

**Börsenzulassungssprospekt vom
Dezember 2004**

Banco Espanol de Credito, S.A.

(incorporated with limited liability under the laws of Spain)

Börsenzulassungssprospekt

Für die Zulassung der

125.000 Stück

CMS-Linked Non-Cumulative Perpetual Preferred Securities

von 2004 (die "Vorzugszertifikate")

- Emissionspreis: EUR 1,000,- je Vorzugszertifikat-

- ISIN DE000A0DEJU3

- German Security Code/WKN A0DEJU

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

Inhalt

- Offering Circular dated 27 October 2004

- geprüfter Konzern-Jahresabschluss der Banco Espanol de Credito, S.A zum
31. Dezember 2002 und 2003

- ungeprüfter Zwischenbericht zum 30. September 2004 der Banco Espanol de
Credito, S.A.

- Verfügbare Dokumente

- Zusätzliche Angaben

Offering Circular dated 27 October 2004

Offering Circular

Banco Espanol de Credito, S.A.

(incorporated with limited liability under the laws of Spain)

Series 1 Euro 125,000,000 CMS-Linked Non-Cumulative Perpetual Preferred Securities

Issue price: 100%

Series 1 Euro 125,000,000 CMS-Linked Non-Cumulative Perpetual Preferred Securities of Euro 1,000 liquidation preference each (the "Preferred Securities") are being issued by Banco Espanol de Credito, S.A. ("Banesto" or the "Issuer") on 29th 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 up to and including 29th October 2005 at a rate of 6% per annum and thereafter at a rate of 0.125% per annum above the EUR CMS 10 (as defined on page 12), in each case of the liquidation preference of Euro 1,000 per Preferred Security subject to a maximum Distribution rate of 8% per annum. The first Distribution is payable on 29th October 2005 and thereafter Distributions are payable on 29th April and 29th October of each year commencing on 29th April 2006 (each, a "Distribution Payment Date").

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of the Bank of Spain), in whole, on any Distribution Payment Date provided that the Preferred Securities shall not be redeemable prior to 29th April 2011 unless they cease to qualify as Tier 1 capital pursuant to Spanish banking regulations, at the liquidation preference of Euro 1,000 per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period (as defined on page 11) to the date fixed for redemption.

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

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

The Preferred Securities are expected, upon issue, to be assigned an A2 rating by Moody's Investors Services, Inc. ("Moody's") and a BBB+ rating by Standard & Poor's Rating Services, a division of the McGraw Hill Companies Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. Potential holders are alerted to the statements on pages 2 and 3 regarding the tax treatment in Spain of income in respect of the Preferred Securities and to the disclosure requirements imposed on the Issuer relating to the identity of certain holders of Preferred Securities. In particular, income in respect

of the Preferred Securities will be subject to withholding tax if certain information regarding holders is not received by the Issuer on time as described herein.

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

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

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

ABN AMRO Deutsche Bank JP Morgan

27th October 2004

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

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

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

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

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

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

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

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

In this Offering Circular, unless otherwise specified, references to “n”, “EUR” or “Euro” are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. This Offering Circular may only be used for the purposes for which it has been published.

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

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payments in respect of any such withholding tax in any of the above cases. (See “Conditions of the Preferred Securities – Taxation” on page 17 and “Taxation and Disclosure of Holder Information in Connection with Payments of Distributions” on page 49.)

The Clearing Systems are expected to follow certain procedures to facilitate the Issuer in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see “Conditions of the Preferred Securities – Form and Status” on page 19). The procedures agreed and more fully described in the Paying Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems.

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

The Issuer may, in the future, make a withholding on payments to holders of Preferred Securities who are subject to corporation tax in Spain if currently held opinions of the Spanish tax authorities change (see “Taxation and Disclosure of Holder Information in Connection with Payments of Distributions – 2. Legal Entities with Tax Residency in Spain” on page 50).

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

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Documents Incorporated by Reference

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

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

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

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Summary

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

Issuer: Banco Espan˜ol de Cre˜dito, S.A. (“Banesto”, the “Bank” or the “Issuer”).

Group: The Bank and its consolidated subsidiaries.

Issue size: Euro 125,000,000.

Issue details: Series 1 Euro 125,000,000 CMS-Linked Non-Cumulative Perpetual Preferred Securities (participaciones preferentes) (the “Preferred Securities”), each with a liquidation preference of Euro 1,000.

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

The Bank will request that the Preferred Securities qualify as Tier I capital of the Group pursuant to Spanish banking regulations.

Liquidation Preference: Euro 1,000 per Preferred Security.

Use of Proceeds: The proceeds of the issue of the Preferred Securities, after paying any issue expenses, will be, in accordance with Law 13/1985, of 25th May, on investment ratios, capital adequacy and information requirements for financial intermediaries (Ley 13/1985, de 25 de mayo, de coeficientes de inversio˜n, recursos propios y obligaciones de informacio˜n de los intermediarios financieros) (“Law 13/1985”), as amended by Law 19/2003, of 4th July, on foreign capital movements and financial transactions and on certain measures to prevent money laundering (Ley 19/2003, de 4 de Julio, sobre el re˜gimen jurı˜dico de los movimientos de capitales y de las transacciones econo˜micas con el exterior y sobre determinadas medidas del

blanqueo de capitales) ("Law 19/2003") available to absorb losses of the Bank if and when they occur once there is a reduction in the shareholder's equity to zero and its reserves have been exhausted. The funds raised from the issue of the Preferred Securities will be used for the Group's general corporate purposes.

Distributions (retribucio´n): The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions ("Distributions"). Distributions on the Preferred Securities will accrue from the Closing Date and will be payable, subject to the Limitations on Distributions described below, out of the Issuer's own legally available resources and distributable items, on 29th October 2005 and thereafter on 29th April and 29th October in each year commencing on 29th April 2006 (each a "Distribution Payment Date").

Distributions will be payable first on 29th October 2005 and thereafter semi-annually at the distribution rate (the "Distribution Rate") (i) in respect of the period from the Closing Date until the date falling twelve months thereafter of 6% and (ii) thereafter, of 0.125% per annum above the 10-year mid-swap rate in Euro (annual, 30/360) versus 6-month Euribor (semi-annual, ACT/360) (the "EUR CMS 10") as determined by the agent bank, subject to a maximum 6

Distribution Rate of 8% per annum. The Distribution amount payable will be computed on a 30/360 basis, without adjustment.

Limitations on Distributions: Distributions shall not be payable to the extent that:

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

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

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

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

payment with respect to, full or pro rata payment of dividends or distributions on all outstanding Preferred Securities.

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

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

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consolidated profit and loss account of the Issuer sent to the Bank of Spain for the period ending 31st December of the previous Fiscal Year;

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

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

Ranking of the Preferred Securities:

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

The Issuer may not issue any preferred securities or securities or other instruments equivalent to preferred securities ranking senior to the Preferred Securities.

Optional Redemption: The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain in whole at the Redemption Price per Preferred Security on any Distribution Payment Date provided that the Preferred Securities shall not be redeemable prior to 29th April 2011 unless they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.

Liquidation Distribution: The Liquidation Preference per Preferred Security plus, if applicable, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.

Liquidation Rights: Except in certain circumstances, the Preferred Securities will confer no right to participate in profits or surplus assets of the Issuer.

In the event of any voluntary or involuntary liquidation,

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

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Purchases: None of the Issuer or any of its Subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 29th April 2011. In the event that such purchases are permitted by law before 29th April 2011, they may be made by tender, in the open market or by private agreement.

Pre-emptive rights: The Preferred Securities do not grant their holders preemption rights in respect of any possible future issues of preferred securities.

Voting Rights: The Preferred Securities shall not confer an entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Issuer.

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

The payment of Distributions and other amounts in respect of the Preferred Securities will be subject to Spanish withholding taxes, in the circumstances described below. In such circumstances, the Issuer will not pay any additional amounts to holders of Preferred Securities.

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 17.

Disclosure of identity of holders:

Under Law 13/1985 (as amended by Law 19/2003), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities.

The Clearing Systems are expected to follow certain procedures to facilitate the collection of details referred to above from holders of the Preferred Securities (see "Conditions of the Preferred Securities – Taxation" on page 17). If the Clearing Systems are, in the future, unable to comply with any requirements which may be imposed upon them, whether by law, regulation or otherwise, they may refuse to allow the Preferred Securities to be cleared through

the Clearing Systems and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities.

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

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ensure correct tax treatment of their Preferred Securities.

None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor.

Form: The Preferred Securities will be issued in bearer form and will be represented by a single global Preferred Security deposited with Clearstream Banking Frankfurt prior to the Closing Date.

The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg, which are both accountholders of Clearstream Banking Frankfurt.

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

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

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

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

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

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

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Conditions of the Preferred Securities

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

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

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

1. Definitions

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

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

“CET” means Central European Time;

“Closing Date” means 29th October 2004;

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

“Distribution Payment Date” means 29th October 2005 and thereafter 29th April and 29th October in each year commencing on 29th October 2006;

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

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

“Eurozone” means the region comprised of member states of the European Union which adopt or have adopted the euro as a single currency in accordance with the Treaty establishing the European Community as amended;

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

“Group” means the Issuer together with its consolidated Subsidiaries;

“Liquidation Distribution” means, subject to the limitation set out under paragraph 2.7 below, the Liquidation Preference per Preferred Security plus an amount equal to accrued and 11

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 27th 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 Issuer and ranking pari passu with respect to the participation in profits and assets of the Issuer, or by any subsidiary of the Issuer which are guaranteed by the Issuer, including (but not limited to) the preference shares issued by Banesto Holdings, Ltd. and the preferred securities issued by Banesto Preferentes, S.A., which are entitled to the benefit of a guarantee ranking pari passu with the Issuer’s obligations under the Preferred Securities;

“Paying Agency Agreement” means the paying agency agreement dated 27th 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;

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

“Subsidiary” means any entity over which the Issuer may have, directly or indirectly, control

in accordance with Article 4 of the Securities Market Act (Ley del Mercado de Valores);
“TARGET” means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System; and

“TARGET Settlement Day” means a day on which the TARGET system is open.

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 Distributions payable on the Preferred Securities will accrue at a rate of 6% per annum of the Liquidation Preference thereof until the date falling twelve months after the Closing Date and, thereafter, in relation to each subsequent Distribution Period, will be determined by the Agent Bank on the following basis:

2.2.1 the Agent Bank will determine the 10-year mid-swap rate in Euro (annual, 30/360) versus 6-month Euribor (semi-annual, ACT/360) (“EUR CMS 10”) which appears on Reuters Page “ISDAFIX2”, under the heading “EURIBOR BASIS” and above the caption “11:00 AM CET” (as such headings and captions may appear from time to time) (or such other pages as may replace that page on that service) as of 11:00 (CET) on the second TARGET Settlement Day before the first day of the relevant Distribution Period;

2.2.2 if such rate does not appear on such pages, the Agent Bank will:

(a) request the principal Euro-zone office of each of five major banks in the Euro-zone interbank market (as selected by the Issuer and the Agent Bank) to provide a quotation of EUR CMS 10 at approximately 11:00 (CET) on the date which is two TARGET Settlement Days before the first day of the relevant Distribution Period; and

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(b) disregarding the highest and the lowest quotations received (or, in the case of repeated highest and/or lowest quotations, only one of such repeated highest and/or lowest quotations) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and

2.2.3 if fewer than three such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Eurozone, selected by the Agent Bank, of EUR CMS 10 at approximately 11:00 (CET) on the date which is two TARGET Settlement Days before the first day of the relevant Distribution Period;

2.2.4 the distribution rate (the “Distribution Rate”) for each Distribution Period shall be the sum of 0.125% per annum and the rate or (as the case may be) the arithmetic mean so determined provided, however, that the Distribution Rate shall not exceed 8% per annum at any time; and

2.2.5 in making any of the determinations and selections above, the Agent Bank shall do so in its sole discretion, acting in good faith and in a commercial and reasonable manner.

2.3 The Agent Bank will, if applicable, as soon as practicable after determining the Distribution Rate in relation to each Distribution Period, calculate the amount of Distribution payable in respect of each Preferred Security for such Distribution Period. The Distribution will be calculated by applying the Distribution Rate (or 6% in the case of the Distribution Payment Date falling on or prior to the date falling twelve months after the Closing Date) for such Distribution Period to the Liquidation Preference of such Preferred Security, and (i) in the case of the first Distribution Period, 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 number of days in the Regular Period in which the relevant period falls; and

“Regular Period” means each period from (and including) the Closing Date to (but excluding) the first Distribution Payment Date; and

(ii) in the case of any other Distribution Period multiplying the product by the actual number of days in such Distribution Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Distribution Period is the 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Distribution Period is the last day of February, in which case, February shall not be considered to be lengthened to a 30-day month) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

2.4 The Agent Bank will cause each Distribution Rate and Distribution amount determined by it, together with the relevant Distribution Payment Date, to be notified to the Paying Agents, the Issuer and each listing authority, stock exchange and/or quotation system (if any) by which the Preferred Securities have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but no later than the first day of the relevant Distribution Period. The Agent Bank will be entitled to recalculate any Distribution (on the basis of the provisions of this paragraph 2) without notice in the event of an extension or shortening of the relevant Distribution Period.

2.5 All notifications, opinions, determinations, certificates, calculation, quotations and decisions given, expressed, made or obtained for the purposes of this paragraph 2 by the Agent Bank will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the holders of Preferred Securities and (subject to the aforesaid) no liability to any such person will attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

2.6 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 13

any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the Agent Bank.

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

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

The Clearing Systems are currently in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Offering Circular is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Managers, the Paying Agents or the Clearing Systems assume any responsibility therefor. It is intended that the Preferred Securities will be represented by a global Preferred Security in bearer form for the total number of the Preferred Securities. Such global Preferred Security will be delivered into the physical custody of Clearstream Banking Frankfurt prior to the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg, which are both accountholders of Clearstream Banking Frankfurt. The Clearing Systems will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.

2.7 Distributions shall not be payable to the extent that:

2.7.1 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

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

Except for the limitations set out above, Distributions on the Preferred Securities will be

payable, on each Distribution Payment Date, out of the Issuer's own legally available resources and distributable items.

2.8 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 2.7 above or are paid partially, then the right of the holders of the Preferred Securities to receive a Distribution or an unpaid part thereof in respect of the relevant Distribution Period will be extinguished and the Issuer will have no obligation to pay the Distribution accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.

2.9 If, as a result of the limitations described in paragraph 2.7 above, a Distribution is not paid in full on the Preferred Securities and any Parity Securities, all distributions paid upon

the Preferred Securities and any Parity Securities will be paid pro rata in relation to the liquidation preference of such securities. Therefore, the Distribution amount to be received by the holders of Preferred Securities on such Distribution Payment Date will depend on the total liquidation preference amount of the outstanding Preferred Securities and Parity Securities, and on the distributions scheduled to be paid on such securities (but for such limitations), each as of the time of such payment.

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

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

3. Liquidation Distribution

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

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

4. Optional Redemption

4.1 The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain in whole at the Redemption Price per Preferred Security on any Distribution Payment Date (the "Redemption Date") provided that the Preferred Securities shall not be redeemable prior to 29th April 2011 unless they cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.

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

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

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

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

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

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

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

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

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

5. Purchases of Preferred Securities

In order to comply with certain Spanish capital adequacy regulations in force as at the Closing Date, neither the Issuer nor any Subsidiary shall at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 29th April 2011.

Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before 29th April 2011, then, subject to the applicable law then in force, the Issuer or any Subsidiary may at any time and from time to time purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

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

6. Exercise of Rights by Holders of Preferred Securities

6.1 Amendment to the terms and conditions of the Preferred Securities

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

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

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

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

6.2 Further issuances of preferred securities

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

comply with Spanish capital adequacy rules in force at the time of their issue); (ii) take any action required to authorise, create and issue one or more other classes or series of shares of the Issuer ranking junior to the Preferred Securities, as to the participation in the profits or assets of the Issuer or (iii) take any action required to guarantee any issue of Parity Securities by any Subsidiary.

6.2.2 However, if the Issuer has not paid in full the most recent distribution payable on each series of outstanding Parity Securities, then the prior consent of the holders of the outstanding Parity Securities of the Issuer will be required to carry out such actions. Such consent may be granted in writing by the holders of at least two-thirds of the aggregate liquidation preference of all Parity Securities issued and outstanding, or with the sanction of a resolution passed at a Special General Meeting of holders.

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

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

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

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

6.3 Voting rights, Pre-emptive Rights and other provisions

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

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

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

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

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

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

7. Taxation

7.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Kingdom of Spain or any

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political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as would have been received had no such withholding or deduction been required.

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

(i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties,

assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with The Kingdom of Spain other than the mere holding of Preferred Securities; or

(ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer, or the Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as set out in order to comply with Law 13/1985, as amended by Law 19/2003, Royal Decree 1778/2004 of 30th July, Royal Legislative Decree 4/2004 of 5th March and Order of 22nd December 1999; or

(iii) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or

(iv) where the withholding or deduction referred to in paragraph 7.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a holder of Preferred Securities who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to another paying agent in a Member State of the European Union; or

(vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5th July); or

(vii) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish Corporation Tax if the Spanish tax authorities determine that the Preferred Securities do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (Dirección General de Tributos) dated 27th July 2004 and require a withholding to be made.

A list of the tax havens referred to in paragraph 7.2(vi) as at the date of the Offering Circular is set out on page 51 of the Offering Circular.

7.3 For the purposes of paragraph 7, the "Relevant Date" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of Preferred Securities, notice to that effect shall have been duly given to the holders of Preferred Securities in accordance with paragraph 8 below. See "Taxation and Disclosure of Holder Information in Connection with Payments of Distributions" for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer relating to the identity of holders of Preferred Securities.

8. Notices

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (Börsenpflichtblatt) (which is expected to be the Börsen-Zeitung) and in the Federal Gazette (Bundesanzeiger), (ii) so long as any Preferred Security is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so

18 requires, by publication in the Daily Official List (Officiële Prijscourant) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation and (iii) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

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

9. Form and Status

The Preferred Securities will be issued in bearer form.

It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Issuer to Clearstream Banking Frankfurt. The Preferred Securities are also

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

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

10. Use of Proceeds

The net proceeds of the Preferred Securities are Euro 122,500,000 and will be used for the Group's general corporate purposes.

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

11. Agents

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

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

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

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

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12. Prescription

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

13. Substitution

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

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

(i) the Substituted Issuer shall undertake in favour of each holder of Preferred Securities to be bound by the Terms and Conditions of the Preferred Securities and the provisions of the Paying Agency Agreement as fully as if the Substituted Issuer had been named in the Preferred Securities and the Paying Agency Agreement as the principal obligor in respect of the Preferred Securities in place of the Issuer (or any previous substitute);

(ii) Banesto shall unconditionally and irrevocably guarantee in favour of each holder of Preferred Securities the payment of all sums payable by the Substituted Issuer as such

principal obligor;

(iii) holders of Preferred Securities shall be indemnified and held harmless against all taxes or duties which arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective or any expenses or costs whatsoever, which may be incurred or levied against such holder as a result of any substitution pursuant to this paragraph and which would not have been so incurred or levied had such substitution not been made (and, without limiting the foregoing, any and all taxes or duties which are imposed on any such holder by any political sub-division or taxing authority of any country in which such holder resides or is subject to any such tax or duty and which would not have been so imposed had such substitution not been made);

(iv) all action, conditions and things required to be taken, fulfilled and done, including all necessary governmental and regulatory approvals and consents, for such substitution and for the giving by Banesto of the guarantee in respect of the obligations of the Substituted Issuer shall have been taken, fulfilled and done and are in full force and effect;

(v) each stock exchange which has the Preferred Securities listed thereon shall have confirmed that following the proposed substitution of the Substituted Issuer the Preferred Securities would continue to be listed on such stock exchange;

(vi) the Issuer shall have delivered to the Principal Paying Agent or procured the delivery to the Principal Paying Agent of (a) a legal opinion from a leading firm of lawyers in the country of incorporation of the Substituted Issuer, to the effect that the Preferred Securities and the Paying Agency Agreement constitute legal, valid and binding and enforceable obligations of the Substituted Issuer, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Issuer for the Issuer; and (b) a legal opinion from a leading firm of Spanish lawyers to the effect that the Paying Agency Agreement and the guarantee constitute legal, valid and binding and enforceable obligations of Banesto, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Issuer for the Issuer;

(vii) there are no outstanding unpaid amounts in respect of the Preferred Securities on the date of substitution of the Substituted Issuer for the Issuer;

(viii) any credit rating assigned to the Preferred Securities will remain the same or be improved when the Substituted Issuer replaces and is substituted for the Issuer in respect of the Preferred Securities;

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(ix) the Issuer shall have given prior notice of such substitution to the holders of Preferred Securities in accordance with paragraph 8 above, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to holders of Preferred Securities, will be available for inspection at the specified offices of the Principal Paying Agent; and

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

14. Governing Law and Jurisdiction

14.1 Governing Law

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

14.2 Jurisdiction

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

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Capitalisation of the Group

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

(Thousands of Euros)

(unaudited)

Long-term debt:

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

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

The share capital of the Issuer at 30th June 2004 is 1,027,608,545 made up of 694,330,098 issued and fully paid up ordinary shares of nominal value EUR 1.48 each and of a single class.

There are no other classes of shares.

(1) Since 30th June 2004, long-term debt (and, hence, total capitalisation) has increased as a result of:

(a) the issue by Banesto of EUR 1,750 million of cedulas hipotecarias on 16th September 2004; and

(b) the issue by the Group of EUR 2,000 million of senior debt guaranteed by Banesto on 4th October 2004.

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Banco Espan˜ol de Cr dito, S.A. and its Group

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

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

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

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

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

Management of the Bank

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

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

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

Name Title Since

Ana P. Boti'n-Sanz de Sautuola y O'Shea	Chairman	13th February 2002
Victor Manuel Mene'ndez Milla'n.....	Vice-Chairman	25th August 1994 ¹
Federico Outo'n del Moral.....	Chief Executive Officer	7th March 2002
Juan Delibes Liniers	Member	23rd August 1994
Matias Rodr'iguez Inciarte	Member	24th August 1994
Jose' Corral Lope.....	Member	22nd August 1994
David Arce Torres.....	Member	22nd August 1994
Rafael del Pino Calvo-Sotelo	Member	4th February 2003
Isabel Polanco Moreno.....	Member	4th February 2003
Francisco Daurella Franco.....	Member	4th February 2004
Jose' Luis Lo' pez Combarros.....	Member	29th July 2004

Note:

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

The business address of the Board of Directors is Avenida Gran Vi'a de Hortaleza, 3, Madrid.
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The Board of Directors delegates powers to a number of committees, including the Executive Committee, the Audit and Compliance Committee and the Appointments and Remuneration Committee.

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

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

Name Title

Ana P. Boti'n-Sanz de Sautuola y O'Shea	Chairman
Victor Mene'ndez Milla'n.....	Member
Federico Outo'n del Moral.....	Member
Juan Delibes Liniers	Member
Jaime Pe' rez Renovales.....	Secretary (Non-member)

Business Performance in 2003

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

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

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

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

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

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

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

Business Performance in the first half of 2004

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

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

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

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

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

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

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

Description of Operations

Retail Banking

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

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

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

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

Wholesale Banking

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

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

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

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Treasury and Capital Markets

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

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

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

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

Employees

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

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

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

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Assets

Composition of Loan Portfolio

The following table analyses, by domicile and type of customer, loans granted by the Bank, including loans to non-consolidated members of the Bank, at 30th June 2003 and 2004. The analyses by type of customer are based principally on the requirements of the Bank of Spain. 6 months ended

30th June

2004 2003

(Thousands of Euros)

(unaudited)

Public sector	892,781	939,393
Private sector.....	32,448,459	26,049,670
– Commercial bills	3,629,100	3,352,672
– Secured loans	15,908,509	11,449,978
– Other credits and loans	12,910,850	11,247,020
Non-resident sector.....	2,661,809	3,129,326
Ordinary lending.....	36,003,049	30,118,389
Non-performing loans	254,598	268,095
Total.....	36,257,647	30,386,484

Capital Adequacy

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

The Basle Committee on Banking Regulations and Supervisory Practices (the "Basle Committee") has developed guidelines for the measurement of capital adequacy of international banking organisations. These guidelines set minimum capital adequacy ratios of

4% for Tier 1 capital and 8% for total capital (Tier 1 and Tier 2). The Bank estimates that its Tier 1 capital ratios, calculated in accordance with Basle Committee guidelines, and its total capital ratios (Tier 1 and Tier 2) at 30th June 2004 and 31st December 2003 were as set forth below.

June 04

(unaudited)

Dec 03

(audited)

Tier 1.....	6.94%	6.95%
Tier 2.....	5.18%	3.19%
Total.....	12.12%	10.14%

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

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Allowances for Possible Credit Losses

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

6 months ended

30th June

2004 2003

(Thousands of Euros)

(unaudited)

Allowances for credit losses at beginning of period.....	872,115	706,676
Allowances	141,046	120,521
– General purpose allowance.....	22,387	23,129
– Specific allowance.....	43,310	43,673
– Allowance for the statistical coverage of credit losses	75,349	53,719
Available funds	(12,836)	(11,529)
Other movements	(35,980)	(19,116)
Allowance for credit losses at end of period.....	964,345	796,552

Non-performing Loans

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

6 months ended

30th June

2004 2003

(Thousands of Euros,
except for percentages)

(unaudited)

Balance at the beginning of period	274,094	277,118
Entries.....	63,960	51,617
Recoveries.....	(36,513)	(41,452)
Write-offs	(33,73)	(3,835)
Balance at end of period	267,968	283,448
NPL ratio (%).	0.62	0.75
Coverage ratio (%)	359.87	281.02

Supervision and Regulation

Bank of Spain

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

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

their banking activities; and (iv) to participate with other authorities in appropriate cases in the imposition of penalties applicable to credit institutions for infringement or violation of applicable regulations.

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

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

Law 13/1994 of 1st June on the autonomy of the Bank of Spain (Ley de Autonomía del Banco de España), as amended, which vests responsibility for the implementation of monetary policy in the Bank of Spain, repealed Law 26/1983 of 26th December on the imposition of liquidity ratios of financial intermediaries, effective 3rd June 1994 and provides that frozen funds relating to minimum reserves which are required to be maintained in accordance with the By-Laws of the European System of Central Banks may be deposited with the Bank of Spain.

Ruling (CE) no. 2818/98 of the European Central Bank of 1st December 1998 on the application of minimum reserves provides that a reserve ratio of 2% shall apply to certain categories of liabilities and that such reserves shall be maintained with the respective Central Bank in a euro-denominated account.

Investment Ratio

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

Capital Adequacy Requirements

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

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

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

At 30th June 2004, the Bank's ratio of total capital to risk-weighted assets under Law 13/92 was 9.30%, which exceeded the required ratio of 4.8%. At 30th June 2004, all of the Bank's Spanish subsidiary banks were in compliance with these capital adequacy requirements. Pursuant to Bank of Spain Circular 4/1991, as amended by Circular 6/1994, the computation of core capital is subject to reductions of capital in amounts equivalent to unrealised losses of investment securities that are not charged to income and are accounted as assets. Credit institutions which fail to comply with the above ratios by more than 20% are required to devote all of their net profits to increasing their capital ratios. Banks which fail to meet either ratio by 20% or less must obtain prior approval of the Bank of Spain to distribute any dividends and must devote at least 50% of net profits to increasing their capital ratios. In addition, failure to comply with the Bank's ratios and capital adequacy requirements may give rise to fines and other sanctions.

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

Concentration on Risk

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

Legal Reserves and Other Reserves

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

Regulation of Fees and Interest Rates

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

Corporate Governance and Corporate Social Responsibility

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

in 2004. In addition, Banesto has a Purchases Committee, responsible for supervising relations with suppliers and distributors.

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

In December 2003, Banesto began a programme, involving all of its employees, for fostering collaboration with humanitarian organisations. The programme (called Solidarity X 2) was developed by the Banesto Cultural Foundation whose board includes directors of the Bank. The Banesto Cultural Foundation has committed itself to matching each contribution made by an employee to humanitarian organisations. The budget for 2004 is EUR250,000, 80% of which will be used to match contributions of less than EUR1,000 and the remaining 20% to match larger contributions. Banesto and the Banesto Cultural Foundation collaborate with charities such as Aldeas Infantiles, Manos Unidas, UNICEF, FAO, IUVE, Spanish Red Cross Foundation and Intermón Oxfam.

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Summary Consolidated Financial Information relating to the Group

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

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

BALANCE SHEET

2004 2003 Change

(Thousands of Euros)

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

(1) Adjusted for loan securitizations

P & L ACCOUNT

2004 2003 Change

(Thousands of Euros)

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

(1) 12 months calculated

OTHER

2004 2003 Change

Employees.....	9,850	9,785	65
Branches.....	1,695	1,685	10
32			
2004 2003			
Ratio Bis	12.12%	9.21%	
Tier 1	6.94%	7.18%	
ROE.....	17.84%	17.19%	
ROA	0.85%	0.87%	
2004 2003			
Per share			
Closing period price	9.76	7.65	
Period EPS	0.39	0.35	
Book value per share.....	4.14	3.87	
P/E ⁽¹⁾	14.41	11.42	
P/BV	2.36	1.98	

(1) 12 months calculated

CAPITAL ADEQUACY

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

PROVISIONS EVOLUTION

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

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NPL EVOLUTION

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

PROVISIONS

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

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

BALANCE SHEET

2003 2002 %

(Thousands of Euros)

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

(1) Adjusted for loan securitizations

P & L ACCOUNTS

2003 2002 %

(Thousands of Euros)

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

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OTHER

2003 2002 Change

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

2003 2002

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

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

(2) Adjusted to a 30% tax rate

2003 2002

Per share

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

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

CAPITAL ADEQUACY

2003 2002

(Thousands of Euros)

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

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

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PROVISIONS EVOLUTION

2003 2002

(Thousands of Euros)

Initial balance	706,676	596,674
Allocations	244,871	202,360
Prov. released.....	(24,970)	(18,190)

Write-offs	(54,462)	(74,168)
Final balance.....	872,115	706,676
NPL coverage ratio	318.18%	255.01%

NPL EVOLUTION

2003 2002

(Thousands of Euros)

Initial balance	277,118	254,217
Additions.....	102,913	181,097
Recoveries.....	(78,102)	(110,681)
Amortisation	(27,835)	(47,515)
Final balance.....	274,094	277,118
NPL Ratio.....	0.70%	0.83%

PROVISIONS

2003

Coverage

ratio (%)

Specific	213,306	77.82
Statistical	335,294	122.33
Generic	323,515	118.03
Total	872,115	318.18

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

ASSETS

2003 2002 2001

(Thousands of Euros)

(audited)

CASH ON HAND AND ON DEPOSIT AT CENTRAL

BANKS:

Cash on hand	196,471	184,963	148,988
Cash at Bank of Spain.....	629,496	403,864	244,231
Cash at Other central banks.....	704	321	407
	826,671	589,148	393,626

GOVERNMENT DEBT SECURITIES..... 4,010,157 4,030,213 3,876,553

DUE FROM CREDIT ENTITIES:

Demand deposits.....	706,362	819,842	782,888
Other.....	11,375,697	7,631,385	5,975,428
	12,082,059	8,451,227	6,758,316

LOANS AND CREDITS

DEBENTURES AND OTHER FIXED-INCOME

SECURITIES..... 3,354,331 3,865,061 4,721,471

COMMON STOCKS AND OTHER EQUITY SECURITIES 490,724 369,998 283,619

INVESTMENTS IN NON-GROUP COMPANIES..... 33,796 43,030 26,323

INVESTMENTS IN GROUP COMPANIES..... 505,046 452,837 419,704

INTANGIBLE ASSETS:

Incorporation and preopening expenses	27	22	79
Other deferred charges	64,402	69,095	61,372
	64,429	69,117	61,451

CONSOLIDATION GOODWILL:

Fully consolidated companies

Companies accounted for by the equity method..... — —

5,727 4,587 4,854

PROPERTY AND EQUIPMENT:

Land and buildings for own use.....	320,097	316,617	320,019
Other property	84,146	102,027	138,415
Furniture, installations and other	334,059	358,781	386,302
	738,302	777,425	844,736

CAPITAL SUBSCRIBED BUT NOT PAID — — —

TREASURY STOCK..... 4,398 3,150

OTHER ASSETS..... 3,390,635 3,211,030 2,779,797

ACCRUAL ACCOUNTS..... 966,090 923,895 921,280

LOSSES AT CONSOLIDATED COMPANIES..... 186,731 198,736 232,368

CONSOLIDATED LOSS FOR THE YEAR — — —

TOTAL ASSETS..... 57,931,344 49,711,818 44,921,446

MEMORANDUM ACCOUNTS 18,445,842 15,889,259 14,679,352

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LIABILITIES AND EQUITY

2003 2002 2001

(Thousands of Euros)

(audited)

DUE TO CREDIT INSTITUTIONS:

Demand deposits..... 492,670 240,607 168,140

Other deposits 13,071,761 12,061,334 10,600,087

13,564,431 12,301,941 10,768,227

CUSTOMER DEPOSITS:

Savings deposits

– Demand 14,911,076 10,083,020 9,937,628

– Time 6,026,248 6,814,967 6,298,394

Other deposits

– Demand — — —

– Time 7,700,710 8,603,164 8,302,446

28,638,034 25,501,151 24,538,468

MARKETABLE DEBT SECURITIES:

Bonds and debentures outstanding 5,658,337 2,601,600 1,235,401

Promissory notes and other securities — — —

5,658,337 2,601,600 1,235,401

OTHER LIABILITIES..... 2,455,600 2,220,105 1,682,121

ACCRUAL ACCOUNTS..... 866,043 918,272 669,583

PROVISIONS FOR CONTINGENCIES AND EXPENSES:

Pension allowance 2,409,433 2,390,073 2,316,694

Provision for taxes..... — — —

Other provisions..... 367,377 391,243 425,280

2,776,810 2,781,316 2,741,974

GENERAL RISK ALLOWANCE — — —

NEGATIVE CONSOLIDATION DIFFERENCE..... 15,375 18,440 5,030

CONSOLIDATED INCOME FOR THE YEAR:

Group..... 442,039 435,913 421,721

Minority interests 7,054 8,334 9,134

449,093 444,247 430,855

SUBORDINATED DEBT..... 762,074 468,078 698,234

MINORITY INTERESTS..... 190,642 70,869 83,165

CAPITAL STOCK 1,228,964 1,409,490 1,335,598

ADDITIONAL PAID-IN CAPITAL..... — — —

RESERVES 1,098,511 823,669 595,571

RESERVES AT CONSOLIDATED COMPANIES 227,430 152,640 137,219

TOTAL LIABILITIES AND EQUITY 57,931,344 49,711,818 44,921,446

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

2003 2002 2001

(Thousands of Euros)

(audited)

(Debit) Credit

INTEREST INCOME: 1,973,971 1,877,231 2,246,659

Of which: fixed-income securities 355,144 389,002 446,632

INTEREST EXPENSE (960,585) (915,357) (1,292,547)

INCOME FROM EQUITY SECURITIES:

Common stocks and other equity securities 14,321 10,746 5,830

Investments in non-Group companies 589 711 921

Investments in Group companies..... 17,526 14,969 8,986

32,436 26,426 15,737

NET INTEREST INCOME..... 1,045,822 988,300 969,849

FEES COLLECTED..... 554,936 511,598 495,550

FEES PAID.....	(92,568)	(79,501)	(75,153)
GAINS (LOSSES) ON FINANCIAL TRANSACTIONS.....	56,014	46,951	40,556
GROSS OPERATING INCOME.....	1,564,204	1,467,348	1,430,802
OTHER OPERATING REVENUE	7,038	13,587	9,750
GENERAL ADMINISTRATIVE EXPENSES:			
Personnel expenses	(544,058)	(543,463)	(549,383)
Of which:			
Wages and salaries	(393,328)	(404,776)	(408,997)
Employee welfare expenses.....	(103,434)	(105,797)	(110,440)
Of which: Pensions	(12,874)	(14,501)	(15,025)
Other administrative expenses.....	(194,917)	(194,948)	(196,216)
(738,975) (738,411) (745,599)			
DEPRECIATION, AMORTIZATION AND WRITE-DOWN OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS.....	(95,096)	(93,274)	(84,069)
OTHER OPERATING EXPENSES.....	(26,940)	(27,614)	(34,845)
NET OPERATING REVENUE	710,231	621,636	576,039
39			
2003 2002 2001			
(Thousands of Euros)			
(audited)			
(Debit) Credit			
NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD:			
Equity in income of companies accounted for by the equity method	100,096	86,485	75,422
Equity in losses of companies accounted for by the equity method	(7,298)	(16,819)	(3,843)
Value adjustments for collection of dividends	(18,042)	(14,338)	(8,567)
74,756 55,328 63,012			
AMORTIZATION OF CONSOLIDATION GOODWILL....	(878)	(789)	(3,014)
GAINS ON GROUP TRANSACTIONS:			
Gains on disposal of investments in fully consolidated companies	—	—	523
Gains on disposal of investments in companies accounted for by the equity method	5,054	7,410	2,219
Gains on transactions involving Parent Company shares and Group financial liabilities	—	—	—
Reversal of negative consolidation differences	3,065	1,916	—
8,119 9,326 2,742			
LOSSES ON GROUP TRANSACTIONS:			
Loss on disposal of investments in fully consolidated companies	—	—	—
Loss on disposal of investments accounted for by the equity method.....	(6)	(41)	(93)
Loss on transactions involving Parent Company shares and Group financial liabilities	(2,761)	(2,959)	—
(2,767) (3,000) (93)			
WRITE-OFFS AND CREDIT LOSS PROVISIONS (net)....	(171,375)	(118,260)	(146,733)
WRITE-DOWN OF LONG-TERM FINANCIAL INVESTMENTS (net).....	687	(272)	(754)
PROVISION TO GENERAL RISK ALLOWANCE.....	—	—	—
EXTRAORDINARY INCOME	151,913	140,859	128,445
EXTRAORDINARY LOSS.....	(130,846)	(129,683)	(98,855)
INCOME BEFORE TAXES.....	639,840	575,145	520,789
CORPORATE INCOME TAX.....	(188,023)	(129,438)	(83,951)
OTHER TAXES	(2,724)	(1,460)	(5,983)
CONSOLIDATED INCOME FOR THE YEAR.....	449,093	444,247	430,855
INCOME ATTRIBUTED TO MINORITY INTERESTS.....	7,054	8,334	9,134
INCOME ATTRIBUTED TO THE GROUP.....	442,039	435,913	421,721

ASSETS

June 2004 June 2003

(Thousands of Euros)

(unaudited)

CASH ON HAND AND ON DEPOSIT AT CENTRAL BANKS:

Cash on hand..... 176,657 157,080

Cash at Bank of Spain 348,022 424,398

Cash at Other central banks 589 309

525,268 581,787

GOVERNMENT DEBT SECURITIES 3,973,861 4,744,710

DUE FROM CREDIT ENTITIES:

Demand deposits 317,252 320,368

Other 9,339,000 12,814,231

9,656,252 13,134,599

LOANS AND CREDITS..... 35,362,991 29,655,951

DEBENTURES AND OTHER FIXED-INCOME SECURITIES 3,391,691 3,982,848

COMMON STOCKS AND OTHER EQUITY SECURITIES 513,014 846,820

INVESTMENTS IN NON-GROUP COMPANIES 44,590 43,711

INVESTMENTS IN GROUP COMPANIES 526,581 471,586

INTANGIBLE ASSETS:

Incorporation and preopening expenses 34 13

Other deferred charges..... 70,426 66,490

70,460 66,503

CONSOLIDATION GOODWILL:

Fully consolidated companies 15,005 4,191

Companies accounted for by the equity method 0 0

15,005 4,191

PROPERTY AND EQUIPMENT:

Land and buildings for own use 294,891 317,731

Other property..... 90,484 95,011

Furniture, installations and other..... 313,634 338,201

699,009 750,943

CAPITAL SUBSCRIBED BUT NOT PAID..... — —

TREASURY STOCK 4,361 1,915

OTHER ASSETS 3,632,613 3,818,902

ACCRUAL ACCOUNTS 965,950 997,437

LOSSES AT CONSOLIDATED COMPANIES 193,382 196,748

CONSOLIDATED LOSS FOR THE YEAR — —

TOTAL ASSETS 59,575,028 59,298,651

MEMORANDUM ACCOUNTS

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LIABILITIES AND EQUITY

June 2004 June 2003

(Thousands of Euros)

(unaudited)

DUE TO CREDIT INSTITUTIONS:

Demand deposits 522,772 391,970

Other deposits 9,651,051 18,009,166

10,173,823 18,401,136

CUSTOMER DEPOSITS:

Savings deposits

– Demand..... 15,141,100 13,584,497

– Time..... 6,069,966 6,068,546

Other deposits

– Demand

– Time..... 8,956,546 8,154,671

30,167,612 27,807,714

MARKETABLE DEBT SECURITIES:

Bonds and debentures outstanding 7,651,436 3,671,844

Promissory notes and other securities..... — —

7,651,436 3,671,844

OTHER LIABILITIES	2,803,341	2,639,187
ACCRUAL ACCOUNTS	873,985	828,255
PROVISIONS FOR CONTINGENCIES AND EXPENSES:		
Pension allowance	2,371,827	2,341,136
Provision for taxes	—	—
Other provisions	372,598	349,890
2,744,425	2,691,026	
GENERAL RISK ALLOWANCE		
NEGATIVE CONSOLIDATION DIFFERENCE	13,843	16,907
CONSOLIDATED INCOME FOR THE YEAR:		
Group	271,414	243,115
Minority interests	4,975	3,607
276,389	246,722	
SUBORDINATED DEBT	1,872,316	289,665
MINORITY INTERESTS	195,402	66,835
CAPITAL STOCK.....	1,027,609	1,228,964
ADDITIONAL PAID-IN CAPITAL		
RESERVES.....	1,501,263	1,177,909
RESERVES AT CONSOLIDATED COMPANIES	273,584	232,487
TOTAL LIABILITIES AND EQUITY.....	59,575,028	59,298,651

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

June 2004 June 2003

(Thousands of Euros)

(unaudited)

(Debit) Credit

INTEREST INCOME: 981,541 1,004,113

Of which: fixed-income securities..... 158,352 183,500

INTEREST EXPENSE..... (448,010) (506,870)

INCOME FROM EQUITY SECURITIES:

Common stocks and other equity securities 7,243 | 8,228 |

Investments in non-Group companies..... 90 543

Investments in Group companies 18,488 | 15,619 |

25,821 24,390

NET INTEREST INCOME..... 559,352 521,633

FEES COLLECTED..... 303,586 271,362

FEES PAID (54,723) | (45,615) |

GAINS (LOSSES) ON FINANCIAL TRANSACTIONS 40,156 | 37,023 |

GROSS OPERATING INCOME..... 848,371 784,403

OTHER OPERATING REVENUE..... 3,337 4,444

GENERAL ADMINISTRATIVE EXPENSES:

Personnel expenses..... (280,435) (273,593)

Of which:

Wages and salaries..... (209,221) (204,453)

Employee welfare expenses (51,590) | (50,797) |

Of which: Pensions..... (5,082) (5,363)

Other administrative expenses (94,492) | (93,011) |

(374,927) (366,604)

DEPRECIATION, AMORTIZATION AND WRITE-DOWN OF PROPERTY

AND EQUIPMENT AND INTANGIBLE ASSETS..... (46,118) (48,539)

OTHER OPERATING EXPENSES (13,208) | (13,867) |

NET OPERATING REVENUE..... 417,455 359,837

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June 2004 June 2003

(Thousands of Euros)

(unaudited)

(Debit) Credit

NET INCOME FROM COMPANIES ACCOUNTED FOR BY THE EQUITY

METHOD:

Equity in income of companies accounted for by the equity method 71,814 50,116

Equity in losses of companies accounted for by the equity method (2,296) (3,032)

Value adjustments for collection of dividends..... 18,578 (16,135)

50,940	30,949
AMORTIZATION OF CONSOLIDATION GOODWILL	(3,197) (396)
GAINS ON GROUP TRANSACTIONS:	
Gains on disposal of investments in fully consolidated companies ..	— —
Gains on disposal of investments in companies accounted for by the equity method.....	132 487
Gains on transactions involving Parent Company shares and Group financial liabilities	147 —
Reversal of negative consolidation differences	1,532 1,533
1,811	2,020
LOSSES ON GROUP TRANSACTIONS:	
Loss on disposal of investments in fully consolidated companies.....	— —
Loss on disposal of investments accounted for by the equity method —	(1)
Loss on transactions involving Parent Company shares and Group financial liabilities	— (1,643)
—	(1,644)
WRITE-OFFS AND CREDIT LOSS PROVISIONS (net)	(99,222) (85,504)
WRITE-DOWN OF LONG-TERM FINANCIAL INVESTMENTS (net).....	(199) 255
PROVISION TO GENERAL RISK ALLOWANCE	— —
EXTRAORDINARY INCOME.....	92,238 100,999
EXTRAORDINARY LOSS	(61,159) (59,222)
INCOME BEFORE TAXES	398,667 347,294
CORPORATE INCOME TAX	(121,474) (98,788)
OTHER TAXES.....	(804) (1,784)
CONSOLIDATED INCOME FOR THE YEAR.....	276,389 246,722
INCOME ATTRIBUTED TO MINORITY INTERESTS	4,975 3,607
INCOME ATTRIBUTED TO THE GROUP	271,414 243,115

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

Company Line of Business

Direct %

Ownership

Indirect %

Ownership

Total %

Ownership

A.G. Activos y Participaciones, S.A.

Securities

investment — 99.87 99.87

Agri'cola Los Juncuales, S.A..... Real estate 99.99 0.01 100.00

Aljarafe Golf, S.A..... Real estate 79.58 — 79.58

Banco Alicantino de Comercio, S.A..... Banking 99.99 0.01 100.00

Banesto Banca Privada Gestio' n, S.A.

S.G.I.I.C.....

Mutual fund

manager 99.99 0.01 100.00

Banesto Banco de Emisiones, S.A..... Banking 99.99 0.01 100.00

Banesto Bolsa, S.A. Sdad. Valores y Bolsa Stock market 99.99 0.01 100.00

Banesto Delaware, Ltd. Finance 100.00 — 100.00

Banesto e-Business, S.A.....

Securities

investment 99.99 0.01 100.00

Banesto Factoring, S.A. Establecimiento

Financiero de Cre' dito Factoring 99.87 0.13 100.00

Banesto Finance, Ltd. Finance 100.00 — 100.00

Banesto Holdings, Ltd

Securities

investment 100.00 — 100.00

Banesto Issuances, Ltd..... Finance 100.00 — 100.00

Banesto Preferentes, S.A..... Finance 99.76 0.24 100.00

Banesto Renting, S.A..... Finance 99.99 0.01 100.00

Banesto Securities Finance — 100.00 100.00

Banesto Servicios y Tecnología Aplicada, S.A.....	Services	99.99	0.01	100.00
Cambios Sol, S.A.....	Finance	—	70.00	70.00
Corpoban, S.A.....	Securities			
investment — 99.88		99.88		
Corporación Industrial y Financiera de Banesto, S.A.	Securities			
investment 99.88 — 99.88				
Dudebasa, S.A.....	Finance	99.99	0.01	100.00
Elerco, S.A.	Leasing	—	99.88	99.88
Formación Integral, S.A.	Training	99.99	0.01	100.00
Gedinver e Inmuebles, S.A.....	Finance	99.99	0.01	100.00
Geoban, S.A.	Services	—	100.00	100.00
Gescoban Soluciones, S.A.	Finance	74.00	26.00	100.00
Grupo Inmobiliario La Corporación Banesto, S.A	Securities			
investment — 99.87		99.87		
Hualle, S.A.	Securities			
investment 99.99		0.01	100.00	
Ingeniería de Software Bancario, S.L.	IT	51.00	—	51.00
Inmobiliaria Laukariz S.A.....	Real estate	99.99	0.01	100.00
Larix Limited	Real estate	100.00	—	100.00
Mercado de Dinero, S.A.....	Securities			
investment 74.00		26.00	100.00	
Nordin, S.A.....	Real estate	99.99	0.01	100.00
Oil-Dor, S.A	Filling stations	—	99.87	99.87
Santander Gestión de Activos, S.G.I.I.C., S.A. ...	Mutual fund			
manager 20.00 — 20.00				
Santander Pensiones. E.G.F.P, S.A.	Pension fund			
manager 20.00 — 20.00				
Sercopyme, S.A.	Services	99.99	0.01	100.00
Sodepro, S.A	Finance	99.99	0.01	100.00
Wex Point Finance, S.L.....	Services	50.97	—	50.97

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

Company Line of Business

Direct %

Ownership

Indirect %

Ownership

Total %

Ownership

Agri'cola Tabaibal, S.A.....	Agriculture	—	74.20	74.20
Aparcamientos y Construcciones, S.A.	Real estate	99.99	0.01	100.00
Banesto B2C Escaparate, S.L	Technology	—	100.00	100.00
Banesto Ceuta y Melilla, S.A.....	S.I.M.CA.V.	99.99	—	99.99
Banestur, S.A.	Tourism	74.00	26.00	100.00
Cl'nica Sear, S.A.....	Healthcare	—	50.52	50.52
Club Zaudin Golf, S.A.....	Services	—	75.67	75.67
Compañ'ía Aseguradora Banesto Seguros, S.A.....	Insurance	99.99	0.01	100.00
Costa Canaria de Veneguera, S.A.....	Real estate	37.08	37.12	74.20
Crinaria, S.A.	Hospitality	48.01	51.99	100.00
Depo'sitos Portuarios, S.A.....	Services	11.00	88.89	99.89
Deposoltenegolf, S.A.	Sports operation	99.90	0.10	100.00
Dinsa Customer Services, S.A.	IT	99.99	0.01	100.00
Dise'ño e Integración de Soluciones, S.A.....	IT	—	100.00	100.00

Efearvi, S.A.....	Real estate —	99.90	99.90
Grupo Eurociber, S.A.....	Services —	100.00	100.00
Grupo Golf del Sur, S.A.	Real estate	99.90	0.10 100.00
Inmobiliaria Urbis, S.A.	Real estate	51.56	0.01 51.80
Inversiones Turísticas, S.A.	Hospitality	99.99	0.01 100.00
Larix Chile Inversiones Limitada	Real estate —	100.00	100.00
Merciver, S.L.	Hotel operation	99.91	0.09 100.00
Programa Hogar Montigala, S.A.	Real estate —	99.88	99.88
Proyecto Europa, S.A.....	Counseling	99.99	0.01 100.00
Tuberías Industriales y Calderería, S.A.....	Mech. assemb. and maint.	—	99.87 99.87
Virtual Payments, S.L.....	Technology —	100.00	100.00
Wex Point España, S.L.....	Services	48.97	26.01 74.98

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

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

Company Line of Business

Direct %

Ownership

Indirect %

Ownership

Total %

Ownership

Aguas de Fuensanta, S.A.	Food	36.77	7.55 44.32
Alcaidesa Holding, S.A.	Real estate —	49.93	49.93
Alcaidesa Inmobiliaria, S.A.	Real estate —	49.93	49.93
Alcaidesa Servicios, S.A.	Services —	49.93	49.93
Centro Desarrollo Invest. Apli. Nuevas Tecnologías	Technology	49.00	— 49.00
Compañía Concesionaria del Túnel de Soller, S.A.....	Construction	32.70	— 32.70
Poli'gono Industrial Gerona, S.A.	Real estate —	29.96	29.96
Sistemas 4B, S.A.....	Services	12.97	— 12.97
Vector Software Factory, S.L.....	Technology —	22.50	22.50

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

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

2003 2002 2001

Thousands of Euros

Source of funds:

From operations

Income for the year	449,093	444,247	430,855
Net additions to special provisions and allowances	309,269	97,807	216,053
Direct write-down of assets.....	175	650	746
Depreciation and amortization expense	151,933	94,209	111,107
Gains on the sale of treasury stock, investments and fixed assets	(33,938)	(54,957)	(56,056)
Losses on the sale of treasury stock, investments and fixed assets	3,616	9,185	5,471
880,148	591,141	708,176	
Net variation in borrowed funds and lending			
External capital contributions in share issue.....	—	165,824	—
Subordinated debt securities issued	293,996	—	28,859
Fixed-income securities (net decrease).....	519,544	702,750	893,126
Debt securities	3,056,737	1,366,199	582,103
Deposits (net increase).....	3,136,883	962,683	1,091,020
Sale of long-term investments			
Sale of investments in Group and associated companies	13,441	24,070	—
Sale of property and equipment and intangible assets.	127,721	421,023	169,144

Other asset items less liability items (net variation)	—	80,651	22,686	
7,148,322	3,723,200	2,786,938		
Total funds obtained.....	8,028,470	4,314,341	3,495,114	
Application of funds				
Refund of equity investments				
Due to capital reduction.....	180,526	91,899	73,519	
Due to acquisition of treasury stock	1,248	40	—	
Lending, less financing, at Bank of Spain and credit institutions	2,605,865	354,719	57,135	
Loans and credits (net increase) 4,793,911	3,287,611	3,122,599		
Fixed-income securities (net increase) — — —				
Short-term equity securities	121,324	88,092	11,944	
Debt securities.....	—	—	—	
Acquisition of long-term investments				
Acquisition of, and increases in, investments in Group and associated companies	55,928	54,122	55,449	
Additions to property and equipment and intangible assets	138,493	437,858	174,468	
Other asset items less liability items.....	131,175	—	—	
Total application of funds	8,028,470	4,314,341	3,495,114	

2004 third quarter results

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

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

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

Taxation in Spain

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

- (a) of general application, Additional Provision two of Law 13/1985, of 25th May on investment ratios, own funds and information obligations of financial intermediaries, as promulgated by Law 19/2003, of 4th July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures, as well as Royal Decree 1778/2004, of 30th July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
 - (b) for individuals with tax residency in Spain which are Individual Income Tax (IRPF) taxpayers, Royal Legislative Decree 3/2004, of 5th March promulgating the Consolidated Text of the Individual Income Tax Law, and Royal Decree 1775/2004, of 30th July promulgating the Individual Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax and Law 29/1987, of 18th December on Inheritance and Gift Tax;
 - (c) for legal entities resident for tax purposes in Spain which are Corporation Tax taxpayers, Royal Legislative Decree 4/2004, of 5th March promulgating the Consolidated Text of the Corporation Tax Law, and Royal Decree 1777/2004, of 30th July promulgating the Corporation Tax Regulations; and
 - (d) for individuals and entities who are not resident for tax purposes in Spain which are nonresident 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.

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

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

2. Legal Entities with Tax Residency in Spain

2.1 Corporation tax (impuesto sobre sociedades)

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

In accordance with Section 57.s) of the Corporation Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporation Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Application has been made for the Preferred Securities to be traded on Euronext Amsterdam and the Frankfurt Stock Exchange and they will, therefore, upon admission to trading on Euronext Amsterdam, fulfil the requirements laid down by the legislation for exemption from withholding. The Directorate General for Taxation (Dirección General de Tributos – “DGT”), on 27th July 2004, issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that the Preferred Securities be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Preferred Securities falls within this exemption as the Preferred Securities are to be placed outside Spain and in the international capital markets and none of the entities initially placing the Preferred Securities is resident in Spain.

Consequently, the Issuer will not make any withholding on Distributions to Spanish Corporation Tax taxpayers that provide the relevant information to qualify as such. If the Spanish tax authorities maintain a different opinion on this matter, however, the Issuer will be bound by that opinion and with immediate effect, make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

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

2.2 Wealth tax (impuesto sobre el patrimonio)

Legal entities are not subject to Wealth Tax.

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

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

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

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

(a) With permanent establishment in Spain

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

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

(b) With no permanent establishment in Spain

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax

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

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

3.2 Wealth tax (impuesto sobre el patrimonio)

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

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

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

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

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

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

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

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

4. Tax havens

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

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

Cayman Islands,
 The Cook Islands,
 The Republic of Dominica,
 Grenada,
 Fiji Islands,
 Channel Islands
 (Jersey and Guernsey),
 Jamaica,
 Republic of Malta,
 Falkland Islands,
 Isle of Man,
 Marianas Islands,
 Mauritius,
 Montserrat,
 Republic of Nauru,
 Solomon Islands,
 Saint Vincent & the Grenadines,
 Saint Lucia,
 Republic of Trinidad and Tobago,
 Turks and Caicos Islands,
 Republic of Vanuatu,
 British Virgin Islands,
 Virgin Islands
 (of the United States),
 Hashemite Kingdom of Jordan,
 Republic of Lebanon,
 Republic of Liberia,
 Principality of Liechtenstein,
 Grand Duchy of Luxembourg
 Area (as regards the income
 received by the Companies
 referred to in paragraph 1 of
 Protocol annexed Avoidance of
 Double Taxation Treaty, dated 3rd
 June, 1986),
 Macao,
 Principality of Monaco,
 Sultanate of Oman,
 Republic of Panama,
 Republic of San Marino,
 Republic of Seychelles,
 Republic of Singapore.

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

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

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

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

5.2 Individuals and Legal Entities with no tax residency in Spain

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

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

(a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party;

- (b) the amount of income received; and
- (c) details identifying the Preferred Securities.

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

(a) if the non-resident holder of Preferred Securities acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16th September 1991, promulgated pursuant to Royal Decree 1285/1991 (see Annex I below), of 2nd August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment in Spain;

(b) in the case of transactions in which any of the entities indicated in the foregoing paragraph (a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and country of tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);

(c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16th September 1991 (see Annex II below);

(d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the country of tax residency of the holder of Preferred Securities. These certificates will be valid for one year as from the date of issue.

In accordance with sub-section 4 of Section 12, for the purpose of implementing the exemption provided for, the following procedure must be followed: on the due date of each Distribution the Issuer must transfer the net amount to the entities referred to in paragraphs 52

(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 5.1 and paragraph 5.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received in accordance with the procedures established in the Paying Agency Agreement, which may be inspected during normal business hours at the specified office of each Paying Agent.

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

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

Taxation in The Netherlands

Holders of Preferred Securities who are individuals and are resident or deemed to be resident in The Netherlands ("Holders"), or who have elected to be treated as Dutch resident Holders for Dutch tax purposes, are subject to Dutch income tax on a deemed return regardless of the actual income derived from the Preferred Securities or gain or loss realised upon disposal or redemption of the Preferred Securities, provided that the Preferred Securities are held as a portfolio investment and are not held in the context of any business or substantial interest. The deemed return amounts to 4% of the average value of the Holder's net assets in the relevant fiscal year (Including the Preferred Securities) and is taxed at a flat rate of 30%. Corporate Holders that are resident or deemed to be resident in The Netherlands, without being exempt from Dutch corporate tax, will be subject to Dutch corporate tax on all income

and gains realised in connection with the Preferred Securities.

Taxation in Germany

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

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

1. Withholding tax

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

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

2. Taxation as debt instruments

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

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

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

3.1 Taxation of Dividends

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

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

95% of the dividends received by a corporate German Investor (German Corporate Investors) are in principle exempt from German corporate income tax. The entire income is subject to trade tax unless the German Corporate Investor has continuously held a shareholding of at least 10% in the nominal capital of the Issuer since the beginning of the assessment period in which case only 5% of the dividends would be subject to trade tax. If the German Corporate Investor is a credit institution or financial services institution within the meaning of the German Banking Act (Kreditwesengesetz) and if the Preferred Securities have been recorded

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

3.2 Taxation of Capital gains

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

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

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

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

4. Gift or inheritance tax

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

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

5. Other taxes

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

EU Savings Tax Directive

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

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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 certificacio´n 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 representacio´n de la Entidad abajo sen´alada a los efectos
previstos en el artı´culo 12.3.a) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,
(function) , in the name and on behalf of the Entity indicated below,
for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,
CERTIFICO:

CERTIFY:

1. Que el nombre o razo´n 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 esta´ inscrita en el Registro de

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

(paı´s estado, ciudad), con el nu´mero

(country, state, city), under number

4. Que la Entidad que represento esta´ sometida a la supervisio´n 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 relacio´n con:

All the above in relation to:

Identificacio´n de los valores poseı´dos 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.....

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ANNEX II

Modelo de certificacio´n 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 representacio´n de la Entidad abajo sen´alada a los efectos
previstos en el artı´culo 12.3.b) y c) del Real Decreto 2281/1998, redactado por el Real Decreto 1778/2004,
(function), in the name and on behalf of the Entity indicated below, for the
purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/ 2004,
CERTIFICO:

CERTIFY:

1. Que el nombre o razo´n 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 esta´ inscrita en el Registro de
that the institution I represent is recorded in the..... Register of.....

(paı´s estado, ciudad), con el nu´mero
(country, state, city), under number

4. Que la Entidad que represento esta´ sometida a la supervisio´n de (Organo supervisor)
that the institution I represent is supervised by (Supervision body)

en virtud de (normativa que lo regula)
under..... (governing rules).

5. Que, de acuerdo con los Registros de la Entidad que represento, la relacio´n de titulares adjunta a la
presente certificacio´n, comprensiva del nombre de cada uno de los titulares no residentes, su paı´s de
residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o
Entidades residentes en Espan˜a o en los paı´s o territorios que tienen en Espan˜a la consideracio´n de
paraı´sos 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 ofof 20

RELACIO´N ADJUNTA A CUMPLIMENTAR:

TO BE ATTACHED:

Identificacio´n de los valores:

Identification of the securities

Listado de titulares:

List of beneficial owners:

Nombre / Pa´s de residencia / Importe de los rendimientos

Name / Country of residence / Amount of income

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ANNEX III

Modelo de certificacion para hacer efectiva la exclusion de retencion 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 representacio´n de la Entidad abajo sen~alada a los efectos

previstos en el arti´culo 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 razo´n 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 esta´ inscrita en el Registro de

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

(pa´s estado, ciudad), con el nu´mero

(country, state, city), under number

4. Que la Entidad que represento esta´ sometida a la supervisio´n 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 trave´s de la Entidad que represento, los titulares inclui´dos en la relacio´n adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en Espan~a 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 disposicio´n del emisor, fotocopia de la tarjeta acreditativa del nu´mero de identificacio´n fiscal de los titulares inclui´dos en la relacio´n.

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

Lo que certifico en a de de 20

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

RELACIO´N ADJUNTA

TO BE ATTACHED

Identificacio´n de los valores:

Identification of the securities

Razo´n social / Domicilio / Nu´mero de identificacio´n fiscal / Nu´mero de valores / Rendimientos brutos / Retencio´n al 15%

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

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Subscription and Sale

ABN AMRO Bank N.V., Deutsche Bank AG London and J.P. Morgan Securities Ltd. as lead managers (the "Lead Managers" and "Managers") have, in a subscription agreement dated

27th October 2004 (the "Subscription Agreement") and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Preferred Securities at their issue price of Euro 1,000 per Preferred Security less a combined management, underwriting and selling commission of 2%. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Preferred Securities. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Preferred Securities.

United States of America

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

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

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

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

United Kingdom

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

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

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

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

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

Spain

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

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

Federal Republic of Germany

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

Belgium

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

General

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

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General Information

1. The creation and issue of the Preferred Securities has been authorised by resolutions of (i) the shareholders' meeting of the Issuer held on 27th December 2001 and (ii) the board of directors of the Issuer held on 21st September 2004.

2. Save as disclosed herein, there are no, nor have there been any, legal, arbitration or administrative proceedings involving the Issuer or any of its subsidiaries (and no such proceedings are pending or threatened) which have or may have had during the twelve months prior to the date of this Offering Circular a significant effect on the financial position of the Issuer or of the Group taken as a whole. Save as disclosed in this Preliminary Offering Circular, there are no litigation or arbitration proceedings which could have, or during the last two financial years had, a material effect on the Issuer's financial position.

3. Save as disclosed herein, since 31st December 2003 (being the last day of the financial period in respect of which the most recent published audited annual accounts of the Issuer were prepared), there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of the Issuer or of the Group taken as a whole.

4. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the specified office of each Paying Agent:

- (a) the estatutos of the Issuer;
- (b) the Public Deed of Issuance of the Preferred Securities;
- (c) the Paying Agency Agreement; and

(d) the Subscription Agreement.

5. The documents referred to in this Preliminary Offering Circular and relating to the Issuer may be inspected at the offices of the Frankfurt Paying Agent.

6. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations thereof) may be obtained free of charge during normal business hours at the specified office of each Paying Agent:

(a) the audited consolidated and unconsolidated financial statements of the Issuer for the years ended 31st December 2001, 2002 and 2003;

(b) the unaudited consolidated financial statements of the Issuer for the six months ended 30th June 2004;

(c) the unaudited consolidated financial statements of the Issuer for the nine months ended 30th September 2004; and

(d) the latest published unaudited interim consolidated and audited year-end consolidated and unconsolidated financial statements of the Issuer.

7. The Issuer publishes quarterly unaudited consolidated interim financial statements.

8. The financial statements of the Issuer and of the Group were audited in 2001 by Arthur Andersen and in 2002 and 2003 by Deloitte & Touche Espan˜a, S.L. With regard to the Issuer, the auditors' reports on the non-consolidated financial statements for the financial years 2001, 2002 and 2003 contained unqualified opinions. With regard to the Group, the auditors' reports on the consolidated financial statements for the financial years 2001, 2002 and 2003 contained unqualified opinions.

9. The Preferred Securities have been accepted for clearance through Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg. The German Securities Code (WKN) is A0DEJU, the ISIN is DE000A0DEJU3, the common code is 020383313 and the fondscod is 15020. The Clearing Systems are expected to follow certain procedures to facilitate the Issuer in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see "Conditions of the Preferred Securities – Form and Status" on page 19). The procedures

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

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

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

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

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REGISTERED OFFICE OF THE ISSUER

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