OFFERING CIRCULAR DATED 28 JUNE 2004

POPULAR

POPULAR CAPITAL, S.A.

(incorporated with limited liability under the laws of Spain)

Euro 250,000,000 Series B
CMS-Linked Non-cumulative Perpetual Guaranteed
Preferred Securities
irrevocably and unconditionally guaranteed to the extent set forth herein by

BANCO POPULAR ESPAÑOL, S.A.

(incorporated with limited liability under the laws of Spain)

Issue price: 100%

Euro 250,000,000 Series B CMS-Linked Non-cumulative Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference each (the "**Preferred Securities**") are being issued by Popular Capital, S.A. (the "**Issuer**") on 30 June 2004 (the "**Closing Date**").

The Preferred Securities will entitle holders to receive (subject to the limitations described under "Description of the Preferred Securities") non-cumulative cash distributions at a rate (the "**Distribution Rate**") of 0.125 per cent. per annum above the EUR CMS 10 (as defined on page 11), accruing from the Closing Date and payable quarterly in arrear, commencing on the Distribution Payment Date falling in September 2004. In relation to any Distribution Period, the Distribution Rate may not exceed 9 per cent. per annum.

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of Banco Popular Español, S.A. (the "**Bank**", "**Banco Popular**" or the "**Guarantor**") and of the Bank of Spain), in whole or in part, on any Distribution Payment Date falling on or after 30 June 2009, at the liquidation preference of Euro 1,000 per Preferred Security plus accrued and unpaid distributions for the then current distribution period to the date fixed for redemption.

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

The payment of distributions and payments upon liquidation or redemption with respect to the Preferred Securities are irrevocably and unconditionally guaranteed by the Bank on a subordinated basis to the extent described under "The Guarantee". The Bank and its consolidated subsidiaries are referred to herein as the "**Group**".

The Preferred Securities are expected, upon issue, to be assigned an Aa3 rating by Moody's Investors Services, Inc. ("**Moody's**"), an A+ rating by Fitch IBCA Limited ("**Fitch IBCA**") and an A rating by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("**Standard & Poor's**"). 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 statement on page 3 regarding the tax treatment in Spain of income in respect of Preferred Securities and to the disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of all holders of Preferred Securities. In particular, income in respect of the Preferred Securities will be subject to withholding tax if holders fail to provide tax residence certificates on time as described herein and neither the Issuer nor the Guarantor will gross up payments in respect of such withholding tax.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with Clearstream Banking Aktiengesellschaft ("**Clearstream Banking Frankfurt**") as depositary. 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**").

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

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.

Lead Managers

ABN AMRO **Dresdner Kleinwort Wasserstein**

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

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

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

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers (as defined in "Subscription and Sale").

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

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

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

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

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

In connection with the issue of the Preferred Securities, Dresdner Bank AG London Branch (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.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15 per cent., in the case of: (a) holders who are resident in Spain; (b) holders who are not resident in Spain but are acting through a permanent establishment in Spain; and (c) holders who are resident in a Tax Haven (as defined in Royal Decree 1080/1991, of 5 July). In addition, holders which fail to comply with applicable formalities for evidencing their tax residence will receive payments subject to Spanish withholding, currently at the rate of 15 per cent. Such formalities extend to the provision of a tax residence certificate to the Issuer or the Bank. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax. (See "Description of the Preferred Securities - Taxation" on page 19 and "Taxation - Spanish Taxation" on page 63.)

According to the provisions of Law 19/2003, of July 4, 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), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities. The precise details and procedure of such disclosure remains to be clarified by way of future legislation. The Bank may, from time to time, request such details from holders of Preferred Securities. In order to comply with the above legal requirements, the Issuer and the Bank will disclose to such Authorities any information provided by holders of Preferred Securities in their tax residence certificates. (See "Taxation — Spanish Taxation — Disclosure of identity of holders" on page 65.) In addition, such legislation may affect the way Preferred Securities are cleared.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

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

(b) the unaudited interim consolidated financial statements of the Guarantor for the three months ended 31 March 2004; and

(c) the audited non-consolidated financial statements of the Issuer for the period commencing 23 July 2003 (being its date of incorporation) and ending 31 December 2003.

SUMMARY

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

Issuer:	Popular Capital, S.A.
Guarantor:	Banco Popular Español, S.A.
Issue size:	Euro 250,000,000.
Issue details:	Euro 250,000,000 Series B CMS-Linked Non-cumulative Perpetual Guaranteed Preferred Securities (*participaciones preferentes*) (the "**Preferred Securities**"), each with a liquidation preference of Euro 1,000. The Preferred Securities are governed by the laws of Spain. The Bank will apply for the Preferred Securities to 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 deposited on a permanent basis with the Bank or with another credit entity of the Group and will be available to absorb losses of the Group once shareholders' equity has been reduced to zero and reserves have been exhausted.
Distributions (retribución):	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 30 March, 30 June, 30 September and 30 December in each year commencing on 30 September 2004. Distributions will be payable quarterly at the Distribution Rate of 0.125 per cent. per annum above EUR CMS 10 (as defined on page 11), subject to a maximum Distribution Rate of 9 per cent. per annum. The Distribution amount payable will be computed on an Actual/Actual basis, without adjustment. See "Description of the Preferred Securities - Distributions".
Limitations on Distributions:	A Distribution shall not be payable to the extent that: (a) the aggregate of such Distribution, together with any other distributions previously paid during the then-current Fiscal Year (as defined on page 10) and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities (as defined on page 11) (including the Preferred Securities) would exceed the Distributable Profits (as defined on page 10) of the immediately preceding Fiscal Year; or

(b) even if Distributable Profits are sufficient, to the extent that, in accordance with 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 its ordinary shares or Parity Securities.

If Distributions are not paid on the Preferred Securities on or prior to a Distribution Payment Date (as defined on page 10) in respect of the relevant Distribution Period, as a consequence of the above Limitations on Distributions, the right of the holders of the Preferred Securities to receive a Distribution from the Issuer or the Bank, as the case may be, in respect of the relevant period will be lost. In such a case, neither the Issuer nor the Bank will be permitted to 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, as to participation in profits, to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on all outstanding Preferred Securities on four succeeding consecutive Distribution Payment Dates.

Guarantee: The payment of Distributions, the Liquidation Distribution (as defined below) and the Redemption Price (as defined on page 11) shall be irrevocably and unconditionally guaranteed by the Guarantor.

Notwithstanding the foregoing, the Bank will not guarantee the payment of any Distribution (including accrued and unpaid Distributions relating to the Redemption Price or the Liquidation Distribution) on the Preferred Securities to the extent that:

(a) such Distribution, together with any 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 the Preferred Securities and any Parity Securities (as defined on page 11) would exceed Distributable Profits of the immediately preceding Fiscal Year; or

(b) even if Distributable Profits are sufficient, to the extent that in accordance with 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 its ordinary shares or Parity Securities issued by it.

In the event that proceedings for the liquidation, dissolution or winding up of the Bank are commenced or there is a reduction in the shareholder's equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the Liquidation Distribution will be subject to the limitations set out under "Liquidation Rights" below.

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

Ranking of the Guarantee: The Bank's obligations under the Guarantee will rank (a) junior to all liabilities of the Bank (including subordinated liabilities); (b) *pari passu* with any Parity Securities issued by the Bank and any obligation assumed by the Bank under any guarantee of any Parity Securities of any Subsidiary; and (c) senior to the Bank's ordinary shares and any other class of share capital expressed to rank junior as to participation in profits to the Bank's obligations under the Guarantee.

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 of the Issuer and (c) senior to the Issuer's ordinary shares and any other class of share capital expressed to rank junior to the Preferred Securities.

The Issuer is not allowed to issue any securities ranking, as to participation in the profits or assets of the Issuer, 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 and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 30 June 2009.

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

Liquidation Rights: Except as described under "Description of Preferred Securities — Distributions" on pages 11 to 14, the Preferred Securities will confer no right to participate in profits or surplus assets of the Issuer.

In the event that proceedings for the liquidation, dissolution or winding up of the Bank are commenced or there is a reduction in the shareholder's equity of the Bank pursuant to Article 169 of the Spanish Corporations Law, the Issuer shall be liquidated by the Bank and the holders of Preferred Securities at the time outstanding will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them. In such an event, the Liquidation Distribution per Preferred Security shall not exceed that which would have been paid from the assets of the Bank had the Preferred Securities been issued by the Bank.

Except as described in the previous paragraph, the Bank will undertake not to cause a liquidation of the Issuer.

Purchases: None of the Issuer, the Bank or any of their respective Subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 30 June 2009. In the event that such purchases are permitted by law before 30 June 2009, they may be made by tender, in the open market or by private agreement as described under "Description of Preferred Securities — Purchases of Preferred Securities" on page 15.

Pre-emptive rights:	The Preferred Securities do not grant their holders preferential subscription 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. Notwithstanding the above, the holders of the Preferred Securities will have the right, under certain circumstances, to participate in the adoption of certain decisions in the Syndicates Global Assembly. For a full description, see "Description of Preferred Securities — Exercise of rights by holders of Preferred Securities" on page 16.
Withholding Tax:	The payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be made free of Spanish withholding taxes, unless such taxes are required by law to be withheld. In such case, neither the Issuer nor the Bank will pay any additional amounts to holders of Preferred Securities. Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15 per cent., in the case of: (a) holders who are resident in Spain; (b) holders who are not resident in Spain but are acting through a permanent establishment in Spain; and (c) holders who are resident in a Tax Haven (as defined in Royal Decree 1080/1991, of 5 July). In addition, holders which fail to comply with applicable formalities for evidencing their tax residence will receive payments subject to Spanish withholding tax currently at the rate of 15 per cent. Such formalities may extend to the provision of a tax residence certificate to the Issuer or the Guarantor. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax. (See "Description of the Preferred Securities - Taxation on page 17" and "Taxation - Spanish Taxation" on page 63.)
Disclosure of identity of holders:	According to the provisions of Law 19/2003, of July 4, 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*), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities. The precise details and procedure of such disclosure remains to be clarified by way of future legislation. The Bank may, from time to time, request such details from holders of Preferred Securities. In order to comply with the above legal requirements, the Issuer and the Bank will disclose to such Authorities any information provided by holders of Preferred Securities in their tax residence certificates.
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 on or about the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg.

Accordingly, for so long as the Preferred Securities are so deposited, holders will have no direct rights against the Issuer or the Bank and such rights will only be exercisable via the relevant clearing system. Definitive Preferred Securities will only be issued directly to holders in exceptional circumstances. (See “Description of the Preferred Securities — Form”.)

Ratings:	The Preferred Securities are expected, on issue, to be assigned an Aa3 rating by Moody’s, an A+ rating by Fitch IBCA and an A rating by Standard & Poor’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Governing Law:	The Preferred Securities and the Guarantee will be governed by the laws of Spain.
Listing:	Application has been made to list the Preferred Securities on Euronext Amsterdam and on the Frankfurt Stock Exchange.

DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities are issued by virtue of (i) the shareholders meetings of the Issuer held on 8 June 2004 and (ii) the Executive Committee of the Bank (*Comisión Ejecutiva*) held on 8 June 2004 (together, the "**Corporate Resolutions**") and in accordance with Law 19/2003, of 4 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*) which amends Law 13/1985, of 25 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*) ("**Ley 19/2003**").

The Preferred Securities are created under a public deed registered with the Mercantile Registry of Madrid on 25 June 2004 and a supplementary public deed to be registered with the Mercantile Registry of Madrid on or about the Closing Date (as defined below) (together, the "**Public Deed of Issuance**").

Paragraphs in italics will not be included in the Public Deed of Issuance of the Preferred Securities and contain a summary of certain procedures of Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg and certain other information applicable to the Preferred Securities. Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg 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;

"**Closing Date**" means 30 June 2004;

"**Distribution Payment Date**" means 30 March, 30 June, 30 September and 30 December in each year commencing on 30 September 2004;

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

"**Distributable Profits**" means in respect of any Fiscal Year of the Bank the lower of the reported net profit of (i) the Group and (ii) the Bank, determined in each case after tax and extraordinary items for such year, as derived from the consolidated audited profit and loss account of the Group or the audited profit and loss account of the Bank, as the case may be, prepared in accordance with generally applicable accounting standards in Spain, Bank of Spain requirements and guidelines in effect at the time of such preparation;

"**Fiscal Year**" means the accounting year of the Issuer or the Bank, as the case may be, as set out in its by-laws;

"**Group**" means the Bank together with its consolidated Subsidiaries;

"**Guarantee**" means the guarantee dated 28 June 2004 and given by the Bank in respect of the Issuer's obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

"**Liquidation Distribution**" means, subject to the limitation set out under paragraphs 2.3 and 2.4, the Liquidation Preference per Preferred Security plus an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution;

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

"**Offering Circular**" means the offering circular dated 28 June 2004 relating to the Preferred Securities;

"**Parity Securities**" means any preferred securities (*participaciones preferentes*) or other securities or instruments equivalent to preferred securities issued by the Issuer (such as the Series A Preferred Securities), or any other Subsidiary, including (but not limited to) the preference shares issued by BPE Preference International Limited which are entitled to the benefit of a guarantee ranking *pari passu* as to participation in profits with the Bank's obligations under Guarantee, or issued by the Bank and ranking *pari passu* as to participation in profits with the Bank's obligations under the Guarantee;

"**Paying Agency Agreement**" means the paying agency agreement dated 28 June 2004 relating to the Preferred Securities;

"**Paying Agents**" means the Principal Paying Agent, J.P. Morgan AG and the other agents named therein and includes any successors thereto appointed from time to time in accordance with Clause 11 (*Changes in Paying 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;

"**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;

"**Series A Preferred Securities**" means the Euro 300,000,000 Series A 6 per cent. Non-cumulative Perpetual Guaranteed preferred Securities issued by the Issuer on 20 October 2003;

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

"**Syndicates Global Assembly**" means the global assembly of all holders of preferred securities of the Issuer;

"**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 The Distribution payable on each Preferred Security will be determined by the Agent Bank on the following basis:

(a) the Agent Bank will determine the 10-year mid-swap rate in Euro (annual, 30/360) versus 6-month (semi-annual, ACT/360) ("**EUR CMS 10**") which appears on Reuters Page "ISDAFIX2", under the heading "EURIBOR BASIS" (or such other pages as may replace that page on that service) as of 12:00

(Frankfurt time) on the second TARGET Settlement Day before the first day of the relevant Distribution Period;

(b) if such rate does not appear on such pages, the Agent Bank will:

(i) 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 12:00 (Frankfurt time) on the date which is two TARGET Settlement Days after the first day of the relevant Distribution Period; and

(ii) 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

(iii) if fewer than three such quotations are provided as requested, the Agent Bank will determine EUR CMS 10 in its sole discretion, acting in good faith and in a commercial and reasonable manner;

and the distribution rate (the "**Distribution Rate**") for such Distribution Period shall be the sum of 0.125 per cent. 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 9 per cent. per annum at any time.

2.3 The Agent Bank will, 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 for such Distribution Period to the Liquidation Preference of such Preferred Security, multiplying the product by the actual number of days in such Distribution Period divided by 365 (or, if any portion of that Distribution Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Distribution Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Distribution Period falling in a non-leap year divided by 365) 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 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. 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 Guarantor, 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 person(s) having physical custody of the relevant Preferred Securities on or after the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the person(s) having physical custody of the relevant Preferred Securities.

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.

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 on or about the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg. Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg 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:*

(a) 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 issued by the Bank, the Issuer or by any other Subsidiary (including the Preferred Securities) would exceed the Distributable Profits 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 its ordinary shares or on Parity Securities issued by it.

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

2.8 If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein), the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Bank pays such Distribution pursuant to the Guarantee.

2.9 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, then the right of the holders of the Preferred Securities to receive a Distribution in respect of the relevant Distribution Period will be lost 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.

2.10 If a Distribution is not paid in full on the Preferred Securities, all distributions paid upon the Preferred Securities and any Parity Securities of the Bank and its Subsidiaries will be paid *pro rata* in relation to the outstanding amounts 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 outstanding amount of Preferred Securities and Parity Securities of the Bank and its Subsidiaries, and on the distributions scheduled to be paid on such securities, each as of the time of such payment.

2.11 If Distributions are not paid on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations set out above, then neither the Issuer nor the Bank will be permitted to 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, as to participation in profits, to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on all outstanding Preferred Securities for four succeeding consecutive Distribution Payment Dates.

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

3. *Liquidation Distribution*

3.1 Subject as provided below, in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the Preferred Securities will confer an entitlement to receive out of the assets of the Issuer available for distribution to holders of Preferred Securities, the Liquidation Distribution. Such entitlement will arise rateably among the Preferred Securities and any Parity Securities issued by the Issuer (subject, if applicable, to the different entitlement of each series of Parity Securities of the Issuer to accrued and unpaid distributions) before any distribution of assets is made to holders of ordinary shares or any other class of shares of the Issuer ranking junior as to participation in profits to the Preferred Securities.

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

3.2 In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or of a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), the board of directors shall convene an Extraordinary General Meeting of the Issuer for the purpose of proposing a resolution to put the Issuer into voluntary liquidation and the holders of Preferred Securities outstanding at the time will be entitled to receive only the Liquidation Distribution in respect of each Preferred Security held by them, subject to the limitation set out below.

Notwithstanding the availability of sufficient assets of the Issuer to pay full liquidating distributions in respect of the Preferred Securities or any Parity Securities, if, at the time such liquidating distributions are to be paid, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporation Law (*Ley de Sociedades Anónimas*), the liquidating distributions in respect of the Preferred Securities and all Parity Securities shall not exceed the liquidating distributions that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to the Guarantee) had the Preferred Securities and all Parity Securities been issued by the Bank and ranked (A) junior to all liabilities of the Bank, (B) *pari passu* with the Parity Securities, if any, of the Bank, and (C) senior to the Bank's ordinary shares and any other class of share capital expressed to rank junior, as to participation in profits, to the Bank's obligations under the Guarantee. The Issuer shall be released from its obligation to pay such liquidating distributions by payment to each person in physical custody of the relevant Preferred Securities against surrender of such Preferred Securities.

All references to liquidating distributions in respect of the Preferred Securities shall be understood to mean the Liquidation Distributions.

3.3 If, upon any Liquidation Distribution described in paragraph 3.1 being made, the amounts payable are limited by reason of paragraph 3.2, such amounts will be payable *pro rata* among holders of Parity Securities in proportion to the amounts that would have been payable but for such limitation (taking account, if applicable, of the different entitlement of each series of Parity Securities to accrued and unpaid distributions). After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in paragraphs 3.1 and 3.2, such Preferred Security will confer no further right or claim to any of the remaining assets of the Issuer.

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

4. *Optional Redemption*

4.1 The Preferred Securities shall not be redeemable prior to 30 June 2009. All, or some only, of the Preferred Securities may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling on or after 30 June 2009, at the Redemption Price per Preferred Security.

In the case of a partial redemption of the Preferred Securities, redemption will be effected on a *pro rata* basis in relation to each holder's holding of Preferred Securities (including those held through Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg) in the proportion that the total number of Preferred Securities to be redeemed shall bear to the total number of Preferred Securities outstanding prior to such redemption (no account being taken of any fraction of a Preferred Security).

4.2 If the Issuer gives a notice of redemption in respect of Preferred Securities, then, by 12:00 (London time) on the relevant redemption date, the Issuer will irrevocably deposit with the Principal Paying Agent immediately available funds sufficient to pay the Redemption Price and will give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to each person in physical custody of the relevant Preferred Security against surrender of the relevant Preferred Security. If notice of redemption shall have been given and funds deposited as required, then, upon the date of such deposit, all rights in respect of the relevant Preferred Securities will cease, except the right to receive the Redemption Price and, subject as provided below, the Preferred Securities so deposited (upon payment of the Redemption Price) will cease to be in issue. Subject to any applicable fiscal or other laws and regulations, payment of the Redemption Price will be made by the Principal Paying Agent in the manner specified in paragraph 2.6 above. If payment of the Redemption Price in respect of any Preferred Securities is improperly withheld or refused by the Issuer (or by the Bank pursuant to the Guarantee) distributions on such Preferred Securities will continue to accrue from the redemption date to the date of payment of the Redemption Price.

5. *Purchases of Preferred Securities*

In order to comply with certain Spanish capital adequacy regulations in force as at 28 June 2004, the Issuer, the Bank or any Subsidiary shall not at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 30 June 2009. Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before 30 June 2009, then, subject to the applicable law then in force, the Issuer, the Bank or any Subsidiary may at any time and from time to time purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

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

6. *Exercise of rights by holders of Preferred Securities*

6.1 *The Syndicates Global Assembly*

6.1.1 The Syndicates Global Assembly, which will be formed by all holders of preferred securities of the Issuer, will be called by the directors of the Issuer or, as long as the Series A Preferred Securities remain outstanding, by the Trustee appointed as Trustee of the Series A Preferred Securities (the "**General Trustee**").

6.1.2 The directors of the Issuer or, as the case may be, the General Trustee, will call the Syndicates Global Assembly, at its own discretion or at the request of the holders of preferred securities representing at least one twentieth of the aggregate liquidation preference of the preferred securities outstanding, in any of the circumstances set out below:

(i) Failure to pay Distributions for four consecutive Distribution Periods;

(ii) Liquidation, Dissolution or winding-up of the Issuer, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders' equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*).

(iii) Further issuance of preferred securities, when the Issuer has not paid the most recent distribution due under its outstanding preferred securities; and,

(iv) Amendment to the terms and conditions of the Preferred Securities (except the amendment to the terms and conditions of Serie A Preferred Secutiries, which will be governed by the Regulations of the Syndicate of Holders of the Series A Preferred Securities of Popular Capital, S.A.).

6.1.3 The convening of the Syndicates Global Assembly will be carried out in accordance with the rules governing the calling and holding of holders of each Series of Preferred Securities. As regards the Series A Preferred Securities such rules will be the rules contained in the regulations of the syndicate constituted by the holders of the Series A Preferred Securities.

The holders of the Series B 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 (which is expected to be the *Börsen-Zeitung*) and in the *Federal Gazette,* (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 (*Officiele Prijscourant*) of Euronext Amsterdam and in a Dutch daily newspaper with a national or wide circulation, or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (iii) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg (in each case not less than 10 days in advance).

6.1.4 In the Syndicates Global Assembly all resolutions shall be made by an absolute majority of the liquidation preference of the preferred securities present or represented, and will be binding on all of the holders of such preferred securities, including those not in attendance and dissenters. The quorum shall be the holders of preferred securities holding two-thirds of the liquidation preference of all preferred securities issued and outstanding. If the attendance of two-thirds of the holders of preferred securities issued and outstanding cannot be obtained, the Syndicates Global Assembly may be re-convened one month after the date of the first meeting (so long as the Series A Preferred Securities are outstanding) or (if the Series A Preferred Securities have been redeemed) one day after the first meeting and the resolutions at such re-convened meeting may be adopted by absolute majority of the liquidation preference of the attendees. These resolutions shall be binding on all holders of preferred securities, in the same manner as referred to above.

6.2 *Voting Rights*

6.2.1 The holders of the Preferred Securities will have no voting rights. Notwithstanding the foregoing, the holders of the Preferred Securities will, in the circumstances set out in 6.2.2, 6.2.3 or 6.2.4 below, have the right to participate in the adoption by the Issuer of certain decisions in the Syndicates Global Assembly. The rights referred to in the above paragraph will be enjoyed not only by the holders of Preferred Securities, but shall be exercised together with all other holders of preferred securities of the Issuer ranking *pari passu* with the Preferred Securities.

6.2.2 *Failure to pay Distributions for four consecutive Distribution Periods*

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

(b) Immediately following a resolution for the appointment or the removal of additional members to the board of directors, the General Trustee or, should the Series A Preferred Securities have been redeemed, the person appointed for such purposes by the Syndicates General Assembly shall give notice of such appointment or removal to:

(1) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and

(2) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.

The shareholders of the Issuer have undertaken to vote in favour of the appointment or removal of the directors so named by the Syndicates Global Assembly and to take all necessary measures to approve such appointment or removal.

(c) The foregoing shall apply, in respect of the Preferred Securities, provided that, where the Issuer has failed to fulfill its obligation to make Distributions in respect of the Preferred Securities, the Guarantor has not discharged such obligations pursuant to the Guarantee.

(d) Any member of the board of directors named pursuant to the foregoing shall vacate his position if, subsequent to the circumstances giving rise to his appointment, the Issuer or the Bank makes Distributions, in respect of the Preferred Securities and any other preferred securities in circulation, in respect of four succeeding consecutive Distribution Periods.

(e) Both the appointment and the dismissal of directors shall be announced on behalf of the Issuer in accordance with paragraph 8 below.

6.2.3 *Liquidation, Dissolution or winding-up of the Issuer*

(a) With respect to the carrying out by the board of directors of the Issuer or the Bank of any act providing for the liquidation, dissolution or winding-up of the Issuer, the intention to adopt such acts will be notified immediately to the General Trustee, as long as the Series A Preferred Securities remain outstanding and to all holders of preferred securities in accordance with paragraph 8 below, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders' equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*).

(b) Once the notice referred to in paragraph (a) above has been given and as long as the Series A Preferred Securities remain outstanding has been received by the General Trustee, the Syndicates Global Assembly shall be called in accordance with the rules explained above. The agenda of the Syndicates Global Assembly shall contain a resolution to vote for or against the dissolution and winding-up of the Issuer.

(c) The General Trustee or, should the Series A Preferred Securities have been redeemed, the person appointed for such purposes by the Syndicates General Assembly shall give notice of the result of the aforementioned vote to the shareholders of the Issuer.

(d) The board of directors of the Issuer are not permitted to call a general meeting of shareholders, nor may the shareholders of the Issuer hold a universal meeting of shareholders, until the Syndicates Global Assembly has resolved to vote for or against the dissolution or winding-up of the Issuer.

(e) The shareholders of the Issuer have undertaken to vote, in the corresponding general meeting of shareholders, in conformity with the result of the vote of the Syndicates Global Assembly.

6.2.4 *Further issuance of preferred securities*

The issuance of further Preferred Securities or of other preferred securities by the Issuer will not require the approval of the Syndicates Global Assembly unless the Issuer has not paid the most recent distribution due under its outstanding preferred securities.

The General Trustee or, should the Series A Preferred Securities have been redeemed, the person appointed for such purposes by the Syndicates General Assembly, shall give notice of the decision so adopted to the shareholders of the Issuer. The shareholders of the Issuer have undertaken to vote in the corresponding general meeting of shareholders in conformity with the result of the vote of the Syndicates Global Assembly.

6.3 *Amendment to the terms and conditions of the Preferred Securities*

Any amendment to the terms and conditions of the Preferred Securities (including any amendment to the Guarantee) shall be approved by the holders of the Preferred Securities. Such amendments will be approved either in writing by an absolute majority of at least two thirds of the outstanding

Preferred Securities or by a resolution of the holder of the Preferred Securities adopted in the Syndicates Global Assembly.

Such resolution shall be made by an absolute majority 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.

If two thirds 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.

6.4 *Pre-emptive Rights and other provisions*

6.4.1 The Preferred Securities do not grant their holders preferential subscription rights in respect of any possible future issues of preferred securities.

6.4.2 Neither the Issuer nor any other Subsidiary nor the Bank may issue, or guarantee the issue of, any preferred securities or securities or other instruments equivalent to preferred securities ranking, either directly or via a guarantee, as to participation in profits, senior to the Preferred Securities, unless the Guarantee is amended so as to rank *pari passu* with any such issue of senior securities.

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

6.4.4 Notwithstanding that the Preferred Securities confer an entitlement to vote under any of the circumstances described above, neither the Bank nor any Subsidiary of the Bank, to the extent that it is a holder of preferred securities of the Issuer, shall be so entitled to vote.

7. *Taxation*

All payments made by the Issuer and/or the Bank, as the case may be, in respect of the Preferred Securities shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of Spain, or any political subdivision of, or any authority in or of Spain having power to tax, unless the withholding or deduction of the Taxes is required by law. In the event that withholding is required, the Issuer or the Bank, as the case may be, will make the withholding in accordance with applicable provisions, and will not pay any additional amounts to holders in respect of any Preferred Securities on account of such Taxes.

In accordance with Law 19/2003, payments under the Preferred Securities to a non-Spanish-resident holder (other than a holder acting through a permanent establishment in Spain, or resident for tax purposes in a tax haven territory, as defined in Royal Decree 1080/1991, of 5 July) shall be made without withholding or deduction provided that such holder complies with the formalities described in the Taxation section of the Offering Circular for evidencing its tax residence. These formalities currently extend to providing to the Issuer or the Bank, prior to any payment under the Preferred Securities, the relevant tax residence certificate issued by the tax authorities of such holder's state of residence. Such certificates are valid in Spain for one year from their date of issuance. Payments under the Preferred Securities to holders which do not comply with these formalities will be subject to Spanish withholding tax, currently at the rate of 15 per cent. Payments under the Preferred Securities to: (a) holders which are resident for tax purposes in a tax haven territory, as defined; and (b) holders operating through a permanent establishment in Spain, will be subject to Spanish withholding tax, currently at the rate of 15 per cent.

See "Taxation – Spanish Taxation" for a fuller description of certain tax considerations (particularly in relation to holder which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuer and the Bank relating to the identity of holders of Preferred Securities.

8. *Notices*

Notices, including notice of any redemption of the Preferred Securities, will be given by the Issuer (i) so long as any Preferred Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (which is expected to be the *Börsen-Zeitung*) and in the *Federal Gazette*, (ii) so long as any Preferred Security is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam and a Dutch daily newspaper with a national or wide circulation, or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe, and (iii) by mail to 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 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*

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. 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 and failure to comply with the terms and conditions of the Preferred Securities by either the Issuer or the Bank) will definitive Preferred Securities be issued directly to such accountholders.

10. *Use of proceeds*

The net proceeds of the Preferred Securities are Euro 245,000,000 and will be deposited in their entirety on a permanent basis with the Bank or with another credit entity (*entitad de crédito*) of the Group and will be used for the Group's general corporate purposes.

The funds raised from the issue of the Preferred Securities and so deposited will be available to absorb losses of the Bank if and when they occur once its shareholder's equity is reduced to zero and its reserves have been exhausted.

11. *Agents*

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

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

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

12. ***Prescription***

To the extent that article 950 of the Spanish Commercial Code (*Código de Comercio*) applies to the Preferred Securities, claims relating to the Preferred Securities will become void unless such claims are duly made within 3 years of the relevant payment date.

13. ***Governing law and Jurisdiction***

13.1 *Governing Law*

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

13.2 *Jurisdiction*

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

THE GUARANTEE

THIS GUARANTEE (the "Guarantee"), dated 28 June 2004, is executed and delivered by Banco Popular Español, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the "**Bank**" or the "**Guarantor**") for the benefit of the Holders (as defined below).

WHEREAS, the Bank wishes to procure the issue by Popular Capital, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the "**Issuer**") of the Euro 250,000,000 Series B CMS – Linked Non-cumulative Perpetual Guaranteed Preferred Securities (the "**Preferred Securities**") and the Bank wishes to issue this Guarantee for the benefit of the Holders, as provided therein.

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

1. *Definitions*

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

"**Bank Shares**" means any ordinary shares of the Bank;

"**Distributable Profits**" means in respect of any Fiscal Year of the Bank the lower of the reported net profit of (i) the Group (as defined below) and (ii) the Bank, determined in each case after tax and extraordinary items for such year, as derived from the consolidated audited profit and loss account of the Group or the audited profit and loss account of the Bank, as the case may be, prepared in accordance with generally applicable accounting standards in Spain, Bank of Spain requirements and guidelines in effect at the time of such preparation;

"**Distributions**" means the amount of distributions (whether or not declared) payable per Preferred Security in accordance with the terms thereof;

"**Distribution Payment Date**" means 30 March, 30 June, 30 September and 30 December in each year commencing on 30 September 2004;

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

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

"**Guaranteed Payments**" means (without duplication) (i) any accrued but unpaid Distribution payable on the Preferred Securities for the most recent Distribution Period; (ii) the Redemption Price payable with respect to any Preferred Securities due to be redeemed by the Issuer; (iii) the Liquidation Distributions due on the Liquidation Date; and (iv) any other sums (if any) due but unpaid by the Issuer in respect of the Preferred Securities;

"**Group**" means the Bank and its consolidated Subsidiaries;

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

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

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

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

“**Offering Circular**” means the offering circular dated 28 June 2004 relating to the Preferred Securities;

“**Parity Securities**” means any preferred securities (*participaciones preferentes*) or securities or other instruments equivalent to preferred securities issued by the Issuer (such as the Series A Preferred Securities), or any other Subsidiary, including (but not limited to) the preference shares issued by BPE Preference International Limited which are entitled to the benefits of a guarantee ranking *pari passu* as to participation in profits with the Bank’s obligations under this Guarantee, or issued by the Bank and ranking *pari passu* as to participation in profits with the Bank’s obligations under this Guarantee;

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

“**Series A Preferred Securities**” means the Euro 300,000,000 Series A 6 per cent. Non-cumulative Perpetual Guaranteed preferred Securities issued by the Issuer on 20 October 2003;

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

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

“**Syndicate**” means the syndicate of holders of the Preferred Securities; and

“**Syndicates Global Assembly**” means the global assembly of all syndicates of holders of preferred securities of the Issuer.

2. *Guarantee*

2.1 *Guarantee*

Subject to the limitations contained in the following paragraphs of this Clause 2, the Bank irrevocably and unconditionally agrees to pay in full to the Holders, the Guaranteed Payments (to the extent not paid by the Issuer), as and when due upon receipt of a notice by any Holder demanding payment, regardless of any defense, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is abstract, autonomous and independent (*abstracta, autónoma e independiente*) of the Guaranteed Payments.

2.2 *Limitations on the Guaranteed Payments in relation to Distributions*

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

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

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

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

Notwithstanding Clause 2.1, if, at the time that any liquidating distributions are to be paid by the Bank in respect of the Preferred Securities or any other Parity Securities, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporation Law (*Ley de Sociedades Anónimas*) the liquidating distribution with respect to the Preferred Securities, of all Parity Securities issued by the Guarantor and of any Parity Securities issued by any Subsidiary shall not exceed the liquidating distribution that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to this Guarantee) had the Preferred Securities and all Parity Securities been issued by the Bank and ranked (A) junior to all liabilities of the Bank, (B) *pari passu* with Parity Securities issued by the Bank, if any, and (C) senior to the Bank Shares and any other class of share capital expressed to rank junior as to participation in profits with the Bank's obligations under this Guarantee.

All references to the liquidating distribution in respect of Preferred Securities shall be understood to be made to the Liquidation Distribution.

2.4 *Pro rata Payments*

In the event that the amounts described in Clause 2.1 cannot be paid by reason of any limitation referred to in Clause 2.2 or 2.3, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitations. The determination of any such limitation of the Bank's obligations under this Guarantee as set forth will be made on the relevant Distribution Payment Date, redemption date or Liquidation Date, as the case may be.

2.5 *Ranking of the Guarantee*

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

2.6 *Acceptance of the Guarantee*

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

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

3.1 *Waiver*

The Guarantor waives any right or benefit to which it may be entitled under Spanish law with regard to objecting to make any payment by virtue of the Guarantee.

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

3.2 *Obligations and Commitments of the Guarantor*

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

3.2.1 the waiver by the Issuer, either by the application of a legal provision or for any other reason, to fulfil any commitment, term or condition, whether implicit or explicit, in relation to the Preferred Securities; or

3.2.2 the extension of the Distribution Payment Date, the Liquidation Date or the date for payment of the Redemption Price with regard to the Preferred Securities or the extension granted for the fulfilment of any other obligation related to the Preferred Securities; or

3.2.3 any breach, omission or delay by the Holders in exercising the rights granted by the Preferred Securities; or

3.2.4 the liquidation, dissolution, or sale of any asset given as a guarantee, temporary receivership, bankruptcy, receivership proceedings or renegotiation of debt affecting the Issuer; or

3.2.5 any defect in or invalidity of the Preferred Securities; or

3.2.6 transactions involving any obligation guaranteed by this Guarantee or undertaken by virtue of this Guarantee.

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

3.3 *Subrogation*

The Bank shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Bank under this Guarantee. The Bank shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amount shall be paid to the Bank in violation of the preceding sentence, the Bank agrees to pay over such amount to the Holders.

3.4 *Deposit of the Guarantee*

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

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

4.1 *No further issues*

The Bank will not issue any preferred securities or other instruments equivalent to preferred securities, ranking senior to its obligations under this Guarantee nor give any guarantee in respect of any preferred securities or other instruments equivalent to preferred securities, issued by any Subsidiary, if such guarantee would rank senior to this Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Profits) unless, (a) in each case, this Guarantee is amended so that it ranks *pari passu* with, and contains substantially equivalent rights of priority as to payment of Distributable Profits as, any such other preferred securities or securities or other instruments equivalent to preferred securities or other such guarantee and (b) the Distribution payable on the Preferred Securities on the most recent Distribution Payment Date was paid in full by the Issuer or by the Bank pursuant to the Guarantee on such Distribution Payment Date.

4.2 *Non-Payments*

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

4.3 *Ownership*

The Guarantor undertakes to hold (directly or indirectly) 100 per cent. of the ordinary shares of the Issuer so long as any Preferred Securities remain outstanding.

4.4 *Voting*

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

4.4.1 to vote at the corresponding general meeting of shareholders of the Issuer in favour of the appointment or removal of the directors named by the Syndicates Global Assembly and to take all necessary measures in such regard;

4.4.2 to vote at the corresponding general meeting of shareholders of the Issuer in conformity with the result of the vote of the Syndicates Global Assembly with respect to the dissolution and winding-up of the Issuer; and

4.4.3 to vote at the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Syndicates Global Assembly with respect the issuance of further Preferred Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

5. *Termination of the Guarantee*

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

6. *General*

6.1 *Successions and Assigns*

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Bank. The Bank shall not transfer its obligations hereunder without the prior approval of the Syndicate, provided, however, that the foregoing shall not preclude the Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to, a banking organisation or any other entity permitted by applicable laws without obtaining any approval of such Holders. The Bank shall, in relation to any such merger, consolidation or transfer, publish a supplement to the Offering Circular.

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

6.2 *No Transfer*

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

6.3 *Amendments*

Except for those changes (a) required by Clause 4.1 hereof, (b) which do not adversely affect the rights of Holders or, (c) necessary or desirable to give effect to any one or more transactions referred to in the proviso to Clause 6.1 (in any of which cases no agreements will be required), this Guarantee shall be changed only by agreement in writing signed by the Bank with the prior approval of the Holders in accordance with paragraph 6.1.5 of the Description of the Preferred Securities.

6.4 *Notices*

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

Banco Popular Español, S.A.
José Ortega y Gasset, 29
28006 Madrid, Spain
Facsimile: +34 91 435 89 22
Attention: Treasury and Capital Markets Division

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

6.4.2 Any notice, request or other communication required to be given by the Bank under this Guarantee will be given by it (i) so long as any Preferred

Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (which is expected to be the *Börsen-Zeitung*) and in the *Federal Gazette*, (ii) so long as any Preferred Security is listed on the stock market of Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam in a Dutch daily newspaper with a national or wide circulation, or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (iii) by mail to 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.

6.5 *Annual Reports*

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

7. *Law and Jurisdiction*

7.1 *Law*

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

7.2 *Jurisdiction*

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

THIS GUARANTEE is executed as of the date first above written on behalf of the Bank.

BANCO POPULAR ESPAÑOL, S.A.

By:

POPULAR CAPITAL, S.A.

The Issuer

The Issuer was incorporated on 23 July 2003 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at calle José Ortega y Gasset 29, 28006 Madrid. The Issuer is registered in Volume 18,873, Book 0, Folio 47, Section 8, Sheet M-329290, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The authorised share capital of the Issuer is Euro 90,000 divided into 90 ordinary shares, each with a par value of Euro 1,000. The subscribed and fully paid up share capital is Euro 90,000.

The objects of the Issuer are to issue preferred securities pursuant to Ley 19/2003 which are to be traded on national and international markets, as specified in Article 2 of the Issuer's By-Laws (*estatutos*).

The directors of the Issuer are Mr. Ernesto Rey Rey, Ms. Cristina Bajo Martínez and Mr. Javier Moreno Navarro. Ms. Cristina Bajo Martínez also works as legal adviser to the Bank. Mr. Ernesto Rey Rey works as the Treasurer of the Bank and Mr. Javier Moreno Navarro works as a financial officer of the Bank.

The business address of Ms. Cristina Bajo Martínez, Mr. Ernesto Rey Rey and Mr. Javier Moreno Navarro is José Ortega y Gasset, 29, 28006 Madrid.

The auditors of Popular Capital, S.A. are PricewaterhouseCoopers Auditores, S.L.

Activities of the Issuer

The Issuer conducted a Euro 300,000,000 Series A 6 per cent. non-cumulative Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference last year. The Preferred Securities may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 20 October 2008.

The proceeds of the issue of the Preferred Securities, after paying any issue expenses, are deposited on a permanent basis with the Bank. Such proceeds are used to absorb any potential losses of the Group once shareholders' equity has been reduced to zero and reserves have been exhausted.

The Preferred Securities Series A entitle holders to receive non-cumulative cash distributions. Distributions on the Preferred Securities accrue from the Closing Date (20 October 2003) and are payable out of the Issuer's own legally available resources and distributable items. Such Distributions are made in arrear on 20 January, 20 April, 20 July and 20 October in each year, commencing on 20 January 2004.

The Distribution Rate is fixed at 6 per cent. per annum of the Liquidation Preference of Euro 1,000 per Preferred Security. The Distribution Amount payable in respect of any Distribution Period is computed on the basis of the actual number of days elapsed in a Distribution Period ending in a non-leap year divided by 365 or, in the case of any days elapsed in a Distribution Period ending in a leap year, the number of those days divided by 366.

Balance Sheet and Income Statements

The balance sheet of Popular Capital, S.A. of 31 December 2003 is summarized below:

	(in Euro)
Assets	
Banks	63,151.80
Temporary financial investments	3,632,893.74
Accrual Expenses Account	5,984,424.68
Intergroup loans	294,000,000.00
Total	303,680,470.22
Liabilities and Capital	
Short-term creditors	3,592,071.11
Tax Authorities	1,907.18
Other debts	3,590,193.93
Bearer bond issues 300,000,000.00	
Stockholders' equity	88,399.11
Share capital	90,000.00
P&L	(1,600.89)
Total	303,680,470.22
Profit and Loss account	
Debit balance	
Total expenses	3,634,494.63
Permanent assets depreciation provision	1,883.34
Other operating expenses (*External services and Taxes*)	2,502.88
Financial charges	3,630,108.41
Financial income	2,785.33
Credit balance	
Total income	3,632,893.74
Operating losses	4,386.22
Other interests income from Companies Group	3,632,893.74
Ordinary activities losses	1,600.89
Losses before taxes	1,600.89
Result (losses)	1,600.89

Some comments and details about the principal accounts are shown below:

Accrual Expenses Account

This item reflects the placement and issuing expenses of the 300,000 Series A Preferred Securities, including intermediary fees, indenture and registration expenses, auditors fees, and others, for a total amount of €6,024,369.16, corresponding to 2003 €39,944.48. The balance, €5,984,424.68, will be imputed proportionately to the next 29 years.

Intergroup loans

The amount of €294,000,000 refers to a subordinated deposit maintained in Banco Popular with an annual interest rate of 6.195%. It has identical terms and conditions as those of Series A Preferred Securities.

Temporary financial investments

This includes the accrued interest of subordinated deposit: (€3,632,707.38) and the current account (€186.36) in favor of Popular Capital not yet received.

Stockholders' equity

The common stock account amounts to €90,000 and is represented by 90 nominative shares of €1,000 nominal value and completely paid-in. The only two shareholders are: Banco Popular Español, S.A. (81 ordinary shares) and Gestora Popular, S.A., a subsidiary of Banco Popular Espanol, S.A. (9 ordinary shares).

The Issuer does not own any of its own shares.

During 2003, the Issuer has not traded on either its own shares or its parent company shares.

There is no restriction to free transferability of the shares. The shares are not publicly traded.

Bearer bond issues

Series A Preferred Securities

On 20 October 2003, the Issuer issued Euro 300,000,000 Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference each, under Spanish Law 19/2003. The interest rate is 6% per annum payable quarterly. These securities are guaranteed by Banco Popular and were paid-in by outside parties. The Securities have no redemption date, but they may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, on any Distribution Payment Date falling on or after 20 October 2008.

Short-term creditors

The relevant item (other debts) reflects the provision for the amount of accrued interest for the first quarter coupon of the Series A Preferred Securities, payable on 20 January 2004, since issue date, 20 October 2003, until 31 December 2003. This first coupon amounts €3,590,163.93.

Revenues and expenses

The revenues and expenses of the Issuer for the period 20 July 2003 to 31 December 2003 are as follows:

	Revenues	*Expenses*
	(in Euro)	
Current account interests	186.36	
Subordinated deposit interests	3,632,707.38	
Constitution expenses depreciation		1,883.34
External services		2,180.21
Taxes		322.67
Interests from Preferred Securities Series A		3,590,163.93
Issue expenses allocation		39,944.48
Adverse Result at the close of 2003	1,600.89	
Totals	3,634,494.63	3,634,494.63

BANCO POPULAR ESPAÑOL, S.A.

Background

The Bank is a *sociedad anónima* (limited liability corporation) organised and existing under the laws of the Kingdom of Spain. The Bank was founded in July 1926 as Banco Popular de los Previsores del Porvenir and its current name was adopted in February 1947. The Bank is registered at Tomo 174, Folio 44, Page 5458, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The objects of the Bank are to provide the widest possible services to its clients in all business and banking matters (as specified in Article 4 of the Bank's *estatutos*).

The Bank and its consolidated subsidiaries (the "**Group**" or "**Popular**") is Spain's fifth largest banking group (including savings banks) ranked by total assets. At 31 December 2003 the Group had total assets of Euro 52,611,151,000, customer funds of Euro 37,464,039,000 and shareholders funds of Euro 3,258,342,000 (after distribution of year's income). The Group's net income for the year ended 31 December 2003 amounted to Euro 777,797,000.

Popular's business is concentrated in the traditional domestic retail banking business of savings and loans. Through its specialised subsidiaries it also offers factoring, investment management, mutual and pension funds, stock broking, life assurance and mortgage lending.

The Bank's shares are listed on all the Spanish stock exchanges and on the Paris Stock Exchange. At 31 December 2003, Allianz Ras held 9.08 per cent. of the Bank's share capital. The Board of Directors control approximately 34 per cent., institutional investors approximately 49 per cent. and individual shareholders approximately 16 per cent. of the Bank's share capital.

The Group

At 2003 year-end the Group included ten other banks which were either wholly or majority-owned and managed:

- Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia, which operate in the regions indicated by their respective names.
- Banco Nacional de Crédito a commercial bank operating in Portugal.
- Banco Popular Hipotecario, specialising in property financing.
- Bancopopular-e, specialising in Internet banking.
- Popular Banca Privada, which provides private banking services in Spain.
- Banco Popular France, a commercial bank operating in France.

The Group also includes seventeen other operating companies handling substantially all the range of financial services: factoring, mutual and pension fund management, securities intermediation, portfolio and asset management, life insurance, insurance broking, venture capital investment and equipment renting. Some of these companies are joint ventures of Banco Popular and leading partner entities. The Group also includes other minor companies and several instrumental companies to support its activities.

By virtue of Banco Popular's majority in capital stock and voting rights or the agreements with its partners, the Group operates — to all effects and purposes — as a single whole with unified direction and management and common technical and support services. The banking and other subsidiaries act as geographical or functional units forming part of the Banco Popular Group organisation, the only special differentiating features being those arising from the differing legal status of each.

The following show the key administrative details of the companies comprising the Group and their percentages of ownership in relation to the Group:

Banco Popular Group. Companies comprising the consolidated group, the nonconsolidable group and the multigroup companies at 31 December 2003

Registered offices, line of business and consolidation method

	Address		Line of business	Consolidation method
Deposit-taking entities:				
Banco Popular Español	Velázquez, 34	Madrid	Banking	Global integration
Banco de Andalucía	Fernández y González, 4	Seville	Banking	Global integration
Banco de Castilla	Pl. de los Bandos, 10	Salamanca	Banking	Global integration
Banco de Crédito Balear	Pl. de España, 1	Mallorca	Banking	Global integration
Banco de Galicia	Policarpo Sanz, 23	Vigo	Banking	Global integration
Banco de Vasconia	Pl. del Castillo, 39	Pamplona	Banking	Global integration
Banco Nacional de Crédito	Rua do Comércio, 85	Lisbon	Banking	Global integration
Bancopopular-e	Velázquez, 34	Madrid	Banking	Global integration
Banco Popular France	8, Rue D'Anjou	Paris	Banking	Global integration
Banco Popular Hipotecario	Velázquez, 64-66	Madrid	Banking	Global integration
BNC International Cayman	Carcinal Avenue	Grand Cayman	Banking	Global integration
Popular Banca Privada	J.Ignacio Luca de Tena, 13	Madrid	Banking	Global integration
Finance companies:				
HellerFactoring Española	María de Molina, 54	Madrid	Factoring	Proportional integration
Heller Factoring Portuguesa	Rua Castilho, 39	Lisbon	Factoring	Global integration
Portfolio and service companies:				
BNC Gerfundos	Rua do Comércio, 85	Lisbon	Mutual fund management	Global integration
BNC Predifundos	Rua do Comércio, 85	Lisbon	Mutual fund management	Global integration
Europensiones	Maria de Molina, 34	Madrid	Pension plan management	Global integration
Gestión Premier Fund	Boulevard Royal, 261	Luxembourg	Mutual fund management	Global integration
Gestora Europea de Inversiones	Velázquez, 64-66	Madrid	Portfolio management	Global integration
Gestora Popular	J.Ortega y Gasset, 29	Madrid	Share portfolio & ownership	Global integration
Inca	Avenida Arriaga, 73	Funchal	Share portfolio & ownership	Global integration
Popular Bolsa	Velázquez, 64-66	Madrid	Stockbroking	Global integration
Popular de Participaciones Financieras	Velázquez, 64-66	Madrid	Venture capital company	Global integration
Popular Gestión Privada	J.Ignacio Luca de Tena, 13	Madrid	Mutual fund management	Global integration
Popular Previsión Privada	J.Ignacio Luca de Tena, 13	Madrid	Pension plan management	Global integration
Sogeval	Velázquez, 64-66	Madrid	Mutual fund management	Global integration
Instrumental companies:				
Aliseda	J.Ortega y Gasset, 29	Madrid	Asset ownership	Global integration
Aula 2000	J.Ortega y Gasset, 29	Madrid	Services	Global integration
BNC Gestao de Imóveis	Rua do Comércio, 85	Lisbon	Real estate services	Global integration
BPE Finance International	Ugland House	GeorgeTown	Finance	Global integration
BPECapital International	Ugland House	GeorgeTown	Finance	Global integration
BPE Preference International	Ugland House	GeorgeTown	Finance	Global integration
Finespa	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Iberagentes Servicios	J.Ignacio Luca de Tena, 13	Madrid	Services	Global integration
Inmobiliaria Viagracia	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Inmobiliaria Vivesa	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Intermediación y Servicios Tecnológicos	J.Ignacio Luca de Tena, 13	Madrid	Services	Global integration
Popular Español Asia Trade	13/F Tim Mei Avenue	Hong Kong	Finance	Global integration
Popular Capital	Velázquez, 34	Madrid	Finance	Global integration
Popular Capital Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Popular Commercial Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Popular Finance Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Urbanizadora Española	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Nonconsolidable group				
Consulteam-Consultores de Gestao	Rua Tomás Ribeiro, 50	Lisbon	Management Consultants	Equitymethod companies
Desarrollo Aplicaciones Especiales	Capitán Haya, 38	Madrid	Data processing	Equitymethod companies
Eurocorredores	J.Ortega y Gasset, 29	Madrid	Insurance broking	Equity method companies
Eurovida	María de Molina, 34	Madrid	Insurance	Equitymethod companies
Inversiones Inmobiliarias Alprosa	J.Ortega y Gasset, 29	Madrid	Property	Equity method companies
Panorama Ibicenca	Santa Eulalia del Rio	Ibiza	Asset ownership	Equity method companies
Popular de Comunicaciones	J.Ortega y Gasset, 29	Madrid	Communications services	Equity method companies
Popular de Informática	J.Ortega y Gasset, 29	Madrid	IT services	Equity method companies
Popular de Renting	Velázquez, 64-66	Madrid	Renting	Equity method companies
Proassurances	8, Rue D'Anjou	Paris	Insurance broking	Equity method companies
Promoción Social de Viviendas	J.Ortega y Gasset, 29	Madrid	Asset ownership	Equity method companies
Sicomi	J.Ortega y Gasset, 29	Madrid	Dormant	Equity method companies
Nonconsolidable multigroup companies				
Dieznet Comercio Electrónico	J.Ortega y Gasset, 29	Madrid	E-commerce	Equity method companies
Eurovida BNC	Avenida de República, 57	Lisbon	Insurance	Equity method companies

Banco Popular Group. Group and multigroup companies at 31 December 2003

Percentage of direct and indirect ownership and book value of holdings

	% of ownership			Book value of holding (€ thousand)
	Direct	Indirect	Total	
Deposit-taking entities:				
Banco de Andalucía	80.07	0.04	80.11	166,651
Banco de Castilla	95.16	0.02	95.18	71,119
Banco de Crédito Balear	64.47	0.02	64.49	30,521
Banco de Galicia	92.06	0.03	92.09	55,617
Banco de Vasconia	96.82	0.02	96.84	32,495
Banco Nacional de Crédito	100.00	—	100.00	580,179
Bancopopular-e	100.00	—	100.00	24,908
Banco Popular France	100.00	—	100.00	9,538
Banco Popular Hipotecario	99.94	0.06	100.00	106,476
BNC International Caymán	—	100.00	100.00	25,396
Popular Banca Privada	52.50	7.50	60.00	79,341
Finance companies:				
Heller Factoring Española	50.00	—	50.00	4,815
Heller Factoring Portuguesa	49.76	—	49.76	19,469
Portfolio and service companies:				
BNC Gerfundos	—	100.00	100.00	300
BNC Predifundos	—	100.00	100.00	375
Europensiones	51.00	—	51.00	7,968
Gestión Premier Fund	—	60.00	60.00	77
Gestora Europea de Inversiones	99.90	0.10	100.00	655
Gestora Popular	35.00	65.00	100.00	12,363
Inca	—	100.00	100.00	14,025
Popular Bolsa	100.00	—	100.00	6,100
Popular de Participaciones Financieras	100.00	—	100.00	36,000
Popular Gestión Privada	—	60.00	60.00	1,803
Popular Previsión Privada	—	60.00	60.00	522
Sogeval	99.99	0.01	100.00	3,009
Instrumental companies:				
Aliseda	100.00	—	100.00	2,592
Aula 2000	99.00	1.00	100.00	6
BNC Gestao de Imóveis	—	100.00	100.00	249
BPE Finance International	100.00	—	100.00	46
BPE Capital International	100.00	—	100.00	46
BPE Preference International	100.00	—	100.00	52
Finespa	4.19	95.81	100.00	8,058
Iberagentes Servicios	—	60.00	60.00	36
Inmobiliaria Viagracia	99.99	0.01	100.00	20,635
Inmobiliaria Vivesa	99.99	0.01	100.00	3,113
Intermediación y Servicios Tecnológicos	99.50	0.50	100.00	1,203
Popular Capital	90.00	10.00	100.00	90
Popular Capital Europe	100.00	—	100.00	2,000
Popular Commercial Europe	100.00	—	100.00	2,000
Popular Español Asia Trade	100.00	—	100.00	—
Popular Finance Europe	100.00	—	100.00	2,000
Urbanizadora Española	7.00	90.55	97.55	11,448
Nonconsolidable group				
Consulteam-Consultores de Gestao	—	100.00	100.00	623
Desarrollo Aplicaciones Especiales	50.67	—	50.67	47
Eurocorredores	90.00	10.00	100.00	62
Eurovida	37.00	10.48	47.48	4,277
Inversiones Inmobiliarias Alprosa	—	100.00	100.00	3,453
Panorama Ibicenca	—	100.00	100.00	357
Popular de Comunicaciones	99.84	0.16	100.00	61
Popular de Informática	99.84	0.16	100.00	61
Popular de Renting	100.00	—	100.00	1,563
Proassurances	—	100.00	100.00	8
Promoción Social de Viviendas	—	91.84	91.84	553
Sicomi	—	100.00	100.00	7
Nonconsolidable multigroup companies				
Dieznet Comercio Electrónico	50.00	—	50.00	1,000
Eurovida BNC	—	50.00	50.00	3,750

Banking

The Group is engaged in all aspects of general banking but with a strong focus on the domestic retail sector where it enjoys a strong position particularly in the small business sector. It has a national presence with 5 regional banking subsidiaries in which it has majority control (Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia). At 31 December 2003 the Group had 2,279 branches and 13,089 staff.

The Group's lending is almost entirely domestic and spread throughout Spain. At 31 December 2003 Popular's lending was concentrated as follows: industry (16 per cent.); individuals (27 per cent. split 67 per cent/33 per cent. between residential and consumer loans); commerce and hotels (14 per cent.); services (23 per cent.) and construction (17 per cent.). Corporate lending is largely to small and medium-sized companies, mostly short-term and orientated towards financing commercial activity.

In June 2003, Banco Popular carried out an operation of great strategic importance, namely the purchase of a medium-sized commercial bank in Portugal, Banco Nacional de Crédito, SA ("BNC"). BNC is an unlisted Portuguese bank based in Lisbon, which was formed in 1991. At 2003 year end it had total assets of €4,080 million, equity of €259 million and a network of 127 branch offices covering substantially all Portugal. With the BNC operation in 2003, the Group substantially broadened its presence in the Portuguese market by adding an important financial institution that is firmly established throughout Portugal.

Assets and Funds

Total assets

The total on-balance sheet assets amounted to €52,611 million at 2003 year end, €10,606 million more than at the end of 2002, a year-on-year growth of 25.2%; the growth rate was 16.0% adjusted for the effect of the integration of BNC. The average total assets during the year were €47,709 million, 19.0% higher than in 2002.

The Group also managed other customer funds in off-balance sheet savings instruments, amounting to €12,302 million at year end, an increase of 23.0% (20.3% disregarding BNC).

Aggregating the on and off-balance sheet assets, the total volume of assets managed by the Group at 2003 year end amounted to €64,913 million, up by €12,907 million, an increase of 24.8% (16.8% excluding BNC) on 2002.

Shareholders' equity

The Group's consolidated equity before the allocation of 2003 income amounted to €2,910 million at December 31, 2003, an increase of 27.7% year-on-year.

In June 2003, Banco Popular made a capital increase through the issuance of 10,232,392 new shares of common stock at a price of €40.33 per share for exchange in the acquisition of a 75.1% holding in BNC, as described earlier. This operation increased the Bank's equity by €412.7 million, of which €5.1 million related to capital and €407.6 million to paid-in surplus. As a result, the capital stock of Banco Popular rose by 4.7% to €113.7 million and consisted of 227,386,508 shares of €0.5 face value each.

Other variations in reserve accounts in 2003, including consolidation reserves, were as follows:

Allocation of €303.8 million to reserves as a result of the distribution of 2002 earnings.

The use of €91.5 million from reserves (the amount net of capitalized taxes) to fund an extraordinary early retirements plan described in detail in Notes 2 p), 25 and 26 to the consolidated financial statements.

Other variations of €6.5 million (credit to reserves) arising from the remaining balance of a similar plan carried out in 2002-2003 and sundry adjustments in consolidation.

The proposed distribution of 2003 earnings adopted by the directors of Banco Popular, described in Note 4 to the consolidated financial statements, signifies a dividend of €366.1 million (€1.61 per share). Assuming that the Shareholders Meeting of the Bank approves this proposal, the Group's consolidated equity will amount to €3,258 million, an increase of €672 million (26.0%) over 2002.

The resulting book value per share is €14.33, 20.3% higher than the figure of €11.91 in 2002.

Capital Adequacy

Law 13/1992 on consolidated equity and supervision of credit entities requires finance entities to have at all times certain minimum capital amounts, based on the volume and composition of their assets and risks.

Capital for the purposes of this legislation comprises, in addition to the amounts shown as such in the consolidated balance sheet, i.e. common stock and reserves, other items, namely minority interests relating to common shares of consolidated affiliates, minority interests relating to preferred stock, and subordinated debt, albeit in the case of these two latter items only up to a stated limit. On the contrary, intangible assets, goodwill in consolidation and other minor items have to be subtracted in calculating capital adequacy.

In 2003, and in addition to the capital increase mentioned above, the Group also carried out two operations to strengthen its equity: the issuance of €200 million of subordinated debt in August and another issue of €300 million of preferred securities in October. The features of these issues are disclosed in Notes 22 and 23 to the consolidated financial statements, respectively.

The calculation of capital adequacy includes goodwill of €342 million (€7.3 million in 2002) substantially all arising from the acquisition of BNC during the year.

At December 31, 2003, the Group's capital adequacy, after the distribution of income for the year, amounted to €4,345 million per the Bank of Spain regulations, an increase of €855 million (24.5%) over 2002.

At that same date, the Group's minimum capital requirement under the Bank of Spain regulations amounted to €3,709 million and, accordingly, it had a cushion of €636 million, 17.1% over the minimum required amount. The resulting solvency ratio was 9.37%, compared with the required minimum of 8%.

Under the method of the Bank for International Settlements (BIS) in Basel, which is that used internationally to measure the solvency of finance entities, the Group's capital adequacy at 2003 year end of €5,105 million was €1,378 million in excess of the required minimum of €3,727 million, signifying a BIS solvency ratio of 10.96%, much above the minimum requirement of 8%. Of the total amount, the Tier 1 capital amounted to €3,897 million and the ratio for this tranche was 8.36%.

Customer funds

At 2003 year end, on-balance sheet customer funds totaled €37,464 million, up by €7,518 million (25.1%) during the year. Excluding the effect of the integration of BNC, the growth rate was 16.3%. The average customer funds balance amounted to €34,223 million, up 19.7% year on year.

Customer funds were therefore financing 71% of the balance sheet at year end and 72% of the average balances; these percentages remained steady compared to 2002.

Customer deposits increased by 22.0% in 2003 to €28,895 million at year end, and the average balances amounted to €26,511 million, up by 13.1% year on year.

In this caption, private sector residents' deposits – which represented 80% of the total – increased by 12.9% to €23,063 million. By type, demand and savings accounts were up by 10.3%, time deposits by 5.9% and temporary sales of assets doubled during the year.

As in the three preceding years, in 2003 the Group's deposits of private sector residents grew faster than those of Spanish banks as a whole, with an edge of 2.5 percentage points in average growth rates, grew more slowly (-1.5 percentage points) than those at savings banks, and grew faster (+0.2 percentage points) than the aggregate for all Spanish banks and savings banks. These figures show that in 2003 Banco Popular continued to gain market share in deposits, in comparison to all Spanish banks and to the Spanish financial system as a whole in the domestic market.

The deposits of non-resident customers increased strongly by €2,302 million (79.6%) in 2003, mostly as a result of the integration of BNC, and at year end amounted to €5,193 million, plus €102 million of deposits from the non-resident public sector.

The composition of the debt and other marketable securities, which amounted to €8,115 million, up 35.0% year on year, is described below.

Medium-term notes denominated in euro and other currencies issued in the Euromarket by Group subsidiaries and guaranteed by Banco Popular amounted to €5,357 million, 25.6% more than at the end of 2002. The purpose of these note issues is to have available a funds basis for the prudent financing of longer-term loans, mainly mortgage loans.

Second, there are the issues of commercial paper amounting to €2,759 million at year end, a year-on-year increase of 58.1%. These short-term (up to 18 months) securities are intended for domestic customers and, in commercial terms, therefore constitute an instrument similar to deposits. Aggregating these two items, the total funds taken by the Group from private sector residents amounted to €25,787 million at 2003 year end, up 16.4% in the year.

The subordinated debt relates to long-term debt securities which rank after common creditors for credit seniority purposes. At year end they amounted to €454 million, following the €200 million issue launched in August 2003 by a Group subsidiary, guaranteed by Banco Popular. All the seven issues currently existing (including the €25 million of two issues made directly by BNC) mature in ten years, although the issuer has the option to redeem them early after the end of the fifth year

The intermediated off-balance sheet funds, dealt with next, are the aggregate of the participations in mutual funds, managed portfolios, pension plans, funds raised via insurance instruments, and financial assets sold to maturity. The total of these funds at the Group was €12,302 million at 2003 year end, an increase of 23.0% (20.3% excluding BNC) over 2002.

The Group managed a total of 80 mutual funds (67 in 2002) through several subsidiaries and the assets managed amounted to €7,421 million, 24.9% more than at the end of 2002. These mutual funds evolved very favorably in 2003, exhibiting an upward profile as the year went on. Noteworthy were the 50.4% year-on-year advance in the assets of the equity funds, driven by the good performance of the stock markets, and the growth of 60.0% in the fixed-interest funds and of 30.9% in the guaranteed funds. In contrast, the monetary asset (fiamm) funds were virtually unchanged (-0.7%), and the mixed funds progressed by 7.3%. At year end the fund participants numbered 331,000, an increase of 18.6%.

Mutual fund assets increased by €1,482 million in 2003, comprising €1,224 million of net inflows (subscriptions minus withdrawals) and €258 million due to the increase in the value of the assets.

The latest available advanced data (to December) for this sector in Spain reveal that the total assets of mutual funds rose by 16.0% in 2003, and those of equity funds by

40.5%. These rates were lower than those of the Banco Popular Group, which therefore increased its market share in 2003, as also occurred in 2002, to 3.68%, compared with 3.48% in the preceding year.

Portfolio assets managed by the Group amounted to ¤861 million at 2003 year end, an increase of 41.2% year on year. This amount comprises €687 million of customers' securities portfolios and €174 million relating to a total of 44 open-end investment (simcav) companies managed, with growth rates of 44.4% and 29.6%, respectively.

The 17 pension plans managed by the Group had total assets of €2,840 million at year end, a 16.7% increase year on year. This amount included €533 million relating to the occupational pension plan for staff of the Group's banks, which is administered by one of the companies. Disregarding this figure, the increase for the year was 18.9%. The number of participants increased by 46,700 customers (11.0%) to 471,000 at 2003 year end.

The pension plan assets increased by €407 million in 2003, comprising €301 million of net new contributions plus €106 million of asset revaluation.

The Group's market share in individual pension plans (to September 2003, the latest date for which sector data are available) was 6.86%, compared to 6.85% in December 2002. Considering all types of pension plans, the market shares at those same dates were 5.12% and 5.04%, respectively.

Customer funds materialized in insurance policies (technical reserves) amounted to €608 million at year end, up 32.6% year on year.

To summarize, the Group's total on and off-balance sheet customer funds at 2003 year end amounted to €49,766 million, an increase of 24.6% (17.3% disregarding the integration of BNC) over 2002.

The following table shows the composition of total customer funds with a breakdown by type of instrument and sector at 2003 year end, with the comparative figures for 2002.

Customer funds				
			Variation	
	2003	2002	Amount	%
	(in thousands of Euro)			
Customer deposits:	28,894,517	23,690,329	5,204,188	22.0
From public bodies:	639,136	366,946	272,190	74.2
Demand deposits	377,074	322,498	54,576	16.9
Savings deposits	9,649	8,708	941	10.8
Time deposits	150,599	35,684	114,915	>
Assets sold under repurchase agreements	52	56	(4)	(7.1)
Other accounts	101,762	—	101,762	
From other residents:	23,062,554	20,432,228	2,630,326	12.9
Deposits of private-sector residents:	21,069,463	19,446,055	1,623,408	8.3
Demand deposits	8,005,497	7,251,913	753,584	10.4
Savings deposits	4,096,719	3,723,869	372,850	10.0
Time deposits	8,967,247	8,470,273	496,974	5.9
Assets sold under repurchase agreements	1,993,091	986,173	1,006,918	>
Other accounts	—	—	—	—
From non residents:	5,192,827	2,891,155	2,301,672	79.6
Demand deposits	1,109,488	521,167	588,321	>
Savings deposits	1,002,358	769,318	233,040	30.3
Time deposits	3,063,719	1,597,828	1,465,891	91.7
Assets sold under repurchase agreements	125	895	(770)	(86.0)
Other accounts	17,137	1,947	15,190	>
Bonds and other marketable debt securities	8,115,381	6,009,968	2,105,413	35.0
Bonds and debentures outstanding	5,356,512	4,264,766	1,091,746	25.6
Promissory notes and other securities	2,758,869	1,745,202	1,013,667	58.1
Subordinated financing	454,141	245,356	208,785	85.1
Total (a)	37,464,039	29,945,653	7,518,386	25.1
Pro memoria:				
Total private-sector residents	25,786,536	22,152,490	3,634,046	16.4
Other intermediated customer funds:				
Financial assets sold outright to customers (outstanding balances)	572,115	559,725	12,390	2.2
Mutual funds	7,420,939	5,939,233	1,481,706	24.9
Asset portfolio management	860,997	609,964	251,033	41.2
Pension funds	2,840,375	2,433,446	406,929	16.7
Life insurance technical reserves	607,593	458,336	149,257	32.6
Total (b)	12,302,019	10,000,704	2,301,315	23.0
Total (a+b)	49,766,058	39,946,357	9,819,701	24.6

Loans and discounts

This caption comprises the financing provided to customers in the form of loans, credits, discounts, overdrafts, financial leasing and other lending instruments, recorded at the balances receivable; the portion, if any, not used but drawable by the borrower is included in memorandum accounts under the caption “Unused portion of credit lines”.

At the end of 2003, the Group’s loans and discounts totaled €44,305 million, an increase of €9,983 million in the year, 29.1% higher than at 2002 year end (19.1% adjusted for the effect of the integration of BNC).

The average balance of loans and discounts during the year amounted to €39,039 million, an increase of 26.1% over 2002.

The volume of lending represented 84% of the balance sheet total and 118% of the on-balance sheet customer funds at year end; the matching percentages for average balances during the year were 82% and 114%, respectively, with a slight increase over 2002.

Net loans and discounts, i.e. after subtraction of the credit loss allowances to cover possible losses in the event of non-recovery of these assets, amounted to €43,467 million, an increase of 28.9%.

The credit extended to private sector residents ("Other residents" in the balance sheet), which accounted for 88% of the total, amounted to €39,131 million, a year-on-year increase of 19.5%. In 2003, as in the four preceding years, the Group gained market share in loans and credits to private sector residents, since its growth rate exceeded that for the Spanish financial system as a whole. In the twelve months to December 2003, its growth rates exceeded those of all Spanish banks by 9.6 percentage points, those of Spanish savings banks by 3.5 percentage points and those of Spanish banks and savings banks as a whole by 6.7 percentage points.

Premises and equipment

The balance of premises and equipment at the end of 2003, net of accumulated depreciation and provisions, amounted to €680 million, 19.6% higher than at the end of 2002. Within this total balance, €367 million related to premises, an increase of €116 million in the year – of which €108 million is attributable to the inclusion of BNC – and €312 million related to equipment items.

The premises balance includes €294 million of operating premises (for own use). Foreclosed assets had a net value of €50 million (book value of €81 million minus provisions of €31 million). The Group has other premises amounting to €23 million.

The equipment category includes the cost value of €865 million, with accumulated depreciation of €551 million. Net additions in 2003 amounted to €65 million, 63.4% more than in 2002, relating mainly to the information technology equipment.

The inclusion of BNC and its subsidiaries accounted at year end for a net amount of €105 million of premises and equipment, consisting of €108 million of premises and €6 million of equipment, minus ¤9 million of provisions for foreclosed assets and other minor items.

The following table shows the variation in premises and equipment during 2003, detailing the cost values, the accumulated depreciation and the related provisions.

Premises and equipment				
			Variation	
	2003	2002	Amount	%
	(in thousands of Euro)			
Premises for own use	293,814	204,257	89,557	43.8
Cost	397,722	285,573	112,149	39.3
Less: Accumulated depreciation	(103,908)	(81,316)	(22,592)	27.8
Other premises	23,211	11,477	11,734	>
Cost	27,053	15,524	11,529	74.3
Less: Accumulated depreciation	(3,842)	(4,047)	205	(5.1)
Foreclosed assets	50,155	35,924	14,231	39.6
Gross	80,984	59,788	21,196	35.5
Less: Allowance	(30,829)	(23,864)	(6,965)	29.2
Total premises	367,180	251,658	115,522	45.9
Equipment	312,408	316,622	(4,214)	(1.3)
Cost	864,906	799,894	65,012	8.1
Less: Accumulated depreciation	(551,177)	(482,782)	(68,395)	14.2
Less: Other allowances	(1,321)	(490)	(831)	>
Total	679,588	568,280	111,308	19.6

Securities portfolios

The balance of the securities portfolios reflected in the December 31, 2003, consolidated balance sheet was €972 million (gross amount of €985 million minus €13 million of security price fluctuation allowance), a decrease of 12.7% from 2002.

The balance of the Government debt securities portfolio (Treasury bills and "book entry system" securities) grew significantly in the first quarter followed by very substantial divestment through year end, at which the balance stood at €28 million. The reduction in year-end balances was 78.3%.

The balance of the fixed-interest securities portfolio was slightly (2.2%) higher than in 2002, at €556 million, without any appreciable variations during the year. The distribution by type of portfolio (trading, investment and held to maturity) is disclosed in Note 8 to the consolidated financial statements. The main component item is €358 million of mortgage and SME loan securitization bonds.

The balance of equity securities comprises those relating to companies not linked to the Group, classified as trading or ordinary investment portfolio, as detailed in Note 9 to the consolidated financial statements. The balance at 2003 year end was €350 million, compared with €391 million at the end of 2002. The balance increased appreciably in the first half and reached €969 million in June, followed by significant divestment in the second half of the year. For the year as whole, there was a 10.4% decrease in the balance.

Year-end security portfolios

			Variation	
	2003	2002	Amount	%
	(in thousands of Euro)			
Government debt securities:	28,008	129,346	(101,338)	(78.3)
Treasury bills	7,116	23,445	(16,329)	(69.6)
Other "book entry system" securities	20,884	105,935	(85,051)	(80.3)
Other	8	8	—	—
Less: Allowance for security price fluctuation	—	(42)	42	(100)
Pro memoria: Balance of security price fluctuation allowance	—	(42)	42	(100)
Deferred writedowns (unrealised losses)	—	—	—	
Other fixed-interest securities:	555,895	544,143	11,752	2.2
Issued by: Public bodies	132,442	53,490	78,952	>
Financial intermediaries	14,551	27,775	(13,224)	(47.6)
Other residents	1,444	6,119	(4,675)	(76.4)
Non-residents	53,403	53,563	(160)	(0.3)
Mortgage-backed-bonds	297,257	337,915	(40,658)	(12.0)
Non-mortage-backed securitisations bonds	60,613	67,915	(7,302)	(10.8)
Less: Allowance for security price fluctuation	(3,815)	(2,634)	(1,181)	44.8
Pro memoria: Balance of security price fluctuation allowance	(3,815)	(2,634)	(1,181)	44.8
Deferred writedowns (unrealised losses)	—	—	—	
Equity securities:	350,309	390,872	(40,563)	(10.4)
Gross	360,027	401,844	(41,817)	(10.4)
Less: Allowance for security price fluctuation	(9,718)	(10,972)	1,254	(11.4)
Participating interests:	9,908	26,599	(16,691)	(62.8)
Gross	9,908	26,599	(16,691)	(62.8)
Less: Allowance for security price fluctuation	—	—	—	—
Shares of Group companies:	27,741	22,719	5,022	22.1
Gross	27,741	22,719	5,022	22.1
Less: Allowance for security price fluctuation	—	—	—	—
Total	971,861	1,113,679	(141,818)	(12.7)

The portfolios of participating interests include shares of Group, multigroup or associated companies that are carried by the equity method, and amounted to €38 million at 2003 year end, a 23.7% decrease year on year. The main variation in 2003 was the reclassification of the holding in Inmobiliaria Bami (6.98%) which, as a result of this company's merger with Metrovacesa, fell below the percentage limit for consolidation and was transferred to the ordinary share portfolio.

It should be noted that Banco Popular's equity securities portfolio contains substantial unrealized gains which, under accounting regulations, are not recorded in the books, and amounted to €1,104 million, based on valuation of the companies merely at underlying book value per their 2003 year-end balance sheets. The amount of the unrealized gains would be €2,566 million if the listed companies - the five regional banks – were valued at stock market price at year end.

The table above presents a detail of the securities portfolios at 31 December 2003 and 2002, showing also the security price fluctuation allowance booked at those dates in accordance with the applicable regulations.

Non-Banking Finance and Service Subsidiaries

In addition to the banking subsidiaries, the Group also includes subsidiaries specialising in factoring (Heller Factoring Española and Heller Factoring Portuguesa), mutual fund and portfolio management (Sogeval, Eurogestión, BNC Gerfundos and BNC Predifundos), pension fund management (Europensiones), life insurance (Eurovida, Proassurances and Eurovida BNC), renting (Popular de Renting), securities market trading (Popular Bolsa) and venture capital activities (Popular de Participaciones Financieras).

Strategy

The Group's strategy is to maintain a customer-driven approach to its business, emphasising client segmentation, close relationships with its customers and a high-quality service. With a long-standing strategy of segmenting its client base into different groups that have the same banking needs with the aim of addressing these needs with the appropriate products and services, the Group has been able to build up a loyal client base to which it can sell financial services in a cost-effective manner and thereby help achieve profitability levels which are among the highest in Europe.

The Group's operations are both customer-oriented and highly decentralised. The success of such strategy, whereby a great deal of autonomy and thus responsibility is at the branch level, relies on the quality of the workforce and adequate management information systems. The Group intends to continue its policy of providing a quality and personal service via its network of small branches.

International strategy

The Group has 127 branch offices and a factoring company (Heller Factoring Portuguesa) in Portugal. Expansion in Portugal started in 2001 and was completed with the purchase of BNC. In June 2003, Banco Popular carried out an operation of great strategic importance, namely the purchase of a medium-sized commercial bank in Portugal, BNC. With the BNC operation in 2003, the Group substantially broadened its presence in the Portuguese market by adding an important financial institution that is firmly established throughout Portugal.

At 31 December 2003, the number of branches in France (each trading as Banco Popular France) was 14.

The Group has aimed to diversify and broaden its range of financial services via joint-ventures and alliances. The Group's specialist joint-ventures use the Group's extensive domestic branch network although the Bank maintains management control.

A similar concept has been used to increase the Group's international presence by agreements with leading international credit institutions based on the principle of reciprocity of branch networks. This means that the Group's alliance partner is able to provide its clients with banking services in Spain through the Group's branch network and the Group is, likewise, able to do the same through the branch network of its alliance partner.

The Group has agreements with Bayerische Hypo-und Vereinsbank (Germany), Bank Austria (East Europe), Dexia Bank (Belgium), Unicredito Italiano SPA (Italy), Banque Centrale Populaire (Morocco), Banco Credito Inversiones (Chile), Banco Exterior (Venezuela), Banco Popular (Puerto Rico), Banco de Credito (Peru), Rabobank (Holanda), Banco de Bogotá (Colombia), Banorte (Mexico), Wachovia Bank (USA) and Credicoop (Argentina). The Group now has at its disposal a virtual network of 10,000 additional branches around the world.

Electronic banking

Since October 1998 Banco Popular has had in operation an Internet banking service (called Bank-on-line) which enables customers to carry out a broad range of banking transactions in real time, 24 hours a day, encompassing demand accounts, mutual and pensions funds, purchase and sale of financial assets and securities, tax payments, etc. At 31 December 2003, there were 1,281,000 Bank-on-line customers. This figure amounts to 24 per cent. of the Group's total customers.

The Group's Internet banking entity BancoPopular-e.com, S.A. ("Banco Popular-e"), which completed its first full year of operation at the end of 2001, has progressed very favourably. At 31 December 2003 it had 116,000 customers, 39,000 more than at the beginning of the year, of whom over 90 per cent. had no previous relationship with the Group and therefore signified a net increase in the customer base. Banco Popular-e's balance sheet total of Euro 435 million and its loan portfolio of Euro 424 million showed increases of 80 per cent. and 86 per cent. respectively between 31 December 2002 and 31 December 2003.

Bancopopular-e's ordinary margin amounted to Euro 10,898,000 in December 2003, compared with Euro 8,297,000 in December 2002, an increase of 31 per cent. year-on-year. The operating profit for the year of 6,124,000 was 37 per cent. higher than in 2002.

Banco Popular-e offers a wide range of banking products through its site, including mortgage and personal loans, leasing facilities, security purchase and sale and deposit, mutual funds, pension plans, credit cards, equipment renting, etc., 128 different products in total.

A new portal called *popularbroker* was launched by the Group for Internet-based stock market operations, thus complementing the on-line banking distribution channel. Through this broker entity, customers can buy and sell equity and fixed-interest securities on-line in the Spanish market and on 14 European and U.S. stock exchanges; subscribe to public security issues; and contract and operate with mutual funds. There are also facilities for customers to check their positions and accounts and the state of their transactions.

The site also provides extensive real-time information about markets movements, fundamental and technical analysis of securities, investment situations and strategy reports, and an economic, financial and stock market news section.

Shareholders

At the end of 2003, the Bank had 71,300 shareholders, compared with 70,816 at the end of the previous year.

The structure of the shareholders varied slightly in 2003, with an increase in ownership by investors owning a greater numbers of shares, as occurred in previous years. Shareholders owning more than 160,000 shares numbered 129 and held 64.88% of the common stock, as compared with 131 and 63.00%, respectively, in 2002.

Non-Spanish shareholders owned slightly less (48.96%) than half the capital stock, which was marginally lower than the percentage of 50.58% in 2002.

Shareholders who are employees of the Group numbered 1,205, representing 1.69% of the total number of shareholders and in aggregate owned 0.57% of the common stock.

The Board of Directors controlled 76.7 million shares, 33.72% of the capital, compared with 31.38% in 2002; this figure includes the shares owned directly or indirectly by directors and those habitually represented by them.

Earnings per share were €3.214, an increase of 10.2 per cent. compared with the €2.917 in the previous year.

The following table shows the evolution of attributable earnings per share, dividend per share and pay-out in the last three years.

Per share data

Year	Average number of shares (thousands)	Net income (€)	Dividend (€)	Pay-out (%)
2001	217,154	2.603	1.360	52.2
2002	217,154	2.917	1.500	51.4
2003	222,270	3.214	1.610	50.1

The following table presents share valuation measures for the three years shown and also includes, for each year, the dividend return, the rate of income capitalisation, and the market return.

Banco Popular share valuation measures*

Year	Closing price (€)	Cash flow P/CF	Price as a multiple of Net income attributable P/E	Book value P/BV	Dividend yield %	Earnings yield %	Market return** %
2001	36.88	6.1	14.2	3.5	3.69	7.06	2.7
2002	38.97	6.0	13.4	3.3	3.85	7.49	9.4
2003	47.30	6.3	14.7	3.3	3.40	6.79	25.3

* Relating to closing figures for the year

** Appreciation (depreciation) plus dividends as % of initial price in each period

Risk management

The Bank believes that analysis of risk management in the year must include a detailed examination of the quality of the risks assumed by the Group on and off the balance sheet and of the coverage booked for possible losses that may arise therefrom.

The substantial progression of the Group's lending activity in 2003 was accompanied by rigorous analysis of credit requests and ongoing monitoring of the risks. At the same time, in 2003 the Group strengthened its criteria of prudence by means of provisions to loss allowances which, as is customary, were higher than those set by the demanding Spanish banking regulations.

The evaluation of risk management requires analysis of two elements:

– The nature and composition of the risks, together with measures of their quality and of the allowances recorded. This is the definition of inherent risk.

– The control mechanisms at the Group’s disposal at successive stages: analysis of new transactions, monitoring of the risks assumed, and management of troubled risks. Examination of these mechanisms enables the quality of the control systems to be perceived.

The net exposure to risk, in other words, the residual risk, arises from the conjunction of two factors: on the one hand, the inherent risk assumed; on the other, the quality of the control systems available to mitigate it. This equation permits definition of the risk profile of a credit institution.

For the purposes of the following analysis, five major categories of risk are addressed: credit risk, cross-border risk, market risk, liquidity risk and operational risk.

Credit risk

Credit risk arises from the possible loss triggered by the breach of contractual obligations of the bank’s counterparties. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other) credit risk arises as a consequence of non-recovery of principal, interest and other items in the terms regarding amount, period and other conditions stipulated in the contracts. In the case of off-balance sheet risks, it arises from the failure by counterparties to fulfill their obligations to third parties, thus forcing the bank to assume them by virtue of the commitment undertaken.

The Group’s credit risk is primarily the outcome of commercial banking, which is its main field of business. 94.3% of the total credit risk exposure consists of loans and discounts and off-balance sheet risks, which in 2003 amounted to €50,710 million, an increase of 28.0% over 2002; the counterparty risk of activity in the markets amounted to €3,083 million, 10.7% less than in 2002, of which €2,830 million related to treasury and capital market activities and only €253 million to the exchange markets.

The total exposure to credit risk at 2003 year end amounted to €53,794 million, 24.9% higher year on year.

The maximum exposure to credit risk was €62,176 million; this figure is obtained by adding to the total exposure amount the €8,382 million from the unused portion of the contractual limits of funds committed to third parties.

The following table is a breakdown of the Group’s borrowers at 2003 year end by the amount of outstanding risk exposure to them and the nonperforming balances in each bracket.

Risk concentration as of 31 December 2003

Exposure by customer	Outstanding risk: Total risk	% of total	Credit	Off-balance sheet	Non-performing loans	Non-performing loans as % of total risk	Pro memoria: % in 2002
	(in thousands of Euro)						
Over 6,000	11,198,617	22.08	8,034,741	3,159,632	4,244	0.04	0.07
From 3,000 to 6,000	3,581,510	7.06	3,021,607	559,394	509	0.01	–
From 1,000 to 3,000	5,846,372	11.53	5,060,721	771,860	13,791	0.24	0.35
From 500 to 1,000	4,075,128	8.04	3,599,314	457,953	17,861	0.44	0.62
From 250 to 500	4,513,902	8.9	4,107,756	371,727	34,419	0.76	0.74
From 125 to 250	5,929,575	11.69	5,576,034	294,325	59,216	1.00	0.80
From 50 to 125	8,163,526	16.10	7,813,765	260,990	88,771	1.09	1.00
From 25 to 50	3,103,278	6.12	2,939,535	114,372	49,371	1.59	1.42
Under 25	4,300,499	8.48	3,745,175	404,126	151,198	3.52	3.2
Total	50,712,407	100.00	43,898,648	6,394,379	419,380	0.83	0.89

As regards the level of concentration of credit risk, Bank of Spain regulations stipulate that the exposure to any one customer or to various customers constituting an economic group may not reach 25% of the Group's capital. Also, the total of all major risks (i.e. those exceeding 10% of the Group's capital) must be less than 8 times its capital. The calculations in this respect are based on the Group's consolidated computable capital used for the purposes of the Bank of Spain solvency ratio.

The Group applies internal risk dispersion criteria that are much stricter than the regulatorily criteria. In 2003, as in 2002, all individual and economic group borrowers were below the stipulated 10% limit. At 2003 year end, the highest risk to any one customer was 6.3% (8% at the end of 2002). Accordingly, neither of the two aforementioned limits of concentration were applicable to the Group.

As regards market activity, substantially all the credit or counterparty risk arises from activities in the treasury and capital market areas. For analysis purposes, the risk is classified in three groups by type of transaction, as follows: principal and interest risk, which affects deposits and fixed-income instruments; interest-only risk in flow exchange transactions (IRS, repos, FRAs, etc.); and other derivatives risk (options, equity swaps, etc.).

At 2003 year end, this risk totaled €2,830 million, a decrease of 15.1% in the year.

In the currency exchange activity, the counterparty risk at 2003 year end amounted to €253 million. This amount was the result of applying to the positions a coefficient reflecting the estimated potential loss of closing them in the market in the event of default by the counterparty; this coefficient is calculated on the basis of the past volatility of exchange rates.

Risk distribution by industry as of 31 December 2003

	Outstanding risk						Percentages	
Industry	Total risk	Distribu-tion (%)	Credit	Off-balance sheet	Non-performing loans	Write-offs	Non-performing loans/ Total risk	Writeoffs/ Total risk
				(in thousands of Euro)				
Primary activities	1,051,500	2.08	932,794	108,435	10,271	5,594	0.98	0.53
Industrial sector	8,182,659	16.14	6,454,651	1,666,518	61,490	27,625	0.75	0.34
Construction	8,601,437	16.96	6,971,502	1,580,731	49,204	15,812	0.57	0.18
Services:	18,588,042	36.65	15,884,724	2,578,655	124,663	61,167	0.67	0.33
Trade and hotels	7,246,281	14.29	6,452,558	731,854	61,869	32,968	0.85	0.45
Transport and communications	1,990,961	3.93	1,677,882	293,440	19,639	10,373	0.99	0.52
Other services	9,350,800	18.44	7,754,284	1,553,361	43,155	17,826	0.46	0.19
To individuals:	13,668,135	26.95	13,531,258	—	136,877	35,903	1.00	0.26
Home mortgages	9,138,235	18.02	9,112,747	–	25,488	4,301	0.28	0.05
Consumer credit and other	4,529,900	8.93	4,418,511	—	111,389	31,602	2.46	0.70
Unclassified	620,634	1.22	123,719	460,040	36,875	1,103	5.94	0.18
Total	50,712,407	100	43,898,648	6,394,379	419,380	147,204	0.83	0.29

The foregoing figures summarise the high level of dispersion of the Group's risks.

As supplementary information, the above table presents the composition of total risks by production sector, and also includes the related data of outstanding monetary and off-balance sheet risks, nonperforming loans and bad debts written off during the year.

A summary of the Group's credit risk management in the last two years is shown in the following table, and is analysed in the following paragraphs.

At December 31, 2003, the balance of troubled risks or nonperforming loans, including exposure for loans and discounts and at other credit institutions, and off-balance sheet balances classified as nonperforming, amounted to €419.4 million, which was €66.1 million (18.7%) higher than at 2002 year end.

	Risk performance			
			Variation	
	2003	2002	Amount	%
	(in thousands of Euro)			
Nonperforming loans:*				
Balance at 1 January	353,277	256,035	97,242	38
Additions	479,820	397,063	82,757	20.8
Balances recovered	(266,513)	(196,461)	(70,052)	35.7
Net variation for the year	213,307	200,602	12,705	6.3
% increase	60,4	78.3	(17,9)	—
Writeoffs	(147,204)	(103,360)	(43,844)	42.4
Balance at December 31	419,380	353,277	66,103	18.7
Allowance for credit losses:				
Balance at January 1	681,748	506,129	175,619	34.7
Annual provision:				
Gross	443,845	312,871	130,974	41.9
Recoveries	(96,186)	(58,650)	(37,536)	64
Net	347,659	254,221	93,438	36.8
Other variations	37,200	17,081	20,119	—
Writeoffs	(135,253)	(95,683)	(39,570)	41.4
Balance at 31 December	931,354	681,748	249,606	36.6
Foreclosed real estate assets	80,984	59,788	21,196	35.5
Allowance for potential losses on foreclosed assets	30,829	23,864	6,965	29.2
Pro memoria:				
Total risks	50,712,407	39,604,214	11,108,193	28.0
Loans transferred to suspense accounts	879660	748,117	131543	17.6
Nonperforming mortgage loans	31732	14,230	17502	—
Risk quality measures (%):				
Nonperformance (Nonperforming loans Total risks)	0,83	0.89	(0,06)	
Insolvency (Writeoffs/Total risks)	0,29	0.26	0,03	
Coverage: (Credit loss allowance/ Nonperforming loans)	222,08	192.98	29,10	
Coverage: (Allowance for potential losses on foreclosed assets/total foreclosed assets)	38,07	39.91	(1,84)	

* Including doubtful off-balance sheet risks, but excluding country risk and the related country risk allowance.

During 2003, additions to the exposure for nonperforming loans amounted to €479.8 million (of which €53.3 million arose from the integration of the Portuguese bank BNC in June) and €266.5 million of other transactions were declassified as nonperforming. This latter figure is the total of €231.8 million of risks which were favorably settled plus the sale of €34.7 million of BNC loans. €147.2 million of nonperforming balances were written off during the year, of which €135.2 million were charged against credit loss allowances and the remainder were charged directly to income.

The nonperforming ratio, i.e. nonperforming loans as a percentage of total risk, was 0.83% at 2003 year end, an appreciable reduction of 6 basis points in the year. Disregarding the integration of the Portuguese bank BNC, this ratio was 0.78%, significantly lower than the figure of 0.89% at the end of 2002.

The insolvency ratio, i.e. bad debts written off as a percentage of total risks, was 0.29%, 3 basis points higher than in 2002. Gross nonperforming loans in the year (before writeoffs) consequently fell by 3 basis points compared with 2002.

Provisions to credit loss allowances in 2003 amounted to €347.6 million (€443.8 million of gross provisions less €96.2 million of allowances released), an increase of €93.4 million over 2002, up 36.8% year on year.

The provisions consisted of €143.2 million of specific provisions for troubled risks, €128.9 million of general provisions, and €75.5 million to the statistical allowance.

€41.3 million of loans previously classified as bad debts and removed from the balance sheet were recovered during the year.

The foregoing provisions included €65.2 million of provisions of a precautionary nature, not assigned to specific risks and not regulatorily required, in conformity with the Group's habitual policy of maintaining maximum balance sheet soundness.

At December 31, 2003, the credit loss allowances, including those for loans and discounts, credit institutions and off-balance sheet risks, amounted to €931.3 million, 36.6% more than in 2002. The total is made up of €171.3 million in the specific allowance, €529.8 million in the general allowance and €230.2 million in the statistical coverage allowance. The aggregate figure was €91.8 million in excess of the regulatorily required amount, a considerable increase over the cushion of €26.6 million in 2002.

The detail of movements in the credit loss allowances in 2003 is as follows: an increase of €347.6 million due to the provisions described above, plus the entry of €55.9 million of allowances from BNC (€27.0 million of specific allowances and €28.9 million of general allowances); and a decrease arising from the use of €135.2 million of allowances to write off bad debts, together with €18.7 million of other variations and transfers.

The amount of the credit loss allowances at year end, as compared with the balance of troubled assets at that date, signified a coverage ratio of nonperforming loans of 222.1%, (238.9% excluding the integration of BNC), a significant improvement of 29.1 percentage points compared with the 193.0% in 2002.

The total credit loss allowances represented 1.84% of total risks (1.72% in 2002).

Considering the credit loss allowances, the net nonperforming ratio was -1.01% of total risks, an improvement of 18 basis points over the 2002 figure of -0.83%.

The table below shows the required coverage for the different categories of assets at 2003 year end and the loss allowances actually booked. At the end of 2003 the balance of the credit loss allowance was €91.8 million in excess of the required amount, a considerable increase over the €26.6 million in 2002.

	Allowance for nonperforming loans as of 31 December			
	2003		2002	
	Balance Provisioning	Total	Balance Provisioning	Total
	(in thousands of Euro)			
Doubtful balances with specific allowances:	383,734	170,652	333,095	150,505
Ordinary	368,234	163,218	322,187	145,240
Secured by prime collateral	4,985	1,581	3,043	1,140
Off-balance sheet risks	10,515	5,853	7,865	4,125
Doubtful balances with general allowances	32,629	191	16,975	113
Doubtful balances for which allowances are not required	3,017		3,207	
Total nonperforming loans	419,380	170,843	353,277	150,618
Other specific provisioning	16,815	679	15,417	886
Allowances for ordinary risks	48,688,010	437,777	38,548,256	348,955
General provisioning (1%)	38,842,326	388,548	31,242,443	312,425
Reduced provisioning (0.5%)	9,845,684	49,229	7,305,813	36,530
Statistical allowance		230,237		154,694
Total required provisions		839,536	655,153	
Balance of credit loss allowances		931,354	681,748	
Surplus		91,818	26,595	

The Bank believes that the quality of the Group's assets was maintained at a good level, despite the slowdown of the economy during the year and that risks are provided for.

In addition to the credit loss allowance, the Group has also booked other allowances exclusively in accordance with in-house criteria of prudence, which are not assigned to specific risks, in order to strengthen balance sheet soundness. These precautionary provisions, added to the cushion in the credit loss allowance, totalled €158 million at year end.

Foreclosed assets, substantially all buildings, amounted to €81 million at year end, a decrease of 35.5 per cent. The provisions booked for possible losses on disposal of these assets amounted to €30.8 million, 38.1 per cent. of the book value of the assets.

Cross-border risk

Cross-border risk, also known as country risk, arises from the difficulties being experienced by borrowers in certain foreign countries in meeting their payment obligations. Breach of these obligations may be due to the financial situation of the borrower (in which case the risk is treated as credit risk), or to the fact that, even though the loans could be repaid in local currency, the funds cannot be transferred abroad due to the country's economic difficulties. Under the applicable regulations, provisions must be recorded for these risks on the basis of which of the two foregoing conditions requires greater coverage.

In addressing cross-border risk countries are classified in six groups, based on a decreasing scale of solvency. The first group, which comprises the twenty-three most highly developed economies in the world, involves no country risk. The second group is included in the calculation of risk but does not call for provisions. The last four groups (countries with transitory difficulties, those which are doubtful, those classified as very doubtful and those classified as failed) require cross-border risk provisions of increasing percentages, which in some cases reach 100% of the risk exposure and the removal of the risk from the balance sheet.

At 2003 year end, the Group's overall country risk amounted to €47.1 million, 2.5% higher than the €46.0 million in 2002. The foregoing figures signified 0.09% and 0.12%, respectively, of the total risks.

The allowance recorded for country risk amounted to €3.7 million, a decrease of 36.0% compared with 2002. The provisions booked in 2003 amounted to €2.1 million, and €4.2 million of the allowance released were recovered.

The following table is a breakdown of country risks by groups of countries with differing degrees of difficulty, together with the allowances booked for this purpose and a comparison with total risks.

Country risk and related allowances

	2003		2002	
	Balance	Coverage	Balance	Coverage
	(in thousands of Euro)			
Countries				
Coverage not required	37,102	–	35,702	–
Transitory difficulties	2,752	404	524	70
Doubtful	5,519	1,900	4,092	1,400
Very doubtful	1,710	1,415	5,633	4,338
Failed	–	–	–	–
Total	47,083	3,719	45,951	5,808
Coverage (%)		7.90		12.64
Pro memoria:				
Total risks	50,712,407		39,604,214	
Country risk total risk (%)	0.09		0.12	

The table below shows the distribution by balance sheet captions: due from financial intermediaries, loans and discounts, and contingent liabilities (guarantees), together with the respective coverages.

	Country-risk by balance sheet caption					
	2003		2002		% Coverage	
	Balance	Coverage	Balance	Coverage	2003	2002
			(in thousands of Euro)			
Due from financial intermediaries*	7,144	111	10,010	4,056	1.55	40.52
Loans and discounts	19,543	2,941	27,495	1,255	15.05	4.56
Contingent liabilities	20,396	667	8,446	497	3.27	5.88
Total	47,083	3,719	45,951	5,808	7.90	12.64

*Including fixed-interest securities

Market risk

This section analyses the risks arising from uncertainty about the future evolution of markets, which have become increasingly important due, on the one hand, to the greater volatility in the markets and, on the other, to the greater weight of marketable assets in the balance sheet total.

Analysis of market risk addresses three types of risk. First, the risk arising from possible adverse variations in the interest rates on assets and liabilities in the balance sheet (known as interest rate risk). Second, the risk due to negative changes in the prices of marketable financial instruments (properly designated as market risk). Thirdly, exchange rate risk, caused by unfavorable movements in the exchange rates of the currencies in which the on- (asset and liability) or off-balance sheet aggregates are denominated.

The following discussion addresses only interest rate and market risk, since the Group has virtually no exchange rate risk exposure as a result of the criterion it applies in this respect, namely that cash and financial asset positions in currencies other than the euro are confined to the placement of surplus cash arising from its commercial banking activity in the same currency and at similar terms.

Interest rate risk

This type of risk arises from variations in the interest rates on balance sheet assets and liabilities at maturity or from repricing in the case of index-linked rates. Accordingly, it has a potential effect on net interest revenue and thereby on earnings and equity.

Balance sheet interest rate risk

Measurement of this risk is based on a consolidated balance sheet in which the asset and liability aggregates are distributed by residual term to completion or to interest rate variation, which makes it possible to quantify the positive or negative maturity and repricing gap for each time bracket. A positive gap at a given term signifies a favorable effect on the financial margin in the event of an increase in interest rates, whereas a negative gap will have the opposite effect.

This balance sheet is then used for simulating different scenarios of interest rate movements, together with several hypotheses about the evolution of asset and liability aggregates. The analysis makes it possible to assess the sensitivity of the financial margin and equity to a given upward or downward variation in interest rates in the scenarios considered, and thus provide a measure of the interest rate risk implicit in the balance sheet (also called the structural interest rate risk).

The duration of the asset, liability and equity aggregates in the balance sheet is also calculated. The duration of a financial instrument is defined as the average life of the discounted flows of principal and yield.

The interest rate sensitive assets totaled €46,633 million, compared with the €35,706 million of similarly sensitive liabilities, with an aggregate positive gap of €10,927 million. In the time brackets up to 3 months, the rate-sensitive liabilities exceeded the matching assets (a negative gap), with a maximum of €2,175 million in the interval up to 1 month. From 6 months, the gap was always positive.

The duration of interest-rate sensitive assets was 187 days and that of sensitive liabilities was 84 days, slightly lower than in 2002 (203 and 90 days, respectively). The duration of equity was 447 days (496 days in 2002).

Using the aforementioned balance sheet, a dynamic simulation is made using the balance sheet aggregates per their growth forecasts in different scenarios of variation in the yield curve over time, in order to measure the sensitivity of the financial margin and of equity.

At the end of 2003, the impact of a 1% variation in interest rates was 1.25% on the net interest margin and the sensitivity of equity to a 1% variation was 1.20%.

Maturity and repricing gap in the consolidated balance sheet as of 31 December 2003.

	Under 1 month	1 to 2 months	2 to 3 months	3 to 4 months	4 to 5 months	5 to 6 months	6 to 12 months	Over 12 months	Not sensitive	Total
					(in millions of Euro)					
Money market	3,315.6	380.2	236.8	54.2	47.5	15.6	140.6	331.6	1,372.7	5,894.8
Credit market	7,197.0	5,105.9	5,090.4	3,258.0	2,888.9	2,891.2	13.467.2	1,628.1	1,689.6	43,216.3
Capital market	21.9	1.1	—	18.5	—	—	9.2	533.2	—	583.9
Other assets	—	—	—	—	—	—	—	—	2,916.2	2,916.2
Total assets	*10,534.5*	*5,487.2*	*5,327.2*	*3,330.7*	*2,936.4*	*2,906.8*	*13,617.0*	*2,492.9*	*5,978.5*	*52,611.2*
Money market	5,936.5	414.6	894.8	569.4	861.8	932.9	562.6	112.3	60.9	10,345.8
Deposit market	4,711.8	1,788.3	3,647.7	791.5	492.5	2,586.5	1,535.9	379.1	10,968.0	26,901.3
Capital market	2,042.2	4,317.8	2,189.6	70.9	64.5	165.9	329.8	306.8	—	9,487.5
Other liabilities	—	—	—	—	—	—	—	—	5,876.6	5,876.6
Total liabilities	*12,690.5*	*6,520.7*	*6,732.1*	*1,431.8*	*1,418.8*	*3,685.3*	*2,428.3*	*798.2*	*16,905.5*	*52,611.2*
Off-balance sheet transactions	(19.2)	(23.6)	174.9	(10.5)	30.0	(62.5)	(56.0)	(33.1)		
Gap	(2,175.2)	(1,057.1)	(1,230.0)	1,888.4	1,547.6	(841.0)	11,132.7	1,661.6	(10,927.0)	
Accumulated gap	(2,175.2)	(3,232.3)	(4,642.3)	(2,573.9)	1,026.3	(1,867.3)	9,265.4	10,927.0		

In view of the business activity of the Group and the structure of its balance sheet, its market risk is confined almost exclusively to interest rate risk, since the exchange rate and financial instrument trading risks are minimal, as explained later.

The indicator used to measure market risk is that known as Value at Risk (VaR), defined as the maximum potential loss in a position as a result of a given variation in price in a given period of time. In calculating the VaR, the Group applies the past experience of prices with a 99 per cent. statistical confidence level and a time period of one day.

VaR is calculated daily for the treasury activity, which comprises short-term operations (euro and foreign currency deposits, interest rate derivatives and financial assets up to 18 months) and operations the long-term markets (public and private fixed-interest securities and derivatives).

The table below shows the variation in VaR during 2003, indicating the daily value at the end of each month and the average, maximum and minimum amounts for each of the groups cited and the aggregate

	Value at risk (VaR)		
	Short term	Long term	Aggregate
	(in thousands of Euro)		
Month-end data (2003)			
January	137.57	96.25	140.82
February	263.23	106.13	226.36
March	89.94	134.19	118.96
April	205.61	133.03	190.42
May	207.93	143.89	213.83
June	311.75	97.46	256.56
July	391.99	126.12	403.40
August	343.62	65.65	335.81
September	164.80	51.24	162.09
October	92.74	54.60	99.95
November	206.13	55.85	194.27
December	197.71	31.40	191.48
Daily average	221.08	101.68	216.07
Maximum	459.62	229.39	444.64
Minimum	51.49	24.79	80.50

The average daily aggregate VaR amounted to €216,000 during the year, with a maximum of €445,000 and a minimum of €81,000. The daily average for short-term money market and asset operations, mostly arising from euro deposit transactions, was €221,000, ranging from €51,000 to €460,000 during the year. The VaR for the long-term financial assets markets ranged from €25,000 to €229,000, with an average value of €102,000. Equity securities positions were added to the daily calculation of VaR in the first quarter of 2003. At December 31, 2003, the VaR was €187,000, a significant 56% lower than in 2002.

Exchange rate risk was again at a very low level, as a result of the policy applied in this area as described above. The average open position during 2003 was €5.1 million, and was denominated in US dollars, pounds sterling, swiss francs and yen.

The average exposure for price risk on options on stock market indexes and shares was immaterial at €30,000 in 2003.

To check the validity of the methodology used to calculate VaR (identification of the maximum expected loss), daily back testing analysis is used to compare the actual daily findings (gain or loss) with those calculated by the model.

The back testing during 2003 showed that, out of a total of 256 examinations of interest rate VaR, in no case did the actual result exceed that forecast by the model. In equities, there was only one case out of a total of 182, with a variance of 58.8%, signifying an amount of €84,350. These figures make it possible to confirm the soundness of the model used as a prudent predictor of risk.

The foregoing model is also used to perform daily stress tests to evaluate the sensitivity of VaR to adverse situations. During 2003, the Group upgraded the methodology used – which previously consisted of applying a parallel shift in the rate curve and a percentage variation in the volatility – by setting up ad hoc scenarios simulating adverse behavior in the markets.

The movements used were those of actual situations in the past, with a less than 1% probability of occurrence and a time horizon of 1 day, thus supplementing the VaR model. In order to reflect the possible combinations of risk factors four scenarios were defined that vary quarterly, as follows: A – greatest impact on earnings; B – maximum VaR for individual activities; C – most probable scenario; and D – maximum value of aggregate VaR at the time of revision. This model was implemented in July 2003 and the data shown below therefore refer to the second half of the year.

VaR calculated in different stress testing scenarios - 2003

(in thousands of Euro)

	A	B	C	D
Daily average	865.66	355.14	613.98	1,068.61
Maximum	1,360.02	607.13	1,650.28	1,811.48
Minimum	224.73	193.16	197.43	564.24
Final	930.41	178.40	175.29	874.21

Liquidity risk

Liquidity risk reflects the possible difficulties for a bank to have available, or to have access to, liquid funds, of sufficient amount and at appropriate cost for meeting its payment obligations at all times.

The starting point for liquidity risk analysis is a consolidated balance sheet broken down by the residual terms to maturity of assets and liabilities, disclosing the positive or negative liquidity gap in each time interval. In the case of securities issues, the first shortest term for cancellation is always used, as a measure of prudence. This balance sheet is used to simulate situations in the face of different liquidity scenarios in the markets, combined with hypotheses of variations in the asset and liability aggregates and with the use of the available liquidity facilities. It is thus possible to estimate the sensitivity of the balance sheet to changes in these variables, in a way similar to that described earlier for evaluating the interest rate risk.

The following table shows the consolidated 2003 year-end balance sheet broken down by residual maturity terms of assets and liabilities, which determines the liquidity gap.

The sensitive assets amounted to €46,633 million, compared with the €31,014 million of sensitive liabilities, with a positive differential of €15,619 million. In the terms up to 6 months, the sensitive liabilities exceeded the sensitive assets with a maximum gap of €3,098 million in the 1- to 7-days bracket, which decreased subsequently. The gap became positive after 6 months.

The same balance sheet is used to analyze sensitivity under different hypotheses of asset and liability cancellation, and of adverse market liquidity situations, studying the behavior in time intervals ranging from one day to one year.

To manage its liquidity at short terms, the Group has set an internal limit for net calls for financing in the money market which presently stands at €6,500 million, together with other sublimits fixing the maximum amount of maturities in the money market for each time interval so as to avoid their concentration in time. It also permanently maintains long positions of around €500 million in highly liquid securities (debt securities, securitization bonds and other fixed income securities) which qualify as collateral for funding facilities from the Bank of Spain and the European Central Bank.

Banco Popular and its regional subsidiaries also have short-term (up to 18 months) note issuance programs in the domestic market, with an aggregate limit of €5,280 million, which can be increased to €6,360 million. Note 2 n.2) to the consolidated financial statements describes the characteristics of these programs and the use made of them at year-end.

At longer terms, the Group has a medium-term Euronotes issuance program (EMTN) with a present limit of €8,000 million (US$6,000 million in 2002), comprising senior and subordinated debt. The characteristics of this program and the use made of it during the year are described in Note 2 n.1) to the consolidated financial statements.

Liquidity gap as of 31 December 2003

	Under 7 days	*7 to 30 days*	*31 to 60 days*	*61 to 90 days*	*91 to 180 days*	*181 to 360 days*	*1 to 5 years*	*Over 5 years*	*Not sensitive*	*Total*
					(in millions of Euro)					
Money market	1,985.7	1,329.9	380.2	236.8	117.3	140.6	331.6	—	1,372.7	5,894.8
Credit market	916.1	2,613.4	2,213.3	1,945.8	3,089.7	3,930.8	11,593.9	15,223.7	1,689.6	43,216.3
Capital market	8.6	13.3	1.1	—	18.5	9.2	6.7	526.5	—	583.9
Other assets	—	—	—	—	—	—	—	—	2,916.2	2,916.2
Total assets	*2,910.4*	*3,956.6*	*2,594.6*	*2,182.6*	*3,225.5*	*4,080.6*	*11,932.2*	*15,750.2*	*5,978.5*	*52,611.2*
Money market	3,981.8	1,954.7	414.6	894.8	2,364.1	562.6	84.1	28.2	60.9	10,345.8
Deposit market	1,677.9	2,789.4	2,240.5	1,751.3	1,519.6	798.7	448.4	15.9	15,659.6	26,901.3
Capital market	348.4	1,184.7	553.9	541.6	1,344.4	363.5	4,940.5	210.5	—	9,487.5
Other liabilities	—	—	—	—	—	—	—	—	5,876.6	5,876.6
Total liabilities	*6,008.1*	*5,928.8*	*3,209.0*	*3,187.7*	*5,228.1*	*1,724.8*	*5,473.0*	*254.6*	*21,597.1*	*52,611.2*
Gap	(3,097.7)	(1,972.2)	(614.4)	(1,005.1)	(2,002.6)	2,355.8	6,459.2	15,495.6	(15,618.6)	
Accumulated gap		(5,069.9)	(5,684.3)	(6,689.4)	(8,692.0)	(6,336.2)	123.0	15,618.6		

Operational risk

Operational risk encompasses all the risks of loss arising from incorrect handling of the instrumentation and documentation of transactions, or in the deficient application of internal administrative processes, or because of the performance of unauthorized transactions. The causes may be due to errors, ignorance of the regulations, negligence or fraud by individuals; other causes include deficiencies or failures in IT equipment or systems, or fortuitous external events impairing their operation.

Operational risk has become relevant in recent years, particularly since 2001, following its inclusion in the draft new capital accord for credit institutions (Basel II) among the risks which will require a specific allocation of capital, together with credit and market risks.

Although the conceptual nature of operational risk is clear, evaluation of it poses substantial methodological problems, in view of the broadness of its contents, which cannot readily be incorporated into a quantitative model. As a first step, the Basel Committee has therefore defined a standard system of calculation based on total revenues, but also envisaging the possibility of banks applying their own in-house models to measure and manage operational risk.

In 2003, the Group started to draw up an operational risk map, covering the identification of events of risk, analysis of the underlying causes, and an evaluation of the estimated losses. This tool, which will foreseeably be completed in 2004, is a significant advance in the process of quantifying operational risk and will serve as a basis for implementing the appropriate mitigation and control systems.

Management

The table below sets forth the names of the members of the Board of Directors of Banco Popular, their positions within the Bank and their principal activities outside the Group as at the date of this Offering Circular. The business address of all the members of the Board of Directors is c/ Ortega y Gasset, 29 planta 7a, Edificio Beatriz, 28006 Madrid, Spain.

Name	*Position within the Bank*	*Principal activities outside the Group*
Javier Valls Taberner	Chairman of the Board	None
Luis Valls Taberner	Chairman of the Board	None
Angel Ron Guimil	Managing Director	None

Name	*Position within the Bank*	*Principal activities outside the Group*
Casimiro Molins Ribot	Director	Chairman, Cementos Molins, S.A. Chairman, Cementos Molins Industrial, S.A. Director, Popularinsa Chairman, Inversora Pedralves, S.A. Chairman, Otinix, S.A. Sole Director, Inversora Patrimonial
Luis Montuenga Aguayo	Director	Chairman, Popularinsa Sole Director, Consultores Financieros e Industriales, S.A. Chairman, Unión Europea de Inversiones
Miguel Nigorra Oliver	Director	Chairman, Habitat Golf Santa Ponsa Chairman, Nova Santa Ponsa Golf, S.A. Chairman, Gestión y Administración Registral, S.L.
José Ramón Rodríguez García	Director	Sole Director, Bairsa, S.A.
Miguel Solís-Martínez Campos	Director	Director, Guadacorte, S.A. Director, Sur Compañía Española de Seguros y reaseguros, S.A.
Rafael Termes Carreró	Director	Chairman, Inmobiliaria Urbana de la Moncloa, S.A. Chairman, Promoción de Instituciones Docentes, S.A.
Manuel Morillo Olivera	Director	Chairman, Fundación Privada Carmen y María José Godó
Asociación profesional directivos	Director	None
Eric Gancedo Holmer	Director	Director, Manuel Gancedo de Inversiones Inmobiliarias, Director, Bodegas Martue La Guardia, S.A., Director, Optimus Partners, S.A.
Américo Ferreira de Amorim	Director	Chairman Amorim Investimentos e Participacioes, S.G.P.S.A.
Vicente Santana Aparicio	Director	Chairman, Cignus Valores SIMCAV, S.A. Director, FIDES Capital, S.C.R., S.A.
Emilio Viñas Barba	Director	Vice-Chairman, Cignus Valores SIMCAV, S.A. Vice-Chairman, FIDES Capital, S.C.R., S.A.
Sindicatura de Accionistas	Director	
Herbert Walter	Director	None
Francisco Aparicio Valls	Director	Centro Social Univ. Pan de Azucar S.L.

Shareholders Meetings

In order to reconcile the legal requirements for periodic reporting with the Bank's policy of transparency, promptness, objectivity and in-depth information, the Bank's shareholders meetings start with the information published at the end of January and formally conclude with the annual general meeting at the end of June. The mechanisms in place thus enable the shareholders to have relevant information available over a long period of time.

Communications between the Bank and its shareholders are conducted through the Shareholders Office (c/ José Ortega y Gasset 29, 28006 MADRID; telephone +34 91 5207265; fax +34915779209; e-mail accionista@bancopopular.es) at two different but inter-related levels: that of information and that of participation in management, in both cases as often and in such depth as each shareholder may wish.

Capitalisation and indebtedness

The following table sets out the capitalisation and indebtedness of the Group, based on unaudited accounts at 31 March 2004 and audited accounts at 31 December 2003, 31 December 2002 and 31 December 2001 prepared in accordance with generally accepted accounting principles in Spain.

	Three months ended 31 March	*Year ended 31 December*		
	2004	*2003*	*2002*	*2001*
		(in thousands of Euro)		
Long term debt:				
Euro medium term notes[3]	5,026,751	5,356,512	4,264,766	1,968,146
Subordinated debt[3]	456,770	454,141	245,356	263,469
Minority interests	264,555	240,589	225,074	198,347
Preferred stock	738,000	738,000	438,000	300,000
Shareholders' equity:				
Authorised and issued share capital[1]	113,693	113,693	108,577	108,577
Reserves	3,154,194	2,796,470	2,170,144	1,917,796
Consolidated profit attributable to the group	180,561	714,271	633,490	565,282
Dividends for the year[4]	—	(366,092)	(329,722)	(295,330)
Total shareholders' equity:	3,448,448	3,258,342	2,582,489	2,296,325
Total capitalisation and indebtedness[2,5]	9,934,524	10,047,584	7,755,685	5,026,287

Notes:

1 Par value: Euro 0.50 per share. All of the authorised and issued share capital is paid up. The amount of ordinary shares issued by Banco Popular is 227,386,508. During 2002, the Board of Directors approved a buy back programme up to a limit of 5 per cent. of the bank's share capital, but no purchases have been made to date under this programme.

2 For contingent liabilities and guarantees of the Group at 31 March 2003 which increased to 6,665 million Euros at that date, see Note 1 on page 58.

3 The long term debt has been converted to Euro from US Dollars using the following exchange rates:
- at 31 March 2004, 1 Euro = US$1.2224;
- at 31 December 2003, 1 Euro = US$1.2630; and
- at 31 December 2002, 1 Euro = US$1.0487
- at 31 December 2001, 1 Euro = US$0.8813

4 The Bank's dividend account of distribution of the consolidated profit for the year ended 31 December 2003 is as follows:
- Dividend of Euro 89,817,671 paid on 1 October 2003.
- Dividend of Euro 90,954,603 paid on 2 January 2004.
- Dividend of Euro 92,091,536 paid on 1 April 2004.
- Dividend of Euro 93,228,468 will be paid on 1 July 2004.

  2002 Dividend: Final amount approved by the 2003 Shareholders Meeting which differs from the amount published in the 2002 Annual Report due to the capital increase made in the year.

5 Save as disclosed above, there has been no material change in the capitalisation and indebtedness, contingent liabilities and guarantees of the Group since 31 March 2004.

Summary Financial Information

The following key financial figures for the Group have been extracted from the Group's audited and unaudited figures and prepared in accordance with generally accepted accounting principles in Spain, without any material adjustment.

	Three months ended 31 March 2004	*Year ended 31 December 2003*	*2002*	*2001*	*2000*
	(Unaudited)	*(Audited)*			
	(in thousands of Euro, unless otherwise indicated)				
Total assets managed	69,248,781	64,913,170	52,005,824	47,081,263	40,651,787
On-balance sheet assets	56,302,917	52,611,151	42,005,120	37,395,559	31,357,794
Customer funds:	53,927,059	49,766,058	39,946,357	35,550,875	31,585,599
On-balance sheet funds	40,981,195	37,464,039	29,945,653	25,865,171	22,291,606
Other intermediated funds	12,945,864	12,302,019	10,000,704	9,685,704	9,293,993
Loans and discounts	46,661,168	44,305,053	34,321,791	27,820,010	23,307,501
Off-balance sheet risks[1]	6,664,672	6,405,437	5,283,579	4,279,024	3,181,783
Non-performing ratio, net of allowances	(1.05%)	(1.01%)	(0.83%)	(0.78%)	(0.66%)
Total equity	3.087.326	2,873,793	2,278,721	2,026,373	1,815,764
Solvency ratio	8.80%	9.37%	9.59%	10.03%	10.28%
Employees	13,193	13,089	12,464	12,309	11,943
Branch offices	2,284	2,279	2,160	2,144	2,069
Income statements					
Interest revenues	664,739	2,535,019	2,387,131	2,294,119	1,776,402
Interest expenses	(186,559)	(735,121)	(795,750)	(892,578)	(649,593)
Intermediate margin	478,180	1,799,898	1,591,381	1,401,541	1,126,809
Fees for services, net	161,810	607,838	572,712	567,347	537,421
Asset trading and exchange profits, net	7,696	31,715	28,948	44,984	119,491
Ordinary margin	647,686	2,439,451	2,193,041	2,013,872	1,783,721
Operating costs	(216,172)	(841,997)	(782,775)	(749,208)	(667,660)
Depreciation	(19,939)	(75,953)	(67,907)	(68,203)	(67,474)
Other operating income/ expenses, net	(9,190)	(35,257)	(34,256)	(39,878)	(37,670)
Operating margin	402,385	1,486,244	1,308,103	1,156,583	1,010,917
Other items, net	2,142	67,508	18,114	13,578	13,138
Provisions and writedowns, net	(95,321)	(348,570)	(270,788)	(317,967)	(213,641)
Income before taxes	309,206	1,205,182	1,055,429	852,194	810,414
Corporate income tax	(109,550)	(427,385)	(367,694)	(238,030)	(282,905)
Net Income	199,656	777,797	687,735	614,164	527,509
Minority interests	(19,095)	(63,526)	(54,245)	(48,882)	(36,952)
Net income attributable to shareholders	180,561	714,271	633,490	565,282	490,557
Average total on-balance sheet assets	54,337,547	47,708,876	40,107,474	34,570,097	28,688,050
Average equity	2,584,785	2,790,052	2,305,817	2,044,235	1,806,494
Net return:					
On assets (ROA)	1.47 %	1.63%	1.71%	1.78%	1.84%
On equity (ROE)	22.19 %	25.60%	27.47%	27.65%	27.16%
Leverage	15.1x	15.7x	16.1x	15.5x	14.8x

Notes:

1 This consists of guarantees and other sureties, documentary credits and other contingent liabilities (if any).

Consolidated Balance Sheet

The consolidated balance sheets of the Group as of 31 December 2003, 2002 and 2001, are summarised below:

Assets

	31 December		
	2003	*2002*	*2001*
	(in thousands of Euro)		
Cash and due from central banks	1,080,289	683,317	1,887,105
Cash	411,184	363,890	347,096
Bank of Spain	572,403	314,313	1,530,168
Other central banks	96,702	5,114	9,841
Government debt securities	28,008	129,346	623,813
Due from financial intermediaries	4,564,212	4,706,692	4,968,925
Demand balances	152,777	182,830	253,897
Other	4,411,435	4,523,862	4,715,028
Loans and discounts	43,466,605	33,711,019	27,368,371
Private fixed-interest securities	555,895	544,143	495,348
Issued by public bodies	132,442	53,490	30,288
Issued by other issuers	423,453	490,653	465, 060
Pro memoria: own securities	—	—	—
Equity securities	350,309	390,872	122,590
Participating interests	9,908	26,599	23,241
In financial intermediaries	—	—	—
Other	9,908	26,599	23,241
Shares of Group companies	27,741	22,719	33,282
Financial intermediaries	—	—	—
Other	27,741	22,719	33,282
Intangible assets	20,666	17,938	20,791
Formation and preopening expenses	108	184	55
Other amortisable expenses	20,558	17,754	20,736
Goodwill in consolidation	342,374	7,253	33,613
Global and proportional integration method companies	341,562	3,870	28,308
Equity method companies	812	3,383	5,305
Tangible assets	679,588	568,280	580,594
Land and buildings for own use	293,814	204,257	204,289
Other properties	73,366	47,401	53,282
Furniture, installations and other	312,408	316,622	323,023
Unpaid subscribed common stock	—	—	—
Unpaid capital calls	—	—	—
Remainder	—	—	—
Treasury stock	—	—	—
Pro memoria: face value	—	—	—
Other asset accounts	1,110,363	890,345	934,273
Prepayments and accrued income	303,507	297,242	299,970
Losses at consolidated companies	71,686	9,355	3,643
Global and proportional integration method companies	70,994	9,195	3,505
Equity method companies	668	156	138
Translation differences	24	4	—
Consolidated loss for the year	—	—	—
Group	—	—	—
Minority interests	—	—	—
Total	52,611,151	42,005,120	37,395,559

Liabilities and Capital

	31 December		
	2003	2002	2001
	(in thousands of Euro)		
Due to financial intermediaries	8,532,526	6,965,943	6,925,077
Demand balances	305,472	290,351	276,854
Term or pre-notification balances	8,227,054	6,675,592	6,648,223
Customer deposits	28,894,517	23,690,329	22,615,236
Savings deposits	26,884,112	22,701,258	21,344,593
Demand	14,600,785	12,597,473	11,862,710
Term	12,283,327	10,103,785	9,481,883
Other deposits	2,010,405	989,071	1,270,643
Demand	—	—	—
Term	2,010,405	989,071	1,270,643
Bonds and other marketable debt securities	8,115,381	6,009,968	2,986,466
Bonds and debentures outstanding	5,356,512	4,264,766	1,968,146
Promissory notes and other securities	2,758,869	1,745,202	1,018,320
Other liability accounts	1,175,389	923,709	878,951
Accruals and deferred income	290,100	301,041	301,009
Special allowances	410,444	229,471	282,380
Pension allowance	60,776	—	—
Provision for taxes	27,154	24,263	12,207
Other allowances	322,514	205,208	270,173
General banking risk allowance	—	—	—
Negative difference in consolidation	418	418	444
Global and proportional integration method companies	282	282	18
Equity method companies	136	136	426
Consolidated income for the year	777,797	687,735	614,164
Group	714,271	633,490	565,282
Minority interests	63,526	54,245	48,882
Subordinated liabilities	454,141	245,356	263,469
Minority interests	978,589	663,074	498,347
Common shares	240,589	225,074	198,347
Preferred shares	738,000	438,000	300,000
Common stock	113,693	108,577	108,577
Paid-in surplus	428,720	21,164	21,164
Reserves	1,328,071	1,167,403	1,036,194
Revaluation reserves	—	—	—
Consolidation reserves	1,111,364	990,931	864,080
Global and proportional integration method companies	1,103,100	983,404	848,354
Equity method companies	7,372	6,631	14,807
Translation differences	892	896	919
Prior years earnings	1	1	1
Total	52,611,151	42,005,120	37,395,559

Memorandum accounts

	2003	2002	2001
Contingent liabilities	6,405,437	5,283,579	4,279,024
Rediscounts, endorsements and acceptances	—	—	—
Assets securing sundry commitments	473	604	578
Guarantees and other sureties	5,937,151	4,897,752	3,941,196
Other contingent liabilities	467,813	385,223	337,250
Commitments	9,261,521	6,121,536	5,015,418
Repos	—	—	—
Unused portion of credit lines	8,382,087	5,375,722	4,256,861
Other commitments	879,434	745,814	758,557

Consolidated Income Statements

The consolidated income statements of the Group for the years ended 31 December 2003, 2002 and 2001, are set out below:

	2003	*2002*	*2001*
	(in thousands of Euro)		
Interest and similar revenues	2,503,435	2,355,978	2,284,119
Of which: revenues from fixed-interest securities	22,229	29,463	50,604
Interest and similar charges	735,121	795,750	892,578
Revenues from equity securities	31,584	31,153	10,000
Shares and other equity securities	25,446	23,376	1,786
Participating interests	537	1,353	1,096
Shares of Group companies	5,601	6,424	7,118
Intermediation margin (net interest revenue)	1,799,898	1,591,381	1,401,541
Fee revenues	779,815	729,678	703,301
Fee expenses	171,977	156,966	135,954
Asset trading and exchange profits	31,715	28,948	44,984
Ordinary margin	2,439,451	2,193,041	2,013,872
Other operating income	2,113	1,901	1,474
General administrative expenses	841,997	782,775	749,208
Personnel expenses	596,848	552,354	538,666
— Of which: wages and salaries	435,221	407,342	393,024
— Of which: social security charges	146,987	133,866	132,391
— Of which: pensions	34,879	27,681	29,304
Other administrative expenses	245,149	230,421	210,542
Depreciation and writedowns of tangible and intangible assets	75,953	67,907	68,203
Other operating expenses	37,370	36,157	41,352
Operating margin	1,486,244	1,308,103	1,156,583
Net earnings (losses) of equity method companies	11,742	4,745	5,048
Share in income of equity method companies	18,059	13,194	13,300
Share in losses of equity method companies	179	672	38
Value adjustments for dividends collected	(6,138)	(7,777)	(8,214)
Amortisation of goodwill in consolidation	11,815	63,420	8,058
Gains on Group transactions	4,197	3,313	3,283
Gains on disposal of holdings in global and proportional integration method companies	108	139	97
Gains on disposal of holdings in equity method companies	–	—	132
Gains on transactions involving controlling company shares and financial liabilities issued by the Group	4,089	3,174	3,054
Reversal of negative differences in consolidation	–	—	—
Losses on Group transactions	3,367	3,205	487
Losses on disposal of holdings in global and proportional integration method companies	36	—	8
Losses on disposal of holdings in equity method companies	–	—	1
Losses on transactions involving controlling company shares and financial liabilities issued by the Group	3,331	3,205	478
Writeoffs and provisions for credit losses (net)	316,192	235,088	190,617
Writedowns of financial investments (net)	–	—	—
Provision to general banking risks allowance	–	9,402	—
Extraordinary income	97,614	103,174	32,698
Extraordinary losses	63,241	52,791	146,256

	2003	2002	2001
	(in thousands of Euro)		
Income before taxes	1,205,182	1,055,429	852,194
Corporate income tax	418,389	365,259	235,461
Other taxes	8,996	2,435	2,569
Consolidated income for the year	777,797	687,735	614,164
Income attributed to minority interests	63,526	54,245	48,882
Common shares	45,824	41,972	40,487
Preferred shares	17,702	12,273	8,395
Net income attributable to BPE shareholders	714,271	633,490	565,282

TAXATION

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. Nor is it intended to be a comprehensive description of all tax considerations that may be relevant when making a decision to acquire or sell, nor does it attempt to cover all tax consequences applicable to all investor categories, some of which are subject to special rules (such as, for example, financial institutions, entities exempt from paying Corporate Tax, Collective Investment Institutions, Pension Funds, Cooperatives, etc.). Prospective purchasers of the Preferred Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Preferred Securities and receiving payments of interest, liquidation preference and/or other amounts 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.

Spanish Taxation

The tax treatment of the acquisition, possession and subsequent transfer of Preferred Securities is summarised below and is based on the tax regime applicable to the Preferred Securities pursuant to Royal Legislative Decree 5/2004, dated 5 March approving the consolidated text of the Corporate Income Tax Law (*Impuesto sobre Sociedades*), Royal Legislative Decree 3/2004, dated 5 March approving the consolidated text of the Personal Income Tax Law (*Impuesto sobre la Renta de las Personas Físicas*), and Royal Legislative Decree 5/2004, dated 5 March approving the consolidated text of the Non-Resident Income Tax Law (*Impuesto sobre la Renta de no Residentes*). Consideration has also been given to the rules for the implementation of such regulations (Royal Decree 537/1997, dated 14 April, Royal Decree 214/1999, dated 5 February, and Royal Decree 326/1999, dated 26 February).

On 6 July 2003, new legislation came into force in Spain relating to, *inter alia*, the issuance of preferred securities (*participaciones preferentes*) and debt securities issued by Spanish financial and non-financial entities, either directly from Spain or through a subsidiary (*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***"). On the basis that the Issuer is resident for tax purposes in Spain, Law *19/2003*, and in particular, the tax treatment and reporting requirements set out in the Third Additional Disposition will apply to the Issuer.

1. *Acquisition of Preferred Securities*

The acquisition of Preferred Securities is exempt from Transfer Tax, Stamp Duty and Value Added Tax under Article 108 of the Spanish Securities Market Law and concurrent articles of the laws on such taxes.

2. *Taxation on the income and transfer of Preferred Securities*

2.1 *Spanish residents and certain other individuals*

This section summarises the tax treatment applicable to investors resident in Spain and to individual investors resident in other European Union Member States (other than tax haven territories, as defined in Royal Decree 1080/1991, of 5 July ("**Tax Havens**")), who are taxed under Spanish Non-Resident Income Tax and whose employment income and earnings from economic activities obtained in Spain amount to at least 75 per cent. of their annual income and who choose to be taxed under Spanish Personal Income Tax.

Entities which are residents of the Spanish territory (pursuant to Article 8 of Spanish Corporate Income Tax Law) and individual taxpayers whose habitual residence is in

Spain (as defined in Article 9 of Spanish Personal Income Tax Law) and individuals whose habitual residence is outside of Spain but who are members of Spanish diplomatic missions, Spanish consular offices or other official posts (as contemplated in Article 9.2 of Spanish Personal Income Tax Law) are deemed to be resident in Spain, notwithstanding any Double Taxation Treaties ratified by Spain. Spanish nationals with proof of their new residence for tax purposes in a Tax Haven during the taxation period in which the change of residence occurs and during the following four taxation periods are also deemed resident in Spain for tax purposes.

(a) Distributions under Preferred Securities

Under Law 19/2003, Distributions under the Preferred Securities are income resulting from the transfer of funds to third parties in accordance with Article 23.2 of the Spanish Personal Income Tax Law. Under Article 23.2, income earned by payers of Spanish Personal Income Tax generated by the transfer of funds to third parties constitutes "moveable capital income" (*rendimientos del capital mobiliario*).

The gross amount of the income obtained from Preferred Securities must be included in the taxable base for Personal Income Tax purposes. Related administration and deposit costs (but not the costs of discretionary or customised portfolio management) may be deducted when calculating the net income of a Holder.

Entities which are subject to Spanish Corporate Income Tax must include in their taxable base the gross amount of income received, less any related expenses, in accordance with Article 10 and subsequent Articles of the Spanish Corporate Income Tax Law.

(b) Transfer Income

Income arising from the transfer of Preferred Securities ("**Transfer Income**") by taxpayers subject to Personal Income Tax is "moveable capital income" (*rendimientos del capital mobiliario*). If the transfer occurs more than two years after the Preferred Securities were acquired, the taxpayer will enjoy a rebate of 40 per cent. on the taxable amount (calculated as the difference between the transfer and acquisition prices).

Taxpayers subject to Spanish Corporate Income Tax must include in their taxable base any loss or gain arising from the transfer of Preferred Securities in accordance with Article 10 and subsequent Articles of the Spanish Corporate Income Tax Law.

(c) Withholding taxes

A withholding on account of Spanish taxes will apply to: payments by the Issuer under the Preferred Securities to Holders which are resident for tax purposes in Spain ("**Resident Holders**"); and on the Transfer Income of Resident Holders. The current applicable tax rate is 15 per cent., which applies to the gross amount of the Distribution or Transfer Income, as the case may be.

Amounts withheld may be credited against a Holder's final tax liability.

2.2 *Investors not resident in Spain*

(a) Income not obtained through a permanent establishment

No withholding tax will apply to: payments by the Issuer under the Preferred Securities to Holders which are not resident in Spain for tax purposes ("**Non-Resident Holders**") (other than Holders resident for tax purposes in a Tax Haven), provided such Holders comply with the procedures described below for evidencing their country of tax residence.

(b) Procedures for Evidencing Tax Residence

In order for a beneficial Holder (a "**Beneficial Holder**") to benefit from exemption from Spanish withholding tax as described above, such Beneficial Holder should send to the relevant participant or customer of the relevant clearing system through which it holds its Preferred Securities, for forwarding on to the Issuer (and to arrive at the Issuer least 5 business days before each Distribution Payment Date) a tax residence certificate for such Beneficial Holder (which shall not have been issued more than 12 months prior to the relevant Distribution Payment Date).

Beneficial Holders which are entitled to an exemption from withholding tax but which fail to provide their tax residence certificates on time may apply to the relevant Spanish tax authorities for a refund.

(c) Income obtained through permanent establishment

Income obtained by non-Spanish-resident holders acting through a permanent establishment in Spain will be subject to Spanish withholding tax, currently at the rate of 15 per cent.

3. *Disclosure of identity of holders*

Under Law 13/1985, of 25 May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*), as amended by Law 19/2003, of July 4, 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*), the Bank is required to disclose to the Spanish Tax and Supervisory Authorities (the "**Authorities**") the identity of all holders of Preferred Securities.

The precise details and procedure of such disclosure remains to be clarified by way of a Royal Decree implementing Law 19/2003, the current draft of which is pending the approval of the Spanish Government. If passed in its current draft form, the Royal Decree would require the Bank to submit the above information to the Authorities in January of each year. Accordingly (in relation to Non-Resident Holders) the Bank currently intends to submit to the Authorities in January of each year (each, a "**Reporting Date**") the information contained in any tax residence certificates received pursuant to paragraph 2 above in relation to each Distribution Payment Date which precedes the relevant Reporting Date and no further action will be required by Non-Resident Holders which have so submitted their tax residence certificates in relation to such Distribution Payment Dates. However, if the Royal Decree, once passed, requires further details to be submitted to the Authorities, the Bank shall notify holders in accordance with paragraph 8 of the Description of the Preferred Securities and such new information disclosure requirements shall apply to holders of Preferred Securities.

Non-Resident Holders which fail to disclose their identity (whether pursuant to tax residence certificates as described above or otherwise) will suffer a withholding on Distributions at the current Non Residents Income Tax Rate of 15 per cent.

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 per cent. (in the case of an At-The-Counter-Transaction the tax rate is 35 per cent.) plus a 5.5 per cent. solidarity surcharge thereon.

If the Preferred Securities have been acquired through a German Disbursing Agent and have since then been held in a securities deposit account with or have been administered by such German Disbursing Agent the assessment base for withholding tax upon redemption or disposal could be an amount equal to the difference between the issue price or the purchase price and the sale proceeds or redemption proceeds. If this is not the case the assessment base could be an amount equal to 30 per cent. 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*

If the German Foreign Tax Act is not applied although the Preferred Securities are qualified as equity, the tax analysis as set out in the following paragraphs will apply.

3.1 *Taxation of Dividends*

50 per cent. 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 per cent. of the expenses economically related to the dividend income are deductible for income tax purposes. In addition, 100 per cent. 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 per cent. in the nominal capital of the Issuer since the beginning of the assessment period.

95 per cent. 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 per cent. in the nominal capital of the Issuer since the beginning of the assessment period in which case only 5 per cent. 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 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 tax (plus solidarity surcharge thereon) with 50 per cent. 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 per cent. or more in the Issuer. In addition capital gains from the disposition of the Preferred Securities will be subject to trade tax if the German Individual Investor holds the Preferred Securities as business assets.

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

3.3 *Risk of applicability of the German Foreign Tax Act (Aussensteuergesetz)*

In case the Preferred Securities are qualified as equity there is a risk that holders of the Preferred Securities who are tax resident in Germany are subject to the provisions of the German Foreign Tax Act (*Aussensteuergesetz*) depending in particular on the investment of the Issuer and the taxation of the Issuer. If the Foreign Tax Act applies, investors who are tax resident in Germany will be taxed on their *pro rata* share in the income (determined according to German tax accounting rules) earned by the Issuer irrespective of whether such income is distributed by the Issuer. The full amount of the share in the income of the Issuer will be subject to German income tax or corporation tax (each plus solidarity surcharge thereon) and, in case the Preferred Securities are held as business assets of a German permanent establishment, to trade tax. In the case of German Corporate Investors, and in addition to above, 5 per cent. of any dividends distributed by the Issuer will be subject to German corporate income tax (plus solidarity surcharge thereon) and to German trade tax in the event that the Foreign Tax Act applies.

4. *Taxation in case the Issuer is disregarded for German tax purposes*

Income derived from the Preferred Securities may also be treated as interest and may therefore be taxed in accordance with the paragraph "Taxation as debt instruments" in case the German tax authorities disregard the Issuer for German tax purposes and therefore treat the holders of the Preferred Securities in the same way as if they had directly invested in the Bank. However, in this case it cannot be excluded that the holders of the Preferred Securities are considered to have an equity interest in Bank in which case the investors would be taxed as described in the paragraph "Tax consequences in case the Preferred Securities are qualified as equity". In this case the minimum shareholding for the trade tax exemption would be calculated with respect to shareholding in the Bank.

5. *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.

6. *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.

Taxation in the Netherlands

Dutch Resident Holders

Holders of the 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 a Dutch resident Holder 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 per cent. 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 per cent.

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.

EU Savings Tax Directive

On 3 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 1 January 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 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 per cent. 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 fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

ABN AMRO Bank N.V. and Dresdner Bank AG London Branch as lead managers (the "**Lead Managers**") have, in a subscription agreement dated 28 June 2004 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Lead 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 per cent. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Managers for certain of its 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

Each Lead Manager understands that 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 Lead Manager represents 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 Lead Manager agrees 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 Lead Manager represents 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 Lead Manager represents that it has not communicated, and agrees that it will not communicate, directly or indirectly, with a prospective purchaser if either of such Lead Manager or such purchaser is within the United States or its possessions or otherwise involve such Lead 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 has represented, warranted and undertaken to the Issuer and the Guarantor that:

(a) *No offer to public:* it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Preferred Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

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

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

Spain

The Preferred Securities will not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law save in compliance with the requirements of the Spanish Securities Market Law, of 28 July 1988, as amended and restated, and Royal Decree 291/1992, of 27 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 CNMV 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*) has been or will be published with respect to the Preferred Securities and that it will comply with the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the "**Act**") of the Federal Republic of Germany and all other applicable legal and regulatory requirements. In particular, each of the Managers has represented that it has not engaged and agreed that it will not engage in a public offering (*Öffentliches Angebot*) within the meaning of the Act with respect to any Preferred Securities otherwise than in accordance with the Act.

The Netherlands

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

(i) the Preferred Securities are subscribed for and placed by a syndicate of which at least two members have their statutory seat in different European Economic Area ("**EEA**") member states;

(ii) 60 per cent. (60%) or more of the aggregate amount of the Preferred Securities will be offered in one or more states other than Spain;

(iii) the Preferred Securities may only be subscribed for or initially be purchased through the intermediation of a credit institution (registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*)) or another financial institution which in the conduct of a business or profession provides one or more of the services described in paragraphs 7 and 8 of Annex I to the Banking Coordination Directive (2000/12/EC); and

(iv) no general advertising or cold-calling campaign is conducted in respect of the Preferred Securities in The Netherlands.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Manager 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 comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable securities laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Preferred Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Preferred Securities has been authorised by resolutions of the General Shareholders' Meeting dated 8 June 2004. The giving of the Guarantee of the Preferred Securities has been authorised by a resolution of the Executive Committee of the Guarantor dated 8 June 2004.

2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of its/their respective subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Preferred Securities.

3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Guarantor since 31 December 2003 that is material in the context of the issue of the Preferred Securities.

4. For so long as any of the Preferred Securities are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

   (a) the *estatutos* of each of the Issuer and the Guarantor;

   (b) the Public Deed of Issuance of the Preferred Securities;

   (c) the Guarantee;

   (d) the Paying Agency Agreement; and

   (e) the Subscription Agreement.

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

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

   (b) the unaudited consolidated and unconsolidated financial statements of the Guarantor for the three months ended 31 March 2004; and

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

6. The Guarantor publishes quarterly unaudited consolidated and unconsolidated interim financial statements. The Issuer does not publish interim financial statements.

7. PricewaterhouseCoopers Auditores, S.A. have audited the Guarantor's accounts in accordance with generally accepted audited standards in Spain for the financial years ended 31 December 2003, 2002 and 2001. PricewaterhouseCoopers Auditores, S.A. have audited the Issuer's accounts in accordance with generally accepted auditing standards in Spain for the period commencing 23 July 2003 (being its date of incorporation) and ending 31 December 2003. These auditors' reports were unqualified.

8. The Preferred Securities have been accepted for clearance through Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg. The WKN is A0BDW1, the ISIN is DE000A0BDW10 and the common code is 019489124.

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