S.A.	Madrid	Real estate	51.79	0.01	51.80	151,829	462,189	89,118
Inversiones Turísticas, S.A.	Seville	Hospitality	99.99	0.01	100.00	5,300	26,569	619
Larix Chile Inversiones Limitada	Chile	Real estate	-	100.00	100.00	224	-	(255)
Merciver, S.L.	Madrid	Hotel operation	99.91	0.09	100.00	6	(1,633)	(155)
Programa Hogar Montigalá, S.A.	Madrid	Real estate	-	99.88	99.88	120	6,140	46
Proyecto Europa, S.A.	Madrid	Counseling	99.99	0.01	100.00	451	(85)	-
Tuberías Industriales y Calderería, S.A.	Madrid	Mech. assemb. and maint.	-	99.87	99.87	1,503	1,724	177
Virtual Payments, S.L.	Madrid	Technology	-	100.00	100.00	510	(409)	(292)
Wex Point España, S.L.	Madrid	Services	48.97	26.01	74.98	6,125	-	(2,692)

(*) The results of the companies as of December 31, 2003, are pending approval by the respective Shareholders' Meetings.

Note: The directors have opted to omit the net value of these investments per the books of the Bank and/or of the subsidiaries on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial both for the Bank and for the companies themselves. Also, this list does not include the direct or indirect holdings in inactive companies or companies in the process of liquidation.

Exhibit III

The major companies (representing 67.07% of the direct investments in associated companies and 93.78% at Banco Español de Crédito Group level) are included in this list:

Associated Companies as of December 31, 2003

Thousands of Euros

Associated Company	Location	Line of Business	Percentage of Ownership			Capital Stock	Reserves	Income (Loss) (*)
			Direct	Indirect	Total			
Aguas de Fuensanta, S.A.	Asturias	Food	36.77	7.55	44.32	2,785	5,212	416
Alcaidesa Holding, S.A.	Cádiz	Real estate	-	49.93	49.93	12,567	33,389	(1,160)
Alcaidesa Inmobiliaria, S.A.	Cádiz	Real estate	-	49.93	49.93	34,257	35,585	(1,173)
Alcaidesa Restaurantes, S.A.	Cádiz	Services	-	49.93	49.93	180	408	2
Centro Desarrollo Invest. Apl. Nuevas Tecnologías	Madrid	Technology	49.00	-	49.00	300	255	384
Compañía Concesionaria del Túnel de Soler, S.A.	Palma de Mallorca	Construction	-	32.60	32.60	16,651	(12)	-
Polígono Industrial Gerona, S.A.	Gerona	Real estate	-	29.96	29.96	2,084	2,231	552
Sistemas 4B, S.A.	Madrid	Services	12.96	0.01	12.97	2,533	14,151	2,635

(*) The results of the companies as of December 31, 2003, are pending approval by the respective Shareholders' Meetings.

Note: The directors have opted to omit the net value of these investments per the books of the Bank on the grounds that, since certain of these companies are undergoing restructuring and/or a sale process, the disclosure of such information might be prejudicial for the Bank. Also, this list does not include the direct or indirect holdings in inactive companies or companies in the process of liquidation.

Exhibit IV

(Art. 86 of the revised Corporations Law and Art. 53 of Securities Market Law 24/1988):

Notifications of Acquisitions of Investees

Investee	Line of Business	Percentage of Net Ownership		Date of Notification to Investee Company
		Acquired in the Year	At Year-End	
Acquisitions in 2003-				
Wex Point España, S.L.	Services	74,98	74,98	July 1, 2003
Wex Point Finance, S.L.	Services	50,97	50,97	July 1, 2003
Banesto Preferentes, S.A.	Issuance of shares	100,00	100,00	October 27, 2003
Acquisitions in 2002-				
Ingeniería de Software Bancario, S.L.	IT	51,00	51,00	May 17, 2002
Acquisitions in 2001-				
Centro para desarrollo, investigación y aplicación de nuevas tecnologías, S.A.	Counseling	49,00	49,00	July 30, 2001
Veniguera Mar, S.A.	Real estate	74,12	74,12	October 3, 2001

Exhibit V**Summarized balance sheet as of June 28, 2001,
of Compañía Española Productora
de Algodón Nacional, S.A.**

Euros

ASSETS-

Cash	330,803.09
Accounts receivable	24,492.30
Total assets	355,295.39

LIABILITIES AND SHAREHOLDERS' EQUITY-

Other nontrade payables	1.08
Provisions for contingencies and expenses	24,492.30
Loss for the year	(10,023.84)
Capital stock	63,555.75
Reserves	322,878.56
Accumulated losses	(45,608.46)
Total liabilities and shareholders' equity	355,295.39

**Summarized balance sheet as of June 28, 2001,
of Dolman, S.A.**

Euros

ASSETS-

Cash	80,500.98
Accounts receivable	62,617.09
Total assets	143,118.07

LIABILITIES AND SHAREHOLDERS' EQUITY-

Other nontrade payables	22.60
Loss for the year	(1,359.11)
Capital stock	60,101.36
Additional paid-in capital	222,676.16
Reserves	12,020.27
Accumulated losses	(150,343.21)
Total liabilities and shareholders' equity	143,118.07

**Summarized balance sheet as of October 10,
2001, of Plataforma Sesenta y Uno, S.A.**

Thousands of Euros

ASSETS-

Accounts receivable	160.78
Short-term investments	5.57
Cash	56,686.31
Total assets	56,852.66

LIABILITIES AND SHAREHOLDERS' EQUITY-

Accounts payable	1,017.19
Provisions for contingencies and expenses	30.34
Income for the year	111.24
Capital stock	54,392.60
Additional paid-in capital	14,183.89
Reserves	6,907.50
Accumulated losses	(19,790.10)
Total liabilities and shareholders' equity	56,852.66

Exhibit VI**List of agents to whom Bank of Spain Circular 5/1995 is applicable**

	Location	Area of Activity
Felipe Sánchez Solera	Hontanaya	Castilla- La Mancha
Isaías Correal Aragón	Brazatortas	Castilla- La Mancha
Julia López García	Miguel Esteban	Castilla- La Mancha
Rafael Alonso Tevar Oñate	Quintanar del Rey	Castilla- La Mancha
José M ^a Bauza i Associats, S.R.L.	Ciutadella	Balearic Islands
Rosario Plaza Fernández	Casas de Benítez	Castilla- La Mancha
Julio Ibáñez Calleja	Ponferrada	Castilla - León
Tomás Olivares Cristóbal	Peñaranda de Duero	Castilla - León
Montserrat Arbonés Aguilá	Mora d'Ebre	Catalonia
Francisco Javier Saiz Sepúlveda	La Hinojosa	Castilla – La Mancha
Miguelcast S.F., S.R.L.	Becerril de la Sierra	Madrid
María Josefa Tribaldos Villar del Saz	La Alberca de Zancara	Castilla – La Mancha
Isamer Financieros, S.L.	San Pedro de Alcántara	Andalucía
Lastras Audismar, S.L.	Pelayos de la Presa	Madrid
Finanzas y Servicios de Pueblo López, S.L.	Fuengirola	Andalucía
José Sánchez Garzón	Granada	Andalucía
Francisco Charro Fernández.	La Bañeza	Castilla - León
Mercados y Gestión de Valores, Asesoramiento Financiero, S.A..	Madrid	Madrid
Javier Sanz Martínez	Molina de Aragón	Castilla- La Mancha
Agencia Financiera Ulloa, S.L.	Culleredo	Galicia
Asesoría Gasar, S.L.	Los Barrios	Andalucía
B. C. Estudios Hipotecarios, S.L.	Barcelona	Catalonia
Cibergestión Centro Hipotecario, S.L.	Madrid	Aragón, Navarra, Rioja
Drimty, S.L.	Mubxamiel	Valencia Autonomous Community
Fromaliza Servicios de Formalización y Gestión S.L.	Madrid	Spain
Gestínova 99 Asesor, S.L.	Madrid	Castilla-León and five other Aut. Com.
José Dolera Dolera	Torres de Cotillas	Murcia
Juan Antonio Vázquez Recio	Blanes	Catalonia
Julia López García, S.L.	Madrid	Castilla-La Mancha
MG Savings Corporation, S.L.	Madrid	Madrid
Openoffice, S.L.	Roquetas de Mar	Andalucía
Pedro Díez García	Valladolid	Castilla – León
Sercon Asfíco Agentes Financieros, S.L.	Oleiros	Galicia
Sergio Ignacio Sánchez Ortega	Seville	Andalucía
Servicios Cártama Directo, S.L.	Cártama	Andalucía

Exhibit VII**Latest balance sheet of Banco del Desarrollo Económico Español, S.A.**

Thousands of Euros

ASSETS:

Cash on hand and deposits at central banks	311
Government debt securities	18,547
Due from credit institutions	151,045
Loans and credits	11,535
Debentures and other fixed-income securities	26,096
Common stocks and other equity securities	1,071
Investments in non-Group companies	-
Investments in Group companies	685
Property and equipment and intangible assets	1,006
Other assets	1,719
Accrual accounts	957

Total assets	212,972
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Memorandum accounts	35,320
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LIABILITIES AND EQUITY:

Due to credit institutions	40,475
Customer deposits	102,047
Other liabilities	11,163
Accrual accounts	4,693
Provisions for contingencies and expenses	3,602
Capital stock	12,571
Additional paid-in capital	3,596
Reserves	34,825
Income for the period	-

Total liabilities and equity	212,972
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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

**BANCO ESPAÑOL DE CRÉDITO, S.A.
AND COMPANIES COMPOSING, TOGETHER WITH THE
BANK, THE BANCO ESPAÑOL DE CRÉDITO GROUP**

**MANAGEMENT REPORT FOR THE
YEAR ENDED DECEMBER 31, 2003**

Business performance and situation of the Group

The lines of action defined for the year were effectively implemented in 2003. In 2003 the Banesto Group performed favorably as a result of maintaining a high level of business activity and of the development of new commercial projects and plans, combined with a stringent cost control and adequate risk management. These factors led to improved margins, increased market share, a further improvement of the efficiency ratio, and an all-time low in the nonperforming loan ratio, which enabled the Group to record income before taxes of €639,840 thousand, an increase of 11.2% with respect to 2002. The income attributed to the Group amounted to €442,039 thousand, up 1.4% on the previous year.

The variations in the income statement items were as follows:

Net interest income rose by €57,522 thousand (5.8%). Despite the pressure exerted by the fall in market interest rates, the defense of spreads and the high level of business activity enabled the Group to improve this margin.

The favorable performance of net fees, which increased by 7%, together with the €9,063 thousand increase in the gains from financial transactions, resulting basically from the rise in the distribution of cash products to customers, led to growth in gross operating income of 6.6%.

Net operating income increased by €88,595 thousand, up 14.3% on 2002, as a result of the combined effect of the increase in gross operating income and the containment of operating costs. This enabled the Group to further improve its efficiency ratio (costs/gross operating income) by 3.08 percentage points to 47.24%.

Also contributing to the improved earnings performance was the income from companies accounted for by the equity method, mainly Inmobiliaria Urbis and Banesto Seguros, which together contributed €74,756 thousand to consolidated income in 2003, €19,428 thousand more than in 2002, despite the adjustment due to the distribution of dividends, which were €3,704 thousand more in 2003 than those distributed in 2002.

Write-offs and credit loss allowances increased by 44.9%, due mainly to the business growth during the year, since the period provisions to the general-purpose and statistical allowances represented 79% of the total balance. Additionally, €21,571

thousand of country-risk allowances were released in 2002, whereas releases in this connection amounted to €6,491 thousand in 2003.

This performance, together with net extraordinary income of €21,067 thousand, led to income before taxes of €639,840 thousand, up 11.2% on 2002. Attributable income grew by 1.4% from €435,913 thousand in 2002 to €442,039 thousand in 2003, after considering the corporate income tax expense, which increased by 45.7% with respect to 2002 due to the gradual use of the tax asset available in prior years.

As regards the consolidated balance sheet, the main variations were as follows:

1. Total assets amounted to €57,931 million as of December 31, 2003, up 16.5% on 2002.
2. Loans and credits, disregarding doubtful loans, increased by 17.4%. Credit to the private sector amounted to €28,915 million, up 21.5% on 2002. After taking into consideration the fact that loans amounting to €1,500 million were securitized and retired from the balance sheet, the adjusted growth was 20.5%.
3. Customer funds, including bonds and debt securities issued, amounted to €34,296 million, an increase of 22.0%. If mutual and pension funds managed by the Group are included, this figure rises to €46,707 million, an increase of 20.8%.

Asset quality continued to improve in 2003, as did nonperforming loans coverage.

In this connection, doubtful loans amounting to €27,835 thousand, which had been fully provisioned, were written off during the year.

As a result, nonperforming loans on the balance sheet amounted to €259,490 thousand as of December 31, 2003, with a coverage ratio, excluding the allowance for country risk and including doubtful off-balance-sheet risks, of 318.18%.

As part of the funds and costs optimization policy, in 2003 the Group implemented a new early retirement plan for 350 employees on its payroll, which contributed and will continue to contribute to the achievement of significant progress in meeting efficiency objectives. The provision of €74,360 thousand to the pension allowance was charged to unrestricted reserves and gave rise to a deferred tax asset of €40,040 thousand. This use of reserves, which had been expressly authorized by the Bank of Spain, was approved by the Shareholders' Meeting of Banco Español de Crédito, S.A. on December 2, 2003.

The Shareholders' Meetings of Banco Español de Crédito, S.A. and of Banco de Vitoria, S.A. approved the merger of Banco de Vitoria into Banesto. This transaction will facilitate a more efficient use of the resources assigned by the two entities to customer management, giving rise to improved profitability and increased shareholder value.

Research and development

In the technology field, efforts were aimed mainly at continuing with the resource optimization policy, leading to improved efficiency and enhanced process rationalization. The Group continued to develop software enabling it to achieve cost savings and increase customer service quality while preparing it to meet new technological and functional renovation needs.

The Group worked on the Partenon Project, a joint Banesto and Santander Central Hispano project to implement an information system with lower costs and significant synergies at both banks. The resources assigned to the development of the project by the two banks are centralized in a software company which is responsible for providing the new technological solution.

In order to carry out the aforementioned R&D work, in 2003 the Group incurred expenses and made investments in computer information systems amounting to approximately €90 million.

This endeavor is not only the result of an individual effort to capitalize on in-house resources, but also reflects our willingness to put our capacity at the service of society and facilitate the response to the new challenges posed by information technologies.

Capacity for technological innovation and the ability to convert progress into improvements accessible to society are part of our corporate management model. Our commitment in this regard has taken us a step further, to create instruments that promote this progress and to manage them from a different standpoint. This was achieved through the Banesto Foundation for the Information Society, the creation of which was approved at the Special Shareholders' Meeting of Banco Español de Crédito, S.A. on December 2, 2003.

The Group continued to train its workforce and to adapt it to the new business requirements and to the need for ongoing professional development. To facilitate this process, a training development strategy focusing on continued learning, professional development and the harnessing of the advantages of new technologies was implemented.

Customer Care Service and Customer Ombudsman

Mr. José Luis Gómez-Degano was appointed Customer Ombudsman in June 2003. The number of complaints received by the Customer Care Service fell from 5,262 in 2002 to 3,214 in 2003. This decline was the result of increased sensitivity throughout the organization to the processing of customer complaints and claims, improved commercial campaign circuits and greater dynamism of the commercial network in analyzing and responding to claims regarding interest and fees on lending and deposit transactions. 16 areas for improvement were identified and proposed by this Service.

Treasury stock

In 2003 the Bank and two consolidable Group companies acquired and sold 7,121,331 and 6,165,632 Banco Español de

Crédito, S.A. shares, respectively. The par value of the shares acquired was €12,822,470.51 and that of the shares sold was €10,922,624.84. The acquisition cost was €55,523,308.48 and the sale price was €47,385,859.19.

Additionally, 816,085 Banco Español de Crédito shares were granted to the employees in 2003 at a rate of 85 shares per employee. As of December 31, 2003, the Bank or consolidable Group companies owned 1,070,286 shares, with a par value of €1,894,406.22. A portion of these shares will be used by the Bank to cater for exchange of the Banco de Vitoria, S.A. shares presented by the shareholders of that bank as a result of its merger into Banco Español de Crédito, S.A., which was approved by the two banks' Shareholders' Meetings on December 2, 2003.

Outlook

The Group's projects for the coming years are aimed at improving its positioning in the Spanish financial services market and gaining market share by leveraging its commercial franchise strength, the quality of its personnel and its technology platform.

For this purpose, it will rely on efficient use of its commercial and operating capabilities and will continue to exercise prudent risk management, developing commercial plans and innovative projects leading to the achievement of these goals.

The Bank's medium-term growth, efficiency, risk and profitability targets are as follows:

- Business growth in terms of both deposits and loans. The aim is a 0.25% average annual increase in market share in the aggregate of the two.
- Increases in productivity and cost control, so as to improve the efficiency ratio to levels of 42%.
- Nonperforming loans ratio below that of the industry as a whole.
- Profitability in excess of 18% in ROE terms.

The prospects for 2004 are of gradual economic recovery, with GDP growth of around 2.5-3% and interest rates that are stable or slightly higher than at present.

Against this backdrop, Banesto's objectives for 2004 are growth above the banking industry average, a 0.30% gain in market share, an improvement in the efficiency ratio to 45% in line with the medium-term objectives, and the maintenance of its credit quality standards.

To achieve these objectives, the Bank will continue with the specific projects for SMEs, its card plans and the distribution of cash earnings to customers, and will strengthen the relationship with customers and their transactionality and implement our quality excellence program.

Risk management at Banco Español de Crédito

Banesto sees risk management as a competitive advantage and an essential factor for the creation of shareholder value. This can only be achieved by maximizing the relationship between return

and risk assumed, for which a set of structures, information systems, procedures and tools are required to enable the acceptance and follow-up tasks to be performed systematically and efficiently.

Banesto assumes risks as a result of its lending business, its off-balance-sheet transactions and the hedging and proprietary trading activities it performs. These risks can be classified into the following categories:

- Credit risk.
- Market risk.
- Liquidity risk.
- Operational risk.
- Environmental risk.

The new risk management trends at our entity can be summarized as risk intelligence improvement and process management:

1- Risk "Intelligence" Improvement: this involves the achievement of progress in the following areas:

- Environmental analysis: the increasingly volatile environment compels us to make a significant environmental analysis to identify the so-called market "failures".
- Consumer financing risk: in this area the Group is further expanding its classification of customers and is adapting the risk structure to the phenomena of multichanneling and point-of-sale financing.
- Return-risk focus: risk management is not about minimizing risk but about maximizing the return-risk ratio, for which the creation of an internal risk measurement model is required.
- Improved risk measurement in the Market Operations Area: the increased sophistication of the products traded in the Market Operations Area requires advanced market risk measurement systems to facilitate management of such risks.

2- Risk Management Improvement: in order to enhance efficiency and customer service quality, Banesto conducts an ongoing review of its risk processes, focusing mainly on:

- Increasing its on-line response capacity, since this contributes to enhancing customer service
- Allocating a stable, monthly revisable risk limit for each customer
- Improving the standardization of the portfolio transaction follow-up and renewal processes

Basic principles

The basic principles underpinning Banesto's risk function are as follows:

- *Senior management involvement*
Banesto's Executive Committee defines the Bank's risk policy, sets the limits for the powers conferred on the lower decision-making

bodies and decides which transactions involve a risk that exceeds the scope of the powers granted to the lower decision-making bodies.

- *Independence*

The risk function is independent from the business units.

- *Advanced risk measurement and assessment methodology*

Since Banesto is aware of the importance of the risk function, it has equipped itself with tools and an analysis methodology enabling it to properly manage assumed risks (such as automated scoring systems, calibrated internal ratings, RAROC, VaR, back-testing and stress-testing).

- *The risk policy must keep pace with sustained and profitable growth*

The expansion of the customer base and the management of customer risk quotas enable Banesto to achieve the desired level of risk diversification by customer and by industry.

- *Importance of the counterparty revision activity*

Risk monitoring is as important as risk acceptance. Accordingly, Banesto has in place a leading-edge risk anticipation system (RAS) enabling it to manage its positions on an ongoing and preventive basis.

- *Risk management is a cornerstone of the Bank's pricing policy and of its business-unit capital allocation policy*

Taking into account that, as discussed above, sound risk management does not mean minimizing risks but rather maximizing the relationship between return and risk, the analysis of risks, using the internal rating system, is a key input for the pricing policy, the business-unit capital allocation policy and the measurement of value creation.

The main risks to which the banking business is subject are the credit, market, operational and liquidity risks. Furthermore, training processes have been implemented since 2002 and a customer analysis and classification model is being defined which takes account of the customers' environmental policies.

Credit risk

Credit risk is defined as the possibility of a counterparty failing to meet its contractual obligations, thus giving rise to losses at the credit institution.

The objective of risk management at Banesto is to identify, measure, integrate, monitor and assess the different risk exposures and to establish the risk-adjusted return on capital.

1. Risk acceptance

Banesto has a specialized risk structure based on customer segmentation. The types of risk thus defined are Retail Risk; Business Banking Risk; Real Estate Development Risk and Corporate Risks.

1.1 Retail Risk

Banesto has implemented advanced solutions to integrate its customer acceptance strategies, ensuring an increasingly accurate acceptance policy that is applied consistently throughout the various channels and geographical areas. This policy gives rise to increasing productivity levels while maintaining the credit quality of the Bank's portfolio.

Customer assessment systems provide statistical conduct scorings which are combined with the acceptance scorings and external information to improve the quality of the automated decision-making process. These customer risk assessment systems facilitate proactive management by identifying highly creditworthy customers on which the Bank can focus its commercial drive, which involves pre-granted loan campaigns that contribute a high credit quality portfolio.

The automated systems give support to analysts in the Risk Analysis Center (RAC), where the acceptance process is completed through the analysis of transactions which, due to their particular features, require detailed review. The RAC, which has been operating since 1996, consists of credit analysts specializing in the main retail banking businesses. The centralization of the acceptance process ensures consistent application of the acceptance criteria and high capacity for rapid adaptation to changes in risk policies. As a result of effective management and the cumulative experience gained over the last few years, the RAC has become a highly specialized, highly productive center, whose technical capacity is oriented towards the commercial network.

Credit risk management in Retail Banking provides increasing accuracy in the assessment of risk, consistency and objectivity in risk acceptance, high productivity and ongoing support to commercial management. These elements ultimately translate into improved customer service quality.

1.2 Business Banking Risk

The Business Banking Risk Unit focuses on customers or groups with revenues exceeding €2 million that are not covered by the Corporate Risk Unit. The relative importance of the customers classified as belonging to this Unit justifies the personalized attention that is afforded to them. These customers are placed into portfolios which are assigned to risk analysts.

Banesto has a risk responsibility system under which powers are conferred on the Bank's Regional Offices and Business Banking Centers using a "double signature" approach. Under this approach, any decision made by Banesto must be shared by the risk analyst and by the customer's commercial manager. This approach is in line with the philosophy applied at Banesto that "the risk belongs to the party who proposes it". One of the essential figures of this structure is the Business Banking Risk Manager (BBRM), who is located close to the customer and the commercial manager in order to facilitate better risk awareness. The powers of each BBRM are assigned on the basis of his/her knowledge and experience. When the risk assumed exceeds

the scope of the powers granted to the BBRM, the decision must be made by the Regional Office, which also has certain delegated powers. If the risk assumed also exceeds these powers, the decision-making bodies located at Banesto's Central Services should make the decision.

This risk organization structure is supported by highly developed information systems which facilitate rapid data processing and communication between the parties involved, giving rise to enhanced risk management and customer service quality.

1.3 Real Estate Development Risk

Banesto has made significant efforts to adapt its organization structure and the skills of its personnel to the particular requirements of this type of risk. As a result, Banesto specializes in the management of the risk this business involves. A specific risk unit was created as part of Central Services consisting of three differentiated areas: economic, urban development and legal. Wherever justified on the basis of business volume, this structure has been reproduced in the Regional Offices. As in the Business Banking area, the Regional Offices have certain delegated powers.

Of equal importance are the employee training efforts made in recent years, providing the team of professionals working in this area with the specific analysis methodology and tools required for the specialized management of this type of risk. Such methodology and tools enable Banesto to assign an internal rating to each developer and each project.

1.4 Riesgos Corporativos

The Corporate Risks Unit is responsible for the overall management of the risk exposure to this type of customers. Risk management is specialized by industry, by type of transaction and by geographical area. Analysts are assigned customers, industries or transactions which they have to manage on an integrated basis. Banesto has a team of professionals at central level and there are also significant resources at the corporate offices in Madrid, Barcelona and New York. These specialized offices favor geographical proximity and enable analysis to gain a better knowledge of customers and transactions. All the members of these risk management teams periodically conduct studies and prepare reports and maintain a very direct and close contact with the customers' financial managers.

This Unit applies a risk analysis and management methodology that has been tried and tested over the last few years and has generated a capacity to provide a prompt response to any situation that may arise. Also, this Unit has adopted the customer risk classification approach, which enables operating limits to be managed in a very versatile manner. The philosophy is that each customer is allocated a risk limit.

Mention should be made in this connection that the risk-adjusted return on capital (RAROC) methodology was implemented in 2001 and, therefore, at the present time

Banesto has extensive experience in the use of internal ratings, the calibration thereof and in advanced pricing and capital allocation systems.

In the international arena, this Unit also has a highly skilled team of professionals which manage the counterparty risk at overall level and the risk exposure to emerging countries. The methodology used is also based on the allocation of risk limits by customer or counterparty, combined with the allocation of a limit by country. Banesto's position in emerging countries is that arising from the hedging and service it wants to provide to its customers in the course of their ordinary foreign trade business. Therefore, the assumed risk profile is conservative and is largely hedged by top-level entities.

2. Risk monitoring system

Since Banesto is aware of the importance of anticipation in the risk area ("risk problems never arise at the time of origination of loans"), it has had a comprehensive risk monitoring system in place for several years. This system is based on the following basic pillars:

- Risk Anticipation System (RAS), which each month reads more than 120 significant credit risk variables including both in-house and external information. The objective of this system is to identify possible liquidity or solvency problems of customers the lending to which exceeds €6,000.
- Monitoring of irregular-status contracts.
- Periodic (quarterly or half-yearly) review of customer internal ratings by the units responsible for customer acceptance.
- Staffing of Regional Offices, both Retail Banking and Business Banking, with professionals dedicated full-time to risk monitoring tasks.
- Inclusion of risk monitoring tasks in the working agenda of Banesto professionals, with daily committee meetings at all the Bank offices and monthly monitoring meetings.

The use of the RAS gives rise to the periodic identification of counterparties requiring special surveillance (FEVE), to which a specific risk policy is applied (monitoring, consolidation, reduction and extinguishment). Banesto considers that this systematic and periodic treatment of the condition of its loan portfolio is a key factor in managing risks.

3. Recoveries

Risk management also includes the recovery of defaulting loans. Loan recovery management is based on the complexity and amount of each case. When the amount and complexity involved exceed a certain level, specialized loan recovery managers are entrusted with this task.

4. Risk-adjusted return on capital and the new Basel Accord

Special mention should be made, in connection with risk management at Banesto, of the application of a RAROC (risk-adjusted return on capital) system which facilitates the integrated operation thereof. The RAROC is based on an internal rating system that covers all of Banesto's counterparties and transactions from the beginning to the end of the relationship with our entity, since the rating allocated at the time of acceptance is reviewed on an ongoing basis in the monitoring phase. Each internal rating is associated with expected default probabilities, on the basis of historical experience, and, therefore, with losses associated with each transaction and customer (Expected Default Rate or EDR). The heterogeneity resulting from the ratings of different segments is adjusted by a Master Scale which links them to the EDRs.

Knowledge of the EDR, of the exposure to each customer and of the average recovery rate ("loss severity") facilitates calculation of the expected loss, which contributes a predictive capacity to the model. The expected loss concept makes it possible to estimate the unrealized portfolio losses and, therefore, to record the required provisions.

The economic capital is that required to cover unexpected losses, since provisions have already been recorded for expected losses. In order to determine the unexpected losses, it is also necessary to know the level of diversification of the Bank's portfolio and the set external rating objective. This enables the Bank to determine the economic capital consumed by each lending transaction, for each external rating level and diversification factor and, therefore, to calculate the effective shareholder return. This methodology facilitates calculation of the minimum risk price which remunerates the economic capital at the rate required by shareholders (currently 25%). This system makes it possible to distinguish between value-creating transactions or customers (return on economic capital or RAROC exceeding the set objective) and value-destroying transactions and customers.

In short, the RAROC methodology makes the following tasks possible:

- To determine how much capital is required to maintain the volume of risks assumed by Banesto for a given solvency objective.
- To understand where the shareholder capital is invested and the return thereon.
- To identify the transactions, customers or segments which create or destroy value for Banesto through the identification of a risk price which covers the financing cost, the operating costs, the provision for nonperforming loans and the return on economic capital required by shareholders.

The ultimate objective of this internal model based on the concepts of expected loss, unexpected loss and economic capital is to develop a risk measurement and management model consistent with the Bank of Spain's statistical allowance requirements (FONCEI) and, in due course, to provide access to advanced models for the calculation of capital requirements under the BIS II proposal, which will enter into force at the end of 2006.

5. Geographical distribution of the credit risk

The detail, by geographical area, of the credit risk as of December 31, 2003, is as follows:

Geographical Area	Millions of Euros	%
Spain	29,921.2	93
Other EU countries	1,153.2	4
U.S.73.3	-	
Other OECD countries	355.6	1
Latin America	465.9	2
Other countries	106.8	-
	32,076,0	100

Market risk

Market risk is defined as that arising from the uncertainty, inherent to financial activity, about future market performance. For market risk measurement and monitoring purposes, Banesto makes a distinction between the management of the risks inherent to the Bank's structural position and the management of the trading portfolio positions (debt, equities and derivatives).

1. Management of the structural market risk

The Asset and Liability Management Committee (ALCO) is responsible for managing the structural market risks and the Financial Management Unit is responsible for their monitoring and for the implementation of the policies and decisions adopted.

In view of the nature of the Bank's business, the currency risk on positions not included in cash positions is very limited. In fact, the Bank's policy is to hedge any currency risk which might arise from its ordinary operations. Similarly, the equity risk is practically non-existent and, therefore, talking about structural market risks at Banesto, in practice, means talking about interest rate risk.

Interest rate risk

Focusing on this risk, the balance sheet of Banesto is expressed 94.95% in euros, 4.78% in U.S. dollars and the remaining 0.27% in other currencies. Therefore, the interest rate risk is measured and managed in the positions in dollars and, above all, in euros.

In order to achieve enhanced efficiency in risk management and greater consistency in commercial management, the Bank has had in place, since early 2003, a system whereby all the interest rate risk is transferred from the business areas to the ALCO. Thus, the performance of such business areas is entirely unaffected by interest rate risk. This system consists of a series of transfer prices which are used by the ALCO to give a counterparty to each transaction performed by the business units at interest (fixed/floating, repricing frequency, etc.) identical to that arranged with customers but applying market rates for the related term, so that the interest rate risk is transferred and the unit maintains the commercial margin. The structural interest rate risk is managed using simulation tools which facilitate

calculation of the sensitivity of the net interest income and of the economic value of capital in different interest rate scenarios (parallel curve shifts, slope changes, etc.).

The simulation methodology and tools used offer high flexibility for the performance of different interest rate risk analyses since these are based on the individual information relating to each Bank contract, including all the actual data on the settlement conditions thereof.

Based on the measurements performed, the ALCO adopts the investment/financing and hedging strategies it deems appropriate to optimize the return/risk ratio.

Banesto's interest rate risk policies are as follows:

- Interest rate risk is measured and managed in the positions in euros and in U.S. dollars. Positions in other currencies are hedged so as to eliminate the interest rate risk. Positions in euros account for almost 95% of the balance-sheet total.
- The interest rate risk is managed on an overall basis, the stability of the net interest income being the main objective, followed by the protection of the economic value of capital.

For some time now, the Bank has maintained a relatively high level of hedges in view of the prospects of falling interest rates that have prevailed in recent years. Therefore, the effect of interest rate falls on net interest income is moderate. This policy enabled us to partially mitigate the effect of the interest rate falls recorded in recent years on net interest income. Interest rates in the euro zone and the U.S. are currently at all-time lows and the market, in general, considers that the likelihood of further interest rate falls is low. For this reason, we have reduced the term of our hedges, maintaining low sensitivity in the first year and increasing it from the second year.

In terms of economic value of capital, hedging levels are high, with an increase of €62.7 million in the event of a rise in interest rates of 100 basis points.

At Banesto, as at any other commercial bank, there is a clear curve slope sensitivity. The part of the curve which is relevant for this analysis is that from the short term to 12 months. In order to measure this sensitivity without taking into account parallel curve shifts, we maintain the six-month rate fixed and increase/decrease the overnight rate and the 12-month rate by the same amount to vary the slope of the curve approximately 25 basis points.

The following table shows the gap structure of the maturities and repricing periods of assets, liabilities and off-balance-sheet transactions in thousands of euros as of December 31, 2003:

Millions of Euros						
	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Not Sensitive
Assets						
Money market	2,903	2,540	274		7	5,724
Credit system	14,756	11,953	724	806	315	28,554
Securities portfolio	6,314	1,974	1,999	3,701	2,886	16,874
Other assets						5,782
Total assets	23,973	16,467	2,997	4,507	3,208	5,782
Liabilities						
Money market	8,809	3,278	1,827	2,227	224	16,365
Deposit market	11,377	3,155	766	1,348	6,967	23,613
Issues	3,708	55	15	129	2,500	6,407
Other liabilities	1,452	63	73	156	152	8,654
Total liabilities	25,346	6,551	2,681	3,860	9,843	8,654
Off-balance-sheet transactions	(3,304)	(1,392)	1,668	821	2,208	
Simple gap	(4,677)	8,524	1,984	1,468	(4,427)	(2,872)
Cumulative gap	(4,677)	3,847	5,831	7,299	2,872	
Sensitivity ratios:						
Assets-liabilities/Total assets	(2.41%)	17.42%	0.56%	1.14%	(11.65%)	(5.04%)
Simple gap /Total assets	(8.21%)	14.97%	3.48%	2.58%	(7.78%)	(5.04%)
Cumulative gap/Total assets	(8.21%)	6.76%	10.24%	12.82%	5.04%	
Coverage ratio:						
Sensitive assets/sensitive liabilities	94.58%	251.37%	111.79%	116.76%	32.59%	66.81%

The gap structure shown in the foregoing table is typical of a bank with predominantly commercial banking business (negative long-term not-sensitive gaps caused by demand deposits and positive gaps from three months to five years due to loans). However, it does include positions of certain importance arising from measures taken to manage the risk inherent in the Bank's traditional business positions; these measures considerably reduce risk.

Liquidity risk

Liquidity risk management must ensure that the Bank has access to the funds required to meet payments at reasonable prices. The Bank has a broad range of tools and measurement systems to measure and manage the liquidity risk. These include mainly the preparation of gap tables, on a daily basis for the shorter terms and with larger groupings for long terms, measurements of the net position in money markets, ratios, etc.

Banesto attaches great importance to liquidity risk management and applies a highly conservative policy to its positions.

The Bank always seeks to maintain its net position in money markets at reasonable levels through the early scheduling of the financing required in the capital markets and the adoption of balance-sheet management measures.

Additionally, interest rate and liquidity risk management is supplemented with stress-testing scenarios which offer information on the interest rate and liquidity risks in extreme situations or in the event of market crises. Contingency plans have been established to cater for possible liquidity crises in the markets.

The following table shows the gap structure of maturities as of December 31, 2003, and can be used as a basis for the analysis of liquidity:

Millions of Euros							
	Up to 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 5 Years	Over 5 Years	No Specific Maturity	Total
Balance-sheet liquidity gaps							
Assets							
Money market	4,777	940			7		5,724
Credit system	8,447	6,805	2,228	7,574	3,501		28,554
Securities portfolio	7,250	2,867	2,748	3,384	625		16,874
Other assets						5,782	5,782
Total assets	20,474	10,612	4,977	10,958	4,133	5,782	56,934
Liabilities							
Money market	11,490	2,424	2,168	273	9		16,365
Deposit market	11,654	2,680	740	4,969	3,570		23,613
Issues	634	2,470	27	2,150	1,125		6,407
Other liabilities	1,473	115	63	245		8,654	10,550
Total liabilities	25,251	7,689	2,998	7,638	4,705	8,654	56,934
Simple gap	(4,777)	2,923	1,979	3,320	(572)	(2,872)	

These gaps also reflect a typical commercial banking structure with a high percentage of demand deposit financing.

Currency risk

Due to Banesto's strategic orientation, the structural currency positions are very small and the Bank's policy is to hedge them whenever possible.

The currency positions as of December 31, 2003, were as follows:

Thousands of Euros		
Currency	Long Position	Short Position
U.S. dollars	9,915	-
Canadian dollars	3,166	-
Swiss francs	1,765	-
Japanese yen	-	17,742
Pound sterling	563	-
Other currencies	2,003	331
	17,412	18,073

Derivatives transactions

The Group uses these instruments in transactions to hedge its asset and liability positions and in other transactions. These transactions include, inter alia, financial futures on interest rates and securities, options purchased or written, future rate agreements (FRAs) and interest rate swaps (IRSs), currency swaps and cross-currency swaps.

The notional amounts of these transactions do not necessarily reflect the volume of credit risk and other types of economic risk inherent therein assumed by the Group, since the net position in these financial instruments is the result of offset and/or combination of them. The net replacement value of the derivatives portfolio the Group held as of December 31, 2003, was €31 million, which represents 0.05% of the notional value of these contracts.

Thousands of Euros								
	2002 Maturity				2003 Maturity			
	Total	Up to 1 Year	Over 1 Year	Replacement Value	Total	Up to 1 Year	Over 1 Year	Replacement Value
Unmatured forward foreign currency purchases/sales	3,709,146	3,347,815	361,331	45,718	4,437,161	4,182,065	255,096	(70,282)
Financial asset purchases/sales	543,372	274,876	268,496	2,493	2,688,249	2,414,905	273,344	(232)
Futures on interest rates and securities	805,150	805,150	-	-	1,135,340	1,135,340	-	-
Options								
on securities	7,962,130	3,588,022	4,374,108	22,092	9,979,312	1,909,370	8,069,942	27,507
on interest rates	4,234,737	-	4,234,737	4,031	2,557,108	-	2,557,108	6,712
on currencies	534,628	520,218	14,410	1,263	746,562	414,360	332,202	(5,345)
Future rate agreements (FRAs)	2,100,000	1,900,000	200,000	53	63,000	63,000	-	116
Interest rate swaps (IRS)	31,632,470	16,015,213	15,617,257	58,186	36,981,365	11,914,475	25,066,890	2,153

2. Cash market risk management

Interest rate, currency and equity risks are managed and monitored using the Value-at-Risk (VaR) methodology.

The VaR aims to provide a single market risk figure encompassing both the interest rate and currency risks and the equity risk. This figure reflects the maximum expected loss in the event of adverse market variations, given a time horizon of one day and a confidence level of 99%. In other words, if a confidence interval of 99% is assumed, on average, the realized daily management losses are expected to exceed VaR estimates on one of every one hundred days.

Market risk measurement is complemented by:

- Establishing limits on the position in certain currencies.
- Establishing limits on the private fixed-income portfolio.
- Establishing limits on losses, also known as stop-loss limits.
- Complementing the VaR analysis with stress-testing scenarios.
- Checking the reliability of the VaR methodology with back-testing processes.

The highest risk level was reached on December 12, 2003 (€2,247,463), due to the sharp increase in market volatility, and the lowest risk level was recorded on May 19 (€261,403). The average risk in 2003 stood at €740,420, which represented 20.85% of the limit.

Back-testing

The objective of the back-testing process is to check the reliability of the VaR as a market risk measurement methodology. For this purpose, a comparative analysis is performed of the realized daily results and the estimated Value at Risk (VaR). Based on the VaR methodology assumptions, these realized results should not exceed the estimated VaR on more than 1% of the days.

Additionally, other tests of assumptions are performed, such as tests of the value of the mean and the variance of the distribution of results observed, as well as normality tests to check other assumptions made in the VaR methodology.

The back-testing analysis performed at Banesto was checked both by the Audit departments of the Santander Central Hispano Group and by rating agencies such as IBCA, Moody's and Standard & Poors. It meets the minimum requirements recommended by the Bank for International Settlements (BIS) in connection with the testing of the internal systems used in measuring and managing market risks.

Stress-testing

Stress-testing is a complementary risk analysis process that consists of generating different scenarios reflecting the impact of extreme movements in the financial variables on the result of a portfolio.

At Banesto three types of stress scenarios are considered:

- The first stress scenario is based on a historical analysis of the financial variables, in search for extreme situations. The maximum variations observed for the different variables are taken and the impact of these variations on the value of the portfolio is analyzed.
- The second scenario is based on replicating the movements of the variables in a specific crisis environment: the simulated scenario is that of September 11, 2001, and its effect on the value of the Bank's current portfolio is analyzed.
- The third stress scenario relates specifically to the volatility of the equities portfolio, and the effect of the September 11, 2001 crisis on the portfolio gamma and vega is analyzed.

Operational risk

Banesto's deeply-rooted operational risk management culture, with tools and good practices in place throughout the organization, provided a solid foundation for the implementation of a new Operational Risk Management Framework, which will enable the Bank to meet the most advanced requirements of the future capital adequacy regulations (New Basel Capital Accord / BIS II). One of the novelties of these regulations is the establishment of regulatory capital for operational risk.

By harnessing the organization's advanced technology, this new Framework will be equipped with the tools required for integrated, automated operational risk management, consistent with the new regulations in this area.

The first of these tools, which was developed in-house this year, is the Operational Risk Loss Database. This tool facilitates the classification of losses by type of operational risk event and line of business and meets the methodology and quality standards of the future regulations.

Environmental risk

In order to contribute to a more sustained development, environmental training courses have been organized since 2002. Also, a customer analysis and classification model is being defined which takes account of the environmental policies applied by our customers.

AGENDA

First

Review and approve the annual financial statements and management report of Banco de Vitoria, as well as its management performance and proposed earnings distribution, all for 2003.

Second

Review and approve the annual financial statements and management report of Banco Español de Crédito and of its consolidated group, as well as the management performance and proposed earnings distribution of Banco Español de Crédito, all for 2003.

Third

Approve specific regulations for Shareholders' Meetings.

Fourth

Reduction of the capital stock by €201,355,728.42 with the purpose of returning to shareholders, through a decrease of €0.29 in the nominal value of shares, and the consequent change in article 5 of the corporate by-laws.

Fifth

Change the following articles of the corporate by-laws: Article 5 (elimination of the second paragraph referring to the Board's power to increase the capital stock), Article 20 (modification of c) and d) to clarify certain functions of the Chairman of the Board reflected in the by-laws), Article 21 (inclusion of the possibility of calling the Board to meet at the request of three directors, incorporation of the legal obligation of the Board to approve regulations, contents of the same and obligation of the Board to inform the Meeting), incorporation of Article 25 bis (obligation of the Board to approve an annual report on corporate governance), and contents of the same; empower the Board to set the content of the website and make it one of the channels for exercising the right of information), Article 26 (elimination of the text and inclusion of the regulation of the information obligations of directors regarding operations outside of ordinary business or in conditions different from those of the market and conflict of interest situations), Article 30 (submission to the rules contained in the by-laws regarding attendance, voting and representation, using communication from afar), inclusion of an Article 30 bis (exercise of the right of information via the website and content of the same; regulation of the information requests of shareholders), Article 31 (inclusion of the submission of agreements to that stipulated in the Regulations of Shareholders' Meetings), Article 32 (improvements in the drawing up, and inclusion among the powers of the Meeting of the faculty to approve regulations for itself and set the fixed and annual remuneration of the Board), Article 35 (determine the place to hold the Meeting with reference to the place of the headquarters and incorporation of the obligation to indicate in the calling announcement the communication means at a distance for exercising the right of vote, representation, grouping and, where appropriate, attendance), inclusion of an Article 37 bis (regulation of the way to exercise the right to vote, determining the necessary advance warning for the exercise of said right, consideration and

regulation of voting from afar), inclusion of an Article 37 ter (regulation of attendance at Meetings via electronic and telematic means from afar), Article 40 (substitution of accounting obligations to include those arising from regulations of the securities market).

Sixth

Set the number of Board members for 2004 at 11, appointment of two new non-executive directors and re-election of directors.

Seventh

Re-election of the auditor.

Eighth

Authorization of stock buybacks by the Bank and its affiliates.

Ninth

Empower the Board to issue convertible bonds and/or bonds that can be exchanged for shares, as well as warrants and other similar securities that give directly or indirectly the right to subscribe to or acquire shares. Set the criteria for determining the bases and types of conversion and/or exchange and empower the Board to increase the capital by the necessary amount, as well as exclude the pre-emptive right of shareholders and holders of convertible bonds, warrants and other similar securities.

Tenth

Grant the Board, with full substitution authorization, the power to fully execute the agreements.

Eleventh

Inform the Meeting of the main lines of the Regulations of the Board.

FULL TEXT OF THE AGREEMENTS PROPOSED BY THE BOARD OF DIRECTORS OF BANCO ESPAÑOL DE CREDITO, S.A. TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

1. Proposed agreements concerning the first point on the agenda

First. - Approve the Annual Accounts and the Management Report of Banco Español de Crédito S.A. and of its Consolidated Group for 2003, as well as the management by the Board of Banco de Vitoria, S.A. for the same period.

2. Proposed agreements concerning the second point on the agenda

First. - Approve the Annual Accounts and the Management Report of Banco Español de Crédito, S.A. and the Consolidated Group for 2003, as well as the management by the Board in the same period.

Second. - Allocate from the 2003 profit of €428,544,543.83 €42,854,454.83 to legal reserves and €385,690,089.45 to voluntary reserves.

3. Proposed agreements concerning the third point on the agenda

First. - Approve the Regulations of Shareholders' Meetings, the text of which has been put at the disposal of shareholders and which is incorporated to the minutes of the Meeting.

Second. - Delegate in the Board of Directors, with power to be replaced by the Executive Committee or a director or directors, the widest powers necessary for the full execution of the agreements adopted, communicating to the National Securities Commission the approval of the Regulations of Shareholders' Meetings, and record it in the Madrid Mercantile Registry in accordance with normal rules, setting, completing, developing and adapting said regulations and the agreements adopted to the observations of any entity or authority, particularly the verbal or written qualification of the Mercantile Registrar, all of this with the purpose of inscribing it in said Registry.

4. Proposed agreements concerning the fourth point on the agenda

First. - In accordance with articles 163 and 164 of the Recast Text of the Law of Limited Companies and 170 and 172 of the Regulations of the Mercantile Registry reduce the capital stock of the company, through a decrease in the nominal value of the shares, amounting to €201,355,728.42, with the purpose of returning contributions to all shareholders. The amount to be delivered to shareholders will be €0.29 per share, which will also be the amount of the reduction in the nominal value of all shares. After the capital reduction, the nominal value will be €1.48 each share.

The reduction will be put into effect once the necessary authorizations have been received, within 15 days following the ending of the period which, for the exercise of the right of opposition of creditors, is set in article 166 of the recast Text of the Law of Limited Companies.

The amount of €0.29 per share will be paid to shareholders via the entities of the Clearing and Settlement Service, or an institution, which can replace it. Banco Español de Crédito will be the paying entity.

Second. - As a result of this reduction, modify the first paragraph of article 5 of the by-laws, which, once the capital reduction is executed, reads as follows:

"ARTICLE 5. The capital stock is set at €1,027,608,545.04 (one thousand twenty seven million six hundred and eight thousand five hundred and forty five euros with four centimes), represented by 694,330,098 shares of €1.48 (one euro and forty eight centimes) nominal value each, numbered from 1 to 694,330,098, inclusive, which are fully subscribed and disbursed and constitute a single series.

The Board is authorized to increase the capital, including exclusion of the pre-emptive right, by a maximum of half the capital at the time of the granting of this authorization, one or several times and in the conditions deemed the best, through monetary contributions, with or without issue premium, through the issue of shares, with or without vote, within the period and in the terms set in the applicable legislation, modifying, in each case, in the relevant terms this article of the by-laws."

Third. - These agreements on the capital reduction are subject to obtaining the necessary authorizations.

5^o Proposed agreements concerning the fifth point on the agenda

First. - Modify articles 5,20,21,26,30,31,32,35 and 40 of the corporate by-laws and incorporate to them articles 25bis, 30 bis, 37 bis and 37 ter, which are as follows:

ARTICLE 5. The capital stock is set at €1,027,608,545.04 (one thousand twenty seven million six hundred and eight thousand five hundred and forty five euros with four centimes), represented by 694,330,098 shares of €1.48 (one euro and forty eight centimes) nominal value each, numbered from 1 to 694,330,098, inclusive, which are fully subscribed and disbursed and constitute a single series.

ARTICLE 20 The Chairman is the maximum representative of the bank and in the exercise of the post, as well as the powers conferred by law and by these by-laws, will have the following:

- a) Preside Shareholders' Meetings.
- b) Direct the discussions and deliberations of the Shareholders' Meeting, systemizing and ordering the participation of shareholders, setting the time for each one, in order to achieve the best use.

- c) Call and preside over Board and Executive Committee meetings, as well as the Commissions and Committees designated in its sphere, of which the Chairman is Chairman.
- d) Draw up the agenda of Board and Executive Committee meetings, as well as for the Commissions or Committees designated in its sphere and of which the Chairman is Chairman and direct the discussions and deliberations.
- e) Execute the agreements of the Board and of the Commissions and Committees, for which purpose the Chairman has the widest powers of representation, without detriment to the delegation of powers that for this purpose might be granted to the respective organ of administration in favour of other directors.

ARTICLE 21.- The Board must meet every three months and also when it is deemed opportune by the Chairman who calls it himself or at the request of at least three directors.

The Board will approve regulations that set out its rules of working and the interior regime, as well as those that regulate the Audit and Compliance Committee and the other Commissions or Committees whose creation is decided by the Board. The Board will inform the Shareholders' Meeting of the regulations and any changes immediately after the agreement is adopted.

ARTICLE 25 bis The Board will approve the annual report on corporate governance, whose content will be in line with the legal regulations and the development ones that regulate it. It will contain information on the bank's ownership structure; the structure of its administration; linked operations with senior executives; shareholders and other group companies; risk control systems; the working and meetings of Shareholders' Meetings and the degree of compliance of the corporate government recommendations contained in official reports.

The Board also determines the content of the bank's website, in accordance with legal regulations. The website will be one of the ways to make the information rights of shareholders effective, without detriment to the use of other stipulations in Article 30 bis of the corporate by-laws for the exercise of this right.

ARTICLE 26 –

1. Directors will record in the annual report the operations they have conducted with the bank or with another company of the same group, directly or via another person that acts on their behalf, during the year to which the annual accounts refer, when these operations are not part of the bank's ordinary business or are not conducted in market conditions. The directors will also include in the annual report on corporate governance and in the information provided to supervisory bodies the data of these operations required by the respective regulations, and request permission from the authorities.

2. Directors must communicate to the Board any situation of direct or indirect conflict they have. In the event of a conflict the director must not participate in the operation. Conflict of interest situations will be recorded in the Annual Corporate Governance Report.

ARTICLE 30.- All shareholders that have the number of shares stated in the previous article and which are inscribed in the book-entry system at least five days before the Meeting have the right to attend it. When the shareholder exercise the right to vote from a distance, in the terms established in Article 37 bi, he must also fulfil this condition at the time of issuing the vote.

Shareholders with the right to attend can delegate their representation in another shareholder. The representation is personal and must be done in writing and for each Meeting. All of this without detriment to Article 108 of the Law of Limited Companies.

In order to help shareholders exercise their right to attend Meetings, vote, be represented and group shares any shareholder who so requests it can obtain at the headquarters, as of the same day as the publication of the agreement to call the Meeting, a personal assistance card, which will enable them to exercise as many rights as correspond to them as a shareholder.

Shareholders who do not live near to the headquarters can also be represented or group shares through an assistance card obtained by fax or any other written form of communication. Whatever the method used, it will require validation through written and signed confirmation, by someone with the power of the company, justifying reception of the card by the same procedure used to send it or something similar.

Shareholders can confer their representation by electronic communication which duly guarantees the representation attributed and the identity of the person represented. Representation is admitted when it is granted by an electronic document, by virtue of which it is conferred, incorporates the recognized electronic signature used by the represented person, or any type of signature which, through an agreement adopted for this purpose is regarded by the Board as meeting adequate guarantees of authenticity and identification of the shareholder conferring the representation. The Board will determine, in the agreement calling each Meeting, the procedures, requirements, system and period for granting and remitting to the bank the representations or delegations of votes issued electronically. These circumstances will be set out in the advertisements calling Meetings.

In the event of public request of representation, it will be as set out in Article 107 of the prevailing Law of Limited Companies and, where appropriate, Article 114 of Law 4 of July 28 1988 of the Securities Market.

Directors must attend the Meetings. Executives, technicians and anyone else, with the right to speak but not to vote, can also attend who, in the view of the Board is interested in the good running of the company and whose participation in the Meeting could be useful. The Chairman of the meeting can authorize any other person to attend, without detriment to the Meeting's power to revoke said authorization.

ARTICLE 30 BIS -

1. The information rights of shareholders will be made effective in the legally established way and through the bank's website, whose

content is determined by the Board. The following must appear on the website:

- a) Corporate by-laws
- b) The Regulations of Shareholders' Meetings
- c) The Regulations of the Board
- d) The annual report and the Internal Rules of Conduct
- e) The corporate governance reports
- f) The calling of Shareholders' Meetings, the proposals to be submitted to a vote, and the documents and information which, in accordance with the prevailing regulations, have to be made available to shareholders as of the date of the calling of the Meeting.
- g) Information on the development of the Meetings held, and in particular, on the composition of the Meeting at the time of its constitution, the agreements adopted with the number of votes issued and the way each vote went for the proposals included in the agenda.
- h) The channels of communication with the Unit of Relations with Shareholders and in particular the relevant explanations for exercising the right of information, indicating the postal address and the e-mail.
- i) The means and procedures for conferring representation at Meetings.
- j) The means and procedures for exercising voting from afar including, where appropriate, the forms for accrediting assistance and exercising the vote by telematic means at Meetings.
- k) The significant developments communicated to the National Securities Market Commission.

2. The information right of shareholders is also made effective through specific requests that are in accordance with the following rules:

- a) Questions or requests for information or clarification that refer to points on the agenda can be formulated:

- During the meeting, in the terms established in the Regulations of Shareholders' Meetings. In this case, directors will tend to the request at the meeting, unless this is not possible, in which case they will do so in writing within seven days, under the terms set out in the Regulations.

- In writing, up to the seventh day before the Meeting through delivery of the request to the headquarters, or by sending it through the post or electronic or telematic means. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this

purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right. These requests will be replied to, before the Meeting, by the same means that they were formulated, unless the shareholder states another form among those declared suitable in this article.

- b) The requests referring to information made available to the public by the company sending it to the National Securities Market Commission, as of the immediately previous Meeting, can be formulated up to the seventh day before the Meeting, through delivery of the request to the headquarters, or by sending it through the post or electronic or telematic means. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right. These requests will be replied to, before the Meeting, by the same means that they were formulated, unless the shareholder states another form among those declared suitable in this article.

3. All of this is understood to be without detriment to the right of shareholders to obtain printed documents and request their free delivery when the law so establishes it.

ARTICLE 31.- The Meeting, duly constituted, represents all shareholders and its agreements, adopted in accordance with these by-laws, the regulations of the Shareholders' Meeting and prevailing regulations, are binding for all shareholders, including those absent, who abstained in votes and dissidents, without detriment to the rights and shares of all types that could correspond to them under laws.

ARTICLE 32.- The Meeting will decide what are the matters to be discussed in accordance with the law and by-laws. It is the Meeting's responsibility to adopt agreements on:

1. The appointment and cessation of directors.
2. The appointment of auditors.
3. Examine the management, approve the prior year's accounts and decide on how to distribute the profit.
4. Increase or reduce the capital empowering, where appropriate, the Board, within the periods set by the law, to give the date or dates of its execution, using all or part of this delegation, or even not executing it because of market conditions, the company's situation or any development of particular importance that justifies such a decision, informing the first Meeting held after the period is up for the execution. Empower the Board to increase the capital stock in the terms of Article 153.1.b) of the Law of Limited Companies.
5. Issue bonds and empower the Board to issue bonds, convertible or otherwise, under the terms of the law.
6. Change the by-laws.

7. Wind down, merger, split off and transformation of the bank.

8. Approve the Regulations of the Shareholders' Meeting, in accordance with the law and by-laws.

9. Approve the fixed and annual remuneration of the Board.

10. Decide on any other matter that is submitted by the Board, which makes it necessary to call a Meeting as soon as possible to deliberate on and decide on specific agreements of those included in this article that are submitted, in the supposition that circumstances or significant developments could occur that affect the bank, shareholders or social bodies, and, in any case, in the supposition of the formulation of a bid for shares issued by the company, which does not need a favourable report from the Board.

ARTICLE 35.- Meetings are held in the place where the company has its headquarters, indicating the building in the calling.

Meetings are called through an announcement in the Official Bulletin of the Mercantile Registry and in one of the largest selling dailies in the province, at least 15 days before the date of the meeting.

The 15 days are working days, excluding in the calculation the day when the announcement is published and that for holding the Meeting on first call.

The announcements give the date of the meeting on first call and all matters on the agenda. The date of the Meeting on second call can also be given, with a minimum of 24 hours between the date of the first and second calls.

The procedure, requirements, system and period are also indicated for:

- a) The granting and sending to the bank of the representations or delegating of votes by e-mail and revocation.
- b) The exercising of the rights of voting, information, representation, grouping and, where appropriate, assistance at a distance or in electronic or telematic form.

ARTICLE 37 bis.-

1. Shareholders with the right to attend can issue their vote on the proposals regarding the points on the agenda of any type of Meeting by:

- a) Post, sending the assistance card and the vote obtained from the bank duly signed and completed.
- b) Other electronic means, provided that the electronic documents by virtue of which the right of vote is exercised incorporates the recognized electronic signature used by the person, or another type of signature which the Board regards as suitable, under a prior agreement adopted for this purpose, and meets adequate guarantees of authenticity and identification of the shareholder exercising the right.

The Board will determine, in the announcement calling each Meeting, the procedure, requirements, system and period for the exercise and remitting to the bank the right of vote from a distance and for its revocation. These circumstances are stated in the announcement for the calling of the Meeting.

2. The Regulations of Shareholders will establish the time frame, in relation to the date of the holding of the Meeting, for receiving the vote issued at a distance. In any case it must accept those received within the 10 days following the date of the calling. The Board can increase the period for receiving votes, stating it when it calls the Meeting.

3. Shareholders who issue their vote from afar in the terms indicated in this article will be considered as being present for the purposes of constituting the Meeting. As a result, delegations issued before will be understood to be revoked and those conferred afterwards will not have effect.

4. Votes from afar referred to in this article can only be left without effect:

- a) By subsequent revocation done by the same way as that employed for the issue, and within the time frame established.
- b) By attending the Meeting for which the vote was issued, either physically, or through the at distance communication means mentioned in Article 37 ter.
- c) By the sale of shares whose ownership confers the right of vote, about which the bank has knowledge at least five days before the holding of the Meeting.

ARTICLE 37 ter -

1. Shareholders with this right can attend the Meeting in the place indicated in the calling, using electronic or telematic means, provided that it can be technically done and is agreed by the Board, which will indicate in the calling the means that can be used for such a purpose, so that the security conditions required to guarantee the identity of shareholders, the effectiveness of their rights and the correct development of the meeting are met. In any case, the voting and information rights of shareholders who attend the Meeting using these means must be exercised through the electronic means of communications considered suitable in the current by-laws.

2. The assistance of shareholders at the Meeting in this supposition will be adjusted to what is established in the Regulations of Shareholders' Meetings, in which can be established:

- a) The minimum period in advance in which the connection must be made to consider the shareholder present.
- b) The period of time, during the holding of the meeting, in which shareholders attending from afar can exercise their information and voting right.
- c) The methodology used to draw up the list of those attending the Meeting.

3. The Regulations can empower the Board and the Chairman of the Meeting to apply these restrictions if there are problems during the meeting.

4. If for technical reasons not the responsibility of the bank or for reasons of security arising from circumstances beyond its control there is an interruption or breakdown in communication, this circumstance cannot be invoked as an illegitimate depriving of the rights of shareholders.

5. The Committee running the meeting and, where appropriate, the notary public must have direct access to the connection systems that permit attendance at the Meeting, so that they have immediate knowledge of the communications conducted by shareholders who attend from afar and the manifestations they make.

ARTICLE 40.- The business year runs from January 1 to December 31.

Every six months the bank's balance sheet will be drawn up, without detriment to the preparation of regular information which, in accordance with applicable regulations, has to be sent to the National Securities Market Commission, if the shares or other securities issued by the bank are listed on the official secondary market.

Second.- The agreements regarding changes to by-laws are subject to the legally required authorization.

6. Proposed agreements concerning the sixth point on the agenda

Following the proposal of the Appointments and Remuneration Committee, formulated at its meeting on January 13 2004:

First.- Set, for 2004, the number of Board members at 11.

Second.- Appoint the following as non-executive directors for the maximum legal period, without detriment to Article 17 of the corporate by-laws:

- Francisco Daurella Franco
- Daniel García-Pita Pemán

Third.- Re-elect as directors for the maximum legal period, without detriment to Article 17 of the corporate by-laws the following:

- Matías Rodríguez Inclarte
- Juan Delibes Liniers

7. Proposed agreements concerning the seventh point on the agenda

Re-elect Deloitte & Touche España S.L. as the auditor of the Bank's and of the consolidated Group accounts for 2004, accepting the corresponding proposal of the Board at the request of its Auditing and Compliance Committee.

For such purpose, the Board is empowered to draw up with the firm the corresponding contract, with the clauses and conditions deemed opportune, and also the faculty to make the changes deemed necessary, in accordance with the prevailing legislation. The Board is also authorized to delegate this faculty in the Auditing and Compliance Committee or in the Director or Directors designated.

Deloitte & Touche España S.L. has its registered office at Raimundo Fernández Villaverde, 65, Madrid and its tax identification number is B-79104469. The following are the figures of the company in the Mercantile Registry: Madrid Mercantile Registry, volume 13,650, page 188, section 8, M- 54414 and in the Official Registry of the Auditors of Accounts (ROAC) with number S0692.

8. Proposed agreements concerning the eighth point on the agenda

Empower the Board of Directors, in accordance with article 75 and others of the recast text of the Law of Limited Companies to buyback shares of Banco Español de Crédito and also authorize the Board the buyback of said shares by the Bank's subsidiaries. The maximum number of shares that can be acquired, including those already held by the company acquiring them and its subsidiaries, and, where applicable, the parent company and its subsidiaries, may not exceed the legal limit established, and provided all other legal requirements are also met. The minimum and maximum prices for acquiring the shares will be their price reduced or increased by 20%, respectively, on the day the transaction is entered.

The methods for acquiring the shares can be buying and selling, as well as swaps and any other form of business, as deemed opportune by circumstances.

The Board is authorized as widely as it necessary to seek as many authorizations as necessary in order to fulfil the applicable regulations and see through the present resolution.

The duration of this authorization will be 18 months as of the day of this meeting.

The acquisitions made on the basis of this authorization can be shares to be delivered directly to employees or directors or as a result of exercising stock options they have for which treasury stock can be used.

As a result, the previous authorization for the buyback of shares of Banco Español de Crédito, granted at the General Meeting of February 4 2003, is no longer valid.

9. Proposed agreements concerning the ninth point on the agenda

First.- Empower the Board, adhering to the regime for the issue of bonds and under the terms of Article 319 of the Regulations of the Mercantile Registry, to issue fixed-income securities convertible

into shares of new issue in Banesto and/or that can be exchanged for shares already in circulation, as well as warrants and other similar securities that can give direct or indirect right to the subscription or acquisition of shares in Banesto, either or new issue or already in circulation, in accordance with the following conditions:

1. The issue of securities for which the Board is empowered by virtue of this agreement (henceforth "the securities") can be done once or several times, at any moment, within the maximum period of four (4) years as of the date of the adoption of this agreement.

2. The total maximum amount of issue or issues will be FIVE HUNDRED MILLION EUROS (500,000,000,000) or the equivalent in another currency.

3. The use of this power agreed here allows the Board to determine, for each issue, its amount, always within the global quantitative limit; the place of issue, in Spain or abroad, and the currency and if foreign, its equivalent in euros; the denomination, whether they be bonds, including subordinated debt, warrants or any other similar security, the issue price and/or premium, and the procedure, period and other conditions applicable to the exercise of the pre-emptive right or acquisition of the underlying shares; the interest rate, fixed or variable, the dates and procedures for payment of the coupon; the perpetual or redemption nature of the issue and in the case of the latter the period of repayment and the maturity date; through securities or book-entry; the preferential right of subscription; applicable legislation; request the admission for trading in official secondary markets, whether organized or not, Spanish or foreign, of the securities issued with the requirements that in each case are demanded by prevailing rules, and, in general any other condition of the issue, as well as, where appropriate, appoint the person and approve the rules that govern the legal relations between the Bank and the syndicate of holders of the securities issued, if it is necessary to constitute said syndicate.

4. For the purpose of determining the base and types of conversion and/or exchange, the following criteria are agreed:

4.1 Bonds and convertible bonds and/or bonds that can be exchanged

(i) Fixed-income securities (bonds and any others admitted in law) issued under this agreement will be convertible into new shares of the Bank and/or can be exchanged for shares already in circulation with adherence to a relation of conversion and/or exchange set by the Board, which is also empowered to determine if they are convertible and/or can be exchanged, as well as determine if they are necessary or voluntarily convertible and/or can be exchanged, and in the event that they are voluntarily, at the option of the holder or the issuer, then during the period established in the issue agreement and which cannot exceed fifteen (15) days from the issue date.

(ii) The Board can also establish, if the issue is convertible and can be exchanged, that the issuer reserves the right to opt at any time between conversion into new shares or exchange for shares already in circulation, specifying the nature of the shares to be delivered at the time of the conversion or exchange, be also able to opt for delivering a combination of new shares and already existing ones. In any case, the issuer must respect equality of treatment for all holders of fixed-income securities that are converted and/or exchanged at the same date.

(iii) For the purposes of the conversion and/or exchange, the fixed income securities will be valued by their nominal value and the shares at a fixed price determined in the agreement of the Board in which it makes use of this delegation, or at the price set at the date or dates indicated in the Board's agreement, and on the basis of the value on the stock market of the Bank's shares at the date/dates or period/periods that are taken as the reference in the same agreement, with or without discount, and in any case with a minimum of the highest of the average price of the shares on the Spanish continuous market, according to closing prices, during the 15 days before the date at which the Board adopts the agreement to issue the fixed income securities, and the price of the shares in the same market using the closing price of the day before the agreement is taken.

(iv) When it is time for the conversion and/or exchange, the fractions of the share which correspond where appropriate to the holder of the bonds will be rounded up to the nearest full number below and each holder will receive in cash the difference.

(v) The value of the share for the purposes of the conversion of bonds into shares can never be lower than its nominal value. According to Article 292.3 of the Law of Limited Companies, bonds cannot be converted into shares when the nominal value of them is lower than these.

When an issue of convertible bonds is approved under the framework of the authorization conferred by the Meeting, the Board will issue a report developing and specifying, on the basis of the aforementioned criteria, the bases and types of conversion applicable to said issue. This report will be accompanied by the corresponding report from the auditing firm in accordance with Article 292 of the Law of Limited Companies.

4.2. Warrants and other similar securities can give direct or indirect rights to the subscription or acquisition of the Bank's shares, either new ones or those already in circulation.

The Board is empowered to determine, in the widest terms, the criteria applicable to the exercise of the rights of subscription or acquisition of the Bank's shares, derived from the securities of this class that are issued under the delegation herein granted, applying in relation to these issues the criteria established in 4.1, with the necessary adaptations in order to make them compatible with the legal and financial regime for this type of security.

5. Where the conversion and/or exchange of securities that can be issued under the framework of this delegation is possible, their holders will have as many rights as recognised in the prevailing legislation and especially, where appropriate, those regarding the pre-emptive right and the clause against dilution in the legal suppositions, unless the Meeting or the Board, in the terms and meeting the requirements of Article 150 of the Law of Limited Companies, decides to fully or partially exclude the pre-emptive right of shareholders and of holders of the convertible bonds, warrants and other similar securities.

6. The delegation in favour of the Board also includes, with no limitations, the following powers:

(i) The faculty power, under Article 159.2 of the Law of Limited Companies, to exclude, fully or partially, the pre-emptive right of shareholders and holders of warrants and other similar securities, in the capital increases referred to in the previous paragraph, when so requires to capture funds in the domestic or international markets or in any other way that is justified in the Bank's interest. In any case, if the Board decides to eliminate the pre-emptive right in relation to a specific issue of convertible bonds, warrants and similar securities, under the framework of this authorization, it will issue, at the same time as approving the issue and in accordance with regulations, a report detailing the specific reasons for justifying in the Bank's interest such a measure, which will also be the subject of a report by the auditor referred to in Article 159.2 of the Law of Limited Companies. These reports will be made available to shareholders and holders of convertible bonds, warrants and other similar securities and communicated to the first Meeting after the issue is agreed.

(ii) The faculty to increase the capital by the necessary amount in order to meet the conversion requests and/or the exercise of the right to subscribe to share. This faculty can only be exercised insofar as the Board, adding the capital that increases in order to meet the issue of convertible bonds, warrants and other similar securities, and the other increases of the capital agreed under the framework of the authorization granted by the Meeting held on February 4, 2003, does not exceed the limit of half the share capital set in Article 153.1 b) of the Law of Limited Companies. This authorization to increase the capital includes that of issuing and putting into circulation, one or several times, the shares representing the same that are necessary to carry out the conversion and/or exercise of the right to subscribe to the shares, as well as that of drawing up a new article of the by-laws regarding the amount of capital and, where appropriate, to cancel that part of said capital increase that was not needed for the conversion and/or exercise of the right to subscribe to the shares.

(iii) The faculty, under Article 159.2 of the Law of Limited Companies, to exclude, fully or partially, the pre-emptive right of shareholders and holders of warrants and other similar securities, in the capital increases referred to in the previous paragraph, when the Bank's interest so requires it. In any case, if the Board decided to eliminate the pre-emptive right

in relation to any or all of the capital increases referred to, it will issue, at the same time as adopting the corresponding capital increase agreement, a report detailing the specific reasons for justifying such a measure, which will also be the subject of a report by the auditor referred to in Article 159.2 of the Law of Limited Companies. These reports will be made available to shareholders and holders of convertible bonds, warrants and other similar securities and communicated to the first Meeting after the issue is agreed.

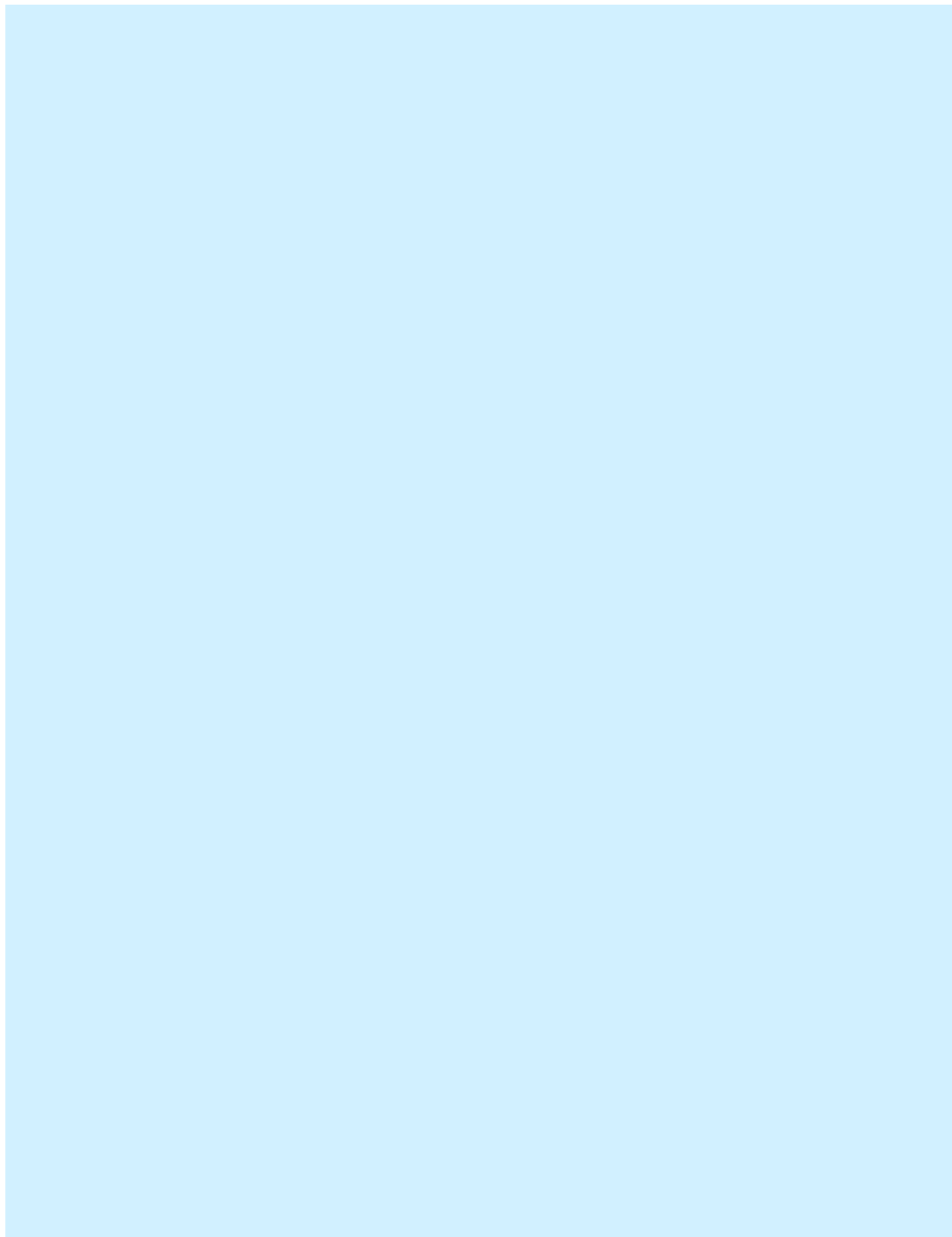
(iv) The faculty to develop and shape the bases and types of conversion, exchange and/or exercise of the pre-emptive rights and/or acquisition of shares, arising from the securities to be issued, bearing in mind the criteria established in the previous number four.

Second.- The Board, in Shareholders' Meetings, will inform shareholders of the use which has been made so far of the delegations to which this agreement refers.

Third.- Empower the Board, with the faculty of substitution in the Executive Committee or in a director or directors, the widest powers necessary to interpret, apply, execute and develop the agreements to issue convertible bonds or bonds that can be exchanged into shares, once or several times, and the corresponding increase in capital, also giving it powers to correct everything that is necessary, as well as meet as many requirements as are legally required to see the agreements through. It can correct omissions or defects in the agreements, stated by any authority, civil servant or entity, Spanish or foreign, and is empowered to adopt as many agreements and grant as many public or private documents as are necessary or convenient to adapt the agreements for the issue of convertible bonds or bonds that can be exchange and the corresponding increases or increase in capital to the verbal or written qualifications of the Mercantile Registrar and any other authority, civil servant or relevant Spanish or foreign institution.

10. Proposed agreements concerning the tenth point on the agenda

Empower the Board, with the faculty of substitution, the widest powers necessary to set, complete, develop and modify the agreements adopted by the Meeting, carrying out as many proceedings as needed with the entity responsible for book-entry registry, the Directorate General of Treasury and Financial Policy and any other entities; as well as draw up and publish the announcements required by Law, The Board is also given the power to fulfil as many requirements as are needed to see them through, being able to complete and rectify omissions or defects in said agreements, and to grant as many public or private documents as are needed to adapt the agreements to the verbal or written qualifications of the Mercantile Registry and any other authority, civil servant or relevant institutions.



REPORT BY THE BOARD OF DIRECTORS OF BANCO ESPAÑOL DE CRÉDITO ON THE PROPOSED REDUCTION OF CAPITAL AND CONSEQUENT CHANGE OF ARTICLE 5 OF THE BY-LAWS SUBMITTED TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

1. Purpose of this report

Article 164 of the Recast Text of the Law of Limited Companies says that a capital reduction has to be approved by the Shareholders' Meeting with the requirements established for changing the by-laws, among which are that the directors must draw up a written report justifying the proposal (article 144). The announcement of the calling of the Meeting will state the right of all shareholders to examine the full text of the change and the present report which shareholders can ask for or have sent to them free.

2. Regulations applicable to the proposal

Article 163 of the Law of Limited Companies establishes that the purpose of the capital reduction can be "the return of contributions" and it can be done through a decrease in the nominal value of the shares, their redemption or grouping to exchange them.

Under article 164 of said Law, the capital reduction has to be agreed by the General Meeting with the requirement of changing the by-laws. The corresponding agreement will express, as a minimum, (i) the figure of the reduction, which, in this proposal, is €201,355,728.42; (ii) the purpose of the reduction, which, as already indicated, is the return of contributions to shareholders; (iii) the proposed procedure, which is to reduce the nominal value of all shares by €0.29 each share, reducing the nominal value, if the proposal is approved, to €1.48 per share, and without it being necessary for recourse to any exchange or stamping of shares, as they are represented in the book-entry system; (iv) the reduction will take place, once the required authorizations have been obtained, within 15 days after the expiry of the period which, for the exercise of the right of opposition of shareholders, is established in article 166 of the Recast Text of the Law of Limited Companies; and (v) the amount to be paid to shareholders, which will be €0.29 per share if the proposal is approved by the Meeting. Bearing in mind that Banesto is subject to the regulations, which as a credit entity, are applicable to it, before execution of the agreement, it will be necessary to fulfil a series of requirements. In particular, article 8 of Royal Decree 1245 of July 14, 1995, on the creation of banks, cross-border activity and other issues related to credit entities, establishes that changing the by-laws of banks will be subject to the authorization and registry procedure established in article 1 of the Royal Decree. This authorization will be requested from the Directorate General of Treasury and Financial Policy, without detriment to meeting the other demands and requirements imposed by regulations on the securities markets.

3. Justification of the proposal

The decision adopted by the Board of Directors to propose the capital reduction to the Meeting, through a decrease in the nominal value of the shares with return of contributions to shareholders, tends to strengthen the Bank's capacity of response in the face of the requirements of an increasingly more demanding and competitive environment, producing greater rationality in the composition of its equity. The Board, following a policy that has been usual, believes it opportune to reduce the capital by returning to shareholders €0.29 per share. At the same time, it will increase the voluntary reserves as it proposes to allocate all the year's profit, once the legal reserve is allocated, to increasing the legal reserves.

This proposal is not alien to the trend of all credit entities, which has been to increase the allocations for voluntary reserves in relation to the capital. This structure of equity produces, among other things, an increased capacity of response in the face of extraordinary situations, which can be faced and charged to reserves, much more quickly and on the basis of the performance of business and that of the whole system.

All these factors are behind the decision to reduce the capital, emphasizing that the measure will strengthen the Bank's position, giving it a structure of equity that will improve its possibilities of new challenges, after the very demanding ones that have been managed in the last few years.

4. Full text of the agreements submitted for the deliberation and decision of the Annual General Meeting of Shareholders

First. In accordance with articles 163 and 164 of the Recast Text of the Law of Limited Companies and 170 and 172 of the Regulations of the Mercantile Registry reduce the capital stock of the company, through a decrease in the nominal value of the shares, amounting to €201,355,728.42, with the purpose of returning contributions to all shareholders. The amount to be delivered to shareholders will be €0.29 per share, which will also be the amount of the reduction in the nominal value of all shares. After the capital reduction, the nominal value will be €1.74 per share.

The reduction will be put into effect once the necessary authorizations have been received, within 15 days following the ending of the period which, for the exercise of the right of opposition of creditors, is set in article 166 of the recast Text of the Law of Limited Companies.

The amount of €0.29 per share will be paid to shareholders via the entities of the Clearing and Settlement Service, or an institution, which can replace it. Banco Español de Crédito will be the paying entity.

Second.- As a result of this reduction, modify the first paragraph of article 5 of the by-laws, also transcribing its second paragraph with its text, once incorporated the delegation which the agreements related to the second point on

the agenda refer to and which, once the capital reduction is executed, reads as follows:

"ARTICLE 5.- The capital stock is set at €1,027,608,545.04 (ONE THOUSAND AND TWENTY SEVEN MILLION SIX HUNDRED AND EIGHT THOUSAND FIVE HUNDRED AND FORTY FIVE EUROS AND FOUR CENTIMES represented by 694,330,098 shares of €1.48 (ONE EURO AND FORTY EIGHT) nominal value each, numbered from 1 to 694,330,098, inclusive, which are fully subscribed and disbursed and constitute a single series.

The Board is authorized to increase the capital, including exclusion of the pre-emptive right, by a maximum of half the capital at the time of the granting of this authorization, one or several times and in the conditions deemed the best, through monetary contributions, with or without issue premium, through the issue of shares, with or without vote, within the period and in the terms set in the applicable legislation, modifying, in each case, in the relevant terms this article of the by-laws."

Third.- These agreements on the capital reduction are subject to obtaining the necessary authorizations.

REPORT OF THE DIRECTORS OF BANCO ESPAÑOL DE CRÉDITO ON THE PROPOSAL TO CHANGE ARTICLES 5, 20, 21, 26, 30, 31, 32, 35 AND 40 OF THE CORPORATE BY-LAWS WHICH ARE SUBMITTED TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS AS POINT NUMBER FIVE ON THE AGENDA

1. Purpose of the report and regulations applicable to the proposal formulated

Article 144 of the prevailing Law of Limited Companies Recast Text approved by Royal Decree 1564 of December 22, 1989 establishes, among other requirements, in the event of agreement to change the by-laws, that the Directors must draw up a written report justifying the proposal which, together with the full text of the modification, must be made available to shareholders in the way established in the aforementioned precept. The purpose of this report therefore is to fulfil this requirement.

Meanwhile, bearing in mind that this entity is subject to the regulations for credit entities, before executing the agreement, it will be necessary to meet a series of requirements derived from this condition. In particular, Royal Decree 1245 of July 14, 1995, on the creation of banks, cross-border activity and other issues regarding the legal regime of credit entities, established in article 8 that changes to the by-laws of banks will be subject to the procedure of authorization and registry established in article 1 of said Royal decree. This authorization will be requested from the Directorate General of the Treasury and Financial Policy, without detriment to meeting the other requirements and demands imposed by regulations on the securities markets.

2 Justification of the proposal

The changes aim to fulfil what is stipulated in Law 26 of July 17 2003, which modified Law 24 of July 28 1988, of the Securities Market, and the Recast Text of the Law of Limited Companies, approved by Royal Decree 1564 of December 22 1989, in order to strengthen the transparency of listed companies. As well as requiring the approval of a specific regulation for Shareholder Meetings, a regulation for the working of the Board and an annual report on corporate governance the new rules regulate the information instruments of shareholders and incorporate the use of new technologies for the exercise by shareholders of their information, attendance, voting and representation rights. All these new rules make it necessary to incorporate a large part of the aspects regulated to the corporate by-laws, with the resultant changes. Meanwhile we have taken advantage of the need to change the by-laws and have also incorporated some technical improvements which, while not very important, are opportune.

We will now look at each article in a summarized way and the proposed changes.

Article 5.

The second paragraph which refers to empowering the Board to increase the capital stock, agreed at the Shareholder Meeting on February 4 2003, is eliminated. Empowering the Board to increase the capital can be done with a simple agreement of the Meeting, in accordance with Article 153 of the Law of Limited Companies. The fact that this empowering is included in the by-laws raises problems of interpretation, as the exercising of the faculty is subject by law to the periods and quantitative limits regarding the capital stock figure, which are calculated in relation to the date of the adoption of the agreement by the Shareholder Meeting. As the by-laws are permanent, once cannot deduce from reading the current Article 5 what is the capital stock figure which limits the increase to be agreed by directors, or what is the time frame for doing it.

As a result, it is advisable to eliminate this paragraph as it gets rid of problems of interpretation and this does not prevent the Meeting from continuing to empower the Board to increase the capital, as allowed by the Law of Limited Companies.

Article 20.

This incorporates in just c) and d) the clarification that the powers to call, preside and draw up the agenda of different Commissions and Committees created in the sphere of the Board attributed to the Chairman must refer to those "with the corresponding chairman", as there could be Committees and Commissions whose chairman is a different person.

Article 21.

The change covers, on the one hand, the possibility that the Board is called at the request of at least three directors, something already in the Board's Regulations; and, on the other hand, the legal obligation of the Board to approve regulations that contain the rules for working and the internal regime. This article also introduces the obligation for these regulations to include the working rules of the Audit and Compliance Committee and of the other Commissions and Committees set up by the Board. The Shareholder Meeting must be told of the contents and changes to these regulations, in accordance with prevailing legislation.

Article 25 bis.

This new article regulated both the Board's legal obligation to approve an Annual Report on Corporate Governance, as well as determine the content of the website, indicating that it will be one of the ways for making shareholders' right of information effective.

Article 26.

The current regulation applicable to transactions between directors and the Bank is replaced by that arising from Law 26 of July 17 2003, incorporating the obligations imposed by the new regulations regarding the information and communication duties of directors concerning certain operations and conflict of interest situations and the need to incorporate said information, in some cases, in the annual report and, in others, in the Annual Report on Corporate Governance.

Article 30.

This is one of the articles that covers the main new developments of Law 26/2003.

First, it clarifies that the shareholder who exercises the right to vote using communication means from afar must meet the requirement to have 50 shares in their name at the time of exercising said right, and not five days before the date of the holding of the Meeting. This is a way of ensuring that whoever votes from afar is, at the time of exercising this right, a shareholder with the right of assistance.

Second, the article incorporates the possibility of using electronic communication means from afar for exercising the right of representation, admitting as such those that have the shareholder's recognized electronic signature, in accordance with the recent Law 59 of December 19 2003, on electronic signatures, but also others that could affect guarantees of authenticity, enabling the Board to identify them. By doing this the Bank has the flexibility required by the features and rapid development of new technologies.

Lastly, as regards the public request of representation this is subject to what is stipulated in the new Article 14 of the Securities Market Law, which makes it obligatory for directors not to exercise powers in cases of conflict of interest.

New Article 30 bis.

This regulates the effectiveness of the right of information of shareholders via the Bank's website, as well as its minimum content. The right of information is also regulated, setting the rules for their exercise, distinguishing between requests referring to points on the agenda and those others that refer to information or clarifications on information accessible to the public that is provided to the National Securities Market Commission as of the Meeting immediately before. The text incorporates the new Article 112 of the Law of Limited Companies, making it more easily understood by shareholders.

Article 31.

The new addition just adds mention of the Board's Regulations among the rules to which the agreements adopted are submitted.

Article 32.

As well as incorporating in items 5 and 10 simple grammatical corrections, it also includes, within the powers of the Shareholders' Meeting, approval of Regulations for Shareholders' Meetings, in accordance with the law and by-laws, and approval of the fixed and annual remuneration of the Board, which was already present in Article 27 of the by-laws.

Article 35.

The place for holding the Meeting in Madrid is replaced by the wider term of where the Bank has its headquarters, as established by law. It also includes the need to mention in the announcement calling the meeting the communication means from afar that can be used to exercise the rights of voting, representation, grouping and, where appropriate, attendance.

New Article 37 bis.

In fulfilment of the legal mandate, it regulates the issuing of the vote for shareholders through the mail or via electronic means from afar. Setting the time frame for issuing the vote from afar is remitted to the Board's Regulations, establishing as a minimum the 10 days following the calling of the Meeting and empowering the Board to increase this period. Those shareholders who issue their vote from afar will be considered as present and ways set to revoke the vote issued from afar: that done explicitly by the shareholder; that arising from personal attendance at the Meeting; and that produced as a result of the sale of the shares by virtue of which the right was exercised. The latter is important if one wants to prevent shares from changing hands several times before the Meeting and their owners from issuing different votes based on the same shares.

New Article 37 ter.

This article is something very novel in our by-laws as it allows shareholders to attend Meetings from their home or place of work, in real time, and exercise all their rights. It incorporates the requirements of the most authorized doctrine for this type of attendance, including immediate access for the Committee running the Meeting or the notary public to the communications of shareholders following the Meeting from afar. In order to enjoy such flexibility, and being aware of the risks that this system could entail for the Meeting, using it is subject to the Board believing that the technical resources offer sufficient guarantees, and it is empowered to determine what resources should be used, clarifying that if there is a breakdown in communication or a complete cut off because of factors beyond the Bank's control the Bank cannot be accused of illegitimately depriving shareholders of its rights.

Article 40.

The obligation to make an inventory is eliminated and replaced by a reference to meeting the information regulations arising from the regulations for the securities market.

3. Full text of the agreements submitted to the deliberation and decision of the Annual General Meeting of Shareholders

First.- Modify Articles 5, 20, 21, 26, 30, 31, 32, 35 and 40 of the corporate by-laws and incorporate to them Articles 25 bis, 30 bis, 37 bis and 37 ter, which are drawn up as follows:

Article 5.

The capital stock is set at €1,027,608,545.04 (ONE THOUSAND AND TWENTY SEVEN MILLION SIX HUNDRED AND EIGHT THOUSAND FIVE HUNDRED AND FORTY FIVE EUROS AND FOUR CENTIMES represented by 694,330,098 shares of €1.48 (ONE EURO AND FORTY EIGHT) nominal value each, numbered from 1 to 694,330,098, inclusive, which are fully subscribed and disbursed and constitute a single series.

Article 20.

The chairman is the maximum representative of the bank and in the exercise of the post, as well as the powers conferred by law and by these by-laws, will have the following other powers:

- a) Preside Shareholder Meetings.
- b) Direct the discussions and deliberations of the Shareholder Meeting, systemizing and ordering the participation of shareholders, setting the time for each one, in order to achieve the best use.
- c) Call and preside over Board and Executive Committee meetings, as well as the Commissions and Committees designated in its sphere, of which the chairman is chairman.
- d) Draw up the agenda of Board and Executive Committee meetings, as well as for the Commissions or Committees designated in its sphere and of which the chairman is chairman and direct the discussions and deliberations.
- e) Execute the agreements of the Board and of the Commissions and Committees, for which purpose the chairman has the widest powers of representation, without detriment to the delegation of powers that for this purpose might be granted to the respective organ of administration in favour of other directors.

Article 21.

The Board must meet every three months and also when it is deemed opportune by the Chairman who calls it himself or at the request of at least three directors.

The Board will approve regulations that set out its rules of working and the interior regime, as well as those that regulate the Audit and Compliance Committee and the other Commissions or Committees whose creation is decided by the Board. The Board will inform the Shareholder Meeting of the regulations and any changes immediately after the agreement is adopted.

Article 25 bis.

The Board will approve the annual report on corporate governance, whose content will be in line with the legal regulations and the development ones that regulate it. It will contain information on the bank's ownership structure; the structure of its administration; linked operations with senior executives; shareholders and other group companies; risk control systems; the working and meetings of Shareholder Meetings and the degree of compliance of the corporate government recommendations contained in official reports.

The Board also determines the content of the bank's website, in accordance with legal regulations. The website will be one of the ways to make the legal rights of shareholders effective, without detriment to the use of other stipulations in Article 30 bis of the corporate by-laws for the exercise of this right.

Article 26.

1. Directors will record in the annual report the operations they have conducted with the bank or with another company of the same group, directly or via another person that acts on their behalf, during the year to which the annual accounts refer, when these operations are not part of the bank's ordinary business or are not conducted in market conditions. The

directors will also include in the annual report on corporate governance and in the information provided to supervisory bodies the data of these operations required by the respective regulations, and request permission from the authorities.

2. Directors must communicate to the Board any situation of direct or indirect conflict they have. In the event of a conflict the director must not participate in the operation. Conflict of interest situations will be recorded in the Annual Corporate Governance Report.

Article 30.

All shareholders that have the number of shares stated in the previous article and which are inscribed in the book-entry system at least five days before the Meeting have the right to attend it. When the shareholder exercise the right to vote from a distance, in the terms established in Article 37 bi, he must also fulfil this condition at the time of issuing the vote.

Shareholders with the right to attend can delegate their representation in another shareholder. The representation is personal and must be done in writing and for each Meeting. All of this without detriment to Article 108 of the Law of Limited Companies.

In order to help shareholders exercise their right to attend Meetings, vote, be represented and group shares any shareholder who so requests it can obtain at the headquarters, as of the same day as the publication of the agreement to call the Meeting, a personal assistance card, which will enable them to exercise as many rights as correspond to them as a shareholder.

Shareholders who do not live near to the headquarters can also be represented or group shares through an assistance card obtained by fax or any other written form of communication. Whatever the method used, it will require validation through written and signed confirmation, by someone with the power of the company, justifying reception of the card by the same procedure used to send it or something similar.

Shareholders can confer their representation by electronic communication which duly guarantees the representation attributed and the identity of the person represented. Representation is admitted when it is granted by an electronic document, by virtue of which it is conferred, incorporates the recognized electronic signature used by the represented person, or any type of signature which, through an agreement adopted for this purpose is regarded by the Board as meeting adequate guarantees of authenticity and identification of the shareholder conferring the representation. The Board will determine, in the agreement calling each Meeting, the procedures, requirements, system and period for granting and remitting to the bank the representations or delegations of votes issued electronically. These circumstances will be set out in the advertisements calling Meetings.

In the event of public request of representation, it will be as set out in Article 107 of the prevailing Law of Limited Companies and, where appropriate, Article 114 of Law 4 of July 28 1988 of the Securities Market.

Directors must attend the Meetings. Executives, technicians and anyone else, with the right to speak but not to vote, can also attend who, in the view of the Board is interested in the good running of the company and whose participation in the Meeting could be useful. The Chairman of the meeting can authorize any other person to attend, without detriment to the Meeting's power to revoke said authorization.

Article 30 BIS.

1. The information rights of shareholders will be made effective in the legally established way and through the bank's website, whose content is determined by the Board. The following must appear on the website:

- a) Corporate by-laws.
- b) The Regulations of Shareholder Meetings.
- c) The Regulations of the Board.
- d) The annual report and the Internal Rules of Conduct.
- e) The corporate governance reports.
- f) The calling of Shareholders' Meetings, the proposals to be submitted to a vote, and the documents and information which, in accordance with the prevailing regulations, have to be made available to shareholders as of the date of the calling of the Meeting.
- g) Information on the development of the Meetings held, and in particular, on the composition of the Meeting at the time of its constitution, the agreements adopted with the number of votes issued and the way each vote went for the proposals included in the agenda.
- h) The channels of communication with the Shareholder Relations Unit with and in particular the relevant explanations for exercising the right of information, indicating the postal address and the e-mail.
- i) The means and procedures for conferring representation at Meetings.
- j) The means and procedures for exercising voting from afar including, where appropriate, the forms for accrediting assistance and exercising the vote by telematic means at Meetings.
- k) The significant developments communicated to the National Securities Market Commission.

2. The information right of shareholders is also made effective through specific requests that are in accordance with the following rules:

- a) Questions or requests for information or clarification that refer to points on the agenda can be formulated:

- During the meeting, in the terms established in the Regulations of Shareholders' Meetings. In this case, directors will tend to the request at the meeting, unless this is not possible, in which case they will do so in writing within seven days, under the terms set out in the Regulations.

- In writing, up to the seventh day before the Meeting through delivery of the request to the headquarters, or by sending it through the post or electronic or telematic means. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right. These requests will be replied to, before the Meeting, by the same means that they were formulated, unless the shareholder states another form among those declared suitable in this article.

- b) The requests referring to information made available to the public by the company sending it to the National Securities Market Commission, as of the immediately previous Meeting, can be formulated up to the seventh day before the Meeting, through delivery of the request to the headquarters, or by sending it through the post or electronic or telematic means. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right. These requests will be replied to, before the Meeting, by the same means that they were formulated, unless the shareholder states another form among those declared suitable in this article.

3. All of this is understood to be without detriment to the right of shareholders to obtain printed documents and request their free delivery when the law so establishes it.

Article 31.

The Meeting, duly constituted, represents all shareholders and its agreements, adopted in accordance with these by-laws, the regulations of the Shareholders' Meeting and prevailing regulations, are binding for all shareholders, including those absent, who abstained in votes and dissidents, without detriment to the rights and shares of all types that could correspond to them under laws.

Article 32.

The Meeting will decide what are the matters to be discussed in accordance with the law and by-laws. It is the Meeting's responsibility to adopt agreements on:

- 1. The appointment and cessation of directors.
- 2. The appointment of auditors.
- 3. Examine the management, approve the prior year's accounts and decide on how to distribute the profit.

4. Increase or reduce the capital empowering, where appropriate, the Board, within the periods set by the law, to give the date or dates of its execution, using all or part of this delegation, or even not executing it because of market conditions, the company's situation or any development of particular importance that justifies such a decision, informing the first Meeting held after the period is up for the execution. Empower the Board to increase the capital stock in the terms of Article 153.1.b) of the Law of Limited Companies.
5. Issue bonds and empower the Board to issue bonds, convertible or otherwise, under the terms of the law.
6. Change the by-laws.
7. Wind down, merger, split off and transformation of the bank.
8. Approve the Regulations of the Shareholder Meeting, in accordance with the law and by-laws.
9. Approve the fixed and annual remuneration of the Board.
10. Decide on any other matter that is submitted by the Board, which makes it necessary to call a Meeting as soon as possible to deliberate on and decide on specific agreements of those included in this article that are submitted, in the supposition that circumstances or significant developments could occur that affect the bank, shareholders or social bodies, and, in any case, in the supposition of the formulation of a bid for shares issued by the company, which does not need a favourable report from the Board.

Article 35.

Meetings are held in the place where the company has its headquarters, indicating the building in the calling.

Meetings are called through an announcement in the Official Bulletin of the Mercantile Registry and in one of the largest selling dailies in the province, at least 15 days before the date of the meeting.

The 15 days are working days, excluding in the calculation the day when the announcement is published and that for holding the Meeting on first call.

The announcements give the date of the meeting on first call and all matters on the agenda. The date of the Meeting on second call can also be given, with a minimum of 24 hours between the date of the first and second calls.

The procedure, requirements, system and period are also indicated for:

- a) The granting and sending to the bank of the representations or delegating of votes by e-mail and revocation.
- b) The exercising of the rights of voting, information, representation, grouping and, where appropriate, assistance at a distance or in electronic or telematic form.

Article 37 bis.

1. Shareholders with the right to attend can issue their vote on the proposals regarding the points on the agenda of any type of Meeting by:

- a) Post, sending the assistance card and the vote obtained from the bank duly signed and completed.
- b) Other electronic means, provided that the electronic documents by virtue of which the right of vote is exercised incorporates the recognized electronic signature used by the person, or another type of signature which the Board regards as suitable, under a prior agreement adopted for this purpose, and meets adequate guarantees of authenticity and identification of the shareholder exercising the right.

The Board will determine, in the announcement calling each Meeting, the procedure, requirements, system and period for the exercise and remitting to the bank the right of vote from a distance and for its revocation. These circumstances are stated in the announcement for the calling of the Meeting.

2. The Regulations of Shareholders will establish the time frame, in relation to the date of the holding of the Meeting, for receiving the vote issued at a distance. In any case it must accept those received within the 10 days following the date of the calling. The Board can increase the period for receiving votes, stating it when it calls the Meeting.

3. Shareholders who issue their vote from afar in the terms indicated in this article will be considered as being present for the purposes of constituting the Meeting. As a result, delegations issued before will be understood to be revoked and those conferred afterwards will not have effect.

4. Votes from afar referred to in this article can only be left without effect:

- a) By subsequent revocation done by the same way as that employed for the issue, and within the time frame established.
- b) By attending the Meeting for which the vote was issued, either physically, or through the at distance communication means mentioned in Article 37 ter.
- c) By the sale of shares whose ownership confers the right of vote, about which the bank has knowledge at least five days before the holding of the Meeting.

Article 37 ter.

1. Shareholders with this right can attend the Meeting in the place indicated in the calling, using electronic or telematic means, provided that it can be technically done and is agreed by the Board, which will indicate in the calling the means that can be used for such a purpose, so that the security conditions required to guarantee the identity of shareholders, the effectiveness of their rights and the correct development of the meeting are met. In any case, the voting and information rights of shareholders who attend the Meeting using these means

must be exercised through the electronic means of communications considered suitable in the current by-laws.

2. The assistance of shareholders at the Meeting in this supposition will be adjusted to what is established in the Regulations of Shareholder Meetings, in which can be established:

- a) The minimum period in advance in which the connection must be made to consider the shareholder present.
- b) The period of time, during the holding of the meeting, in which shareholders attending from afar can exercise their information and voting right.
- c) The methodology used to draw up the list of those attending the Meeting.

3. The Regulations can empower the Board and the Chairman of the Meeting to apply these restrictions if there are problems during the meeting.

4. If for technical reasons not the responsibility of the bank or for reasons of security arising from circumstances beyond its control there is an interruption or breakdown in communication, these circumstances cannot be invoked as an illegitimate depriving of the rights of shareholders.

5. The Committee running the meeting and, where appropriate, the notary public must have direct access to the connection systems that permit attendance at the Meeting, so that they have immediate knowledge of the communications conducted by shareholders who attend from afar and the manifestations they make.

Article 40.

The business year runs from January 1 to December 31.

Every six months the bank's balance sheet will be drawn up, without detriment to the preparation of regular information which, in accordance with applicable regulations, has to be sent to the National Securities Market Commission, if the shares or other securities issued by the bank are listed on the official secondary market.

Second.- The agreements regarding changes to by-laws are subject to the legally required authorization.

REPORT PRESENTED BY THE BOARD OF DIRECTORS OF BANCO ESPAÑOL DE CRÉDITO REGARDING THE PROPOSAL MADE FOR POINT NINE ON THE AGENDA OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS CALLED FOR FEBRUARY 4 2004, ON FIRST CALL, AND FOR FEBRUARY 5 2004, ON SECOND CALL, CONCERNING EMPOWERING THE BOARD TO ISSUE FIXED-INCOME SECURITIES THAT CAN BE CONVERTED INTO SHARES OR EXCHANGED FOR SHARES OF THE BANK, AS WELL AS WARRANTS AND OTHER SIMILAR SECURITIES THAT GIVE DIRECT OR INDIRECT RIGHT TO SUBSCRIBE TO OR ACQUIRE THE BANK'S SHARES. SETTING THE CRITERIA FOR DETERMINING THE BASES AND TYPES OF CONVERSION AND/OR EXCHANGE AND EMPOWERING THE BOARD TO INCREASE THE CAPITAL BY THE NECESSARY AMOUNT, AS WELL AS EXCLUDE THE PRE-EMPTIVE RIGHT OF SHAREHOLDERS AND HOLDERS OR CONVERTIBLE BONDS, WARRANTS AND SIMILAR SECURITIES.

The Board agrees unanimously to formulate, in accordance with Articles 144, 153, 159, 282 and following of the Recast Text of the Law of Limited Companies, and 319 of the Regulations of the Mercantile Registry, the report that is now transcribed on the proposal to empower the Board to issue fixed-income securities as well as warrants and other similar securities that give direct or indirect right to the subscription or acquisition of the Bank's shares; the power to set the criteria for determining the bases and types of conversion and/or exchange; as well as the possibility of increasing the capital stock by the necessary amount, with the possibility, both for the issue of securities as well as the capital increase of excluding the pre-emptive right. The full text of the change proposed to the Meeting of February 4 2004, on first call, or on February 5, on second call, is set out.

1. Purpose of this report

This report is drawn up in order to justify the proposal to the Meeting regarding empowering the Board to issue fixed-income securities convertible and/or exchangeable into share of Banco Español de Crédito, S.A., in accordance with the general regime for the issue of bonds contained in Articles 282 and following of the Law of Limited Companies and under the stipulation of Article 319 of the Mercantile Registry Regulations with the possibility of excluding the pre-emptive right because of applying what is stated in Article 159.2 of the Law of Limited Companies.

2. Regulations applicable to the proposal

As already stated this proposal is in accordance with Article 282 and following of the Law of Limited Companies and the possibility of empowering the Board to issue bonds under Article 319 of the Mercantile Registry Regulations. The proposed agreement also contemplates authorizing the Board, in the event of issuing bonds convertible into new shares of the Bank, to increase the capital by the necessary amount in order to meet the conversion provided

that this increase by delegation is not more than half the amount of the capital stock, as established in Article 153.1.b) of the Law of Limited Companies. It is noteworthy that for the correct coordination of this proposal, with the agreements adopted by the Meeting of February 4 2003, regarding the second point on the agenda, concerning the empowering of the Board to increase the capital stock, with possible exclusion of the pre-emptive right, the agreement submitted for the Meeting's approval specifies that the amount of the capital increases which, where appropriate, and in order to meet the conversion or exchange of bonds, warrants and other securities, are done under the present delegation are regarded as included within the available limit of the maximum amount authorized by said Meeting. For this purpose, and bearing in mind that the delegation authorized by the Meeting of February 4 2003 was for five years as of the holding of the Meeting, in order to coordinate this delegation with that one the delegation in the Board's favour to issue convertible and/or exchangeable fixed income securities, one or several times, is for four years, via a monetary consideration.

As regards the possibility of increasing the capital stock, the agreements propose delegating in the Board, under the terms of Article 159.2 of the Law of Limited Companies, to exclude, fully or partially, the pre-emptive rights of shareholders and holders of convertible bonds, warrants and other similar securities, the power in the agreements to issue securities that are the object of the delegation as well as in the capital increases referred to in the previous paragraph, when the Bank's interest requires it. In any case, if the Board decides to eliminate the pre-emptive right in relation with any or all of the referred capital increases, it must issue, when it adopts the corresponding agreement for the capital increase, a report detailing the specific reasons that justify the measure, which will also be examined by the auditing firm under Article 159.2 of the Law of Limited Companies. These reports must be made available to shareholders and holders of convertible bonds, warrants and other similar securities and communicated to the first Meeting after the agreement.

Bearing in mind the specialization and progress of the issue and performance of securities in different financial markets, the agreement makes a distinction between convertible bonds, specifically regulated in our Law of Limited Companies, and warrants or any other security which means in practice a subscription right to the conversion or exchange of shares. This distinction clarifies possible different interpretations arising from the lack of specific regulation of these securities in the Law of Limited Companies. The agreement puts these two types of securities on the same level, except for possible specialties, and obliges the Board when issuing securities to strictly meet the rules applicable for issues specifically regulated in the Law of Limited Companies and so prevent a lack of specific regulation from being interpreted as a lack of need to fulfil the requirements established by said regulations for convertible bonds. In short, the conditions of the agreement in practice put on the same level all securities that involve a right of exchange or subscription of shares and this principle is established by applying what is set out in Chapter X of the Law of Limited Companies. This establishes a series of requirements both for the issue of bonds as well as any other security which recognizes or creates a debt, as well as the principle of putting on the same level certain securities under the

terms of Royal decree 291/1992 and the Order of July 12 1993 and circular 2/1999 of the National Securities Market Commission. All these regulations state that the issuer of warrants or similar securities offered publicly must respect the basic aspects of the regime for issuing convertible bonds.

In any case, the agreement establishes safeguards to prevent the subscription price of these securities from being lower than that of the shares for which they are exchanged, thereby avoiding the ban established in Article 47.2 of the Law of Limited Companies of issuing shares at a lower price than their nominal value.

The proposed agreement also establishes criteria for determining the bases and types of conversion and/or exchange, although it entrusts the Board, in the event that this agreement makes use of the Meeting's authorization, to specify these bases and types for each issue within the limits and in accordance with the criteria established for the Meeting.

In this way it will be the Board that determines the specific conversion relation, and for such purpose will issue, at the same time as approving an issue of securities the object of the delegation under the authorization given by the Meeting, a report detailing the bases and types of conversion applicable to the issue, which will also be the subject of a report by the auditor as referred to in Article 292 of the Law of Limited Companies.

The agreement submitted by the Board for the Meeting's approval envisages that the fixed-income securities issued under its powers will be valued by their nominal amount and the shares at a set price which will be set in the corresponding agreement of the Board or at the price determined at the date or dates indicated in the Board's own agreement and on the basis of the price in the stock market of the Bank's shares on the date/s or period/s taken as the reference in the same agreement, with or without discount, and in any case at least the higher of the average price of the shares in Spain's continuous market, according to closing prices, during the 15 working days before the date of the adoption of the issue agreement by the Board, and the price in the same market according to the closing price the day before the agreement is adopted.

By doing this the Board believes it has a sufficient margin of flexibility to set the value of the shares for the purposes of the conversion on the basis of market conditions and other applicable considerations, although this must be, at least, substantially equivalent to its market value at the time when the Board agrees to issue the fixed-income securities.

Moreover, the authorization to issue fixed-income securities includes, under Article 159.2 of the Law of Limited Companies and the attribution to the Board of the power to exclude, totally or partially, the pre-emptive right of shareholders and of holders of convertible bonds, warrants and similar securities, when this is required to capture funds in the markets or for any other justified in the company's interest.

3. Justification of the proposal

The purpose of the delegation is to give the Bank's management body the leeway and capacity of response demanded by the competitive environment in which it operates, where often the success of an operation or of a strategic move depends on the possibility of rapidly carrying out, without the delays and costs that inevitably come with a new calling and holding of a Shareholder Meeting.

The agreement also envisages authorizing the Board to exclude the pre-emptive rights, something that increase the margin of manoeuvre and the capacity of response offered by the simple delegation of the power to issue convertible bonds, and which is justified by the flexibility and agility needed to operate in the financial markets in order to be able to take advantage of movements when the market conditions are more favourable. This justification also exists for the capturing of funds in the international markets when the Bank's quality and prestige, together with the large amount of funds traded in the financial markets and the agility and speed with which one operates in them, enable one to capture a large volume in very favourable conditions, provided it is possible to go with an issue to these markets at the most opportune moment and this cannot be determined beforehand. Lastly, the elimination of the pre-emptive right produces a relative lowering of the financial cost of the debt securities and of the costs associated with the operation (including, particularly, the commissions of the entities participating in the issue) compared with an issue with a pre-emptive right, and it also has a reduced distorting effect on the trading of the Bank's shares during the issue period. In any case, if the Board decides to eliminate the pre-emptive right in relation with a specific issue of convertible bonds, warrants or similar securities, under the authorization requested from the Meeting, it must release, when approving the issue, a report detailing the specific reasons in the company's interest that justify the measure, which will also be examined by the auditing firm under Article 159.2 of the Law of Limited Companies.

4. Full text of the proposal to empower the Board to issue fixed-income securities that can be converted into or exchanged for shares of the Bank

First. - Empower the Board, adhering to the regime for the issue of bonds and under the terms of Article 319 of the Regulations of the Mercantile Registry, to issue fixed-income securities convertible into shares of new issue in Banesto and/or that can be exchanged for shares already in circulation, as well as warrants and other similar securities that can give direct or indirect right to the subscription or acquisition of shares in Banesto, either or new issue or already in circulation, in accordance with the following conditions:

1. The issue of securities for which the Board is empowered by virtue of this agreement (henceforth "the securities") can be done once or several times, at any moment, within the maximum period of four (4) years as of the date of the adoption of this agreement.

2. The total maximum amount of issue or issues will be FIVE HUNDRED MILLION EUROS (500,000,000,000) or the equivalent in another currency.

3. The use of this power agreed here allows the Board to determine, for each issue, its amount, always within the global quantitative limit; the place of issue, in Spain or abroad, and the currency and if foreign, its equivalent in euros; the denomination, whether they be bonds, including subordinated debt, warrants or any other similar security, the issue price and/or premium, and the procedure, period and other conditions applicable to the exercise of the pre-emptive right or acquisition of the underlying shares; the interest rate, fixed or variable, the dates and procedures for payment of the coupon; the perpetual or redemption nature of the issue and in the case of the latter the period of repayment and the maturity date; through securities or book-entry; the preferential right of subscription; applicable legislation; request the admission for trading in official secondary markets, whether organized or not, Spanish or foreign, of the securities issued with the requirements that in each case are demanded by prevailing rules, and, in general any other condition of the issue, as well as, where appropriate, appoint the person and approve the rules that govern the legal relations between the Bank and the syndicate of holders of the securities issued, if it is necessary to constitute said syndicate.

4. For the purpose of determining the base and types of conversion and/or exchange, the following criteria are agreed:

4.1 Bonds and convertible bonds and/or bonds that can be exchanged

(i) Fixed-income securities (bonds and any others admitted in law) issued under this agreement will be convertible into new shares of the Bank and/or can be exchanged for shares already in circulation with adherence to a relation of conversion and/or exchange set by the Board, which is also empowered to determine if they are convertible and/or can be exchanged, as well as determine if they are necessary or voluntarily convertible and/or can be exchanged, and in the event that they are voluntarily, at the option of the holder or the issuer, then during the period established in the issue agreement and which cannot exceed fifteen (15) days from the issue date.

(ii) The Board can also establish, if the issue is convertible and can be exchanged, that the issuer reserves the right to opt at any time between conversion into new shares or exchange for shares already in circulation, specifying the nature of the shares to be delivered at the time of the conversion or exchange, be also able to opt for delivering a combination of new shares and already existing ones. In any case, the issuer must respect equality of treatment for all holders of fixed-income securities that are converted and/or exchanged at the same date.

(iii) For the purposes of the conversion and/or exchange, the fixed income securities will be valued by their nominal value and the shares at a fixed price determined in the agreement of the Board in which it makes use of this

delegation, or at the price set at the date or dates indicated in the Board's agreement, and on the basis of the value on the stock market of the Bank's shares at the date/dates or period/periods that are taken as the reference in the same agreement, with or without discount, and in any case with a minimum of the highest of the average price of the shares on the Spanish continuous market, according to closing prices, during the 15 days before the date at which the Board adopts the agreement to issue the fixed income securities, and the price of the shares in the same market using the closing price of the day before the agreement is taken.

(iv) When it is time for the conversion and/or exchange, the fractions of the share which correspond where appropriate to the holder of the bonds will be rounded up to the nearest full number below and each holder will receive in cash the difference.

(v) The value of the share for the purposes of the conversion of bonds into shares can never be lower than its nominal value. According to Article 292.3 of the Law of Limited Companies, bonds cannot be converted into shares when the nominal value of them is lower than these.

When an issue of convertible bonds is approved under the framework of the authorization conferred by the Meeting, the Board will issue a report developing and specifying, on the basis of the aforementioned criteria, the bases and types of conversion applicable to said issue. This report will be accompanied by the corresponding report from the auditing firm in accordance with Article 292 of the Law of Limited Companies.

4.2. Warrants and other similar securities can give direct or indirect rights to the subscription or acquisition of the Bank's shares, either new ones or those already in circulation.

The Board is empowered to determine, in the widest terms, the criteria applicable to the exercise of the rights of subscription or acquisition of the Bank's shares, derived from the securities of this class that are issued under the delegation herein granted, applying in relation to these issues the criteria established in 4.1, with the necessary adaptations in order to make them compatible with the legal and financial regime for this type of security.

5. Where the conversion and/or exchange of securities that can be issued under the framework of this delegation is possible, their holders will have as many rights as recognised in the prevailing legislation and especially, where appropriate, those regarding the pre-emptive right and the clause against dilution in the legal suppositions, unless the Meeting or the Board, in the terms and meeting the requirements of Article 150 of the Law of Limited Companies, decides to fully or partially exclude the pre-emptive right of shareholders and of holders of the convertible bonds, warrants and other similar securities.

6. The delegation in favour of the Board also includes, with no limitations, the following powers:

(i) The faculty, under Article 159.2 of the Law of Limited Companies, to exclude, fully or partially, the pre-emptive right of shareholders and holders of warrants and other similar securities, in the capital increases referred to in the previous paragraph, when so requires to capture funds in the domestic or international markets or in any other way that is justified in the Bank's interest. In any case, if the Board decides to eliminate the pre-emptive right in relation to a specific issue of convertible bonds, warrants and similar securities, under the framework of this authorization, it will issue, at the same time as approving the issue and in accordance with regulations, a report detailing the specific reasons for justifying in the Bank's interest such a measure, which will also be the subject of a report by the auditor referred to in Article 159.2 of the Law of Limited Companies. These reports will be made available to shareholders and holders of convertible bonds, warrants and other similar securities and communicated to the first Meeting after the issue is agreed.

(ii) The faculty to increase the capital by the necessary amount in order to meet the conversion requests and/or the exercise of the right to subscribe to share. This faculty can only be exercised insofar as the Board, adding the capital that increases in order to meet the issue of convertible bonds, warrants and other similar securities, and the other increases of the capital agreed under the framework of the authorization granted by the Meeting held on February 4, 2003, does not exceed the limit of half the share capital set in Article 153.1 b) of the Law of Limited Companies. This authorization to increase the capital includes that of issuing and putting into circulation, one or several times, the shares representing the same that are necessary to carry out the conversion and/or exercise of the right to subscribe to the shares, as well as that of drawing up a new article of the by-laws regarding the amount of capital and, where appropriate, to cancel that part of said capital increase that was not needed for the conversion and/or exercise of the right to subscribe to the shares.

(iii) The faculty, under Article 159.2 of the Law of Limited Companies, to exclude, fully or partially, the pre-emptive right of shareholders and holders of warrants and other similar securities, in the capital increases referred to in the previous paragraph, when the Bank's interest so requires it. In any case, if the Board decides to eliminate the pre-emptive right in relation to any or all of the capital increases referred to, it will issue, at the same time as adopting the corresponding capital increase agreement, a report detailing the specific reasons in the company's interest for justifying such a measure, which will also be the subject of a report by the auditor referred to in Article 159.2 of the Law of Limited Companies. These reports will be made available to shareholders and holders of convertible bonds, warrants and other similar securities and communicated to the first Meeting after the issue is agreed.

(iv) The faculty to develop and shape the bases and types of conversion, exchange and/or exercise of the pre-emptive rights and/or acquisition of shares, arising from the securities

to be issued, bearing in mind the criteria established in the previous number four.

Second.- The Board, in Shareholder Meetings, will inform shareholders of the use which has been made so far of the delegations to which this agreement refers.

Third.- Empower the Board, with the faculty of substitution in the Executive Committee or in a director or directors, the widest powers necessary to interpret, apply, execute and develop the agreements to issue convertible bonds or bonds that can be exchanged into shares, once or several times, and the corresponding increase in capital, also giving it powers to correct everything that is necessary, as well as meet as many requirements as are legally required to see the agreements through. It can correct omissions or defects in the agreements, stated by any authority, civil servant or entity, Spanish or foreign, and is empowered to adopt as many agreements and grant as many public or private documents as are necessary or convenient to adapt the agreements for the issue of convertible bonds or bonds that can be exchange and the corresponding increases or increase in capital to the verbal or written qualifications of the Mercantile Registrar and any other authority, civil servant or relevant Spanish or foreign institution.

REGULATIONS OF SHAREHOLDERS' MEETINGS OF BANCO ESPAÑOL DE CRÉDITO, S.A.

INTRODUCTION

Law 26 of July 17 2003, which modified Law 24 of July 28 1988 of the Securities Market, and the Recast Text of the Law of Limited Companies, approved by Royal Legislative Decree 1564 of December 22 1989, with the purpose of strengthening the transparency of listed companies, incorporated a section X in the Securities Market Law on these companies, whose Article 13 makes it obligatory for listed companies to have specific regulations for Shareholder Meetings which covers all matters affecting it, in line with the recommendations of the Special Commission for Fostering Transparency and security in the Financial Markets and in Listed Companies and taking into consideration the practices of Spanish listed companies in the preparation and development of Meetings. These regulations of Banco Español de Crédito (henceforth known as the Bank or the Company) have three purposes. Firstly, to strengthen the transparency that must exist in its social organs, by making public the procedures for preparing and holding Shareholders' Meetings; secondly, specify the ways of exercising the political rights of shareholders when calling and holding Meetings; and, thirdly, unify in a single text all the rules regarding Meetings, thereby increasing the knowledge of shareholders about the Company.

TITLE 1

CONCEPT, TYPE AND FUNCTIONS OF THE SHAREHOLDERS' MEETING

Article 1. Shareholder Meeting

1. The Shareholders' Meeting is the maximum decision-making body of the Company in matters of its responsibility.
2. The Meeting, duly constituted, represents all shareholders and its agreements, adopted in accordance with the corporate by-laws, these regulations and the prevailing legal regulations are binding on all shareholders, including those who do not attend, those who abstained from voting and dissidents, without detriment to the rights and shares of all types that could correspond from laws in force.

Article 2. Types of Meetings

1. The Meeting can be ordinary or extraordinary.
2. The ordinary meeting, previously called to this effect, must be held within the first six months of every year in order to examine the management, approve, where appropriate, the financial statements of the previous year and decide how to distribute the profit, as well as, where appropriate, approve the consolidated accounts, without detriment to its powers to deal with and agree any other matter on the agenda, provided there is the right number of shareholders and the capital required by law or by the by-laws is represented, according to each case.

3. All Meetings that are not envisaged in the previous paragraph are extraordinary ones.

Article 3. Functions of the Meeting

The Shareholders' Meeting will decide on matters of its responsibility in accordance with the law and the by-laws. It is particularly charged with adopting the following agreements:

1. Appoint and cease directors.
2. Appoint the auditing firm.
3. Examine the management and approve, where appropriate, the accounts of the previous year and the distribution of the profit.
4. Increase or reduce the capital empowering, where appropriate, the Board, within the periods set by the law, to give the date or dates of its execution, using all or part of this delegation, or even not executing it because of market conditions, the company's situation or any development of particular importance that justifies such a decision, informing the first Meeting held after the period is up for the execution. Empower the Board to increase the capital stock in the terms of Article 153.1.b) of the Law of Limited Companies.
5. Issue bonds and empower the Board to issue bonds, convertible or otherwise, under the terms of the law.
6. Changing the by-laws.
7. Winding down, merger, split off and transformation of the bank.
8. Approve the Regulations of the Shareholders' Meeting.
9. Approve the fixed and annual remuneration of the Board.
10. Decide on any other matter that is submitted by the Board, which makes it necessary to call a Meeting as soon as possible to deliberate on and decide on specific agreements of those included in this article that are submitted, in the supposition that circumstances or significant developments could occur that affect the bank, shareholders or social bodies, and, in any case, in the supposition of the formulation of a bid for shares issued by the company, which does not need a favourable report from the Board.

TITLE II

CALLING AND PREPARING SHAREHOLDERS' MEETINGS

Chapter I

Calling of Shareholders' Meetings

Article 4. Calling of Shareholders' Meetings

Without detriment to what is established in the Law of Limited Companies the Universal Meeting and the legal calling, it is the responsibility of the Board to call the Meeting, which will be held:

- a) At a date within the first six months of the year, if it is an Ordinary Meeting.
- b) Provided the Board believes it in the best interests of the bank, in the case of Extraordinary Meetings.
- c) When it is requested, through a notary public, by shareholders who have at least 5% of the disbursed capital, setting out in the request the matters to be dealt with. In this case the Meeting must be held within 30 days of the date set in the notarized document to the directors.

If the Ordinary Meeting is not held within the legally specified period, or if the calling of an Extraordinary Meeting by shareholders with 5% of the capital has been requested and it has not been held, it can be done, at the request of any shareholder, in the first case, and of the applicants, in the second, by the Judge of the First Instance at the city of the headquarters.

Article 5. Announcement of the calling

1. Meetings are called through an announcement in the Official Bulletin of the Mercantile Registry, in one of the largest selling dailies in the province of Madrid and on the Bank's website, at least 15 days before the date of the meeting, excluding from the calculation the day of the publication of the announcement and that of the Meeting on first call. The announcement is sent to the National Securities Market Commission the same day as its publication or the day after.

2. The announcement will contain:

- a) The place, date and time of the meeting in first call and, where appropriate, in second call, with a gap of at least 24 hours between the first and second meeting.
- b) The agenda, clearly drawn up, which lists the matters to be dealt with.
- c) The requirements to be able to attend the Meeting and how to be accredited for it.
- d) The means of communication at a distance which, in accordance with the law, the by-laws and these regulations shareholders can use to make effective their rights of representation, grouping, voting and, where appropriate,

attendance, as well as the requirements, periods and procedures established for their use.

- e) The right of shareholders to be represented at the Meeting by another shareholder with the right of attendance, and the requirements and procedures to exercise this right.

- f) The right of information to assist shareholders and the way to exercise it.

3. The agenda will be set by the Board without detriment to the right of shareholders with at least 5% of the disbursed capital stock to request, through a notary public, the inclusion in it of other matters.

4. As of the publication of the calling, shareholders, who are duly accredited as such, can make suggestions or proposals on matters in the agenda through the Shareholder Relations Unit, upon which the Board will decide the most adequate procedure and form for transferring them to the Meeting and, where appropriate, submitting them to a vote.

5. This article is understood as being without detriment to including in the announcement other matters or making the calling with more or less warning, in the special cases for which it is required by law.

Chapter II

Preparation of Shareholders' Meetings

Article 6. Information available as of the date of the calling of the Meeting

As of the date of the calling of the Meeting, the Bank will publish on its website:

- a) The full text of the calling.
- b) The text of all the proposals formulated by the Board in relation to points on the agenda.
- c) The documents or information which, in accordance with the law, must be made available to shareholders on matters in the agenda as of the date of the calling.
- d) Type of card of attendance and, where appropriate, the other documents that must be used for the delegation of votes.
- e) The means of communication at a distance which, in accordance with the law, the by-laws and these regulation shareholders can use to make effective their rights of representation, grouping, voting and, where appropriate, attendance, as well as the requirements, periods and procedures established for their use.
- f) Information, where appropriate, on systems and procedures that facilitate following the Meeting, such as simultaneous translation, dissemination via audiovisual means, information in other languages, etc.

g) Information on the channels of communication with the Shareholder Relations Unit, in order to be able to gather information or make suggestions or proposals, in accordance with the applicable regulations.

Article 7. Right of information prior to the holding of a Shareholders' Meeting

1. Up until the seventh day before the holding of the Meeting, shareholders can formulate the questions or requests for information or clarification regarding points on the agenda, or on the information available to the public which has been provided by the Bank to the National Securities Market Commission, as of the holding of the last Meeting.

2. Those requesting information can do so by delivering the request to the headquarters, or by sending it through the post or electronic or telematic means. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right of information.

3. The information requests regulated in this article will be answered, once the identity is verified and the condition as a shareholder, before the Meeting, by the same means that they were formulated, unless the shareholder states another form among those declared suitable in this article.

4. Directors can deny the information requested if it harms the bank's interests, unless the request comes from shareholders who represent at least one quarter of the capital stock.

5. The Board can empower any of its members, the Secretary and/or the Deputy Secretary, and the head of the Shareholder Relations Unit, to reply to the requests in the name and representation of the Board.

6. All of this is understood to be without detriment to the right of shareholders to obtain printed documents and request their free delivery when the law so establishes it.

Article 8. Assistance and delegation card

In order to help shareholders exercise their right to attend Meetings, vote, be represented and group shares any shareholder who so requests it can obtain at the headquarters, as of the same day as the publication of the agreement to call the Meeting, a personal assistance card, which will enable them to exercise as many rights as correspond to them as a shareholder. This card can also be drawn up in an electronic format so that it can be used by shareholders who, in accordance with the by-laws and these regulations, wish to exercise their voting and representation rights from afar.

Article 9. Delegations

1. Shareholders with the right to attend can delegate their representation in another shareholder attending the Meeting.

2. The representation must be accepted by the representative. It will be special for each Meeting, and can be conferred by the following ways:

a) On paper and signed conferring the representation or with the card duly filled out for this purpose and signed by the shareholder, in the terms established in the by-laws.

b) Through electronic or telematic means that duly guarantee the representation attributed and the identity of the person represented. Electronic documents will be accepted as such if they incorporate the recognized electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder conferring the representation. The representation conferred by these means will be remitted to the Bank by the procedure and in the period determined by the Board in accordance with the calling of the Meeting.

3. In the case of the public request of representation, it is as set out in Article 107 of the prevailing Law of Limited Companies and, where appropriate, Article 114 of Law 24 of July 28 1988 of the Securities Market. In particular, the document, in paper or electronic form, setting out the power must contain or include as an appendix the agenda, as well as the request of instructions for exercising the right of vote and the indication of how the representative should vote if there are no precise instructions.

4. Individual shareholders who are not fully enjoying their civil rights and companies that are shareholders can be represented by those exercising their legal representation, duly accredited. Both in these cases as well as when the shareholder delegates his right of attendance, there can be no more than one representative at the Meeting.

5. The representation can always be revoked. The attendance of the shareholder at the Meeting, in person or via communication from afar, as well as that arising from the vote issued by said means results in revoking any delegation, whatever the date of it.

TITLE III

HOLDING OF A SHAREHOLDERS' MEETING

Chapter 1

Establishment of the Meeting

Article 10. Right and duty of attendance

1. All shareholders with at least 50 shares registered in their name in the book-entry system at least five days before the Meeting have a right to attend it. When the shareholder exercise his right to vote through communication means from afar, in the terms established in Article 37 bis of the by-laws and 17 of these regulations, he must also fulfil this condition at the time of its issue.

Holders of fewer than 50 shares have the right to group them up to this number, for the purpose of attending and voting at Meetings. The representation of such groupings can be done by any of the shareholders involved. The grouping must be accredited in writing with the signature of all those involved, with special character for each Meeting. If this is not done, any of them can confer their representation at the Meeting to another shareholder with the right of attendance and who can do so legally, thereby grouping his shares with those of this person.

2. Members of the Board must attend the Meetings. Executives, technicians and anyone else, with the right to speak but not to vote, can also attend who, in the view of the Board is interested in the good running of the company and whose participation in the Meeting could be useful for the Bank. The chairman of the meeting can authorize any other person to attend, without detriment to the Meeting's power to revoke said authorization.

Article 11. The committee running the Meeting

1. The committee running the Meeting consists of its Chairman and Secretary.

2. The Meeting will be chaired by the Chairman or Deputy Chairman of the Board or, if neither is available, by the person replacing them in accordance with the first paragraph of Article 18 of the by-laws. If none of them are available, the chairman is the shareholder elected by those at the meeting. In the case of a meeting called by courts, the judge will decide who is the chairman.

3. The Chairman is responsible for:

- a) a) Conducting the meeting in such a way that the discussions are in conformity with the agenda.
- b) Resolve any doubts over the list of shareholders and on the contents of the agenda.
- c) Allow shareholders to speak who request it at the time deemed opportune and to withdraw this when a matter has been sufficiently discussed or it complicates the meeting.

d) Indicate when agreements are to be voted on and announce the results.

e) In general, exercise all the powers that are necessary for the smooth running of the meeting, including interpretation of what is envisaged in the regulations.

4. The Meeting's Secretary will be the Secretary of Deputy Secretary of the Board or, if not available, the person in their place, in accordance with paragraph 4 of Article 18 of the by-laws. If none of them are available then the person will be the shareholder elected by those at the meeting.

5. If for any reason during the Meeting the Chairman or the Secretary has to leave the meeting, he will be replaced by someone in accordance with items 2 and 4.

Article 12. Establishment of the Shareholder Meeting

1. In the place stated in the calling of the Meeting where the Bank has its headquarters, and on the day set, in the first or second calling, and as of the time announced for the start of the meeting, unless anything else is specified in the announcement, shareholders or those who validly represent them can present to the personnel responsible for registering the cards of attendance and delegation the documents accrediting their right of assistance and, where appropriate, legal representation, as well as those that contain the delegation.

The right of attendance will be accredited through the attendance card referred to in Article 18 of these regulations or by presenting the certificate issued by the entity responsible for the accounting registry of the Bank's shares, where the name of the shareholder is recorded and with at least 50 shares five days before the holding of the Meeting.

2. Shareholders or, where appropriate, their representatives that go to the Meeting after the time set for its start can attend it, in the same place where it is being held or, if the Bank deems it opportune to avoid confusion, in an adjacent room from where the meeting can be followed, but neither these shareholders and representatives nor who they are representing will be included in the list of those attending.

3. The drawing up of the list of those attending, personally or represented, can be done using any mechanical or electronic procedure, expressing the nature or representation of each one and the number of own or someone else's shares and the votes for which they are eligible, which will be totalled.

The list will be computerized or formed from the corresponding cards at the start of the Meeting. In both cases, the plastic tag identifying shareholders will bear the signature of the Secretary, with the approval of the Chairman.

4. When the process of registering the attendance and delegation cards is completed and the existence of a sufficient quorum is established, the committee running the Meeting will be formed and the list of those attending drawn up, thereby opening the Meeting in the place, day and time set, be it on first or second call.

5. The Chairman, or on delegation, the Secretary will read the calling of the Meeting, but does not have to if shareholders are in agreement, and announce the global figures arising from the list of those attending, detailing the number of shareholders present and represented with the right to vote, the number of shares corresponding to both of them and the percentage of capital represented.

When these figures have been given to the Chairman or the Secretary, the Chairman will immediately say whether the requirements for the valid establishment of the Meeting have been fulfilled or not. The notary public, if one attends, will ask the Meeting if there are any reservation or protests regarding what the Chairman has said about the number of shareholders and the capital present. The doubts or complaints expressed to the notary, and in his absence, to the Secretary, arising from these points, will be reflected in the minutes and will be resolved by the Chairman, who can call on two scrutinizers appointed by the Board before the Meeting.

6. The Chairman will not declare the Meeting constituted. Meetings, both Ordinary and Extraordinary ones, are validly established:

- With general character, on first call, when the shareholders present or represented have at least 25% of the subscribed capital with right to vote. On the second call, the Meeting is valid whatever the size of the capital present and represented.
- For the Meeting to validly agree to issue bonds, increase or reduce the capital, a merger and, in general, any change in the by-laws, on first call, shareholders present or represented must have at least 50% of the capital subscribed with right to vote. On the second call 25% is sufficient.
- In order to make valid agreements on the transformation, winding down, absorption of Banco Español de Crédito, S.A. by other companies, as well modify the second paragraph of Article 36 of the by-laws, which regulate this strengthened quorum, 70% of the subscribed capital with right to vote, on first call, and 60% of the capital subscribed, on second call, is required at the Meeting.

7. If for any reason the meeting has to be held in separate rooms there will be audiovisual means to connect them in real time and, thus, cover the whole meeting.

Chapter II

Order of participation of shareholders

Article 13. Requests to participate

1. Once the Meeting is established, shareholders who, in the exercise of their rights, want to participate and, where appropriate request information or clarification of points on the agenda or formulate proposals will identify themselves to the notary public or the committee running the meeting and by indication of this before the personnel assisting one or the other, giving their name and surname, the number of shares they hold

and the shares they represent. If they want their remarks to be literally recorded in the minutes, they have to request this in writing, at that time, to the notary public or to the committee in order to prepare for this to be done.

2. Once the committee has the list of shareholders that want to speak, the reports that the Chairman deems opportune have been read and, in any case, before voting on issues on the agenda, shareholders will be allowed to have their say.

Article 14. Participation

1. The order in which shareholders speak is that in which they are called.
2. The Chairman, in view of the circumstances, will determine the maximum amount of time for each speaker, which will be the same for all and never less than five minutes.
3. In the exercise of these powers to arrange the development of the Meeting, and without detriment to other actions, the Chairman:
 - (i) can extend, when deemed opportune, the time initially assigned to each shareholder;
 - (ii) ask speakers to clarify issues that have not been understood or which have been insufficiently explained;
 - (iii) ask speakers to limit themselves to matters concerning the Meeting and not make any improper remarks or exercise his right in an abusive or obstructionist way;
 - (iv) tell speakers that their time is nearly up so that they can take this into account and, when their time is over or they persist in conduct described in item (iii) ask them to stop speaking; and
 - (v) if their remarks upset the order and normal development of the meeting, they can be asked to leave the hall and, where appropriate, adopt the measures needed to see this through.

Article 15. Information

1. During the turn of speakers, any shareholder can verbally request the reports and clarifications deemed necessary regarding points on the agenda. To do this, they must have been previously identified as set out in Article 13.
2. Directors must provide the information requested, unless any of the circumstances envisaged in Article 7 occur or the information requested is not available at the Meeting, in which case it will be provided in writing within seven days of the Meeting. The shareholder will leave an address.
3. The information or clarification requested will be given by the Chairman or, by indication, the Chairman of the Compliance and Audit Committee, the Secretary or a director or, if convenient, any employee or expert on the subject who is present, in accordance with Article 10.2 of these regulations.

Article 16. Proposals

Without detriment to the possibility of formulating proposed agreements under the terms of Article 100 of the Law of Limited Companies before the calling of the Meeting, shareholders can, during the turn of participation, formulate proposed agreements to the Meeting on any item on the agenda that legally does not have to be put at the disposal of shareholders at the time of the calling and on those issues in relation with which the Meeting can deliberate and vote without being included in the agenda.

Chapter III

Voting and documentation of agreements

Article 17. Voting from afar

1. Shareholders with the right to attend can issue their vote on proposals regarding points on the agenda at any type of Meeting through the following methods from afar:

- a) By post, sending the attendance card obtained from the Bank duly signed and filled out.
- b) By electronic means provided the document by virtue of which the right to vote is exercised has an electronic signature used by the person, or another type of signature which, under an agreement adopted for this purpose with prior character, the Board believes meets adequate guarantees of authenticity and identification of the shareholder exercising the right to vote.

2. The vote issued by the systems referred just now will not be valid if it is not received by the Bank at least five days before the date set for the holding of the Meeting on fist call. The Board will state in the announcements calling the meeting the period for receiving votes from afar, and can increase it for those votes issued before the deadline but received afterwards.

3. Shareholders who issue their vote from afar in the terms indicated in this article will be considered as present for the purpose of constituting the Meeting. As a result, delegations issued before will be revoked and those conferred afterwards to have no effect.

4. Votes issued from afar referred to in this article can only be left without effect:

- By subsequent revocation made by the same method as that used for their issue and within the period set.
- By the shareholder attending the meeting which has issued it, either in person or through communication from afar referred to in Article 37 three of the by-laws and 23 of these regulations.
- By selling the shares whose ownership confers the right to vote, which the Bank knows about at least five days before the Meeting is held.

5. The incorporation of voters from afar to the list of those attending will be done by computer, integrating them to the rest of the list. If the list is made up of attendance cards the incorporation will be

done in paper with the same information as is on the card and for each shareholder who has voted by electronic or telematic means, without detriment to keeping the vote received on a computer.

Article 18. Voting on the proposals

1. Once shareholders have finished speaking and the answers given in accordance with these regulations, the proposed agreements regarding points on the agenda will be voted on or other matters which legally do not have to be on the agenda including any formulated by shareholders during the course of the meeting.

2. The Secretary will take as already reproduced proposed agreements whose texts were included in the calling of the Meeting, on the Bank's website, and which were given to shareholders at the start of the meeting except when, for all or any of the proposals, a shareholder requests them or the Chairman believes it should be done, in which case they are read out. In any case, shareholders will be told the point on the agenda to which the proposed agreement being voted on refers.

3. Without detriment to the Chairman using alternative systems, voting on the proposed agreements referred to will be done in the following way:

- a) The voting on the proposals regarding points on the agenda will be done with a system of negative deduction. Under this votes in favour are all those shares present and represented, deducting:

- The votes corresponding to shares whose holders or representatives have voted against or have abstained, via the means of communication mentioned in the previous article.

- The votes corresponding to shares whose owner or representative votes against, casts a blank vote or abstains, via the communication or expression of the vote or abstention to the notary public or to the committee, for recording in the minutes.

- (b) The voting on proposed agreements regarding matters not on the agenda will be done with a system of positive deduction. For these purposes, votes against are all the shares present and represented, deducting the votes corresponding to shares whose owner or representative votes against, casts a blank vote or abstains, via the communication or expression of the vote or abstention to the notary public or to the committee, for recording in the minutes.

4. The communications or manifestations made to the notary public or to the committee envisaged in (2) and (3) can be done individually as regards each of the proposed agreements or jointly for several or all of them, expressing to the notary public or to the committee the identity and condition of the shareholder or representative, the number of shares referred to and which way to vote or abstain.

Article 19. Adoption of agreements and announcing the result

1. Approval of the agreements requires the following majorities:

- a) Generally, the agreements are approved when the number of votes in favour is more than half the total of the shares present or represented.
 - b) In order to agree the issue of bonds, increase or reduce the capital, merge and in general make any changes to the by-laws, two-thirds of the shares present or represented at the Meeting need to vote in favour when the shareholders at the Meeting represent less than 50% of the subscribed capital with the right to vote.
 - c) The transformation, absorption of Banco Español de Crédito by other companies, the winding down of the Bank and changes to the by-laws which establish the strengthened quorum for establishing the Meeting and voting for approving these agreements requires the favourable vote of 75% of the shares present and represented at the Meeting.
2. The Chairman will declare agreements approved when he is informed of sufficient votes in favour, without detriment to the manifestations that shareholders make to the notary public or the committee on which way they are voting.
3. What is stated in this article is without detriment to the cases where the law requires the vote in favour of everyone or a type of shareholder for the validity of certain agreements, or prevents them from being adopted with the opposition of shareholders who represent a certain percentage of the capital.

Article 20. The end of the Meeting

The Chairman declares the meeting over.

Article 21. Minutes of the Meeting

- 1. The Secretary of the Meeting will take minutes which will be incorporated to the Book of Minutes, which are approved by the Meeting at the end or within 15 days by the Chairman of the Meeting and two scrutinizers, one representing the majority and the other the minority.
- 2. The directors could require the presence of a notary public to take minutes of the Meeting. They are obliged to do so provided, five days before the Meeting, shareholders representing at least 1% of the capital ask for it. The notarised minutes will be the minutes of the Meeting and the fee will be paid for by the Bank.

Article 22. Publicising the agreements

- 1. Without detriment to recording in the Mercantile Registry those agreements that have to be registered and the legal precepts regarding publicity for the agreements, the same day as the Meeting or the working day immediately afterwards, the Bank will send the text of the agreements approved to the National Securities Market Commission.
- 2. The text of the agreements will be put on the Bank's website and included in its annual report on corporate governance.
- 3. At the request of any shareholder or person representing a shareholder at the Meeting, the Secretary of Board will issue certification of the agreements or the minutes.

Chapter IV

Attendance at the Meeting from afar

Article 23. Attendance from afar

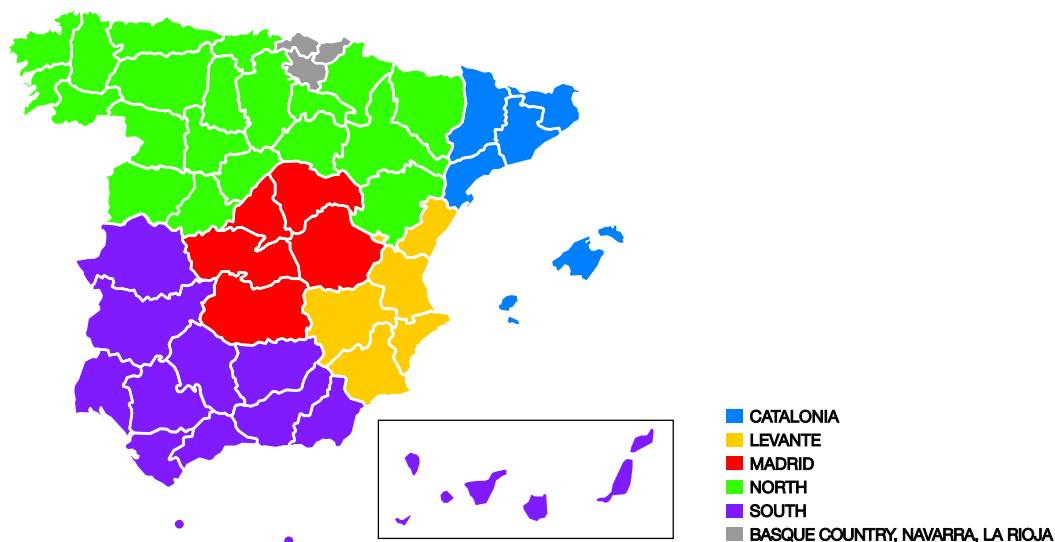
Shareholders with the right to attend the Meeting in the place indicated can do so through electronic or telematic means, provided it can be done technically and the Board agrees. The Board will indicate in the announcement calling the meeting the methods that can be used, taking into account the security conditions required to guarantee the identity of shareholders, the effectiveness of their rights and the correct development of the meeting. The right to vote and receive information of shareholders attending the Meeting via these methods must be exercised through electronic means that are considered suitable in the by-laws for the exercise of these rights.

Shareholders attending the Meeting in these circumstances will respect the following rules:

- a)) The connection to the system that follows the Meeting must be done with the time frame indicated in the calling, as regards the time set for the start of the meeting. A shareholder who starts the connection after the time has passed will be regarded as not attending the meeting.
- b) Votes on the proposals regarding points on the agenda can be issued as of when the Chairman of the Meeting declares it is validly established and indicates this, and up to the time set by the Chairman.
- c) Votes on the proposals regarding points not on the agenda must be issued during the period set by the Chairman, once the proposal is formulated and it is deemed it must be voted on.
- d) Shareholders attending from afar can exercise their right of information by formulating questions or seeking clarifications provided they refer to points on the agenda. These requests will be considered as done in writing, in accordance with Article 112 of the Law of Limited Companies.
- e) If for technical reasons not the responsibility of the Bank or for reasons of security arising from events beyond its control, there is a breakdown in communication or a permanent cut this circumstance cannot be used as an illegitimate depriving of the rights of the shareholder.
- f) Shareholders attending from afar will be included in the list of those attending, in accordance with Article 17.5 of these regulations.
- g) The committee and, where appropriate, the notary public must have direct access to the connection systems that permit attendance so that they know of the communications made by shareholders attending from afar and the manifestations made.

FINAL REGULATION

These regulations will be applied as of the Meeting immediately after the one at which they are approved.



MANAGEMENT COMMITTEE

CHAIRMAN

Federico Outón

MEMBERS

Juan Delibes
 Juan I. Elorduy
 José M^a Fuster
 José García Cantera
 Pedro Larena
 José Nieto
 José M^a Nus
 Jaime Pérez Renovales
 Miguel Sanz
 Rafael Vega

TECHNICAL SECRETARY

Ignacio Ezquerro

BANKING FOR COMPANIES: REGIONAL HEADQUARTERS

CATALONIA

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 08002 BARCELONA
 Tel.: 93 482 50 18
 Fax: 93 318 48 83

LEVANTE

Director: José Miguel Lorente Ayala
 Pintor Sorolla, 17 - 4º
 46002 VALENCIA
 Tel.: 96 399 62 08 - 96 399 62 09/10/11
 Fax: 96 399 62 12

MADRID

Director: Jesús Fuentes Colella
 Princesa, 25 - 2ª planta
 28008 MADRID
 Tel.: 91 516 01 71
 Fax: 91 516 01 20

NORTH

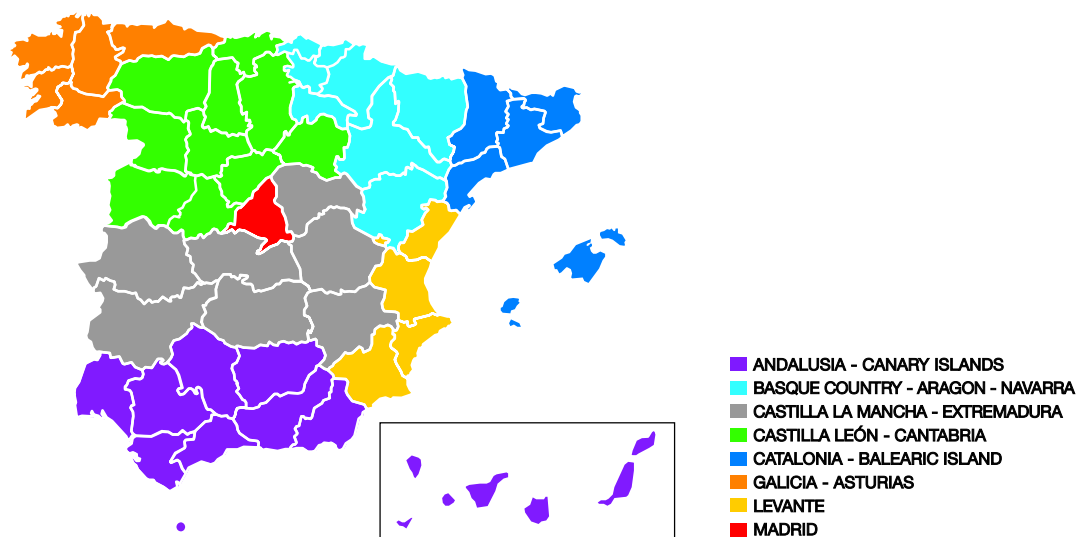
Director: José Antonio Portugal Alonso
 Princesa, 25 - 2ª planta
 28008 MADRID
 Tel.: 91 516 01 18
 Fax: 91 516 01 20

BASQUE COUNTRY - NAVARRA - LA RIOJA

Director: José María Bilbao Urquijo
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 Fax: 944 23 97 80

SOUTH

Director: José García Cortés
 Avda. de la Palmera, 25
 41013 SEVILLE
 Tel.: 95 493 27 04
 Fax: 95 493 27 06



RETAIL BANKING: REGIONAL HEADQUARTERS

ANDALUSIA - CANARY ISLANDS

Director: Gonzalo Alonso Tejuca
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 Fax: 95 493 27 03

BASQUE COUNTRY - ARAGON/NAVARRA

Director: Alberto Delgado Romero
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 Fax: 945 16 33 58

C. LA MANCHA - EXTREMADURA

Director: Eduardo Vioque Ruiz
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CASTILLA LEÓN - CANTABRIA

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CATALONIA - BALEARIC ISLAND

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 Fax: 93 482 50 65

GALICIA - ASTURIAS

Directora: Eloisa Rodríguez Rodríguez
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 Fax: 981 59 27 91

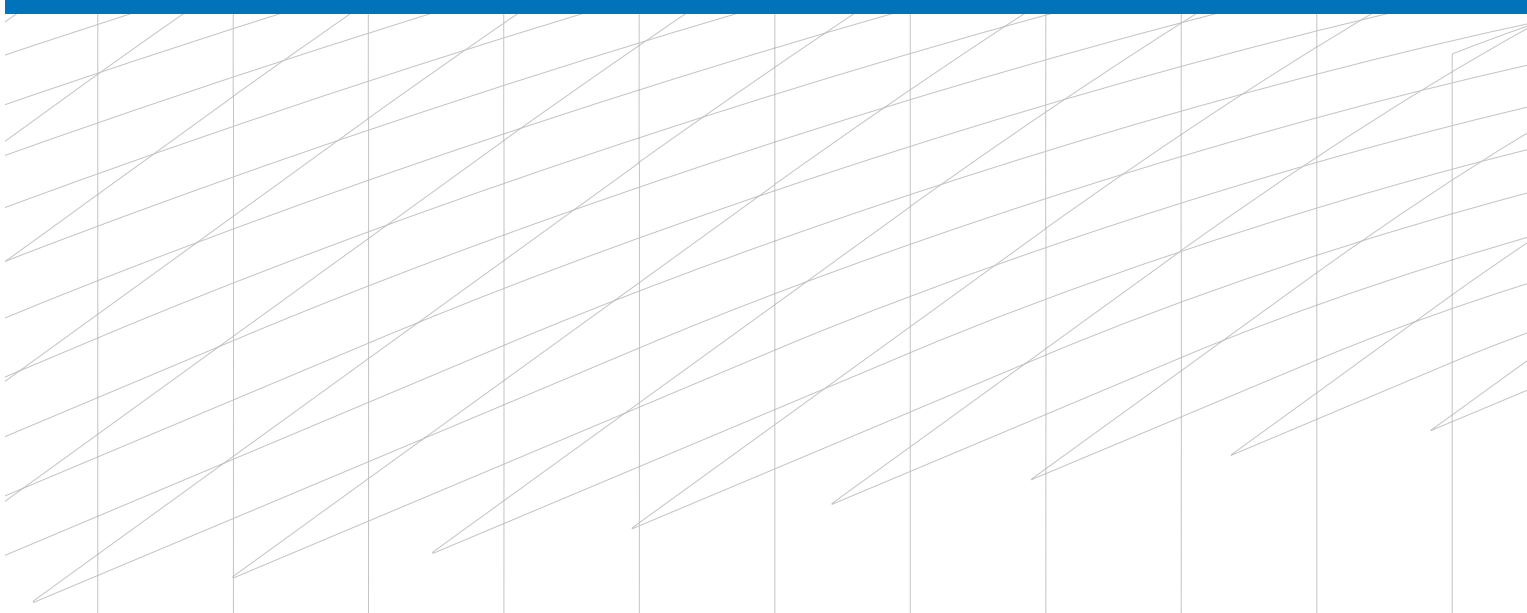
LEVANTE

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Recent Developments
Unaudited Financial Statements 30 September 2004



Grupo Banesto. Key Financials

(Eur in 000's)

BALANCE SHEET	09/30/04	09/30/03	Change
Total Assets	60,933,779	54,799,288	11.2%
Risk weighted assets	44,807,941	37,831,630	18.4%
Shareholder's Equity	2,601,107	2,438,927	6.6%
Total Lending (*)	39,009,798	31,901,072	22.3%
Total Customer Funds	53,490,523	43,477,762	23.0%
NPL Ratio (%)	0.59	0.77	-
NPL Coverage Ratio (%)	376.39	286.00	-

(*) Adjusted for loan securitizations.

P & L ACCOUNT	09/30/04	09/30/03	Change
Net Interest Income	839,282	784,112	7.0%
Net Commission Income	374,979	344,002	9.0%
Net Operating Revenue	1,268,667	1,171,423	8.3%
Operating Expenses	557,460	545,049	2.3%
Net Operating Income	628,698	540,866	16.2%
Profit Before Tax	579,032	503,453	15.0%
Net Attributable Profit	399,879	357,044	12.0%
Cost / Income Ratio (*)	45.22	48.06	-

(*) 12 months calculated.

OTHER	09/30/04	09/30/03	Change
Employees	9,847	9,779	68
Branches	1,691	1,683	8

Bis Ratio

Tier 1

ROE

ROA

Per share

Closing period price

Period EPS

Book value per share

P/E (*)

P/BV

(*) 12 months calculated.



	<div>1. Introduction</div> <div>2. Financial Results Performance</div> <div>Income Statement</div> <div>Yield of Assets and Cost of Funds</div> <div>Commissions</div> <div>Operating Expenses</div> <div>Net Operating Revenue by Business Unit</div> <div>3. Balance</div> <div>Consolidated Balance Sheet</div> <div>Lending and Customers Funds</div> <div>Capital Adequacy</div> <div>NPL's and Provisions</div> <div>4. Attachments: quarterly detail</div>

1. Introduction

- Income before taxes was 15% higher than in the same period of 2003, reaching Eur 579 million, largely due to 8.3% growth in net operating income.
- Lending to the private sector increased 22.3% and to the public sector 23.0%.
- Non-performing loans (NPLs) dropped to 0.59% of total loans, down from 0.77% in September 2003. NPL coverage reached 33.0%.

Net interest revenue amounted to Eur 839.3 million, 7.0% higher than in the same period of 2003, despite lower interest rates. Growth was due to the larger volume of business that allows Banesto to gain market share.

Net fees and commissions increased 9.0% to Eur 375.0 million. Commissions from services, however, rose 6.8% while those from management of pension and mutual funds grow 13.2%.

Results from financial operations were Eur 54.4 million. There was also a larger share of recurrent revenues due to the positive performance of revenue from the distribution of treasury products to customers.

Net operating revenue rose 8.3% to Eur 1,268.7 million.

Net operating revenue from domestic banking (retail, SMEs and corporate), 89% of our Net operating revenue, amounted to Eur 1,131.5 million, which means a 8.5% higher than in 9M 2003. Net operating revenue from markets and international activity increased by 11.6%.

Operating expenses increased by 2.3%, producing a further improvement in the cost/ income (efficiency) ratio to 45.2% at the end of September 2004
Net operating income of Eur 628.7 million, 16.2% higher than in September 2003.

Income
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Eur 39

2. Financial Results Performance

Consolidated Income Statement

(Eur in 000's)

	09/30/04	09/30/03
Interest revenues	1,507,503	1,498,503
Interest expenses	691,834	733,503
Dividends	23,613	18,503
NET INTEREST INCOME	839,282	783,503
Net Commissions	374,979	344,503
Mutual & Pensions funds	135,201	119,503
Services Commissions	239,778	225,000
NET COMMISSION INCOME	1,214,261	1,128,503
Results from financial operations	54,406	43,503
NET OPERATING REVENUE	1,268,667	1,175,503
Operating expenses	557,460	548,503
a) Personnel expenses	417,815	407,503
b) General expenses	139,645	131,000
Depreciation and amortisation	69,069	77,503
Other operating income/expenses	(13,440)	(13,503)
NET OPERATING INCOME	628,698	544,503
Income in equity accounted companies	69,063	47,503
Goodwill amortisation	3,431	3,503
Write-offs and net loan-loss provisions	159,285	120,503
Net provisions	199,131	150,000
NPL Recoveries	(39,846)	(30,000)
Writedown of investment securities	443	3,503
Net extraordinary income	44,430	38,503
PROFIT BEFORE TAX	579,032	503,503
Corporate tax	171,630	147,503
NET PROFIT	407,402	362,503
Minority interest	7,523	5,503
NET ATTRIBUTABLE PROFIT	399,879	357,503

Yield of Assets

(Eur in 000's)

ASSETS	September 2004			September 2003		
	Average Balance	% Yield	Revenues	Average Balance	% Yield	Revenues
Central Banks and Government Debt	4,690,748	4.49	157,961	4,730,638	4.88	173,071
Due from Credit Entities	10,731,472	2.31	186,143	10,919,778	2.70	221,451
Lending	33,713,307	3.97	1,003,037	27,962,680	4.42	926,531
Public Sector	818,298	2.33	14,304	831,750	2.69	16,801
Private Sector	30,378,658	4.15	945,785	24,623,044	4.66	861,471
Non-Resident Sector	2,516,351	2.28	42,948	2,507,886	2.57	48,301
Security Portfolio	4,320,574	4.05	131,280	5,094,186	3.88	148,431
Fixed Income	3,280,893	3.80	93,613	3,930,344	4.02	118,561
Equity Assets	1,039,681	4.83	37,667	1,163,842	3.42	29,881
Average Interest Earning Assets	53,456,101	3.69	1,478,421	48,707,282	4.02	1,469,471
Fixed Assets	713,152	0.00	0	752,054	0.00	0
Other Assets	4,717,287	1.49	52,695	4,712,560	1.35	47,881
Average Total Assets	58,886,540	3.47	1,531,116	54,171,896	3.73	1,517,351

Cost of Funds

(Eur in 000's)

LIABILITIES	September 2004			September 2003		
	Average Balance	% Yield	Revenues	Average Balance	% Yield	Revenues
Due from Credit Entities	10,510,858	1.71	135,191	13,571,125	2.25	229,071
Customer Funds	29,888,882	1.53	343,752	27,966,713	1.85	387,671
Public Sector	5,843,716	2.62	114,922	4,631,523	3.05	105,971
Private Sector	21,673,079	1.27	205,758	20,497,407	1.61	247,731
Non-Resident Sector	2,372,088	1.30	23,072	2,837,783	1.59	33,901
Debt	7,358,014	3.46	190,738	3,113,418	4.12	96,261
Subordinated Debt	1,426,703	3.46	37,045	436,171	4.21	13,761
Total interest Bearing Liabilities	49,184,457	1.92	706,726	45,087,427	2.15	726,661
Other Liabilities	6,987,730	(0.28)	(14,897)	6,563,533	0.13	6,551
Shareholder's Equity	2,714,353	0.00	0	2,520,936	0.00	0
Average Total Funds	58,886,540	1.57	691,834	54,171,896	1.80	733,211

2. Financial Results Performance | September 2004

Commissions

(Eur in 000's)

	09/30/04	09/30/03	Change	
			Absolute	%
Commissions Earned	315,705	292,684	23,021	7.9
Collections and Payments	181,376	160,950	20,426	12.7
Risk Operations	48,504	47,578	926	1.9
Securities related	24,282	27,397	(3,115)	(11.4)
Other	61,543	56,759	4,784	8.4
Commissions Paid	(75,927)	(68,109)	(7,818)	11.5
Mutual and Pension Funds Management	135,201	119,427	15,774	13.2
Net Commissions	374,979	344,002	30,977	9.0

Operating Expenses

(Eur in 000's)

	09/30/04	09/30/03	Change	
			Absolute	%
Administrative Expenses	557,460	545,049	12,411	2.3
Personnel	417,815	407,618	10,197	2.5
Wages and Salaries	310,670	302,067	8,603	2.8
Social Security	77,186	76,010	1,176	1.5
Other	29,959	29,541	418	1.4
General Expenses	139,645	137,431	2,214	1.6
Leases and Maintenance	39,710	39,631	79	0.2
IT and Communications	44,717	45,020	(303)	(0.7)
Advertising	11,538	11,485	53	0.5
Other	34,599	34,230	369	1.1
Taxes	9,081	7,065	2,016	28.5
Depreciation and Amortisation	69,069	71,797	(2,728)	(3.8)
TOTAL	626,529	616,846	9,683	1.6
Cost/Income Ratio (*)	45.22%	48.06%		

(*) Excluding amortizations, 12 months calculated.

Net Operating Revenue

Corporate banking: 7.8%

Retail b

(Eur in 000's)

Retail
Corporate
Markets
Corporate Activities
Total

3. Balance

Lending, adjusted for securitization, increased 22.3% to Eur 39.010 million. Of particular note was the rise in lending to the private sector (+ 26.8%) and within it of secured loans (+40.2%), and bill discounting (+9.9%).

This growth was achieved with a fall in the NPL ratio from 0.77% to 0.59%. NPL coverage rose from 286% to 376% over the same period.

Customer funds increased 26.5% to Eur 39.966 million and off- balance sheet funds rose 13.9%. Total funds were 23.0% higher at Eur 53.491 million.

Market share in total business is 8.63% a growth of 0.41 p.p.

Balance Sheet

(Eur in 000's)

Assets	09/30/04
Cash on Hand and at Central Banks	646,008
Government Debt Securities	4,052,426
Due from Credit Entities	10,353,318
Customer Loans	36,483,765
Fixed Income Assets	3,066,341
Equity Securities	823,365
Intangible Assets	73,058
Goodwill in Consolidation	14,325
Property and Equipment	688,673
Own Shares	7,801
Other Assets	3,486,258
Accrual accounts	1,045,248
Losses from Consolidated Companies	193,193
TOTAL	60,933,779
Liabilities	09/30/04
Due from Credit Entities	9,475,005
Customers Funds	30,564,987
Marketable Debt Securities	9,400,835
Other Liabilities	2,516,276
Accrual accounts	997,113
Provisions for Contingencies and Expenses	2,698,876
Negative Difference in Consolidation	13,076
Subordinated Financing	1,866,742
Minority Interests	191,366
Share Capital and Reserves	2,533,642
Reserves at Consolidated Companies	268,459
Consolidated Income for the Year	407,402
TOTAL	60,933,779

(Eur in 000's)

LENDING **09/30/04**

Public Authorities	771,393
Private Sector	36,655,219
Discounted Bills	3,847,030
Secured Loans	19,608,952
Other	13,199,237
Non-resident Sector	2,267,159
Total Lending	39,693,771
NPL's	256,620
Provisions	(940,593)
Total Net Lending (*)	39,009,798

(*) Adjusted for loan securitization (Sept. 04: Eur 2,526 mln - Sept. 03: Eur 1,542 mln).

CUSTOMER FUNDS **09/30/04**

Public Authorities	7,100,346
Private Sector	21,246,662
Current Accounts	11,822,605
Savings Accounts	4,705,311
Time Deposits and others	4,718,746
Non-resident Sector	2,217,979
Marketable Debt Securities	9,400,835
Customer Funds	39,965,822
Off Balance Sheet	13,524,701
Mutual Funds	11,209,206
Insurance Policies	1,094,885
Pensions Funds	1,220,610
Total Customer Funds	53,490,523

(Eur in 000's)

CAPITAL ADEQUACY	09/30/04	09/30/03
Share Capital and Reserves	3,016,310	2,656,815
Minority Interest	191,366	68,221
Deductions	(95,384)	(74,917)
Tier 1	3,112,292	2,650,119
Core Capital	2,920,926	2,581,898
Tier 2	2,307,590	1,251,689
Total Equity	5,419,882	3,901,808
Risk Weighted assets	44,807,941	37,831,630
Tier 1 (%)	6.95	7.01
Tier 2 (%)	5.15	3.31
Total (%)	12.10	10.31

NPL EVOLUTION

Initial balance
Additions
Recoveries
Write-offs
Final balance

NPL Ratio

PROVISIONS EVOLUTION	09/30/04	09/30/03
Initial balance	872,115	706,676
Allocations	215,271	169,837
Prov, released	(16,707)	(16,189)
Write-offs and others	(58,515)	(28,923)
Final balance	1,012,164	831,401
NPL coverage ratio	376.39%	286.00%

PROVISIONS

Specific
Statistical
Generic

Total

4. Attachments: quarterly detail

Quarterly Income Statement

(Eur in 000's)

	2003				2004	
	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04
Interest revenues	499,758	512,397	486,204	489,019	487,068	501,710
Interest expenses	247,784	259,086	226,371	227,344	219,215	228,710
Dividends	7,919	8,429	2,646	35	9,914	8,610
NET INTEREST INCOME	259,893	261,740	262,479	261,710	277,767	281,510
Net Commissions	108,939	116,808	118,255	118,366	122,460	126,410
Mutual & Pensions funds	37,027	40,178	42,222	42,752	43,801	45,610
Services Commissions	71,912	76,630	76,033	75,614	78,659	80,710
NET COMMISSION INCOME	368,832	378,548	380,734	380,076	400,227	407,910
Results from financial operations	18,914	18,109	6,286	12,705	17,545	22,610
NET OPERATING REVENUE	387,746	396,657	387,020	392,781	417,772	430,510
Operating expenses	183,580	183,024	178,445	193,926	187,736	187,110
a) Personnel expenses	136,583	137,010	134,025	136,440	139,990	140,410
b) General expenses	46,997	46,014	44,420	57,486	47,746	46,710
Depreciation and amortisation	24,115	24,424	23,258	23,299	22,512	23,610
Other operating income/expenses	(3,323)	(6,100)	(4,288)	(6,191)	(4,605)	(5,210)
NET OPERATING INCOME	176,728	183,109	181,029	169,365	202,919	214,510
Income in equity accounted companies	12,702	18,623	16,393	32,390	22,550	30,210
Goodwill amortisation	205	191	240	242	2,946	210
Write-offs and net loan-loss provisions	41,203	44,301	34,901	50,970	44,636	54,510
Net provisions	52,292	54,649	43,593	63,051	60,464	68,110
NPL Recoveries	(11,089)	(10,348)	(8,692)	(12,081)	(15,828)	(13,510)
Writedown of investment securities	(221)	(34)	(441)	9	147	110
Net extraordinary income	15,583	26,194	(6,563)	(14,147)	9,872	21,210
PROFIT BEFORE TAXES	163,826	183,468	156,159	136,387	187,612	211,010
Corporate tax	46,805	53,767	40,799	49,376	56,702	65,510
NET PROFIT	117,021	129,701	115,360	87,011	130,910	145,510
Minority interest	1,915	1,692	1,431	2,016	2,454	2,510
NET ATTRIBUTABLE PROFIT	115,106	128,009	113,929	84,995	128,456	142,910

Lending

(Eur in 000's)

	mar. 03	jun. 03	sept. 03	dec. 03	mar. 04
Public Authorities	738,843	939,393	786,833	759,768	731,267
Private Sector	25,843,089	27,669,254	28,900,214	31,860,832	32,899,802
Discounted Bills	3,120,046	3,352,672	3,500,145	3,832,432	3,621,344
Secured Loans	11,888,868	12,869,564	13,981,809	15,662,624	17,148,723
Other Loans	10,834,175	11,447,018	11,418,260	12,365,776	12,129,735
Non-resident Sector	3,008,683	3,129,326	2,706,792	2,141,790	2,718,397
Total Lending	29,590,615	31,737,973	32,393,839	34,762,390	36,349,466
NPL's	267,192	268,095	275,171	259,490	261,784
Provisions	(695,480)	(730,533)	(767,938)	(803,757)	(845,851)
Total Net Lending (*)	29,162,327	31,275,535	31,901,072	34,218,123	35,765,395

(*) Adjusted for loan securitization.

Customer Funds

(Eur in 000's)

	mar. 03	jun. 03	sept. 03	dec. 03	mar. 04
Public Authorities	4,123,313	3,806,539	4,436,096	5,350,316	4,827,629
Private Sector	19,881,903	21,092,923	20,851,547	21,005,156	20,897,751
Current Accounts	9,723,056	10,431,588	10,770,561	11,285,144	11,351,079
Savings Accounts	4,604,401	4,371,744	4,267,641	4,282,397	4,202,029
Time Deposits and others	5,554,446	6,289,591	5,813,345	5,437,615	5,344,649
Non-resident Sector	3,108,233	2,908,252	2,656,433	2,282,562	2,399,274
Marketable Debt Securities	2,449,657	3,671,844	3,658,337	5,658,337	7,053,436
Customer Funds	29,563,106	31,479,558	31,602,413	34,296,371	35,178,098
Off Balance Sheet	10,954,609	11,507,972	11,875,349	12,410,982	12,979,991
Mutual Funds	9,149,091	9,639,049	9,980,012	10,330,505	10,833,349
Insurance Policies	767,101	796,836	811,664	890,124	932,489
Pensions Funds	1,038,417	1,072,087	1,083,673	1,190,353	1,214,153
Total Customer Funds	40,517,715	42,987,530	43,477,762	46,707,353	48,158,089

4. Attachments: quarterly detail | September 2004

Yield of Assets

(Eur in 000's)

ASSETS	1Q03		2Q03		3Q03		4Q03		1Q04	
	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield
Central Banks and Government Debt	4,436,629	5.04	5,076,705	4.71	4,678,581	4.90	4,756,621	4.56	4,670,278	4.52
Due from Credit Entities	9,927,770	2.93	12,993,814	2.55	9,837,750	2.68	10,696,621	2.55	11,220,466	2.39
Lending	26,151,739	4.74	28,653,924	4.35	29,082,376	4.20	30,545,312	4.07	32,042,358	3.94
Public Sector	756,904	3.09	894,984	2.54	843,362	2.50	767,512	2.31	782,265	2.23
Private Sector	23,063,948	4.99	24,895,870	4.63	25,909,316	4.41	27,704,686	4.25	28,508,385	4.17
Non-Resident Sector	2,330,888	2.75	2,863,071	2.45	2,329,699	2.53	2,073,114	2.41	2,751,708	2.07
Security Portfolio	4,902,306	4.36	5,110,833	4.03	5,269,417	3.31	4,612,267	3.26	4,347,387	3.98
Fixed Income	3,935,206	4.09	3,983,592	4.04	3,872,234	3.93	3,532,934	3.97	3,333,687	3.83
Equity Assets	967,100	5.44	1,127,241	3.98	1,397,183	1.57	1,079,333	0.95	1,013,700	4.50
Average Interest Earning Assets	45,418,444	4.33	51,835,277	3.90	48,868,124	3.87	50,610,820	3.72	52,280,489	3.67
Fixed Assets	762,144	0.00	750,146	0.00	743,872	0.00	740,656	0.00	730,066	0.00
Other Assets	4,584,449	1.39	4,813,905	1.29	4,739,324	1.39	4,628,528	1.55	4,642,989	1.54
Average Total Assets	50,765,037	4.00	57,399,329	3.63	54,351,321	3.60	55,980,004	3.49	57,653,544	3.45

Cost of Funds

(Eur in 000's)

LIABILITIES	1Q03		2Q03		3Q03		4Q03		1Q04	
	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield	Average balance	% Yield
Due from Credit Entities	11,859,039	2.55	16,166,297	2.10	12,688,038	2.17	11,774,174	1.89	11,507,394	1.66
Customer Funds	26,817,465	1.96	28,551,357	1.91	28,531,316	1.68	28,624,339	1.62	28,975,662	1.55
Public Sector	4,196,414	3.44	5,159,450	2.90	4,538,706	2.86	4,971,333	2.78	5,228,414	2.67
Private Sector	19,775,722	1.68	20,488,793	1.70	21,227,706	1.46	21,241,524	1.39	21,364,469	1.32
Non-Resident Sector	2,845,330	1.70	2,903,115	1.63	2,764,904	1.45	2,411,481	1.27	2,382,780	1.10
Debt	2,449,189	4.28	3,231,062	4.00	3,660,004	4.12	5,657,403	3.31	6,588,105	3.30
Subordinated Debt	458,059	4.96	390,639	4.89	459,815	2.88	774,283	3.38	934,869	3.22
Total interest Bearing Liabilities	41,583,753	2.30	48,339,356	2.14	45,339,172	2.03	46,830,199	1.92	48,006,029	1.85
Other Liabilities	6,559,402	0.55	6,558,754	0.05	6,572,443	(0.20)	6,590,496	0.15	6,843,166	(0.13)
Shareholder's Equity	2,621,882	0.00	2,501,219	0.00	2,439,706	0.00	2,559,308	0.00	2,804,349	0.00
Average Total Funds	50,765,037	1.95	57,399,329	1.81	54,351,321	1.67	55,980,004	1.62	57,653,544	1.52

Net Operating Revenue Evolution by Business Unit

(Eur in 000's)

	2003				2004		
	1Q03	2Q03	3Q03	4Q03	1Q03	2Q03	3Q03
Retail	312,675	319,143	321,887	322,959	341,869	342,993	347,979
Corporate	29,925	30,625	28,859	28,990	34,297	31,654	32,714
Markets	27,100	28,610	19,529	24,702	23,458	35,784	24,728
Corporate Activities	18,046	18,279	16,745	16,130	18,148	20,168	14,875
Total	387,746	396,657	387,020	392,781	417,772	430,599	420,296

FORWARD LOOKING FINANCIAL STATEMENTS

This presentation contains forward-looking statements with respect to the business, financial condition, results of operations, strategy, plans and objectives of the Banesto Group. Some, but not all, of these statements may be identified by the use of words such as "anticipates", "targets", "objectives", "should", "expects", "estimates", "believes" or similar expressions. These statements are intended as "Forward-Looking

Statements" under the U.S. Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements involve risk and uncertainty because they reflect the Banesto Group's current expectations and assumptions as to future events and circumstances that may not prove accurate. A number of factors, including political, economic and regulatory developments in Spain and the European Union, shortages of customer

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Verfügbare Dokumente

Dieser Prospekt sowie die in diesem Prospekt erwähnten Unterlagen sind bei J.P. Morgan AG, Grüneburgweg 2, D-60322 Frankfurt am Main während der üblichen Geschäftsstunden an jedem Geschäftstag während der Laufzeit der Vorzugszertifikate erhältlich bzw. einsehbar.

Die jeweils jüngsten Geschäftsberichte der Emittentin sind während der Laufzeit der Vorzugszertifikate jeweils bei Banco Espanol de Credito S.A., Mesena 80, SP-28033 Madrid und bei J.P. Morgan AG, Grüneburgweg 2 D-60322 Frankfurt am Main erhältlich.

Zusätzliche Informationen im Zusammenhang mit der Börseneinführung an der Frankfurter Wertpapierbörse

1. Wertpapierkennnummern:

ISIN DE000A0DE4Q4

WKN A0DE4Q

2. Bekanntmachungen:

Solange die Vorzugszertifikate an der Frankfurter Wertpapierbörse zugelassen sind, werden alle die Vorzugszertifikate betreffenden Bekanntmachungen in mindestens einer von der Frankfurter Wertpapierbörse hierfür bestimmten Tageszeitung mit überregionaler Verbreitung (voraussichtlich der *Börsen-Zeitung*) veröffentlicht werden.

3. Zahlstelle:

Solange die Vorzugszertifikate an der Frankfurter Wertpapierbörse zugelassen sind, wird eine Zahlstelle in Frankfurt am Main unterhalten werden.

PRINCIPAL PAYING AGENT AND AGENT BANK

JP Morgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT

AMSTERDAM PAYING AGENT AND AMSTERDAM LISTING AGENT

ABN AMRO Bank N.V.
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

FRANKFURT PAYING AGENT

J.P. Morgan AG
Grüneburgweg 2
60322 Frankfurt am Main

4. Für die Zulassung an der Frankfurter Wertpapierbörse gilt, ungeachtet der Ausführungen des dritten Absatzes auf Seite 2 des Prospektes vom 3. November 2004, Paragraph 44 BoersG.

Aufgrund des vorstehenden Börsenzulassungsprospekts wurden

200.000 Stück

5,5% Non-Cumulative Perpetual Preferred Securities
von 2004 (die "Vorzugszertifikate")

- Emissionspreis: EUR 1.000,- je Vorzugszertifikat -

ISIN DE000A0DE4Q4

WKN A0DE4Q

der

Banco Espanol de Credito, S.A.

nach § 35 BörsG zum Amtlichen Handel an der Frankfurter Wertpapierbörse zugelassen.

Madrid und Frankfurt am Main im Dezember 2004

Banco Espanol de Credito, S.A.

ABN AMRO N.V.

Deutsche Bank Aktiengesellschaft

J.P. Morgan AG