

## IMPORTANT NOTICE

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You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this preliminary offering circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this offering circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this offering circular who intend to subscribe for or purchase the Preferred Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this offering circular. This offering circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

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Santander Central Hispano

## Santander Finance Preferred, S.A. Unipersonal

(incorporated with limited liability under the laws of Spain)

### Series 3 Euro 200,000,000 5.75% Non-Cumulative Perpetual Guaranteed Preferred Securities

irrevocably and unconditionally guaranteed to the extent set forth herein by

## Banco Santander Central Hispano, S.A.

(incorporated with limited liability under the laws of Spain)

### Issue price: 100%

Series 3 Euro 200,000,000 5.75% Non-Cumulative Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference each (the "**Preferred Securities**") are being issued by Santander Finance Preferred, S.A. Unipersonal (the "**Issuer**") on 8th October 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 (the "**Distribution Rate**") of 5.75% per annum, with a liquidation preference of Euro 1,000 per Preferred Security. Distributions are payable on 8th January, 8th April, 8th July and 8th October of each year commencing on 8th January 2005 (each, a "**Distribution Payment Date**").

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of Banco Santander Central Hispano, S.A. (the "**Bank**" or the "**Guarantor**") and of the Bank of Spain), in whole or in part, on any Distribution Payment Date falling on or after 8th October 2009, 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 101) to the date fixed for redemption.

In the event of the liquidation of the Issuer or the Bank, 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 payment of Distributions and payments upon liquidation or redemption with respect to the Preferred Securities are irrevocably and unconditionally guaranteed by the Bank on a subordinated basis to the extent described under "The Guarantee". The Bank 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**"), an A rating by Fitch IBCA Limited ("**Fitch IBCA**") and a BBB+ rating by Standard & Poor's Ratings 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 page 2 regarding the tax treatment in Spain of income in respect of Preferred Securities and to the disclosure requirements imposed on the Issuer and the Guarantor 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 Guarantor on time as described herein.**

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") together with Euroclear, 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**") and on the Luxembourg Stock Exchange. This Offering Circular constitutes a Prospectus for the purposes of the application for listing on Euronext Amsterdam and the Luxembourg 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.

BNP PARIBAS

CITIGROUP

JPMorgan

Merrill Lynch International

*The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*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 or the Guarantor in connection with the Preferred Securities or their distribution.*

*Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor 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 or the Guarantor 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, the Guarantor 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 of which it has been published. No person is authorised to give information other than that contained herein and in the documents referred to herein and which are made available for inspection by the public at the specified office of each Paying Agent.*

***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 Guarantor is required pursuant to Spanish law, to submit to the Spanish tax authorities certain details relating to holders of the Preferred Securities. Holders in respect of whom such information is not provided in accordance with procedures described herein to the Guarantor will receive payments subject to Spanish withholding, currently at the rate of 15%. Neither the Issuer nor the Guarantor will 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 19 and "Taxation and Disclosure of Holder Information in Connection with Payments of Distributions" on page 57.)***

*The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Principal Paying Agent (as defined on page 11-2) 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 20). 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.*

*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 Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.*

*The Issuer and the Guarantor, as applicable, 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 58).*

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, the Offering Circular:

- (1) the published annual audited financial statements (on both a consolidated basis and a non-consolidated basis) of the Guarantor for the years ending 31st December 2003, 31st December 2002 and 31st December 2001; and
- (2) the published semi-annual interim audited financial statements of the Guarantor (on a consolidated basis) for the six month period ending 30th June 2004; and
- (3) the published semi-annual interim unaudited financial statements of the Guarantor (on a consolidated basis) for the six month period ending 30th June 2003.

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 or the specified office of the Listing Agent in Luxembourg.



## 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 law 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:	Santander Finance Preferred, S.A. Unipersonal.
Guarantor:	Banco Santander Central Hispano, S.A..
Issue size:	Euro 200,000,000.
Issue details:	<p>Series 3 Euro 200,000,000 5.75% Non-Cumulative Perpetual Guaranteed Preferred Securities (<i>participaciones preferentes</i>) (the “<b>Preferred Securities</b>”), each with a liquidation preference of Euro 1,000.</p> <p>The Bank has requested that the Preferred Securities qualify as Tier 1 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 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>) which amends 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>), deposited on a permanent basis with the Bank or with another credit entity (<i>entidad de crédito</i>) of the Group and will be used for the Group’s general corporate purposes. The funds raised from the issue of the Preferred Securities and so deposited will be 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.</p>
Distributions ( <i>retribución</i> ):	<p>The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions (“<b>Distributions</b>”). 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 8th January, 8th April, 8th July and 8th October in each year commencing on 8th January 2005.</p> <p>Distributions will be payable quarterly at the distribution rate (the “<b>Distribution Rate</b>”) of 5.75% per annum. The Distribution amount payable will be computed by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:</p>

**“Day Count Fraction”** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (A) the number of days in the Regular Period in which the relevant period falls and (B) the number of Regular Periods in any year; and

**“Regular Period”** means each period from (and including) the Closing Date or any Distribution Payment Date to (but excluding) the next Distribution Payment Date. See “Conditions of the Preferred Securities – Distributions” on page 12.

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 on page 11) and any distributions proposed to be paid during the then-current Distribution Period (as defined on page 101) in each case on or in respect of Parity Securities (as defined on page 12) (including the Preferred Securities) would exceed the Distributable Profits (as defined on page 11) of the immediately preceding Fiscal Year; or
- (b) even if Distributable Profits are sufficient under applicable Spanish banking regulations relating to capital adequacy requirements affecting financial institutions which fail to meet their required capital ratios, the Bank would be prevented at such time from making payments on its ordinary shares or on Parity Securities issued by it.

If Distributions are not paid on the Preferred Securities on or prior to a Distribution Payment Date (as defined on page 101) in respect of the relevant Distribution Period, as a consequence of the above Limitations on Distributions, the right of the holders of the Preferred Securities to receive a Distribution from the Issuer or the Bank, as the case may be, in respect of the relevant Distribution Period will be extinguished. In such a case, neither the Issuer nor the Bank shall 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 or to the Bank’s obligation under the Guarantee, as the case may be.

Guarantee:

The payment of Distributions, the Liquidation Distribution (as defined below) and the Redemption Price (as defined on page 142) shall be irrevocably and unconditionally guaranteed by the Guarantor, subject in the case of Distributions, to the Limitations on Distributions described above. In addition, the Guarantee is subject to the limitations described under the Liquidation Rights, below.

For a full description of the Guarantee, see “The Guarantee” on pages 22 to 28.

Ranking of the Guarantee:

The Bank’s obligations under the Guarantee will rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Bank and any obligation assumed by the Bank under any guarantee in favour of holders of any Parity Securities of any subsidiary; and (c) senior to the Bank’s ordinary shares.



Ranking of the Preferred Securities:	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 of the Issuer and (c) senior to the Issuer's ordinary shares.
Optional Redemption:	The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 8th October 2009.
Liquidation Distribution:	The Liquidation Distribution payable in relation to each Preferred Security shall be its 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 as described under "Conditions of the Preferred Securities – Distributions" on pages 12 to 14, the Preferred Securities will confer no right to participate in the profits or surplus assets of the Issuer.</p> <p>If proceedings for the liquidation, dissolution or winding up of the Bank are commenced or of a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporations Law (<i>Ley de Sociedades Anónimas</i>), the Issuer shall be liquidated by the Bank and the holders of Preferred Securities at the time outstanding will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them. In such an event, the Liquidation Distribution relating to each Preferred Security shall not exceed the amount which would have been paid from the assets of the Bank had the Preferred Securities been issued by the Bank.</p> <p>Except as described above, the Bank shall not liquidate or procure a liquidation of the Issuer.</p>
Purchases:	Under current Spanish law none of the Issuer, the Bank or any of their respective subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 8th October 2009. In the event that such purchases are permitted by law before 8th October 2009, they may be made by tender, in the open market or by private agreement. See "Conditions of the Preferred Securities – Purchases of Preferred Securities" on page 15.
Pre-emptive rights:	The Preferred Securities do not grant their holders any pre-emption rights.
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. Notwithstanding the above, the holders of the Preferred Securities will have the right, under certain circumstances, to participate in the adoption of certain decisions in the special general meetings of holders of preferred securities of the Issuer. See "Conditions of the Preferred Securities – Exercise of rights by holders of Preferred Securities" on page 15.

Withholding Tax:

Save as set out below, all payments of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be made free and clear of withholding taxes of the Kingdom of Spain, subject to customary exceptions.

The payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be subject to Spanish withholding taxes, in the circumstances described below. In such circumstances, neither the Issuer nor the Bank will pay any additional amounts to holders of Preferred Securities.

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).

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 19.

Disclosure of identity of holders:

Under Law 13/1985, the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of certain holders of the Preferred Securities.

The Clearing Systems are expected to follow certain procedures to facilitate the Principal Paying Agent in the collection of the details referred to above from holders of the Preferred Securities (see "Conditions of the Preferred Securities – Taxation" on page 19). If the Clearing Systems are, in the future, unable to facilitate the collection of such information they may decline to allow the Preferred Securities to be cleared through the relevant 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 20.

***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 Guarantor, 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 a common depositary for Euroclear and Clearstream, Luxembourg.

Accordingly, for so long as the Preferred Securities are so deposited, holders will have no direct rights against the Issuer or the Bank 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. See "Conditions of the Preferred Securities – Form and Status" on page 20.

Ratings:

The Preferred Securities are expected, on issue, to be assigned an A2 rating by Moody's, an A rating by Fitch IBCA 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 and the Guarantee will be governed by the laws of Spain.

Listing:

Application has been made to list the Preferred Securities on Euronext Amsterdam and the Luxembourg Stock Exchange.

## Conditions of The Preferred Securities

The Preferred Securities are issued by virtue of (i) the shareholders meeting of the Issuer, held on 1st October 2004 and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Issuer, held on 1st October 2004 and the giving of the Guarantee (as defined below) is authorised by the meeting of the Executive Commission of the Bank (*Comisión Ejecutiva*), held on 4th October 2004 (together, the “**Corporate Resolutions**”) and in accordance with the 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*) as amended (“**Law 13/1985**”).

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

Paragraphs in italics are a summary of certain procedures of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) together with Euroclear, the “**Clearing Systems**”) and certain other information applicable to the Preferred Securities and will not be included in the Public Deed of Issuance. 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 8th October 2004;

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

“**Distribution Payment Date**” means 8th January, 8th April, 8th July and 8th October in each year commencing on 8th January 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 Distribution Payment Date;

“**Distributable Profits**” means in respect of any Fiscal Year of the Bank the reported net profit (calculated in compliance with the regulations of the Bank of Spain) of the Bank, determined after tax and extraordinary items for such year, as derived from the non-consolidated audited profit and loss account of the Bank, 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 Bank 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 Bank 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 or the Bank, as the case may be, as set out in its by-laws;

“**Group**” means the Bank together with its consolidated Subsidiaries;

“**Guarantee**” means the guarantee dated 6th October 2004 and given by the Bank in respect of the Issuer’s obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

“**Liquidation Distribution**” means, subject to the limitation set out under paragraph 2.7, the Liquidation Preference per Preferred Security plus, if applicable, pursuant to paragraph 2.7

below, 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 6th October 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 Bank, the Issuer, or by any other subsidiary of the Bank which are guaranteed by the Bank, including (but not limited to) the preference shares issued by BSCH Finance Limited, Santander Finance Preferred, S.A., Unipersonal and/or Santander Finance Capital, S.A., Unipersonal which are entitled to the benefit of a guarantee ranking *pari passu* with the Bank's obligations under the Guarantee, or issued by the Bank and ranking *pari passu* with the Bank's obligations under the Guarantee;

**"Paying Agency Agreement"** means the paying agency agreement dated 8th October, 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;

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

**"Special General Meetings"** means the meetings of holders of preferred securities of the Issuer; and

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

## 2. Distributions

2.1 Subject to paragraph 2.7, Distributions on the Preferred Securities will accrue from the Closing Date and are payable in arrear on each Distribution Payment Date.

2.2 The Distribution payable on each Preferred Security will be fixed at a rate per annum of 5.75% of the Liquidation Preference thereof. The amount of Distribution payable for any Distribution Period will be computed by the Agent Bank by applying the Distribution Rate to the Liquidation Preference in respect of each Preferred Security, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (A) the number of days in the Regular Period in which the relevant period falls and (B) the number of Regular Periods in any year; and **"Regular Period"** means each period from (and including) the Closing Date or any Distribution Payment Date to (but excluding) the next Distribution Payment Date.

2.3 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 19/2003, Royal Decree 1778/2004, Royal Decree 4/2004 and Order of 22nd December 1999, the Issuer, the Guarantor, the Principal Paying Agent, Euroclear, Clearstream, Luxembourg 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 by the Principal Paying Agent for the account of such person as Euroclear, Clearstream, Luxembourg 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 Guarantor, 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 a common depositary for the Clearing Systems on or about the Closing Date. The Clearing Systems will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.*

2.4 Distributions shall not be payable to the extent that:

- 2.4.1 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
- 2.4.2 even if Distributable Profits are sufficient to the extent that under applicable Spanish banking regulations relating to capital adequacy requirements affecting financial institutions which fail to meet their required capital ratios, the Bank would be prevented at such time from making payments on its ordinary shares or 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.

- 2.5 If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein) other than as a result of the limitations set out in paragraph 2.4 above, the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Bank pays such Distribution pursuant to the Guarantee.
- 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 2.4 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 neither the Issuer nor the Guarantor will have any 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 2.4 above, a Distribution is not paid in full on the Preferred 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, 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 neither the Issuer nor the Bank shall 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 or to the Bank's obligations under the Guarantee, as the case may be.
- 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 Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer available for distribution to holders of Preferred Securities, the Liquidation Distribution. Such entitlement will arise before any distribution of assets is made to holders of ordinary shares or any other class of shares of the Issuer ranking junior to the Preferred Securities.

The payment of the Liquidation Distribution is guaranteed by the Bank.

- 3.2 Notwithstanding the availability of sufficient assets of the Issuer to pay a full liquidating distribution in respect of the Preferred Securities or any Parity Securities of the Issuer if, at the time such liquidating distribution is to be paid, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the liquidation distribution relating to all Parity Securities (including the Preferred Securities), shall not exceed the amount which would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, 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 Guarantee) had Parity Securities (including the Preferred Securities) been issued by the Bank and ranked (A) junior to all creditors of the Bank, (B) *pari passu* with the Parity Securities, if any, of the Bank, and (C) senior to the Bank's ordinary shares. The Issuer shall be released from its obligation to pay such Liquidating Distributions by payment to the bearer of the relevant Preferred Securities.
- 3.3 If, upon any Liquidation Distribution described in paragraph 3.1 being made, the amounts payable are limited by reason of paragraph 3.2, such amounts will be payable *pro rata* among holders of Parity Securities in proportion to the amounts that would have been payable but for such limitation, taking into account that the liquidation preference for each series of preferred securities of the Issuer may be different, the payment of such liquidation preference amounts will be made *pro rata* to the aggregate of the liquidation preference of the preferred securities held by each holder, and not by reference to the number of preferred securities held by each holder. After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in paragraphs 3.1

and 3.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Issuer.

Except as provided in paragraph 3.2 above, the Bank undertakes not to permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.

#### **4. Optional Redemption**

- 4.1 The Preferred Securities shall not be redeemable prior to 8th October 2009. All, or some only, of the Preferred Securities may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling on or after 8th October 2009 (the “**Redemption Date**”), at the Redemption Price per Preferred Security.

In the case of a partial redemption of the Preferred Securities, redemption will be effected on a *pro rata* basis in relation to the Liquidation Preference of the Preferred Securities and the Liquidation Preference of the Preferred Securities shall be reduced accordingly.

- 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 relevant 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 relevant redemption date, the Issuer will:
- 4.3.1 irrevocably deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price, including the amount of accrued and unpaid Distribution for the then-current Distribution Period to the date fixed for redemption; 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 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 or the Bank 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, the Bank 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 8th October 2009. Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before 8th October 2009, then, subject to the applicable law then in force, the Issuer, the Bank 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 Voting Rights**

The holders of the Preferred Securities will have no voting rights. Notwithstanding the foregoing, the holders of the Preferred Securities will, in the circumstances set out in paragraphs 6.1.1, 6.1.2, 6.1.3 below, have the right to participate in the adoption by the Issuer of certain decisions in the Special General Meetings.

#### 6.1.1 Failure to pay Distributions for four consecutive Distribution Periods

- (a) In the event that neither the Issuer nor the Bank (by virtue of the Guarantee) pays full Distributions in respect of the Preferred Securities for four consecutive Distribution Periods, the holders of the Preferred Securities may, through the Special General Meeting resolve to appoint two further members to the board of directors of the Issuer and may also remove or replace such directors.

These rights will be enjoyed not only by the holders of Preferred Securities, but shall be exercised together with all other holders of preferred securities of the Issuer and in respect of which the Issuer and the Guarantor have also failed to make payments.

There have been issues of series 1 and series 2 preferred securities by the Issuer with similar terms and conditions to the Preferred Securities. Therefore if the circumstances in this paragraph arise, the holders of such preferred securities together with the holders of the Preferred Securities must act together as a single class in making any resolution referred to in paragraph (b) below. In the event that the Issuer issues further preferred securities the holders of all preferred securities in respect of which the Issuer and Guarantor have failed to meet their payment obligations in accordance with their respective terms must act together as a single class in the adoption of any resolution referred to in paragraph (b) below.

- (b) Any resolution appointing, removing or replacing any directors of the board of directors of the Issuer shall be made by a majority (at least 51%) of the aggregate liquidation preference of the preferred securities of the Issuer in respect of which the Issuer or the Bank has failed to pay distributions in accordance with their respective terms.

*It should be noted that liquidation preferences may be different for different series of preferred securities. In particular, the Liquidation Preference in respect of the Preferred Securities is Euro 1,000 per Preferred Security whereas the liquidation preference in respect of the Issuer's first issue was US\$25 per preferred security, and in respect of the second issue was Euro 1,000 per preferred security.*

- (c) The board of directors of the Issuer, or an authorised committee, will call a Special General Meeting of holders of Preferred Securities within thirty business days following the fourth consecutive non-payment of Distributions as set out in paragraph a) above. If the Board of Directors or the authorised committee, as the case may be, does not call the Special General Meeting within thirty days, the holders of the preferred securities representing at least 10% of the aggregate liquidation preference of the preferred securities may convene such meeting.
- (d) The rules governing the convening and holding of Special General Meetings are set out in paragraph 6.2 below.
- (e) Immediately following a resolution for the appointment or the removal of additional members to the board of directors of the Issuer, a Special General Meeting shall give notice of such appointment or removal to:
  - (i) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and
  - (ii) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.

The shareholder of the Issuer has undertaken to vote in favour of the appointment or removal of the directors so named by a Special General Meeting and to take all necessary measures to approve such appointment or removal. Under the articles of the Issuer, the board of directors must have a minimum of three members and a maximum of 11.

*As at the date of the Offering Circular the board of directors has six directors.*

- (f) The foregoing shall apply, in respect of the preferred securities, provided that, where the Issuer has failed to fulfil its obligation to make Distributions in respect of the Preferred Securities, the Guarantor has not discharged such obligations pursuant to the Guarantee.
- (g) Any member of the board of directors named pursuant to the foregoing shall vacate his position if, subsequent to the circumstances giving rise to his appointment, the Issuer or the Bank makes Distributions, in respect of the Preferred Securities for four consecutive Distribution Periods and any other preferred securities in circulation, in respect of the number of such distribution periods set out in their own terms and conditions.
- (h) Both the appointment and the dismissal of directors shall be notified by the Issuer in accordance with paragraph 8 below.

6.1.2 Amendment to the Terms and Conditions of the Preferred Securities and further issuances

- (a) 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 all outstanding Preferred Securities or by a resolution of at least two-thirds of the holders of all outstanding Preferred Securities adopted in a Special General Meeting.
- (b) If the Issuer, or the Bank under any guarantee, has paid in full the most recent distribution payable on each series of the Issuer's preferred securities, the Issuer may without the consent or sanction of the holders of its preferred securities: (i) take any action required to issue additional preferred securities or authorise, create and issue one or more other series of preferred 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; or (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.

However, if the Issuer, or the Bank under any guarantee, has not paid in full the most recent distribution payable on each series of preferred securities, then the prior consent of the holders of at least two thirds in liquidation preference of the outstanding preferred securities of the Issuer will be required to carry out such actions. Such consent may be granted in writing by the holders, or with the sanction of a special resolution passed at a separate Special General Meeting of holders.

A Special General Meeting shall notify the decision so adopted to the shareholders of the Issuer. The shareholder of the Issuer has undertaken to vote in the corresponding general meeting of shareholders in conformity with the result of the vote of the Special General Meeting.

6.1.3 Liquidation, Dissolution or winding-up of the Issuer

If the shareholders of the Issuer propose a resolution providing for the liquidation, dissolution or winding-up of the Issuer, the holders of all the outstanding preferred securities of the Issuer:

- (a) will be entitled to receive notice of and to attend the general meeting of shareholders called to adopt this resolution; and
- (b) will be entitled to hold a separate and previous Special General Meeting and vote together as a single class without regard to series on such resolution, but not on any other resolution.

Such resolution will not be effective unless approved by the holders of a majority in liquidation preference of all outstanding preferred securities of the Issuer.

The result of the above mentioned vote shall be disclosed at the general shareholders meeting as well as the fact that the shareholders of the Issuer have undertaken to vote in the corresponding general shareholders meeting in accordance with the vote of the separate general meeting of holders. Notice, attendance, or approval is not required if the liquidation, dissolution and winding-up of the Issuer is initiated due to (i) the liquidation, dissolution or, winding up of the Bank; or (ii) a reduction in shareholders' equity of the Bank under Article 169 of the Corporations Law of Spain.

The Issuer shall notify any meeting at which the holders of preferred securities are entitled to vote in accordance with paragraph 8 below. This notice will include a statement regarding: (i) the date, time and place of the meeting; and (ii) a description of any resolution to be proposed for adoption at the meeting at which the holders are entitled to vote; and (iii) instructions for the delivery of proxies.

The Bank has undertaken not to permit or take any action to cause the liquidation, dissolution, or winding up of the Issuer, except as provided in paragraph 3.2 above.

## 6.2 Special General Meetings

- 6.2.1 A Special General Meeting, which will be constituted by all holders of preferred securities of the Issuer, will be called by the board of directors of the Issuer.
- 6.2.2 The quorum shall be the holders of preferred securities holding one-quarter of the liquidation preference of all preferred securities issued and outstanding. If the attendance of one-quarter of the holders of preferred 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 number of preferred securities present or represented.
- 6.2.3 In a Special General Meeting all resolutions shall be made by the majority set out in paragraphs 6.1.1, 6.1.2 and 6.1.3 above, as applicable, and will be binding on all of the holders of such preferred securities, including those not in attendance and dissenters.
- 6.2.4 All holders of preferred 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 preferred securities shall prove that they held preferred securities in the manner and subject to the requirements set out in the announcement published when convening such Special General Meeting. Holders of the preferred securities may delegate their representation to another person, by an individual signed letter for each meeting.
- 6.2.5 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 preferred securities.

A Special General Meeting of holders of the Preferred Securities will be convened (i) so long as any Preferred Security is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe (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 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).



### 6.3 Pre-emptive Rights and other provisions

- 6.3.1 The Preferred Securities do not grant their holders pre-emption rights in respect of any possible future issues of preferred securities.
- 6.3.2 Neither the Issuer nor any other Subsidiary nor the Bank 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 Guarantee is amended so as to rank *pari passu* with any such issue of senior securities.
- 6.3.3 No vote in respect of the Preferred Securities will be required for the Issuer to redeem and cancel the Preferred Securities.
- 6.3.4 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Bank nor any Subsidiary of the Bank, to the extent that it is a holder of preferred securities of the Issuer, shall be so entitled to vote.
- 6.3.5 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 and the Guarantee by the Issuer or the Guarantor (as the case may be) 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 or (as the case may be) the Guarantor shall pay such additional amounts as would have been received had no such withholding or deduction been required.
- 7.2 Neither the Issuer nor the Guarantor shall 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 Guarantor, or the Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Law 19/2003 of 4th July, 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 corporate entity 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 60 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 and the Bank 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 Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe (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 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 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 a common depositary for Euroclear and Clearstream, Luxembourg. 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 Euroclear and Clearstream, Luxembourg, the non-availability of any alternative or successor clearing system, removal of the Preferred Securities from Euroclear and Clearstream, Luxembourg or failure to comply with the terms and conditions of the Preferred Securities by either the Issuer or the Bank) 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 of the Issuer and (c) senior to the Issuer's ordinary shares.

## 10. Use of Proceeds

The net proceeds of the Preferred Securities are Euro 198,000,000 and in accordance with Law 19/2003 will be deposited in their entirety on a permanent basis with the Bank or with another credit entity (*entidad de crédito*) of the Group and will be used for the Group's general corporate purposes.

The funds raised from the issue of the Preferred Securities and so deposited will be 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.

## 11. Agents

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 the Bank 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 and the Guarantor reserve 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 Luxembourg Stock Exchange and the rules of such exchanges so require, the Issuer and the Bank shall maintain a Paying Agent having its specified office in Amsterdam and a Paying Agent having its specified office in Luxembourg.

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. Governing Law and Jurisdiction

### 13.1 Governing Law

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

### 13.2 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.

## The Guarantee

*The following is the text of the Guarantee relating to the Preferred Securities.*

THIS GUARANTEE (the “**Guarantee**”), dated 6th October 2004, is executed and delivered by Banco Santander Central Hispano, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Bank**” or the “**Guarantor**”) for the benefit of the Holders (as defined below).

WHEREAS, the Bank wishes to procure the issue by Santander Finance Preferred, S.A. Unipersonal, a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Issuer**”) of Series 3 Euro 200,000,000 5.75% Non-cumulative Perpetual Guaranteed Non-voting Preferred Securities (the “**Preferred Securities**”) and the Bank wishes to issue this Guarantee for the benefit of the Holders.

NOW, THEREFORE the Bank executes and delivers this Guarantee for the benefit of the Holders.

### 1. Definitions

As used in this Guarantee, the following terms shall, unless the context otherwise requires, have the following meanings:

“**Bank Shares**” means any ordinary shares of the Bank;

“**Distributable Profits**” means in respect of any Fiscal Year of the Bank the reported net profit (calculated in compliance with the regulations of the Bank of Spain) of the Bank, determined after tax and extraordinary items for such year, as derived from the non-consolidated audited profit and loss account of the Bank, 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 in effect at the time of such preparation. In the event that on any Distribution Payment Date, the profit and loss account of the Bank 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 Bank sent to the Bank of Spain for the period ending 31st December of the previous Fiscal Year.

“**Distributions**” means the non-cumulative cash distributions payable per Preferred Security in accordance with the terms thereof;

“**Distribution Payment Date**” means 8th January, 8th April, 8th July and 8th October in each year, commencing on 8th January 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 Distribution Payment Date;

“**Fiscal Year**” means the accounting year of the Guarantor as set out in its by-laws;

“**Guarantee Payments**” means (without duplication) (i) any accrued but unpaid Distribution payable on the Preferred Securities for the most recent Distribution Period; (ii) the Redemption Price payable on the redemption of Preferred Securities; and (iii) the Liquidation Distributions due on the Liquidation Date;

“**Group**” means the Bank and its consolidated subsidiaries;

“**Holder**” means any holder from time to time of any Preferred Security; provided, however, that in determining whether the Holders of the requisite percentage of Preferred Securities have given any request, notice, consent or waiver hereunder, Holder shall not include the Bank or any Subsidiary (including the Issuer);

“**Liquidation Date**” means the date of final distribution of the assets of the Issuer in the case of any liquidation, dissolution or winding-up of the Issuer (whether voluntary or involuntary);

“**Liquidation Distribution**” means, with respect to each Preferred Security, the Liquidation Preference plus an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment on such Liquidation Distribution;

“**Liquidation Preference**” means euro 1,000 per Preferred Security;

**“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 Bank, the Issuer, or by any other subsidiary of the Bank which are guaranteed by the Bank, including (but not limited to) the preference shares issued by BSCH Finance Limited, Santander Finance Preferred, S.A., Unipersonal and/or Santander Finance Capital, S.A., Unipersonal which are entitled to the benefit of a guarantee ranking *pari passu* with the Bank’s obligations under the Guarantee, or issued by the Bank and ranking *pari passu* with the Bank’s obligations under the Guarantee.

**“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;

**“Spain”** means the Kingdom of Spain;

**“Subsidiary”** means any entity which the Bank may, directly or indirectly, control in accordance with Article 4 of the Securities Market Act (*Ley del Mercado de Valores*);

**“Special General Meetings”** means the meetings of holders of preferred securities of the Issuer.

## **2. Guarantee**

### **2.1 Guarantee**

Subject to the limitations contained in the following paragraphs of this Clause 2, the Bank irrevocably and unconditionally agrees to pay in full to the Holders, the Guarantee Payments (to the extent not paid by the Issuer), as and when due upon receipt of a notice by any Holder demanding payment, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is unconditional, irrevocable, continuous and absolute (*Garantía Solidaria* under Spanish law).

### **2.2 Limitations to the Guarantee Payments in relation to the Distributions**

Notwithstanding Clause 2.1, the Bank will not be obliged to make any Guarantee Payment in respect of Distributions (including accrued and unpaid Distributions relating to the Redemption Price or Liquidation Distribution) on any Preferred Securities to the extent that:

- 2.2.1 the aggregate of such Distribution, 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
- 2.2.2 even if Distributable Profits are sufficient, to the extent that under applicable Spanish banking regulations affecting financial institutions which fail to meet their capital ratios, the Bank would be prevented at such time from making payments on its ordinary shares or Parity Securities issued by it.

### **2.3 Limitations to the Guarantee Payments in relation to the Liquidation Distributions**

Notwithstanding Clause 2.1, if, at the time that any liquidating distributions are to be paid by the Bank in respect of the Preferred Securities or any other Parity Securities, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding up of the Bank or for a reduction in the Bank’s shareholders’ equity pursuant to Article 169 of the Spanish Corporation Law (*Ley de Sociedades Anónimas*) the liquidating distribution with respect to the Preferred Securities, of all Parity Securities (including the Preferred Securities) shall not exceed the liquidating distribution that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, to all creditors of the Bank, 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 this Guarantee) had all Parity Securities (including the Preferred Securities) been issued by the Bank and ranked (A) junior to all liabilities of the Bank, (B) *pari passu* with Parity Securities issued by the Bank, if any, and (C) senior to the Bank Shares.

#### 2.4 *Pro rata Payments*

If the amounts described in Clause 2.1 cannot be paid by reason of any limitation referred to in Clause 2.2 or 2.3, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitations.

#### 2.5 *Ranking of the Guarantee*

The Bank agrees that subject to applicable laws, the Bank's obligations hereunder constitute unsecured obligations of the Bank and rank and will at all times rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Bank and any obligation assumed by the Bank under any guarantee in favour of holders of any Parity Securities issued by any Subsidiary; and (c) senior to the Bank Shares.

#### 2.6 *Acceptance of the Guarantee*

The mere subscription of Preferred Securities will be deemed for all purposes to constitute the plain and full acceptance of this Guarantee.

### **3. *Characteristics of the Guarantor's obligations under the Guarantee***

#### 3.1 *Waiver*

The Guarantor waives any right or benefit (of order, *excussio* or division) to which it may be entitled under Spanish law with regard to objecting to make any payment by virtue of the Guarantee.

The obligations of the Guarantor are independent of those of the Issuer. The Guarantor shall remain liable as the principal and sole debtor hereunder to make Guarantee Payments pursuant to the terms of this Guarantee, and shall not be able to demand that the Holders of the Preferred Securities exhaust any of their rights or take any legal action against the Issuer prior to taking action against the Guarantor (*Garantía Solidaria* under Spanish law).

#### 3.2 *Obligations and Commitments of the Guarantor*

The obligations and commitments of the Guarantor shall not be affected by any of the following circumstances:

- 3.2.1 the waiver by the Issuer, either by the application of a legal provision or for any other reason, to fulfil any commitment, term or condition, whether implicit or explicit, in relation to the Preferred Securities; or
- 3.2.2 the extension of the Distribution Payment Date, the Liquidation Date or the date for payment of the Redemption Price with regard to the Preferred Securities or the extension granted for the fulfilment of any other obligation related to the Preferred Securities; or
- 3.2.3 any breach, omission or delay by the Holders in exercising the rights granted by the Preferred Securities; or
- 3.2.4 the liquidation, dissolution, or sale of any asset given as a guarantee, temporary receivership, bankruptcy, receivership proceedings or renegotiation of debt affecting the Issuer; or
- 3.2.5 any defect in or invalidity of the Preferred Securities; or
- 3.2.6 transactions involving any obligation guaranteed by this Guarantee or undertaken by virtue of this Guarantee.

The Holders of Preferred Securities shall not be obliged whatsoever to notify the Guarantor of the occurrence of any of the aforementioned circumstances, nor to obtain their consent in relation to the same.

#### 3.3 *Subrogation*

The Bank shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Bank under this Guarantee. The Bank shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may



acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amount shall be paid to the Bank in violation of the preceding sentence, the Bank agrees to pay over such amount to the Holders.

### *3.4 Deposit of the Guarantee*

This Guarantee shall be deposited with and held by JPMorgan Chase Bank as Principal Paying Agent until all the obligations of the Bank have been discharged in full. The Bank hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Guarantee. A Holder may enforce this Guarantee directly against the Bank, and the Bank waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Bank. Subject to Clause 3.1, all waivers contained in this Guarantee shall be without prejudice to the Holder's right to proceed against the Issuer. The Bank agrees that this Guarantee shall not be discharged except by payment of the Guarantee Payments in full and by complete performance of all obligations of the Bank under this Guarantee.

## **4. Other obligations of the Guarantor under the Guarantee**

### *4.1 No further issues*

The Bank will not issue any preferred securities or other instruments equivalent to preferred securities, ranking senior to its obligations under this Guarantee or give any guarantee in respect of any preferred securities or other instruments equivalent to preferred securities, issued by any Subsidiary, if such guarantee would rank senior to this Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Profits) unless in each case, this Guarantee is amended so that it ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment of Distributable Profits as, any such other preferred securities or securities or other instruments equivalent to preferred securities or other such guarantee.

### *4.2 Non-Payments*

The Bank undertakes that if any amount required to be paid pursuant to this Guarantee in respect of any Distribution payable in respect of the most recent Distribution Period has not been paid, whether by reason of the limitations of Clause 2.2 and 2.3 or otherwise, no distributions (except distributions in the form of the Bank Shares or other shares of the Bank ranking junior to the obligations of the Bank under this Guarantee) will be declared or paid or set aside for payment, or other distribution made, upon the Bank Shares or any other class of share capital or any securities of the Bank ranking junior to this Guarantee, nor will any Bank Shares or any other class of share capital or securities of the Bank ranking *pari passu* with or junior to the obligations of the Bank under this Guarantee, be redeemed, repurchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such Bank Shares, class of share capital or securities) by the Bank (except by conversion into or in exchange for shares or securities of the Bank ranking junior to this Guarantee), until such time as the Issuer or the Bank pursuant to this Guarantee shall have made payment in full of Distributions on four consecutive Distribution Payment Dates in respect of all Preferred Securities then outstanding.

### *4.3 Ownership*

The Guarantor undertakes to hold (directly or indirectly) 100% of the ordinary shares of the Issuer so long as any Preferred Securities of the Issuer shall remain outstanding, and not to permit or take any action to cause the liquidation, dissolution or winding up of the Issuer except as provided in paragraph 3.2 of the terms and conditions of the Preferred Securities.

### *4.4 Voting Rights*

The Bank undertakes in connection with the right of the Holders to participate in the adoption by the Issuer of certain decisions in the Special General Meetings as contemplated in the terms and conditions of the Preferred Securities:



- 4.4.1 to vote, in the corresponding general meeting of shareholders of the Issuer, in favour of the appointment or removal of the directors so named by the Special General Meetings and to take all necessary measures in such regard;
- 4.4.2 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Special General Meetings with respect to the dissolution and winding-up of the Issuer; and
- 4.4.3 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Special General Meetings with respect the issuance of further Preferred Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

#### *4.5 Compliance with the Preferred Securities*

The Guarantor agrees to comply with any obligations expressed to be undertaken by it under the terms of the Preferred Securities.

### **5. Termination of the Guarantee**

This Guarantee shall terminate and be of no further force and effect upon payment of the Redemption Price or purchase and cancellation of all Preferred Securities or payment in full of the Liquidation Distributions, provided, however, that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Preferred Securities or this Guarantee must be restored by a Holder for any reason whatsoever.

### **6. General**

#### *6.1 Successors and Assigns*

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Bank. The Bank shall not transfer its obligations hereunder without the prior approval of the Holders of not less than two-thirds in Liquidation Preference of the Preferred Securities or by resolution of a Special General Meeting approved by the Holders of Preferred Securities representing at least two-thirds of the Liquidation Preference, provided, however, that the foregoing shall not preclude the Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to, a banking organisation or any other entity permitted by applicable laws without obtaining any approval of such Holders. The convening and holding of the Special General Meeting shall be done in accordance with Clause 6.2 of the Terms and Conditions.

The Bank shall notify (i) any request for approval from the Holders and (ii) any merger, consolidation, transfer or assignment, each as referred to in this Clause 6.1, in accordance with Clause 6.4 (Notices).

#### *6.2 Transfers*

This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Preferred Securities.

#### *6.3 Amendments*

Except for those changes (a) required by Clause 4.1 hereof, (b) which do not adversely affect the rights of Holders or, (c) necessary or desirable to give effect to any one or more transactions referred to in the provision to Clause 6.1 (in any of which cases no agreements will be required), this Guarantee shall be changed only by agreement in writing signed by the Bank with the prior approval of the Holders of not less than two-thirds in Liquidation Preference of the Preferred Securities or by resolution of a Special General Meeting approved by the Holders of the Preferred Securities representing at least two-thirds of the Liquidation Preference. The calling and holding of such Special General Meeting shall be done in accordance with Clause 6.2 of the Terms and Conditions.

## 6.4 Notices

- 6.4.1 Any notice, request or other communication required or permitted to be given hereunder to the Bank shall be given in writing by delivering the same against receipt therefore or by facsimile transmission (confirmed by mail) addressed to the Bank, as follows (and if so given by facsimile transmission), shall be deemed given upon mailing of confirmation, to:

Banco Santander Central Hispano, S.A.  
Cuidad Grupo Santander  
Edificio Encinar, Planta 0  
28660 Boadilla del Monte  
Madrid, Spain

Facsimile: +34 91 257 1473

Attention: Emisiones Corporativas

The address of the Bank may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Bank to JPMorgan Chase Bank as Principal Paying Agent.

- 6.4.2 Any notice, request or other communication required to be given by the Bank under this Guarantee will be given by it (i) so long as any Preferred security is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe (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 in a Dutch daily newspaper with a national or wide circulation, or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (iii) by mail to 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 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.

## 6.5 Annual Reports

The Bank will furnish any prospective Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by the Bank to holders of the Bank Shares.

## 7. Law and Jurisdiction

### 7.1 Law

This Guarantee shall be governed by, and construed in accordance with, Spanish law.

### 7.2 Jurisdiction

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and that accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (together referred to as "**Proceedings**") may be brought in such courts. The Bank 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 Bank 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.

**THIS GUARANTEE** is executed as of the date first above written on behalf of the Bank.  
**BANCO SANTANDER CENTRAL HISPANO, S.A.**

By: .....

## Santander Finance Preferred, S.A. Unipersonal

The Issuer was incorporated on 27th February 2004 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at Plaza de Canalejas 1, Madrid 28014. The Issuer is registered in Volume 19,747, Book 0, Folio 171, Sheet M-347560, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The Issuer has not conducted any operations or issued any debt obligations in any form to date other than (i) the U.S.\$190,000,000 6.41% Non-Cumulative Guaranteed Series 1 Perpetual Preferred Securities fully and unconditionally guaranteed by the Bank with an issue price of 100% and issued on 11th March 2004 and (ii) the Series 2 EUR 300,000,000 CMS Linked Non-Cumulative Perpetual Guaranteed Preferred Securities fully and unconditionally guaranteed by the Bank with an issue price of 100% and issued on 30th September 2004 (the **“Series 2 Preferred Securities”**). The authorised share capital of the Issuer is Euro 60,200 divided into 602 ordinary shares, each with a par value of Euro 100. The subscribed and fully paid up share capital is Euro 60,200.

The objects of the Issuer are to issue preferred securities pursuant to Law 13/1985 with the Guarantee of the Bank, as specified in Article 2 of the Issuer’s by-laws (*estatutos*).

The name, business address and other position in the Group of each of the directors of the Issuer are set out below:

Name	Business Address	Position	Other position in the Group
José Antonio Álvarez Álvarez	Ciudad Grupo Santander, Edificio Encinar 28660 Boadilla del Monte, Madrid, Spain	Chairman	Deputy General Manager of the Guarantor
Iñigo Barrera Amann	Ciudad Grupo Santander, Edificio Encinar 28660 Boadilla del Monte, Madrid, Spain	Director	Vice-president of the Guarantor
Antonio Torío Martín	Ciudad Grupo Santander, Edificio Encinar 28660 Boadilla del Monte, Madrid, Spain	Director	Vice-president of the Guarantor
José María García Tubío	Ciudad Grupo Santander, Edificio Amazonia 28660 Boadilla del Monte, Madrid, Spain	Director Member of the audit committee	Senior Vice-president of the Guarantor
Jesús Cepeda Cano	Ciudad Grupo Santander, Edificio Amazonia 28660 Boadilla del Monte, Madrid, Spain	Director Member of the audit committee	Senior Vice-president of the Guarantor
Marta Elorza Trueba	Ciudad Grupo Santander, Edificio Marisma 28660 Boadilla del Monte, Madrid, Spain	Director Member of the audit committee	Senior Vice-president of the Guarantor

The directors of the Issuer do not have any significant functions outside the Group.

The auditors of the Issuer are Deloitte.

## Capitalisation of the Issuer

The following table sets out the unaudited short-term liabilities, long-term liabilities and stockholder's equity of the Issuer as at 30th June 2004 and as adjusted to give effect to the issue of the Preferred Securities.

	as at 30th June 2004	
	Actual	Adjusted to give effect to the nominal value of the issue of the Series 2 Preferred Securities and the Series 3 Preferred Securities
	(in Euro)	
<b>Short term debt</b> .....	0.0	0.00
<b>Long-term liabilities</b> .....	156,314,274.90	656,314,274.90
<b>Shareholder's equity</b>		
Shares .....	60,200.00	60,200.00
Shares held by consolidated companies .....	0.00	0.00
Reserves .....	0.00	0.00
Total shareholder's equity .....	60,200.00	60,200.00
Net profit for the period .....	(14,583.51)	(14,583.51)
Minority interests .....	0.00	0.00
<b>Total Capitalisation</b> .....	156,359,891.39	656,359,891.39

Except for net profit, there have been no material changes to the capitalisation of the Issuer since 30th June 2004, save in respect of the Preferred Securities.

## Capitalisation of The Group

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

	millions of euros
Short term debt .....	14,177.77
Long term debt <sup>(1)</sup> .....	44,561.91
Shareholders' equity	
Shares, stated value Euro 0.5 .....	2,384.20
Shares held by consolidated companies .....	(20.66)
Reserves <sup>(2)</sup> .....	15,855.77
Net consolidated profit for the period – Group .....	1,910.43
Total shareholders' equity .....	20,129.74
Minority interests <sup>(3)</sup> .....	5,559.37
Total capitalisation <sup>(4)</sup> .....	84,428.79

(1) Includes outstanding bonds and debentures and subordinated debt.

(2) After deduction of €4,785.9 million of prior year losses at consolidated companies.

(3) Of which €282.5 million correspond to the first half 2004 consolidated net income attributable to minority interests.

(4) The following are the main changes to the above capitalisation table since 30th June 2004:

- (a) On 5th and 26th July, and on 25th August 2004, the Group redeemed €150 million, GBP 100 million (€149.1 million) and €75 million, respectively, of marketable debt securities guaranteed by the Bank. On 29th July, on 6th September and on 15th September 2004, the Bank issued €1,500 million, €200 million and \$931 million respectively of long-term debt.
- (b) On 1st July 2004, the Group redeemed €1,000 million of preference shares guaranteed by the Bank and on 30th July 2004, the Group issued €750 million of preferred securities guaranteed by the Bank. On 30th September 2004 the Group issued €680 million of preferred securities in its domestic market and issued €300 million of preferred securities in the International Markets, each issue guaranteed by the Bank. On 30th September 2004 the Group issued €1,000 million of subordinated debt guaranteed by the Bank.
- (c) On 1st September 2004, the Group redeemed €332 million of preference shares guaranteed by the Bank.
- (d) In July 2004, the Bank proposed the distribution of a first interim dividend out of 2004 income of €0.083 per share (a total amount of €395.8 million) payable from 1st August 2004.

Except for consolidated net profit and as otherwise noted in the above table, there has been no material change in the capitalisation of the Group since 30th June 2004.

The share capital of the Bank is €2,384,201,471.50 made up of 4,768,402,943 issued and fully paid up ordinary shares of nominal value €0.50 each and of a single class. There are no other classes of shares.



## Banco Santander Central Hispano S.A. and its Group

On 15th January 1999, the boards of directors of Banco Santander, S.A. and Banco Central Hispanoamericano, S.A. agreed to merge Banco Central Hispanoamericano into Banco Santander, and to change Banco Santander's name to Banco Santander Central Hispano, S.A. The shareholders of Banco Santander and Banco Central Hispanoamericano approved the merger on 6th March 1999, at their respective general meetings. The merger and the name change were registered with the Mercantile Registry of Santander, Spain by filing a merger deed. On 17th April 1999, Banco Central Hispanoamericano shares were extinguished by operation of law and Banco Central Hispanoamericano shareholders received new Banco Santander shares at a ratio of three shares of Banco Santander for every five shares of Banco Central Hispanoamericano formerly held. On the same day, Banco Santander changed its legal name to Banco Santander Central Hispano, S.A. The Bank is incorporated under, and governed by the laws of the Kingdom of Spain. The Bank's corporate offices are located at Plaza de Canalejas, 1, 28014 Madrid, Spain, telephone: (+) 34-91-558-1111 and Paseo de Pereda 9-12, 39004, Santander, Spain, telephone: (+) 34-94-220-6100.

The Bank and its consolidated subsidiaries (the "**Group**") are a financial group operating through a network of offices and subsidiaries across Spain, other European countries and Latin America, offering a wide range of financial products. At 30th June, 2004, the Group was the second largest banking group in the euro zone by market capitalisation with a market capitalisation of €40.7 billion, stockholders' equity of €20.1 billion and total assets of €356.7 billion. The Group had an additional €120.1 billion in mutual funds, pension funds and other assets under management at that date. The Group also had 34,769 employees and 4,377 branch offices in Spain and 67,956 employees and 4,842 branches outside Spain at 30th June, 2004.

The Group's principal operations are in Spain, Portugal, Germany, Italy, Belgium, Poland and Latin America. It also has significant operations in New York, London and Paris as well as strategic investments in The Royal Bank of Scotland Group (See "*Recent Developments – RBS Relationship*"), and financial investments in Instituto Bancario San Paolo di Torino-IMI and Banque Commerciale du Maroc. In Latin America the Group has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Puerto Rico and Venezuela.

The Group's business is divided into four principal areas where its retail banking activity is complemented by global businesses: asset management and private banking, corporate banking, investment banking and treasury:

### European Retail Banking

This area covers the banking activities of the different networks and specialised units in Europe, chiefly with individual clients and small and medium sized enterprises ("**SMEs**"), as well as private and public institutions. It includes four units: Santander Central Hispano Retail Banking, Banesto, Santander Consumer Finance and Portugal.

### Retail Banking Latin America

This area covers the Group's universal banking activities in Latin America through its subsidiary banks and finance companies.

### Asset Management and Private Banking

Asset management covers asset management, pension and mutual funds and bancassurance, and private banking activity with clients via the specialised units in Spain and abroad.

### Global Wholesale Banking

This area covers Corporate Banking in Spain, the rest of Europe and New York, the treasury units in Madrid and New York, as well as investment banking throughout the world principally in Spain, Portugal, Latin America and New York.

## Activity in the first half of 2004

During the six month period ending 30th June 2004, the Group generated net attributable income of EUR 1,910.4 million, 47.8% more than in the same period of 2003 (before extraordinary capital gains). Net ordinary attributable income for the first half of 2004 was 20.0% higher than in the same period of 2003 at EUR 1,551.4 million. On a cash-basis (before ordinary amortisation of goodwill), net ordinary attributable income was EUR 1,783.9 million.

Ordinary earnings per share for the first half of 2004 on an annualised basis were EUR 0.6507, 20.0% higher than in the same period of 2003. On a cash-basis, the figure was EUR 0.7482 per share. ROE was 16.2%, more than two percentage points higher than in the first half of 2003. On a cash-basis, ROE was 18.7%.

All revenue lines increased, with net interest revenue up 9.7% and net fees and commissions rising for the sixth consecutive quarter. Other positive developments were cost control, the rise in equity-accounted income, diminished needs for specific loan loss provisions, reduced cost of preferred shares and lower ordinary amortisation of goodwill. Trading gains, however, were lower (from high levels in the first two quarters of 2003, while in the second quarter of 2004 they reflect the impact of the markets on some Latin American treasuries) and minority interests were higher (sale in the first quarter of 2003 of 24.9% of the subsidiary Santander Serfin). Lastly, capital gains of EUR 242 million were generated from the sale of a 0.46% stake in Vodafone in the second quarter of 2004 and the inclusion of EUR 117 million, from the release of the fund pending allocation that was created as a consequence of the capital gains obtained after the sale of a 4% stake in Shinsei in the first quarter of 2004.

The impact of exchange rates was around 3 p.p. on earnings and 2.5 p.p. on the balance sheet. This effect was the net result of the strengthening of some Latin American currencies against the dollar, (particularly the Brazilian real and the Chilean peso) and the dollar's slide against the euro (-10% in average exchange rates).

## Business performance

Business areas maintained a high activity level in the first half of 2004, underscored by the growth in their net operating income. All business areas registered increases of more than 10% (Retail Banking Latin America excluding the exchange rate impact) over the first half of 2003.

European Retail Banking performed well in all countries and faithfully reflects the development of the Group's business model: net operating revenue rose 9.6% while personnel and general expenses only increased 0.3%. As a result, net operating income grew 19.9% and fed through to net attributable income (+21.8%), given the stability of the lower part of the income statement. The efficiency ratio improved 4.0 points to 42.8%.

Santander Central Hispano Retail Banking, recognised by *Euromoney* magazine ("**Euromoney**") as the best bank in Spain, kept up a strong pace of growth in new business, focused on key segments (loans to companies, especially SMEs and micro companies, mortgages, funds and insurance). Of note was the EUR 7,500 million captured by Supergestión funds and almost EUR 6,000 million in Superoportunidad mortgages in the first half. Higher revenues and flat costs increased net operating income by 14.7% year-on-year and net attributable income by 13.9%.

Banesto also continued to perform better than commercial banks as a whole, with strong growth in business volumes (growing 22% in loans), higher revenues and stable costs. Net operating income rose 18.5% and net attributable income 17.1%.

In Portugal, the Group managed its activities in an environment of improved economic growth. Backed by a rise in net interest income and net fees and commissions, and control of costs, the efficiency ratio improved and net attributable income was 14.8% higher than in the first half of 2003. The Group for the third consecutive year was selected as the "Best Bank in Portugal" by *Euromoney*.

Santander Consumer registered noteworthy growth both in business volume and net attributable income. New loans rose 24% compared to the first half of 2003, which together with better spreads, net of provisions, and the improvement in the efficiency ratio to levels of 36% produced growth of 46.7% in net operating income. Net attributable income was 67.9% higher at EUR 180.3 million, partly driven by the acquisition of 100% of Italy's business and the

incorporation of Polskie Towarzystwo Finansowe S.A., a Polish consumer finance company, ("PTF") (an increase of 60% on a like-for-like basis).

From the strategic standpoint, the agreement to acquire Poland's PTF was completed with the purchase of its EUR 460 million auto finance portfolio. This gives our Bank in Poland a solid competitive position in the consumer finance market.

In Latin America the Group, which was named the region's best bank in the 2004 Euromoney Awards for Excellence, maintained a high volume of business during the second quarter and for the first time since 2001 registered year-on-year growth in euros in all of its revenue lines. Basic revenue increased 11.4% over the first half of 2003, after improving for the fifth straight quarter, as a result of 10.2% growth in net interest revenue and 13.8% in net fees and commissions.

Net interest revenue has been growing significantly in the past few quarters due to greater business volumes and the easing of the fall in interest rates. Commissions are rising strongly, spurred by the Group's drive in commission-generating business and regional projects. Both income streams reached their highest levels of the last two years in the second quarter of 2004. Backed by this increase in basic revenue, net operating income rose 7.9% as a result of reduced trading gains and higher costs associated with the development of the Group's networks and the launch of local and regional projects.

Net attributable income generated in Latin America was 4.3% lower than in the first half of 2003 at EUR 667.5 million (an increase of 6.4% in dollars at US\$818.5 million), due to one-off effects in Mexico and the exchange rate impact.

Brazil's significant growth in retail business came from lending (an increase of 36% year-on-year, excluding the exchange rate effect) and mutual funds (an increase of 30% without exchange rate impact). As a result, net interest revenue and fees and commissions increased, offsetting the impact of lower interest rates and lifting basic revenue in euros by 21.4%. Net attributable income declined 2.2% to EUR 335.1 million as a result of the higher costs incurred in business development and larger provisions. In dollars, net attributable income was 8.7% higher at US\$410.9 million.

Net operating income in Mexico rose 7.2% in dollars, spurred by higher commissions, lower personnel and general costs and growth in lending (an increase of 20% excluding Fobaproa paper), which offset the effect of lower interest rates.

The release of available loan-loss provisions in 2003 and the larger share of minority interests in 2004 produced a 32.9% decline in net attributable income over the first half of 2003 to EUR 165.8 million (a decline of 25.4% or US\$203.4 million).

Cost control in Chile, the rise in net fees and commissions and a return to a more "normal" level of loan-loss provisions offset the impact of the sharp fall in interest rates on net interest revenue. Net attributable income was EUR 140.7 million, 41.0% more than the first half of 2003 (an increase of US\$172.5 million or 56.7%).

Of note in other countries were the higher earnings in Puerto Rico, Venezuela and Colombia (an increase of 34%, 42% and 30%, respectively, in euros) and the return to profits in Uruguay and Argentina.

The global areas (Asset Management and Private Banking and Global Wholesale Banking) performed well. As a whole they contributed EUR 375.4 million to the Group's net attributable income, 47.1% more than in the first half of 2003.

The earnings of the different units and their business measures resulted in some prizes being awarded. In the first quarter, the Group's private banking units (Banif and International Private Banking) received awards from Euromoney. In the second quarter, Santander Central Hispano Bolsa was recognised in the *Thomson Extel* Pan-European rankings as the best brokerage house in equity research for Spain and Portugal, and second in Latin America in the asset weighted ranking by *Institutional Investor* magazine. Lastly, in the third quarter, we received from Euromoney the prize for the best treasury unit in Latin America.

A detailed analysis by business area underscores the effort made by the Group to boost revenues by strengthening business with clients, while maintaining cost control and improving the quality of risks. This enabled net ordinary attributable income to be higher, attain significant

growth in business volumes and continue to improve the level of profitability, efficiency and credit quality.

## **Group results**

Net interest revenue was 9.7% higher than in the first half of 2003 at EUR 4,309.9 million. The increased business volumes, the policies to defend the customer spread and a rise in dividends received, offset the sharp fall in interest rates.

Net fees and commissions increased 11.5% compared to the first half of 2003, after rising for the sixth straight quarter. By business areas, European Retail Banking rose 10.4%, Asset Management and Private Banking 10.9% and Retail Banking Latin America 18.1% in euros (an increase of 27.3% excluding exchange rate impact). By products, mutual and pension funds increased by 26.0%, insurance increased by 68.3% and guarantees increased by 15.5%.

Net trading gains amounted to EUR 435.3 million, 25.4% less than in the first half of 2003 because of the impact of the markets in the second quarter of 2004 and the high level of trading gains in the second quarter of 2003.

Total costs increased 2.7%, largely due to the general expenses related to the relaunching of business in some countries and the development of corporate projects. As a consequence, the efficiency ratio improved 1.8 points to 47.1% in the first half of 2004 (45.5% in the second quarter of 2004).

Net operating income was 12.7% higher at EUR 3,268 million, continuing the upward quarter-on-quarter trend begun in 2003. Excluding the exchange rate impact, growth was 16.3%. Income from equity-accounted holdings (net of dividends) amounted to EUR 234.6 million, double that of the first half of 2003. This was largely due to the higher contributions from The Royal Bank of Scotland Group, Cepsa, Banque Commerciale du Maroc, Urbis and certain insurance companies.

Net provisions for loan-losses amounted to EUR 753.7 million, 7.4% less than in the first half of 2003, as a result of the reduced provisions for country-risk. The level of country-risk coverage for Argentina increased in the first half of 2003 from 50% to 75%, in accordance with Bank of Spain regulations, which represented EUR 182 million (this figure was recorded in "other funds" and had no impact on income as it was released from "other income"). After deducting this amount, loan-loss provisions increased 19.3% because of the larger allocation to generic and statistical funds, both as a result of growth in lending.

Accelerated amortisation of goodwill amounted to only EUR 2.4 million, down from EUR 691.2 million in the first half of 2003 when EUR 681 million of capital gains from the sale of 24.9% of Santander Serfin were recorded in Group operations.

"Other income" was negative by EUR 181.8 million after the inclusion of various provisions to continue the strengthening of the balance sheet. The figure was positive in 2003 because of the reclassification of Argentina's country-risk. Income before taxes on a cash-basis (before ordinary amortisation of goodwill) was 7.6% higher than in the first half of 2003 at EUR 2,536.5 million. After deducting taxes, minority interests and preferred shares, net attributable income on a cash-basis was EUR 1,783.9 million, 10.9% higher than in the first half of 2003.

Excluding ordinary amortisation of goodwill (EUR 232.6 million, 26.5% less than in the first half of 2003), net ordinary attributable income was EUR 1,551.4 million, 20% higher than in the first half of 2003. Including the EUR 359 million of extraordinary income from capital gains, the Group's net attributable income was EUR 1,910.4 million, a 47.8% increase over the same period of the previous year.

## **Group consolidated balance sheet**

Total funds managed by the Group amounted to EUR 476,955 million, 7.7% more than in June 2003. The negative impact of exchange rates was around 2.5 percentage points. Gross lending rose 13.6% year-on-year to EUR 192,186 million (excluding the impact of securitisation) and 21.4% in other resident sectors. Year-on-year growth rose for the sixth straight quarter.

The main growth in Europe occurred in Spain (with an increase of 19.2%), Germany (with an increase of 12.7%) and Poland, after PTF's consolidation. Latin America registered growth of

14% in local currency. Of note was Brazil (with an increase of 36%), Mexico, excluding Fobaproa paper (with an increase of 20%), Chile (with an increase of 11%), Colombia (with an increase of 57%) and Venezuela (with an increase of 85%).

Growth in Spain in loans to companies and mortgages continued to be high in the second quarter of 2004. Loans to the resident sector increased 6% over March 2004, while Latin America registered growth of 7% excluding the exchange rate effect. Total managed customer funds increased 9.7% compared to the same period in 2003 to EUR 348,366 million (an increase of 12.3% excluding the exchange rate effect). In Spain, deposits (excluding REPOs), mutual funds and pension plans rose 12.3% in the year to June 2004. Of note was the growth in demand deposits (an increase of 15.4% in current accounts) and the 6.7% fall in time deposits (within the Group's spread management policy). Mutual funds increased 19.5% in the year to June, consolidating the Group's leadership position in Spain with a market share around 28%. Pension plans increased 11.1% in the year to June 2004.

On- and off-balance sheet managed funds in Latin America rose 1.6% in euros (an increase of 12% excluding the exchange rate effect). All countries performed well in local currency terms. Of note, in deposits, was growth in Mexico, Uruguay and Venezuela. The rise in mutual funds was 29.6%, excluding the exchange rate effect, with notable growth in Argentina, Brazil, Chile and Puerto Rico. All countries registered growth in pension plans (total increase of 14.7% excluding the exchange rate impact).

Goodwill pending amortisation amounted to EUR 7,323 million. The reduction since June 2003 was EUR 976 million (a decline of 11.8%) and included the early amortisation of Banespa, the reclassification of the goodwill of Sanpaolo-IMI and Commerzbank from the restructuring of the portfolio. The main increase, meanwhile, arose from the acquisition of Cepsa shares.

The Group's equity, on the basis of BIS criteria, amounted to EUR 26,218 million. The surplus above the minimum requirement was EUR 8,849 million. The BIS ratio was 12.1%, with Tier I of 8.1% and core capital of 6.4%. Tier I and core capital had slight improvements in the second quarter over the previous.

## **Risk management**

The Group continued to reduce the level of non-performing loans (NPLs) and increased coverage. The NPL ratio dropped 4 basis points in the second quarter to 1.29% compared to 1.55% in December 2003 and 1.67% in June 2003. NPL coverage rose by almost 12 percentage points in the second quarter to 197.1% (165.2% at the end of 2003 and 147.2% in June 2003).

Specific loan-loss provisions, net of recoveries, were 41% lower than a year ago at EUR 195 million.

The Group's NPL ratio in Spain remained at an all-time low of 0.69% and coverage of doubtful loans rose to 296.3%, 73 points higher than in December 2003 and 84 points above June 2003.

The NPL ratio in Portugal inched up to 2.25%, slightly above December 2003. Coverage was 118%, 7.4 points lower than in December 2003 and in line with June 2003.

Santander Consumer's NPL was hardly changed at 1.95% and coverage increased to 161%.

Latin America's NPL ratio fell sharply to 3.0%, largely thanks to the lower balances of bad debts in Mexico, Chile and Argentina. Coverage stood at 147%, 22 points above December 2003 and 26 points more than June 2003.

Regarding market risk management, the VaR of trading portfolios remained in the second quarter at levels similar to those in the first quarter. In April, due to the rise in Mexico's interest rates and increased volatility, VaR reached a high of US\$21.1 million. Subsequently, in the face of market uncertainty, we reduced positions in Brazil and Mexico and the VaR reached a low for the quarter of US\$16.3 million. The VaR then rose, chiefly because of position-taking in Mexico, and ended the second quarter at US\$19.9 million. The average VaR of the second quarter was US\$18.8 million (US\$14.2 million in the same period of 2003), largely because of Latin America.



## **Dividends**

The total dividend charged to 2003 earnings, after payment on 1st May of the fourth interim dividend of EUR 0.070408 per share, was EUR 0.3029, 5% more than that charged to 2002 earnings.

The first interim dividend charged to 2004 earnings of EUR 0.083 per share (7.1% more than the same one of 2003) was paid on 1st August.

## **Corporate Governance**

The Group made further progress in corporate governance during the second quarter.

The annual general shareholders' meeting held on 19th June 2004 adopted important agreements regarding corporate governance. One of them was to eliminate the requirement of holding 100 shares in order to attend meetings. As well as meeting the demands of some shareholders, this step was also aimed at encouraging greater participation in meetings. Another major agreement was the approval of new Regulations of Shareholders' Meetings which have been brought into line with the new regulatory requirements.

The Chairman also announced the following new measures:

- Establish as a regular practice the participation in the general shareholders' meeting of the Chairman of the Appointments and Remuneration Committee, in addition to the presence of the Chairman of the Auditing and Compliance Committee, as in 2003.
- An external agency will evaluate from time to time the Board's work and functioning.
- The Board will establish a programme of continuous training for directors.
- The possibility of voting by e-mail and delegation of voting by the same means was started at this Meeting.

The meeting also approved the appointment of the Mutua Madrileña Automovilista, a car insurance company, as a nonexecutive (proprietary) director, represented by Mr. Luis Rodríguez Durón, in place of Mr. José Manuel Arburúa Aspiunza. With this appointment and by not covering the vacancy left by the death on 8th May of Mr. Antonio de Sommer Champalimaud, the Board has 20 members and holds around 9% of the capital stock. This is particularly important as it enhances the Board's alignment with shareholders' interests.

The Group's efforts in corporate governance are reflected in the report published in April by Deminor Rating, the independent European agency which rates listed companies in matters of corporate governance. On the basis of a rigorous analysis, Deminor accorded the Bank 8 out of 10. Deminor Rating said the "rating reflects the superior overall performance of the company regarding its current corporate governance structures and functioning. The Bank is one of the leading corporate governance actors in Continental Europe".

## **Corporate Social Responsibility**

The Group's second Annual Report on Corporate Social Responsibility was published in the first half of 2004. The report brings together in a systematic fashion the efforts made in sustainable development, following the recommendations and guidelines of the Global Reporting Initiative ("GRI"), one of the international information standards most commonly accepted by international companies. The report sets out the commitments and activities taken by the Group during 2003.

Corporate social responsibility is one of the strategic priorities of the Group. Graduate studies are a priority and, especially, the Santander Universidades project, a joint venture between business and the academic world.



The Group's relationships with the different interest groups, including a summary of its achievements in 2003 and their economic impact and the 2004 objectives, are described in the report. Total investment in corporate social responsibility amounted to EUR 71.1 million in 2003.

In the second quarter of 2004 the Group signed two new collaboration agreements with universities in Chile, one each in Venezuela and Mexico, four in Argentina, two in Portugal, together with three more with Spanish universities.

In Puerto Rico, in an effort that will benefit the whole student community, work has begun on converting the campus of the Pontificia Universidad Católica into a wireless zone. The new Internet Hall in the University of Santiago de Compostela was inaugurated in the first half of 2004.

Recently, Santander Colombia subscribed the Global Compact, joining Spain, Peru and Chile.

In Peru, the Group signed an agreement with Fe y Alegría, a catholic organisation that takes care of education in poor neighbourhoods. Under it internet capability room at schools will be installed and voluntary work promoted amongst the Group's employees, clients and suppliers.

In Puerto Rico, the campaign "Dale alas a la vida" commenced in benefit of the Association of Muscular Dystrophy.

In Portugal, the Group launched a campaign to collaborate with the nutrition of poor children as part of an agreement with International Medical Aid.

In Spain, the Chairman of the Bank signed a collaboration agreement with the Real Madrid Foundation which seeks to integrate the immigrant population through sports.

The donation of used furniture to different non-profit organisations began in the first half of 2004, coinciding with the transfer of the headquarters from Madrid to Ciudad Grupo Santander.

## Recent Developments

### *Acquisition of Abbey National plc*

On 26th July 2004, the Bank and Abbey National plc ("**Abbey**") announced that they had reached agreement on the terms of a recommended acquisition of the entire issued ordinary share capital of Abbey by the Bank (the "**Acquisition**"). After the Acquisition, the Bank will be the tenth largest bank in the world and the fourth largest in Europe in terms of market capitalisation. The integration of Abbey into the Group will create a premier international banking franchise.

The Acquisition will, subject to the satisfaction or waiver of certain conditions, be effected by way of a scheme of arrangement of Abbey, which is expected to be implemented on 12th November 2004. Under the terms of the Acquisition, holders of shares in Abbey ("**Abbey Shares**") or American depositary shares in Abbey ("**Abbey ADSs**") and together with Abbey Shares, "**Abbey Securities**") will be entitled to receive shares of €0.50 in the capital of the Guarantor (the "**New Banco Santander Shares**") or American depositary shares each representing one New Banco Santander Share (a "**New Banco Santander ADS**"), as the case may be, in exchange for the cancellation of their Abbey Securities on the following basis:

- for each Abbey Share, 1 New Banco Santander Share; and
- for each Abbey ADS, 2 New Banco Santander ADSs.

The terms of the Acquisition are based on the equity market capitalisation of the two companies over the three months prior to 23rd July 2004. Based on the average closing market price for a share of €0.50 in the capital of the Bank (a "**Banco Santander Share**") on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the "**Bolsas de Valores**") of €8.70 and the average closing mid-market price for an Abbey Share on the London Stock Exchange of £4.69, in each case over the three month period up to and including 22nd July 2004 (the

date prior to commencement of the offer period), and an exchange rate of €1.5054:£1, the terms of the Acquisition (taking into account a special dividend of £0.25 per Abbey Share to be paid by Abbey to its shareholders (the “**Special Dividend**”) but excluding the 6 pence for dividend differential<sup>(1)</sup>), represent a premium of approximately 28.4 per cent. and value each Abbey Share at £6.03 (£6.09 taking into account the 6 pence for dividend differential) and the entire issued ordinary share capital of Abbey at approximately £8.9 billion.

Based on the closing market price for a Banco Santander Share on the Bolsas de Valores on 22nd July 2004 (the date prior to commencement of the offer period) and an exchange rate of €1.5054:£1, the terms of the Acquisition (taking into account the Special Dividend but excluding the 6 pence for dividend differential) represent a premium of approximately 17.4% valuing each Abbey Share at £5.79 and the entire issued ordinary share capital of Abbey at approximately £8.6 billion.

On the basis of the closing market price for a Banco Santander Share on the Bolsas de Valores on 3rd September 2004 (the latest practicable date prior to the posting of the offer document relating to the Acquisition) and exchange rates of €1.4734:£1 and €1:\$1.2054, respectively, the terms of the Acquisition (taking into account the Special Dividend but excluding the 6 pence for dividend differential) imply a value on 3rd September 2004 for each Abbey Share of £5.87 and for each Abbey ADS of \$20.85 and value the fully diluted share capital of Abbey at approximately £8.8 billion. These terms represent a premium of approximately 19.1% to the closing mid-market price of an Abbey Share of £4.93 on 22nd July 2004, the last trading day prior to the announcement by Abbey that it had received an approach which might or might not lead to an offer, and a premium of approximately 25.1% on the basis of the average closing mid-market price of an Abbey Share of £4.69 for the three month period up to and including 22nd July 2004. If the Acquisition had become effective on 3rd September 2004, 1,476,917,017 New Banco Santander Shares (1,491,854,223 on a diluted basis) would have been delivered under the Acquisition, representing approximately 23.6% of the issued share capital of the Guarantor as enlarged by the Acquisition.

The New Banco Santander Shares issued and delivered under the Acquisition will rank *pari passu* in all respects with the existing Banco Santander Shares and will be entitled to all dividends and other distributions declared or paid by the Guarantor by reference to a record date.

With effect from 4.30 p.m. (London time) on the effective date of the Acquisition, which is expected to be 12th November 2004, (the “**Effective Date**”), Abbey Securities will cease to trade on any stock exchange.

The New Banco Santander Shares will be issued on the Effective Date. Admission to listing on the Bolsas de Valores will take place on the following business day, effective at the close of market (5.35 p.m. Spanish time) on that day. Trades can take place on that day after 5.35 p.m. (Spanish time) subject to applicable regulations. Dealings in New Banco Santander Shares are expected to commence on the market of the Bolsas de Valores on the second business day following the Effective Date. During the period from the Effective Date until the date on which dealings in the New Banco Santander Shares on the market of the Bolsas de Valores commence, the New Banco Santander Shares will not be listed, nor can they be traded, on any other stock exchange.

Applications will also be made for the New Banco Santander Shares to be listed on the Milan, Lisbon and Buenos Aires Stock Exchanges and the New York Stock Exchange, Inc. (through New Banco Santander ADSs).

The New Banco Santander Shares will not be admitted to the Official List of the UK Financial Services Authority (the “**Official List**”) or to trading on the London Stock Exchange on the Effective Date. However, the Guarantor will make an application for Banco Santander Shares, including the New Banco Santander Shares, to be admitted to the Official List and to trading on the London Stock Exchange’s market for listed securities as soon as practicable after the Effective Date.

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(1) The 6 pence for dividend differential is intended to compensate the shareholders of Abbey in respect of 2004 only for the fact that, historically, the Bank’s dividends have been lower than Abbey’s dividends.

In its unaudited interim financial results for the 6 months ended 30th June 2004, Abbey reported personal financial services trading profit before tax of £468 million (6 months ended 30th June 2003: £588 million), Abbey Group (being Abbey and its subsidiary undertakings) profit before tax of £350 million (6 months ended 30th June 2003: loss of £144 million) and an Equity Tier 1 ratio of 7.5% (December 2003: 6.9%) and a Tier 1 ratio of 10.9% (December 2003: 10.1%).

*There can be no assurance that the Acquisition will proceed on the terms described above or at all.*

### **Share Buy Back Programme**

On 26th July 2004, the Group announced that, acting on the authorisation of the Ordinary General Shareholders' Meeting of the Guarantor held on 19th June 2004, the Board of Directors of the Guarantor had authorised a programme for the buyback of the company's own shares (the "**Buy Back Shares**") on substantially the same terms as those authorised by the previous years' shareholders' meetings.

The terms for the purchase of the Buy Back Shares include the following:

- (i) the maximum number of Buy Back Shares that may be acquired is 190,000,000, representing approximately 4% of the share capital of the Guarantor as at the date of this document;
- (ii) the maximum price of the acquisition is 9.77 euros per share, which corresponds to the maximum price of the Guarantor's shares over the last 12 months; and
- (iii) the programme for the purchase of the Buy Back Shares (the "**Buy Back Programme**") will run from 27th July 2004 until the end of the period of exchange of shares carried out in relation to the completion of the Acquisition.

The conditions of the Buy Back Programme, as well as its restrictions and other terms, are governed by the provisions of EC Commission Regulation 2273/2003, of 22nd December 2003.

Since 26th July 2004, the Guarantor has notified the *Comisión Nacional del Mercado de Valores* (the Spanish securities commission) of the details of the transactions carried out by Pereda Gestión, S.A., being the entity named as the acquiring entity for the purposes of the Buy Back Programme.

On 2nd August 2004, the Bank announced that any cancellation in relation to the Buy Back Programme would be subject to an appropriate resolution of its shareholders in general meeting. Any such cancellation will only be in respect of the net balance resulting from the sale and purchase of Buy Back Shares under the Buy Back Programme determined as at the end of the Buy Back Programme. Accordingly, no such cancellations have taken place at the date hereof.

### **RBS Relationship**

On 9th September 2004, the Bank announced that Merrill Lynch International ("**Merrill Lynch**") had placed, on its behalf, 79 million ordinary shares of 25 pence each in The Royal Bank of Scotland Group plc ("**RBS**") at a price of £15.50 per share with institutional investors. The shares placed represented approximately 2.51% of the issued ordinary share capital of RBS. The Bank will use the proceeds of the placing for general corporate purposes. The capital gain for the Bank arising from the disposal of these shares is €472 million, net of fees and expenses (based on an exchange rate of £1: €1.50545).

Following the share placing, the Bank holds 79.8 million ordinary shares of 25 pence each in RBS (representing approximately 2.54% of the issued ordinary share capital of RBS). The Bank has agreed not to sell any further shares in RBS for a period of 90 days after completion of the share placing except with the prior consent of Merrill Lynch in its capacity as the placing bank.

The Bank also announced on 9th September 2004 that it had reached agreement with RBS to amend certain aspects of the strategic arrangements entered into between them in October and November 1988 (the "**Strategic Arrangements**") relating to co-operation in certain banking and financial services activities in Europe upon the acquisition of Abbey being successfully completed. As part of the Strategic Arrangements, each of the Bank and RBS

undertook to invest in each other's share capital and to appoint representatives to each other's board of directors. The Bank and RBS have agreed that the cross-directorships will be terminated with effect from the completion of the acquisition of Abbey by the Bank. The Bank and RBS have also agreed that until the Acquisition has been completed or terminated, their respective representatives on the board of directors of the other will not attend any board meetings of the other. These changes were reflected in the Bank's notification of the recommended offer for Abbey to the European Commission which was filed on 13th August 2004.

As a consequence of these changes to the Strategic Arrangements, the Bank expects that, when it adopts International Accounting Standards (which is expected to be on 1st January 2005), it will no longer be able to account for its shareholding in RBS under the equity accounting method. As a result, it is expected that beginning on 1st January 2005, the Bank's income statement will no longer reflect its share of RBS's earnings and instead will reflect the Bank's share of any dividends paid by RBS.

### **Legal Proceedings**

The resolutions adopted at the Bank's general shareholders' meetings held on 18th January 2000 and on 4th March 2000, approving the capital increases agreed in connection with the exchange offer made by The Royal Bank of Scotland Group plc. with National Westminster Bank plc., and in connection with the Bank's acquisitions of the Portuguese banks Banco Totta & Açores and Crédito Predial Português and the resolution adopted at the Bank's general shareholders' meeting held on 4th March 2000 approving the capital increase necessary to carry out the exchange offers for shares of Banco Rio de la Plata, have been challenged under Spanish law. One plaintiff shareholder, in the case of the resolutions adopted in the first meeting and two plaintiff shareholders, in the case of the resolutions adopted in the second meeting, have challenged these resolutions on the grounds that, among other things, they were provided with insufficient information in connection with the vote on these resolutions and that the resolutions excluding the preemptive rights of shareholders were not validly adopted. In the proceedings, the plaintiffs have requested the court to declare that the above resolutions (and other ones adopted in the same meetings) are null and void. The first claim was rejected by the court in April 2001, and the plaintiff appealed the court's rejection of his claim. The plaintiff's appeal was then rejected by the court on 2nd December 2002. The plaintiff has appealed for redress and the Bank has asked the court not to admit such appeal. The second claim was rejected by the courts of the city of Santander on 29th November 2002 and the plaintiffs appealed. Such appeal was subsequently rejected by the court on 5th July 2004. The plaintiff has announced that it will file an appeal for redress. The Bank cannot anticipate the outcome of these claims. Under Spanish law, if the claims were to prevail, the capital increase resolutions adopted on 18th January 2000, and on 4th March 2000, could be declared null and void. The effect under Spanish law of the declaration of nullity of a listed company's share capital increase is highly uncertain and the Bank is unable to anticipate what would be the outcome for it and its shareholders if these claims were to prevail.

The resolutions adopted at the Bank's shareholders' meeting held on 10th March 2001, have been challenged under Spanish law by three shareholders who filed their claim before the courts of the city of Santander. These shareholders claim that the Bank has not complied with certain provisions of Spanish corporate law with respect to the resolutions adopted in said shareholders' meeting. The challenged resolutions include the approval of the Bank's annual accounts, the approval of a capital increase in exchange of cash, the approval of a capital increase in exchange of shares of Banco Rio de la Plata and BRS Investments and the approval of various issuances of bonds. In their complaints, the plaintiff shareholders asked the Court to declare the resolutions null and void and that the registration of the resolutions in the Commercial Registry are also annulled. The claim was rejected by the court in March, 2002. The plaintiff shareholders appealed such rejection and, although the court allowed the admission of new evidence, the claim was again rejected on 13th April 2004. One of the plaintiffs has appealed for redress and the Bank has asked the court that this appeal is not admitted.

The resolutions adopted at the Bank's shareholders' meeting held on 9th February 2002, have been challenged under Spanish law by one shareholder who has filed his claim before the courts of the city of Santander. The challenged resolutions include the approval of the payment

of an interim dividend, the reelection of Arthur Andersen y Cía, S. Com. as the external auditor of the Bank, the approval of a capital increase in exchange of shares of the German Company AKB Holding GmbH and the approval of various issuances of bonds. Among other things, the plaintiff alleges the infringement of the shareholders' rights of participation during the meeting and of receipt of information regarding the different issues to be voted in the meeting; and that the resolutions excluding the preemptive rights of shareholders were not validly adopted. The plaintiff shareholder asked the Court to declare the above resolutions (and others adopted in the same meeting) null and void and that the registration of the resolutions in the Commercial Registry also be annulled. On 9th September 2002 the Court rejected the claim. The plaintiff appealed the rejection but the court rejected the appeal on 14th January 2004. The plaintiff has appealed for redress and the Bank has asked the Court not to admit such appeal.

The resolutions adopted at the Bank's shareholders' meeting held on 24th June 2002 have been challenged under Spanish law by one shareholder who filed his claim before the courts of the city of Santander. The challenged resolutions include the approval of the Bank's annual accounts and the rejection by the shareholders meeting of the proposals made by the plaintiff shareholder and another shareholder to file a claim requesting the declaration of the Directors' liability in connection with the investments made by the Bank in Argentina, as well as the proposal made by another shareholder for the dismissal of one of the Directors. The Bank responded to the claim on 5th October 2002. During the term to respond to this claim, the Bank was required to respond to another claim, filed by a different shareholder, challenging some of the resolutions adopted at the same meeting. The claim was admitted by the same court of the city of Santander that is in charge of the first proceeding and has been joined to this proceeding, so both proceedings will be carried out jointly. The Bank responded to this second claim on 25th October 2002. The hearing took place on 21st, 22nd and 23rd April 2003, and the court dismissed the claim on 29th May 2003. The plaintiffs have appealed against such decision and the Bank has already answered the appeal.

Since 1992, the Madrid Central Court number 3 has had preliminary investigative court proceedings in progress against the Bank and three of its officers to determine the liabilities which might arise in connection with certain credit assignment transactions (*cesiones de crédito*) carried out by Banco Santander, S.A. from 1987 to 1989. The Bank and its internal and external advisers anticipate that the final result of this litigation will be in the Bank's favor and that no specific reserve is required. On 16th July 1996, the Madrid Central Court number 3 entered a partial dismissal order with respect to certain of the matters in dispute. This dismissal order was not appealed. However, the proceedings with respect to the other matters remained open. On 27th June 2002, the lower court changed the cited proceedings to an Abbreviated Procedure, thereby terminating the investigative phase of the proceedings. The Office of the Public Prosecutor and the Bank appealed this decision. On 23rd June 2003, the appeals court partially reversed the lower court's decision, substantially reducing the scope of the proceedings. Nevertheless, such proceedings against the Bank and three of its officers, although limited in scope, remain open. The indictment proceedings concluded on 1st July 2004 and during these proceedings both the Office of the Public Prosecutor (public criminal complainant) and the Attorney General (sole private criminal complainant) have reiterated their request for dismissal of the case. As a result, the legal action is supported only by a citizen complainant.

In December 1995, the Spanish tax authorities issued an "Acta" (writ) requiring the Bank to pay €26.2 million in back withholding taxes, interest and penalties relating to the Bank's alleged failure to comply with a purported obligation to withhold income tax on payments to clients with respect to certain credit assignment transactions held by such clients. Although a similar case in an amount of €3.8 million was successfully appealed by the Bank in June, 2003 (and then appealed in turn by the Regional tax authorities), the Bank's appeal against this writ was rejected. The Bank filed a second appeal which was partially admitted by the court on 30th October 2003. Both the Bank and the State's attorney have appealed such decision before the Supreme Court.

The resolutions adopted at the Bank's shareholders' meeting held on 21st June 2003 have been challenged under Spanish law by three shareholders who filed their claims before the courts of the city of Santander. The three plaintiff shareholders challenged the resolution approving the annual accounts and the management of the Bank and of the Group for 2002. In addition, two out of the three plaintiff shareholders challenged the resolutions approving the profit allocation



for 2002 and the regulation of shareholders' meetings. On 10th October 2003, the Bank answered the claims. The preliminary hearing took place on 21st January 2004. On 11th February 2004 the Court decided to suspend the proceedings until the preliminary proceedings 352/2002 being carried out by the Madrid Central Court number 3 (referred to below) are finalized. Additionally, another plaintiff shareholder has challenged the resolutions adopted at the Bank's shareholders' meeting held on 21st June 2003 filing its claim at the courts of the city of Santander. Notice was given to the Bank on 30th July 2004, to answer the claim, which is still pending to be presented.

Lanetro, S.A. filed a suit against Banco Santander Central Hispano S.A., carried out before the Court of 1st Instance no. 34 of Madrid, Complaint of Plenary Suit no. 558/2002, principally alleging that the Bank breached its alleged obligation to subscribe to the increase in capital stock of the plaintiff in the amount of €30,050,605.22. The court rejected the claim on 16th December 2003, but the plaintiff has appealed.

For informational purposes it is also mentioned, although this does not constitute litigation against the Bank, that one shareholder has filed a claim before the courts of the city of Madrid against the persons who were members of the Board of the Bank during 2001. The plaintiff claims that the Bank's investments in Argentina were carried out by the defendants without due diligence, and that the losses derived from these investments have caused a direct damage to him that varies from euro 533.06 to euro 3,005.00. The plaintiff shareholder applies for the compensation of that amount against the Directors, as jointly and severally liable for his alleged damages. The claim was rejected by the court on 9th April 2003, and the plaintiff appealed the court's decision. The appeal was opposed by the defendants. This claim is described for informational purposes only and does not constitute an implied representation that the Bank has described all claims of equal or greater magnitude than this claim.

For the same informational purposes, it is also mentioned that several persons, who allegedly have funds deposited in Banco Río de la Plata, S.A., filed an application for conciliation before the courts of the city of Madrid against the Bank, the persons who were members of the Board of the Bank during 2001 and 2002 and others. According to Spanish Law, this application did not start proper judicial proceedings against the Bank. The claimants only intended that the defendants accept the reality of the facts alleged in their application, regarding the Bank and its directors' claimed obligation to reimburse the funds deposited by the claimants in Banco Río de la Plata, S.A. The conciliation hearing was held on 16th July 2002. The Bank and the members of the Board refused to accept the facts and allegations of the application. This meant the termination of the conciliation. In January 2004, there was a preliminary hearing in connection with a similar case, in which a person who allegedly deposited funds in Banco Río de la Plata, S.A. is claiming USD 8,365.71. The Court has not determined the date for the next hearing yet.

For the same informational purposes, it is mentioned that the Madrid Central Court number 3 is carrying forward preliminary proceedings 352/2002 in connection with complaints filed by two shareholders against the chairman of the Bank, regarding the economic terms of the retirement in August, 2001 of the former co-chairman, Mr. José María Amusátegui and the economic terms of the resignation in February, 2002 of the former first vice-chairman and chief executive officer, Mr. Angel Corcóstequi. The prosecutor and the defendants requested the dismissal of the case, which was opposed by the plaintiff shareholders. On 16th October 2003 the Court decided to change the cited proceedings to an abbreviated procedure. The public prosecutor and the Chairman of the Bank appealed the decision. The hearing of the appeals took place on 9th February 2004, and on 18th February 2004 the Court decided not to admit such appeals without entering into the merits of the matter. The Chairman of the Bank then appealed to the Constitutional Court. The prosecutor again requested the dismissal of the case. On 26th April 2004, the Madrid Central Court number 3 decided to commence oral evidentiary proceedings. On 10th May 2004, with two dissenting votes, and in spite of the favourable report of the prosecutor, the Constitutional Court decided not to admit the appeal.

On 25th September 2003, the Bank announced that it would launch a public offering in Spain for the acquisition of up to 16% of the share capital of Compañía Española de Petróleos, S.A. ("**Cepsa**"), a Spanish oil and petrochemical company. On 21st October 2003, the Spanish National Securities Commission authorised the Bank to launch the offering. The acceptance



term of the offering expired on 24th November 2003. The bid was accepted by shares representing 12.13% of Cepsa's share capital.

The Bank decided to launch the bid for Cepsa once the agreements with the French group Total ("**Total**"), an oil and petrochemical group and major shareholder of Cepsa, to act in concert with respect to the parties' investments in Cepsa had become ineffective after the enactment of Law 26/2003 of 17th July 2003 ("**Ley de Transparencia**"). These agreements included those related to the company Somaen Dos, S.L. ("**Somaen Dos**"), a holding company in which the Bank, Total and Unión Fenosa, S.A. ("**Unión Fenosa**") have participations of approximately 60%, 25% and 15%, respectively. Somaen Dos owns shares representing 33.23% of Cepsa's share capital, of which 19.92% belong to the Bank, 8.31% to Total and 5.00% to Unión Fenosa.

After the Bank's announcement to launch the public offering, Total filed on 13th October, 2003 a request for a summary arbitral proceeding with the Netherlands Arbitration Institute seeking the adoption of certain injunctive measures. On 25th November 2003, that arbitration institute made public a ruling that, among other measures, imposed a temporary prohibition of the sale or encumbrance of the Cepsa shares owned by Somaen Dos as well as the Cepsa shares that the Bank had acquired in the bid. Furthermore, the ruling instructed both the Bank and Total to presently respect the supermajority rules contained in the agreements to act in concert in Cepsa and the rules, also established in those agreements, governing the right to appoint Directors of the boards of Cepsa and Somaen Dos.

Additionally, on 20th October 2003, the Total group filed a request for an arbitral proceeding with the Netherlands Arbitration Institute seeking a determination on the merits of its claim that, among others, the Ley de Transparencia did not render their agreements with the Bank ineffective. The Bank responded that it was opposed to such request. Currently, that arbitral proceeding remains open. The decision to be adopted in the proceeding on the merits of the claim will not be conditioned by the above-mentioned ruling which is temporary and which does not constitute a pre-judgment on the merits.

In May 2004, Chadia Limited, S.A. filed a suit against Banco Santander Central Hispano S.A., carried out before the Court of 1st Instance number 48 of Madrid, proceeding number 420/2004, alleging that the Bank breached an alleged agreement for the sale to the plaintiff of certain buildings and seeking damages in the amount of €133 million. The Bank has submitted its response to this claim.

## Management of the Bank

Banco Santander Central Hispano, S.A. is managed by the Board of Directors which as at the date hereof consists of 20 members. In accordance with the Bank's by-laws (*Estatutos*), the Board shall consist of at least 14 and no more than 30 members. Each member of the Board is elected to a three-year term by the Bank's stockholders at a general meeting, with approximately one-third of the members being elected each year. The members of the Board can be re-elected.

The Board of Directors generally meets eight or nine times annually. In 2003, it met 10 times. It elects the Bank's Chairman and one or several Vice-Chairman for the Bank from among its members, as well as the Chief Executive Officer. In between Board of Directors meetings, lending and other Board powers reside with the Executive Committee (*Comisión Ejecutiva*) and with the Delegated Risk Committee (*Comisión Delegada de Riesgos*). Without detriment to the powers that in this regard belong to the Chairman, day to day supervision of the operations of the Group are carried out by the Executive Officers under the direct supervision and control of the Chief Executive Officer. Ultimate lending authority at the Bank resides with the Board of Directors which delegates such authority to the Executive Committee and the Delegated Risk Committee made up of ten and five Board members, respectively, which meet, generally, once and twice a week, respectively. Executive Officers are appointed and removed by the Board of Directors. The members of the Board as at the date hereof are as follows:

Name	Director Since	Business Address	Principal Occupation
Emilio Botín-Sanz de Sautuola y García de los Ríos	1960	Plaza de Canalejas 1 Madrid, Spain	Chairman Banco Santander Central Hispano, S.A.
Fernando de Asúa Alvarez	1999	Plaza de Canalejas 1 Madrid, Spain	First Vice Chairman Banco Santander Central Hispano, S.A.
Alfredo Sáenz Abad	1994	Plaza de Canalejas 1 Madrid, Spain	Second Vice Chairman and Chief Executive Officer. Banco Santander Central Hispano, S.A.
Matías Rodríguez Inciarte	1988	Plaza de Canalejas 1 Madrid, Spain	Third Vice Chairman, Banco Santander Central Hispano, S.A.
Manuel Soto Serrano	1999	Monte Esquinza 23, Madrid, Spain	Fourth Vice Chairman, Banco Santander Central Hispano, S.A.
Juan Abelló Gallo	2002	Paseo de la Castellana 40, Madrid, Spain	Businessman
Assicurazioni Generali, S.p.A. (represented by Antoine Bernheim)	1999	Plaza Duca Degli Abruzzi 2, Trieste, Italy	Insurance Company
Antonio Basagoiti Garcia-Tuñón	1999	Plaza de Canalejas 1 Madrid, Spain	Lawyer
Ana Patricia Botín-Sanz de Sautuola y O'Shea	1989	Avda. Gran Vía de Hortaleza 3 Madrid, Spain	Chairwoman Banesto
Emilio Botín-Sanz de Sautuola y O'Shea	1989	Plaza de Manuel Gomez Moreno 2, Madrid, Spain	Businessman
F. Javier Botín-Sanz de Sautuola y O'Shea	2004	Plaza de Manuel Gomez Moreno 2, Madrid, Spain	Businessman
Guillermo de la Dehesa Romero	2002	Francisco Silvela 106, Madrid, Spain	Businessman
Rodrigo Echenique Gordillo	1988	Plaza de Canalejas 1 Madrid, Spain	Banker
Antonio Escámez Torres	1999	Plaza de Canalejas 1 Madrid, Spain	Banker
Francisco Luzón López	1997	Plaza de Canalejas 1 Madrid, Spain	Executive Officer of Banco Santander Central Hispano, S.A., Latin America

<b>Name</b>	<b>Director Since</b>	<b>Business Address</b>	<b>Principal Occupation</b>
Elías Masaveu y Alonso del Campo	1996	Cimadevilla 15, Oviedo, Spain	Businessman
Sir George Mathewson	2001	42 St Andrew Square, Edinburgh EH2 2YS United Kingdom	Chairman, The Royal Bank of Scotland plc
Abel Matutes Juan	2002	Avenida Bartolomé Roselló 18, Ibiza, Spain	Businessman
Luis Alberto Salazar-Simpson Bos	1999	Argensola 6, Madrid, Spain	Businessman
Mutua Madrileña Automovilista (represented by Luis Rodríguez)	2004	Almagro 9, Madrid, Spain	Mutual Insurance Company

- Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos (*Chairman of the Board of Directors and of the Executive Committee*) is also Director of The Royal Bank of Scotland.
- Mr. Fernando de Asúa Alvarez (*First Vice Chairman and Chairman of the Appointments and Remuneration Committee*) is also Honorary Chairman of IBM España, S.A., and Director of Técnicas Reunidas, S.A., Air Liquide España, S.A., Constructora Inmobiliaria Urbanizadora Vasco-Aragonesa, S.A. and Compañía Española de Petróleos, S.A. (CEPSA) and the representative Director of FAA e Inversiones, S.A. in Centro Asegurador, S.A.
- Mr. Alfredo Sáenz Abad (*Second Vice Chairman and Chief Executive Officer*) is also Vice-Chairman of Compañía Española de Petróleos, S.A. (CEPSA).
- Mr. Matías Rodríguez Inciarte (*Third Vice Chairman and Chairman of the Risk Committee*) is also Chairman of Unión de Créditos Inmobiliarios, S.A. and Director of Banco Español de Crédito, S.A. (Banesto), Financiera Ponferrada, S.A., Grupo Corporativo ONO, S.A. and Cía Operadora del Mercado de Electricidad, S.A. (OMEL).
- Mr. Manuel Soto Serrano (*Fourth Vice Chairman and Chairman of the Audit and Compliance Committee*) is also Vice Chairman of Indra Sistemas, S.A. and Director of Campofrío Alimentación, S.A., Cortefiel, S.A. and Corporación Financiera Alba, S.A.
- Mr. Juan Abelló Gallo is also Chairman of Torreal, S.A., Nueva Compañía de Inversiones, S.A., Inversiones Naira SIMCAVF, S.A. and Torreal SCR, S.A. and a representative of the director Nueva Compañía de Inversiones, S.A. and of the director Austral, BV on the boards of Sacyr-Vallehermoso, S.A. and Compañía Vinícola del Norte de España, S.A., respectively.
- Mr. Antonio Basagoiti García-Tuñón is also Chairman of Unión Fenosa, S.A., Vice-Chairman of Faes Farma, S.A. and Golf La Moraleja, S.A. and Director of Pescanova, S.A., Compañía Española de Petróleos, S.A. (CEPSA) and Sacyr-Vallehermoso, S.A.
- Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea is also Chairwoman of Banco Español de Crédito, S.A. (Banesto) and Vice Chairwoman of Inmobiliaria Urbis, S.A.
- Mr. Emilio Botín-Sanz de Sautuola y O'Shea is also the sole Administrator of Puente San Miguel, S.A. and of Jardín Histórico de Puente San Miguel, S.A.
- Mr. Guillermo de la Dehesa is also Chairman of Aviva Vida y Pensiones, S.A. and Director of Unión Fenosa, S.A., Campofrío Alimentación, S.A., Telepizza, S.A., Goldman Sachs Europe Ltd. and Aviva Plc.
- Mr. Rodrigo Echenique Gordillo is also Chairman of the Social Economic Council of the Carlos III University (Madrid) and Director of NH Hoteles, S.A. and Inversiones Inmobiliarias Lar, S.A.
- Mr. Antonio Escámez Torres is also Chairman of Arena Communications España, S.A., and Vice Chairman of Banque Commerciale du Maroc.
- Mr. Francisco Luzón López is also Chairman of the Social Council of the Autonomous Region of Castilla – La Mancha University and Director of Industria de Diseño Textil, S.A. (Inditex, S.A.).

- Mr. Elías Masaveu y Alonso del Campo is also Chairman of Grupo Masaveu, Propiedades Urbanas, S.A. and Tudela Veguin, S.A. and Director of Bankinter, S.A.
- Mr. Abel Matutes Juan is also Director of FCC Construcción, S.A., San Paolo IMI, S.p.A, and Instituto Sectorial Promoción y Gestión Empresas, S.A.
- Mr. Luis Alberto Salazar-Simpson is also Chairman of AUNA Telecomunicaciones, S.A., AUNA Operadores de Telecomunicaciones, S.A., Endesa Diversificación, S.A., Retevisiónn Móvil, S.A. and Constructora Inmobiliaria Urbanizadora Vasco-Aragonesa, S.A., Director of Saint Gobain Cristalería, S.A. and Mutua Madrileña Automovilista.
- Sir George Mathewson is also Chairman of The Royal Bank of Scotland Group Plc. and of the British Banking Association.

## 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 Bank. Such information is derived from the unaudited and audited consolidated financial statements of the Bank as at and for the six months ended 30th June 2003 and 30th June 2004 respectively and from the audited consolidated and unconsolidated financial statements of the Guarantor as at and for the years ended 31st December 2001, 31st December 2002 and 31st December 2003.

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

	2004	2003	Variation (%)
	millions of euros		
<b>Balance sheet</b>			
Total assets .....	356,684.2	341,998.5	4.35
Loans .....	187,083.4	169,040.2	10.67
Total customer funds .....	348,366.4	317,553.2	9.70
On-balance sheet .....	228,271.9	216,850.2	5.27
Off-balance sheet .....	120,094.5	100,703.0	19.26
Shareholders' equity .....	20,129.7	19,032.7	5.76
Total managed funds .....	476,955.1	442,701.5	7.74

	2004	2003
<b>Solvency and NPL ratios (%)</b>		
BIS ratio .....	12.08	12.73
Tier I .....	8.12	8.37
NPL ratio .....	1.29	1.67
NPL coverage .....	197.15	147.17

	2004	2003	Variation (%)
	millions of euros		
<b>Income statement</b>			
Net interest revenue .....	4,309.9	3,927.9	9.73
Basic revenue .....	6,590.6	5,973.8	10.32
Net operating revenue .....	7,025.9	6,557.7	7.14
Net operating income .....	3,268.0	2,899.2	12.72
Net ordinary attributable income (cash-basis*) .....	1,783.9	1,608.9	10.88
Net ordinary attributable income .....	1,551.4	1,292.7	20.01
Net attributable income (including extra ordinaries) .....	1,910.4	1,292.7	47.78

(\*) Before ordinary goodwill amortisation

	2004	2003
<b>Profitability and efficiency (%)</b>		
Efficiency ratio .....	47.09	48.90
ROA .....	1.04	0.97
ROE (cash-basis*) .....	18.66	17.46
ROE .....	16.23	14.03
ROE (including extra ordinaries) .....	19.93	14.03

(\*) Before ordinary goodwill amortisation

	2004	2003
	millions of euros	
<b>Market capitalisation</b>		
Shares outstanding (millions at period end) .....	4,768	4,768
Share price (euro) .....	8.53	7.63
Market capitalisation (millions) .....	40,674.5	36,382.9
EPS ordinary (cash-basis*) annualized (euro).....	0.7482	0.6748
EPS ordinary annualized (euro) .....	0.6507	0.5422
P/E ratio (market capitalisation/net ordinary attributable income annualized) .....	13.11	14.07
EPS (including extra ordinaries) annualized (euro) .....	0.8013	0.5422
P/E ratio (market capitalisation/net attributable income including extra ordinaries annualized) .....	10.65	14.07
(*) Before ordinary goodwill amortisation		

	2004	2003
	millions of euros	
<b>Other data</b>		
Shareholders (number) .....	1,100,827	1,093,074
Number of employees .....	102,725	103,473
Spain .....	34,769	35,574
Abroad .....	67,956	67,899
Number of branches .....	9,219	9,087
Spain .....	4,377	4,327
Abroad .....	4,842	4,760

### Key consolidated data for the years ended 31st December 2001, 2002 and 2003

	2003	2002		2001
	millions of euros		Variation (%)	millions of euros
<b>Balance sheet</b>				
Total assets .....	351,790.5	324,208.1	8.51	358,137.5
Loans .....	172,504.0	162,973.0	5.85	173,822.0
Total customer funds .....	323,900.8	304,893.0	6.23	331,378.9
On-balance sheet .....	214,997.9	211,555.1	1.63	236,132.4
Off-balance sheet .....	108,903.0	93,337.9	16.68	95,246.5
Shareholders' equity .....	18,363.7	17,594.2	4.37	19,128.4
Total managed funds .....	460,693.5	417,546.0	10.33	453,384.0

### Solvency and Non Performing Loans ("NPL") ratios (%)

	2003	2002	2001
BIS ratio .....	12.43	12.64	12.04
Tier I .....	8.26	8.01	8.01
NPL ratio .....	1.55	1.89	1.86
NPL coverage .....	165.19	139.94	143.32



	2003	2002		2001
	millions of euros		Variation (%)	million of euros
<b>Income statement</b>				
Net interest revenue.....	7,958.3	9,358.7	(14.96)	10,256.8
Basic revenue.....	12,128.9	13,647.9	(11.13)	14,878.5
Net operating income .....	5,720.7	5,565.8	2.78	5,944.5
Net attributable income (cash-basis*).....	3,133.3	2,902.9	7.94	3,128.6
Net attributable income .....	2,610.8	2,247.2	16.18	2,486.3

(\*) Before ordinary goodwill amortisation.

	2003	2002		2001
<b>Profitability and efficiency (%)</b>				
Efficiency ratio (**) .....	49.34	52.28		53.98
ROA.....	0.95	0.81		0.94
ROE (cash-basis*).....	17.37	16.04		17.44
ROE .....	14.48	12.42		13.86

(\*) Before ordinary goodwill amortisation.

(\*\*) Personnel & general expenses/Net operating revenue.

	2003	2002		2001
<b>Market capitalisation and the share</b>				
Shares outstanding (millions at period end) .....	4,768	4,768		4,659
Share price (euro) .....	9.39	6.54		9.41
Market capitalisation (millions) .....	44,775.3	31,185.4		43,844.6
EPS (cash-basis*)(euro) .....	0.6571	0.6139		0.6854
EPS (euro) .....	0.5475	0.4753		0.5447
P/E ratio (market capitalisation/net attributable income) .....	17.15	13.88		17.63

(\*) Before ordinary goodwill amortisation.

	2003	2002		2001
<b>Other data</b>				
Shareholders (number) .....	1,075,733	1,092,193		981,408
Number of employees.....	103,038	104,178		115,706
Spain.....	34,968	35,887		40,741
Abroad.....	68,070	68,291		74,965
Number of branches .....	9,199	9,281		9,951
Spain.....	4,369	4,314		4,707
Abroad.....	4,830	4,967		5,244

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

	2003	2002	2001
	thousands of euros		
<b>(Debit) Credit</b>			
Interest income .....	17,203,740	22,711,338	28,116,759
<i>Of which: Fixed- income securities .....</i>	<i>3,413,601</i>	<i>5,081,124</i>	<i>5,318,056</i>
Interest expense .....	(9,686,896)	(13,825,855)	(18,408,400)
<b>Income from equity securities</b>			
Common stocks and other equity securities .....	131,987	120,061	124,734
Investments in non- Group companies .....	279,705	311,863	408,165
Investments in Group companies .....	29,801	41,248	15,506
	<b>441,493</b>	<b>473,172</b>	<b>548,405</b>
Net interest income .....	7,958,337	9,358,655	10,256,764
Fees collected .....	5,098,879	5,147,086	5,535,183
Fees paid .....	(928,317)	(857,802)	(913,448)
Gains (losses) on financial transactions .....	998,813	356,250	685,142
<b>Gross operating income .....</b>	<b>13,127,712</b>	<b>14,004,189</b>	<b>15,563,641</b>
<b>Other operating income .....</b>	<b>75,460</b>	<b>128,431</b>	<b>118,700</b>
<b>General administrative expenses:</b>			
Personnel expenses .....	(4,049,372)	(4,521,718)	(5,258,297)
<i>Of which:</i>			
<i>Wages and salaries .....</i>	<i>(2,959,515)</i>	<i>(3,208,776)</i>	<i>(3,794,237)</i>
<i>Employee welfare expenses .....</i>	<i>(643,144)</i>	<i>(739,448)</i>	<i>(841,104)</i>
<i>Of which: Pensions .....</i>	<i>(96,603)</i>	<i>(130,054)</i>	<i>(162,910)</i>
Other administrative expenses .....	(2,428,325)	(2,800,333)	(3,142,686)
	<b>(6,477,697)</b>	<b>(7,322,051)</b>	<b>(8,400,983)</b>
Depreciation, amortisation and write down of property and equipment and intangible assets .....	(762,794)	(889,832)	(987,319)
Other operating expenses .....	(241,990)	(354,913)	(349,585)
<b>Net operating income .....</b>	<b>5,720,691</b>	<b>5,565,824</b>	<b>5,944,454</b>
<b>Net Income from companies accounted for by the equity method</b>			
Share in income of companies accounted for by the equity method .....	781,243	706,214	1,102,479
Share in losses of companies accounted for by the equity method .....	(64,474)	(73,205)	(156,930)
Value adjustments due to collection of dividends .....	(309,506)	(353,111)	(423,671)
	<b>407,263</b>	<b>279,898</b>	<b>521,878</b>

	2003	2002	2001
	thousands of euros		
Amortisation of consolidation goodwill .....	(2,241,688)	(1,358,616)	(1,872,952)
<b>Gains on group transactions:</b>			
Gains on disposal of investments in fully consolidated companies	702,113	10,092	7,314
Gains on disposal of investments in companies accounted for by the equity method.....	241,341	1,859,277	1,173,987
Gains on transactions involving parent company shares and Group financial liabilities.....	35,841	702	4,520
	<b>979,295</b>	<b>1,870,071</b>	<b>1,185,821</b>
<b>Losses on group transactions:</b>			
Losses on disposal of investments in fully consolidated companies	(13,502)	(808,498)	(451)
Losses on disposal of investments in companies accounted for by the equity method.....	(4,255)	(35,089)	(5,884)
Losses on transactions involving parent company shares and Group financial liabilities.....	(5,975)	(17,544)	(10,037)
	<b>(23,732)</b>	<b>(861,131)</b>	<b>(16,372)</b>
Write-offs and credit loss provisions (net).....	(1,495,687)	(1,648,192)	(1,586,017)
Write down of long-term Investments (net).....	687	(272)	(751)
Provision to general banking risk allowance .....	85,945	–	–
Extraordinary income .....	1,337,064	1,270,092	3,005,644
Extraordinary loss.....	(668,398)	(1,608,925)	(2,944,400)
<b>Income before taxes .....</b>	<b>4,101,440</b>	<b>3,508,749</b>	<b>4,237,305</b>
Corporate income tax .....	(341,007)	(314,979)	(465,664)
Other taxes .....	(528,427)	(408,130)	(444,732)
<b>Consolidated net income for the year .....</b>	<b>3,232,006</b>	<b>2,785,640</b>	<b>3,326,909</b>
Net income attributed to minority interest .....	621,187	538,463	840,606
<b>Net income attributed to the group .....</b>	<b>2,610,819</b>	<b>2,247,177</b>	<b>2,486,303</b>

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

	2003	2002	2001
	thousands of euros		
<b>Assets</b>			
<b>Cash on hand and deposits at central banks:</b>			
Cash on hand .....	1,639,608	1,808,417	2,472,131
Cash at Bank of Spain .....	3,589,618	775,206	2,109,979
Cash at other central banks .....	3,678,214	3,657,955	5,200,089
	<b>8,907,440</b>	<b>6,241,578</b>	<b>9,782,199</b>
Government debt securities	31,107,864	24,988,493	24,694,890
<b>Due from credit institutions</b>			
Demand deposits .....	1,703,538	3,148,911	5,612,648
Other .....	35,914,299	37,107,479	37,376,642
	<b>37,617,837</b>	<b>40,256,390</b>	<b>42,989,290</b>
Loans and credits .....	172,504,013	162,972,957	173,822,046
<b>Debentures and other fixed- income securities</b>			
Public-sector issuers .....	27,339,738	22,854,792	32,080,620
Other issuers .....	16,937,316	9,231,369	10,223,775
	<b>44,277,054</b>	<b>32,086,161</b>	<b>42,304,395</b>
Common stocks and other equity securities .....	10,064,122	7,866,752	7,807,911
Investment in non-group companies .....	4,266,425	4,769,738	6,661,805
Investments in group companies .....	1,067,771	1,129,393	1,227,351
<b>Intangible assets:</b>			
Incorporation and start-up expenses .....	901	7,675	12,759
Other deferred Charges .....	473,395	635,373	861,022
	<b>474,296</b>	<b>643,048</b>	<b>873,781</b>
<b>Consolidation goodwill</b>			
Fully consolidated companies .....	6,065,632	8,970,164	8,792,711
Companies accounted for by the equity method....	1,319,592	984,571	1,075,986
	<b>7,385,224</b>	<b>9,954,735</b>	<b>9,868,697</b>
<b>Property and equipment</b>			
Land and buildings for own use .....	2,723,142	3,000,385	3,758,784
Other property .....	286,981	280,711	518,637
Furniture, fixtures and other .....	1,573,846	1,659,463	2,076,509
	<b>4,583,969</b>	<b>4,940,559</b>	<b>6,353,930</b>
Treasury stock .....	10,155	14,746	21,378
Other assets .....	17,983,170	17,554,670	21,076,637
Accrual accounts .....	6,919,377	6,353,686	9,126,074
Accumulated losses at consolidated companies .....	4,621,815	4,435,179	1,527,129
<b>Total Assets</b> .....	<b>351,790,532</b>	<b>324,208,085</b>	<b>358,137,513</b>
Memorandum accounts .....	85,264,845	82,480,069	85,606,110

	2003	2002	2001
	thousands of euros		
Liabilities and equity			
Due to credit institutions.....	75,580,312	50,820,719	53,929,789
<b>Customer deposits</b>			
Savings deposits–			
Demand .....	76,613,017	67,644,766	75,481,038
Time.....	46,973,305	52,286,346	52,759,866
Other deposits–			
Demand .....	309,402	408,544	1,137,361
Time.....	35,439,848	47,476,100	52,149,027
	<b>159,335,572</b>	<b>167,815,756</b>	<b>181,527,292</b>
<b>Marketable debt securities</b>			
Bonds and debentures outstanding .....	28,838,892	20,497,329	21,229,154
Promissory notes and other securities.....	15,602,313	10,791,778	20,379,942
	<b>44,441,205</b>	<b>31,289,107</b>	<b>41,609,096</b>
Other liabilities.....	10,429,976	10,811,902	11,254,425
Accrual accounts.....	7,539,896	7,029,998	9,473,748
<b>Provisions for contingencies and expenses</b>			
Pension allowance.....	8,935,148	8,839,081	9,021,366
Other provisions.....	3,792,529	5,008,669	7,895,923
	12,727,677	13,847,750	16,917,289
General risk allowance .....	–	132,223	132,223
Negative difference in consolidation.....	14,040	15,459	17,333
<b>Consolidated net income for the year:</b>			
Group.....	2,610,819	2,247,177	2,486,303
Minority interests .....	621,187	538,463	840,606
	<b>3,232,006</b>	<b>2,785,640</b>	<b>3,326,909</b>
Subordinated debt .....	11,221,088	12,450,228	12,995,991
Minority interest.....	5,439,517	6,036,710	7,433,330
Capital stock.....	2,384,201	2,384,201	2,329,681
Additional paid-in-capital .....	8,720,722	8,979,735	8,651,004
Reserves.....	5,510,846	5,573,390	5,423,738
Revaluation reserves.....	42,666	42,666	42,666
Reserves at consolidated companies.....	5,170,808	4,192,601	3,072,999
<b>Total Liabilities and equity.....</b>	<b>351,790,532</b>	<b>324,208,085</b>	<b>358,137,513</b>

## Consolidated Balance Sheets as of 30th June 2004 and 2003

	2004	2003
	audited	unaudited
	millions of euros	
<b>Assets</b>		
Cash and central banks .....	6,137.1	6,618.1
Government debt securities .....	23,251.2	33,640.1
Due from banks .....	36,110.4	37,508.2
Loans .....	187,083.4	169,040.2
Investment securities .....	64,523.8	49,728.1
Fixed income .....	48,892.7	34,592.1
Equity .....	15,631.1	15,136.0
<i>Shares and other securities</i> .....	9,981.9	8,850.1
<i>Equity stakes</i> .....	4,685.4	5,142.2
<i>Equity stakes in Group companies</i> .....	963.8	1,143.7
Tangible and intangible assets .....	5,000.7	5,072.6
Treasury stock .....	20.7	10.9
Goodwill .....	7,322.8	8,298.8
Other assets .....	22,448.3	27,427.0
Prior years' results from consolidated companies .....	4,785.9	4,654.5
<b>Total assets</b> .....	<b>359,674.2</b>	<b>341,998.5</b>
<b>Liabilities</b>		
Due to banks .....	66,852.8	59,738.6
Customer deposits .....	169,532.3	170,560.4
Deposits .....	137,495.1	129,019.7
REPOs .....	32,037.1	41,540.7
Debt securities .....	47,052.0	34,579.1
Subordinated debt .....	11,687.7	11,710.7
Net provisions for risks and charges .....	12,384.2	13,063.8
Minority interests .....	5,276.9	6,385.1
Net consolidated income .....	2,192.9	1,605.1
Capital .....	2,384.2	2,384.2
Reserves .....	20,641.7	20,021.1
Other liabilities .....	18,679.5	21,950.5
<b>Total liabilities</b> .....	<b>356,684.2</b>	<b>341,998.5</b>



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

	2004	2003
	audited	unaudited
	millions of euros	
Interest revenues.....	8,693.6	8,778.4
Dividends.....	393.5	255.2
Interest expenses.....	(4,777.1)	(5,105.6)
<b>Net interest revenue.....</b>	<b>4,309.9</b>	<b>3,927.9</b>
Net fees and commissions.....	2,280.7	2,045.9
Basic revenue.....	6,590.6	5,973.8
Trading gains.....	435.3	583.9
<b>Net operating revenue.....</b>	<b>7,025.9</b>	<b>6,557.7</b>
Personnel and general expenses.....	(3,308.4)	(3,206.6)
(a) Personnel expenses.....	(2,025.1)	(2,010.0)
(b) General expenses.....	(1,283.2)	(1,196.6)
Depreciation.....	(359.8)	(377.6)
Other operating costs.....	(89.8)	(74.3)
<b>Operating costs.....</b>	<b>(3,757.9)</b>	<b>(3,658.5)</b>
<b>Net operating income.....</b>	<b>3,268.0</b>	<b>2,899.2</b>
Income from equity - accounted holdings.....	234.6	108.3
<i>Less: Dividends from equity - accounted holdings.....</i>	<i>225.0</i>	<i>187.7</i>
Earnings from Group transactions.....	(27.9)	729.1
Net provisions for loan - losses.....	(753.7)	(814.0)
Write down of investment securities.....	(0.2)	0.3
Accelerated goodwill amortisation.....	(2.4)	(691.2)
Other income.....	(181.8)	124.6
<b>Ordinary income before taxes (cash-basis*).....</b>	<b>2,536.5</b>	<b>2,356.3</b>
Corporate tax.....	(470.1)	(435.0)
<b>Net ordinary consolidated income (cash-basis*).....</b>	<b>2,066.4</b>	<b>1,921.3</b>
Minority interests.....	169.7	144.1
Dividend - preferred shareholders.....	112.7	168.3
<b>Net ordinary attributable income (cash-basis*).....</b>	<b>1,783.9</b>	<b>1,608.9</b>
Ordinary goodwill amortisation.....	(232.6)	(316.2)
<b>Net ordinary attributable income.....</b>	<b>1,551.4</b>	<b>1,292.7</b>
Extraordinary income from capital gains and extraordinary allowances.....	359.0	0.0
<b>Net attributable income (including extra ordinaries).....</b>	<b>1,910.4</b>	<b>1,292.7</b>

(\*) Before ordinary goodwill amortisation

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

*The following is a general description of certain Spanish 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 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.*

### Introduction

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 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 the Luxembourg Stock Exchange and Euronext Amsterdam and they therefore 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 with 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 sold outside Spain and in the international capital markets and none of the entities 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 Rules for payments made by the Guarantor**

Payments which may be made by the Guarantor to holders of Preferred Securities, if the Guarantee is enforced, will be subject to the same tax rules previously set out for payments made by the Issuer.

## 5. 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.
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## 6. 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.

## 7. 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 Guarantor, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.***

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

In accordance with procedures established in the Paying Agency Agreement, the Principal Paying Agent must receive a list of those holders that are Spanish Corporation Tax taxpayers 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).

## **7.2 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 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 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;
- (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 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 State of 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 7.1 and paragraph 7.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received by the Principal Paying Agent 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 the Principal Paying Agent does not receive complete documentation 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 by ensuring that the documentation described above is received by the Principal Paying Agent 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**”).

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

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:

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- 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 .....
- 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:**

- Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is: .....
- Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is: .....
- 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 .....
- 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).
- 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 ..... of ..... of 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

BNP Paribas, Citigroup Global Markets Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International as lead managers (the "**Lead Managers**" and "**Managers**") have, in a subscription agreement dated 6th October 2004 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor 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%. The Issuer (failing which, the Guarantor) 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 and the Guarantor 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 or, in the case of the Guarantor, would not, if it were not an authorised person, apply to the Issuer or the Guarantor; 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.

## The Netherlands

Prior to the publication of the advertisement (the “**Advertisement**”) as mentioned in Article 47.7 of the Listing and Issuing Rules of Euronext Amsterdam N.V. (*Fondsenreglement*), no contractually binding offers (or solicitations of such offers) in respect of the Preferred Securities shall be made to any individual or legal entity in The Netherlands, other than in reliance on the “Euro-securities” exemption pursuant to article 6 of the Exemption Regulation of 21st December 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), as amended, of The Netherlands’ Securities Market Supervision Act (*Wet toezicht effectenverkeer 1995*), which requires the following criteria to be met:

- (i) the Preferred Securities are subscribed for and placed by a syndicate of which at least two members have their statutory seat in different European Economic Area (“**EEA**”) member states;
- (ii) 60% or more of the aggregate amount of the Preferred Securities will be initially offered in one or more states other than Spain;
- (iii) the Preferred Securities may only be subscribed for or initially be purchased through the intermediation of a credit institution (registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*)) or another financial institution which in the conduct of a business or profession provides one or more of the services described in paragraphs 7 and 8 of Annex I to the Banking Coordination Directive (2000/12/EC); and
- (iv) no general advertising or cold-calling campaign is conducted in respect of the Preferred Securities in The Netherlands.

## Federal Republic of Germany

No German sales prospectus (*Verkaufsprospekt*) has been or will be published with respect to the Preferred Securities and the offer of the Preferred Securities in the Federal Republic of Germany must comply with the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “**Act**”) of the Federal Republic of Germany and all other applicable legal and regulatory requirements. No public offering (*Öffentliches Angebot*) within



the meaning of the Act with respect to any Preferred Securities can be made otherwise than in accordance with the Act.

### **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.

### **Switzerland**

This Offering Circular does not constitute an offer to buy or to subscribe to securities of Santander Finance Preferred, S.A. Unipersonal, Banco Santander Central Hispano, S.A. or any of its affiliates and it does not constitute an offering circular within the meaning of Art. 1156 of the Swiss Code of Obligations or Art. 652a of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SWX Swiss Exchange. Potential investors are furthermore advised to consult their bank and financial advisor.

### **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 is authorised by (i) the shareholders' meetings of the Issuer, held on 1st October 2004, and (ii) the meeting of the Board of Directors (*Consejo de Administración*) of the Issuer, held on 1st October 2004. The giving of the Guarantee of the Preferred Securities is authorised by a resolution of the Executive Commission of the Guarantor (*Comisión Ejecutiva*), dated 4th October 2004.
2. Save as disclosed herein, there are no nor have there been any legal, arbitration or administrative proceedings involving the Issuer or the Guarantor 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, of the Guarantor or of the Group taken as a whole.
3. Save as disclosed herein, since 27th February 2004 (in the case of the Issuer, being the date of incorporation of the Issuer) and 31st December 2003 (in the case of the Guarantor and the Group, being the last day of the financial period in respect of which the most recent published audited annual accounts of the Guarantor 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, of the Guarantor 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 each of the Issuer and the Guarantor;
  - (b) the Public Deed of Issuance of the Preferred Securities;
  - (c) the Guarantee;
  - (d) the Paying Agency Agreement; and
  - (e) the Subscription Agreement.
5. 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 Guarantor for the years ended 31st December 2001, 2002 and 2003;
  - (b) the audited consolidated financial statements of the Guarantor for the six months ended 30th June 2004; and
  - (c) the latest published unaudited interim and audited year-end consolidated and unconsolidated financial statements of the Guarantor.
6. The Guarantor publishes quarterly unaudited consolidated interim financial statements. The Guarantor does not publish unconsolidated interim financial statements. As at the date of this Offering Circular, the Issuer has not published audited financial statements. The Issuer intends to publish unconsolidated audited financial statements on an annual basis. The first financial year end of the Issuer will end on 31st December 2004. The Issuer does not and will not publish interim financial statements.
7. The financial statements of the Guarantor and of the Group have been audited in 2001 by Arthur Andersen, y Cía S.COM and by Deloitte, S.L. in 2002 and 2003. With regard to the Guarantor, 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.
8. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0202774245 the common code is 020277424 and the fondscore is 14999. The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Principal Paying Agent 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 20). 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.

9. 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.

10. In connection with the application for the Preferred Securities to be listed on the Luxembourg Stock Exchange, copies of the constitutional documents of the Issuer and the Guarantor (together with English translations thereof) and a legal notice relating to the issue of the Preferred Securities will be deposited prior to listing with the *Régistre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request.

11. According to Chapter VI, article 3, point A/II/2 of the rules and regulations of the Luxembourg Stock Exchange the securities shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.



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