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Annual Report 2004

## General Information

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Banco Popular Español, S.A. was incorporated on July 14, 1926, and is registered in the Madrid Mercantile Register in volume 174, folio 44, page 5,458, 1st entry. The Bank is a member of the Deposit Guarantee Fund for banking entities. 2004 was the Bank's 78th year of operations. The Bank's head office is located at Velázquez, 34. 28001 Madrid.

The Ordinary Shareholders' Meeting will take place on Thursday, June 23, 2005, at 1:00 p.m., at José Ortega y Gasset, 29, Madrid.

The financial accounting and statistical data provided herein were prepared with the utmost objectivity, detail, reporting clarity and consistency over time, from the specifically prepared financial information periodically filed with the Bank of Spain. The financial statements are presented in accordance with the standards applicable in 2003, specifically those of Bank of Spain Circulars 4/1991, 2/1996, 5/1997 and 7/1998; the figures for periods prior to the entry into force of the 1998 standards have been adjusted, as far as possible, to conform thereto.

Average balances were calculated on the basis of daily, monthly or quarterly data, depending on the information available in each case. Figures in brackets are negative amounts, differences or variation rates.

In addition to the Annual Report and its accompanying documents, the Bank issues quarterly financial reports on its operations, including a detailed analysis of variations in assets, liabilities, earnings and profitability in each quarter. All the information is available at the Banco Popular **Shareholders Office** (José Ortega y Gasset, 29. 28006 Madrid; telephone: 34 91.520.72.65, fax: 34 91.577.92.09, e-mail: [accionista@bancopopular.es](mailto:accionista@bancopopular.es)). All the information is also available at: <http://www.bancopopular.es>

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## Banco Popular Financial Highlights (consolidated figures)

(€ million, unless otherwise indicated)

	2004	% variation	2003	2002	2001	2000
<b>Business volume</b>						
Total assets managed	77,350	19.2	64,913	52,006	47,081	40,651
On-balance sheet total assets	62,742	19.3	52,611	42,005	37,395	31,357
Total equity (a)	3,664	12.4	3,258	2,586	2,296	2,047
Customer funds:	60,717	22.0	49,766	39,946	35,551	31,586
On-balance sheet funds	46,109	23.1	37,464	29,945	25,865	22,292
Other intermediated funds	14,608	18.7	12,302	10,001	9,686	9,294
Loans and discounts	52,820	19.2	44,305	34,322	27,820	23,308
Off-balance sheet risks	7,722	20.6	6,405	5,284	4,279	3,182
<b>Solvency</b>						
BIS ratio (%)	10.15		10.96	11.00	11.33	11.48
Of which: Tier 1(%)	7.94		8.36	8.88	9.15	9.55
<b>Risk management</b>						
Total risks	60,537	19.4	50,712	39,604	32,098	26,489
Nonperforming loans	447	6.7	419	353	256	209
Allowances for credit losses	1,086	16.6	931	682	506	384
Nonperforming ratio (%)	0.74		0.83	0.89	0.80	0.79
Coverage (Credit loss allowance/Nonperforming loans) (%)	242.78		222.08	192.98	197.68	184.03
<b>Income statements</b>						
Net interest revenue	1,944	8.0	1,800	1,591	1,402	1,127
Basic banking revenue	2,613	8.5	2,408	2,164	1,969	1,664
Ordinary revenue	2,652	8.7	2,439	2,193	2,014	1,784
Operating income	1,632	9.8	1,486	1,308	1,157	1,011
Income before taxes	1,292	7.2	1,205	1,055	852	810
Net income	888	14.2	778	688	614	528
Net income attributable to Banco Popular Shareholders	801	12.1	714	633	565	491
<b>Net return and efficiency</b>						
Average total assets	59,067	23.8	47,709	40,107	34,570	28,688
Average total equity	3,262	16.9	2,790	2,306	2,044	1,806
ROA (%)	1.50		1.63	1.71	1.78	1.84
ROE (%)	24.55		25.60	27.47	27.65	27.16
Operating efficiency (%)	33.96		34.52	35.69	37.20	39.11
<b>Per share data (b)</b>						
Final number of shares (thousands)	227,387	-	227,387	217,154	217,154	217,154
Average number of shares (thousands)	227,387	2.3	222,270	217,154	217,154	217,154
Share closing market price (€)	48.50	2.5	47.30	38.97	36.88	37.10
Share book value (€)	16.11	12.4	14.33	11.91	10.57	9.43
Net income per share (€)	3.522	9.6	3.214	2.917	2.603	2.259
Dividend per share (€)	1.760	9.3	1.610	1.500	1.360	1.195
Price/Book value (P/BV)	3.0		3.3	3.3	3.5	3.9
Price/Earnings (P/E)	13.8		14.7	13.4	14.2	16.4
<b>Other data</b>						
Shareholders	81,054	13.7	71,300	70,816	75,379	81,455
Employees:	13,127	0.3	13,089	12,464	12,309	11,943
Spain	11,778	(0.5)	11,834	12,248	12,123	11,825
Abroad	1,349	7.5	1,255	216	186	118
Branches:	2,330	2.2	2,279	2,160	2,144	2,069
Spain	2,175	1.9	2,134	2,133	2,118	2,055
Abroad	155	6.9	145	27	26	14
ATMs	3,311	(0.3)	3,321	3,327	3,141	2,824

(a) After distribution of income for the year

(b) Figures adjusted for the 2 x 1 split in February 2000

## Board and Management

### Board of Directors

Angel RON, Chairman (a) (b)      Javier VALLS, Chairman of the Supervisory Board (a)  
Francisco FERNANDEZ DOPICO, Chief Executive Officer (a) (b)

Francisco APARICIO, Director and Secretary (a) (b) (c)

#### Directors:

Asociación de Directivos  
Américo AMORIM  
Eric GANCEDO (a) (b) (d)  
Luis HERRANDO (a) (b) (c)  
Casimiro MOLINS  
Luis MONTUENGA (a) (b) (c)  
Manuel MORILLO  
Miguel NIGORRA

José Ramón RODRÍGUEZ (a) (b) (d)  
Vicente SANTANA  
Sindicatura de Accionistas de BPE  
Miguel Ángel SOLÍS (d)  
Rafael TERMES  
Emilio VIÑAS  
Herbert WALTER

Member of: (a) Executive Committee    (b) Credit Committee    (c) Nomination Committee    (d) Audit Committee

### Executive Management

Angel RON, Chairman

Francisco FERNÁNDEZ DOPICO, Chief Executive Officer  
Roberto HIGUERA, Chief Financial Officer

José María LUCÍA, Credit and Risk  
Ángel RIVERA, Human and Technical Resources

José SARTORIUS, International Activities

Fernando de SOTO, Corporate Affairs

Jesús ARELLANO, Commercial and Retail Banking  
Santiago BERROCAL, Specialized Financing  
Juan ECHANOJAUREGUI, Investor Relations  
Amadeu FONT, International Business Unit  
Julio HORTIGÜELA, Asset Management  
José Luis MANSO, Human Resources  
Luis Felipe MARCOS, Regulatory Compliance  
Rafael de MENA, Technical Secretary

Eutimio MORALES, Control and Audit  
Tomás PEREIRA, Legal Counsel  
Antonio RAMÍREZ, Corporate Development  
Ernesto REY, Treasury  
Rafael ROCA, Controller  
Pablo ROMERO, Commercial Mortgage Unit  
Francisco SANCHA, Sales and Marketing  
Francisco Javier ZAPATA, Corporate Counsel

### Network Line Management

#### Banco Popular

Antonio FÉREZ, Southern Spain  
Francisco GÓMEZ, Central Spain  
Manuel PIÑEIRO, Northern Spain

#### Senior Line Managers:

Francisco J. SAFONT, Cataluña, Aragón-Navarra-La Rioja  
Carlos VELÁZQUEZ, Levante

#### Regional Banking Subsidiaries

José BRAVO, Castilla  
José F. MARTÍNEZ ISACH, Galicia  
Miguel MOZO, Vasconia

Francisco PARDO, Andalucía  
Eladio SEBASTIÁN, Crédito Balear

#### Regional Managers:

José Luis ACEA, Asturias-Cantabria  
J. Ramón ALONSO, Madrid I  
Victoriano APARICIO, Madrid III  
Ramón BOSCH, Galicia  
Salvador BOSCH, Valencia  
José Luis CABERO, Madrid II  
Alonso CUETOS, Castilla-León  
Roberto GARCÍA, Alicante  
Rafael GIL, Canary Isles

Jesús M. GONZÁLEZ, Andalucía I  
Vicente LÓPEZ, Cataluña I  
Antonio MÍNGUEZ, Murcia  
Antonio PÉREZ, Castilla la Mancha-Extremadura  
Juan José RUBIO, Aragón-Navarra-Rioja  
Alfonso RUSPIRA, Cataluña II  
José Luis SANGÜESA, País Vasco  
Antonio SILVA, Andalucía II  
Francisco SUBIRANA, Cataluña III

#### Banks outside Spain

Alberto OLIVEIRA, Banco Nacional de Crédito (Portugal)

Juan PÉREZ, Banco Popular France

#### Other Banking and Financial Subsidiaries

Pedro BERLINCHES, Europensiones, Eurocorredores and Eurovida  
Juan Manuel COBO, Heller España  
Susana de MEDRANO, Bancopopular-e  
Rafael GALÁN, Sogeval  
Javier GEFAELL, Popular Banca Privada

Gonzalo GÓMEZ, Banco Popular Hipotecario  
Javier LUMBREERAS, Factoring  
Aníbal MARQUES, Heller Portugal  
Juan MARTÍNEZ, Popular Renting  
Carlos RAMOS, Popular Bolsa

*We are what we repeatedly do.  
Excellence, then, is not an act, but a habit.*

*Aristotle*

*The completion during 2004 by the Banco Popular Group of a stage in its cycle of development places it in a position to address a future marked by optimism. The year was particularly noteworthy for two events: the change of trend in interest rates and margins and the change of chairman.*

*In October Luis Valls stood down as co-Chairman of the Group and his place was taken by Angel Ron, who was also appointed Chairman of the Board's Executive Committee. Appointed to succeed him as CEO was Francisco Fernández Dopico, who had been responsible for the Group's commercial network.*

*The second highlight was the recovery within the year of the capacity for growth of revenues and operating income, following the end of the erosion caused by the downward revision of the loans portfolio triggered by the fall in interest rates. This change of trend heralds a progressive shift of the growth rates in the loans portfolio to those of the net interest revenue, and opens up for Banco Popular a horizon of steadily increasing earnings.*

*The importance of this change of trend resides in the strong commercial capability displayed by the Bank in 2004. The 23.8% growth in lending to private sector residents - including the loans securitized - was very much higher than that of the Spanish banking system as a whole. Banco Popular's lead is even greater in non-mortgage lending, giving grounds to expect that the comparative advantage in adding new business will be maintained when the demand for mortgage loans slows down.*

*With this gain of business, the net interest revenue was 8% higher than in 2003. Discounting the effect of the acquisition of BNC in mid-2003, it is evident that there was a clear recovery after the low point at the end of the second quarter. This margin has started on an upward track of growth. Its progressive acceleration, driven by a higher rate of business expansion than that of Spanish banks as a whole, and the Bank's high sensitivity to a rise in interest rates depict a very optimistic outlook for the coming years.*

*The Group's attributable net income of more than €800 million was 12.1% higher than that of 2003, and was above the annual average required for fulfillment of the SUMA Plan that the Group adopted nearly a year ago. If the expectations of recovery, however tenuous, of the economic environment are maintained, the progressive improvement of the Group's earnings would make it possible for the targets set for the end of 2006 to be clearly exceeded.*

*A major feature of 2004 that contributed to the good results for the year was the selective containment of costs which, adjusted for the purchase of BNC, grew by 3.3%. The greatest weight in the growth of expenses was that of the activities to win business, the creation of new products, the opening of branch offices and technological developments. The expenditure and investments in this latter field focused on computer software for customer relations knowledge and management, international commercial activities and integrated management of consumer loans, with special emphasis on the use of revolving credit cards and point-of-sale credit. The investment effort deployed in recent years has given the Group one of the finest technology platforms in the Spanish financial system. We have invested and spent for the future.*

*Other initiatives of 2004 that will boost the Group's future earnings were the substantial expansion of the customer base - a net increase of 398,000 new customers - and the reactivation of branch office openings, with 61 new offices opened and 10 closed. The most noteworthy aspect of these measures was that they were carried out in a year during which the rest of the Spanish financial sector acted very hesitantly because of the shrinkage of margins and the uncertainty about earnings. These were initiatives demanding an effort at short term but which will be the source of earnings growth in the coming years. The future is being built today.*

*The Group persisted in its customary line of nurturing the soundness of its balance sheet and the quality of its risk portfolio, as demonstrated by the decrease for yet another year of its nonperforming ratio, which at 0.74% was 9 basis points lower than in 2003.*

*Another measure of the quality of the Banco Popular Group's performance was the improvement of its level of efficiency to 33.96%, compared to 34.52% in 2003. Banco Popular continued to fine-tune its efficiency, despite already having the best level of any Spanish bank and one of the best in the world.*

*The basic strategy of the Bank's management team continues to focus on achieving high profitability with low overall risk. These immutable principles are combined with a conception of management that looks not only at the short term and is not disposed to mortgage the future in order to achieve greater immediate profit. As stated earlier, we construct the future in advance, positioning ourselves with respect to competitors by winning market share, broadening the customer base and expanding our networks and systems. Accordingly, we view the Group's future under the sign of optimism.*

January 2005

## Management Report

This report reflects the opinion of the Management of Banco Popular on the recent performance of and upcoming prospects for the Bank, and explains the policies on which daily management decisions have been based. The report also contains detailed supplementary information on the financial statements appearing later on in this document, drawn from the in-house accounting and statistical records underlying managerial decisions.



# MANAGEMENT REPORT

Banco Popular Español, S.A. ("Banco Popular" or "the Bank") is the parent company of a finance group ("the Banco Popular Group" or "the Group") which at 2004 year end had 5.7 million customers, was managing total assets of €77,350 million and had €60,717 million of customer funds. Its net worth at that date was €3,664 million. The Group has a network of 2,330 branch offices, of which 2,175 are in Spain, and a staff of 13,127 people.

In 2004, the Group obtained operating income of €1,632 million and net income attributable to Banco Popular shareholders of €801 million, signifying a net return on average equity of 24.6%.

At December 31, 2004, the Bank had 81,054 shareholders and its market capitalization amounted to €11,028 million, an increase of €273 million (2.5%) in the year.

The Group's core activity is commercial banking, with special emphasis on the retail segment, in the Spanish market - in which it ranks third by total assets -, and also in Portugal and France.

The Group occupies a sound position in the banking system and has undoubted competitive advantages, which it has maintained consistently over time, in a financial market characterized by dynamism, competition and innovation.

The Group's strategy is governed by certain criteria that can be summarized as achieving sustained growth of the business with a high level of profitability - maximizing the return on invested capital, maintaining permanent balance sheet strength and high efficiency.

Management of the Group focuses on attaining these objectives with a medium- and long-term perspective, rather than reaching them on a one-time basis in a particular year if this involved impairing its continuity with a view to the future. This means that regularity in the growth of business volume and above all in earnings is an intrinsic value which pervades all the decisions of the Group's management team.

In addition to Banco Popular as lead entity, the Group has the following ten other banks which are either wholly-owned or majority-owned and managed by it:

- Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia, which are retail commercial banks operating in the eponymous regions. These banks are majority (between 65% and 97%) owned by the Group, the remaining common stock being held through the stock exchange by minority shareholders.
- Banco Popular Hipotecario, a wholly-owned subsidiary specializing in property financing.
- Bancopopular-e, a wholly-owned subsidiary which is the Group's Internet bank.
- Popular Banca Privada, in which the Group has 60% of the capital and voting rights, which provides private banking services in Spain.
- Banco Nacional de Crédito, a wholly-owned Portuguese commercial banking subsidiary, which was acquired in 2003.
- Banco Popular France, a wholly-owned commercial banking subsidiary operating in France.

The Group also includes seventeen other operating companies, eleven of them in Spain, handling substantially all the range of financial services: mutual and pension fund management, securities intermediation, portfolio and asset management, factoring, 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 has a total of eighteen instrumental companies for the performance of its activities, in Spain and abroad, and several others of minor importance.

By virtue of Banco Popular's majority in the capital stock and voting rights of these banks and companies - or of the agreements with its outside partners -, the Group operates as a single whole with unified direction and management and common technical and support services. The banking and other subsidiaries each act in specific market segment areas within the Banco Popular Group organization, the only special differentiating features being those arising from the differing legal status of each.

### Structure of the management report

This management report analyzes the Group's business and earnings in 2004 based on the consolidated financial statements, which include the financial statements of Banco Popular and its banks and affiliates after elimination of the intragroup financial relationships, consolidated by the global or proportional integration or equity methods, as appropriate, depending on the degree of control by the parent company and their line of business.

The report describes the performance of the consolidated Group in the year, as compared with the

previous year and the last five years. The analysis addresses firstly the balance sheet and its major component items: capital funds and computable capital, showing the main measures of solvency; business volume - loans and discounts and customer funds; securities portfolios; goodwill in consolidation; and tangible assets. An in-depth discussion of the income statement and its main items is then provided, followed by analysis of the ROA and ROE. Next comes a report on risk management, with special emphasis on the instruments used for evaluation, the coverages in place and the analytical and control systems applied. The report also includes detailed information about the composition of the shareholders and the performance of Banco Popular shares, their market return, liquidity and main valuation measures.

The same structure is then used for an individual analysis of Banco Popular Español, SA, as the Group's parent entity, and of its ten banking subsidiaries, listed above, on a more summarized basis for the latter since they file individual financial statements in their respective Annual Reports. The report ends with exhibits containing the financial statements (balance sheets and income statements) of the financial services companies.

The report also includes an evaluation of the Group's competitive position in the Spanish banking system and its evolution in the last five years.

### Main variations in the composition of the Group in 2004

In 2004 the Banco Popular Group set up the Spanish company BPE Financiaciones for the issuance of euro notes and medium term subordinated debt.

## Summary of strategy and management policies

Box 1

### Signs of identity of the Group

- Preference for the domestic retail market
- Commercial strategy orientated towards customer banking, based on bonding through multiple products (cross-selling)
- Personalized product offerings, tailored to the preferences of each homogeneous customer segment
- Multiple commercial distribution channels (branch office, agent, card, ATM, telephone, Internet banking)
- Competition based on quality, flexibility and service personalization
- Equal-footing agreements and alliances with other entities for the performance of overall or specific activities

### Management criteria

- Profitable growth of the business (increase of market share and maximization of income)
- Maximum balance sheet soundness
- High operating efficiency
- Regularity in the conduct of the business, in earnings and in dividends
- Flexible, flat and customer-orientated organization
- Professionalism in decision-making processes
- Active management of intellectual capital, staff training and motivation
- Intensive use of information technology to strengthen commercial action
- Internal and external reporting transparency

## The Group's position in the Spanish banking sector

The following information, which compares the Group's main aggregates and ratios with those of all Spanish banks in the last five years, is provided to analyze the competitive position of the Group in the Spanish banking system.

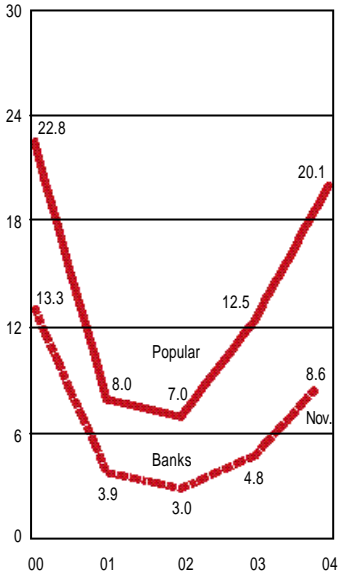
The information about Spanish banks as a whole was drawn from the consolidated (unless otherwise stated) financial statements published by the Spanish Banking Association for the period from December 2000 to

September 2004 (the last date for which data were available when preparing this Report).

Banco Popular's business volume exhibits a much higher growth rate than that of all Spanish banks, measured both in terms of credit and of on-balance sheet customer funds.

The Group had a comparative growth rate advantage of around 9 percentage points in loans and discounts and of 11 percentage points in customer funds.

**Fig.1 Non mortgage loans Comparison with Spanish banks as a whole**  
(% year-on-year rates of variation)



A similar conclusion is reached in the growth of total assets. Banco Popular outperformed all Spanish banks by 14 percentage points in 2004.

Banco Popular's strategy during 2004 focused not only on achieving strong growth in credit but also, and especially, on insuring that this growth had increasing stability and profitability. Accordingly, the Group made a very vigorous effort throughout the year to boost the expansion of the non-mortgage components of its business. The success of this strategy is evidenced by the 20.1% growth rate in non-mortgage lending at year end, after adjustment for securitization.

The lead achieved by Banco Popular in non-mortgage lending is even greater than that reflected above for total loans and discounts since, per the latest data published by the Bank of Spain, it was growing at twice the rate for the banking industry in November: 18.5% for Banco Popular, compared with 8.6% for the industry.

Figure 1 shows how Banco Popular has increased its lead over all other Spanish banks in the last four years.

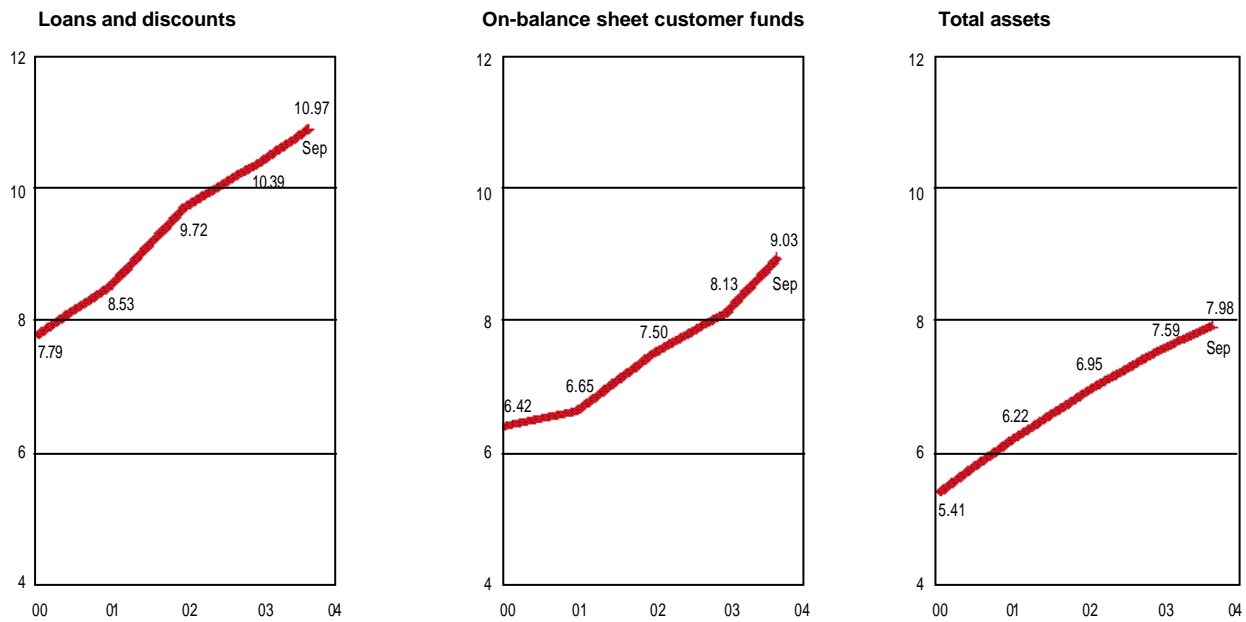
The strength of its growth in non-mortgage lending, consisting basically of loans to companies and consumer loans, enables the Group to address with optimism a future slowdown in mortgage lending in Spain.

As a result of its more dynamic performance, Banco Popular gained market share in the period analyzed as regards the domestic market (banks operating in Spain), with a progression of 3.2 percentage points in loans and discounts, of 2.6 percentage points in customer funds, and of 2.6 percentage points in total assets.

Figure 2 shows the evolution of market share in the domestic market in the period 2000 to September 2004.

In the period analyzed, Banco Popular maintained a return on capital of between 24% and 28% measured as

**Fig.2 Market share of the Group in the banking industry**  
(Among all banks operating in Spain)  
(%)



ROE (attributable income as a percentage of average equity), far higher than that of Spanish banks as a whole whose ROE ranged from 13.4% to 19.5%, signifying an advantage for Banco Popular of 4.4 percentage points in September 2004. Also noteworthy has been the Group's regularity in recent years, compared with the sharp fluctuations at Spanish banks as a whole, even after the adjustment in ROE in the last two years caused by the integration of the Portuguese bank BNC in June 2003.

Figure 3 plots the evolution of ROE at Banco Popular and at all Spanish banks in the period considered.

Banco Popular Español has been assigned the highest solvency rating of all Spanish financial entities (banks and savings banks) and of all non-financial companies in Spain. The ratings assigned to the Bank since 1998 by the three major international rating agencies are Aa1 (Moody's) and AA (Standard & Poor's and Fitch IBCA). At international level, the Group ranks in the leading positions for solvency among the three hundred biggest banks in the world.

The quality of the assets of Banco Popular is also superior to that of all Spanish banks. The analysis in this case refers to the domestic sector (banks operating in Spain), since no consolidated data are available for Spanish banks as a whole. (In order to make the comparison homogeneous, the same criterion has been applied at Banco Popular, and this is why the nonperforming ratio shown here differs from that given in the Risk management section of this report.)

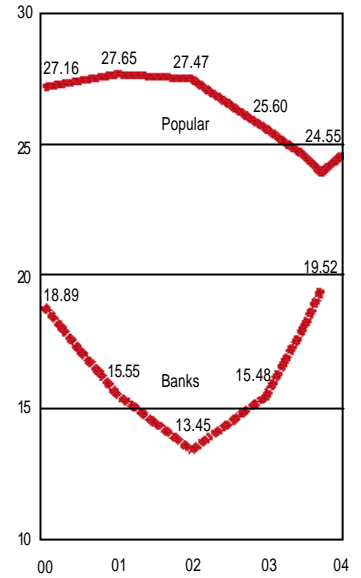
Figure 4 plots the evolution of the nonperforming ratio at the Group compared with that of all Spanish banks.

Finally, the analysis of operating efficiency - operating costs as a percentage of total ordinary revenues - discloses a substantial advantage for Banco Popular of around 13 percentage points, compared with all Spanish banks, that has persisted without appreciable

variation throughout the period considered. Figure 5 plots the variation in these ratios.

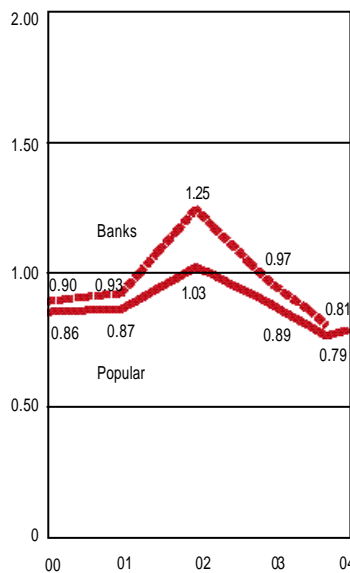
In conclusion, throughout the last five years the Group has outperformed all Spanish banks as a whole in all the relevant aspects for evaluating the management of a financial institution: business growth, market share, return on capital, solvency, asset quality, and efficiency. All this confirms the validity of the Group's strategy and the capability of its organization to successfully apply that strategy, and makes Banco Popular the entity of reference within the Spanish banking system.

**Fig.3 ROE - Comparison with Spanish banks as a whole**  
(Attributable income as % of average total equity)



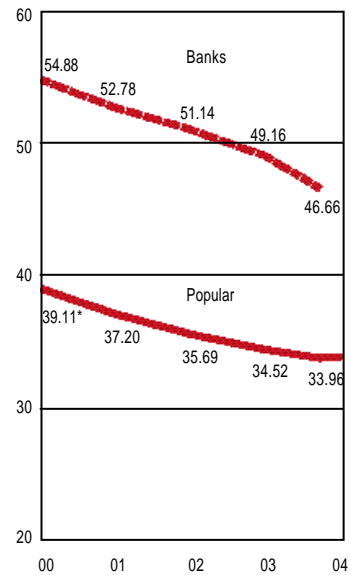
**Fig.4 Nonperforming loans ratio Comparison with Spanish banks as a whole**

(Nonperforming loans as % of loans and discounts)  
(Banks operating in Spain)



**Fig.5 Operating efficiency Comparison with Spanish banks as a whole**

(Operating costs as % of ordinary revenue)



\* Adjusted for extraordinary gain

## The Group's commercial strategy

The Banco Popular Group's commercial strategy is enshrined in the Suma Plan for 2004-2006.

The Suma Plan focuses on financial personalization, with the customer as the point of reference for all the Group's actions, without relinquishing its signs of identity (orientation towards customer banking with customers in the multichannel and multibrand market in the Iberian peninsula, with the branch office as the center point for advisory services and point of sale).

For this three year period the Group has set as its main objective the achievement of attributable net income of €1,000 million in 2006, plus the addition of 1 million new individual customers and 120,000 corporate SME customers, and the bonding of a further 400,000 new customers.

The commercial strategy inherent to the Suma Plan is being implemented using a commercial system model following the criterion of market segmentation by customer activity and profile, without overlooking the enhancement of service quality and product offering personalization for the Group's 5.7 million customers.

### Commercial performance data for 2004

Box 2

	12.31.04	12.31.03	Variation	
			Absolute	%
Total number of customers (000)	5,696	5,298	398	7.5
Individuals .....	5,244	4,898	346	7.1
Legal entities .....	452	400	52	13.0
Internet customers				
Bank-on-line				
Number of customers (000) ..	1,661	1,281	380	29.7
Individuals .....	1,433	1,088	345	31.7
Legal entities .....	228	193	35	18.2
Bancopopular-e				
Number of customers (000) * .	571	270	301	>
Productivity				
(Products sold per employee in the commercial network) ..	310	295	15	5.1
Cross-selling				
(Products per customer) . . . . .	3.25	3.11	0.14	4.6
* Data that include customers shared with other Group banks				

## The Group's management performance in 2004

### Assets and funds

#### Total assets

The consolidated balance sheets as of December 31, 2004 and 2003, before the allocation of income for the year, are summarized in Table 1. The "Financial Statements" section of the Annual Report includes the consolidated balance sheets of the last five years, in the public reporting format demanded by the Bank of Spain.

The total on-balance sheet assets amounted to €62,742 million at 2004 year end, €10,131 million more than at the end of 2003, a year-on-year growth of 19.3%. The average total assets during the year were €59,067 million, 23.8% higher than in 2003.

The Group also managed other off-balance sheet financial assets amounting to €14,608 million at year end, an increase of 18.7% year on year.

Aggregating the on- and off-balance sheet assets, the total volume of assets managed by the Group at 2004 year end amounted to €77,350 million, up by €12,437 million, an increase of 19.2% on 2003.

Figure 6 plots the growth of year-end total assets managed in the last five years, with a breakdown into the two groups considered.

#### Shareholders' equity

The Group's consolidated equity before the allocation of 2004 income amounted to €3,263 million at December 31, 2004, an increase of 12.1% year on year.

Banco Popular's capital stock was unchanged in 2004 at €113.7 million,

represented by 227,386,508 shares of €0.5 par value each.

The variations in reserve accounts in 2004, including consolidation reserves, were as follows:

- Allocation of €348.2 million to reserves as a result of the distribution of 2003 earnings.
- Other variations of €9.4 million (credit to reserves) arising from the remaining balance of the early retirements plan carried out in 2003-2004 and sundry adjustments in consolidation.

The proposed distribution of 2004 earnings adopted by the directors of Banco Popular, described in Note 4 to the consolidated financial statements, signifies a dividend of €400.2 million (€1.76 per share). Assuming that the Shareholders Meeting of the Bank approves this proposal, the Group's consolidated equity after income distribution will amount to €3,664 million, an increase of €406 million (12.4%) over 2003.

The resulting book value per share is €16.11, 12.4% higher than the figure of €14.33 in 2003.

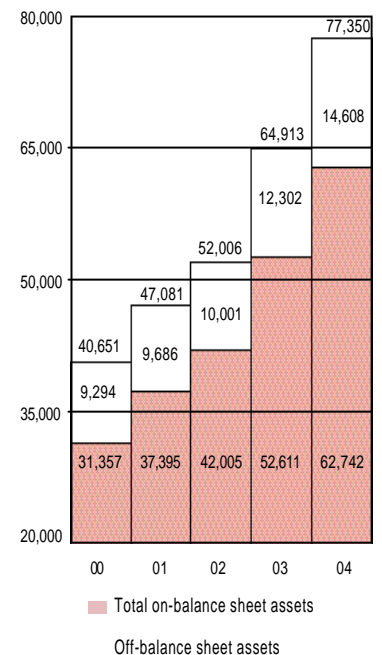
The variation in and composition of consolidated equity at 2004 and 2003 year ends are shown in the upper part of Table 2.

#### Computable capital

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

**Fig.6 Total assets managed at year-end**  
(€ million)



**Table 1. Consolidated Balance Sheets**

(Amounts in € thousand )		Variation		
	12.31.04	12.31.03	Amount	%
<b>Assets</b>				
Cash and due from central banks . . . . .	893,343	1,080,289	(186,946)	(17.3)
Government debt securities:	69,529	28,008	41,521	>
<i>Government debt securities, gross</i> . . . . .	69,529	28,008	41,521	>
<i>Less: Allowance for security price fluctuations</i> . . . . .	–	–	–	–
Due from financial intermediaries:	4,376,119	4,564,212	(188,093)	(4.1)
<i>Due from financial intermediaries, gross</i> . . . . .	4,376,990	4,567,948	(190,958)	(4.2)
<i>Less: Allowance for doubtful balances and country risk</i> . . . . .	(871)	(3,736)	2,865	(76.7)
Loans and discounts:	51,843,757	43,466,605	8,377,152	19.3
<i>Loans and discounts:</i>	52,820,300	44,305,053	8,515,247	19.2
<i>To public bodies</i> . . . . .	101,070	61,926	39,144	63.2
<i>To other residents</i> . . . . .	46,489,641	39,131,313	7,358,328	18.8
<i>To nonresidents</i> . . . . .	5,789,947	4,705,409	1,084,538	23.0
<i>Nonperforming loans</i> . . . . .	439,642	406,405	33,237	8.2
<i>Less: Allowance for credit losses</i> . . . . .	(976,543)	(838,448)	(138,095)	16.5
Private fixed-interest securities:	1,893,150	555,895	1,337,255	>
<i>Private fixed-interest securities, gross</i> . . . . .	1,898,169	559,710	1,338,459	>
<i>Less: Allowance for security price fluctuations</i> . . . . .	(5,019)	(3,815)	(1,204)	31.6
Equity securities:	841,845	350,309	491,536	>
<i>Equity securities, gross</i> . . . . .	850,661	360,027	490,634	>
<i>Less: Allowance for security price fluctuations</i> . . . . .	(8,816)	(9,718)	902	(9.3)
Participating interests . . . . .	10,815	9,908	907	9.2
Shares of group companies . . . . .	31,486	27,741	3,745	13.5
Intangible assets . . . . .	17,520	20,666	(3,146)	(15.2)
Goodwill in consolidation . . . . .	322,931	342,374	(19,443)	(5.7)
Tangible assets:	713,113	679,588	33,525	4.9
<i>Premises and equipment</i> . . . . .	747,130	711,738	35,392	5.0
<i>Less: Allowance for potential losses on foreclosed assets and other</i> . . . . .	(34,017)	(32,150)	(1,867)	5.8
Treasury stock . . . . .	4,599	–	4,599	–
Prepayments and accrued income . . . . .	365,507	303,507	62,000	20.4
Other asset accounts . . . . .	1,277,836	1,110,363	167,473	15.1
Losses at consolidated companies . . . . .	80,286	71,686	8,600	12.0
<b>Total</b> . . . . .	<b>62,741,836</b>	<b>52,611,151</b>	<b>10,130,685</b>	<b>19.3</b>
<b>Liabilities and Capital</b>				
Due to financial intermediaries . . . . .	8,812,927	8,532,526	280,401	3.3
Customer deposits:	33,366,061	28,894,517	4,471,544	15.5
<i>From public bodies</i> . . . . .	1,070,425	639,136	431,289	67.5
<i>From other residents</i> . . . . .	27,030,356	23,062,554	3,967,802	17.2
<i>From nonresidents</i> . . . . .	5,265,280	5,192,827	72,453	1.4
Bonds and other marketable debt securities . . . . .	12,195,148	8,115,381	4,079,767	50.3
Subordinated financing . . . . .	548,380	454,141	94,239	20.8
Other liability accounts . . . . .	1,601,977	1,175,389	426,588	36.3
Accruals and deferred income . . . . .	407,804	290,100	117,704	40.6
Special allowances:	320,223	410,444	(90,221)	(22.0)
<i>For pensions</i> . . . . .	143,695	60,776	82,919	>
<i>Other allowances</i> . . . . .	176,528	349,668	(173,140)	(49.5)
Negative difference in consolidation . . . . .	418	418	–	–
Common stock . . . . .	113,693	113,693	–	–
Reserves . . . . .	1,910,074	1,756,792	153,282	8.7
Consolidation reserves . . . . .	1,324,328	1,111,364	212,964	19.2
Minority interests:	1,252,591	978,589	274,002	28.0
<i>Common shares</i> . . . . .	264,591	240,589	24,002	10.0
<i>Preferred shares</i> . . . . .	988,000	738,000	250,000	33.9
Year-to-date net income . . . . .	888,212	777,797	110,415	14.2
<b>Total</b> . . . . .	<b>62,741,836</b>	<b>52,611,151</b>	<b>10,130,685</b>	<b>19.3</b>
<b>Pro memoria</b>				
Off-balance sheet risks:	7,722,275	6,405,437	1,316,838	20.6
<i>Guarantees and other sureties</i> . . . . .	7,155,031	5,937,151	1,217,880	20.5
<i>Documentary credits</i> . . . . .	488,797	383,140	105,657	27.6
<i>Other contingent liabilities</i> . . . . .	78,447	85,146	(6,699)	(7.9)
Allowance for doubtful off-balance sheet risks . . . . .	115,089	90,486	24,603	27.2
Commitments:	14,833,961	9,261,521	5,572,440	60.2
<i>Unused portion of credit lines</i> . . . . .	13,733,548	8,382,087	5,351,461	63.8
<i>Other commitments</i> . . . . .	1,100,413	879,434	220,979	25.1
Other intermediated customer funds . . . . .	14,607,860	12,302,019	2,305,841	18.7

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 computable capital.

In June 2004, the Group carried out two operations to strengthen its equity: the issuance of €100 million of subordinated debt and another issue of €250 million of preferred stock. The features of these issues are disclosed in Notes 22 and 23 to the consolidated financial statements, respectively.

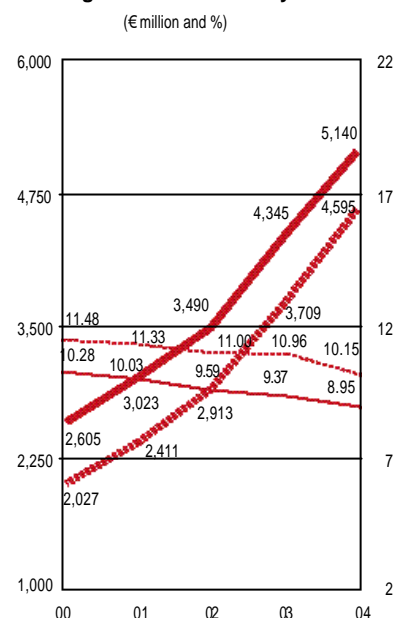
The calculation of computable capital includes goodwill of €323 million substantially all arising from the acquisition of BNC in 2003.

At December 31, 2004, the Group's computable capital, after the distribution of income for the year, amounted to €5,140 million per the Bank of Spain regulations, an increase of €795 million (18.3%) over 2003.

At that same date, the Group's minimum capital requirement under the Bank of Spain regulations amounted to €4,595 million and, accordingly, it had a cushion of €546 million, 11.9% over the minimum required amount. The resulting solvency ratio was 8.95%, compared with the required minimum of 8%.

Under the method of the Bank for International Settlements (BIS) in Basel, the Group's computable capital at 2004 year end of €5,881 million was €1,245 million in excess of the required minimum of €4,636 million, signifying a BIS

**Fig.7 Level of solvency**



**Table 2. Consolidated equity (\*)**

(€ thousand)	31.12.04	31.12.03	Variation
Common stock	113,693	113,693	–
Reserves	2,098,272	1,895,837	202,435
Consolidation reserves	1,536,819	1,320,498	216,321
Less:			
Treasury stock	4,599	–	4,599
Losses at consolidated companies	80,286	71,686	8,600
<b>On-balance sheet equity</b>	<b>3,663,899</b>	<b>3,258,342</b>	<b>405,557</b>
Minority interests	1,281,595	1,001,829	279,766
Preferred stock	988,000	738,000	250,000
Other	293,595	263,829	29,766
Subordinated financing	539,402	448,155	91,247
Less:			
Intangible assets	(17,520)	(20,666)	3,146
Goodwill	(322,931)	(342,374)	19,443
Other	(3,987)	(94)	(3,893)
<b>Bank of Spain computable capital</b>	<b>5,140,458</b>	<b>4,345,192</b>	<b>795,266</b>
Minimum requirement	4,594,607	3,709,242	885,365
Capital cushion	545,851	635,950	(90,099)
Bank of Spain solvency ratio (%)	8.95	9.37	
<b>BIS computable capital</b>	<b>5,881,182</b>	<b>5,105,308</b>	<b>775,874</b>
Of which: Tier 1 capital	4,603,082	3,896,852	706,230
Minimum requirement	4,636,059	3,726,974	909,085
Capital cushion	1,245,123	1,378,334	(133,211)
<b>BIS ratio (%)</b>	<b>10.15</b>	<b>10.96</b>	
Of which: Tier 1(%)	7.94	8.36	

(\*) After distribution of 2003 income.

## Banco Popular ratings

Box 3

The ratings assigned to the Banco Popular Group by the three leading international credit rating agencies are the highest in the whole Spanish financial system. The current ratings are as follows:

Agency	Individual	Short-term	Long-term
Fitch	A	F1+	AA
Moody's	A-	P1	Aa1
Standard & Poor's		A1+	AA

A summary of the agencies' assessments of Banco Popular is presented below.

In July 2004, Moody's confirmed its ratings for Banco Popular, stating that they "reflect its excellent financial fundamentals, including very high earning power, high earnings predictability, low risk profile and strong economic capitalization. These elements are enhanced by the management's continued commitment to improving Banco Popular's financial strength and by the prospects for a consistently solid financial performance in the future". The agency also noted that the combination of a profitable branch network and the Bank's specialization in domestic retail business provides it with strong recurring earnings and levels of profitability much higher than the average for the financial system as a whole. Moody's further stated that "the Bank has not only been able to maintain impressive profitability indicators, but has also increased its market share whilst maintaining its longstanding and prudent credit practices".

Moody's rates the outlook for the Bank as "stable", and considers that in an increasingly competitive environment it remains well-positioned to maintain its growth at low risk, with exhaustive control of costs and emphasis on earnings predictability.

In April 2004, Fitch Ratings updated its assessment of Banco Popular, and confirmed its ratings and its outlook as "stable". Highlighted was the fact that the Bank's ratings "reflect its powerful domestic retail franchise, remarkable track record of strong profitability backed by a high level of revenue generation, dynamic and sound management approach, consistent healthy asset quality, stable retail funding and adequate capital". The agency described as "exceptional" the Bank's financial performance in 2003 and underlined that "it had outperformed most of its domestic and European peers, primarily based on wide lending spreads and continued robust retail business growth, reinforced by the acquisition of a 100% stake in Banco Nacional de Crédito (BNC)".

Standard & Poor's bases its latest (November 2003) assessment on "the Bank's solid financial fundamentals, in particular its excellent earnings, sound asset quality and good capitalization, as well as management's coherent and conservative strategy". The report states that Banco Popular's strong and resilient profitability is indisputably one of its major financial strengths and a source of great financial flexibility, and highlights its success in achieving high rates of profitability in the last three years, considering the environment of low interest rates and greater regulatorily stipulated provision requirements. It goes on: "the combination of a clearly defined strategy focused on retail domestic banking, superior pricing policies, comparatively cheaper funding base and strong operating efficiency is expected to continue to characterize the Bank". It also highlights that the Bank's strict underwriting standards, excellent knowledge of its customer base and permanent monitoring of lending have enable it to enjoy high asset quality throughout a complete economic cycle. This has been achieved despite the fact that Banco Popular primarily services SMEs with a higher risk profile. The recent slowdown in the Spanish economy and the purchase of BNC have led to a slight weakening of asset quality, but Banco Popular's good historical track record bodes well for its future asset quality performance.

The report considers that the Bank's outlook is stable and that it "will maintain its solid financial fundamentals and continue to benefit from a well-defined organic growth strategy".

solvency ratio of 10.15%, much above the minimum requirement of 8%. Of the total amount, the Tier 1 capital amounted to €4,603 million and the ratio for this tranche was 7.94%.

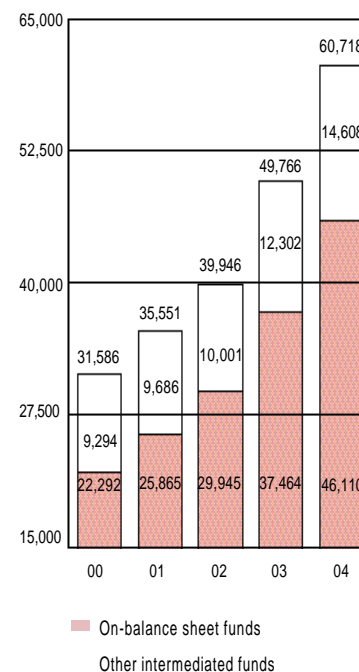
Table 2 shows the composition in the last two years of the Group's computable capital per Bank of Spain and BIS regulations, together with the main solvency measures. Figure 7 plots the variation in the same aggregates for the last five years.

## Customer funds

Customer funds in the balance sheet comprise customer deposits - ordinary deposits and temporary sales of financial assets (repos) -, the funds raised by debt securities, and subordinated financing.

At 2004 year end, on-balance sheet customer funds totaled €46,110 million, up by €8,646 million (23.1%) during the year. The average customer funds balance amounted to €42,207 million, up 23.3% year on year.

**Fig.8 Customer funds**  
(€million)



**Table 3. Customer funds**

(€thousand)			Variation	
	2004	2003	Amount	%
Customer deposits:	33,366,061	28,894,517	4,471,544	15.5
<i>From public bodies:</i>	1,070,425	639,136	431,289	67.5
Demand deposits	948,675	377,074	571,601	>
Savings deposits	8,634	9,649	(1,015)	(10.5)
Time deposits	52,387	150,599	(98,212)	(65.2)
Assets sold under repurchase agreements	52	52	-	
Other accounts	60,677	101,762	(41,085)	(40.4)
<i>From other residents:</i>	27,030,356	23,062,554	3,967,802	17.2
Deposits of private-sector residents:	25,003,506	21,069,463	3,934,043	18.7
Demand deposits	8,817,715	8,005,497	812,218	10.1
Savings deposits	4,451,691	4,096,719	354,972	8.7
Time deposits	11,734,100	8,967,247	2,766,853	30.9
Assets sold under repurchase agreements	2,026,850	1,993,091	33,759	1.7
Other accounts	-	-	-	-
<i>From nonresidents:</i>	5,265,280	5,192,827	72,453	1.4
Demand deposits	1,194,034	1,109,488	84,546	7.6
Savings deposits	1,032,827	1,002,358	30,469	3.0
Time deposits	2,971,796	3,063,719	(91,923)	(3.0)
Assets sold under repurchase agreements	4,354	125	4,229	>
Other accounts	62,269	17,137	45,132	>
Bonds and other marketable debt securities	12,195,148	8,115,381	4,079,767	50.3
Bonds and debentures outstanding	7,646,067	5,356,512	2,289,555	42.7
Promissory notes and other securities	4,549,081	2,758,869	1,790,212	64.9
Subordinated financing	548,380	454,141	94,239	20.8
Total (a)	46,109,589	37,464,039	8,645,550	23.1
<i>Pro memoria: Total private-sector residents</i>	35,045,214	25,786,536	9,258,678	35.9
Other intermediated customer funds:				
Financial assets sold outright				
to customers (outstanding balances)	1,033,527	572,115	461,412	80.7
Mutual funds	8,777,791	7,420,939	1,356,852	18.3
Asset portfolio management	978,172	860,997	117,175	13.6
Pension funds	3,163,302	2,840,375	322,927	11.4
Life insurance technical reserves	655,068	607,593	47,475	7.8
Total (b)	14,607,860	12,302,019	2,305,841	18.7
Total (a+b)	60,717,449	49,766,058	10,951,391	22.0

Customer funds were therefore financing 73% of the balance sheet at year end and 71% of the average balances; these percentages remained steady compared to 2003.

Customer deposits increased by 15.5% in 2004 to €33,366 million at year end, and the average balances amounted to €31,748 million, up by 19.8% year on year.

In February 2004, several banking subsidiaries issued €2,000 million of long-term mortgage bonds ("cédulas"), which were taken up in full by a securitization fund outside the Group; this fund in turn issued and placed in the market the same amount of "cédula"-backed securitization bonds. This operation was assigned the maximum credit ratings (Aaa/AAA/AAA) by the three main rating agencies (Moody's, Standard & Poor's and Fitch Ratings).

The Group subscribed €300 million of these bonds for potential use as collateral for funding facilities at the Bank of Spain and the European Central Bank. As a result, the consolidated balance sheet includes an amount of €1,700 million under the Resident sector deposits (time deposits) caption.

Private sector residents' deposits increased by 17.2% year on year to €27,030 million. By type, demand and

savings accounts were up by 9.6%, time deposits by 30.9% and temporary sales of assets (repos) by 1.7%.

Table 3 is a breakdown of customer funds by sector and type in 2004 and 2003.

More detailed information about the structure of resident customer deposits is presented below.

Table 4 presents the level of concentration of customer deposits, excluding those arising from the mortgage "cédulas" issues, showing the number and size of the accounts.

Tables 5 and 6 show the distribution of customer deposits by region in Spain and term in the last five years.

The deposits of nonresident customers increased by €72 million (1.4%) in 2004. At year end they amounted to €5,265 million, to which must be added the €61 million of deposits from the nonresident public sector.

The composition of the debt and other marketable securities, which amounted to €12,195 million, up 50.3% year on year, is described below.

First, there are medium-term notes in euros and other currencies amounting to €7,646 million, 42.7%

**Table 4. Percentage breakdown of year-end euro customer deposits by size of balance**

Account balance bracket (€ thousand)	Number	Amount
Under 1 .....	56.05	0.80
From 1 to 5 .....	21.97	6.46
From 5 to 10 .....	8.69	7.18
From 10 to 20 .....	12.91	48.92
From 20 to 35 .....	0.21	6.32
From 35 to 50 .....	0.06	2.77
From 50 to 100 .....	0.06	4.88
100 or over .....	0.05	22.67
Total .....	100.00	100.00

more than at the end of 2003. During 2004, the Banco Popular Group launched three issues through its BPE Financiaciones, S.A. subsidiary, under the bond program registered by this subsidiary with the Spanish Securities & Exchange Commission in June for an amount of €3,500 million, of which €1,000 million mature in 18 months, €1,500 million in 3 years and the remaining €1,000 million in 5 years. The purpose of these issues is to have available a funds basis for the prudent financing of longer-term loans and discounts.

Second, there are the issues of commercial paper amounting to €4,549 million at year end, a year-on-year increase of 64.9%. These short-term (up to 18 months) securities are

intended for domestic customers and, in commercial terms, therefore constitute an instrument similar to deposits.

The total funds raised by the Group from private sector residents amounted to €35,045 thousand at 2004 year end, up 35.9% in the year. The foregoing amount includes €3.5 million of bond issues. Discounting this effect, the increase was 22.3%.

The subordinated debt relates to long-term debt securities which rank after common creditors for credit seniority purposes. At year end they amounted to €548 million, following the €100 million issue launched in June 2004 by a Group subsidiary, guaranteed by Banco Popular. All the

**Table 5. Breakdown of customer deposits by region in Spain**

(Annual average %)

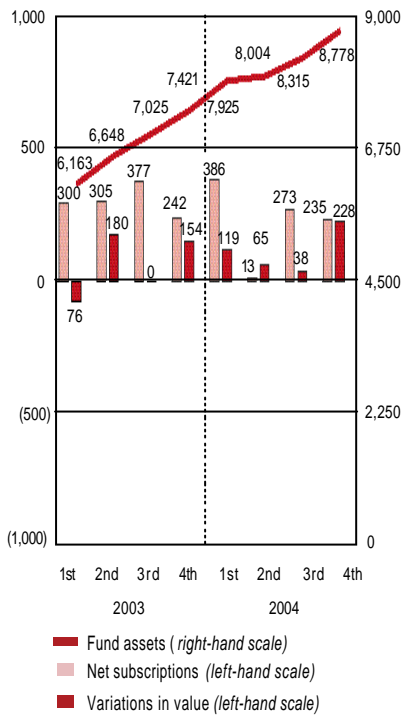
Region of Spain	2004	2003	2002	2001	2000
Andalucía	19.08	17.70	18.18	18.18	17.70
Aragón	1.03	1.04	1.20	1.17	1.05
Asturias	1.58	1.88	1.98	2.16	2.09
Balearic Islands	2.93	2.74	2.89	3.22	3.38
Basque Country	3.00	3.06	3.17	3.38	3.09
Canary Islands	1.37	1.80	1.95	2.18	2.28
Cantabria	0.35	0.38	0.40	0.50	0.43
Castilla-La Mancha	1.90	2.19	2.20	2.17	2.12
Castilla-León	10.31	10.41	10.40	10.18	10.13
Cataluña	10.42	11.07	11.73	12.09	11.87
Extremadura	0.83	0.98	1.04	1.11	1.14
Galicia	7.22	7.55	8.02	8.55	8.58
Madrid	27.86	26.52	23.45	21.14	22.45
Murcia	1.94	2.16	2.26	2.37	2.39
Navarra	2.71	2.62	2.61	2.67	2.67
Rioja	0.69	0.78	0.85	0.80	0.79
Valencia	6.78	7.12	7.67	8.13	7.84
Total	100.00	100.00	100.00	100.00	100.00

**Table 6. Year-end customer deposits by original maturity**

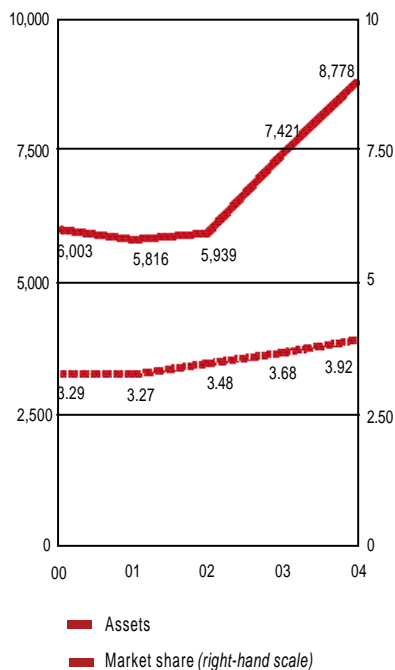
(Data in %)

Term	2004	2003	2002	2001	2000
Demand	50.74	52.93	42.07	45.86	47.90
1 to 3 months	20.64	24.45	16.75	34.43	15.77
3 months to 1 year	18.95	19.73	23.64	10.81	19.65
1 to 5 years	3.36	2.56	14.78	6.27	14.66
Over 5 years	6.31	0.33	2.76	2.63	2.02
Unclassified	—	—	—	—	—
Total	100.00	100.00	100.00	100.00	100.00

**Fig.9 Mutual Funds**  
Causal analysis of variations in fund assets (€million)



**Fig.10 Mutual Funds**  
(€million and %)



eight issues currently existing 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 €14,608 million at 2004 year end, an increase of 18.7% over 2003.

The lower part of Table 3 shows the evolution of these funds.

The Group managed a total of 86 mutual funds (80 in 2003) through several subsidiaries and the assets managed amounted to €8,778 million, 18.3% more than at the end of 2003. These mutual funds evolved very favorably in 2004. Noteworthy was the strong progress in the assets of the equity funds (up 28.2% year on year), driven by the good performance of the stock markets, and the growth of 35.4% in the mixed funds and of 22.3% in the guaranteed funds. The fixed-interest funds were up by 24.0% but the monetary asset (fiamm) funds fell by 3.7%. At year end the fund participants numbered 395,050, an increase of 19.4%.

Mutual fund assets increased by €1,357 million in 2004, comprising €908 million of net entries

(subscriptions minus withdrawals) and €449 million due to the increase in the value of the assets.

Figure 9 presents a causal analysis of the variations in the Group's mutual fund assets in the last two years.

The latest available advanced data (to December) for this sector in Spain reveal that the total assets of mutual funds rose by 11.0% in 2004. This rate was lower than those of the Banco Popular Group, which therefore increased its market share in 2004, as also occurred in 2003, to 3.92%, compared with 3.68% in the preceding year.

Table 7 is a breakdown of the mutual fund assets managed by the Group in 2004 and 2003, and Figure 10 plots the variation in these assets and in market share in the last five years.

Portfolio assets managed by the Group amounted to €978 million at 2004 year end, an increase of 13.6% year on year. This amount comprises €736 million of customers' securities portfolios and €242 million relating to a total of 45 open-end investment (simcav) companies managed, with growth rates of 7.3% and 38.6%, respectively.

The 17 pension plans managed by the Group had total assets of €3,163 million at year end, an 11.4%

**Table 7. Mutual funds, by type**

	2004		2003		Variation	
	Assets	Market share (%)	Amount	%	Amount	%
Money market funds	1,820,126	3.29	1,889,962	3.27	(69,836)	(3.7)
Fixed-income funds	2,282,831	3.27	1,840,826	3.48	442,005	24.0
Equity funds	1,035,130	3.68	807,733	3.68	227,397	28.2
Balanced funds	1,178,108	3.92	870,011	3.68	308,097	35.4
Guaranteed and other funds	2,461,596	3.92	2,012,407	3.68	449,189	22.3
<b>Total</b>	<b>8,777,791</b>	<b>3.92</b>	<b>7,420,939</b>	<b>3.68</b>	<b>1,356,852</b>	<b>18.3</b>

increase year on year. This amount included €590 million relating to the occupational pension plan for staff of the Group's banks. Disregarding this figure, the increase for the year was 13.2%. The number of participants increased by 49,829 (10.6%) to 520,501 at 2004 year end.

The pension plan assets increased by €323 million in 2004, comprising €241 million of net new contributions plus €82 million of asset revaluation.

Figure 11 presents a causal analysis of the variations in the assets of the Group's pension plans in the last two years.

The Group's market share in individual pension plans (to September 2004, the latest date for which sector data are available) was 6.50%, compared to 6.54% in December 2003. Considering all types of pension plans, the market share at September 30, 2004, was 5.02%.

Figure 12 plots the variation in pension plans and market share in the last five years.

Customer funds materialized in insurance policies (technical reserves) amounted to €655 million at year end, up 7.8% year on year.

To summarize, the Group's total on- and off-balance sheet customer funds at 2004 year end amounted to €60,717 million, an increase of 22.0% over 2003.

Figure 8 plots the variation in the last five years.

### 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 2004, the Group's loans and discounts totaled €52,820 million, an increase of €8,515 million in the year, and were 19.2% higher than at 2003 year end. Adjusted for the securitization of €2,000 million of collection rights against SMEs in December 2004, the growth rate was 23.7%.

The average balance of loans and discounts during the year amounted to €49,441 million, an increase of 26.6% over 2003.

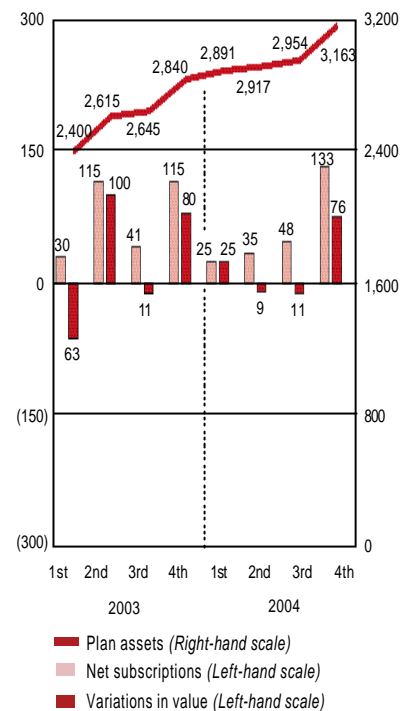
The volume of lending represented 84.2% of the balance sheet total and 114.6% of the on-balance sheet customer funds at year end; the matching percentages for average balances during the year were 83.7% and 117.1%, respectively, with a slight increase over 2003.

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 €51,844 million, an increase of 19.3%.

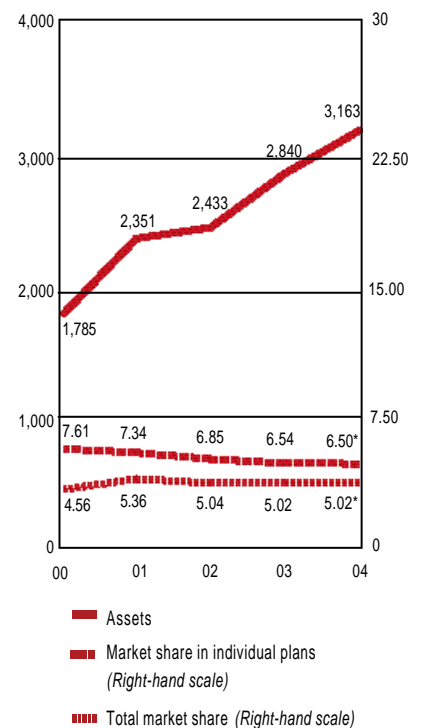
Table 8 is a breakdown of the loans and discounts at December 31, 2004, by type and sector, with the comparative figures for 2003.

The credit extended to private sector residents ("Other residents" in the balance sheet), which accounted for 88% of the total, amounted to €46,490 million, a year-on-year increase of 18.8%; after adjustment for the securitization, the growth rate was 23.9%. Mortgage loans, mainly for homes, were up by 20.7% year on year; adjusted for the securitization mentioned earlier, the

**Fig.11 Pension plans**  
Causal analysis of variations in plan assets (€million)

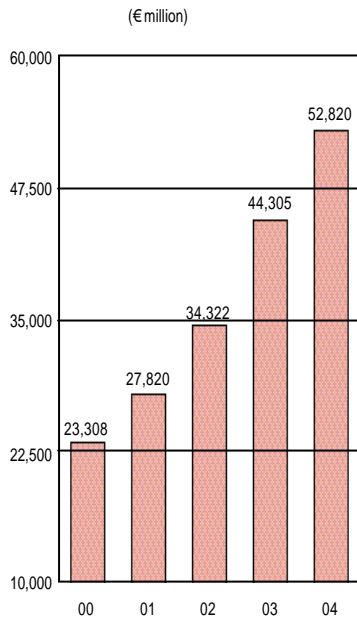


**Fig.12 Pension plans**  
(€million and %)



\* Last figure available at September 30, 2004

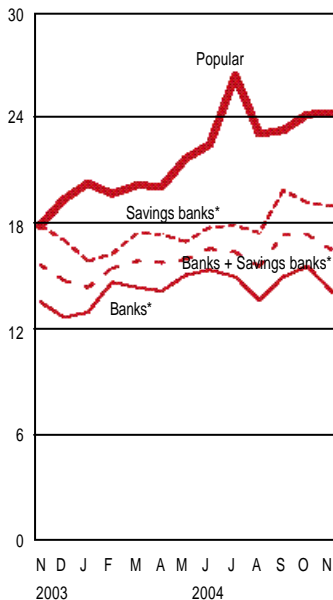
**Fig.13 Loans and discounts**



**Table 8. Loans and discounts**

(€ thousand)			Variation	
	2004	2003	Amount	%
<i>To public bodies:</i>	101,070	61,926	39,144	63.2
Secured loans .....	—	—	—	—
Other term loans .....	100,805	61,855	38,950	63.0
Overdrafts and other .....	265	71	194	>
<i>To other residents:</i>	46,489,641	39,131,313	7,358,328	18.8
Trade loans and discounts .....	6,029,790	5,278,548	751,242	14.2
Secured loans:	24,696,289	20,466,207	4,230,082	20.7
Mortgage loans .....	24,566,938	20,358,714	4,208,224	20.7
Other .....	129,351	107,493	21,858	20.3
Other term loans:	11,407,024	9,768,862	1,638,162	16.8
Loans and credits .....	11,262,172	9,518,599	1,743,573	18.3
Repos .....	144,852	250,263	(105,411)	(42.1)
Overdrafts and other .....	1,459,252	1,287,190	172,062	13.4
Financial leasing .....	2,897,286	2,330,506	566,780	24.3
<i>To nonresidents:</i>	5,789,947	4,705,409	1,084,538	23.0
Trade loans and discounts .....	402,459	366,952	35,507	9.7
Secured loans .....	2,790,175	2,002,658	787,517	39.3
Mortgage loans .....	2,770,424	1,979,649	790,775	39.9
Other .....	19,751	23,009	(3,258)	(14.2)
Other term loans .....	2,464,203	2,230,294	233,909	10.5
Overdrafts and other .....	133,110	105,505	27,605	26.2
<i>Nonperforming loans:</i>	439,642	406,405	33,237	8.2
To public bodies .....	4	30	(26)	(86.7)
To other residents .....	364,522	346,461	18,061	5.2
To nonresidents .....	75,116	59,914	15,202	25.4
<b>Total .....</b>	<b>52,820,300</b>	<b>44,305,053</b>	<b>8,515,247</b>	<b>19.2</b>

**Fig.14 % annual variation in total resident private-sector loans and discounts**



\* Source: Bank of Spain

growth rate was 28.5%. Noteworthy was the significant acceleration in the main categories of non-mortgage lending: trade credit (bill discounting, factoring and other) grew by 14.2%, unsecured credits and loans (other term loans) were up 18.3% (22.4% adjusted for the effect of the securitization) and leasing transactions advanced by 24.3%. In general, credit extended to companies grew faster than in 2003, in line with the Group's policy to energize its commercial action in this customer segment, especially with SMEs.

In 2004, as in the four preceding years, the Group gained market share in loans and credits to private sector residents, since its growth rate amply exceeded that for the Spanish financial

system as a whole. In the twelve months to December 2004, its growth rates exceeded those of all Spanish banks by 10 percentage points, those of Spanish savings banks by 5 percentage points and those of Spanish banks and savings banks as a whole by 8 percentage points.

Figure 14 plots the variation in lending to private sector residents by all Spanish banks and savings banks compared with that of the Group in the period from November 2003 to November 2004 (the latest for which Bank of Spain data are available). As Figure 14 reveals, Banco Popular outperformed both the banks and the savings banks, and particularly the banks, throughout the period analyzed.

Lending to nonresidents was 23.0% higher than in December 2003 at €5,790 million. 69% of this figure related to the loans and discounts of BNC, which grew 18.2% year on year.

Additional information (referring to residents in Spain excluding nonperforming balances) about the

structure and features of loans and discounts is presented below.

Table 9 is a breakdown, for the last two years, of year-end loans and discounts by amount and term (lending matrix). This table shows the high degree of dispersion of risks and a gradual shift to longer terms and higher amounts.

Table 9. Year-end lending matrix (%)								
Term	Amounts (€ thousand)							
	Up to 150		150 to 600		Over 600		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Up to 3 months . . . . .	8.81	10.21	3.77	4.08	5.39	5.50	17.97	19.79
3 months to 1 year . . . . .	8.01	8.95	3.32	3.38	6.98	5.84	18.31	18.17
1 to 3 years . . . . .	7.91	8.57	2.35	2.56	7.45	5.36	17.71	16.49
Over 3 years . . . . .	20.76	21.25	9.19	8.85	16.06	15.45	46.01	45.55
Total . . . . .	45.49	48.98	18.63	18.87	35.88	32.15	100.00	100.00

The distribution of loans and discounts by region in Spain in the last five years is shown in Table 10, which

also reveals the adequate degree of diversification of risks by location.

Table 10. Breakdown of loans and discounts by region in Spain					
(Annual average %)					
Region of Spain	2004	2003	2002	2001	2000
Andalucía . . . . .	21.13	20.32	20.69	20.46	19.98
Aragón . . . . .	1.27	1.37	1.40	1.52	1.52
Asturias . . . . .	1.74	1.82	1.81	1.63	1.63
Balearic Islands . . . . .	2.73	2.84	2.93	2.74	2.71
Basque Country . . . . .	4.82	4.65	4.67	4.73	4.54
Canary Islands . . . . .	3.15	3.12	3.25	3.17	3.06
Cantabria . . . . .	0.39	0.43	0.43	0.42	0.43
Castilla-La Mancha . . . . .	2.02	2.05	2.11	2.13	2.16
Castilla-León . . . . .	8.01	8.45	8.75	9.16	9.63
Cataluña . . . . .	11.37	10.90	10.97	11.47	12.42
Extremadura . . . . .	1.25	1.33	1.38	1.44	1.51
Galicia . . . . .	8.13	8.52	8.72	8.93	9.15
Madrid . . . . .	21.09	21.44	19.76	18.63	17.42
Murcia . . . . .	2.27	2.11	2.24	2.50	2.70
Navarra . . . . .	1.95	2.14	2.25	2.38	2.64
Rioja . . . . .	0.73	0.87	0.94	1.01	1.03
Valencia . . . . .	7.95	7.64	7.70	7.68	7.47
Total . . . . .	100.00	100.00	100.00	100.00	100.00

Table 11 shows the structure of loans and discounts in the last five years classified by original maturity.

The Risk management section of this report includes additional information about the structure and composition of the credit risk.

Fig.15 Customer funds and loans and discounts per employee (€ thousand)

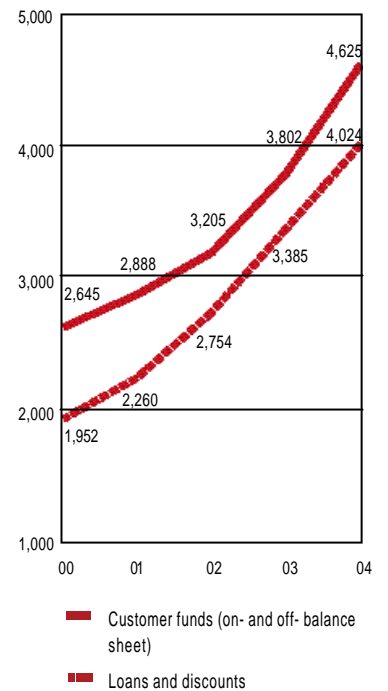
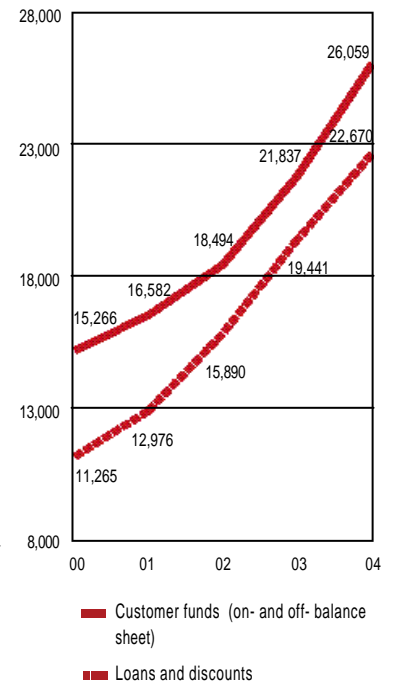


Fig.16 Customer funds and loans and discounts per branch (€ thousand)



**Table 11. Year-end loans and discounts by original maturity**

(Data in %)

Term	2004	2003	2002	2001	2000
Up to 1 month .....	3.36	3.87	3.79	3.60	3.25
1 to 3 months .....	7.05	7.70	10.85	11.47	11.89
3 months to 1 year .....	12.60	11.68	11.54	12.09	12.36
1 to 5 years .....	19.12	22.93	27.15	32.47	36.20
Over 5 years .....	57.42	53.34	45.76	39.23	35.11
Unclassified .....	0.45	0.48	0.91	1.14	1.19
<b>Total .....</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### Off-balance sheet risks

This category, included under memorandum accounts in the balance sheet, consists of the risks with customers not involving the disbursement of funds, also referred to as off-balance sheet risks: avals, other sureties, documentary credits and other guarantees.

These risks amounted to €7,722 million at 2004 year end, up 20.6% year on year.

Table 12 contains comparative 2004/2003 details of the composition of these risks, classified by type of operation, and discloses the amount of the balances deemed to be doubtfully recoverable and of the loss allowances booked for them.

**Table 12. Year-end off-balance sheet risks**

(€ thousand)

	2004	%	2003	%	% variation
Guarantees and other sureties:	7,155,031	92.65	5,937,151	92.70	20.5
Credit and off-balance sheet risks of third parties .	431,292	5.58	344,948	5.39	25.0
Foreign trade transactions .....	115,747	1.50	129,125	2.02	(10.4)
Deferred payments on sales .....	636,894	8.25	404,199	6.31	57.6
Housing construction .....	123,278	1.60	99,222	1.55	24.2
Construction, service or supply contracts .....	1,009,922	13.08	947,784	14.80	6.6
Participation in tenders .....	90,425	1.17	91,958	1.44	(1.7)
Liabilities to administrative agencies .....	1,887,492	24.44	1,635,567	25.53	15.4
Other liabilities .....	2,859,981	37.03	2,284,348	35.66	25.2
Documentary credits .....	488,797	6.33	383,140	5.98	27.6
Other contingent liabilities .....	78,447	1.02	85,146	1.33	(7.9)
<b>Total .....</b>	<b>7,722,275</b>	<b>100.00</b>	<b>6,405,437</b>	<b>100.00</b>	<b>20.6</b>
<i>Pro memoria: Balances classified as doubtful</i> .....	<i>13,067</i>	<i>0.17</i>	<i>11,058</i>	<i>0.17</i>	<i>18.2</i>
Allowance for doubtful balances and country-risk ...	(115,089)	(1.49)	(90,486)	(1.41)	27.2

## Securities portfolios

The balance of the securities portfolios reflected in the December 31, 2004, consolidated balance sheet was €2,847 million (gross amount of €2,861 million minus €14 million of security price fluctuation allowance), an increase of 192.9% on 2003. This substantial increase was due to the acquisition of €1,580 million of bonds as a result of the securitization of collection rights referred to earlier. These bonds were purchased for use as an additional source of low cost, high stability balance sheet funding by discount of them at the European Central Bank.

The valuation methods applicable to the securities portfolios and to the coverage required for possible losses are described in Note 2 d) to the consolidated financial statements.

The balance of the Government debt securities portfolio (Treasury bills and "book entry system" securities) amounting to €70 million, was 148.2% higher than in 2003.

The balance of the fixed-interest securities portfolio was 240.6% higher than in 2003, at €1,893 million. 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 €1,696 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 2004 year end was €842

**Table 13. Year-end security portfolios**

(€thousand)			Variation	
	2004	2003	Amount	%
<i>Government debt securities:</i>	69,529	28,008	41,521	>
Treasury bills	14,722	7,116	7,606	>
Other "book entry system" securities	54,799	20,884	33,915	>
Other	8	8	—	—
Less: Allowance for security price fluctuation	—	—	—	—
Pro memoria: Balance of security price fluctuation allowance	—	—	—	—
Deferred writedowns (unrealized losses)	—	—	—	—
<i>Other fixed-interest securities:</i>	1,893,150	555,895	1,337,255	>
Issued by:				
Public bodies	137,306	132,442	4,864	3.7
Financial intermediaries	26,607	14,551	12,056	82.9
Other residents	1,028	1,444	(416)	(28.8)
Nonresidents	37,547	53,403	(15,856)	(29.7)
Mortgage-backed bonds	110,517	297,257	(186,740)	(62.8)
Non-mortgage-backed securitization bonds	1,585,164	60,613	1,524,551	>
Less: Allowance for security price fluctuation	(5,019)	(3,815)	(1,204)	31.6
Pro memoria: Balance of security price fluctuation allowance	(5,019)	(3,815)	(1,204)	31.6
Deferred writedowns (unrealized losses)	—	—	—	—
<i>Equity securities:</i>	841,845	350,309	491,536	>
Gross	850,661	360,027	490,634	>
Less: Allowance for security price fluctuation	(8,816)	(9,718)	902	(9.3)
<i>Participating interests:</i>	10,815	9,908	907	9.2
Gross	10,815	9,908	907	9.2
Less: Allowance for security price fluctuation	—	—	—	—
<i>Shares of Group companies:</i>	31,486	27,741	3,745	13.5
Gross	31,486	27,741	3,745	13.5
Less: Allowance for security price fluctuation	—	—	—	—
<i>Total</i>	2,846,825	971,861	1,874,964	>

million, compared with €350 million at the end of 2003, an increase of 140.3%. Noteworthy in this caption was the sale of the Banco Popular Group's 1.80% holding in the Metrovacesa real estate company which was recorded in the ordinary investment portfolio.

The portfolios of participating interests include shares of Group, multigroup or associated companies that are carried by the equity method, and amounted to €42 million at 2004 year end, an increase of 12.4% year on year.

Table 13 presents a detail of the Group's securities portfolios at December 31, 2004 and 2003, showing also the security price fluctuation allowance booked at those dates in accordance with the applicable regulations.

#### Goodwill in consolidation

Goodwill in consolidation, on the asset side of the balance sheet, records the positive differences arising on purchases of holdings in companies between the acquisition price and the underlying book value of the companies, with the related harmonization adjustments if appropriate.

Under Spanish accounting regulations, goodwill is an amortizable asset which must be written off during the period in which the holding acquired contributes to the obtainment of revenues for the acquirer company, in a maximum of twenty years.

At 2004 year end the Group's goodwill in consolidation amounted to €322.9 million, compared with €342.4 million in 2003.

The variations in goodwill in 2004 were confined to €19.4 million of amortization.

Table 14 shows the variation in goodwill in consolidation by company in 2004 and 2003 and the original amounts involved.

#### Premises and equipment

The balance of premises and equipment at the end of 2004, net of accumulated depreciation and provisions, amounted to €713 million, 4.9% higher than at the end of 2003. Within this total balance, €388 million related to premises, an increase of €21 million in the year, and €325 million related to equipment items.

**Table 14. Goodwill in consolidation**

At source	At source		Extraordinary		Extraordinary		Extraordinary		Extraordinary		
	Year	Amount	12.31.02	Additions	Amortiz,	amortization	12.31.03	Additions	Amortiz,	Reductions	
Heller Factoring Portuguesa . . . . .	2001	7,073	3,870	–	1,255	–	2,615	–	1,255	–	1,360
BNC Group . . . . .	2003	347,635	–	347,635	8,688	–	338,947	–	17,376	–	321,571
<i>Total Group companies . . . . . (consolidated by global and proportional integration)</i>			<i>3,870</i>	<i>347,635</i>	<i>9,943</i>	<i>–</i>	<i>341,562</i>	<i>–</i>	<i>18,631</i>	<i>–</i>	<i>322,931</i>
Sistema 4B . . . . .	1996 & 1999	11,171	2,435	–	1,623	–	812	–	812	–	–
Bami (Metrovacesa) . . . . .	2001	1,496	948	–	249	699	–	–	–	–	–
<i>Total associated companies . . . . . (equity method)</i>			<i>3,383</i>	<i>–</i>	<i>1,872</i>	<i>699</i>	<i>812</i>	<i>–</i>	<i>812</i>	<i>–</i>	<i>–</i>
<i>Total . . . . .</i>			<i>7,253</i>	<i>347,635</i>	<i>11,815</i>	<i>699</i>	<i>342,374</i>	<i>–</i>	<i>19,443</i>	<i>–</i>	<i>322,931</i>

The premises balance includes €289 million of operating premises (for own use). Foreclosed assets had a net value of €65 million (book value of €98 million minus provisions of €33 million). The Group has other premises amounting to €34 million.

The equipment category includes the cost value of €926 million, with accumulated depreciation of €601

million. Net additions in 2004 amounted to €12 million, 4.0% more than in 2003, relating mainly to the information technology equipment.

Table 15 shows the variation in premises and equipment during the year, detailing the cost values, the accumulated depreciation and the related provisions, and the related 2003 figures.

**Table 15. Premises and equipment**

			Variation	
	2004	2003	Amount	%
<i>(€ thousand)</i>				
<i>Premises for own use</i> .....	289,328	293,814	(4,486)	(1.5)
Cost .....	389,952	397,722	(7,770)	(2.0)
Less: Accumulated depreciation .....	(100,624)	(103,908)	3,284	(3.1)
<i>Other premises</i> .....	33,697	23,211	10,486	45.2
Cost .....	48,931	27,053	21,878	80.9
Less: Accumulated depreciation .....	(15,234)	(3,842)	(11,392)	>
<i>Foreclosed assets</i> .....	65,323	50,155	15,168	30.2
Gross .....	98,311	80,984	17,327	21.4
Less: Allowance .....	(32,988)	(30,829)	(2,159)	7.0
<i>Total premises</i> .....	388,348	367,180	21,168	5.8
<i>Equipment</i> .....	324,765	312,408	12,357	4.0
Cost .....	926,491	864,906	61,585	7.1
Less: Accumulated depreciation .....	(600,697)	(551,177)	(49,520)	9.0
Less: Other allowances .....	(1,029)	(1,321)	292	(22.1)
<i>Total</i> .....	713,113	679,588	33,525	4.9

### Balance sheet in euros and foreign currency

Table 16 presents the Group's consolidated balance sheets as of December 31, 2004 and 2003, with the caption balances broken down into euros and foreign currencies.

Assets denominated in foreign currencies with a euro value of €1,274 million, accounted for only 2.0% of the balance sheet total, a 1.2% increase on 2003.

**Table 16. Summarized euro and foreign currency balance sheets**

(€thousand)	2004			2003		
	€	Foreign currencies	Total	€	Foreign currencies	Total
<b>Assets:</b>						
Cash and due from central banks	885,004	8,339	893,343	1,068,079	12,210	1,080,289
Government debt securities	69,529	–	69,529	28,008	–	28,008
Due from financial intermediaries	3,592,118	784,001	4,376,119	3,697,638	866,574	4,564,212
Loans and discounts	51,411,404	432,353	51,843,757	43,139,956	326,649	43,466,605
Private fixed-interest securities	1,871,180	21,970	1,893,150	519,111	36,784	555,895
Equity securities	840,965	880	841,845	348,742	1,567	350,309
Participating interests	10,815	–	10,815	9,908	–	9,908
Shares of group companies	31,486	–	31,486	27,741	–	27,741
Intangible assets	17,520	–	17,520	20,666	–	20,666
Goodwill in consolidation	322,931	–	322,931	342,374	–	342,374
Tangible assets	713,113	–	713,113	679,588	–	679,588
Treasury stock	4,599	–	4,599	–	–	–
Prepayments and accrued income	359,500	6,007	365,507	296,630	6,877	303,507
Other asset accounts	1,257,674	20,162	1,277,836	1,102,807	7,556	1,110,363
Losses at consolidated companies	80,286	–	80,286	71,686	–	71,686
<b>Total</b>	<b>61,468,124</b>	<b>1,273,812</b>	<b>62,741,836</b>	<b>51,352,934</b>	<b>1,258,217</b>	<b>52,611,151</b>
<b>Liabilities and capital:</b>						
Due from financial intermediaries	5,471,647	3,341,280	8,812,927	6,181,117	2,351,409	8,532,526
Customer deposits	32,574,561	791,500	33,366,061	28,188,266	706,251	28,894,517
Bonds and other marketable debt securities	12,099,888	95,260	12,195,148	7,709,812	405,569	8,115,381
Other liability accounts	1,593,846	8,131	1,601,977	1,164,621	10,768	1,175,389
Accruals and deferred income	393,122	14,682	407,804	279,595	10,505	290,100
Special allowances	315,908	4,315	320,223	406,614	3,830	410,444
Negative difference in consolidation	418	–	418	418	–	418
Subordinated financing	474,964	73,416	548,330	374,964	79,177	454,141
Shareholders' equity	3,348,095	–	3,348,095	2,981,849	–	2,981,849
Minority interests	1,252,591	–	1,252,591	978,589	–	978,589
Net income for the year	888,212	–	888,212	777,797	–	777,797
<b>Total</b>	<b>58,413,252</b>	<b>4,328,584</b>	<b>62,741,836</b>	<b>49,043,642</b>	<b>3,567,509</b>	<b>52,611,151</b>
<b>Pro memoria:</b>						
Off-balance sheet risks	7,308,514	413,761	7,722,275	6,021,470	383,967	6,405,437
Unused portion of credit lines	13,733,548	–	13,733,548	8,382,087	–	8,382,087

## Income and profitability

### Income statement

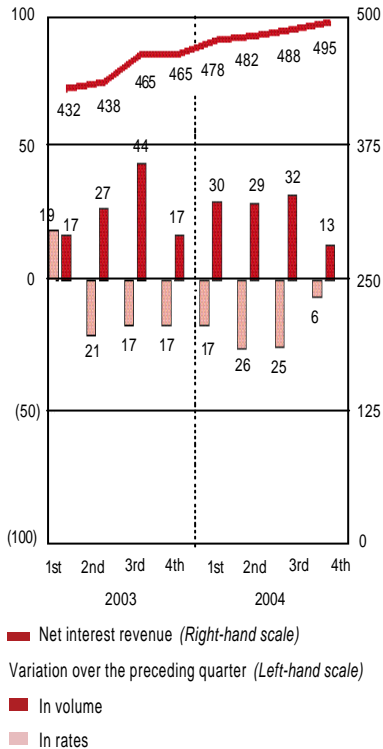
The Group's consolidated income statements for the years ended December 31, 2004 and 2003, are presented in Table 17 in the vertical cascade format with the same level of analytical breakdown as in previous years' Reports. The Financial Statements section of this Report presents the income statements for the

last five years in the public reporting format stipulated by the Bank of Spain. As is known, the Portuguese bank BNC and its subsidiaries were included in the Group with effect from June 30, 2003, and, therefore, the 2003 income statement does not include the results of these entities for the first half of 2003. The following analysis additionally presents the main rates of variation adjusted for this effect, so as to permit homogeneous interannual comparison.

**Table 17. Income statements**

(€ thousand)	2004	2003	% increase (decrease)
Interest and similar revenues	2,726,302	2,503,435	8.9
– Interest and similar charges:	832,778	735,121	13.3
+ Revenues from equity securities	50,088	31,584	58.6
<b>= Net interest revenue</b>	<b>1,943,612</b>	<b>1,799,898</b>	<b>8.0</b>
+ Fees for services, net:	669,435	607,838	10.1
<i>Loan-related fees</i>	79,619	72,646	9.6
<i>Fees for guarantees, other sureties and documentary credits</i>	78,534	67,127	17.0
<i>Fees for other banking services</i>	511,282	468,065	9.2
<b>= Basic banking revenue</b>	<b>2,613,047</b>	<b>2,407,736</b>	<b>8.5</b>
+ Asset trading and exchange profits, net:	38,987	31,715	22.9
<i>Financial asset trading income</i>	10,060	(329)	
<i>Less: Writedowns of securities portfolio and derivatives</i>	(2,138)	1,229	
<i>Exchange, translation and dealing gains</i>	31,065	30,815	0.8
<b>= Ordinary revenue</b>	<b>2,652,034</b>	<b>2,439,451</b>	<b>8.7</b>
– Operating costs:	900,608	841,997	7.0
<i>Personnel expenses</i>	628,511	596,848	5.3
<i>General expenses</i>	234,899	210,504	11.6
<i>Taxes other than income tax</i>	37,198	34,645	7.4
– Depreciation	81,139	75,953	6.8
+ Other operating income	1,079	2,113	(48.9)
– Other operating expenses:	39,046	37,370	4.5
<i>Contribution to Guarantee Fund</i>	14,663	13,490	8.7
<i>Directors' fees and other mandated appropriations</i>	22,888	22,889	-
<i>Other</i>	1,495	991	50.9
<b>= Operating income</b>	<b>1,632,320</b>	<b>1,486,244</b>	<b>9.8</b>
+ Share in equity method investees' income, net	11,182	11,742	(4.8)
– Amortization of goodwill in consolidation	19,443	11,815	64.6
+ Gains (Losses) on group transactions, net	754	830	(9.2)
– Writeoffs and provisions for credit losses:	303,082	316,192	(4.1)
<i>Provision to allowance for credit losses</i>	361,417	357,520	1.1
<i>Less: Recovery of bad debts written off</i>	(58,335)	(41,328)	41.2
– Provision to general banking risk allowance	-	-	
± Extraordinary gains (losses), net:	(29,301)	34,373	
<i>Gain on disposal of fixed assets</i>	13,571	41,455	(67.3)
<i>Extraordinary provision to allowance for pensions</i>	(89,258)	(13,920)	>
<i>Provision to allowances for other purposes</i>	39,699	(6,643)	
<i>Other</i>	6,687	13,481	(50.4)
<b>= Income before taxes</b>	<b>1,292,430</b>	<b>1,205,182</b>	<b>7.2</b>
– Corporate income tax provision	404,218	427,385	(5.4)
<b>= Net income</b>	<b>888,212</b>	<b>777,797</b>	<b>14.2</b>
– Minority interests	87,323	63,526	37.5
<i>Ordinary shares</i>	53,728	45,824	17.2
<i>Preference shares</i>	33,595	17,702	89.8
<b>= Net income attributable to Popular shareholders</b>	<b>800,889</b>	<b>714,271</b>	<b>12.1</b>

**Fig.17 Causal analysis of variation in net interest revenue**  
(€million)



Interest revenues (total asset revenues) in 2004 amounted to €2,776 million, an increase of 9.5% over 2003. Of that amount, €2,726 million were interest and similar revenues and €50 million were dividends, with year-on-year growth rates of 8.9% and 58.6%, respectively.

Interest expenses (interest and similar charges) were 13.3% higher than in 2003 at €833 million.

Subtraction of interest expenses from interest revenues leaves the net interest revenue, which at €1,944 million was 8.0% higher. Excluding dividends, the figure was €1,894 million, 7.1% higher than for 2003. Adjusted for the inclusion of BNC, the growth rates were 4.7% and 3.7%, respectively. The declining trend of the adjusted net interest revenue in the first half changed to an upward progression from the end of the second quarter. This change defines a growth trend for next year.

Causal analysis of the variations in net interest revenue in 2004 and the split of its growth into its two underlying factors - the variation in business

volume, on the one hand, and in prices, on the other - disclose that the total increase of €144 million over 2003 was the net result of €455 million due to the growth of balance sheet aggregates, assuming stability of interest rates, minus €311 million due to the fall in rates. These figures confirm the close relation between business volume and the financial margin.

Table 18 presents the results of causal analysis of the net interest revenue in 2004 detailing their effect on the several captions of assets and funds in the balance sheet.

Figure 17 shows the causal analysis of the net interest revenue by quarter in 2004 and 2003 based on the two variation factors noted above.

Service fee revenues amounted to €669 million, up 10.1% year on year (8.2% adjusted for the effect of BNC).

Table 19 presents a breakdown of service fee revenues in 2004 and 2003.

Noteworthy was the 12.1% growth in financial asset administration fees and, within this caption, the 19.1% rise

**Table 18. Causal analysis of the variation in net interest revenue**

Variation in ...	Due to ...		
	Increase in volume	Changes in interest rates	Total variation
Treasury bills .....	(1,044)	(772)	(1,816)
Financial system .....	7,193	(16,176)	(8,983)
Loans and discounts .....	620,758	(382,502)	238,256
Securities portfolio .....	13,119	795	13,914
Other assets .....	-	-	-
<b>Total assets .....</b>	<b>640,026</b>	<b>(398,655)</b>	<b>241,371</b>
Financial system .....	43,067	(23,685)	19,382
Customer funds:	142,081	(63,806)	78,275
Customer deposits .....	75,596	(35,316)	40,280
Bonds and other marketable debt securities ..	66,485	(28,490)	37,995
Pension allowance .....	-	-	-
Other funds .....	-	-	-
Capital accounts .....	-	-	-
<b>Total funds .....</b>	<b>185,148</b>	<b>(87,491)</b>	<b>97,657</b>
<b>Net interest revenue .....</b>	<b>454,878</b>	<b>(311,164)</b>	<b>143,714</b>

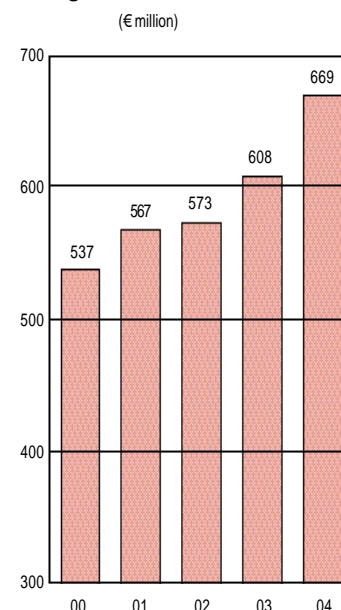
in fees for mutual fund management and the increase of 13.3% in pension plan management fees as a result of the growth in the assets administered, as discussed in the Customer funds section. Also, the fees for asset transactions not included in interest revenues grew notably by 9.6%, those for off-balance sheet transactions (collateral and other guarantees) by 17.0% and, finally, the fees for administration of demand accounts grew by 27.3% year on year.

Figure 18 plots the evolution of service fee revenues in the last five years.

The net interest revenue plus service fee revenues constitute the basic banking revenue, which amounted to €2,613 million in 2004, an increase of 8.5% over 2003.

The asset trading and exchange profits, which consist of those obtained on the trading of financial assets and derivatives, net of provisions to the security price fluctuation allowance, plus exchange gains, reached a net amount of €39 million, up 22.9% on the previous year. This sharp increase was due to the sale of the Banco Popular Group's 1.80% holding in the Metrovacesa real estate company,

**Fig.18 Service revenues**



**Table 19. Service revenues**

(€thousand)	2004	2003	% Variation
Loan-related fees:	79,619	72,646	9.6
<i>Bill discounting</i> .....	39,948	37,454	6.7
<i>Other</i> .....	39,671	35,192	12.7
Provision of guarantees and other sureties .....	78,534	67,127	17.0
Operating services:	511,282	468,065	9.2
Collection and payment handling :	251,438	244,276	2.9
<i>Note collection</i> .....	59,715	59,183	0.9
<i>Checks</i> .....	24,048	24,017	0.1
<i>Direct debit transactions</i> .....	18,635	17,723	5.1
<i>Payment systems</i> .....	104,951	100,052	4.9
<i>Fund transfers</i> .....	44,089	43,301	1.8
Foreign currency purchase and sale transactions	1,994	1,957	1.9
Customer financial asset management:	195,049	173,946	12.1
<i>Securities portfolio</i> .....	23,556	27,530	(14.4)
<i>Mutual funds</i> .....	114,088	95,766	19.1
<i>Pension plans</i> .....	57,405	50,650	13.3
Administration of demand deposits .....	61,990	48,685	27.3
Other .....	811	(799)	
<b>Total</b> .....	<b>669,435</b>	<b>607,838</b>	<b>10.1</b>

which gave rise to a gain of €13.7 million that is recorded under the asset trading and exchange profits caption in the income statement.

The total banking revenues (ordinary revenue), i.e. the net interest revenue plus service fee revenues and asset trading and exchange profits, amounted to €2,652 million, an

increase of 8.7% year on year. Adjusted for the effect of the integration of BNC, the amount was €2,581 million, with a growth rate of 5.8%.

Operating costs increased by 7.0% to €901 million, €59 million more than in 2003. Excluding BNC, operating costs grew by a moderate 3.3% in 2004.

This caption includes most notably personnel expenses, which were up 5.3% (2.1% adjusted for the BNC effect) at €629 million. The total headcount at year end numbered 13,127 persons, 38 (0.3%) more than in 2003.

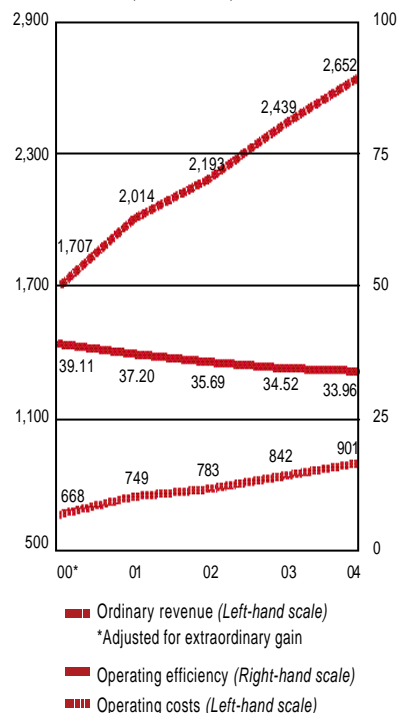
Sundry taxes, i.e. all taxes except corporate income tax, were 7.4% higher at €37 million in 2004.

Table 20 presents an itemized detail of operating costs in 2004 and 2003.

The level of operating efficiency - i.e. the percentage of ordinary revenue absorbed by operating costs - continued to improve and for 2004 as a whole stood at 33.96% (33.72% excluding BNC), an improvement of 0.56 percentage points compared with the 34.52% in 2003. The effect of the inclusion of BNC, which is currently less efficient (43.76%) despite its notable improvement since it joined the Group, was absorbed without difficulty because of the improvement achieved in the rest of the Group.

**Fig.19 Operating efficiency**

(€ million and %)



General expenses, up by 11.6% (6.3% adjusted for the integration of BNC), amounted to €235 million. The major components were IT expenses, amounting to €62 million, up 3.2% year on year; rent, amounting to €43 million, up 12.4%; and communications, amounting to €31 million, up 2.1%. The sharpest percentage increases were in advertising expenses (up 56.5%) due to the increased commercial activity, and in technical reports (up 30.5%).

**Table 20. Itemized breakdown of operating costs**

(€ thousand)	2004	2003	% Variation
<b>Personnel expenses:</b>			
Wages and salaries	462,230	435,221	6.2
Social security charges	115,981	112,108	3.5
Other personnel expenses	14,780	14,640	1.0
Pensions	35,520	34,879	1.8
<b>Total</b>	<b>628,511</b>	<b>596,848</b>	<b>5.3</b>
<b>General expenses:</b>			
Rents and common services	43,231	38,470	12.4
Communications	30,636	30,008	2.1
Maintenance of premises and equipment	20,855	18,030	15.7
EDP expenses	62,105	60,152	3.2
Stationery and office supplies	6,977	6,507	7.2
Technical reports and legal expenses	8,783	6,729	30.5
Advertising	17,495	11,178	56.5
Insurance	3,182	3,705	(14.1)
Security and fund transport services	17,168	14,725	16.6
Travel	10,865	9,270	17.2
Other*	13,602	11,730	16.0
<b>Total</b>	<b>234,899</b>	<b>210,504</b>	<b>11.6</b>
<b>Taxes other than income tax:</b>			
Stamp duties	-	-	
Municipal tax	1,091	758	43.9
Urban property tax	1,619	1,524	6.2
Business license tax	7,825	7,315	7.0
Value added tax	25,271	23,402	8.0
Other	1,392	1,646	(15.4)
<b>Total</b>	<b>37,198</b>	<b>34,645</b>	<b>7.4</b>
<b>Total operating costs</b>	<b>900,608</b>	<b>841,997</b>	<b>7.0</b>

\* Net of the expenses recovered from third parties not allocated to their respective captions

In comparison with Spanish banks as a whole, the ratio for which, per the latest available (September 2004) data, was 46.7%, the Group again had a substantial edge of around 13 percentage points.

Table 21 and Figure 19 show the evolution of the Group's level of operating efficiency in the last five years.

Depreciation of tangible assets and amortization of intangible assets in 2004 totaled €81 million, 6.8% (3.0% excluding BNC) more than the 2003 figure.

The other operating revenues and expenses captions amounted to €1.1 million and €39.0 million, respectively, signifying a net charge of €38.0 million, an increase of 7.7% on 2003. This caption balance includes mainly the following items: €14.7 million of contributions to guarantee funds; provisions of €0.1 million for directors' remuneration; and contributions of €22.8 million to welfare foundations, pursuant to resolutions adopted with permanent effects in the past by the Group banks' boards of directors. This caption also includes €0.4 million of net charges under various headings of scant significance.

Subtraction from ordinary revenue of the operating costs, of the depreciation and amortization, and of

the net amount of other operating revenues and charges leads to the operating income, which in 2004 amounted to €1,632 million, 9.8% higher than in 2003; adjusted for the effect of the integration of BNC the amount was €1,594 million, an increase of 7.3% year on year.

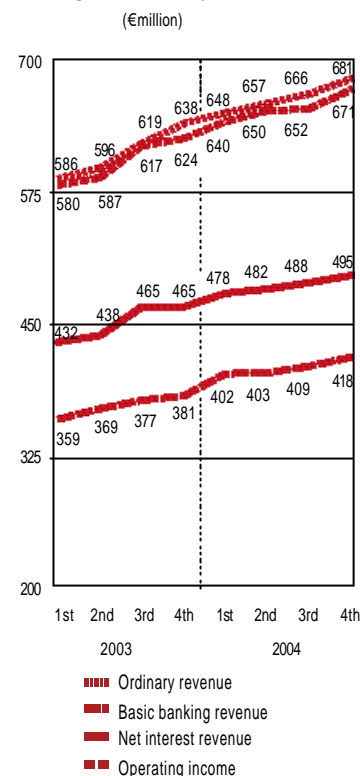
Figure 20 shows the quarterly evolution in the last two years of net interest revenue, basic banking revenue, ordinary revenue and operating income.

The following paragraphs analyze the items in the lower part of the cascade-format income statement in order to reach net income for the year.

The net results of the companies consolidated by the equity method amounted to €11.2 million, compared with €11.7 million in 2003. These amounts were the result of higher income at these companies (€18.6 million in 2004 and €17.9 million in 2003), adjusted for the dividends paid (€7.4 million and €6.1 million, respectively), which are recorded as revenues from equity securities.

Amortization of the goodwill in consolidation reflects the writeoff of the goodwill (difference between purchase price and book value, plus the related accounting harmonization adjustments) which arose on the purchase of ownership interests. This amortization

**Fig.20 Quarterly revenues**



**Table 21. Operating efficiency**

(As % of ordinary margin)	2004	2003	2002	2001	2000*
Intermediation margin	73.29	73.78	72.57	69.59	66.01
Fees for services and asset trading and exchange profits	26.71	26.22	27.43	30.41	33.99
<i>Ordinary margin</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
Operating costs	(33.96)	(34.52)	(35.69)	(37.20)	(39.11)
Depreciation	(3.06)	(3.11)	(3.10)	(3.39)	(3.78)
Other operating income/expenses	(1.43)	(1.45)	(1.56)	(1.98)	(2.38)
Writedowns and provisions	(14.03)	(14.29)	(12.35)	(15.78)	(8.36)
Other items	1.21	2.77	0.83	0.67	0.77
Corporate income tax	(15.24)	(17.52)	(16.77)	(11.82)	(16.57)
<i>Net income</i>	<i>33.49</i>	<i>31.88</i>	<i>31.36</i>	<i>30.50</i>	<i>30.57</i>

\* Adjusted for extraordinary gain

amounted to €19.4 million in 2004, of which €17.4 million related to the purchase of BNC.

The results on Group transactions, amounting to €0.8 million, similar to the figure in 2003, relate to the gains or losses on the trading of Group companies' securities.

**Table 22. Quarterly income and profitability**

(€ thousand)	2003				2004			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Interest and similar revenues	625,019	623,396	645,280	641,324	664,739	681,020	705,444	725,187
– Interest and similar charges	193,250	185,348	180,437	176,086	186,559	199,361	217,126	229,732
<b>= Net interest revenue</b>	<b>431,769</b>	<b>438,048</b>	<b>464,843</b>	<b>465,238</b>	<b>478,180</b>	<b>481,659</b>	<b>488,318</b>	<b>495,455</b>
+ Fees for services, net	148,228	148,675	151,674	159,261	161,810	168,457	163,565	175,603
+ Asset trading & exchange profits, net	5,633	9,286	2,889	13,907	7,696	6,887	14,453	9,951
<b>= Ordinary revenue</b>	<b>585,630</b>	<b>596,009</b>	<b>619,406</b>	<b>638,406</b>	<b>647,686</b>	<b>657,003</b>	<b>666,336</b>	<b>681,009</b>
– Operating costs:	199,735	200,634	213,615	228,013	216,172	224,570	226,756	233,110
<i>Personnel expenses</i>	141,397	142,089	153,203	160,159	152,135	155,415	157,182	163,779
<i>Other expenses</i>	58,338	58,545	60,412	67,854	64,037	69,155	69,574	69,331
– Depreciation	17,739	18,056	19,760	20,398	19,939	20,309	20,291	20,600
± Other operating income/expenses, net	(8,719)	(8,674)	(8,836)	(9,028)	(9,190)	(9,274)	(10,231)	(9,272)
<b>= Operating income</b>	<b>359,437</b>	<b>368,645</b>	<b>377,195</b>	<b>380,967</b>	<b>402,385</b>	<b>402,850</b>	<b>409,058</b>	<b>418,027</b>
± Other items, net	11,332	28,258	5,552	22,366	2,142	20,537	4,834	4,681
– Provisions and writedowns	85,701	104,460	69,243	89,166	95,321	101,660	70,048	105,055
<b>= Income before taxes</b>	<b>285,068</b>	<b>292,443</b>	<b>313,504</b>	<b>314,167</b>	<b>309,206</b>	<b>321,727</b>	<b>343,844</b>	<b>317,653</b>
– Corporate income tax provision	104,889	110,751	105,896	105,849	109,550	114,001	102,514	78,153
<b>= Net income</b>	<b>180,179</b>	<b>181,692</b>	<b>207,608</b>	<b>208,318</b>	<b>199,656</b>	<b>207,726</b>	<b>241,330</b>	<b>239,500</b>
– Minority interests	14,683	15,404	16,038	17,401	19,095	19,495	24,493	24,240
<b>= Net income attributable</b>	<b>165,496</b>	<b>166,288</b>	<b>191,570</b>	<b>190,917</b>	<b>180,561</b>	<b>188,231</b>	<b>216,837</b>	<b>215,260</b>
Pro memoria (€ million):								
Average total assets	43,761	45,783	50,327	50,965	54,338	58,012	61,346	62,572
Average total risk-weighted assets (RWA)	37,437	39,451	44,204	45,276	47,949	51,710	53,786	55,732
Average total equity	2,583	2,586	2,993	2,997	3,254	3,267	3,264	3,263
(As annualized % of average total assets)								
Yield on assets	5.71	5.45	5.13	5.03	4.89	4.70	4.60	4.64
– Cost of funds	1.76	1.62	1.44	1.38	1.37	1.38	1.42	1.47
<b>= Net interest margin</b>	<b>3.95</b>	<b>3.83</b>	<b>3.69</b>	<b>3.65</b>	<b>3.52</b>	<b>3.32</b>	<b>3.18</b>	<b>3.17</b>
+ Yield on services, net	1.35	1.30	1.21	1.25	1.19	1.16	1.07	1.12
+ Yield on fin. assets trading & exch. profits	0.05	0.08	0.02	0.11	0.06	0.05	0.09	0.06
<b>= Ordinary margin</b>	<b>5.35</b>	<b>5.21</b>	<b>4.92</b>	<b>5.01</b>	<b>4.77</b>	<b>4.53</b>	<b>4.34</b>	<b>4.35</b>
– Operating costs:	1.82	1.75	1.70	1.79	1.59	1.55	1.48	1.49
<i>Personnel costs</i>	1.29	1.24	1.22	1.26	1.12	1.07	1.03	1.05
<i>Other expenses</i>	0.53	0.51	0.48	0.53	0.47	0.48	0.45	0.44
– Depreciation	0.16	0.16	0.15	0.16	0.15	0.14	0.13	0.13
± Other operating income/expenses, net	(0.08)	(0.08)	(0.07)	(0.07)	(0.07)	(0.06)	(0.06)	(0.06)
<b>= Operating profitability</b>	<b>3.29</b>	<b>3.22</b>	<b>3.00</b>	<b>2.99</b>	<b>2.96</b>	<b>2.78</b>	<b>2.67</b>	<b>2.67</b>
± Other items, net	0.10	0.25	0.04	0.18	0.02	0.14	0.03	0.03
– Provisions and writedowns	0.78	0.91	0.55	0.70	0.70	0.70	0.46	0.67
<b>= Pre-tax income return</b>	<b>2.61</b>	<b>2.56</b>	<b>2.49</b>	<b>2.47</b>	<b>2.28</b>	<b>2.22</b>	<b>2.24</b>	<b>2.03</b>
– Corporate income tax	0.96	0.97	0.84	0.83	0.81	0.79	0.67	0.50
<b>= Net income return (ROA)</b>	<b>1.65</b>	<b>1.59</b>	<b>1.65</b>	<b>1.64</b>	<b>1.47</b>	<b>1.43</b>	<b>1.57</b>	<b>1.53</b>
Pro memoria:								
Net return on average risk-weighted assets (RORWA) (%)	1.93	1.84	1.88	1.84	1.67	1.61	1.79	1.72
Net return on average equity (ROE) (%)	25.63	25.72	25.60	25.48	22.19	23.05	26.58	26.39
Leverage	15.5 x	16.2 x	15.5 x	15.5 x	15.1 x	16.1 x	16.9 x	17.2 x
Operating efficiency (%)	34.11	33.66	34.49	35.72	33.38	34.18	34.03	34.23

The net credit loss provisions were 1.1% higher at €361.4 million.

The detail of the provisions booked is as follows: €182.4 million of specific provisions for troubled risks, €15.4 million of general allowance provisions, €123.3 million of provisions to the statistical credit loss allowance, €36.7 million for writeoff of unprovisioned risks, and €3.6 million to the country-risk allowance.

Loans written off as bad debts recovered in 2004 amounted to €58 million, 41.2% more than in 2003.

There was a gain of €13.6 million on the disposal of assets, compared with €41.5 million in 2003, arising in that year from the divestment of certain premises which, as a result of the reorganization of several units, became available for sale.

The extraordinary pension contributions amounted to €89.3 million (€13.9 million in 2003) and consisted of €60.9 million for the contribution to an extraordinary early retirements plan, €15.9 million for coverage of other commitments analogous to pensions, and €6.5 million for the amortization of the difference disclosed by applying the basis for calculation of the funds pursuant to Bank of Spain Circular 5/2000. €3.9 million were also contributed for accounting harmonization of the commitments of BNC and Banco Popular France, and €2.1 million for the contributions to the pension funds and supplementary insurance contracts set up in connection with the externalization of pension commitments to cater for variations in the persons covered by the funds (the annual contributions are of an ordinary nature and they are therefore booked as period personnel costs).

The provisions for other purposes include those booked to allowances for writeoff of buildings, for tax and legal contingencies and other minor items and amounted to €4.9 million, and €44.6 million of provisions booked in previous years were released, giving rise to extraordinary income of €39.7 million.

The balance of the other sundry results caption was €6.7 million, compared with €13.5 million in 2003. This caption encompasses prior years' revenues and costs, together with others not connected with operations for the year.

The gross (pretax) income amounted to €1,292 million, an increase of 7.2% year on year; adjusted for the integration of BNC, the growth rate was 5.9%.

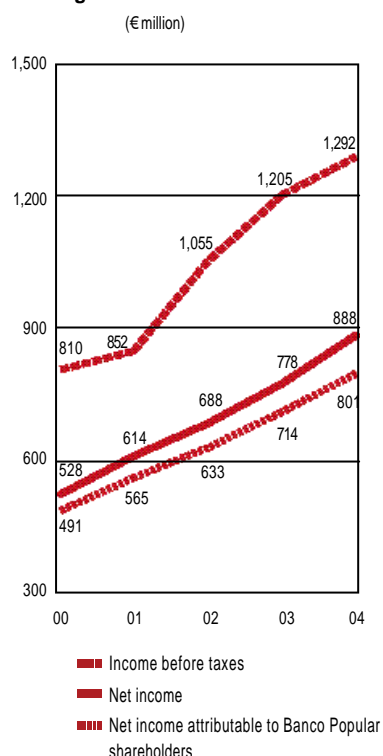
From the foregoing figure must be subtracted the €404 million of corporate income tax, which was 5.4% lower than in 2003. The apparent tax rate was 31.3%, which was lower than the 2003 rate of 35.46%.

The calculation of corporate income tax in 2004 and 2003 is shown in Table 23.

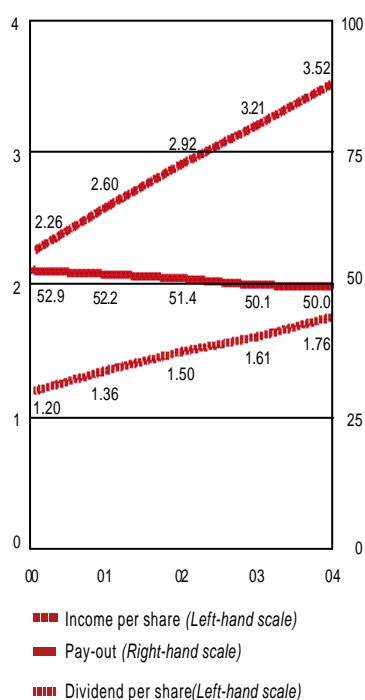
The net income for the year of €888 million was 14.2% higher than in 2003. Subtraction of the minority interests in certain subsidiaries' common shares not owned by the Group parent entity (€54 million) and the preferred stock (€33 million) leads finally to the net income attributable to the shareholders of Banco Popular, which at €801 million was 12.1% higher than in 2003.

Earnings per share, calculated on the average number of shares during the year, were €3.5221, an increase of 9.6% compared with the €3.2135 in the previous year.

**Fig.21 Growth of income**



**Fig.22 Income and dividend per share (€) Pay-out (%)**



**Table 23. Corporate income tax calculation**

(€ thousand)	2004	2003	% Variation
Income before taxes	1,292,430	1,205,182	7.2
Additions	362,877	279,334	29.9
Reductions	290,052	140,197	>
Taxable income	1,365,255	1,344,319	1.6
Tax charge (35 %)	477,839	470,512	1.6
Tax credits:			
For double taxation	44,502	43,028	3.4
For tax relief	606	601	0.8
For donations	6,364	7,593	(16.2)
For investments	430	313	37.4
For reinvestments	2,114	8,219	(74.3)
For contributions to pension plans	34	1,037	(96.7)
Tax payable	423,789	409,721	3.4
Adjustment for temporary differences in payments and other, net	(19,571)	17,664	>
Total provision	404,218	427,385	(5.4)

In accordance with the proposed distribution of income adopted by the Board of Directors at its meeting on January 26, 2005, set forth in Note 4 to the consolidated financial statements, the dividend for 2004 will be €1.76 per share, 9.3% higher than the €1.61 dividend for 2003. The total dividend out of 2004 earnings amounts to €400 million.

The proposed dividend signifies a pay-out - the percentage of attributable income allocated for dividends - of 50.0%, similar to the 50.1% pay-out in 2003.

Table 24 and Figures 21 and 22 show the evolution of the attributable income and dividends in absolute amounts, the same information per share and the pay-out in the last five years.

**Table 24. Attributable income, dividend and pay-out**

Year	Average number of shares (thousands)*	Net income attributable (€ thousand)	Dividend ** (€ thousand)	Pay-out (%)
2000	217,154	490,557	259,499	52.9
2001	217,154	565,282	295,330	52.2
2002	217,154	633,490	329,722	52.0
2003	222,270	714,271	366,092	51.3
2004	227,387	800,889	400,200	50.0

Year	Average number of shares (thousands)*	Net income (€)	Dividend (€)	Pay-out (%)
2000	217,154	2.259	1.195	52.9
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
2004	227,387	3.522	1.760	50.0

\* Figures adjusted for 2 x 1 share split in 2000

\*\* Relating to the number of shares outstanding at the dates of payment of the quarterly dividends

## Yields and costs

The joint analysis of the Group's income statement and balance sheet set forth in the preceding sections makes it possible to evaluate the profitability of the business by comparing the revenues and costs - and, by the difference between them, the margins - with the balance sheet assets and funds aggregates which gave rise to them.

As stated earlier, the integration of BNC took place with effect June 30, 2003, and, therefore, the aggregates for 2003 in Table 25 do not include those of BNC for the first half of that year. The main rates and margins have been corrected so as to make the year-on-year comparison homogeneous.

A brief comment is called for about the economic environment in which the Group operated in 2004 and in particular about the evolution of the money markets in the European Monetary Union, which are the framework of reference for appropriately evaluating the management performance.

In the period 2002-2004 the 3-month market rates fell by 78 basis points and the 1-year market rates by 58 basis points, placing them at 2004 year end at 2.17% and 2.30%, respectively. This fall in interest rates was passed on to the yields on some credit portfolios during much of 2004 and was responsible for the declines in margins.

Fig.23 Interest rates (%)

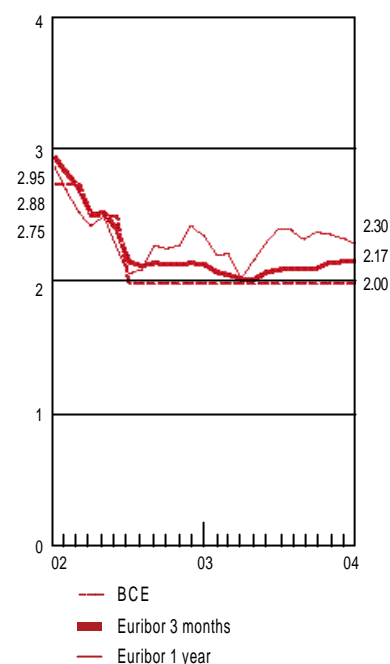


Table 25. Yields and costs

(€ thousand and rates annualized)	2004				2003			
	Average balance	Distribution (%)	Revenue or expense	Average rate (%)	Average balance	Distribution (%)	Revenue or expense	Average rate (%)
Treasury bills . . . . .	58,917	0.10	1,240	2.10	115,580	0.24	3,056	2.64
Financial system:	5,344,800	9.05	109,498	2.05	5,145,523	10.79	118,481	2.30
In euros . . . . .	4,524,125	7.66	94,396	2.09	3,848,039	8.07	98,035	2.55
In foreign currencies . . . . .	820,675	1.39	15,102	1.84	1,297,484	2.72	20,446	1.58
Loans and discounts (a):	49,440,985	83.70	2,600,982	5.26	39,039,349	81.83	2,362,725	6.05
In euros . . . . .	49,048,767	83.04	2,592,929	5.29	38,687,681	81.09	2,355,643	6.09
In foreign currencies . . . . .	392,218	0.66	8,053	2.05	351,668	0.74	7,082	2.01
Securities portfolio:	1,441,065	2.44	64,670	4.49	1,145,337	2.40	50,757	4.43
Government debt securities . . . . .	54,167	0.09	2,008	3.71	68,846	0.14	2,849	4.14
Other fixed-interest securities . . . . .	453,311	0.77	12,574	2.77	551,380	1.16	16,324	2.96
Equity securities . . . . .	933,587	1.58	50,088	5.37	525,111	1.10	31,584	6.01
<i>Total earning assets (b)</i> . . . . .	<i>56,285,767</i>	<i>95.29</i>	<i>2,776,390</i>	<i>4.93</i>	<i>45,445,789</i>	<i>95.26</i>	<i>2,535,019</i>	<i>5.58</i>
Other assets . . . . .	2,781,191	4.71	-	-	2,263,087	4.74	-	-
<b>Total assets</b> . . . . .	<b>59,066,958</b>	<b>100.00</b>	<b>2,776,390</b>	<b>4.70</b>	<b>47,708,876</b>	<b>100.00</b>	<b>2,535,019</b>	<b>5.31</b>
Financial system:	9,113,235	15.43	183,353	2.01	7,199,044	15.09	163,971	2.28
In euros . . . . .	6,641,512	11.24	176,673	2.66	5,239,875	10.98	150,354	2.87
In foreign currencies . . . . .	2,471,723	4.19	6,680	0.27	1,959,169	4.11	13,617	0.70
Customer funds (c):	42,207,067	71.46	649,425	1.54	34,223,437	71.74	571,150	1.67
Customer accounts:	31,747,583	53.75	417,156	1.31	26,511,191	55.57	376,876	1.42
In euros:	30,962,707	52.42	408,430	1.32	25,766,687	54.01	369,848	1.44
Demand and savings deposits . . . . .	15,034,266	25.45	62,198	0.41	13,275,884	27.83	60,809	0.46
Time deposits . . . . .	13,922,122	23.57	303,863	2.18	10,853,551	22.74	269,831	2.49
Assets sold under repurchase agreements . . . . .	1,949,933	3.30	40,189	2.06	1,620,392	3.40	38,462	2.37
Other . . . . .	56,386	0.10	2,180	3.87	16,860	0.04	746	4.42
In foreign currencies . . . . .	784,876	1.33	8,726	1.11	744,504	1.56	7,028	0.94
Bonds and other marketable debt securities . . . . .	10,459,484	17.71	232,269	2.22	7,712,246	16.17	194,274	2.52
<i>Total interest-bearing liabilities (d)</i> . . . . .	<i>51,320,302</i>	<i>86.89</i>	<i>832,778</i>	<i>1.62</i>	<i>41,422,481</i>	<i>86.83</i>	<i>735,121</i>	<i>1.77</i>
Other non-interest-bearing liabilities . . . . .	4,484,699	7.59	-	-	3,496,343	7.32	-	-
Capital accounts . . . . .	3,261,957	5.52	-	-	2,790,052	5.85	-	-
<b>Total liabilities and capital</b> . . . . .	<b>59,066,958</b>	<b>100.00</b>	<b>832,778</b>	<b>1.41</b>	<b>47,708,876</b>	<b>100.00</b>	<b>735,121</b>	<b>1.54</b>
<i>Customer spread (a-c)</i> . . . . .				3.72				4.38
<i>Spread (b-d)</i> . . . . .				3.31				3.81

This behavior of interest rates sets the pattern for analysis of the Group's profitability in the year and its comparison with that of 2003.

Figure 23 plots the variation in interest rates in 2003 and 2004.

Table 25 shows the average balances of assets and funds in the consolidated balance sheet, their percentage distribution, the related revenues and costs and the average rates of yield and cost of each category of assets and liabilities for 2004 and 2003. Table 26 presents the same information on a quarterly basis.

Average total assets in 2004 amounted to €59,067 million, an increase of 23.8% over the 2003 figure of €47,709 million.

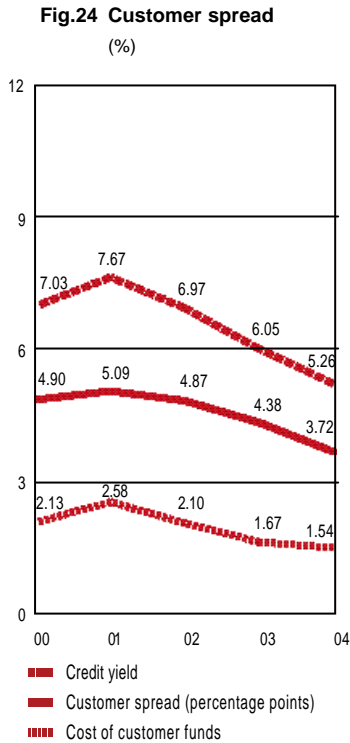
On the asset side, the average yield on total assets fell by 61 basis points (bp) to 4.70% in 2004, and the average yield on earning assets was 65 bp lower at 4.93%. The yield on loans and discounts was 5.26%, 79 bp lower.

On the liability side, the average cost of total funds fell by 13 bp to 1.41% in 2004, the average cost of interest-bearing funds was 1.62%, 15 bp lower than in 2003, and the average cost of customer funds (deposits and debt securities) was 13 bp lower than in 2003 at 1.54%.

The margins arising from these yield and cost rates are discussed in the following paragraphs.

The customer spread - i.e. the difference between the yield on loans and discounts and the cost of customer funds - was 66 bp lower than in 2003 at 3.72%. However, noteworthy was the positive performance of this margin in the fourth quarter, which was 1 basis point higher than in the third quarter, the first upturn in the customer spread for a considerable period of time.

The spread, which measures the differential between the rates of yield on earning assets and the rates of cost of interest-bearing funds, was 3.31%, 50 bp lower than in 2003. The quarterly spread showed signs of a change of



**Table 26. Quarterly yields and costs**

(Data in % and rates annualized)

	2003								2004							
	1st		2nd		3rd		4th		1st		2nd		3rd		4th	
	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate		
Treasury bills	0.09	2.87	0.57	2.85	0.29	2.29	0.03	2.01	0.19	2.14	0.16	2.12	0.04	1.96	0.02	2.00
Financial system	12.98	2.44	11.86	2.35	9.87	2.01	8.85	2.41	9.39	1.86	9.45	1.98	8.85	2.16	8.58	2.18
Loans and discounts (a)	80.16	6.54	80.63	6.26	81.93	5.84	84.24	5.68	83.65	5.48	83.10	5.29	83.33	5.11	84.67	5.20
Securities portfolio	2.43	6.28	2.55	4.04	2.93	4.80	1.71	2.07	2.14	6.18	2.51	4.37	3.08	4.95	2.00	2.35
<b>Total earning assets (b)</b>	<b>95.66</b>	<b>5.97</b>	<b>95.61</b>	<b>5.70</b>	<b>95.02</b>	<b>5.40</b>	<b>94.83</b>	<b>5.31</b>	<b>95.37</b>	<b>5.13</b>	<b>95.22</b>	<b>4.93</b>	<b>95.30</b>	<b>4.83</b>	<b>95.27</b>	<b>4.87</b>
Other assets	4.34	-	4.39	-	4.98	-	5.17	-	4.63	-	4.78	-	4.70	-	4.73	-
<b>Total assets</b>	<b>100.00</b>	<b>5.71</b>	<b>100.00</b>	<b>5.45</b>	<b>100.00</b>	<b>5.13</b>	<b>100.00</b>	<b>5.03</b>	<b>100.00</b>	<b>4.89</b>	<b>100.00</b>	<b>4.70</b>	<b>100.00</b>	<b>4.60</b>	<b>100.00</b>	<b>4.64</b>
Financial system	15.68	2.48	16.87	2.36	14.95	2.08	13.12	2.19	15.24	1.99	15.85	1.93	16.11	2.07	14.54	2.05
Customer funds (c)	71.44	1.93	70.31	1.74	71.98	1.56	73.18	1.50	71.36	1.50	71.58	1.49	70.38	1.54	72.08	1.62
<b>Total interest-bearing liabilities (d)</b>	<b>87.12</b>	<b>2.03</b>	<b>87.18</b>	<b>1.86</b>	<b>86.93</b>	<b>1.65</b>	<b>86.30</b>	<b>1.60</b>	<b>86.60</b>	<b>1.59</b>	<b>87.43</b>	<b>1.57</b>	<b>86.49</b>	<b>1.64</b>	<b>86.62</b>	<b>1.70</b>
Other non-interest-bearing liabilities	6.98	-	7.17	-	7.12	-	7.82	-	7.41	-	6.94	-	8.19	-	8.17	-
Capital accounts	5.90	-	5.65	-	5.95	-	5.88	-	5.99	-	5.63	-	5.32	-	5.21	-
<b>Total liabilities and capital</b>	<b>100.00</b>	<b>1.76</b>	<b>100.00</b>	<b>1.62</b>	<b>100.00</b>	<b>1.44</b>	<b>100.00</b>	<b>1.38</b>	<b>100.00</b>	<b>1.37</b>	<b>100.00</b>	<b>1.38</b>	<b>100.00</b>	<b>1.42</b>	<b>100.00</b>	<b>1.47</b>
<b>Customer spread (a-c)</b>		<b>4.61</b>		<b>4.52</b>		<b>4.28</b>		<b>4.18</b>		<b>3.98</b>		<b>3.80</b>		<b>3.57</b>		<b>3.58</b>
<b>Spread (b-d)</b>		<b>3.94</b>		<b>3.84</b>		<b>3.75</b>		<b>3.71</b>		<b>3.54</b>		<b>3.36</b>		<b>3.19</b>		<b>3.17</b>

trend, since the fall was only 2 basis points compared with the preceding quarter.

Finally, the net interest margin, which compares the average rates of yield on all assets with the rates of cost on all liabilities, was 48 basis points lower in 2004 at 3.29%.

Here again is appropriate the optimistic comment made earlier about the foregoing margins, since that of the fourth quarter was only 1 basis point down on that of the preceding quarter, compared with falls of 14 basis points in the third quarter and of 20 basis points in the second.

Figures 24 and 25 show the variation in the customer spread and the net interest margin in the last five years, together with the related yield and cost rates.

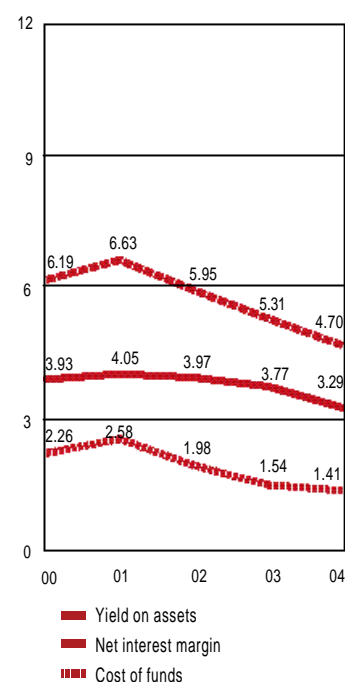
## Operating profitability

Table 27 shows the 2004 and 2003 consolidated income statements expressed as percentages of average total assets. This same information on a quarterly basis is provided in Table 22.

The operating margin was 2.76% on average total assets, compared with 3.12% in 2003. This decline of 36 bp was the consequence of the fall in the net interest margin (-48 bp) mentioned above, and in the service fee margin (-14 bp), whereas the operating and other costs contributed 26 basis points of improvement to profitability.

The return on assets (ROA) - net income as a percentage of average total assets - was 1.50% in 2004, compared with 1.63% in 2003; this decrease of 13 basis points was due to

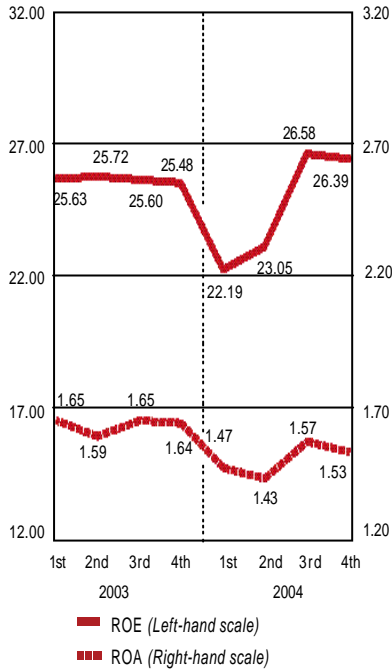
**Fig.25 Net interest margin**  
(As % of average total assets)



**Table 27. Operating profitability**

	2004		2003		Variation	
	Balance	%	Balance	%	Amount	
Yield on assets	2,776,390	4.70	2,535,019	5.31	241,371	(0.61)
Cost of funds	832,778	1.41	735,121	1.54	97,657	(0.13)
<i>Net interest margin</i>	<i>1,943,612</i>	<i>3.29</i>	<i>1,799,898</i>	<i>3.77</i>	<i>143,714</i>	<i>(0.48)</i>
Yield on services, net	669,435	1.13	607,838	1.27	61,597	(0.14)
Yield on financial asset trading and exchange profits, net	38,987	0.07	31,715	0.07	7,272	-
<i>Ordinary margin</i>	<i>2,652,034</i>	<i>4.49</i>	<i>2,439,451</i>	<i>5.11</i>	<i>212,583</i>	<i>(0.62)</i>
Operating costs:	900,608	1.52	841,997	1.76	58,611	(0.24)
Personnel expenses	628,511	1.06	596,848	1.25	31,663	(0.19)
Other expenses	272,097	0.46	245,149	0.51	26,948	(0.05)
Depreciation	81,139	0.14	75,953	0.16	5,186	(0.02)
Other operating income / expenses, net	(37,967)	(0.07)	(35,257)	(0.07)	(2,710)	-
<i>Operating profitability</i>	<i>1,632,320</i>	<i>2.76</i>	<i>1,486,244</i>	<i>3.12</i>	<i>146,076</i>	<i>(0.36)</i>
Other items, net	32,194	0.06	67,508	0.14	(35,314)	(0.08)
Provisions and writedowns	372,084	0.63	348,570	0.73	23,514	(0.10)
<i>Pre-tax income return</i>	<i>1,292,430</i>	<i>2.19</i>	<i>1,205,182</i>	<i>2.53</i>	<i>87,248</i>	<i>(0.34)</i>
Corporate income tax	404,218	0.69	427,385	0.90	(23,167)	(0.21)
<i>Net income return (ROA)</i>	<i>888,212</i>	<i>1.50</i>	<i>777,797</i>	<i>1.63</i>	<i>110,415</i>	<i>(0.13)</i>
Pro memoria:						
Average total assets (€million)	59,067		47,709		11,358	23.8
Average total risk-weighted assets (RWA) (€million)	52,294		41,592		10,702	25.7
Net return on average risk-weighted assets (RORWA) (%)	1.70		1.87			(0.17)
Net return on average equity (ROE) (%)	24.55		25.60			(1.05)
Leverage	16.4 x		15.7 x			0.7
Operating efficiency (%)	33.96		34.52			(0.56)

**Fig.26 Quarterly ROA and ROE**  
(Annualized %)



the aforementioned decline in the operating income (-36 bp) and the lower sundry results (-8 bp), compared with the reduction in provisions (+10 bp) and in the tax burden (+21 bp).

The ROA adjusted for the effect of integration of BNC in the Group was 1.59%, 9 basis points higher than the 1.50% mentioned above.

Figures 26 and 27 plot the variation of ROA in 2004 and 2003 on a quarterly basis and in the last five years.

The return on average risk-weighted assets (RORWA) was 1.70% in 2004 compared with 1.87% in 2003.

The attributable income for the year expressed as a percentage of average equity gives the return on equity (ROE), which was 24.55% in 2004, compared with 25.60% in 2003.

Figure 26 shows the variation in ROE in 2004 and 2003 on a quarterly basis, and Figure 27 shows this information for the last five years.

Figure 26 reveals the strong recovery of quarterly ROE, following adjustment for the acquisition of BNC, to levels that were higher in the third and fourth quarters than in the quarter preceding that acquisition.

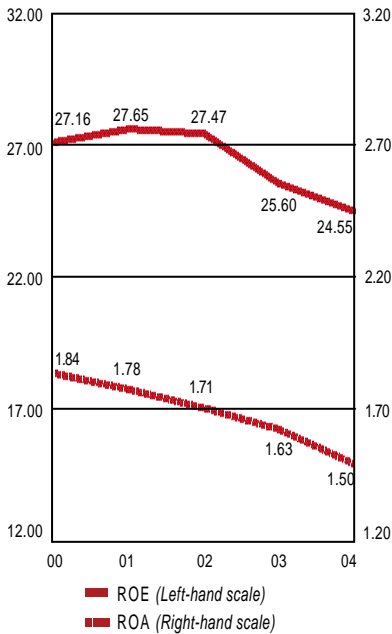
Disregarding the effect of the integration of BNC, the ROE was 27.40%, signifying that the purchase of BNC led to a reduction of 2.85 percentage points in the Group's return on equity.

The financial leverage coefficient, i.e. the ratio of total funds to equity as adjusted, was 16.4 times, slightly higher than the 15.7 times in 2003.

The level of operating efficiency, which measures the portion of total revenues absorbed by operating costs, improved in 2004 to 33.96% (33.72% excluding BNC), compared with 34.52% in 2003. The evolution of this ratio is shown in Figure 19.

Table 28 shows the main final measures of return and leverage in the last five years.

**Fig.27 ROA and ROE (%)**



**Table 28. Measures of return**

Year	Net income			Net return (%)			
	Total net income	attributable to Popular shares	Average total assets	Average equity	Leverage	On average total assets (ROA)	On average equity (ROE)
2000	527,509	490,557	28,688,050	1,806,494	14.8	1.84	27.16
2001	614,164	565,282	34,570,097	2,044,235	15.5	1.78	27.65
2002	687,735	633,490	40,107,474	2,305,817	16.1	1.71	27.47
2003	777,797	714,271	47,708,876	2,790,052	15.7	1.63	25.60
2004	888,212	800,889	59,066,958	3,261,957	16.4	1.50	24.55

## Risk management

The assumption of risks is a characteristic inherent to the business of banking, and the assessment, analysis, monitoring and control of risk are basic to management at the Banco Popular Group, which devotes rigorous attention to maintaining at all times a prudent and balanced risk profile that matches the experience and capability of the organization.

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 what is called 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 these two factors of opposite sign: 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.

For the correct management of credit risk, the Group has established a methodology, the main elements of which are described in the following paragraphs.

### Credit risk analysis

The Group has established a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organization have been assigned delegated powers for the authorization of transactions, which vary depending on the nature and amount of the risk assumed.

For these purposes, the steps in the organization in the commercial banking area, which accounts for substantially all the Group's business, are as follows: first, the branch office, followed by the management of the region or area to which the branch belongs or by General Management in the case of the banking and other subsidiaries, then the Group's Retail Banking Office followed by the Credit Office and, finally, the CEO. To each of these levels is delegated a specific limit of powers for the assumption of risks.

The initiative to undertake a new transaction always starts at a branch office: for decision there if within its attributions, or for reporting and passing to the next higher step, if it exceeds those attributions. The same process applies at the following levels, and thus the biggest transactions will have been evaluated throughout the chain of attributions. No other office or area in the Group, regardless of the hierarchical level of its management personnel, is empowered to make, nor even to propose, risk transactions outside the established circuit.

In the other business areas, the procedure is similar: risk assumption proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this office, the transaction travels with its preliminary reports to the Credit Office and, if beyond its powers, to the CEO.

Transactions above the attributions assigned to the CEO are ultimately submitted to the Credit Committee, the membership and functioning of which are described later.

Risks with related parties such as transactions with members of the Board or executive management or with companies related to them, and with Group companies, are expressly excluded from the foregoing delegated powers, and can only be authorized by the Credit Committee or the Executive Committee, regardless of the amount involved.

The Credit Committee is the top collegiate body as regards risks. It is chaired by the Chairman of the Bank and consists of the members of the Board's Executive Committee and the CEO. The Group's Credit & Risk Manager participates as a reporter. It meets weekly, but may meet more frequently if necessary.

The Committee analyzes and decides on all risk requests beyond the delegated powers of the organization. Its authorization is required for all transactions that signify for the Group as a whole a risk in excess of €15 million, including in the computation of this figure the aggregate limits of monetary risk and off-balance sheet risks with any one company or economic group. This limit is reduced to €7.5 million in the case of off-balance sheet risks in which the Group's risk represents more than 50% of its debt in the system. The Committee also decides on all risks with related parties as stated earlier.

To support it in decision making on transactions with individuals, the Group has models for analyzing the credit quality of the borrower. Credit

scoring models adapted for each type of product are used, namely mortgage loans, consumer loans, self-employed business loans and credit cards. For the micro-enterprises segment, scoring models have been developed for the different types of risk. Separate internal rating models have also been developed for large companies and SMEs, based on analysis of variables representative of their economic and financial position and their activity sector, and others of a macroeconomic nature.

The Group intends to apply the advanced internal credit risk management method envisaged in the new Basel Capital Accord, and the models mentioned above therefore comply with the requisites of this Accord.

### Credit risk monitoring and control

The Group has had in place for many years a reliable and effective permanent credit risk monitoring system, which enables it to evaluate risk quality at borrower level and for all risks classified by different attributes. This makes it possible to establish mechanisms of special watchfulness about the evolution of certain customers and their operations and to take early preventive measures for current risks in the event of potential situations of difficulty. As a result of this system, the quality of the Group's risk assets is high, and the level of nonperforming balances is lower than the average for the industry.

The monitoring methodology is based fundamentally on the analysis of a set of variables relating to transactions and to customers, in order to detect possible anomalous deviations in their behavior.

For this purpose, the Group has a Risk Prevention Office in each of its territorial management units and banking subsidiaries, and a similarly named unit with the same remit at headquarters, engaged exclusively in systematically and periodically carrying out monitoring tasks, thereby assuring appropriate efficiency of the procedure.

The first level of monitoring starts with an accounting report called an "Incident Report", which is sent daily to the territorial offices. This report records all the defaults and incidents, detailing the amount and nature (past-due credit accounts, overruns, overdrafts, nonpayment of trade discounts, loan repayments not made at maturity, etc.).

In parallel, the Control and Audit Area performs monthly analyses of customers with incidents, based on the behavior of a set of pre-determined risk parameters. Based on this "technical alert" information, plus additional financial or other documentation relating to the customer, Risk Prevention classifies the borrowers.

The classification system is two-fold: on the one hand, it assesses the overall quality of the risk of the customer; on the other, it proposes the policy to be followed as regards the contractual risks.

The combination of the two groups of keys depending on the circumstances of each case analyzed is inserted graphically in the borrower's file by a teleprocessing application that includes all the positions with the customer, thus simply and clearly transmitting the customer's classifications for consideration in risk-related decisions.

This system based on technical alerts is supplemented by the analyst's report. This is a system included in the file mentioned above which, by means of responding to a series of questions about the evolution of the customer, of the customer's risks and incidents, the balance sheet situation, guarantees, etc., makes it possible to summarize the policy to be followed and to take the necessary actions for the satisfactory outcome of the risks. These reports are produced at all decision-making levels and as often as may be necessary in the light of the incidents, alerts, new risk proposals, etc.

## Management of nonperforming balances

Units to perform this function in the Group exist at each of the territorial headquarters and banking subsidiaries, and also at headquarters level. The fundamental objective of these units is to recover the balances classified as nonperforming as quickly as possible and in the best possible conditions.

Initially, use is made of the out-of-court route by means of direct negotiation with the debtors or by engaging the services of prestigious collection entities. If this amicable course of action is not sufficient, recourse is had to the courts, and for this purpose the Group has in-house specialist lawyers, supplemented by an extensive network of external legal practitioners throughout Spain, if and as necessary.

For adequate management of nonperforming balances, the Group has an internal computer application, integrated in the teleprocessing system, which permits punctual and precise monitoring of the evolution of all delinquent risks and, in particular, of the legal proceedings initiated to reclaim its receivables.

## Total exposure to credit risk

The Group's credit risk is primarily the outcome of commercial banking, which is its main field of business. 97.5% of its exposure at 2004 year end consisted of loans and discounts and off-balance sheet risks amounting to €60,543 million, an increase of 19.4% over 2003; the counterparty risk in the markets area amounted to €1,582 million, 7.8% lower than in 2003.

The total exposure to credit risk at 2004 year end amounted to €62,124 million, 18.5% higher year on year.

The maximum exposure to credit risk was €75,858 million; this figure is obtained by adding to the total

exposure amount the €13,734 million of the contractual limits of funds committed to third parties.

Table 29 shows the exposure to credit risk at the end of 2004 compared with the same date in 2003.

<b>Table 29. Overall credit risk exposure</b>			
(€ thousand)	2004	2003	Variation %
Commercial banking activity :			
Loans and discounts .....	52,820,300	44,305,053	19.2
Contingent liabilities .....	7,722,275	6,405,437	20.6
Total .....	60,542,575	50,710,490	19.4
Market activity (counterparty risk) .....	1,581,710	1,716,380	(7.8)
Total exposure .....	62,124,285	52,426,870	18.5
Unused portion of credit lines .....	13,733,548	8,382,087	63.8
Maximum credit risk exposure .....	75,857,833	60,808,957	24.7

The structure of the commercial banking business risk is analyzed in the following paragraphs.

Table 30 is a breakdown of this risk by total amount per customer. 57% of the total risk (including monetary credit, off-balance sheet risks and nonperforming loans) relates to customers with aggregate risks of less than €1 million, 17% to customers with between €1 million and €6 million, and 26% exceed €6 million. These figures demonstrate the high degree of diversification of the credit risk.

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.

**Table 30. Risk concentration as of December 31, 2004**

Exposure by customer	Outstanding risk			Nonperforming		<i>Pro memoria:</i> % in 2003	
	Total risk	% of total	Credit	Off-balance sheet	Nonperforming loans as % of total risk		
Over 6,000 .....	15,853,818	26.19	11,716,851	4,136,874	93	0.00	0.04
From 3,000 to 6,000 .....	4,153,673	6.86	3,485,520	656,697	11,456	0.28	0.01
From 1,000 to 3,000 .....	6,313,140	10.43	5,435,075	853,301	24,764	0.39	0.24
From 500 to 1,000 .....	4,559,306	7.53	4,025,667	513,698	19,941	0.44	0.44
From 250 to 500 .....	5,102,212	8.43	4,654,436	417,152	30,624	0.60	0.76
From 125 to 250 .....	7,372,431	12.18	7,005,397	309,664	57,370	0.78	1.00
From 50 to 125 .....	9,242,030	15.27	8,881,276	282,018	78,736	0.85	1.09
From 25 to 50 .....	3,144,533	5.19	2,978,302	122,692	43,539	1.38	1.59
Under 25 .....	4,796,171	7.92	4,198,134	417,112	180,925	3.77	3.52
Total .....	60,537,314	100.00	52,380,658	7,709,208	447,448	0.74	0.83

The Group applies internal risk dispersion criteria that are much stricter than the regulatorily stipulated ones. In 2004, as in 2003, all individual and economic group borrowers were below the stipulated 10% limit. At 2004 year end, the highest risk to any one customer was 4.8% (6.3% at the end of 2003). Accordingly, neither of the two aforementioned limits of concentration were applicable to the Group.

The distribution of risk by borrower sector is shown in Table 31, which also includes as supplementary data the amounts of bad debts written off during the year.

As regards market activity, 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.).

Of the total risk, 69.4% related to interbank deposits and fixed-income financial assets concentrated in the Euro area with minimum A ratings from Standard & Poor's and Fitch Ratings.

As the foregoing paragraphs indicate, the Group maintains a satisfactory diversification of its risks on the basis of a large number of attributes, in excess of that required under current regulations.

**Table 31. Risk distribution by industry as of December 31, 2004**

(€thousand)	Industry	Outstanding risk					Percentages		
		Total risk	Distribution (%)	Credit	Off-balance sheet	Nonperforming loans	Writeoffs	Nonperforming loans/Total risk	Writeoffs/Total risk
	Primary activities	1,346,421	2.22	1,195,579	138,592	12,250	4,849	0.91	0.36
	Industrial sector	9,150,548	15.12	7,127,020	1,954,516	69,012	31,444	0.75	0.34
	Construction	10,462,827	17.28	8,275,382	2,124,535	62,910	25,849	0.60	0.25
	Services:	22,449,193	37.09	19,184,191	3,142,739	122,263	84,401	0.54	0.38
	Trade and hotels	8,195,777	13.54	7,252,074	877,605	66,098	36,013	0.81	0.44
	Transport and communications	2,286,101	3.78	1,907,447	361,510	17,144	9,304	0.75	0.41
	Other services	11,967,315	19.77	10,024,670	1,903,624	39,021	39,084	0.33	0.33
	To individuals:	16,413,380	27.11	16,267,176		146,204	46,575	0.89	0.28
	Home mortgages	11,705,101	19.33	11,669,593		35,508	4,751	0.30	0.04
	Consumer credit and other	4,708,279	7.78	4,597,583		110,696	41,824	2.35	0.89
	Unclassified	714,945	1.18	331,310	348,826	34,809	3,856	4.87	0.54
	Total	60,537,314	100.00	52,380,658	7,709,208	447,448	196,974	0.74	0.33

### Analysis of credit risk quality

For credit risk analysis purposes, problematical assets are classified on the basis of differing criteria: breach of the loan repayment schedule (past due assets); the unsatisfactory state of the borrower's financial condition (doubtfully collectible assets); or the existence of litigation that makes

recovery uncertain (disputed assets). In the following commentary, these three categories are generically classified as nonperforming loans or troubled balances receivable.

Risks that it has not been possible to recover after expiration of the regulatory term are classified as bad debts and are removed from the

balance sheet. Regardless of whether they have been written off for accounting purposes, the Bank maintains its collection rights against the debtor and continues to pursue repayment of them.

As coverage for its credit risk, the Bank has booked credit loss allowances, provisions to which are charged to income as described below.

First, there is a specific allowance for nonperforming loans in accordance with a regulatorily established calendar and, in the case of the doubtful or disputed balances, based on a conservative estimate of their recoverability.

Secondly, there is a general credit loss allowance covering all the assets not classified as nonperforming, provision to which is regulatorily calculated as 1% of all outstanding risks (loans and discounts and off-balance sheet risks). The percentage is 0.5% for certain of the mortgage-backed loans, provided that the mortgage guarantee meets certain conditions enabling the balances to be deemed to be of low risk.

Thirdly, there is the statistical coverage allowance established by the Bank of Spain in June 2000. This allowance has an anti-cyclical purpose and thus banks are required to book higher provisions in periods of low nonperforming balances, during which the specific provisions are reduced, in anticipation of greater need for them when there is a change in the economic cycle. For this purpose, certain coverage percentages that rise depending on the estimated degree of risk (secured loans, unsecured loans, consumer credit, etc.) are applied for all outstanding risks segregated into homogeneous groups. The figure determined by this calculation, which is performed quarterly, minus the specific provisions booked in the period, constitutes the amount of the provision to this allowance.

The aggregate amount of the three allowances described above (specific, general and statistical) constitutes the credit loss allowance.

At December 31, 2004, 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 €447.4 million, which was €28.1 million (6.7%) higher than at 2003 year end.

During 2004, additions to the exposure for nonperforming loans amounted to €472.1 million and €247.0 million of other transactions were declassified as nonperforming. €197.0 million of nonperforming balances were written off during the year, of which €160.3 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 0.74% at 2004 year end, an appreciable reduction of 9 basis points in the year.

The insolvency ratio, i.e. bad debts written off as a percentage of total risks, was 0.33%, 4 basis points higher than in 2003. Gross nonperforming loans in the year (before writeoffs) consequently fell by 5 basis points compared with 2003.

Provisions to credit loss allowances in 2004 amounted to €321.1 million (€436.3 million of gross provisions less €115.2 million of allowances released), a decrease of €26.5 million from 2003, down 7.6% year on year.

The provisions consisted of €182.4 million of specific provisions for troubled risks, €15.4 million of general provisions, and €123.3 million to the statistical allowance. €58.3 million of loans previously classified as bad

debts and removed from the balance sheet were recovered during the year.

At December 31, 2004, the credit loss allowances, including those for loans and discounts, credit institutions and off-balance sheet risks, amounted to €1,086.3 million, 16.6% more than in 2003. The total is made up of €187.6 million in the specific allowance, €545.2 million in the general allowance and €353.5 million in the statistical coverage allowance (Table 35).

The detail of movements in the credit loss allowances in 2004 is as follows: an increase of €321.1 million due to the provisions described above, and a decrease arising from the use of €160.3 million of allowances to write off

bad debts, together with €5.9 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 242.8%, a significant improvement of 20.7 percentage points compared with the 222.1% in 2003.

The total credit loss allowances represented 1.79% of total risks (1.84% in 2003).

Table 32 summarizes the evolution of nonperforming loans and credit loss allowances in 2004 and 2003, together with the main credit risk quality measures.

**Table 32. Risk performance**

(€ thousand)			Variation	
	2004	2003	Amount	%
<i>Nonperforming loans*:</i>				
Balance at January 1	419,380	353,277	66,103	18.7
<i>Additions</i>	472,080	479,820	(7,740)	(1.6)
<i>Balances recovered</i>	(247,038)	(266,513)	19,475	(7.3)
Net variation for the year	225,042	213,307	11,735	5.5
% increase	53.7	60.4	(6.7)	
Writeoffs	(196,974)	(147,204)	(49,770)	33.8
Balance at December 31	447,448	419,380	28,068	6.7
<i>Allowance for credit losses:</i>				
Balance at January 1	931,354	681,748	249,606	36.6
Annual provision:				
Gross	436,308	443,845	(7,537)	(1.7)
Recoveries	(115,170)	(96,186)	(18,984)	19.7
Net	321,138	347,659	(26,521)	(7.6)
Other variations	(5,912)	37,200	(43,112)	
Writeoffs	(160,253)	(135,253)	(25,000)	18.5
Balance at December 31	1,086,327	931,354	154,973	16.6
Foreclosed real estate assets	98,311	80,984	17,327	21.4
Allowance for potential losses on foreclosed assets	32,988	30,829	2,159	7.0
<i>Pro memoria:</i>				
Total risks	60,537,314	50,712,407	9,824,907	19.4
Loans transferred to suspense accounts	1,024,053	879,660	144,393	16.4
Nonperforming mortgage loans	43,447	31,732	11,715	36.9
<i>Risk quality measures (%):</i>				
Nonperformance (Nonperforming loans/Total risks)	0.74	0.83	(0.09)	
Insolvency (Writeoffs/Total risks)	0.33	0.29	0.04	
Coverage: (Credit loss allowance / Nonperforming loans)	242.78	222.08	20.70	
Coverage: (Allowance for potential losses on foreclosed assets/total foreclosed assets)	33.55	38.07	(4.52)	

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

**Fig.28 Variation in the nonperforming loans ratio and coverage for delinquent balances**

(Nonperforming loans at year end as % of total risks, and credit loss allowance as % of non-performing balances)

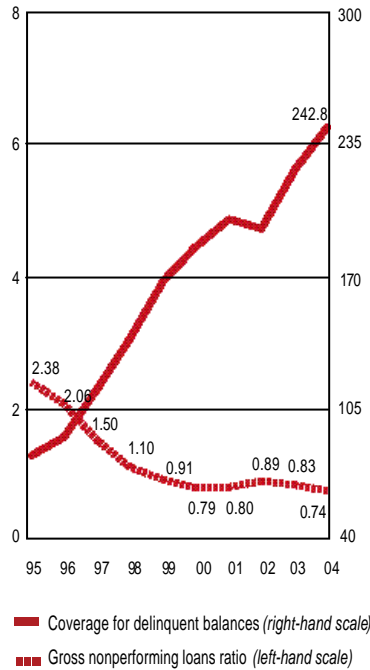


Table 33 shows the required coverage for the different categories of risks at 2004 year end and the loss allowances actually booked.

Figure 28 plots the risk quality measures analyzed above for the last ten years: the nonperforming ratio and the ratio of coverage of nonperforming loans.

The foregoing figures confirm the good quality of the Group's credit risk as a result of rigorous analysis and control of its transactions and the sound coverages in place. Despite the fact that nonperforming loans are nearly at a record low, the Group continued to apply its criteria of prudence as regards provisions to strengthen its balance sheet soundness.

**Table 33. Allowance for nonperforming loans as of December 31**

	2004		2003	
	Balance	Total Provisioning	Balance	Total Provisioning
<b>(€thousand)</b>				
Doubtful balances with specific allowances: . . . . .	402,742	167,362	383,734	170,652
Ordinary . . . . .	382,012	158,662	368,234	163,218
Secured by prime collateral . . . . .	8,679	1,914	4,985	1,581
Off-balance sheet risks . . . . .	12,051	6,786	10,515	5,853
Doubtful balances with general allowances. . . . .	41,993	245	32,629	191
Doubtful balances for which allowances are not required . . . . .	2,713		3,017	
Total nonperforming loans . . . . .	447,448	167,607	419,380	170,843
Other specific provisioning . . . . .	141,760	20,201	16,815	679
Allowances for ordinary risks. . . . .	58,321,497	530,941	48,688,010	437,777
General provisioning (1%) . . . . .	47,838,945	478,530	38,842,326	388,548
Reduced provisioning (0.5%) . . . . .	10,482,552	52,411	9,845,684	49,229
Statistical allowance . . . . .		353,543		230,237
Total required provisions. . . . .		1,072,292		839,536
Balance of credit loss allowances. . . . .		1,086,327		931,354
Surplus. . . . .		14,035		91,818

**Foreclosed assets**

Foreclosed assets, substantially all buildings, amounted to €98.3 million at 2004 year end, an increase of €17.3 million in the year.

To cater for possible losses on disposal of these non-permanent assets there are two allowances designated as for writeoff and for foreclosed assets, respectively. The first consists of specific provisions of 25% for the credit risks at source that are transferred to this caption. The second contains the additional

provisions considered necessary for these assets based on their appraised value and on the time elapsed since foreclosure.

The balance of these allowances totaled €33.0 million, signifying coverage of 33.6% of their book value, compared with 38.1% at the end of 2003.

The variation in foreclosed assets and the allowances for them in 2004 and 2003 is shown in the lower part of Table 32.

## 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.

At 2004 year end, the Group's overall country risk amounted to €20.9 million, 55.6% lower than the €47.1

million in 2003. The foregoing figures signified 0.03% and 0.09%, respectively, of the total risks.

The allowance recorded for country risk amounted to €7.3 million, an increase of 95.6% compared with 2003. The provisions booked in 2004 amounted to €4.1 million, and €0.5 million of the allowance released were recovered.

The allowance represented coverage for country risk of 34.8% compared with 7.9% in 2003.

Table 34 shows the variation in country risk in 2004 and 2003, broken down by groups of countries with differing degrees of difficulty, the related provisions and a comparison with total risks.

**Table 34. Country risk and related allowances**

(€thousand)	2004		2003	
	Balance	Coverage	Balance	Coverage
<b>Countries</b>				
Coverage not required .....	7,359	-	37,102	-
Transitory difficulties .....	2,290	287	2,752	404
Doubtful .....	5,091	1,777	5,519	1,900
Very doubtful .....	6,173	5,212	1,710	1,415
Failed .....	-	-	-	-
<b>Total</b> .....	<b>20,913</b>	<b>7,276</b>	<b>47,083</b>	<b>3,719</b>
<b>Coverage (%)</b> .....		<b>34.79</b>		<b>7.90</b>
<i>Pro memoria:</i>				
Total risks .....	60,537,314		50,712,407	
Country risk/total risk (%) .....	0.03		0.09	

Table 35 shows the distribution of cross-border risk by balance sheet captions: due from financial intermediaries, loans and discounts, and contingent liabilities, together with the respective coverages.

**Table 35. Country-risk by balance sheet caption**

(€thousand)	2004		2003		% Coverage	
	Balance	Coverage	Balance	Coverage	In 2004	In 2003
Due from financial intermediaries .....	1,933	871	7,144	111	45.06	1.55
Loans and discounts .....	11,204	5,180	19,543	2,941	46.23	15.05
Contingent liabilities .....	7,776	1,225	20,396	667	15.75	3.27
<b>Total</b> .....	<b>20,913</b>	<b>7,276</b>	<b>47,083</b>	<b>3,719</b>	<b>34.79</b>	<b>7.90</b>

## Market risk

Market risk consists of the risks arising from possible adverse variations in the interest rates on assets and liabilities, in the exchange rates of the currencies in which the on- (asset and liability) or off-balance sheet aggregates are denominated, and in the market prices of marketable financial instruments.

In view of the business activity of Banco Popular and the structure of its balance sheet, the Group's market risk is confined to interest rate risk and financial instrument trading risk. 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

For analysis and control of this risk, the Group has an Assets and Liabilities Committee (ALCO), the tasks of which include evaluation of balance sheet sensitivity to variations in the interest rate curve and exchange rates in different scenarios, setting short- and medium-term policies for managing prices,

durations and the aggregates of assets and funds.

Table 36 shows the Group's consolidated balance sheet at year end, broken down by the sensitivity or not to interest rates of the assets and liabilities, making it possible to calculate the maturities and repricing gap. Interest rate sensitive assets totaled €56,987 million, compared with the €44,563 million of similarly sensitive liabilities, with an aggregate positive gap of €12,424 million. In the time brackets up to 3 months, the rate-sensitive liabilities exceeded the matching assets (a negative gap), with a maximum of €4,518 million in the interval up to 1 month. From 6 months, the gap was always positive.

The duration of interest-rate sensitive assets was 230 days and that of sensitive liabilities was 160 days, slightly higher than in 2003 (187 and 84 days, respectively). The duration of equity was 413 days (447 days in 2003).

Based on the aforementioned balance sheet, dynamic simulations are made using different scenarios of growth of the balance sheet aggregates, of the performance of margins and of variation in the interest rate curve in order to measure the sensitivity of the financial margin and of equity.

**Table 36. Maturity and repricing gap in the consolidated balance sheet as of December 31, 2004**

(€ million)	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
Money market . . . . .	4,560.1	333.8	71.8	30.9	64.4	145.2	11.3	6.2	190.6	5,414.3
Credit market . . . . .	6,767.0	5,196.9	6,741.8	3,502.5	2,964.6	3,620.3	18,006.2	3,001.5	1,898.1	51,698.9
Capital market . . . . .	21.0	1.0	—	27.0	0.1	—	18.2	1,895.4	—	1,962.7
Other assets . . . . .	—	—	—	—	—	—	—	—	3,665.9	3,665.9
<b>Total assets . . . . .</b>	<b>11,348.1</b>	<b>5,531.7</b>	<b>6,813.6</b>	<b>3,560.4</b>	<b>3,029.1</b>	<b>3,765.5</b>	<b>18,035.7</b>	<b>4,903.1</b>	<b>5,754.6</b>	<b>62,741.8</b>
Money market . . . . .	4,874.1	253.5	875.0	1,107.7	814.4	1,314.5	671.5	684.4	69.0	10,664.1
Deposit market . . . . .	5,039.1	2,069.5	4,303.4	601.3	584.5	2,331.1	2,664.7	762.9	11,278.4	29,634.9
Capital market . . . . .	6,014.3	4,171.3	1,862.4	78.3	855.0	263.0	330.7	2,036.5	—	15,611.5
Other liabilities . . . . .	—	—	—	—	—	—	—	—	6,831.3	6,831.3
<b>Total liabilities . . . . .</b>	<b>15,927.5</b>	<b>6,494.3</b>	<b>7,040.8</b>	<b>1,787.3</b>	<b>2,253.9</b>	<b>3,908.6</b>	<b>3,666.9</b>	<b>3,483.8</b>	<b>18,178.7</b>	<b>62,741.8</b>
Off-balance sheet transactions . . . . .	61.9	(1,698.2)	23.2	(26.0)	8.4	(57.5)	(169.6)	1,857.8		
<b>Gap . . . . .</b>	<b>(4,517.5)</b>	<b>(2,660.8)</b>	<b>(204.0)</b>	<b>1,747.1</b>	<b>783.6</b>	<b>(200.6)</b>	<b>14,199.2</b>	<b>3,277.1</b>	<b>(12,424.1)</b>	
<b>Accumulated gap . . . . .</b>	<b>(4,517.5)</b>	<b>(7,178.3)</b>	<b>(7,382.3)</b>	<b>(5,635.2)</b>	<b>(4,851.6)</b>	<b>(5,052.2)</b>	<b>9,147.0</b>	<b>12,424.1</b>		

At the end of 2004, the impact of a 1% variation in interest rates was 1.38% on the net interest margin in the first year and the sensitivity of equity to a 1% variation was 1.19%. These figures do not reflect the complete effect of rate variation, which continues after the first year and, in fact, may have its greatest impact in subsequent years, due to the lengthening of the periods of repricing of transactions. The sensitivity to rate variations has increased in recent years at Banco Popular. The consequence of this structural change in the balance sheet will be a strong improvement in the net interest margin after rises in interest rates, especially from the first year onwards.

Figure 29 shows the variations in the net interest margin and equity in response to a 1% change in interest rates during 2004. The maximum effect was 1.38% in the net interest margin and 1.49% in the equity.

**Treasury activity risk**

The indicator used to measure the market risk of the trading portfolio is Value at Risk (VaR), defined as the maximum potential loss that would result from a given variation of price in a given period of time. The VaR is calculated each day by means of a statistical estimate of the variation in prices, with a 99% statistical confidence level, based on past experience, and a time period of one day to measure the possible losses.

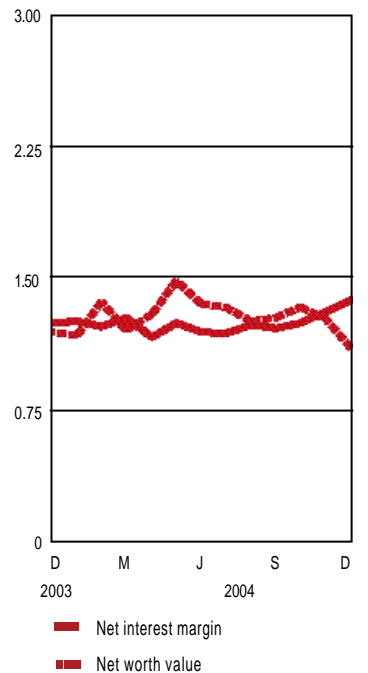
The market risk in this activity consists of interest rate risk and equity price risk.

Figure 30 plots the variation in VaR during 2004, and shows that it was between €200 thousand and €400 thousand for most of the year, except in April when it peaked at slightly over €600 thousand. These are extremely low figures, especially for a bank of the size of Banco Popular, evidencing the prudence of the Group's risk management in the markets.

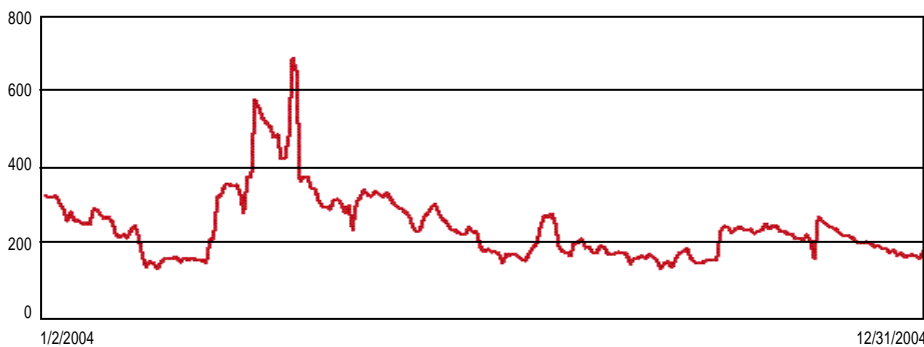
In addition to calculating VaR, daily stress tests are performed to evaluate the sensitivity of VaR to variations in the most significant risk factors; the risk factors addressed are interest rate risk and equity price risk, which account for more than 80% of the total VaR. The variations simulated are historical and the probability of occurrence is less than 1% on a 1 day time scale, and therefore they supplement the VaR model.

In order to reflect the possible combinations of the different risk factors, four scenarios that are modified quarterly were defined as follows: A - greatest impact expected a priori on earnings; B - maximum VaR for individual activities; C - most probable scenario; and D - maximum value of VaR at the time of revision.

**Fig.29 Sensitivity of net interest margin and net worth value to 1% variation in interest rates**



**Fig.30 VaR at BPE Group**  
(€ thousand)



The market conditions in past crises, such as the equity crisis in the spring/summer of 2002 and that of 9/11 in the United States, were also reproduced. The performance of the trading portfolio in each of these scenarios is analyzed monthly.

Table 37 shows that the average daily VaR in the stress scenarios ranged from €694.86 thousand to €915.38 thousand, with a peak of €2,012.48 thousand and a minimum of €162.43 thousand. At December 31, 2004, the value of the different scenarios ranged from €751.72 thousand to €1,148.25 thousand.

**Table 37. VaR calculated in different stress testing scenarios - 2004**

(€ thousand)

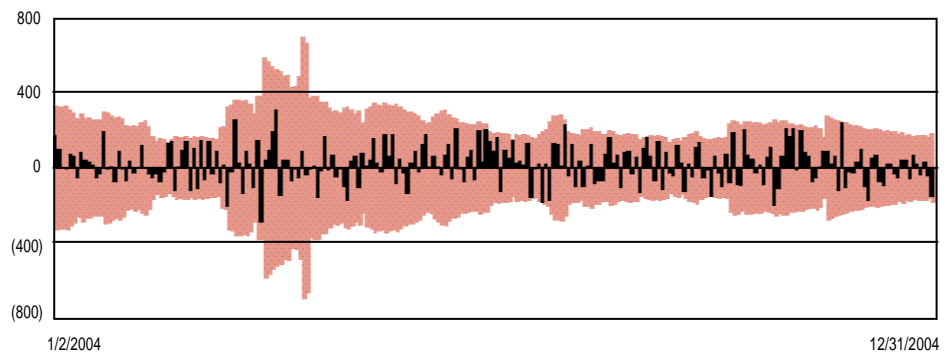
	A	B	C	D	Sept. 2001	Ago. 2002
Daily average . . . . .	710.90	759.36	694.86	915.38	689.49	979.59
Maximum . . . . .	1,095.47	1,284.15	1,706.23	2,012.48	998.62	1,099.51
Minimum . . . . .	202.34	162.43	185.53	216.94	445.25	666.83
Final . . . . .	851.23	912.55	751.72	1,148.25	524.54	1,099.51

In addition to the stress testing analysis discussed above, the VaR model is completed with daily back testing, defined in line with the Basel Supervision Committee's recommendations and consisting of comparing the calculated VaR with, on the one hand, the total result of management on the following day and, on the other, with a fictitious management result calculated using the positions used to calculate VaR. The findings in excess of VaR are tabulated by nature, identifying those which might

potentially indicate a deficiency in the model. The results of both models are compared and reconciled daily.

The results of back testing of the trading portfolio are shown in Figure 31, which evidences that in 2004 errors of the model did not give rise to excessive findings. Under the evaluation procedure proposed by the Basel Supervision Committee, the Group's model would be in the green zone, indicating adequate accuracy.

**Fig.31** Banco Popular Group backtesting (€ thousand)



## 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.

Supervision of this risk is the responsibility of the Assets and Liabilities Committee (ALCO), which has formal procedures for analyzing and monitoring the Group's overall liquidity, including contingency plans for possible deviations in liquidity due to internal causes or to market behavior. For this purpose periodic analyses are made of the sensitivity of liquidity in different scenarios of asset and liability cancellation in time brackets from 1 day to 1 year in the short term and up to 10 years in the long term.

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.

Table 38 shows the consolidated 2004 year-end balance sheet broken down by the maturity terms of assets and liabilities. The sensitive assets amounted to €56,971 million, compared with the €39,315 million of sensitive liabilities, with a positive differential of €17,656 million. In the terms up to 6 months, the sensitive liabilities exceeded the sensitive assets with a maximum gap of €3,185 million in the 8- to 31-days bracket; thereafter the gap decreased. The gap became positive after 6 months. Also at December 31, 2004, there were €3,061 million of long positions in highly liquid assets (securitization bonds and other fixed-income securities, and equity trading portfolio) that qualify as collateral for financing facilities from the Bank of Spain and the European Central Bank. The largest amount, €1,455 million, related to securitization bonds of loans from Banco Popular to SMEs; these bonds were issued on December 27, 2004, under the framework cooperation agreement between the Spanish Ministry of Industry, Tourism and Trade and

**Table 38 Liquidity gap as of December 31, 2004**

(€ million)	Under 7 days	8 to 30 days	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Not sensitive	Total
Money market . . . . .	2,255.8	2,304.3	333.8	71.8	240.5	11.3	–	–	190.6	5,414.3
Credit market . . . . .	41.3	4,252.6	2,823.4	2,626.0	4,621.3	4,947.7	13,833.4	6.2	1,898.1	51,698.9
Capital market . . . . .	0.2	0.3	1.0	–	11.5	6.9	72.3	16,655.1	16.4	1,962.7
Other assets . . . . .	–	–	–	–	–	–	–	1,854.1	3,665.9	3,665.9
<b>Total assets . . . . .</b>	<b>2,297.3</b>	<b>6,557.2</b>	<b>3,158.2</b>	<b>2,697.8</b>	<b>4,873.3</b>	<b>4,965.9</b>	<b>13,905.7</b>	<b>18,515.4</b>	<b>5,771.0</b>	<b>62,741.8</b>
Money market . . . . .	1,999.3	2,874.8	253.5	875.0	3,236.6	752.4	572.1	31.4	69.0	10,664.1
Deposit market . . . . .	170.0	4,786.6	2,237.4	1,832.2	2,051.8	1,191.3	817.6	21.3	16,526.7	29,634.9
Capital market . . . . .	–	2,081.3	1,302.6	431.2	1,217.5	982.7	7,421.2	2,175.0	–	15,611.5
Other liabilities . . . . .	–	–	–	–	–	–	–	–	6,831.3	6,831.3
<b>Total liabilities . . . . .</b>	<b>2,169.3</b>	<b>9,742.7</b>	<b>3,793.5</b>	<b>3,138.4</b>	<b>6,505.9</b>	<b>2,926.4</b>	<b>8,810.9</b>	<b>2,227.7</b>	<b>23,427.0</b>	<b>62,741.8</b>
<b>Gap . . . . .</b>	<b>128.0</b>	<b>(3,185.5)</b>	<b>(635.3)</b>	<b>(440.6)</b>	<b>(1,632.6)</b>	<b>2,039.5</b>	<b>5,094.8</b>		<b>(17,656.0)</b>	
<b>Accumulated gap . . . . .</b>	<b>128.0</b>	<b>(3,057.5)</b>	<b>(3,692.8)</b>	<b>(4,133.4)</b>	<b>(5,766.0)</b>	<b>(3,726.5)</b>	<b>1,368.3</b>			

Banco Popular Español, S.A., to foster corporate funding. The three main rating agencies (Standard & Poor's, Moody's and Fitch Ratings) have assigned AAA ratings to these bonds. Taking into account these liquid assets, the maximum net negative gap was €2,705 million.

The balance sheet referred to earlier is also 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 1 day to 1 year.

The Group applies criteria of maximum prudence in managing its liquidity, endeavoring not only to minimize the cost but also to avoid concentration at certain terms or in certain markets. For this purpose, it has various carefully selected sources of wholesale funding for each term, based on cost, rapidity of access and depth. At short term (up to 18 months) it uses the money market and issues commercial paper. At medium term (up to 5 years) it issues senior debt; and at long term (over 5 years) mortgage bonds ("cédulas") are issued. The loan securitization operations are structured in bonds of differing maturities, which therefore constitute an alternative to the foregoing sources at each of the terms, thus increasing the degree of diversification.

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.

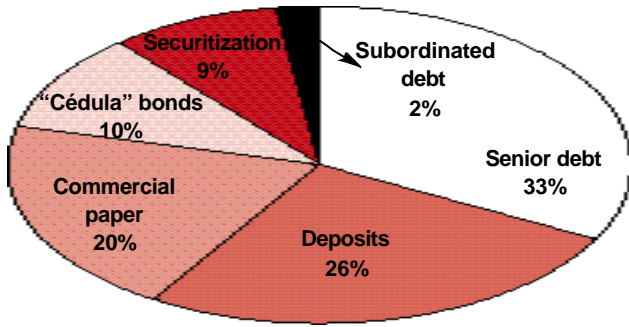
Banco Popular and its regional subsidiaries also have six short-term (up to 18 months) note issuance programs in the domestic market, with an aggregate limit of €6,590 million at December 31, 2004, which can be increased to €7,580 million. Note 2 n.2) to the consolidated financial statements describes 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 (the same as in 2003), 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.

On February 12, 2004, the Group launched a first issue of structured mortgage bonds ("cédulas") maturing in February 2014. The issue was made by the contribution to a fund of singular mortgage "cédulas" originated by Banco de Andalucía, Banco de Galicia, Banco de Castilla, Banco de Vasconia, Banco de Crédito Balear and Banco Popular Hipotecario. This issue was intended to diversify the sources of financing, not only at group level but also at individual level.

Figure 32 shows the level of contribution from each wholesale financing source at December 31, 2004, and evidences the wide variety of the Group's sources of wholesale financing, with no high levels of concentration and the possibility of increasing those of lesser weight. In the coming years, the Bank will be able to make growing use, for example, of the issuance of "cédulas" based on its extensive mortgage portfolio.

Fig.32 Structure of wholesale funding at 12/31/04



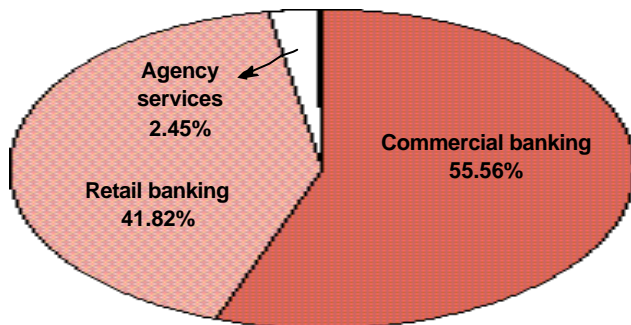
### Operational risk

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord: "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events". The Group's overall management of this risk includes the design of procedures to identify, monitor and control it, in order to mitigate its impact on the organization.

For this purpose, qualitative and quantitative tools are being developed to measure the frequency and impact of operational risk events and improve the controls and coverage in the areas of greatest exposure, and the necessary contingency plans are being drafted to insure continuity in operations.

Figure 33 shows the business areas into which the Group has been divided for operational risk purposes and the contribution of each calculated on the basis of the amounts of operational risk events recorded in 2004.

Fig.33 Operational risk by business area



Remainder: Trading and sales	0.13%
Corporate finance	0.04%
Settlement and payments	0.00%
Retail intermediation	0.00%
Asset management	0.00%

## Shareholders

At the end of 2004, Banco Popular Español had 81,054 shareholders, compared with 71,300 at the end of the previous year.

Tables 39 and 40 present a detail of the spread of share ownership and of the percentages of holding in the common stock of the Bank at the end of 2004 and 2003.

**Table 39. Breakdown of year-end share ownership**

Number of shares owned per shareholder	Shareholders				Percentage holding in common stock	
	Number		%		2004	2003
	2004	2003	2004	2003		
Up to 200	39,497	34,918	48.73	48.97	1.39	1.21
From 201 to 800	25,463	22,148	31.42	31.06	4.46	3.89
From 801 to 2,000	9,024	7,905	11.13	11.09	5.10	4.48
From 2,001 to 4,000	3,486	3,123	4.30	4.38	4.37	3.93
From 4,001 to 8,000	1,756	1,562	2.17	2.19	4.37	3.88
From 8,001 to 40,000	1,399	1,253	1.73	1.76	10.21	9.04
From 40,001 to 80,000	174	169	0.21	0.24	4.26	4.16
From 80,001 to 160,000	114	93	0.14	0.13	5.55	4.53
Over 160,000	141	129	0.17	0.18	60.29	64.88
<b>Total</b>	<b>81,054</b>	<b>71,300</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

The structure of the shareholders varied in 2004, with an increase in ownership by investors owning a smaller numbers of shares. Shareholders owning more than 160,000 shares numbered 141 and held 60.29% of the common stock, as compared with 129 and 64.88%, respectively, in 2003.

Non-Spanish shareholders owned slightly less (47.68%) than half the capital stock, which was slightly lower than the percentage of 48.96% in 2003.

Shareholders who are employees of the Group numbered 1,185, representing 1.46% of the total number of shareholders and in aggregate owned 0.56% of the common stock.

**Table 40. Common stock ownership distribution**

(Data in %)	Domestic ownership		Foreign ownership		Total	
	2004	2003	2004	2003	2004	2003
	Controlled by the Board of Directors*	19.65	19.83	14.55	13.89	34.20
Other:						
Institutional holdings	13.86	14.00	32.61	34.78	46.47	48.78
Individual investors**	18.81	17.21	0.52	0.29	19.33	17.50
<b>Total</b>	<b>52.32</b>	<b>51.04</b>	<b>47.68</b>	<b>48.96</b>	<b>100.00</b>	<b>100.00</b>

\* Directly or indirectly  
\*\* 72,594 shareholders in 2004 and 68,094 in 2003, each one owning fewer than 4,000 shares.

The Board of Directors controlled 77.8 million shares, 34.20% of the capital, compared with 33.72% in 2003; this figure includes the shares owned

directly or indirectly by directors and those habitually represented by them, as shown in detail in Table 41.

**Table 41. Shares controlled by the Board of Directors at year-end**

Name	Directly	Indirectly	Represented*	Total	% of capital
Aparicio, Francisco	3,450	–	249,758	253,208	0.11
Asociación de Directivos de BPE	6,000	–	250,834	256,834	0.11
Fernández, Francisco **	100	–	–	100	0.00
Ferreira de Amorim, Americo	100	12,227,277	–	12,227,377	5.38
Gancedo, Eric	45,800	27,240	2,338,845	2,411,885	1.06
Herrando, Luis	750	800	1,652,581 (1)	1,654,131	0.73
Molins, Casimiro	4,400	92,000	2,252,739	2,349,139	1.03
Montuenga, Luis	16,440	–	4,265,244 (2)	4,281,684	1.88
Morillo, Manuel	10	–	744,035 (3)	744,045	0.33
Nigorra, Miguel	43,488	44,800	–	88,288	0.04
Rodríguez, José Ramón	5,000	613,650	44,632	663,282	0.29
Ron, Angel Carlos	40	–	239,292	239,332	0.11
Santana, Vicente	2,200	264,628	777,696	1,044,524	0.46
Sindicatura de Accionistas de BPE ****	1,564,184	17,593,431	5,020,605	24,178,220	10.63
Solís, Miguel Angel de	147,337	19,622	1,913,555 (4)	2,080,514	0.91
Termes, Rafael	4,000	161,733	281,816	447,549	0.20
Valls, Javier	62,750	21,310	3,023,627	3,107,687	1.37
Viñas, Emilio	12,511	297,000	777,696	1,087,207	0.48
Walter, Herbert ***	100	–	20,651,132 (5)	20,651,232	9.08
<b>Total</b>	<b>1,918,660</b>	<b>31,363,491</b>	<b>44,484,087</b>	<b>77,766,238</b>	<b>34.20</b>

\* Habitually

\*\* Board member since October 19, 2004

\*\*\* Board member since April 20, 2004

\*\*\*\* Additionally it indirectly controls 5,324,400 shares that are represented by other Board members.

(1) Of which 1,562,581 relate to Instituto de Educación e Investigación

(2) Of which 2,400,000 relate to Popularinsa and 381,500 to Naarden International

(3) Shares relating to the Fundación Carmen y María José Godó

(4) Shares relating to the Solís family group

(5) Shares relating to Allianz Group

## Market performance of the Bank's shares

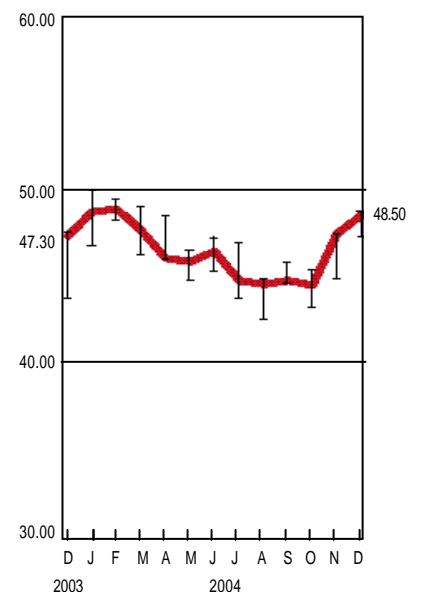
At December 31, 2004, the 227,386,508 common shares of €0.5 face value each into which the Bank's capital stock is divided were listed on the four Spanish stock exchanges and traded in the Spanish continuous market.

Banco Popular shares are included in the Madrid Stock Exchange general price index, with a weighting of 3.15% of the total; in the Ibex-35 index, which comprises the thirty-five most liquid stocks in the market, with a weighting of 3.20%; and in the financial Ibex, with a weighting of 8.75%.

The closing price of Banco Popular common stock was €48.50 at 2004 year end, an appreciation of 2.5% during the year. The share price rose strongly to €50.25 at the end of January, its record high, declined progressively in the following seven months, fell to its lowest price for the year of €42.55 in August, and thereafter started a substantial recovery in the latter part of the year.

Figure 34 plots the monthly variations in the share price during 2004.

**Fig.34 Banco Popular share price (€)**  
(Month-end high, low and closing prices)

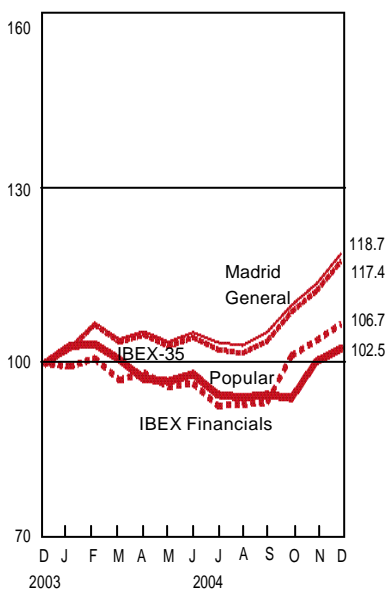


**Table 42. Evolution of price of Banco Popular common stock**

Year	Price (€)			Banco Popular Ind.	MSEGPI	IBEX-35	Financial IBEX
	Highest	Lowest	Closing				
12.31.02 *			38.97	100.00	100.00	100.00	100.00
<b>2003</b>							
January	40.40	36.05	38.00	97.51	98.42	98.52	89.75
February	39.29	36.71	37.80	97.00	98.81	99.38	90.84
March	41.95	37.05	39.60	101.62	96.85	97.24	89.73
April	43.44	38.55	43.44	111.47	106.47	107.50	104.79
May	45.00	42.60	45.00	115.47	107.22	107.81	102.09
June	46.40	43.31	44.00	112.91	113.53	113.67	110.01
July	44.86	41.23	42.60	109.31	117.13	116.98	114.80
August	42.70	40.86	41.00	105.21	118.28	117.80	112.94
September	43.69	41.14	42.47	108.98	112.49	111.04	106.63
October	45.20	42.13	44.73	114.78	119.10	118.10	118.40
November	44.90	42.87	43.74	112.24	121.20	120.14	121.30
December	48.07	43.56	47.30	121.38	127.44	128.17	131.07
<b>2004</b>							
January	50.25	46.40	48.70	124.97	130.87	131.36	130.31
February	49.55	47.80	48.85	125.35	136.23	136.65	132.19
March	49.40	46.00	47.62	122.20	132.72	132.82	127.25
April	48.67	45.86	46.03	118.12	134.37	134.33	128.91
May	46.66	44.81	45.83	117.60	132.09	131.84	125.85
June	47.38	45.12	46.42	119.12	134.15	133.82	126.47
July	46.94	43.74	44.74	114.81	131.99	131.18	121.53
August	44.85	42.55	44.53	114.27	131.36	130.36	121.84
September	45.77	44.60	44.74	114.81	134.19	133.00	122.28
October	45.89	43.23	44.48	114.14	140.13	139.45	132.80
November	47.81	44.42	47.44	121.73	144.75	144.00	136.14
December	48.95	47.04	48.50	124.45	151.27	150.42	139.86

\* Indexes at 12.31.02: Madrid Stock Exchange general price index (MSEGPI): 634.0 points; IBEX-35: 6,036.9 points; financial IBEX: 6,440.1 points

**Fig.35 Banco Popular vs. the market**  
**Stock market indexes 2004**  
(Month-end figures)



The 2.5% appreciation of Banco Popular shares in 2004 was lower than that of the market as a whole, since the Madrid Stock Exchange index was up 18.7%, the Ibex-35 was up 17.4% and the financial Ibex was up 6.7%. Considering 2003 and 2004 together, the appreciation of the Bank's stock was 24.5%, which was lower than those of 51.3% in the Madrid Stock Exchange general index, 50.4% in the Ibex-35 and 39.9% in the financial Ibex-35.

Table 42 shows the evolution of the share price in the last two years, compared with the variation in the indexes mentioned above, and Figure 35 plots the monthly movement of the share price in 2004.

The market return on the Bank's shares (gain plus dividends paid in the year, as a percentage of the starting price) was 6.0% in 2004, taking into

account the €1.2 rise in the price plus the four dividends paid during the year (three charged to 2003 income and the first interim dividend out of 2004 income) which amounted to €1.645.

The market return in the last ten years is shown in Table 43 for different timing hypotheses of investment and divestment. Thus, an investor who acquired Banco Popular shares at the end of 1994 and reinvested the dividends would have obtained a cumulative annual return of 18.7% during the decade. The table also shows that the market return was positive at all possible entry and exit dates from 1994 to 2004.

The price of Banco Popular shares at 2004 year end (€48.50) signified a P/E ratio of 13.8 times the attributable income for the year and ratios of 6.4 times the cashflow and 3.0 times the book value per share at that date.

**Table 43. Market return on Banco Popular shares 1994-2004\***

(% compound annual return)

Year-end in	Year-end out									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1994	48.4									
1995		17.6								
1996			71.5							
1997				3.8	3.4	8.0	6.5	6.9	9.8	9.2
1998					3.0	10.2	7.4	7.7	11.0	10.1
1999						17.8	9.7	9.3	13.1	11.6
2000							2.0	5.3	11.6	10.1
2001								8.7	16.7	12.9
2002									25.3	15.1
2003										5.7

\* Assuming immediate reinvestment of dividends net of withholding tax

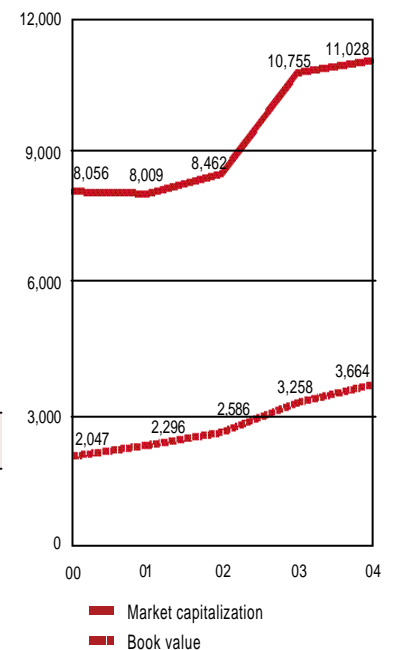
Table 44 presents these share valuation measures for the five years 2000-2004, and also includes, for each year, the dividend return, the rate of income capitalization, and the market return as defined above.

The market capitalization of Banco Popular at 2004 year end was €11,028 million, an increase of €273 million (2.5%) over the 2003 figure of €10,755 million. Figure 36 shows the variation in market capitalization and book value in the last five years.

Trading in Banco Popular shares in 2004 amply exceeded the figures for previous years, raising even further the already high liquidity of the stock. The Bank's shares were traded at all 251 trading sessions during the year, and the 396 million shares traded (representing 174% of the total stock outstanding) signified a daily average of 1,577,000 shares. The matching figures for 2003 were 414 million shares during the year and 1,655,000 as a daily average.

**Fig.36 Market capitalization and book value**

(€ million)



**Table 44. Banco Popular share valuation measures\***

Year	Closing** price (€)	Price as a multiple of			Dividend yield %	Earnings yield %	Market return*** %
		Cash flow P/CF	Net income attributable P/E	Book value P/BV			
2000	37.10	7.0	16.4	3.9	3.22	6.09	18.0
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
2004	48.50	6.4	13.8	3.0	3.63	7.26	6.0

\* Relating to closing figures for the year

\*\* Adjusted for the 2 x 1 split in 2000

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

Table 45 and Figure 37 show the volume of trading and the liquidity of the shares in the last five years.

In 2004, the Group intervened as a buyer in treasury stock transactions involving a total of 658,029 shares

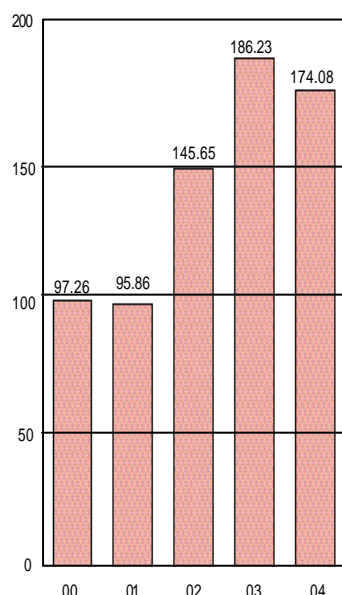
**Table 45. Banco Popular share trading volume**

(Thousands of shares)

Year	Average number outstanding (a)	Shares traded (b)	Average daily trades	Share liquidity b/a (%)
2000	217,154	211,195	844.8	97.26
2001	217,154	208,163	832.7	95.86
2002	217,154	316,291	1,265.2	145.65
<b>2003</b>				
First quarter	217,154	82,875	1,336.7	38.16
Second quarter	217,154	93,033	1,500.5	42.84
Third quarter	227,072	116,611	1,794.0	51.35
Fourth quarter	227,387	121,264	1,987.9	53.33
Total 2003	222,192	413,783	1,655.1	186.23
<b>2004</b>				
First quarter	227,387	110,722	1,757.5	48.69
Second quarter	227,387	101,088	1,604.6	44.46
Third quarter	227,387	73,933	1,137.4	32.51
Fourth quarter	227,387	110,091	1,834.9	48.42
Total 2004	227,387	395,834	1,577.0	174.08

**Fig.37 Share liquidity**

(Shares traded as % of capital stock)



(0.29% of the capital stock) and as a seller in transactions involving 563,211 shares (0.25% of the capital stock). The maximum treasury stock held was 239,355 shares (0.11% of the total common stock outstanding), the average was 84,692 shares (0.04%), and the minimum was zero.

See Table 46 for quarterly data of treasury stock in 2004 and 2003.

At December 31, 2004, the Bank held 94,818 shares of treasury stock (0.04% of the capital stock) relating

exclusively to trading portfolio transactions of the Group's treasury function, involving purchases of baskets of Ibex-35 securities, including Banco Popular shares in proportion to its weighting in that Index, with simultaneous sales of the corresponding futures. In 2004 the Group also arranged 980 share futures contracts on Banco Popular shares, with a maximum stock of 859 contracts and a minimum of zero. At December 31, 2004, the Group did not have any futures contracts on Banco Popular shares.

**Table 46. Treasury stock**

(Thousands of shares)

	Average	Number held			Total outstanding (a)	Total traded (b)	Treasury stock as % of *	
		Maximum	Minimum	Final			(a) %	(b) %
<b>2003</b>								
First quarter	99	139	-	-	217,154	82,874	0.05	0.12
Second quarter	74	112	-	-	217,154	93,033	0.03	0.08
Third quarter	128	174	-	-	227,072	116,611	0.06	0.11
Fourth quarter	47	104	-	-	227,387	121,264	0.02	0.04
<b>2004</b>								
First quarter	114	239	-	-	227,387	110,722	0.05	0.10
Second quarter	48	86	-	-	227,387	101,088	0.02	0.05
Third quarter	85	86	-	86	227,387	73,933	0.04	0.11
Fourth quarter	93	107	-	95	227,387	110,091	0.04	0.08

\* Based on quarterly average number held

## BANCO POPULAR

## Assets and funds

This section is the management report of Banco Popular Español, S.A. considered individually as the parent entity of the Group, and analyzes the evolution of its activity, earnings and profitability in 2004, compared with 2003.

The Bank's financial statements (balance sheets, income statements and statements of changes in financial position) as of December 31, 2004, and for the four preceding years, are included in Note 3 to the accompanying consolidated financial statements.

### Total assets

At 2004 year end, the Bank's total on-balance sheet assets amounted to €45,034 million, representing a growth of 17.7% over the €38,252 million at the end of 2003. Average total assets during 2004 amounted to €41,004 million, up by 20.0% on 2003.

Addition to the on-balance sheet assets of the funds intermediated by the Bank gives the total assets managed or total business volume, which at 2004 year end amounted to €53,903 million, up 18.0% on 2003.

**Table 47. Summarized balance sheets**

(€ thousand)	December 31		Variation	
	2004	2003	Amount	%
<b>Assets</b>				
Cash and due from central banks	478,343	627,384	(149,041)	(23.8)
Government debt securities	66,600	20,885	45,715	>
Due from financial intermediaries	11,175,331	10,769,073	406,258	3.8
Loans and discounts	27,752,406	23,718,694	4,033,712	17.0
Private fixed-interest securities	1,986,106	290,476	1,695,630	>
Equity securities	807,337	314,319	493,018	>
Participating interests	10,344	11,115	(771)	(6.9)
Shares of group companies	1,204,264	1,185,298	18,966	1.6
Intangible assets	12,649	15,940	(3,291)	(20.6)
Tangible assets	385,142	369,223	15,919	4.3
Treasury stock	4,599	-	4,599	>
Prepayments and accrued income	217,216	171,645	45,571	26.5
Other asset accounts	933,654	757,661	175,993	23.2
<b>Total</b>	<b>45,033,991</b>	<b>38,251,713</b>	<b>6,782,278</b>	<b>17.7</b>
<b>Liabilities and capital</b>				
Due to financial intermediaries	9,048,427	8,747,618	300,809	3.4
Customer deposits	26,997,715	22,665,339	4,332,376	19.1
Bonds and other marketable debt securities	3,249,033	2,136,699	1,112,334	52.1
Other liability accounts	1,333,572	842,482	491,090	58.3
Accruals and deferred income	275,632	225,756	49,876	22.1
Special allowances	141,563	208,198	(66,635)	(32.0)
Subordinated liabilities	1,499,622	1,160,669	338,953	29.2
Common stock	113,693	113,693	-	-
Reserves	1,786,336	1,646,122	140,214	8.5
Net income for the year	588,398	505,137	83,261	16.5
<b>Total</b>	<b>45,033,991</b>	<b>38,251,713</b>	<b>6,782,278</b>	<b>17.7</b>
<i>Pro memoria:</i>				
No. of employees	7.530	7.510	20	0.3
No. of branches	1.271	1.246	25	2.0

Table 47 shows the summarized balance sheets as of December 31, 2004 and 2003, together with data of

the employee headcount and number of branch offices at those dates.

The variations in the main balance sheet captions are analyzed in detail in the following subsections.

### Shareholders' equity

The Bank's book equity at December 31, 2003, amounted to €1,899 million, after the distribution of income for the year.

In 2004, the Bank transferred to reserves €1.2 million relating to the unused portion of this same amount transferred from reserves for the early retirements plan approved in 2003 and completed in the first quarter of 2004, net of the resulting prepaid taxes.

In 2003, the Bank increased its capital for part payment of the acquisition of the Portuguese Banco Nacional de Crédito (BNC) for €412,672 thousand: capital stock was increased by €5,116 thousand and paid-in surplus by €407,556 thousand.

In December 2003, Banco Popular transferred €101 million from reserves to a specific account under Special allowances for implementation of an early retirements plan; the prepaid taxes relating to this operation which were transferred to reserves amounted to €35.4 million. Also in 2003, €4.3 million were added to reserves for the unused portion of the amount provided for the early retirements plan approved in 2002, and the adjustment of the benefits per the insurance policy to the actual commitments covered thereby.

Assuming that the Shareholders Meeting, called for June 23, 2005, approves the proposed distribution of 2004 income, as shown in Note 4 to the financial statements, the Bank's total equity will amount to €2,084 million, 9.7% more than in 2003.

### Customer funds

The 2004 year-end on-balance sheet customer funds, which totaled €31,746 million, were up 22.3% on 2003. The average customer funds held in 2004 were €28,189 million, 16.9% up on the 2003 figure.

Customer funds represented 70.49% of the Bank's total assets at 2004 year end.

The funds intermediated by the Bank which are not included in the balance sheet because they are in other savings instruments - financial assets sold to maturity, contributions to mutual funds or pension plans, portfolios managed and investments in life insurance, totaled €8,871 million at 2004 year end, an increase of 19.3% in the year.

Total customer funds managed amounted to €40,617 million, an increase of 21.6% during the year.

Table 48 details, by sector and type of account, the balances of these customer funds at the end of 2004 and 2003.

**Table 48 . Customer funds**

(€ thousand)	December 31		Variation	
	2004	2003	Amount	%
Customer deposits:				
<i>From public bodies:</i>	610,119	380,096	230,023	60.5
Demand deposits .....	562,436	229,572	332,864	>
Savings deposits .....	2,672	3,806	(1,134)	(29.8)
Time deposits .....	45,011	146,718	(101,707)	(69.3)
Assets sold under repurchase agreements	—	—	—	—
<i>From other residents:</i>	20,621,356	15,512,791	5,108,565	32.9
Deposits of private-sector residents				
Demand deposits .....	6,081,451	5,723,423	358,028	6.3
Savings deposits .....	2,545,548	2,324,489	221,059	9.5
Time deposits .....	9,850,662	5,450,741	4,399,921	80.7
Assets sold under repurchase agreements	2,143,695	2,014,138	129,557	6.4
<i>From nonresidents:</i>	5,766,240	6,772,452	(1,006,212)	(14.9)
Demand deposits .....	256,872	232,624	24,248	10.4
Savings deposits .....	487,300	468,068	19,232	4.1
Time deposits .....	5,017,848	6,071,740	(1,053,892)	(17.4)
Assets sold under repurchase agreements	4,220	20	4,200	>
Bonds and other marketable debt securities .....	3,249,033	2,136,699	1,112,334	52.1
Subordinated financing .....	1,499,622	1,160,669	338,953	29.2
Total (a) .....	31,746,370	25,962,707	5,783,663	22.3
Other intermediated customer funds:				
Financial assets sold outright				
to customers (outstanding balances) .....	1,020,675	555,097	465,578	83.9
Mutual funds .....	5,154,877	4,342,282	812,595	18.7
Asset portfolio management .....	270,820	332,332	(61,512)	(18.5)
Pension plans .....	2,041,374	1,836,039	205,335	11.2
Life insurance technical reserves .....	382,906	372,004	10,902	2.9
Total (b) .....	8,870,652	7,437,754	1,432,898	19.3
Total (a+b) .....	40,617,022	33,400,461	7,216,561	21.6

## Loans and discounts

Banco Popular's gross loans and discounts to customers at December 31, 2004, including nonperforming loans, totaled €28,279 million, compared with €24,166 million at the end of 2003, an increase of 17.0%.

In December 2004, Banco Popular securitized €2,000 million of collection rights against SMEs. Adjusting this transaction exclusively for comparison purposes, the increase in loans and discounts in 2004 was 25.3%.

The loans and discounts, net of the related credit loss allowance, constitute the amount of lending to customers reflected in the aforementioned balance sheets.

Table 49 is a breakdown, by borrower sector and type of transaction, of total year-end loans and discounts in 2004 and 2003.

Average loans and discounts increased by 21.7% in 2004 to €26,894 million.

**Table 49. Loans and discounts**

(€ thousand)	December 31		Variation	
	2004	2003	Amount	%
<i>To public bodies:</i>	42,826	27,752	15,074	54.3
Secured loans	—	—	—	—
Other term loans	42,742	27,727	15,015	54.2
Overdrafts and other	84	25	59	>
<i>To other residents:</i>	27,237,581	23,345,431	3,892,150	16.7
Trade loans and discounts	3,971,267	3,435,797	535,470	15.6
Secured loans	13,286,717	11,406,865	1,879,852	16.5
Mortgage loans	13,256,185	11,376,278	1,879,907	16.5
Other	30,532	30,587	(55)	(0.2)
Other term loans	7,371,878	6,306,083	1,065,795	16.9
Overdrafts and other	794,690	700,692	93,998	13.4
Leasing	1,813,029	1,495,994	317,035	21.2
<i>To nonresidents:</i>	765,390	588,224	177,166	30.1
Trade loans and discounts	17,168	13,464	3,704	27.5
Secured loans	359,791	265,761	94,030	35.4
Mortgage loans	357,838	264,555	93,283	35.3
Other	1,953	1,206	747	61.9
Other term loans	380,226	300,074	80,152	26.7
Overdrafts and other	8,205	8,925	(720)	(8.1)
<i>Nonperforming loans:</i>	232,850	204,767	28,083	13.7
To public bodies	—	—	—	—
To other residents	228,012	201,304	26,708	13.3
To nonresidents	4,838	3,463	1,375	39.7
Total	28,278,647	24,166,174	4,112,473	17.0

## Risk management

Table 50 presents relevant information about credit risk management in 2004 compared with 2003, and permits detailed analysis of the Bank's asset soundness.

The Bank's balance of nonperforming loans and doubtful loans at December 31, 2004, amounted to €240 million, representing a nonperforming ratio of 0.56% of total risks, compared with 0.61% at the end of 2003.

€260 million of additional balances were classified as nonperforming during the year, 12.1% more than in 2003, and €129 million of delinquent loans were recovered, 0.9% less than in 2003. The net increase of €130 million in 2004 was 28.9% higher than in 2003.

Loans written off in 2004, either because of expiration of the period stipulated by the Bank of Spain for keeping them on the books or because they were classified as losses, amounted to €104 million. For these writeoffs, which in 2004 represented 0.24% of the total risks (0.28% in 2003), €91 million of credit loss allowances were used and €13 million were charged directly to income because they had not been provisioned at the time of writeoff.

At 2004 year end the Bank had recorded €601 million of credit loss allowances to cover nonperforming loans, signifying a coverage ratio of 250.08%, compared with 237.74% at the end of 2003.

The net credit loss provisions recorded in 2004 and charged to income for the year totaled €185 million, 14.0%

**Table 50. Risk performance**

(€ thousand)	December 31		Variation	
	2004	2003	Amount	%
<i>Nonperforming loans*:</i>				
Balance at January 1	213,955	210,037	3,918	1.9
<i>Additions</i>	259,602	231,549	28,053	12.1
<i>Balances recovered</i>	(129,471)	(130,617)	1,146	(0.9)
Net variation for the year	130,131	100,932	29,199	28.9
% increase	60.8	48.1		
Writeoffs	(103,693)	(97,014)	(6,679)	6.9
Balance at December 31	240,393	213,955	26,438	12.4
<i>Allowance for credit losses:</i>				
Balance at January 1	508,655	386,062	122,593	31.8
Annual provision:				
Gross	255,270	254,996	274	0.1
Recoveries	(70,046)	(39,571)	(30,475)	77.0
Net	185,224	215,425	(30,201)	(14.0)
Other variations	(1,994)	(4,881)	2,887	(59.1)
Writeoffs	(90,707)	(87,951)	(2,756)	3.1
Balance at December 31	601,178	508,655	92,523	18.2
<i>Foreclosed real estate assets</i>	41,817	36,506	5,311	14.5
<i>Allowance for potential losses on foreclosed assets</i>	12,780	12,238	542	4.4
<i>Pro memoria:</i>				
Total risks	42,814,888	35,104,513	7,710,375	22.0
Loans transferred to suspense accounts	590,250	527,524	62,726	11.9
Nonperforming mortgage loans	25,267	19,616	5,651	28.8
<i>Risk quality measures (%):</i>				
Nonperformance (Nonperforming loans/Total risks)	0.56	0.61	(0.05)	
Insolvency (Writeoffs/Total risks)	0.24	0.28	(0.04)	
Coverage (Credit loss allowance/Nonperforming loans)	250.08	237.74	12.34	
Coverage (Allowance for potential losses on foreclosed assets/total foreclosed assets)	30.56	33.52	(2.96)	

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

more than in 2003. Also, as stated earlier, €13 million of balances were written off directly with a charge to income in 2004.

In addition the table shows the book balance of foreclosed real estate assets

(premises), amounting to €42 million, for which the Bank had recorded provisions of €13 million to cover possible losses on disposal, signifying a coverage ratio for these assets of 30.56% in 2004, compared with 33.52% in 2003.

**Table 51. Allowance for nonperforming loans as of December 31**

(€ thousand)	2004		2003	
	Balance	Total	Balance	Total
		provisions		provisions
Doubtful balances with specific allowances: . . . . .	209,584	80,658	192,105	86,679
Ordinary . . . . .	198,588	74,947	183,210	81,965
Secured by prime collateral. . . . .	2,374	522	2,578	930
Off-balance sheet risks . . . . .	8,622	5,189	6,317	3,784
Doubtful balances with general allowances . . . . .	29,055	176	20,462	120
Doubtful balances for which allowances are not required	1,754		1,388	
Total nonperforming loans . . . . .	240,393	80,834	213,955	86,799
Other specific provisioning . . . . .		20,201		679
Allowances for ordinary risks . . . . .	32,714,838	299,995	27,632,145	250,663
General provisioning (1%) . . . . .	27,284,199	272,842	22,500,466	225,005
Reduced provisioning (0.5%) . . . . .	5,430,639	27,153	5,131,679	25,658
Statistical allowance . . . . .		194,960		119,340
Total required provisions. . . . .		595,990		457,481
Balance of credit loss allowances . . . . .		601,178		508,655
Surplus . . . . .		5,188		51,174

### Securities portfolios

December 31, 2004, balance sheet was €4,075 million, an increase of 123.6% on 2003. The securities are valued in accordance with Bank of Spain criteria, as reflected in the Bank's portfolios

**Table 52. Year-end security portfolios detail**

(€ thousand)			Variation	
	2004	2003	Amount	%
<i>Government debt securities:</i>	66,600	20,885	45,715	>
Bank of Spain certificates of deposit . . . . .	12,389	3,910	8,479	>
Treasury bills . . . . .	54,210	16,974	37,236	>
Other "book entry system" securities . . . . .	1	1	-	-
Less: Allowance for security price fluctuations . . . . .	-	-	-	-
Pro memoria: Balance of security price fluctuation allowance	-	-	-	-
Deferred writedowns (unrealized losses) . . .	-	-	-	-
<i>Private fixed-interest securities:</i>	1,986,106	290,476	1,695,630	>
Issued by: Public bodies . . . . .	65,105	58,042	7,063	12.2
Financial intermediaries. . . . .	68,127	20	68,107	>
Other residents . . . . .	1,823,779	196,492	1,627,287	>
Nonresidents . . . . .	31,219	37,108	(5,889)	(15.9)
Less: Allowance for security price fluctuations . . . . .	(2,124)	(1,186)	(938)	79.1
Pro memoria: Balance of security price fluctuations allowance	(2,124)	(1,186)	(938)	79.1
Deferred writedowns (unrealized losses) . . .	-	-	-	-
<i>Equity securities:</i>	807,337	314,319	493,018	>
Equity securities, gross. . . . .	813,137	319,731	493,406	>
Less: Allowance for security price fluctuations. . . . .	(5,800)	(5,412)	(388)	7.2
<i>Participating interests:</i>	10,344	11,115	(771)	(6.9)
Participating interests, gross . . . . .	24,861	24,861	-	-
Less: Allowance for security price fluctuations. . . . .	(14,517)	(13,746)	(771)	5.6
<i>Shares of group companies:</i>	1,204,264	1,185,298	18,966	1.6
Shares of group companies:	1,271,635	1,261,546	10,089	0.8
Banks . . . . .	1,175,449	1,165,450	9,999	0.9
Other . . . . .	96,186	96,096	90	0.1
Less: Allowance for security price fluctuations. . . . .	(67,371)	(76,248)	8,877	(11.6)
Total . . . . .	4,074,651	1,822,093	2,252,558	>

detailed in Note 2 d) to the financial statements.

Table 52 details the securities portfolios by nature and issuer: government debt securities, private fixed-interest securities and equity securities. The latter category is broken down into shares of companies not linked to the Bank and shareholdings in both associated companies and group companies. The related regulatorily required security price fluctuation allowance is shown for each category.

In 2003, the holding in Inmobiliaria Bami was transferred from participating interests to equity securities, following its merger with Metrovacesa. This holding was sold in 2004 and Banco Popular recognized a gain of €16.8 million which was recorded in the asset trading and exchange profits in the income statement.

Shareholdings in Group companies in 2004 include the formation of BPE Financiaciones and in 2003 included the addition of Banco Nacional de Crédito (BNC) and its subsidiaries, Popular

Capital, and the Dutch subsidiaries Popular Capital Europe, Popular Commercial Europe and Popular Finance Europe.

The shareholdings in Group companies contain unrecorded unrealized gains, i.e. underlying book value in excess of carrying value, amounting to €1,308 million, of which €1,057 million relate to the five regional banking subsidiaries in Spain. On the basis of the year-end market share prices, there were a further €1,652 million of unrealized gains.

## Income and profitability

### Income statement

Table 53 summarizes and compares the 2004 and 2003 income statements.

### Yields and costs

The Bank's average total assets in 2004 amounted to €41,004 million, an increase of 20.0% over 2003.

**Table 53. Comparative statements of income**

(€ thousand)			Variation	
	2004	2003	Amount	%
Total asset revenues	1,820,403	1,729,719	90,684	5.2
Interest expenses	645,306	585,012	60,294	10.3
<i>Net interest revenue</i>	<i>1,175,097</i>	<i>1,144,707</i>	<i>30,390</i>	<i>2.7</i>
Fees for services, net	377,431	350,798	26,633	7.6
Asset trading and exchange profits, net	25,058	16,925	8,133	48.1
<i>Ordinary margin</i>	<i>1,577,586</i>	<i>1,512,430</i>	<i>65,156</i>	<i>4.3</i>
Operating costs:	516,702	508,500	8,202	1.6
Personnel	371,219	363,508	7,711	2.1
Other expenses	145,483	144,992	491	0.3
Depreciation	53,194	50,674	2,520	5.0
Other operating income/expenses, net	(21,494)	(20,817)	(677)	3.3
<i>Operating margin</i>	<i>986,196</i>	<i>932,439</i>	<i>53,757</i>	<i>5.8</i>
Writeoffs and provisions for credit losses	161,973	197,448	(35,475)	(18.0)
Writedowns of financial assets	(8,105)	12,840	(20,945)	
Extraordinary gains (losses), net	(20,114)	15,560	(35,674)	
<i>Income before taxes</i>	<i>812,214</i>	<i>737,711</i>	<i>74,503</i>	<i>10.1</i>
Corporate income tax provision	223,816	232,574	(8,758)	(3.8)
<i>Net income</i>	<i>588,398</i>	<i>505,137</i>	<i>83,261</i>	<i>16.5</i>

Total asset revenues of €1,820 million were 5.2% higher than in 2003. Of this figure, €1,673 million related to interest and similar revenues, and €147 million to dividends, the respective growth rates being 4.3% and 16.6%.

The average yield on total assets was 4.44%, compared with 5.06% in 2003, signifying a decrease of 62 basis points.

Interest expenses on third-party funds totaled €645 million in 2004, 10.3% higher than the €585 million in the previous year.

The average rate of cost of total funds decreased by 14 bp to 1.57% in 2004.

Table 54 shows the yields on assets and the costs of funds in the two years.

**Table 54. Yields and costs**

	2004				2003			
	Average balance	Distribution (%)	Interest revenue or expense	Average rate (%)	Average balance	Distribution (%)	Interest revenue or expense	Average rate (%)
Monetary assets and financial system . . . . .	10,783,611	26.30	219,304	2.03	9,431,698	27.59	221,178	2.35
Loans and discounts (a) . . . . .	26,894,421	65.59	1,441,929	5.36	22,091,727	64.63	1,372,323	6.21
Securities portfolio . . . . .	2,545,778	6.21	159,170	6.25	1,877,075	5.49	136,218	7.26
<i>Total earning assets (b)</i> . . . . .	<i>40,223,810</i>	<i>98.10</i>	<i>1,820,403</i>	<i>4.53</i>	<i>33,400,500</i>	<i>97.71</i>	<i>1,729,719</i>	<i>5.18</i>
Other assets . . . . .	780,244	1.90	–	–	783,391	2.29	–	–
<b>Total assets</b> . . . . .	<b>41,004,054</b>	<b>100.00</b>	<b>1,820,403</b>	<b>4.44</b>	<b>34,183,891</b>	<b>100.00</b>	<b>1,729,719</b>	<b>5.06</b>
Financial system . . . . .	9,249,567	22.56	187,480	2.03	6,951,825	20.34	158,727	2.28
Customer funds (c) . . . . .	28,188,838	68.75	457,826	1.62	24,104,170	70.51	426,285	1.77
Pension allowance . . . . .	24,955	0.06	–	–	6,206	0.02	–	–
<i>Total interest bearing liabilities (d)</i> . . . . .	<i>37,463,360</i>	<i>91.37</i>	<i>645,306</i>	<i>1.72</i>	<i>31,062,201</i>	<i>90.87</i>	<i>585,012</i>	<i>1.88</i>
Other . . . . .	1,640,942	4.00	–	–	1,506,299	4.40	–	–
Capital accounts . . . . .	1,899,752	4.63	–	–	1,615,391	4.73	–	–
<b>Total funds</b> . . . . .	<b>41,004,054</b>	<b>100.00</b>	<b>645,306</b>	<b>1.57</b>	<b>34,183,891</b>	<b>100.00</b>	<b>585,012</b>	<b>1.71</b>
<i>Customer spread (a-c)</i> . . . . .				<i>3.74</i>				<i>4.44</i>
<i>Spread (b-d)</i> . . . . .				<i>2.81</i>				<i>3.30</i>

**Net interest revenue and ordinary revenue**

Net interest revenue (total asset revenues less total interest expenses) amounted to €1,175 million in 2004, 2.7% higher than in 2003.

Subtraction of the average rate of cost of interest-bearing funds (1.72% in 2004) from the average rate of yield on earning assets (4.53% in 2004) discloses the Bank's spread for the year, which at 2.81 percentage points was 49 bp lower than in 2003.

Subtraction of the average rate of cost of total funds from the average rate of yield on total assets discloses the net

interest margin (net interest revenue as a percentage of total assets), which was 2.87 percentage points in 2004 as compared with 3.35 points in 2003.

Net service fee revenues in 2004 amounted to €377 million, which was 7.6% higher than in 2003. These revenues consist of commissions on certain lending activities and other risks plus the fees for providing other banking services.

The asset trading and exchange profits, comprising the results on financial asset and derivative trading, net of write-downs, and exchange gains and losses, amounted to €25 million, as compared with €17 million in 2003. The 2004 figure

includes the gain of €16.8 million on the sale of the holding in Metrovacesa.

Net interest revenue plus the service fee revenues and the asset trading and exchange profits constitute the total operating revenues or ordinary revenue, which amounted to €1,578 million in 2004 as compared with €1,512 million in 2003, an increase of 4.3%.

### Operating costs, depreciation and other operating income and expenses

Personnel expenses increased by 2.1% to €371 million in 2004. General expenses were 0.1% lower at €124 million in 2004. Sundry taxes, totaling €22 million, were 3.0% higher than in 2003.

Total operating costs (personnel and general expenses plus sundry taxes other than income tax) increased by 1.6% in 2004 to €517 million.

The depreciation and amortization of tangible and intangible assets booked in 2004 amounted to €53 million, 5.0% up on the figure for 2003.

The balance of the other operating income/expenses caption was a net expense of €21 million, which was 3.3% higher than in 2003. This heading encompasses, together with certain items of scant amount, the contribution for the year to the Deposit Guarantee Fund, which amounted to €9 million, and the contribution of €13 million to a welfare foundation pursuant to a resolution adopted on a permanent basis by the Bank's Board of Directors in 1979.

### Operating income

The difference between the ordinary revenue, on the one hand, and the operating costs, depreciation and amortization, and other operating

expenses, on the other, is the operating income, which at €986 million in 2004 was 5.8% higher than the 2003 figure of €932 million.

The net credit loss provisions recorded in 2004 amounted to €162 million (provisions of €186 million minus €37 million of recoveries of bad debts written off and €13 million of direct writeoff of certain balances), 18.0% lower than in 2003. The foregoing figure includes the provision of €76 million to the statistical credit loss allowance (SCLA).

Write-downs of financial assets amounted to €8 million, compared with the release of €13 million in 2003.

The extraordinary gains (losses) caption includes the net results of disposals of assets amounting to €7 million, compared with €18 million in 2003 due to the divestment in that year of various buildings which, as a result of the reorganization of certain units, became available for sale. The extraordinary provisions for pensions, which also include the amortization of the difference disclosed by using the calculation basis for pension funds pursuant to Bank of Spain Circular 5/2000, amounted to €53 million (€33 million of the contribution for an extraordinary early retirements plan, €13 million for coverage of other commitments analogous to pensions and €7 million for the amortization referred to above), compared to €7 million in 2003. The €19 million of other specific allowances recovered in 2004 included the provisions to property writedown allowances, and the provisions for tax and legal contingencies and other minor items, and the unused allowances released. The remaining net amount of €6 million relates to sundry and prior years' results.

### Net income and profitability

Aggregation of all the foregoing items leads to the income before taxes, which at €812 million was 10.1% higher than in 2003.

Subtraction from that figure of the amount for corporate income tax gives the net income for the year, which at €588

million was 16.5% higher than in 2003, signifying a final net income return of 1.43% on average total assets, as compared with 1.48% in 2003.

Table 55 summarizes the Bank's 2004 and 2003 income statements expressed as percentages of average total assets.

**Table 55. Profitability**

(As % of average total assets)			
	2004	2003	Variation
Yield on assets .....	4.44	5.06	(0.62)
Cost of funds .....	1.57	1.71	(0.14)
<i>Net interest margin</i> .....	<i>2.87</i>	<i>3.35</i>	<i>(0.48)</i>
Yield on services, net .....	0.92	1.02	(0.10)
Yield on financial asset trading and exchange profits, net ..	0.06	0.05	0.01
<i>Ordinary margin</i> .....	<i>3.85</i>	<i>4.42</i>	<i>(0.57)</i>
Operating costs:	1.26	1.49	(0.23)
Personnel expenses .....	0.91	1.06	(0.15)
Other expenses .....	0.35	0.43	(0.08)
Depreciation .....	0.13	0.14	(0.01)
Other operating income / expenses, net .....	(0.05)	(0.06)	0.01
<i>Operating profitability</i> .....	<i>2.41</i>	<i>2.73</i>	<i>(0.32)</i>
Other items, net .....	0.03	0.10	(0.07)
Provisions and writedowns .....	0.46	0.67	(0.21)
<i>Pre-tax income return</i> .....	<i>1.98</i>	<i>2.16</i>	<i>(0.18)</i>
Corporate income tax .....	0.55	0.68	(0.13)
<i>Net income return (ROA)</i> .....	<i>1.43</i>	<i>1.48</i>	<i>(0.05)</i>

## BANKING SUBSIDIARIES

The group headed by Banco Popular Español consists of a total of ten banking subsidiaries: five regional banks (Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia); Banco Popular Hipotecario, specializing in property financing; Bancopopular-e, providing Internet financial services; Popular Banca Privada, serving individuals of high net worth (private banking); Banco Popular France, a commercial banking entity operating in the French market; and Banco Nacional de Crédito (BNC) in the Portuguese market.

These ten banking subsidiaries are run in accordance with a criterion of unified common Group management by virtue of the majority control held by Banco Popular, with which they are consolidated by the global integration method, and therefore all the considerations made previously in this Report are applicable to them. Popular Banca Privada is 60% owned by Banco Popular Español and 40% by Dexia-BIL, a Belgian-Luxembourg bank. Banco Popular Español also has majority holdings, ranging from 65% to 97%, in the five regional banks, their

remaining shares being held, through the stock exchange, by other shareholders.

This section presents financial data of all ten banking subsidiaries, whose individual 2004 and 2003 summarized financial statements are included in an exhibit hereto. The information relating to BNC is consolidated with its six subsidiaries - financial instrumental and mutual fund management companies, and a multigroup entity -, duly harmonized with the accounting criteria of the Bank of Spain. All data are in thousands of euros unless otherwise indicated.

Table 56 shows the variations in each bank's customer funds and loans and discounts at the end of 2004 compared with the figures for 2003.

The risk management by these banks in 2004 is summarized in Table 57 in the same format as that used for the Group as a whole, showing the variation in nonperforming loans and credit loss allowances, the foreclosed real estate assets and related coverage provisions, and the main measures of risk quality.

Table 58 presents the banks' individual income statements expressed as percentages of their average total assets.

**Table 56. Year-end customer funds and loans and discounts**

Banks	Customer funds*			Loans and discounts		
	2004	2003	% variation	2004	2003	% variation
Andalucía	6,747,786	4,520,310	49.3	7,140,397	5,441,988	31.2
Castilla	3,671,848	3,109,829	18.1	3,367,405	2,788,768	20.7
Crédito Balear	1,262,623	995,954	26.8	1,361,183	1,188,662	14.5
Galicia	2,347,640	2,036,039	15.3	2,736,450	2,419,971	13.1
Vasconia	2,057,177	1,768,092	16.4	2,456,887	2,082,814	18.0
Popular Hipotecario	338,240	17,176	>	1,956,471	1,721,141	13.7
Bancopopular-e	195,289	173,411	12.6	695,848	433,536	60.5
Popular Banca Privada	1,666,313	1,249,301	33.4	90,849	54,968	65.3
Popular France	315,954	322,633	(2.1)	236,620	147,190	60.8
BNC	2,858,274	2,897,144	(1.3)	4,052,816	3,428,942	18.2
<i>Total</i>	<i>21,461,144</i>	<i>17,089,889</i>	<i>25.6</i>	<i>24,094,926</i>	<i>19,707,980</i>	<i>22.3</i>

\* On-balance sheet customer funds, bonds and other marketable debt securities, subordinated financing and other intermediated funds

**Table 57. 2004 risk performance**

(€ thousand)	Andalucía	Castilla	Crédito Balear	Galicia	Vasconia
<i>Nonperforming loans*:</i>					
Balance at January 1	61,466	30,075	6,541	29,491	11,475
Additions	63,553	24,017	10,842	20,105	23,266
Balances recovered	(41,731)	(19,293)	(5,333)	(18,509)	(7,987)
Net variation for the year	21,822	4,724	5,509	1,596	15,279
% increase	35,5	15,7	84,2	5,4	133,2
Writeoffs	(24,343)	(13,005)	(2,709)	(10,614)	(6,193)
Balance at December 31	58,945	21,794	9,341	20,473	20,561
<i>Allowance for credit losses:</i>					
Balance at January 1	110,063	60,180	31,304	53,844	46,620
Annual provision:					
Gross	53,439	27,803	7,645	20,760	21,488
Recoveries	(12,737)	(7,659)	(2,110)	(3,663)	(2,517)
Net	40,702	20,144	5,535	17,097	18,971
Other variations	(522)	(657)	(28)	(406)	(1)
Writeoffs	(22,142)	(11,656)	(2,325)	(9,187)	(4,800)
Balance at December 31	128,101	68,011	34,486	61,348	60,790
<i>Foreclosed real estate assets</i>	8,946	8,846	1,057	5,903	3,888
<i>Allowance for potential losses on foreclosed assets</i>	2,297	2,922	580	1,393	962
<i>Pro memoria:</i>					
Total risks	8,286,771	3,777,859	1,415,718	3,143,856	2,852,405
Loans transferred to suspense accounts	159,066	77,927	20,114	52,264	52,546
Nonperforming mortgage loans	6,620	2,580	3,145	1,779	1,322
<i>Risk quality measures (%):</i>					
Nonperformance (Nonperforming loans/Total risks)	0.71	0.58	0.66	0.65	0.72
Insolvency (Writeoffs/Total risks)	0.29	0.34	0.19	0.34	0.22
Coverage (Credit loss allowance / Nonperforming loans)	217.32	312.06	369.19	299.65	295.66
Coverage (Allowance for potential losses on foreclosed assets/total foreclosed assets)	25.68	33.03	54.87	23.60	24.74
	Popular Hipotecario	Bancopopular-e	Popular Bca Privada	Popular France	BNC
<i>Nonperforming loans*:</i>					
Balance at January 1	3,779	6,827	21	749	50,029
Additions	18,626	12,263	4	1,608	37,716
Balances recovered	(1,213)	(4,622)	(3)	(76)	(18,194)
Net variation for the year	17,413	7,641	1	1,532	19,522
% increase	460,8	111,9	5	204,5	39,0
Writeoffs	(19,650)	(4,315)	(20)	(158)	(10,857)
Balance at December 31	1,542	10,153	2	2,123	58,694
<i>Allowance for credit losses:</i>					
Balance at January 1	45,791	9,186	536	679	48,797
Annual provision:					
Gross	5,864	8,506	484	1,436	30,472
Recoveries	(10,017)	(1,926)	(2)	(278)	(1,377)
Net	(4,153)	6,580	482	1,158	29,095
Other variations	—	—	—	—	(2,304)
Writeoffs	(2,754)	(4,230)	(20)	(158)	(10,857)
Balance at December 31	38,884	11,536	998	1,679	64,731
<i>Foreclosed real estate assets</i>	820	—	—	—	27,034
<i>Allowance for potential losses on foreclosed assets</i>	240	—	—	—	4,840
<i>Pro memoria:</i>					
Total risks	2,115,310	693,936	103,003	281,822	4,277,492
Loans transferred to suspense accounts	19,880	8,791	24	—	39,658
Nonperforming mortgage loans	962	—	—	—	1,772
<i>Risk quality measures (%):</i>					
Nonperformance (Nonperforming loans/Total risks)	0.07	1.46	—	0.75	1.37
Insolvency (Writeoffs/Total risks)	0.93	0.62	0.02	0.06	0.25
Coverage (Credit loss allowance / Nonperforming loans)	2,521.66	113.62	—	79.09	110.29
Coverage (Allowance for potential losses on foreclosed assets/total foreclosed assets)	29.27	—	—	—	17.90

\* Including doubtful off-balance sheet risks, but excluding country-risk balances.

**Table 58 . Profitability of subsidiary banks**

(As % of average total assets)

	Andalucía		Castilla		Crédito Balear		Galicia		Vasconia	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Yield on assets	5.27	6.10	4.98	5.76	5.43	6.20	5.19	5.79	4.54
Cost of funds	1.30	1.34	1.20	1.29	1.28	1.35	1.30	1.45	1.49	1.61
<i>Net interest margin</i>	<i>3.97</i>	<i>4.76</i>	<i>3.78</i>	<i>4.47</i>	<i>4.15</i>	<i>4.85</i>	<i>3.89</i>	<i>4.34</i>	<i>3.05</i>	<i>3.53</i>
Yield on services, net	1.05	1.25	1.14	1.26	1.46	1.67	1.08	1.16	1.10	1.22
Yield on asset trading and exch. profits, net	0.05	0.06	0.03	0.04	0.08	0.10	0.04	0.05	0.04	0.05
<i>Ordinary margin</i>	<i>5.07</i>	<i>6.07</i>	<i>4.95</i>	<i>5.77</i>	<i>5.69</i>	<i>6.62</i>	<i>5.01</i>	<i>5.55</i>	<i>4.19</i>	<i>4.80</i>
Operating costs	1.52	1.79	1.76	1.99	2.22	2.53	1.73	1.83	1.45	1.69
Depreciation	0.11	0.14	0.12	0.14	0.17	0.19	0.12	0.12	0.10	0.12
Other operating income / expenses, net	(0.08)	(0.10)	(0.11)	(0.13)	(0.06)	(0.07)	(0.10)	(0.11)	(0.08)	(0.09)
<i>Operating profitability</i>	<i>3.36</i>	<i>4.04</i>	<i>2.96</i>	<i>3.51</i>	<i>3.24</i>	<i>3.83</i>	<i>3.06</i>	<i>3.49</i>	<i>2.56</i>	<i>2.90</i>
Other items, net	0.02	0.05	0.05	0.04	0.26	0.05	0.02	–	0.02	0.02
Provisions and writedowns	0.57	0.72	0.65	0.70	0.54	0.98	0.55	0.67	0.67	0.93
<i>Pre-tax income return</i>	<i>2.81</i>	<i>3.37</i>	<i>2.36</i>	<i>2.85</i>	<i>2.96</i>	<i>2.90</i>	<i>2.53</i>	<i>2.82</i>	<i>1.91</i>	<i>1.99</i>
Corporate income tax	0.93	1.24	0.79	1.07	0.96	1.05	0.86	1.01	0.64	0.69
<i>Net income return (ROA)</i>	<i>1.87</i>	<i>2.13</i>	<i>1.57</i>	<i>1.78</i>	<i>2.00</i>	<i>1.85</i>	<i>1.67</i>	<i>1.81</i>	<i>1.27</i>	<i>1.30</i>

	Popular Hipotecario		Bancopopular-e		Popular Banca Privada		Popular France		BNC *	
	2004	2003	2004	2003	2004	2003	2004	2003	2003	2003
	Yield on assets	3.78	4.43	7.72	6.10	2.48	3.24	3.89	3.60	4.62
Cost of funds	2.06	2.45	2.25	2.80	1.17	0.82	1.10	1.26	1.78	2.99
<i>Net interest margin</i>	<i>1.72</i>	<i>1.98</i>	<i>5.47</i>	<i>3.30</i>	<i>1.31</i>	<i>2.42</i>	<i>2.79</i>	<i>2.34</i>	<i>2.84</i>	<i>2.63</i>
Yield on services, net	0.11	0.12	(0.17)	0.29	5.38	9.42	2.02	1.83	0.59	0.51
Yield on asset trading and exch. profits, net	–	–	0.02	0.01	0.10	–	0.02	0.02	(0.03)	0.05
<i>Ordinary margin</i>	<i>1.83</i>	<i>2.10</i>	<i>5.32</i>	<i>3.60</i>	<i>6.79</i>	<i>11.84</i>	<i>4.83</i>	<i>4.19</i>	<i>3.40</i>	<i>3.19</i>
Operating costs	0.10	0.10	1.48	1.50	5.58	12.43	2.92	2.78	1.49	1.56
Depreciation	–	–	0.04	0.06	0.42	0.86	0.18	0.23	0.14	0.17
Other operating income / expenses, net	–	(0.01)	(0.02)	(0.02)	(0.04)	(0.04)	(0.05)	(0.05)	0.01	–
<i>Operating profitability</i>	<i>1.73</i>	<i>1.99</i>	<i>3.78</i>	<i>2.02</i>	<i>0.75</i>	<i>(1.49)</i>	<i>1.68</i>	<i>1.13</i>	<i>1.78</i>	<i>1.46</i>
Other items, net	0.01	(0.01)	(0.02)	(0.01)	0.02	(0.20)	0.07	0.07	–	(0.08)
Provisions and writedowns	0.67	0.31	1.39	1.53	0.25	0.39	0.33	0.10	0.70	0.33
<i>Pre-tax income return</i>	<i>1.07</i>	<i>1.67</i>	<i>2.37</i>	<i>0.48</i>	<i>0.52</i>	<i>(2.08)</i>	<i>1.42</i>	<i>1.10</i>	<i>1.08</i>	<i>1.05</i>
Corporate income tax	0.23	0.63	0.85	0.24	(0.17)	(0.16)	0.50	0.40	0.29	0.31
<i>Net income return (ROA)</i>	<i>0.84</i>	<i>1.04</i>	<i>1.52</i>	<i>0.24</i>	<i>0.69</i>	<i>(1.92)</i>	<i>0.92</i>	<i>0.70</i>	<i>0.79</i>	<i>0.74</i>

\* Ratios calculated on annualized data starting at June 30, 2003, the date of inclusion of BNC in the Banco Popular Group.

Table 59 shows the comparative dividends, book value and, in the case of the listed banks, the market price.

**Table 59. Per share data**

Bank	Net income		Dividend		Book value*		Closing market price	
	2004	2003	2004	2003	2004	2003	2004	2003
	Andalucía . . . . .	5.98	5.39	2.18	2.00	35.76	31.96	71.65
Castilla . . . . .	1.19	1.14	0.52	0.49	9.17	8.41	16.89	14.20
Crédito Balear . . . . .	1.95	1.59	0.75	0.67	10.36	9.14	19.51	18.40
Galicia . . . . .	1.49	1.45	0.60	0.58	10.59	9.52	20.40	17.35
Vasconia . . . . .	0.98	0.82	0.37	0.33	5.30	4.69	12.00	9.40
Popular Hipotecario . . . . .	109.20	128.16			1,125.61	1,016.41		
Bancopopular-e . . . . .	0.38	0.03			1.31	1.04		
Popular Banca Privada . . . . .	0.06	(0.08)			0.93	0.87		
Popular France . . . . .	27.20	20.28			335.08	307.88		
BNC ** . . . . .	0.19	0.08			1.75	1.59		

\* After distribution of income for the year

\*\* Calculated as from June 30, 2003, the date of inclusion of BNC in the Banco Popular Group.

**Table 60. Year-end number of employees and branches**

Bank	No. of employees		No. of branches	
	2004	2003	2004	2003
Andalucía . . . . .	1,517	1,551	306	298
Castilla . . . . .	818	834	201	199
Crédito Balear . . . . .	363	375	103	101
Galicia . . . . .	680	674	144	141
Vasconia . . . . .	495	507	128	128
Popular Hipotecario . . . . .	23	17	1	1
Bancopopular-e . . . . .	68	55	6	6
Popular Banca Privada . . . . .	144	147	16	16
Popular France . . . . .	129	130	14	14
BNC . . . . .	1,181	1,088	137	127

The variations in each bank's number of employees and branch offices are shown in Table 60.

Finally, Table 61 provides a synthesis of the performance of each bank in 2004 and 2003 by showing the volume of business as measured by average total assets and average equity, and the resulting net return on assets (ROA) and equity (ROE).

**Table 61. Business volume and income return**

Bank	Average total assets		Average equity		Return on assets (ROA) (%)		Return on equity (ROE) (%)	
	2004	2003	2004	2003	2004	2003	2004	2003
Andalucía . . . . .	6,938,486	5,496,359	694,536	625,145	1.87 %	2.13 %	18.71 %	18.72 %
Castilla . . . . .	3,286,888	2,763,511	367,762	344,373	1.57	1.78	14.07	14.32
Crédito Balear . . . . .	1,377,003	1,212,613	128,997	120,610	2.00	1.85	21.32	18.59
Galicia . . . . .	2,710,379	2,435,993	293,733	272,433	1.67	1.81	15.43	16.21
Vasconia . . . . .	2,462,953	2,018,314	150,265	136,805	1.27	1.30	20.77	19.22
Popular Hipotecario . . . . .	1,827,398	1,727,314	142,479	124,514	0.84	1.04	10.74	14.43
Bancopopular-e . . . . .	574,978	302,981	23,863	21,138	1.52	0.24	36.51	3.45
Popular Banca Privada . . . . .	191,856	92,076	19,868	21,633	0.69	(1.92)	6.62	(8.15)
Popular France . . . . .	370,900	362,105	38,522	35,985	0.92	0.70	8.83	7.05
BNC * . . . . .	4,265,075	3,938,085	280,007	256,004	0.79	0.74	12.05	11.33

\* Data calculated as from June 30, 2003, the date of inclusion of BNC in the Banco Popular Group; the rates of return have been annualized.

## Annex

### Summarized financial statements of banking subsidiaries

(€ thousand)

#### Banco de Andalucía

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	146,988	132,875
Government debt securities	919	583
Due from financial intermediaries	258,682	207,371
Loans and discounts	7,026,622	5,343,072
Private fixed-interest securities	102,102	102,844
Equity securities	116	102
Participating interests	–	–
Shares of group companies	361	361
Intangible assets	140	242
Tangible assets	71,292	70,724
Prepayments and accrued income	45,641	28,513
Other assets accounts	133,787	87,385
<b>Total</b>	<b>7,786,650</b>	<b>5,974,072</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	1,031,451	1,450,037
Customer deposits	4,599,280	3,218,014
Bonds and other marketable debt securities	1,111,104	406,623
Other liability accounts	112,704	87,391
Accruals and deferred income	59,265	25,764
Special allowances	46,679	46,498
General banking risk allowance	1,712	1,712
Shareholders' equity	694,524	621,005
Net income for the year	129,931	117,028
<b>Total</b>	<b>7,786,650</b>	<b>5,974,072</b>
Guarantees and other sureties	1,049,353	842,616
<i>Pro memoria: Other intermediated customer funds</i>	<i>1,037,402</i>	<i>895,673</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	365,359	335,194
– Interest expenses	90,133	73,769
= <i>Net interest revenue</i>	<i>275,226</i>	<i>261,425</i>
+ Fees for services, net	73,123	68,511
+ Asset trading and exchange profits, net	3,380	3,616
= <i>Ordinary margin</i>	<i>351,729</i>	<i>333,552</i>
– Operating costs:	105,654	98,570
– Depreciation	7,687	7,560
+ Other operating income/expenses	(5,388)	(5,110)
= <i>Operating margin</i>	<i>233,000</i>	<i>222,312</i>
– Writeoffs and provisions for credit losses	34,567	38,018
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	(3,725)	1092
= <i>Income before taxes</i>	<i>194,708</i>	<i>185,386</i>
– Corporate income tax provision	64,777	68,358
= <i>Net income</i>	<i>129,931</i>	<i>117,028</i>
Dividends	47,370	43,458
+ Retained earnings	82,561	73,570

#### Banco de Castilla

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	67,117	71,280
Government debt securities	187	312
Due from financial intermediaries	46,164	53,822
Loans and discounts	3,305,193	2,732,718
Private fixed-interest securities	21,669	14,535
Equity securities	148	139
Participating interests	–	–
Shares of group companies	270	270
Intangible assets	94	161
Tangible assets	35,811	33,464
Prepayments and accrued income	16,855	12,006
Other assets accounts	61,082	43,805
<b>Total</b>	<b>3,554,590</b>	<b>2,962,512</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	587,392	421,556
Customer deposits	2,443,528	2,057,629
Bonds and other marketable debt securities	13,566	25,698
Other liability accounts	42,202	30,737
Accruals and deferred income	26,565	13,729
Special allowances	18,181	24,340
General banking risk allowance	2,655	2,655
Shareholders' equity	368,751	336,871
Net income for the year	51,750	49,297
<b>Total</b>	<b>3,554,590</b>	<b>2,962,512</b>
Guarantees and other sureties	381,040	324,901
<i>Pro memoria: Other intermediated customer funds</i>	<i>1,214,754</i>	<i>1,026,502</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	163,893	159,308
– Interest expenses	39,566	35,646
= <i>Net interest revenue</i>	<i>124,327</i>	<i>123,662</i>
+ Fees for services, net	37,335	34,912
+ Asset trading and exchange profits, net	1,042	1,003
= <i>Ordinary margin</i>	<i>162,704</i>	<i>159,577</i>
– Operating costs:	57,830	54,872
– Depreciation	3,901	3,980
+ Other operating income/expenses	(3,803)	(3,690)
= <i>Operating margin</i>	<i>97,170</i>	<i>97,035</i>
– Writeoffs and provisions for credit losses	17,150	18,888
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	(2,364)	637
= <i>Income before taxes</i>	<i>77,656</i>	<i>78,784</i>
– Corporate income tax provision	25,906	29,487
= <i>Net income</i>	<i>51,750</i>	<i>49,297</i>
Dividends	22,564	21,436
+ Retained earnings	29,186	27,861

## Banco de Crédito Balear

Balance sheets	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	32,587	34,718
Government debt securities	190	210
Due from financial intermediaries	20,788	27,031
Loans and discounts	1,327,992	1,158,790
Private fixed-interest securities	12,444	12,377
Equity securities	114	105
Participating interests	–	–
Shares of group companies	90	90
Intangible assets	48	81
Tangible assets	20,501	20,434
Prepayments and accrued income	8,134	4,869
Other assets accounts	39,092	29,121
<b>Total</b>	<b>1,461,980</b>	<b>1,287,826</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	277,897	372,458
Customer deposits	977,030	731,411
Bonds and other marketable debt securities	3,681	5,154
Other liability accounts	18,481	14,647
Accruals and deferred income	13,827	5,321
Special allowances	13,247	19,201
General banking risk allowance	1,276	1,276
Shareholders' equity	129,034	115,939
Net income for the year	27,507	22,419
<b>Total</b>	<b>1,461,980</b>	<b>1,287,826</b>
Guarantees and other sureties	50,146	56,910
<i>Pro memoria: Other intermediated customer funds</i>	<i>281,912</i>	<i>259,389</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	74,833	75,179
– Interest expenses	17,619	16,390
= <i>Net interest revenue</i>	<i>57,214</i>	<i>58,789</i>
+ Fees for services, net	20,100	20,263
+ Asset trading and exchange profits, net	1,075	1,278
= <i>Ordinary margin</i>	<i>78,389</i>	<i>80,330</i>
– Operating costs:	30,498	30,637
– Depreciation	2,362	2,411
+ Other operating income/expenses	(866)	(850)
= <i>Operating margin</i>	<i>44,663</i>	<i>46,432</i>
– Writeoffs and provisions for credit losses	5,020	11,694
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	1,127	439
= <i>Income before taxes</i>	<i>40,770</i>	<i>35,177</i>
– Corporate income tax provision	13,263	12,758
= <i>Net income</i>	<i>27,507</i>	<i>22,419</i>
Dividends	10,544	9,473
+ Retained earnings	16,963	12,946

## Banco de Galicia

Balance sheets	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	52,230	50,952
Government debt securities	384	391
Due from financial intermediaries	62,774	90,390
Loans and discounts	2,680,863	2,371,142
Private fixed-interest securities	22,242	12,344
Equity securities	87	80
Participating interests	–	–
Shares of group companies	177	177
Intangible assets	48	80
Tangible assets	29,239	26,102
Prepayments and accrued income	14,478	10,195
Other assets accounts	49,157	35,486
<b>Total</b>	<b>2,911,679</b>	<b>2,597,339</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	685,111	633,576
Customer deposits	1,738,852	1,497,904
Bonds and other marketable debt securities	78,675	84,162
Other liability accounts	37,928	38,625
Accruals and deferred income	22,056	11,814
Special allowances	8,630	24,195
General banking risk allowance	–	–
Shareholders' equity	295,102	262,895
Net income for the year	45,325	44,168
<b>Total</b>	<b>2,911,679</b>	<b>2,597,339</b>
Guarantees and other sureties	384,668	361,387
<i>Pro memoria: Other intermediated customer funds</i>	<i>530,113</i>	<i>453,973</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	140,580	141,125
– Interest expenses	35,131	35,316
= <i>Net interest revenue</i>	<i>105,449</i>	<i>105,809</i>
+ Fees for services, net	29,274	28,170
+ Asset trading and exchange profits, net	933	1,143
= <i>Ordinary margin</i>	<i>135,656</i>	<i>135,122</i>
– Operating costs:	46,961	44,531
– Depreciation	3,016	3,030
+ Other operating income/expenses	(2,704)	(2,642)
= <i>Operating margin</i>	<i>82,975</i>	<i>84,919</i>
– Writeoffs and provisions for credit losses	15,765	15,310
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	1,449	(896)
= <i>Income before taxes</i>	<i>68,659</i>	<i>68,713</i>
– Corporate income tax provision	23,334	24,545
= <i>Net income</i>	<i>45,325</i>	<i>44,168</i>
Dividends	18,257	17,527
+ Retained earnings	27,068	26,641

**Banco de Vasconia**

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	37,773	34,572
Government debt securities	1,249	2,608
Due from financial intermediaries	67,794	81,985
Loans and discounts	2,402,069	2,040,374
Private fixed-interest securities	32,635	48,790
Equity securities	443	436
Participating interests	–	–
Shares of group companies	180	180
Intangible assets	48	80
Tangible assets	23,918	22,243
Prepayments and accrued income	10,486	7,292
Other assets accounts	43,846	39,486
<i>Total</i>	<i>2,620,441</i>	<i>2,278,046</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	999,087	916,213
Customer deposits	1,286,149	1,057,050
Bonds and other marketable debt securities	63,372	65,646
Other liability accounts	54,813	45,394
Accruals and deferred income	19,974	11,683
Special allowances	15,559	21,330
General banking risk allowance	–	–
Shareholders' equity	150,275	134,437
Net income for the year	31,212	26,293
<i>Total</i>	<i>2,620,441</i>	<i>2,278,046</i>
Guarantees and other sureties	336,792	246,268
<i>Pro memoria: Other intermediated customer funds</i>	<i>707,656</i>	<i>645,396</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	111,893	103,776
– Interest expenses	36,800	32,462
= <i>Net interest revenue</i>	<i>75,093</i>	<i>71,314</i>
+ Fees for services, net	27,193	24,635
+ Asset trading and exchange profits, net	911	1,031
= <i>Ordinary margin</i>	<i>103,197</i>	<i>96,980</i>
– Operating costs:	35,884	34,117
– Depreciation	2,472	2,527
+ Other operating income/expenses	(1,907)	(1,795)
= <i>Operating margin</i>	<i>62,934</i>	<i>58,541</i>
– Writeoffs and provisions for credit losses	17,922	15,177
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	1,968	(3,193)
= <i>Income before taxes</i>	<i>46,980</i>	<i>40,171</i>
– Corporate income tax provision	15,768	13,878
= <i>Net income</i>	<i>31,212</i>	<i>26,293</i>
Dividends	11,776	10,496
+ Retained earnings	19,436	15,797

**Banco Popular Hipotecario**

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	630	239
Government debt securities	–	–
Due from financial intermediaries	–	5,163
Loans and discounts	1,920,850	1,678,590
Private fixed-interest securities	1,949	–
Equity securities	–	–
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	–	–
Tangible assets	819	787
Prepayments and accrued income	9,591	4,743
Other assets accounts	21,224	7,131
<i>Total</i>	<i>1,955,063</i>	<i>1,696,653</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	1,422,612	1,516,776
Customer deposits	337,354	16,454
Bonds and other marketable debt securities	–	–
Other liability accounts	8,250	4,578
Accruals and deferred income	16,351	3,724
Special allowances	3,308	3,240
General banking risk allowance	9,402	9,402
Shareholders' equity	142,479	124,514
Net income for the year	15,307	17,965
<i>Total</i>	<i>1,955,063</i>	<i>1,696,653</i>
Guarantees and other sureties	158,839	150,292
<i>Pro memoria: Other intermediated customer funds</i>	<i>886</i>	<i>722</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	69,071	76,524
– Interest expenses	37,606	42,312
= <i>Net interest revenue</i>	<i>31,465</i>	<i>34,212</i>
+ Fees for services, net	1,954	2,052
+ Asset trading and exchange profits, net	–	–
= <i>Ordinary margin</i>	<i>33,419</i>	<i>36,264</i>
– Operating costs:	1,789	1,716
– Depreciation	54	57
+ Other operating income/expenses	(43)	(104)
= <i>Operating margin</i>	<i>31,533</i>	<i>34,387</i>
– Writeoffs and provisions for credit losses	12,545	5,903
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	569	334
= <i>Income before taxes</i>	<i>19,557</i>	<i>28,818</i>
– Corporate income tax provision	4,250	10,853
= <i>Net income</i>	<i>15,307</i>	<i>17,965</i>
Dividends	–	–
+ Retained earnings	15,307	17,965

## Bancopopular-e

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	2,306	2,030
Government debt securities	–	–
Due from financial intermediaries	13,735	4,304
Loans and discounts	682,418	424,350
Private fixed-interest securities	1,954	–
Equity securities	–	–
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	173	152
Tangible assets	991	1,016
Prepayments and accrued income	1,206	860
Other assets accounts	1,171	2,245
<b>Total</b>	<b>703,954</b>	<b>434,957</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	460,231	235,949
Customer deposits	191,829	171,321
Bonds and other marketable debt securities	–	–
Other liability accounts	3,855	1,262
Accruals and deferred income	7,450	4,557
Special allowances	7	–
General banking risk allowance	–	–
Shareholders' equity	31,869	21,138
Net income for the year	8,713	730
<b>Total</b>	<b>703,954</b>	<b>434,957</b>
Guarantees and other sureties	59	45
<i>Pro memoria: Other intermediated customer funds</i>	<i>3,460</i>	<i>2,090</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	44,379	18,480
– Interest expenses	12,934	8,476
<b>= Net interest revenue</b>	<b>31,445</b>	<b>10,004</b>
+ Fees for services, net	(996)	881
+ Asset trading and exchange profits, net	137	13
<b>= Ordinary margin</b>	<b>30,586</b>	<b>10,898</b>
– Operating costs:	8,530	4,543
– Depreciation	207	164
+ Other operating income/expenses	(141)	(67)
<b>= Operating margin</b>	<b>21,708</b>	<b>6,124</b>
– Writeoffs and provisions for credit losses	7,995	4,612
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	(96)	(65)
<b>= Income before taxes</b>	<b>13,617</b>	<b>1,447</b>
– Corporate income tax provision	4,904	717
<b>= Net income</b>	<b>8,713</b>	<b>730</b>
Dividends	–	–
+ Retained earnings	8,713	730

## Popular Banca Privada

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	1,412	430
Government debt securities	–	–
Due from financial intermediaries	155,859	71,346
Loans and discounts	90,043	54,540
Private fixed-interest securities	1,952	–
Equity securities	–	–
Participating interests	–	–
Shares of group companies	4,044	4,044
Intangible assets	137	226
Tangible assets	4,389	4,660
Prepayments and accrued income	3,908	2,635
Other assets accounts	15,713	2,231
<b>Total</b>	<b>277,457</b>	<b>140,112</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	31,358	22,198
Customer deposits	195,091	92,742
Bonds and other marketable debt securities	–	–
Other liability accounts	23,584	1,479
Accruals and deferred income	6,071	3,716
Special allowances	170	108
General banking risk allowance	–	–
Shareholders' equity	19,868	21,633
Net income for the year	1,315	(1,764)
<b>Total</b>	<b>277,457</b>	<b>140,112</b>
Guarantees and other sureties	12,154	10,035
<i>Pro memoria: Other intermediated customer funds</i>	<i>1,471,222</i>	<i>1,156,559</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	4,755	2,980
– Interest expenses	2,244	753
<b>= Net interest revenue</b>	<b>2,511</b>	<b>2,227</b>
+ Fees for services, net	10,318	8,674
+ Asset trading and exchange profits, net	190	1
<b>= Ordinary margin</b>	<b>13,019</b>	<b>10,902</b>
– Operating costs:	10,703	11,446
– Depreciation	796	789
+ Other operating income/expenses	(73)	(40)
<b>= Operating margin</b>	<b>1,447</b>	<b>(1,373)</b>
– Writeoffs and provisions for credit losses	482	372
– Writedowns of financial assets	–	–
– Provision to general banking risk allowance	–	–
+ Extraordinary gains (losses), net	38	(174)
<b>= Income before taxes</b>	<b>1,003</b>	<b>(1,919)</b>
– Corporate income tax provision	(312)	(155)
<b>= Net income</b>	<b>1,315</b>	<b>(1,764)</b>
Dividends	–	–
+ Retained earnings	1,315	(1,764)

**Banco Popular France**

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	6,806	3,820
Government debt securities	—	—
Due from financial intermediaries	83,758	180,345
Loans and discounts	234,941	146,511
Private fixed-interest securities	10,019	10,020
Equity securities	—	—
Participating interests	—	—
Shares of group companies	8	8
Intangible assets	18,553	18,553
Tangible assets	7,155	7,327
Prepayments and accrued income	2,440	2,186
Other assets accounts	7,805	4,326
<i>Total</i>	<i>371,485</i>	<i>373,096</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	7,247	4,695
Customer deposits	315,954	322,633
Bonds and other marketable debt securities	—	—
Other liability accounts	2,193	2,349
Accruals and deferred income	4,085	4,896
Special allowances	81	—
General banking risk allowance	—	—
Shareholders' equity	38,522	35,986
Net income for the year	3,403	2,537
<i>Total</i>	<i>371,485</i>	<i>373,096</i>
Guarantees and other sureties	45,202	23,630

<b>Statements of income</b>	2004	2003
Interest revenues	14,451	13,042
– Interest expenses	4,087	4,566
= <i>Net interest revenue</i>	<i>10,364</i>	<i>8,476</i>
+ Fees for services, net	7,487	6,649
+ Asset trading and exchange profits, net	50	64
= <i>Ordinary margin</i>	<i>17,901</i>	<i>15,189</i>
– Operating costs:	10,816	10,074
– Depreciation	650	847
+ Other operating income/expenses	(215)	(191)
= <i>Operating margin</i>	<i>6,220</i>	<i>4,077</i>
– Writeoffs and provisions for credit losses	1,155	345
– Writedowns of financial assets	—	—
– Provision to general banking risk allowance	—	—
+ Extraordinary gains (losses), net	212	259
= <i>Income before taxes</i>	<i>5,277</i>	<i>3,991</i>
– Corporate income tax provision	1,874	1,454
= <i>Net income</i>	<i>3,403</i>	<i>2,537</i>
Dividends	—	—
+ Retained earnings	3,403	2,537

**Banco Nacional de Crédito**

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	67,051	121,888
Government debt securities	—	—
Due from financial intermediaries	145,545	236,675
Loans and discounts	3,990,197	3,382,006
Private fixed-interest securities	56,573	62,763
Equity securities	4,784	7,046
Participating interests	4,665	4,195
Shares of group companies	373	380
Intangible assets	3,610	2,877
Tangible assets	122,682	111,837
Prepayments and accrued income	28,246	23,368
Other assets accounts	84,097	126,267
Losses at consolidated companies	722	1,140
<i>Total</i>	<i>4,508,545</i>	<i>4,080,442</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	1,586,415	1,062,506
Customer deposits	2,390,415	2,555,511
Bonds and other marketable debt securities	34,223	41,964
Subordinated financing	79,964	24,964
Other liability accounts	34,619	64,630
Accruals and deferred income	27,503	21,710
Special allowances	40,944	35,428
General banking risk allowance	—	—
Shareholders' equity	280,729	259,221
Net income for the year	33,733	14,508
<i>Total</i>	<i>4,508,545</i>	<i>4,080,442</i>
Guarantees and other sureties	217,666	190,587
<i>Pro memoria: Other intermediated customer funds</i>	<i>353,672</i>	<i>274,705</i>

<b>Statements of income</b>	2004	2003 (*)
Interest revenues	197,195	110,706
– Interest expenses	76,216	58,987
= <i>Net interest revenue</i>	<i>120,979</i>	<i>51,719</i>
+ Fees for services, net	25,529	10,039
+ Asset trading and exchange profits, net	(1,389)	1,014
= <i>Ordinary margin</i>	<i>145,119</i>	<i>62,772</i>
– Operating costs:	63,504	30,599
– Depreciation	6,102	3,310
+ Other operating income/expenses	208	(28)
= <i>Operating margin</i>	<i>75,721</i>	<i>28,835</i>
– Writeoffs and provisions for credit losses	28,228	4,301
– Writedowns of financial assets	—	—
– Provision to general banking risk allowance	—	—
+ Extraordinary gains (losses), net	(1,638)	(3,936) (**)
= <i>Income before taxes</i>	<i>45,855</i>	<i>20,598</i>
– Corporate income tax provision	12,122	6,090
= <i>Net income</i>	<i>33,733</i>	<i>14,508</i>
Dividends	—	—
+ Retained earnings	33,733	14,508

(\*) The information relates to the consolidated financial statements of BNC and its subsidiaries, harmonized to conform to Bank of Spain accounting regulations and considering the results from June 30, 2003, the date of incorporation in the Banco Popular Group.

(\*\*) Includes 3,546 of writedowns not included on other lines of the income statement.

## NONBANKING FINANCE AND SERVICE SUBSIDIARIES

The Banco Popular Español Group includes other specialized affiliates which provide substantially all financial and insurance services.

The most important of these are two factoring companies (Heller Factoring Española and Heller Factoring Portuguesa) which operate in their eponymous markets; a capital equipment renting company (Popular de Renting); two mutual fund management companies (Sogeval and Popular Gestión Privada); a portfolio management company (Gestora Europea de Inversiones); a securities company which is a member of the stock exchange (Popular Bolsa); two pension plan management companies (Europensiones and Popular Previsión Privada); a life insurance company (Eurovida); and a venture capital company (Popular de Participaciones Financieras).

These companies are wholly-owned subsidiaries of Banco Popular except in the following cases: the Group's holdings in the two factoring companies are 50% and 49.8%, respectively, together with GE Capital; the holdings in Popular Gestión Privada and Popular Previsión Privada are both 60%, the remaining capital being held by the Dexia-BIL bank; and the holdings in Europensiones and Eurovida are 51% and 49%, respectively, the remaining capital stock in both cases being held by the German Allianz insurance group.

By virtue of the controlling stakes of Banco Popular or, where appropriate, under the agreements with outside shareholders, these companies are run in accordance with the Group's criterion of unified management and, therefore, the considerations made previously in this Report are applicable to them.

The summarized 2004 and 2003 financial statements of these companies follow. (€ thousand)

### Heller Factoring Española

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks .....	198	195
Government debt securities .....	–	–
Due from financial intermediaries .....	23,408	15,427
Loans and discounts .....	329,565	362,644
Private fixed-interest securities .....	–	–
Equity securities .....	–	–
Participating interests .....	–	–
Shares of group companies .....	–	–
Intangible assets .....	19	31
Tangible assets .....	353	412
Prepayments and accrued income .....	66	75
Other asset accounts .....	1,818	1,167
<i>Total</i> .....	<i>355,427</i>	<i>379,951</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries .....	272,248	310,627
Customer deposits .....	–	–
Bonds and other marketable debt securities .....	–	–
Other liability accounts .....	44,858	34,422
Accruals and deferred income .....	2,036	2,622
Special allowances .....	208	245
General banking risk allowance .....	376	376
Shareholders' equity .....	31,660	29,201
Net income for the year .....	4,041	2,458
<i>Total</i> .....	<i>355,427</i>	<i>379,951</i>
Guarantees and other sureties .....	20,760	24,510
<b>Statements of income</b>	2004	2003
Interest revenues .....	9,321	10,497
– Interest expenses .....	5,603	6,372
= <i>Net interest revenue</i> .....	<i>3,718</i>	<i>4,125</i>
+ Fees for services, net .....	5,691	5,681
+ Asset trading and exchange profits, net .....	(7)	(2)
= <i>Ordinary margin</i> .....	<i>9,402</i>	<i>9,804</i>
– Operating costs: .....	2,290	2,698
– Depreciation .....	78	89
+ Other operating income/expenses .....	236	265
= <i>Operating margin</i> .....	<i>7,270</i>	<i>7,282</i>
– Writeoffs and provisions for credit losses .....	1,143	3,049
– Writedowns of financial assets .....	–	–
+ Extraordinary gains (losses), net .....	(45)	(302)
= <i>Income before taxes</i> .....	<i>6,082</i>	<i>3,931</i>
– Corporate income tax provision .....	2,041	1,473
= <i>Net income</i> .....	<i>4,041</i>	<i>2,458</i>
Dividends .....	–	–
+ Retained earnings .....	4,041	2,458

**Heller Factoring Portuguesa**
**Popular de Renting**

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks .....	1	1
Government debt securities .....	–	–
Due from financial intermediaries .....	–	5
Loans and discounts .....	260,231	229,178
Private fixed-interest securities .....	–	–
Equity securities .....	–	–
Participating interests .....	–	–
Shares of group companies .....	–	–
Intangible assets .....	234	206
Tangible assets .....	2,657	2,850
Prepayments and accrued income .....	12	30
Other asset accounts .....	96	42
<i>Total</i> .....	<i>263,231</i>	<i>232,312</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries .....	214,248	173,181
Customer deposits .....	–	–
Bonds and other marketable debt securities .....	–	–
Other liability accounts .....	13,695	25,353
Accruals and deferred income .....	694	588
Special allowances .....	–	–
General banking risk allowance .....	–	–
Shareholders' equity .....	32,113	30,508
Net income for the year .....	2,481	2,682
<i>Total</i> .....	<i>263,231</i>	<i>232,312</i>

<b>Statements of income</b>	2004	2003
Interest revenues .....	7,253	8,013
– Interest expenses .....	4,296	4,680
= <i>Net interest revenue</i> .....	<i>2,957</i>	<i>3,333</i>
+ Fees for services, net .....	3,288	3,708
+ Asset trading and exchange profits, net .....	–	–
= <i>Ordinary margin</i> .....	<i>6,245</i>	<i>7,041</i>
– Operating costs: .....	2,784	2,660
– Depreciation .....	155	156
+ Other operating income/expenses .....	76	120
= <i>Operating margin</i> .....	<i>3,382</i>	<i>4,345</i>
– Writeoffs and provisions for credit losses .....	(21)	273
– Writedowns of financial assets .....	–	–
+ Extraordinary gains (losses), net .....	37	(48)
= <i>Income before taxes</i> .....	<i>3,440</i>	<i>4,024</i>
– Corporate income tax provision .....	959	1,342
= <i>Net income</i> .....	<i>2,481</i>	<i>2,682</i>
Dividends .....	496	1,073
+ Retained earnings .....	1,985	1,609

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Due from shareholders .....	1,442	1,442
Tangible assets .....	80,301	85,207
Intangible assets .....	72	62
Receivables .....	6,114	4,053
Cash .....	–	–
Prepayments and accrued income .....	135	134
Other asset accounts .....	–	–
<i>Total</i> .....	<i>88,064</i>	<i>90,898</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries .....	75,243	77,812
Trade payables .....	2,853	3,912
Other liability accounts .....	1,906	2,376
Accruals and deferred income .....	1,576	1,750
Special allowances .....	468	20
Shareholders' equity .....	5,028	4,026
Net income for the year .....	990	1,002
<i>Total</i> .....	<i>88,064</i>	<i>90,898</i>

<b>Statements of income</b>	2004	2003
Operating revenues .....	20,925	24,948
– Operating expenses .....	17,319	20,452
= <i>Operating income</i> .....	<i>3,606</i>	<i>4,496</i>
+ Financial income (loss), net .....	(2,534)	(2,933)
+ Extraordinary income (losses), net .....	445	(11)
= <i>Income before taxes</i> .....	<i>1,517</i>	<i>1,552</i>
– Corporate income tax provision .....	527	550
= <i>Net income</i> .....	<i>990</i>	<i>1,002</i>
Dividends .....	–	–
+ Retained earnings .....	990	1,002

## Sogeval

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	—	—
Government debt securities	—	—
Due from financial intermediaries	123,150	116,645
Loans and discounts	9,604	7,902
Private fixed-interest securities	—	—
Equity securities	6,924	2,821
Participating interests	—	—
Shares of group companies	—	—
Intangible assets	79	43
Tangible assets	2,300	2,428
Prepayments and accrued income	228	77
Other assets accounts	143	163
<b>Total</b>	<b>142,428</b>	<b>130,079</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	—	—
Customer deposits	—	—
Bonds and other marketable debt securities	—	—
Other liability accounts	11,981	9,902
Accruals and deferred income	68	413
Special allowances	—	—
General banking risk allowance	—	—
Shareholders' equity	119,524	111,707
Net income for the year	10,855	8,057
<b>Total</b>	<b>142,428</b>	<b>130,079</b>
<i>Pro memoria: Assets under management</i>	<i>8,022,560</i>	<i>6,786,810</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	2,432	2,634
– Interest expenses	5	1
<b>= Net interest revenue</b>	<b>2,427</b>	<b>2,633</b>
+ Fees for services, net	17,416	13,244
+ Asset trading and exchange profits, net	160	488
<b>= Ordinary margin</b>	<b>20,003</b>	<b>16,365</b>
– Operating costs:	3,224	3,437
– Depreciation	211	195
+ Other operating income/expenses	120	160
<b>= Operating margin</b>	<b>16,688</b>	<b>12,893</b>
– Writeoffs and provisions for credit losses	—	—
– Writedowns of financial assets	—	—
+ Extraordinary gains (losses), net	2	(479)
<b>= Income before taxes</b>	<b>16,690</b>	<b>12,414</b>
– Corporate income tax provision	5,835	4,357
<b>= Net income</b>	<b>10,855</b>	<b>8,057</b>
Dividends	240	240
+ Retained earnings	10,615	7,817

## Popular Gestión Privada

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	—	2
Government debt securities	—	—
Due from financial intermediaries	4,496	4,099
Loans and discounts	1,027	778
Private fixed-interest securities	—	—
Equity securities	18	18
Participating interests	—	—
Shares of group companies	—	—
Intangible assets	1	4
Tangible assets	33	50
Prepayments and accrued income	146	84
Other assets accounts	3	—
<b>Total</b>	<b>5,724</b>	<b>5,035</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	—	—
Customer deposits	—	—
Bonds and other marketable debt securities	—	—
Other liability accounts	1,129	846
Accruals and deferred income	307	187
Special allowances	—	—
General banking risk allowance	—	—
Shareholders' equity	3,766	3,739
Net income for the year	522	263
<b>Total</b>	<b>5,724</b>	<b>5,035</b>
<i>Pro memoria: Assets under management</i>	<i>1,262,128</i>	<i>1,001,241</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	88	111
– Interest expenses	—	—
<b>= Net interest revenue</b>	<b>88</b>	<b>111</b>
+ Fees for services, net	2,269	1,904
+ Asset trading and exchange profits, net	—	—
<b>= Ordinary margin</b>	<b>2,357</b>	<b>2,015</b>
– Operating costs:	1,552	1,540
– Depreciation	19	26
+ Other operating income/expenses	—	—
<b>= Operating margin</b>	<b>786</b>	<b>449</b>
– Writeoffs and provisions for credit losses	—	—
– Writedowns of financial assets	—	—
+ Extraordinary gains (losses), net	18	(38)
<b>= Income before taxes</b>	<b>804</b>	<b>411</b>
– Corporate income tax provision	282	148
<b>= Net income</b>	<b>522</b>	<b>263</b>
Dividends	470	237
+ Retained earnings	52	26

## Gestora Europea de Inversiones

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	–	–
Government debt securities	–	–
Due from financial intermediaries	3,667	965
Loans and discounts	9	139
Private fixed-interest securities	–	2,555
Equity securities	1	1
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	–	2
Tangible assets	2	4
Prepayments and accrued income	1	2
Other assets accounts	7	16
<i>Total</i>	<i>3,687</i>	<i>3,684</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	–	–
Customer deposits	–	–
Bonds and other marketable debt securities	–	–
Other liability accounts	23	36
Accruals and deferred income	–	2
Special allowances	–	–
General banking risk allowance	–	–
Shareholders' equity	3,646	3,711
Net income for the year	18	(65)
<i>Total</i>	<i>3,687</i>	<i>3,684</i>
<i>Pro memoria: Assets under management</i>	<i>270,820</i>	<i>339,624</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	74	84
– Interest expenses	–	–
= <i>Net interest revenue</i>	<i>74</i>	<i>84</i>
+ Fees for services, net	278	433
+ Asset trading and exchange profits, net	–	10
= <i>Ordinary margin</i>	<i>352</i>	<i>527</i>
– Operating costs:	329	588
– Depreciation	4	6
+ Other operating income/expenses	–	–
= <i>Operating margin</i>	<i>19</i>	<i>(67)</i>
– Writeoffs and provisions for credit losses	–	–
– Writedowns of financial assets	–	–
+ Extraordinary gains (losses), net	(1)	3
= <i>Income before taxes</i>	<i>18</i>	<i>(64)</i>
– Corporate income tax provision	–	1
= <i>Net income</i>	<i>18</i>	<i>(65)</i>
Dividends	–	–
+ Retained earnings	18	(65)

## Popular Bolsa

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	–	–
Government debt securities	–	–
Due from financial intermediaries	7,035	7,096
Loans and discounts	13	14
Private fixed-interest securities	4,487	4,497
Equity securities	1,627	1,334
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	–	–
Tangible assets	35	45
Prepayments and accrued income	31	9
Other assets accounts	17	10
<i>Total</i>	<i>13,245</i>	<i>13,005</i>
<b>Liabilities and capital</b>		
Due to financial intermediaries	–	–
Customer deposits	–	–
Bonds and other marketable debt securities	–	–
Other liability accounts	3,219	4,063
Accruals and deferred income	611	459
Special allowances	–	–
General banking risk allowance	–	–
Shareholders' equity	7,027	7,024
Net income for the year	2,388	1,459
<i>Total</i>	<i>13,245</i>	<i>13,005</i>
<i>Pro memoria: Assets under management</i>	<i>–</i>	<i>–</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	1,134	607
– Interest expenses	–	–
= <i>Net interest revenue</i>	<i>1,134</i>	<i>607</i>
+ Fees for services, net	3,923	3,302
+ Asset trading and exchange profits, net	3	57
= <i>Ordinary margin</i>	<i>5,060</i>	<i>3,966</i>
– Operating costs:	1,370	1,604
– Depreciation	18	30
+ Other operating income/expenses	(105)	(43)
= <i>Operating margin</i>	<i>3,567</i>	<i>2,289</i>
– Writeoffs and provisions for credit losses	–	–
– Writedowns of financial assets	–	–
+ Extraordinary gains (losses), net	11	(89)
= <i>Income before taxes</i>	<i>3,578</i>	<i>2,200</i>
– Corporate income tax provision	1,190	741
= <i>Net income</i>	<i>2,388</i>	<i>1,459</i>
Dividends	2,385	1,455
+ Retained earnings	3	4

## Europensiones

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	–	–
Government debt securities	–	3,019
Due from financial intermediaries	38,213	30,455
Loans and discounts	3,456	3,096
Private fixed-interest securities	1,160	1,940
Equity securities	1,048	968
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	68	37
Tangible assets	143	179
Prepayments and accrued income	119	108
Other assets accounts	231	26
<b>Total</b>	<b>44,438</b>	<b>39,828</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	–	–
Customer deposits	–	–
Bonds and other marketable debt securities	–	–
Other liability accounts	4,388	3,816
Accruals and deferred income	1,585	1,166
Special allowances	–	–
General banking risk allowance	–	–
Shareholders' equity	20,400	18,795
Net income for the year	18,065	16,051
<b>Total</b>	<b>44,438</b>	<b>39,828</b>
<i>Pro memoria: Assets under management</i>	<i>3,112,309</i>	<i>2,792,288</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	850	880
– Interest expenses	–	–
<b>= Net interest revenue</b>	<b>850</b>	<b>880</b>
+ Fees for services, net	31,028	27,420
+ Asset trading and exchange profits, net	93	85
<b>= Ordinary margin</b>	<b>31,971</b>	<b>28,385</b>
– Operating costs	4,185	3,640
– Depreciation	69	92
+ Other operating income/expenses	–	–
<b>= Operating margin</b>	<b>27,717</b>	<b>24,653</b>
– Writeoffs and provisions for credit losses	–	–
– Writedowns of financial assets	–	–
+ Extraordinary gains (losses), net	75	58
<b>= Income before taxes</b>	<b>27,792</b>	<b>24,711</b>
– Corporate income tax provision	9,727	8,660
<b>= Net income</b>	<b>18,065</b>	<b>16,051</b>
Dividends	16,260	14,446
+ Retained earnings	1,805	1,605

## Popular Previsión Privada

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	–	–
Government debt securities	–	–
Due from financial intermediaries	1,064	1,034
Loans and discounts	22	25
Private fixed-interest securities	–	–
Equity securities	1	1
Participating interests	–	–
Shares of group companies	–	–
Intangible assets	–	–
Tangible assets	–	–
Prepayments and accrued income	–	–
Other assets accounts	–	–
<b>Total</b>	<b>1,087</b>	<b>1,060</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	–	–
Customer deposits	–	–
Bonds and other marketable debt securities	–	–
Other liability accounts	68	63
Accruals and deferred income	15	20
Special allowances	–	–
General banking risk allowance	–	–
Shareholders' equity	948	944
Net income for the year	56	33
<b>Total</b>	<b>1,087</b>	<b>1,060</b>
<i>Pro memoria: Assets under management</i>	<i>12,684</i>	<i>14,793</i>
<b>Statements of income</b>		
	2004	2003
Interest revenues	20	22
– Interest expenses	–	–
<b>= Net interest revenue</b>	<b>20</b>	<b>22</b>
+ Fees for services, net	126	139
+ Asset trading and exchange profits, net	–	–
<b>= Ordinary margin</b>	<b>146</b>	<b>161</b>
– Operating costs:	72	108
– Depreciation	–	–
+ Other operating income/expenses	–	–
<b>= Operating margin</b>	<b>74</b>	<b>53</b>
– Writeoffs and provisions for credit losses	–	–
– Writedowns of financial assets	–	–
+ Extraordinary gains (losses), net	12	(2)
<b>= Income before taxes</b>	<b>86</b>	<b>51</b>
– Corporate income tax provision	30	18
<b>= Net income</b>	<b>56</b>	<b>33</b>
Dividends	51	30
+ Retained earnings	5	3

## Eurovida

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Premises and equipment	137	175
Securities portfolio	600,893	572,112
Reserves on reinsurance business	3,474	3,024
Loans	204	291
Prepayments, accrued income and other	9,242	8,876
Cash and due from banks	31	560
<b>Total</b>	<b>613,981</b>	<b>585,038</b>
<b>Liabilities and capital</b>		
Insurance reserves	562,683	538,995
Other reserves	142	753
Accounts payable on reinsurance	3,474	3,024
Other liabilities	6,166	5,926
Accruals, deferred income and other	—	—
Shareholders' equity	22,720	19,321
Net income for the year	18,796	17,019
<b>Total</b>	<b>613,981</b>	<b>585,038</b>

<b>Statements of income</b>	2004	2003
Premiums written	114,123	144,643
+ Technical financial revenues	34,084	36,177
- Claims paid	86,658	83,482
- Increase in insurance reserves	22,790	60,483
- Fees and other	8,828	8,261
- Operating costs:	2,197	2,304
= <b>Gross underwriting income</b>	<b>27,734</b>	<b>26,290</b>
- Reinsurance result	1,059	1,108
= <b>Net underwriting income</b>	<b>26,675</b>	<b>25,182</b>
+ Nontechnical financial revenues	1,966	1,982
+ Other revenues	144	(643)
- Extraordinary expenses	—	—
= <b>Income before taxes</b>	<b>28,785</b>	<b>26,521</b>
- Corporate income tax provision	9,989	9,502
= <b>Net income</b>	<b>18,796</b>	<b>17,019</b>
Dividends	15,040	13,620
+ Retained earnings	3,756	3,399

## Popular de Participaciones Financieras

<b>Balance sheets</b>	12.31.04	12.31.03
<b>Assets</b>		
Cash and due from central banks	—	—
Government debt securities	—	—
Due from financial intermediaries	18,054	18,318
Loans and discounts	455	193
Private fixed-interest securities	—	—
Equity securities	17,562	17,482
Participating interests	—	—
Shares of group companies	—	—
Intangible assets	—	—
Tangible assets	—	—
Prepayments and accrued income	17	10
Other assets accounts	72	72
<b>Total</b>	<b>36,160</b>	<b>36,075</b>
<b>Liabilities and capital</b>		
Due to financial intermediaries	—	—
Customer deposits	—	—
Bonds and other marketable debt securities	—	—
Other liability accounts	150	561
Accruals and deferred income	1	1
Special allowances	—	—
General banking risk allowance	—	—
Shareholders' equity	35,513	35,375
Net income for the year	496	138
<b>Total</b>	<b>36,160</b>	<b>36,075</b>

<b>Statements of income</b>	2004	2003
Interest revenues	688	430
- Interest expenses	1	—
= <b>Net interest revenue</b>	<b>687</b>	<b>430</b>
+ Fees for services, net	(60)	(60)
+ Asset trading and exchange profits, net	(20)	118
= <b>Ordinary margin</b>	<b>607</b>	<b>488</b>
- Operating costs	17	16
- Depreciation	—	—
+ Other operating income/expenses	—	—
= <b>Operating margin</b>	<b>590</b>	<b>472</b>
- Writeoffs and provisions for credit losses	—	—
- Writedowns of financial assets	—	—
+ Extraordinary gains (losses), net	—	1
= <b>Income before taxes</b>	<b>590</b>	<b>473</b>
- Corporate income tax provision	94	335
= <b>Net income</b>	<b>496</b>	<b>138</b>



## Financial Statements

## Independent Auditors Report



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*A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails*

### AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Banco Popular Español, S.A. and its consolidated Group.

1. We have audited the consolidated annual accounts of Banco Popular Español, S.A. and its consolidated Group consisting of the consolidated balance sheets at December 31, 2004 and 2003, the consolidated profit and loss accounts and the notes for the years then ended, whose preparation is the responsibility of the Bank's management. Our responsibility is to express an opinion on the aforementioned consolidated annual accounts as a whole, based on our audit work performed in accordance with generally accepted auditing standards which require examining, on a test basis, evidence supporting the annual accounts as well as evaluating the overall consolidated annual accounts' presentation and assessing the accounting principles applied and significant estimates made by the management.
2. Presented with the consolidated balance sheets and the consolidated profit and loss accounts for the years 2004 and 2003, management has included, for comparative purposes only, the corresponding amounts for the years 2002, 2001 and 2000. Our opinion refers exclusively to the consolidated annual accounts for the years 2004 and 2003. The years 2002, 2001 and 2000 were audited by us and we expressed an unqualified audit opinion on the consolidated annual accounts for those years.
3. As stated in paragraph q) of the Note 2 of the accompanying consolidated annual accounts, during year 2003 Banco Popular Español and its affiliates Banks, Andalucía, Castilla, Crédito Balear, Galicia and Vasconia approved an extraordinary plan of early retirements, and registered such compromises according to Bank of Spain's previous express written authorisation in accordance with the Norm 13<sup>th</sup> 13 of its Circular 4/1991, recording a charge in unrestricted reserves and registering the corresponding deferred tax assets, amounting to Euro 147 million and Euro 51.5 million respectively. For the year 2004, Bank of Spain has not given such authorisation and Banco Popular Español and its aforementioned affiliates Banks, also in accordance with the mentioned Norm 13<sup>th</sup> 13 of the Circular 4/1991, have recorded a net charge to the consolidated profit and loss account amounting to Euro 40 million in order to cover its compromises for the year 2004 with its early retired personnel (Euro 61 million recorded under the caption "Extraordinary Losses" of the accompanying consolidated profit and loss account for the year 2004 and registering the corresponding deferred tax assets amounting to Euro 21 million).
4. In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Banco Popular Español, S.A. and its consolidated Group at December 31, 2004 and 2003 and the results of its operations and the resources obtained and applied for the years then ended, and they contain the necessary and relevant information in order to adequately interpret and understand them in conformity with generally accepted accounting principles consistently applied, except for the aspect aforementioned in paragraph 3 above, with which we agree.
5. The accompanying consolidated management report for 2004 contains the information that management considers relevant to Banco Popular Español, S.A. and its consolidated Group, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned management report coincides with that of the consolidated annual accounts for 2004. Our work as auditors was limited to verifying the management report within the scope already mentioned in this paragraph and did not include the review of information other than that obtained from Banco Popular Español, S.A. and its consolidated Group's audited accounting records.

PricewaterhouseCoopers Auditores, S.L.

  
Antonio Greño Hidalgo  
Partner

January 26, 2005

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, Hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3<sup>a</sup>  
Inscrita en el R.O.A.C. con el número 50242 - CIF: B-79031290

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## Financial Reporting Responsibility

The Bank's General Management, as the technical and executive body of Banco Popular pursuant to Article 22 of the Bank's Bylaws, is responsible for the preparation and presentation of all the financial information appearing hereinafter.

In the Management's opinion, this information presents a true and fair view of the Bank's financial position, and all the operational and accounting processes applied comply with current legal and administrative regulations and with Bank of Spain instructions and recommendations.

To this end, certain procedures, which are periodically reviewed and optimized, have been implemented to ensure that a uniform accounting record is kept of all transactions by means of an appropriate system of internal controls.

These procedures include monthly management controls at all decision-making levels, the scrutiny and approval of transactions in the framework of a formal system of functional delegation, ongoing professional training of the staff and the issuance and updating of manuals and operating standards. Also, the professional independence of the related control bodies is formally established in the organization.

The financial statements were audited by PricewaterhouseCoopers. The accompanying notes, which are integral part of the financial statements, include such explanations as were considered necessary for a clearer understanding and the disclosure of certain items required to bring the information into line with the current legally required formats for balance sheets and statements of income. For a thorough understanding of the financial statements, reference should be made to the background events and major results impacting them, which are described in the Management Report contained in the preceding pages of this document.

## Banco Popular Group

### Consolidated balance sheets (Notes 1,2,3 and 4)

€ thousand

Assets	December 31				
	2004	2003	2002	2001	2000
Cash and due from central banks	893,343	1,080,289	683,317	1,887,105	412,106
Cash	382,042	411,184	363,890	347,096	270,284
Bank of Spain	462,703	572,403	314,313	1,530,168	131,612
Other central banks	48,598	96,702	5,114	9,841	10,210
Government debt securities (Note 5)	69,529	28,008	129,346	623,813	302,689
Due from financial intermediaries (Note 6)	4,376,119	4,564,212	4,706,692	4,968,925	5,466,607
Demand balances	155,550	152,777	182,830	253,897	178,243
Other	4,220,569	4,411,435	4,523,862	4,715,028	5,288,364
Loans and discounts (Note 7)	51,843,757	43,466,605	33,711,019	27,368,371	22,962,523
Pro memoria: counterparties	99,999	249,999	–	–	–
Private fixed-interest securities (Note 8)	1,893,150	555,895	544,143	495,348	591,920
Issued by public bodies	137,306	132,442	53,490	30,288	23,842
Issued by other issuers	1,755,844	423,453	490,653	465,060	568,078
Pro memoria: own securities	–	–	–	–	–
Equity securities (Note 9)	841,845	350,309	390,872	122,590	59,944
Participating interests (Note 10)	10,815	9,908	26,599	23,241	4,897
In financial intermediaries	–	–	–	–	–
Other	10,815	9,908	26,599	23,241	4,897
Shares of Group companies (Note 11)	31,486	27,741	22,719	33,282	32,581
Financial intermediaries	–	–	–	–	–
Other	31,486	27,741	22,719	33,282	32,581
Intangible assets (Note 13)	17,520	20,666	17,938	20,791	13,615
Formation and preopening expenses	67	108	184	55	68
Other amortizable expenses	17,453	20,558	17,754	20,736	13,547
Goodwill in consolidation (Note 12)	322,931	342,374	7,253	33,613	6,160
Global and proportional integration method companies	322,931	341,562	3,870	28,308	386
Equity method companies	–	812	3,383	5,305	5,774
Tangible assets (Note 14)	713,113	679,588	568,280	580,594	571,172
Land and buildings for own use	296,330	293,814	204,257	204,289	193,768
Other properties	92,018	73,366	47,401	53,282	64,005
Furniture, installations and other	324,765	312,408	316,622	323,023	313,399
Unpaid subscribed common stock	–	–	–	–	–
Unpaid capital calls	–	–	–	–	–
Remainder	–	–	–	–	–
Treasury stock (Note 2h and 24)	4,599	–	–	–	–
Pro memoria: face value	47	–	–	–	–
Other asset accounts (Note 15)	1,277,836	1,110,363	890,345	934,273	583,053
Prepayments and accrued income (Note 16)	365,507	303,507	297,242	299,970	349,480
Losses at consolidated companies (Note 26)	80,286	71,686	9,355	3,643	1,047
Global and proportional integration method companies	79,449	70,994	9,195	3,505	871
Equity method companies	804	668	156	138	176
Translation differences	33	24	4	–	–
Consolidated loss for the year	–	–	–	–	–
Group	–	–	–	–	–
Minority interests	–	–	–	–	–
<b>Total</b>	<b>62,741,836</b>	<b>52,611,151</b>	<b>42,005,120</b>	<b>37,395,559</b>	<b>31,357,794</b>

Liabilities and Capital	December 31				
	2004	2003	2002	2001	2000
Due to financial intermediaries (Note 17)	8,812,927	8,532,526	6,965,943	6,925,077	4,888,588
Demand balances	298,255	305,472	290,351	276,854	202,174
Term or prenotification balances	8,514,672	8,227,054	6,675,592	6,648,223	4,686,414
Customer deposits (Note 18)	33,366,061	28,894,517	23,690,329	22,615,236	20,424,975
Savings deposits	31,272,536	26,884,112	22,701,258	21,344,593	18,571,635
Demand	16,453,576	14,600,785	12,597,473	11,862,710	10,678,088
Term	14,818,960	12,283,327	10,103,785	9,481,883	7,893,547
Other deposits	2,093,525	2,010,405	989,071	1,270,643	1,853,340
Demand	—	—	—	—	—
Term	2,093,525	2,010,405	989,071	1,270,643	1,853,340
Pro memoria: counterparties	425,852	411,042	—	—	—
Bonds and other marketable debt securities (Note 19)	12,195,148	8,115,381	6,009,968	2,986,466	1,659,162
Bonds and debentures outstanding	7,646,067	5,356,512	4,264,766	1,968,146	1,161,888
Promissory notes and other securities	4,549,081	2,758,869	1,745,202	1,018,320	497,274
Other liability accounts (Note 15)	1,601,977	1,175,389	923,709	878,951	695,844
Accruals and deferred income (Note 16)	407,804	290,100	301,041	301,009	274,261
Special allowances (Note 20)	320,223	410,444	229,471	282,380	506,697
Pension allowance	143,695	60,776	—	—	396,966
Provision for taxes	23,441	27,154	24,263	12,207	9,904
Other allowances	153,087	322,514	205,208	270,173	99,827
General banking risk allowance (Note 21)	—	—	—	—	—
Negative difference in consolidation (Note 12)	418	418	418	444	570
Global and proportional integration method companies	282	282	282	18	18
Equity method companies	136	136	136	426	552
Consolidated income for the year	888,212	777,797	687,735	614,164	527,509
Group	800,889	714,271	633,490	565,282	490,557
Minority interests	87,323	63,526	54,245	48,882	36,952
Subordinated liabilities (Note 22)	548,380	454,141	245,356	263,469	207,469
Minority interests (Note 23)	1,252,591	978,589	663,074	498,347	355,908
Common shares	264,591	240,589	225,074	198,347	175,908
Preferred shares	988,000	738,000	438,000	300,000	180,000
Common stock (Note 24)	113,693	113,693	108,577	108,577	108,577
Paid-in surplus (Note 25)	428,720	428,720	21,164	21,164	21,164
Reserves (Note 25)	1,481,354	1,328,071	1,167,403	1,036,194	910,035
Revaluation reserves (Note 25)	—	—	—	—	—
Consolidation reserves (Note 26)	1,324,328	1,111,364	990,931	864,080	777,034
Global and proportional integration method companies	1,312,444	1,103,100	983,404	848,354	761,730
Equity method companies	10,992	7,372	6,631	14,807	14,394
Translation differences	892	892	896	919	910
Prior years' earnings	—	1	1	1	1
<b>Total</b>	<b>62,741,836</b>	<b>52,611,151</b>	<b>42,005,120</b>	<b>37,395,559</b>	<b>31,357,794</b>
<b>Memorandum accounts</b>					
Contingent liabilities	7,722,275	6,405,437	5,283,579	4,279,024	3,181,783
Rediscounts, endorsements and acceptances	—	—	—	—	—
Assets securing sundry commitments	492	473	604	578	12,999
Guarantees and other sureties	7,155,031	5,937,151	4,897,752	3,941,196	2,899,003
Other contingent liabilities	566,752	467,813	385,223	337,250	269,781
Commitments	14,833,961	9,261,521	6,121,536	5,015,418	4,464,278
Repos	—	—	—	—	—
Unused portion of credit lines	13,733,548	8,382,087	5,375,722	4,256,861	3,708,572
Other commitments	1,100,413	879,434	745,814	758,557	755,706

The accompanying Notes 1 to 35 and Exhibits I to VI are an integral part of the consolidated financial statements

# Banco Popular Group

## Consolidated income statements (Notes 1,2,3,4 and 31)

€ thousand	2004	2003	2002	2001	2000
Interest and similar revenues (Note 31.b)	2,726,302	2,503,435	2,355,978	2,284,119	1,768,400
Of which: revenues from fixed-interest securities	15,822	22,229	29,463	50,604	53,548
Interest and similar charges (Note 31.b)	832,778	735,121	795,750	892,578	649,593
Revenues from equity securities	50,088	31,584	31,153	10,000	8,002
Shares and other equity securities	42,679	25,446	23,376	1,786	1,270
Participating interests	87	537	1,353	1,096	768
Shares of Group companies	7,322	5,601	6,424	7,118	5,964
<b>Intermediation margin (net interest revenue)</b>	<b>1,943,612</b>	<b>1,799,898</b>	<b>1,591,381</b>	<b>1,401,541</b>	<b>1,126,809</b>
Fee revenues (Note 31.b)	853,327	779,815	729,678	703,301	653,375
Fee expenses (Note 31.b)	183,892	171,977	156,966	135,954	115,954
Asset trading and exchange profits (Note 31.c)	38,987	31,715	28,948	44,984	119,491
<b>Ordinary margin</b>	<b>2,652,034</b>	<b>2,439,451</b>	<b>2,193,041</b>	<b>2,013,872</b>	<b>1,783,721</b>
Other operating income (Note 31.e)	1,079	2,113	1,901	1,474	1,474
General administrative expenses	900,608	841,997	782,775	749,208	667,660
Personnel expenses (Note 31.d)	628,511	596,848	552,354	538,666	477,021
- Of which: wages and salaries	462,230	435,221	407,342	393,024	369,109
social security charges	151,501	146,987	133,866	132,391	97,059
- Of which: pensions	35,520	34,879	27,681	29,304	-
Other administrative expenses	272,097	245,149	230,421	210,542	190,639
Depreciation and writedowns of tangible and intangible assets	81,139	75,953	67,907	68,203	67,474
Other operating expenses (Note 31.e)	39,046	37,370	36,157	41,352	39,144
<b>Operating margin</b>	<b>1,632,320</b>	<b>1,486,244</b>	<b>1,308,103</b>	<b>1,156,583</b>	<b>1,010,917</b>
Net earnings (losses) of equity method companies	11,182	11,742	4,745	5,048	5,771
Share in income of equity method companies	18,766	18,059	13,194	13,300	12,539
Share in losses of equity method companies	175	179	672	38	35
Value adjustments for dividends collected	(7,409)	(6,138)	(7,777)	(8,214)	(6,733)
Amortization of goodwill in consolidation	19,443	11,815	63,420	8,058	2,351
Gains on Group transactions	5,654	4,197	3,313	3,283	6,355
Gains on disposal of holdings in global and proportional integration method companies	2,645	108	139	97	808
Gains on disposal of holdings in equity method companies	-	-	-	132	-
Gains on transactions involving controlling company shares and financial liabilities issued by the Group	3,009	4,089	3,174	3,054	5,547
Reversal of negative differences in consolidation	-	-	-	-	-
Losses on Group transactions	4,900	3,367	3,205	487	-
Losses on disposal of holdings in global and proportional integration method companies	2,309	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	2,591	3,331	3,205	478	-
Writeoffs and provisions for credit losses (net)	303,082	316,192	235,088	190,617	101,905
Writedowns of financial investments (net)	-	-	-	-	-
Provision to general banking risks allowance	-	-	9,402	-	-
Extraordinary income (Note 31.f)	107,116	97,614	103,174	32,698	28,361
Extraordinary losses (Note 31.f)	136,417	63,241	52,791	146,256	136,734
<b>Income before taxes</b>	<b>1,292,430</b>	<b>1,205,182</b>	<b>1,055,429</b>	<b>852,194</b>	<b>810,414</b>
Corporate income tax (Note 27)	390,572	418,389	365,259	235,461	282,056
Other taxes	13,646	8,996	2,435	2,569	849
<b>Consolidated income for the year</b>	<b>888,212</b>	<b>777,797</b>	<b>687,735</b>	<b>614,164</b>	<b>527,509</b>
Income attributed to minority interests	87,323	63,526	54,245	48,882	36,952
Common shares	53,728	45,824	41,972	40,487	35,771
Preferred shares	33,595	17,702	12,273	8,395	1,181
<b>Net income attributable to BPE shareholders</b>	<b>800,889</b>	<b>714,271</b>	<b>633,490</b>	<b>565,282</b>	<b>490,557</b>

The accompanying Notes 1 to 35 and Exhibits I to VI are an integral part of the consolidated financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### (1) Description of Banco Popular Español, basis of presentation of the consolidated financial statements, consolidation principles and net worth

#### Description of Banco Popular Español

Banco Popular Español, S.A. is a private law entity whose corporate purpose, per Article 4 of its bylaws, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

The Bank was founded on July 14, 1926, and is registered with the Madrid Mercantile Register (volume 174, sheet 44, page 5,458, first entry). It is a member of the Spanish Bank Deposits Guarantee Fund, and its registered offices are at 34 Velázquez Street, 28001 Madrid. The corporate documentation and public information of the Bank and of its consolidated group can be consulted at the registered offices and on the Bank's web site ([www.bancopopular.es](http://www.bancopopular.es)).

The Bank is the controlling company of a corporate group whose business activities are directly and indirectly controlled by it.

#### Basis of presentation

The accompanying consolidated financial statements of the Banco Popular Group are presented in the formats stipulated in Bank of Spain Circular 4/1991 and subsequent amendments thereto and, accordingly, give a true and fair view of the consolidated net worth, financial position, risks and results. All amounts are expressed in thousands of euros, unless otherwise stated.

In accordance with the requirements of Article 8 of Law 13/1985 regulating investment and capital ratios and reporting obligations for financial intermediaries, the consolidated financial statements reflect all the financial business activities of the Group in the broadest sense, including the instrumental companies used to legally support such activities.

The consolidation methods used are those set forth in Royal Decree 1371/1985, regulating the consolidation of the financial statements of deposit-taking entities, in Bank of Spain Circular 4/1991 implementing that Royal Decree, and in Royal Decree 1815/1991 on the preparation of consolidated financial statements.

The consolidated financial statements and the accompanying notes were prepared in accordance with the specific requirements of Bank of Spain Circular 4/1991 and with the generally applicable provisions of the Corporations Law, the Commercial Code, the National Chart of Accounts and Royal Decree 1815/1991.

The 2004 consolidated financial statements have not yet been approved by the Shareholders Meeting. However, the Bank's Board of Directors considers that they will be approved without any significant changes.

#### Accounting principles

The generally accepted accounting principles and valuation methods described in Note 2 were applied in preparing the consolidated financial statements, which were drafted by the Bank's directors and were drawn from the accounting records of each company.

#### Consolidation principles

The scope of consolidation, defined in accordance with Bank of Spain Circulars 4/1991 and 5/1993, comprised the Group companies (consolidated and nonconsolidable), the multigroup companies and the associated companies. The Group includes all the companies which are directly or indirectly 50% or more owned by the Bank and the less than 50% Bank-owned companies which are effectively controlled by the Bank and constitute, together with the Bank, a single decision-making unit.

The global integration method was used to consolidate the finance and instrumental companies in the consolidated Group, the proportional integration method for the multigroup financial companies, and the equity method for the subsidiaries not consolidable due to their line of business, for the non-financial multigroup companies and for the associated companies.

Except for the nonconsolidated portion corresponding, in the case of business relationships between global integration method consolidated companies and multigroup companies, to the latter, all accounts and transactions between consolidated companies were eliminated in consolidation; the amounts not eliminated are disclosed in the relevant sections of the notes to the financial statements. Minority interests, which are explicitly reflected as such in the 2004 and 2003 consolidated balance sheets and income statements, correspond to shareholders not directly or indirectly related to the Group.

## Net worth

The Group's year-end net worth per books, after the distribution of income, and the variations therein are shown in the following table. The Banco Popular column reflects the amounts of the following accounts in the consolidated balance sheet: common stock; paid-in surplus; reserves, after consolidation adjustments allocable to the parent company's net worth; and revaluation reserves. The material amounts and items are detailed in the section dealing with the individual components of net worth.

## Capital requirements

The current legislation on the capital of financial entities and their supervision on a consolidated basis came into force in 1993 after the previous legislation (Law 13/1985 regulating the investment ratios, capital and reporting obligations of financial intermediaries) had been amended by the enactment of Law 13/1992 (subsequently implemented by Royal Decrees 1343/1992 and 2024/1995, a Ministerial Order of December 30, 1992, modified by Ministerial Order dated December 4, 1996, and Bank of Spain Circular 5/1993) on the determination and control of

€ thousand	Banco Popular	Consolidation reserves	Total
<b>Balance at 12/31/99</b>	<b>1,024,686</b>	<b>785,142</b>	<b>1,809,828</b>
Variations:			
Transfer of prepaid taxes	7,212	2,195	9,407
Consolidation operations (net)	7,879	(11,350)	(3,471)
2000 net income	376,290	114,267	490,557
2000 dividend	(259,499)	—	(259,499)
<b>Balance at 12/31/00</b>	<b>1,156,568</b>	<b>890,254</b>	<b>2,046,822</b>
Variations:			
Transfer for early retirements (net)	(28,600)	(15,556)	(44,156)
Capitalization of taxes-early retirements	20,598	5,696	26,294
Consolidation operations (net)	17,370	(19,957)	(2,587)
2001 net income	446,604	118,678	565,282
2001 dividend	(295,330)	—	(295,330)
<b>Balance at 12/31/01</b>	<b>1,317,210</b>	<b>979,115</b>	<b>2,296,325</b>
Variations:			
Transfer from early retirements	7,257	5,529	12,786
Transfer for early retirements (net)	(22,100)	(10,898)	(32,998)
Consolidation operations (net)	(5,222)	7,830	2,608
2002 net income	491,947	141,543	633,490
2002 dividend*	(329,722)	—	(329,722)
<b>Balance at 12/31/02</b>	<b>1,459,370</b>	<b>1,123,119</b>	<b>2,582,489</b>
Variations:			
Transfer from early retirements	292	1,764	2,056
Capital increase	412,672	—	412,672
Adjustment of policies	4,134	1,181	5,315
Transfer for early retirements (net)	(65,600)	(25,925)	(91,525)
Consolidation operations (net)	59,617	(60,461)	(844)
2003 net income	505,137	209,134	714,271
2003 dividend	(366,092)	—	(366,092)
<b>Balance at 12/31/03</b>	<b>2,009,530</b>	<b>1,248,812</b>	<b>3,258,342</b>
Variations:			
Transfer from early retirements	1,169	9,048	10,217
Treasury stock	(4,599)	—	(4,599)
Consolidation operations (net)	13,068	(13,818)	(750)
2004 net income	588,398	212,491	800,889
2004 dividend	(400,200)	—	(400,200)
<b>Balance at 12/31/04</b>	<b>2,207,366</b>	<b>1,456,533</b>	<b>3,663,899</b>

minimum capital. Circular 5/1993 was expanded and amended by the inclusion of the final implementing instructions on this topic in Circular 12/1993, which regulated the treatment of trading portfolios and the risks assumed by banks in their foreign currency transactions and came into force in 1994. Also, Bank of Spain Circulars 12/1996, 3/1997, 5/1998 and 3/2003 introduced the most recent changes in this area. Under these regulations, financial entities must at all times have sufficient computable capital to cover their aggregate exposure for credit risks, based on the assets, commitments and other memorandum accounts exposed to credit risk, and their exposure for exchange rate risk, based on the net overall foreign currency position; and the exposure for trading portfolio risks. The adjusted risk assets - net of depreciation, specific allowances, capital deductions and compensating balances - are weighted by certain coefficients based on the level of counterparty risk. The requirements for contingent liabilities and for exchange and interest rate related memorandum accounts are determined in the same way as described above for risk assets, with the application of certain correction factors - depending on the level of risk in the contingent liabilities and on the period of time since original maturity in the exchange and interest rate related memorandum accounts - before weighting by the counterparty risk coefficients.

As of December 31, 2004, when the proposed distribution of the income for the year is made, the consolidated Group's computable capital will exceed the regulatorily required minimum amount by €545,851 thousand. The cushion at 2003 year end was €635,950 thousand. The regulatorily stipulated limits for foreign currency positions, risk concentration and fixed asset additions were also complied with in 2004 and 2003.

### Information of shareholdings in Banco Popular's capital stock

At December 31, 2004 and 2003, the following shareholders directly or indirectly owned at least 5% of the capital stock (significant holdings):

Shareholders	Number of shares		% of ownership	
	2004	2003	2004	2003
Sindicatura de accionistas BPE	24,482,015	24,669,394	10.77	10.85
Allianz group	20,651,132	20,651,132	9.08	9.08
Topbreach Holding	12,227,277		5.38	

### Changes in accounting regulations in 2004 and 2003

In 2004 and 2003 there were no changes in accounting regulations affecting the consolidated financial statements which call for comment here.

### External Audit

The consolidated financial statements of Banco Popular Español, S.A. and its Group as of December 31, 2004, and the individual financial statements of Banco Popular Español, S.A. at that date have been audited by PricewaterhouseCoopers Auditores, S.L. which also audited those of the previous year.

As required by Law 44/2002 on financial system reform measures, the following additional information is provided here:

The fees paid by the Group to PricewaterhouseCoopers in 2004 for audit and other work amounted to €863 thousand. The Group also paid fees of €181 thousand to a firm related with the audit firm for the provision of other professional services. The corresponding amounts in 2003 were €1,080 thousand and €110 thousand, respectively.

### (2) Accounting principles and valuation methods

The consolidated financial statements were prepared in accordance with the accounting principles set forth in Bank of Spain Circular 4/1991 and subsequent amendments. The most significant accounting principles applied are as follows:

#### a) Recognition of revenues and expenses

Revenues and expenses are recognized for accounting purposes on an accrual basis. In accordance with banking practice, transactions are recorded as of the date they are made, which may differ from the value date as of which interest revenue and expense are calculated. However, in application of the accounting principle of prudence and as required by Bank of Spain regulations, interest revenues on nonperforming, disputed or doubtful balances are not recognized until they are collected.

*b) Foreign currency transactions*

The balances of accounts in foreign currencies (including those of the branches and dependent companies outside Spain) have generally been translated to euros at the average official exchange rates published by the European Central Bank at each year end; the income statements of the foreign companies located in countries outside the Euro area included in consolidation have been translated at the exchange rates ruling on the dates of the related transactions, and the reserves of these companies have been translated at historical exchange rates.

The exchange differences at each entity are recognized and accounted for currently, and are presented at their net amount under the "Asset trading and exchange profits" caption in the consolidated income statements. The differences relating to term transactions are booked as a contra item in a balance sheet account included under the "Other asset accounts" or "Other liability accounts" caption, depending on their sign.

Exchange gains in consolidation are recorded as an item of "Consolidation reserves", with individual disclosure of the companies at which they arise, and exchange losses are booked under "Losses at consolidated companies", with individual disclosure of the companies at which they arise.

*c) Credit loss allowance*

The credit loss allowance is recorded to cover any potential losses in the recovery of all the risks assumed by the Bank and the companies in its consolidated Group. The coverage for credit losses is provided by the specific, general, statistical and country-risk allowances, which jointly constitute the credit loss allowance.

As required by Bank of Spain Circular 4/1991, this allowance is calculated as follows:

- The specific allowance for loans and discounts and off-balance sheet risks (excluding country risk), determined on an individual borrower basis as required by Bank of Spain regulations. This allowance includes the coverage for the contributions to securitization funds, the subordinated securities issued by these funds and the subordinated financing provided to them. This coverage will be that which the bank would have had to book had it retained the fund's assets in its portfolio, up to the limit of the amount of the stated contributions, securities and financing.

- The general 1% allowance for private-sector loans and discounts, fixed-interest securities in the investment portfolio and off-balance sheet risks, including documentary credits, which is intended to provide coverage for exposure which, although not specifically identified, might arise in the future. This percentage is 0.5% for mortgage loans for completed housing units provided that the guarantees were established as a result of the financing provided, and for leasing transactions provided that the outstanding risk does not exceed 80% of the appraised value of the housing units.

- The statistical allowance provided quarterly, since its entry into force on July 1, 2000, for the positive difference between, on the one hand, one-fourth of the statistically estimated overall latent credit losses in the various portfolios of homogeneous risks (credit and off-balance sheet risks weighted by the corresponding coefficients) and, on the other, the net provisions recorded for credit losses in the quarter, these net provisions for credit losses being deemed to be the specific provisions net of the recovery of assets written off.

- The country risk allowance, based on the estimated degree of difficulty being experienced by each financially troubled country.

The specific allowance account balance is increased by provisions charged to period income and decreased by writeoffs of debts classified as uncollectible or that have been nonperforming for more than three years (six years for nonperforming mortgage loans), by releases of provisions previously recorded, and by transfers to the allowance for foreclosed assets when the banks repossess foreclosed assets. Also, when a balance which is not fully covered by this allowance is written off as uncollectible, the portion not covered is recorded as a direct writeoff charged to income for the year.

The general allowance is increased by provisions charged to income and is decreased when the risks comprising the calculation basis are reduced in comparison with the preceding period, leaving amounts that can be released.

The statistical allowance consists of the quarterly provisions from period income and is decreased by amounts credited to the income statement for recoveries when the difference is negative, as explained earlier with respect to the criteria for provision, because the net provision for specific credit losses in the quarter exceeds, in the same period, the statistically estimated overall latent losses

in the various portfolios of homogeneous risks. This statistical allowance cannot exceed three times the sum of the amounts of the different categories of credit risk weighted by their related coefficients.

The country risk allowance is established by provisions charged to income and is decreased by the write-off of debts classified as uncollectible and by recovery of amounts released on disappearance of the causes of the risk, and by upgrading of the country classification.

The allowances for loans and discounts are presented in the balance sheets as deductions under the asset captions to which they relate - "Due from financial intermediaries" and "Loans and discounts" and "Private fixed-interest securities" - and the allowance for off-balance sheet risks is presented under the "Special allowances" liability caption; however, the balances of "Guarantees and other sureties" and "Other contingent liabilities" in the memorandum accounts of the balance sheets are presented at the gross amount, i.e. not net of the related allowance for doubtful balances. In the public income statements, the provisions booked are presented net of allowances released and of recoveries of bad debts written off.

#### d) Securities portfolios

The aggregate securities comprising the different securities portfolios are presented in the balance sheet in accordance with their nature. However, Bank of Spain Circular 6/1994 (on accounting standards and financial statement formats) amended Circular 4/1991 and regulated four categories of securities portfolio for valuation purposes, as follows:

*I. Trading portfolio.* This portfolio can include fixed-interest and equity securities that a bank wants to hold in its assets to benefit at short-term from price variations. Only publicly listed securities in which trading is brisk, of good depth and not susceptible to influence by individual private agents qualify for inclusion in this portfolio. Securities issued by the bank itself or by group or associated companies, securities bought and sold on a repo basis, and securities delivered for guarantee purposes may not be included in the trading portfolio.

The securities in the trading portfolio must be valued at market prices, and the differences between book value and market price must be reported as "Asset trading and exchange profits". However, the interest earned and dividends

collected are recorded as "Interest and similar revenues" and "Revenues from equity securities", respectively.

*II. Ordinary investment portfolio.* This portfolio includes the fixed-interest or equity securities not assigned to any other category. Fixed-interest securities must be recorded initially at purchase price, net where appropriate of accrued interest. The positive or negative difference between the purchase price and the redemption value must be accrued over the residual term of the security, adjusting the security's initial price by a credit or debit to income under "Interest and similar revenues", with the resulting valuation being denominated as "adjusted purchase price".

The valuation and security price fluctuation allowance procedures for listed fixed-interest securities in this portfolio are as follows:

- The difference between the adjusted purchase price, as defined above, and the closing market price, net where appropriate of accrued interest, must be calculated for each class of securities. In the case of securities for which the market is of scant depth or erratic, the average market price in the last ten market days of the year must be used instead of the closing market price. When securities are sold under repurchase agreements, the difference is limited to the proportional part for the period between completion of the repo transaction and the maturity date of the security.

- The aggregate amount of the net unrealized losses disclosed by the calculation must be recorded in an asset account under the "Prepayments and accrued income" caption, netting off from its balance the unrealized gains on listed securities in this portfolio. The resulting amount must be deducted from the capital base for the purpose of calculating compliance with the related minimum level requirements. The contra item for these adjustments is the security price fluctuation allowance.

- When securities in this portfolio are disposed of, the gains or losses with respect to the adjusted purchase price must be recognized in income, and if there are gains, a provision for the net amount of the gains less the losses on this portfolio must be made to the security price fluctuation allowance. This provision may be released if and as continued coverage ceases to be necessary because of market price recovery or losses on subsequent disposals.

III. "Held to maturity" investment portfolio. This portfolio consists of fixed-interest securities which the bank has decided to hold until maturity.

The valuation procedures are the same as for the ordinary investment portfolio, except that a security price fluctuation allowance is not required. If disposals are made, the resulting gains or losses must be taken to income, and if there are gains, a specific provision for the amount must be booked and recognized in income on a straight-line basis over the residual term of the security sold.

IV. *Permanent shareholdings portfolio.* This portfolio includes shareholdings intended to be of long-term utility for the activities of the group to which they belong.

To comply with the Bank of Spain regulations, the Banco Popular Group has established criteria for assigning securities to the different portfolios. These criteria are in summary as follows:

Government debt securities bought and sold by the Bank in its capacity as a "trading entity in the market for government bonds traded by the accounting entry system", as a "debt securities market managing entity" and as "a market maker for government bonds traded by the accounting entry system" are included in the trading portfolio, together with fixed-interest securities futures and transactions involving equity securities including securities loans and index and securities options. The ordinary investment portfolio is conceptually, but not quantitatively, of a residual nature, since it includes all fixed-interest or equity securities that are not included in the other portfolios. Banco de Andalucía was the only Group entity with a "held to maturity" portfolio in 2004, the balance of which at year end was €29,914 thousand. In 2003, in addition to Banco de Andalucía, Banco Popular and Banco de Castilla had balances in this portfolio. Finally, the permanent shareholdings portfolio includes all the equity securities representing shareholdings in companies of the nonconsolidable group and in multigroup and associated companies.

In the public balance sheets these securities are presented identified by their nature, net of the provisions for coverage, charged to the income statement, in the related allowances for security price fluctuations and for credit losses.

#### d.1.) Government debt securities

This caption includes Treasury bills and government bonds and debentures recorded as trading portfolio, ordinary investment portfolio or "held to maturity" investment portfolio items in accordance with the classification criteria described above.

#### d.2.) Private fixed-interest securities

The securities under this caption in the balance sheets are assigned to the trading and ordinary investment portfolios, and at Banco de Andalucía in 2004 and 2003 also to the "held to maturity" portfolio, and are recorded in accordance with the stated criteria for these portfolios, both as regards valuation and with respect to coverage by the security price fluctuation and credit loss allowances.

#### d.3.) Equity securities

The "Equity securities" account includes the equity securities (both Spanish and foreign) of listed companies not classified as group, multigroup or associated companies, which are carried at the lower of cost, restated where appropriate under the enabling legislation of past years, or average last quarter or closing market value. The securities of unlisted companies are carried on the same basis as the shares of group companies.

#### d.4.) Participating interests and shares of group companies

The shareholdings in associated companies, in non-financial multigroup companies and in nonconsolidable group companies, respectively, constitute, by their nature, the permanent shareholdings portfolio. In the balance sheet they are carried at underlying book value adjusted for the amount of unrealized gains at the time of acquisition and still existing at the end of each year. Also, the reporting year results and consolidation adjustments are included in the process of consolidation.

#### e) *Intangible assets*

Since the entry into force in 1996 of Bank of Spain Circular 2/1996, certain payments for the development of computer software with an

estimated useful life of several years have been recorded under this caption in the consolidated balance sheets and are being amortized on a straight-line basis over the projected period of useful life, which cannot exceed three years. The amortization is recorded on the basis of the nature of the expenses.

The formation and start-up expenses and other amortizable expenses of consolidated companies, which are of scant amount, are presented net of accumulated amortization. These expenses are amortized on a straight line basis in a maximum period of five years.

*f) Goodwill and negative difference in consolidation*

The differences between the cost of the holdings in each of the consolidated companies and their respective adjusted underlying book values at the date of initial consolidation are accounted for as follows:

1. If the difference can be allocated directly to the affiliate's balance sheet items, it is booked as an increase in the value of the assets (or as a decrease in the value of the liabilities) whose market values are higher than the net book values per its balance sheet and which are treated for accounting purposes in the same way as the Group treats its similar assets.

2. Any difference remaining after application of the foregoing procedure is booked, depending on its sign, as follows:

a) Positive balances are reflected as goodwill in consolidation and are amortized on a straight-line basis from the date of purchase in a maximum period of five years (twenty years for the goodwill relating to the Portuguese BNC group), which is the period during which the Group considers that it will benefit from the goodwill. The charges to the accompanying consolidated income statements for amortization of goodwill are recorded under the "Amortization of goodwill in consolidation" caption.

b) The negative differences in consolidation are reflected as a provision in the consolidated balance sheets and will be creditable to consolidated income if and when the shareholdings in the related companies are wholly or partially disposed of (see Note 12).

*g) Tangible assets*

Premises and equipment are carried at cost, restated where appropriate pursuant to the enabling restatement legislation, net of the related accumulated depreciation and the specific allowances recorded to cover potential losses on foreclosed assets. All fixed asset items, whether legally restated or not, are depreciated at the official rate-table rates published in Royal Decree 537/1997.

The annual depreciation rates most commonly used in 2004 and 2003 were as follows:

Buildings	2%–4%
Office equipment	12%–25%
Furniture and installations	6%–16%
Computer equipment	16%–25%

Accumulated depreciation at the consolidated companies totaled €716,555 thousand in 2004 and €658,927 thousand in 2003.

Upkeep and maintenance expenses are expensed currently.

Leased premises and equipment are recorded at cost, net of the related accumulated depreciation.

Fixed assets, if any, rented to Group companies are included under the "Premises and Equipment" caption and fixed assets assigned to third parties are included under the "Loans and Discounts" caption.

The premises and equipment of the subsidiaries merged in prior years are accounted for at the post-merger company at the book value at which they had been carried by the companies absorbed, without any write-up.

*h) Treasury stock*

As of December 31, 2004, Banco Popular held 94,818 of its own shares with a book value in the consolidated balance sheet of €4,599 thousand, recorded under the Treasury stock caption on the asset side. In 2004, the Group intervened as a

buyer in transactions involving a total 658,029 shares (0.29% of the capital stock) and as a seller in transactions involving 563,211 shares (0.25% of the capital stock). The average treasury stock during the year was 84,692 shares (0.04%), the maximum was 239,355 (0.11%) and the minimum was zero.

In 2003, the Group intervened as a buyer in 1.29% of the transactions and as a seller in the same percentage. The maximum treasury stock held was 173,527 shares (0.08%). At 2003 year end, Banco Popular did not hold any treasury stock either directly or through any of its Group companies.

The gains/losses on the disposals of treasury stock are recorded under the "Gains on Group transactions" and "Losses on Group transactions" captions, as appropriate, in the consolidated income statement.

Also, in 2004 the Group arranged 980 futures contracts on Banco Popular shares, with a maximum of 859 contracts and a minimum of zero contracts. As of December 31, 2004, the Group did not hold any futures contracts on Banco Popular shares.

#### *i) Pension commitments*

At December 31, 2004 and 2003, the Group banks operating in Spain had externalized the full amount of the pension commitments to their serving and retired employees and these employees' beneficiary rightholders under the current collective bargaining agreement, or similar regulation, by means of insured occupational pension plans and insurance contracts, pursuant to the terms of Royal Decree 1588/1999. As a result of these transactions, the banks have transferred to the insurance company, either directly or through the pension plans promoted by them, all their pension commitments and have ceased to have any actuarial, financial or other risk in this connection.

#### Serving employees

On November 8, 2001, Banco Popular Español and its subsidiaries Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia, Banco de Vasconia, Popular-e and Banco Popular Hipotecario instrumented the externalization of their pension commitments to their serving employees by contributing the recorded internal allowances to the respective pension plans that had been set up - which simultaneously entered into insurance contracts to cover said commitments - , or to insurance

contracts covering the financial limit overrun. The insurance company is Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from this company's parent entity Allianz AG.

The related contributions had been disbursed in full at December 31, 2001.

Accordingly, the externalization agreements entered into by the banks and their employees' representatives in 2000 and 2001 were fully executed.

The technical bases and hypotheses used to calculate the contributions were as follows:

Mortality tables: PERM/F 2000-P

Permanent disability table: Ministerial Order of January 1977, adjusted to 85%

Interest rate:

Years 1-40: Tied to the rate of return on the related assets per the insurance contract  
Subsequent period: Maximum rate permitted by the Directorate General of Insurance for unmatched transactions, with a 95% profit-sharing clause

Growth rate of salaries: 2.5% per annum

Growth rate of social security pensions: 1.5% per annum

Actuarial valuation method: Projected credit unit, with the number of years in the group of employees at initial retirement age per the collective bargaining agreement as a reference.

The occupational pension plans are included in the Europopular Integral pension fund, which is managed by Europensiones, S.A. a company owned 51% by Banco Popular Español and 49% by Allianz. The fund depository is Banco Popular Español.

The plan covers two groups of employees, the commitments to whom are as follows:

-An insured defined benefit plan for employees entitled to supplementary pension payments and additional coverage for loss of spouse and loss of parent and occupational hazards. The annual contribution for the portion due in each year in accordance with the aforementioned hypotheses and parameters, including variations arising,

amounted to € 30,128 thousand in 2004 and €30,716 thousand in 2003.

-A mixed plan, of defined benefit for occupational hazards and defined contribution for all other benefits, for all other employees. The Bank undertakes to make annual contributions to this plan for employees with more than two years of service, ranging from 1.25% to 1.30% of their gross salaries, plus an additional amount, up to a specified limit, conditional upon a matching contribution of the same amount by the employee.

At December 31, 2004 and 2003, the mathematical reserves for the insurance contracts amounted to €505,426 thousand and €501,933 thousand, respectively, and to €19,474 thousand and €23,417 thousand, respectively, for those relating to financial limit overruns.

As required by Bank of Spain Circular 5/2000, the "Differences in pension allowance" account, used in December 2000 to reflect the effect of using new calculation hypotheses as a result of application of this Circular, must be amortized in a maximum period of 14 years (for the portion relating to contribution to the pension plan) and in 9 years (for the insurance contracts). The period amortization charge for 2004 amounted to €2,035 thousand and for 2003 to €2,527 thousand. €4,493 thousand in 2004 and €4,893 thousand in 2003 were also amortized for the variation in composition of the group of qualifying employees. The unamortized balances outstanding at December 31, 2004 and 2003, were €17,200 thousand and €23,728 thousand, respectively, and are included under the "Other asset accounts" caption.

#### Retired employees

Banco Popular Español and its subsidiaries Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia externalized their pension commitments to employees retired prior to November 8, 2001, in October 1995 by means of insurance contracts between these banks and Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from this company's parent entity Allianz AG. In 2001 these contracts were adapted to comply with the provisions of Royal Decree 1588/1999.

At December 31, 2004 and 2003, the mathematical reserves relating to these insurance contracts amounted to €532,191 thousand and €553,073 thousand, respectively.

The pension commitments to employees retired after November 8, 2001, at all the Group banks operating in Spain are covered by the policies taken out directly by the banks or by the pensions plans described earlier. In 2004, the mathematical reserves relating to these contracts amounted to €33,670 thousand for the pension plan policies and €6,003 thousand for those relating to financial limit overruns. The amounts at the end of 2003 were €22,113 thousand and €1,976 thousand, respectively.

Under the aforementioned insurance contracts, the banks transferred to the insurance company all their pension commitments to their retired employees and ceased to have any actuarial, financial or other risk in this connection.

#### BNC employees

The pension commitments of Banco Nacional de Crédito (BNC) under the collective bargaining agreement for Portuguese banks are calculated using the hypotheses, mortality tables and parameters, and are recorded for accounting purposes, in accordance with the specific regulations of the Bank of Portugal. These commitments were externalized to the Portuguese insurance company Eurovida BNC, a 50% owned multigroup company of BNC, with BNC continuing to bear the liability therefor. The annual contributions to the insurance company are recorded as pension expenses included in personnel costs.

The premiums paid by BNC in 2004 amounted to €3,266 thousand recorded as personnel costs. As of December 31, 2004, and 2003, the mathematical reserve amounted to €38,309 thousand and €33,294 thousand, respectively.

In the process of accounting harmonization for preparation of the consolidated financial statements of the Banco Popular Group, the pension commitments were calculated in accordance with the regulatory methods stipulated by the Bank of Spain, applying the methodology, hypotheses, mortality tables, interest rates and, in general, the procedures described above for the banks operating in Spain. As a result of this process of harmonization, Banco Popular recognized an extraordinary provision for pensions by BNC of €3,647 thousand in 2004. In this process of application of the Spanish regulations, and since BNC maintains the related risk although the commitments have been externalized, the pension commitments of BNC are recorded on

the liability side of the consolidated balance sheet under "Special allowances - Pension allowance", with a contra item in "Other asset accounts".

*j) Allowance for general banking risks*

This allowance, which has no specifically assigned purpose, was set up to provide coverage for potential fluctuations and extraordinary risks (see Note 21). Its balance is deemed to form part of the balance sheet reserves for the purpose of compliance with capital requirements.

*k) Financial futures on securities, interest rates and commodities*

These transactions are booked in memorandum accounts at their principal amount. The results on hedges are recognized symmetrically with the results on the transactions hedged. Other futures transactions in organized markets are marked to market daily; futures transactions outside organized markets are recorded at the time of settlement, with coverage provisions being booked in the case of potential losses; FRAs and interest swaps are booked at the beginning of the interest period.

In the income statements, the results on hedges of balance sheet asset or liability items are treated as adjustments to the interest revenue from or interest expense of the item hedged. Other hedging results are booked as "Asset trading and exchange profits".

*l) Guarantee Funds*

The contributions to the Deposit Guarantee Funds (Spain and Portugal), in the case of credit entities, and to the Investment Guarantee Fund, for securities companies and agencies, are booked in the "Other operating expenses" account in the consolidated income statements. The Investment Guarantee Fund was introduced in 2001 by Royal Decree 948/2001, regulating investor indemnity systems.

As required by Bank of Spain regulations, these contributions are expensed currently.

The contribution by the consolidated banks operating in Spain to the Deposit Guarantee Fund was 0.06% of the calculation base amount in 2004 and 2003. For these Group banks as a whole, the contributions amounted to €14,124 thousand in

2004 and €13,244 thousand in 2003.

The contribution to the Investment Guarantee Fund by the consolidated companies to which it is applicable amounted to €105 thousand in 2004 and €44 thousand in 2003.

The contribution of BNC to the Deposit Guarantee Fund in Portugal in 2004 amounted to €434 thousand, and in 2003 the contribution attributable to the period during which it was consolidated in the Banco Popular Group amounted to €202 thousand. Under Portuguese regulations, it also includes in memorandum accounts €4,533 thousand in 2004 and €4,099 thousand in 2003 of other contingent commitments for possible future risks which may have to be met by this Fund.

*m) Corporate income tax*

The expense for period corporate income tax is calculated individually by each company on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from the taxable income for corporate income tax purposes.

As required by Bank of Spain regulations and as stipulated in the Spanish National Chart of Accounts, corporate income tax is recorded, net of withholdings and prepayments, under the "Other liability accounts" caption in the year-end balance sheets.

*n) Bonds and other marketable debt securities and subordinated liabilities*

Marketable debt securities reflect bearer or demand debts, such as cash or treasury bonds, other bonds, debentures, promissory notes or similar instruments.

Subordinated liabilities are presented in the balance sheet on a separate line and include all subordinated financing which, for credit ranking purposes, comes after common creditors, regardless of how instrumented. This financing is computable for capital requirement purposes when certain regulatorily defined specific requirements are met.

Subordinated liabilities are presented at redemption value in the balance sheet. In the case of bonds issued at a discount, the difference between the

redemption value and the amount received is recorded in a compensating account until the liability is removed from the balance sheets. For an explanation of the operation of this compensating account, see Note 16 "Prepayments and accrued income and accruals and deferred income". Zero-coupon issues with early redemption options are recorded in accordance with the foregoing principles, with the date of the next option being deemed to be the maturity date.

n.1) Euronotes issue:

Banco Popular had in force at the end of 2004 a program to issue fixed-interest securities in different currencies, up to an issue limit of €8,000 million. These securities are issued by the wholly owned Spanish instrumental subsidiary BPE Financiaciones set up for the issuance of bonds and subordinated debt. The payments of the principal and interest of this issue are unconditionally and irrevocably guaranteed by Banco Popular. On June 3, 2004, BPE Financiaciones issued the Offering Circular containing all the information about this program, which was registered with the Spanish Securities & Exchange Commission.

Until July 25, 2004, the date on which the Offering Circular was not renewed, Banco Popular had in place a program, initiated in 2003, to issue medium-term Euronotes in different currencies in international markets, up to a limit of €8,000 million. The notes were issued by the instrumental subsidiaries set up in Holland for this purpose (Popular Finance Europe for the bond issue and Popular Capital Europe for the subordinated debt). There are also outstanding issues made under the issuance program initiated in 1997 of subsidiaries domiciled in the Cayman Islands set up for this purpose, which are wholly owned by Banco Popular, namely BPE Finance International for the bond issue, and BPE Capital International for the subordinated debt. As under the current program, the payments of the principal and interest of these issues are unconditionally and irrevocably guaranteed by Banco Popular.

BPE Financiaciones has not requested ratings for the current fixed-interest securities issuance program. However, Banco Popular, which jointly and severally guarantees this issuance program, has been assigned the following ratings for long-term fixed-interest issues.

The ratings assigned to the issues under these two

programs are as follows:

	Euronotes	Subordinated debt
Fitch Ratings	AA	AA-
Moody's	Aa1	Aa2
Standard & Poor's	AA	AA-

These ratings are identical to those assigned by the rating agencies to the issues made in prior years in Holland and the Cayman Islands.

The outstanding balance of the issues outstanding at December 31, 2004, was €7,646,067 thousand. At 2003 year end the outstanding balance was €5,356,512 thousand.

The subordinated liabilities in the balance sheet at the end of 2004 amounted to €538,380 thousand, compared with €454,141 thousand at 2003 year end. The year-end 2004 and 2003 balances include, in addition to the issues under the programs referred to above, €24,964 thousand issued by BNC.

n.2) Corporate promissory note issue program

The Group banks have commercial paper issuance programs in progress, the prospectuses for which were registered with the Spanish Securities and Exchange Commission in July 2004 for the latest Banco Popular Español issue and in February 2004 for those of the subsidiary banks except for that of Banco de Andalucía, which was registered in December 2004. The features of this program are as follows: the maximum nominal outstanding balance at any time will be €6,590 million (Banco Popular €4,200 million, Banco de Andalucía €2,000 million, Banco de Castilla €120 million, Banco de Crédito Balear €30 million, Banco de Galicia €150 million, and Banco de Vasconia €90 million), which can be raised to €7,580 million; the face value of each note is €3,000, represented by a book-entry system entry, with maturity at any term from 7 days to 18 months from the date of issue of each note; the paper is issued at a discount, the cash value of which is determined at the time of issuance of each note, based on the pacted interest rate. The program has been rated as highly liquid and the notes are traded on the AIAF organized market. In 2003 the maximum limit was €5,280 million for all the banks as whole, increasable to €6,360 million.

*ñ) Preferred ownership interest securities*

In 2004, the Banco Popular Group issued €250 million of preferred ownership interest securities through its wholly owned Spanish subsidiary Popular Capital,

which was set up pursuant to Law 19/2003 for the purpose of issuing securities of this kind. In 2003, the Group issued €300 million of preferred ownership interest securities through this same subsidiary.

These securities, which are not cumulative and are guaranteed by Banco Popular, do not have voting rights. They were subscribed by third parties outside the Group and can be cancelled wholly or partially by decision of the issuer with prior authorization from the Bank of Spain at any time from the sixth year after the disbursement date.

The related amounts are included in the consolidated balance sheet and income statements as "Minority Interests". The minority interests amount was €988 million at the end of 2004 and €738 million at the end of 2003. The dividends on these securities included in the income statement amounted to €33,595 thousand and €17,702 thousand, respectively, at those dates. These balances are computable for capital requirement purposes as Tier 1 capital in accordance with the classification assigned by the Bank of Spain.

The ratings assigned to these preferred ownership interest securities issues in Spain are as follows:

Fitch Ratings	A+
Moody's	Aa3
Standard & Poor's	A

Also, BNC International Cayman launched an issue of preferred shares before the acquisition of BNC by Banco Popular, the US\$14 million of which were subscribed in full by INCA-BNC, and were therefore eliminated from the consolidated financial statements.

#### *o) Asset securitization*

In December 2004, Banco Popular securitized €2,000 million of collection rights against SMEs through the IM Banco Popular FTPYME1 vehicle. This asset securitization fund has issued the following securitization bonds:

	Importe en millones de €	Calificación
Serie A	1,455.2	AAA/Aaa/AAA
Serie A (G)	418,8	AAA/Aaa/AAA
Serie B	55,0	A/Aa3/A
Serie C	71,0	BBB/Ba1/BBB
Total	2,000.0	

The ratings were granted by the three leading rating agencies: Fitch Ratings, Moody's and Standard & Poor's. The rating of the A(G) Series bonds is regardless of the collateral guarantee by the State.

The A(G) Series is collaterally guaranteed by the State, and the B and C Series are subordinate.

As of December 31, 2004, the private fixed-interest securities portfolio of the Banco Popular Group included €1,580 million of these bonds.

In March 2003, Banco Popular and six other leading Spanish entities participated in an asset securitization operation carried out by GC FTGENCAT II amounting to €950 million. The AG (€706.8 million) and BG (€17.6 million) series are collaterally guaranteed by the Regional Government of Catalunya. Banco Popular's contribution amounted to €25 million, of which €19 million were mortgage loans and €6 million were unsecured loans.

In addition to the operations described in the preceding paragraphs, there are outstanding balances of the asset securitization transactions carried out in 2000 and 1998 by the Banco Popular Group, and the €250 million mortgage loan securitization operation carried out by BNC in June 2002.

#### *p) Issue of mortgage bonds ("cédulas")*

In February 2004, several banking subsidiaries issued €2,000 million of long-term mortgage bonds ("cédulas"), which were taken up by IM Cédulas 1 Grupo Banco Popular FTA, which in turn issued and placed in the market the same amount of "cédula"-backed securitization bonds. These bonds mature in February 2014, and the equity requirement of their holders is 0.8%, since there is a weighting of 10%. The operation was assigned the maximum credit ratings (Aaa/AAA/AAA) by the three main rating agencies (Moody's, Standard & Poor's and Fitch Ratings).

As of December 31, 2004, the Group had subscribed €300 million of these bonds for potential use as collateral for funding facilities at the Bank of Spain and the European Central Bank. As a result, the consolidated balance sheet includes an amount of €1,700 million under the Resident sector deposits (time deposits) caption.

*q) Early retirements plan*

In 2004, Banco Popular Español and its subsidiaries Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia approved an extraordinary early retirements plan which forms part of the management programs to improve the efficiency of operating costs and will affect approximately 240 employees.

This plan will foreseeably be instrumented by the inclusion of the employees affected under a temporary insurance contract that will bear the total actuarial and investment risk and will cover the related benefits through the date of retirement of each employee, from which time the employee's benefits will be paid by the current pension plan.

The estimated cost of €61 million of this plan is funded by a charge to 2004 income, under the "Extraordinary losses - Extraordinary contributions to pension funds" caption.

At December 31, 2004, the banks had recorded €61 million in a pension allowance.

The early retirements plan approved in 2003, funded by an allowance of €96 million, charged to reserves, net of prepaid taxes, as authorized by the Bank of Spain on December 19, 2003, was completed in the first quarter of 2004. €11 million of the foregoing amount returned to their accounts of origin since they were not used for the purpose for which they were booked.

The early retirements plan approved in 2002 by the same Group banks as named above was completed in the first quarter of 2003. Of the €54 million transferred from reserves to finance this plan, €3 million not used for the purposes of the plan were reversed to their accounts of origin, net of prepaid taxes.

*r) Adaptation to International Accounting Standards*

Article 4 of Regulation 1606/2002 of the European Parliament and Council stated that "for financial years starting on or after January 1, 2005, companies governed by the laws of a Member State must prepare their consolidated financial statements in conformity with International Accounting Standards if, at the date of their balance sheets, their securities have been listed on a regulated market in any Member State".

To comply with the aforementioned Regulation, the Banco Popular Group will adapt in 2005, based on the work initiated in 2003, its accounting criteria and systems for preparing its consolidated financial statements, annual accounts and management report to the stipulations of International Accounting Standards.

See Note 35 "Subsequent events" for extensive comments on the changes in accounting policies arising from the introduction of the International Accounting Standards.

### (3) Banco Popular Group

#### Banco Popular Español

The Bank is the parent company of the Group and accounted for approximately 56% of the aggregate 2004 balance sheet and net income before the related intra-Group adjustments in consolidation.

Following are the summarized year-end balance sheets, income statements and statements of changes in financial position of the Bank for the last five years. They include the balances relating to the Branch in Portugal which started operating during 2000.

#### Banco Popular Español, SA Summarized balance sheets at December 31

€ thousand

	2004	2003	2002	2001	2000
<b>Assets</b>					
Cash and due from central banks	478,343	627,384	387,067	1,247,225	237,786
Government debt securities	66,600	20,885	75,987	539,063	130,017
Due from financial intermediaries	11,175,331	10,769,073	8,301,503	6,644,715	5,980,522
Loans and discounts	27,752,406	23,718,694	19,977,255	16,512,934	14,100,266
Private fixed-interest securities	1,986,106	290,476	301,163	319,189	431,932
Equity securities	807,337	314,319	363,623	88,664	30,094
Participating interests	10,344	11,115	32,340	101,972	50,314
Shares of Group companies	1,204,264	1,185,298	620,282	499,374	442,699
Intangible assets	12,649	15,940	14,516	15,946	9,969
Tangible assets	385,142	369,223	369,452	380,551	373,365
Unpaid subscribed common stock	—	—	—	—	—
Treasury stock	4,599	—	—	—	—
Other asset accounts	933,654	757,661	689,795	733,423	478,062
Prepayments and accrued income	217,216	171,645	196,246	181,574	205,627
Loss for the year	—	—	—	—	—
<b>Total assets</b>	<b>45,033,991</b>	<b>38,251,713</b>	<b>31,329,229</b>	<b>27,264,630</b>	<b>22,470,653</b>
<b>Liabilities and capital</b>					
Due to financial intermediaries	9,048,427	8,747,618	7,038,288	6,793,344	4,774,499
Customer deposits	26,997,715	22,665,339	19,412,193	16,500,779	14,334,162
Bonds and other marketable debt securities	3,249,033	2,136,699	1,420,728	813,006	497,274
Other liability accounts	1,333,572	842,482	648,047	599,907	488,251
Accruals and deferred income	275,632	225,756	262,947	252,136	230,120
Special allowances	141,563	208,198	126,139	186,233	381,716
General banking risk allowance	—	—	—	—	—
Income for the year	588,398	505,137	491,947	446,603	376,290
Subordinated liabilities	1,499,622	1,160,669	682,848	562,961	387,469
Common stock	113,693	113,693	108,577	108,577	108,577
Paid-in surplus	428,720	428,720	21,164	21,164	21,164
Reserves	1,357,616	1,217,401	1,116,350	979,919	871,130
Revaluation reserves	—	—	—	—	—
Prior years' earnings	—	1	1	1	1
<b>Total liabilities and capital</b>	<b>45,033,991</b>	<b>38,251,713</b>	<b>31,329,229</b>	<b>27,264,630</b>	<b>22,470,653</b>
<b>Memorandum accounts</b>					
Contingent liabilities	14,538,257	10,935,928	8,650,332	5,754,380	3,993,650
Commitments	7,829,041	4,529,098	3,353,168	3,200,877	3,076,218

**Banco Popular Español, SA Summarized income statements for the years ended December 31**

€ thousand

	2004	2003	2002	2001	2000
Interest and similar revenues	1,673,120	1,603,426	1,547,796	1,522,737	1,193,131
Interest and similar charges	645,306	585,012	626,413	702,513	529,015
Revenues from equity securities	147,283	126,293	120,690	106,404	85,522
<b>Intermediation margin (net interest revenue)</b>	<b>1,175,097</b>	<b>1,144,707</b>	<b>1,042,073</b>	<b>926,628</b>	<b>749,638</b>
Fee revenues	497,159	471,947	450,797	436,541	407,165
Fee expenses	119,728	121,149	107,299	94,864	82,932
Asset trading and exchange profits	25,058	16,925	21,958	36,165	107,824
<b>Ordinary margin</b>	<b>1,577,586</b>	<b>1,512,430</b>	<b>1,407,529</b>	<b>1,304,470</b>	<b>1,181,695</b>
Other operating income	1,231	1,227	1,084	667	614
General administrative expenses	516,702	508,500	498,038	479,047	424,323
Depreciation and writedown of tangible and intangible assets	53,194	50,674	46,623	46,900	45,180
Other operating expenses	22,725	22,044	21,408	24,406	23,099
<b>Operating margin</b>	<b>986,196</b>	<b>932,439</b>	<b>842,544</b>	<b>754,784</b>	<b>689,707</b>
Writeoffs and provisions for credit losses (net)	161,973	197,448	141,691	112,990	63,374
Writedowns of financial investments (net)	(8,105)	12,840	58,394	8,044	3,004
Provision to general banking risk allowance	—	—	—	—	—
Extraordinary income	66,030	62,561	93,718	23,455	21,046
Extraordinary losses	86,144	47,001	39,904	99,266	113,489
<b>Income before tax</b>	<b>812,214</b>	<b>737,711</b>	<b>696,273</b>	<b>557,939</b>	<b>530,886</b>
Corporate income tax	223,329	232,529	204,177	110,930	154,596
Other taxes	487	45	149	406	—
<b>Income for the year</b>	<b>588,398</b>	<b>505,137</b>	<b>491,947</b>	<b>446,603</b>	<b>376,290</b>

**Banco Popular Español, SA Summarized statements of changes in financial position for the years ended December 31**

€ thousand

	2004	2003	2002	2001	2000
<b>Source of funds</b>					
Net income for the year	588,398	505,137	491,947	446,603	376,290
Amounts which reduce income but do not involve an application of funds:					
Net provision to allowances:					
For credit loss	185,224	215,425	149,695	129,826	82,270
For country risk	861	(2,317)	3,170	(395)	(247)
For pensions	43,655	—	—	61,714	57,135
For other purposes	(19,126)	10,604	(64,749)	43,716	52,802
Writedown of securities portfolio	(7,763)	12,430	62,000	8,590	3,248
Depreciation	53,194	50,674	46,623	46,900	45,180
Gain on sale of permanent assets (-)	(7,312)	(17,739)	(3,936)	(6,074)	(10,640)
Funds provided by operations	837,131	774,214	684,750	730,880	606,038
Capital increase	—	412,672	—	—	—
Net increase in:					
Due to banks (net)	22,897	—	—	387,570	—
Customer deposits	5,766,439	4,441,681	3,634,057	2,663,976	3,220,235
Net decrease in:					
Fixed-interest securities	—	65,905	481,104	23,429	123,578
Shares and nonpermanent participating interests	—	49,413	—	—	—
Sale of permanent assets	31,025	58,465	51,242	25,956	41,321
<b>Total</b>	<b>6,657,492</b>	<b>5,802,350</b>	<b>4,851,153</b>	<b>3,831,811</b>	<b>3,991,172</b>
<b>Application of funds</b>					
Prior year's dividend	366,092	329,722	295,330	259,499	234,041
Capital reduction	—	—	—	—	—
Net increase in:					
Due from banks (net)	—	988,971	546,192	—	978,444
Loans and discounts	4,187,974	3,938,815	3,597,774	2,530,744	2,685,708
Fixed-interest securities	1,742,283	—	—	—	—
Shares and nonpermanent participating interests	493,380	—	279,976	59,545	11,818
Other assets and liabilities (net)	(235,217)	(107,134)	(59,434)	467,638	(42,328)
Acquisition of permanent assets	102,980	651,976	191,315	514,385	123,489
<b>Total</b>	<b>6,657,492</b>	<b>5,802,350</b>	<b>4,851,153</b>	<b>3,831,811</b>	<b>3,991,172</b>

## Group companies

Exhibits I to VI provide information about the companies comprising the Banco Popular Group at December 31, 2004, showing those included in the consolidated documentation by the global integration method separately from those

constituting, because of their line of business, the nonconsolidable group, which were included in that documentation by the equity method.

Variations in 2004 and 2003 in the Group companies were as follows:

### 2004 variations:

Company	Change	Description	Consolidation Method
BPE Financiaciones	Addition	Formation	Consolidated (G.I.)

### 2003 variations:

Banco Nacional de Crédito (BNC)	Addition	Purchase of 100%	Consolidated (G.I.)
INCA-BNC	Addition	Holding through BNC	Consolidated (G.I.)
BNC International Cayman	Addition	Holding through BNC	Consolidated (G.I.)
BNC Gerfundos	Addition	Holding through BNC	Consolidated (G.I.)
BNC Predifundos	Addition	Holding through BNC	Consolidated (G.I.)
BNC Gestao Imovéis	Addition	Holding through BNC	Consolidated (G.I.)
BNC Consulteam	Addition	Holding through BNC	Not consolidable (E.M.)
BNC Corretora	Addition	Holding through BNC	Consolidated (G.I.)
BNC Corretora	Deletion	Merged with BNC	Consolidated (G.I.)
Popular Capital	Addition	Formation	Consolidated (G.I.)
Popular Capital Europe	Addition	Formation	Consolidated (G.I.)
Popular Commercial Europe	Addition	Formation	Consolidated (G.I.)
Popular Finance Europe	Addition	Formation	Consolidated (G.I.)
Fortior Holding	Deletion	Merged with Popular Banca Privada	Consolidated (G.I.)

G.I.: Global integration; E.M.: Equity method

In 2004, the Banco Popular Group set up the Spanish company BPE Financiaciones for the issuance of medium-term Euronotes and subordinated debt. This subsidiary is 90% owned by Banco Popular and 10% by Gestora Popular.

On June 20, 2003, Banco Popular acquired 75.12% of the capital of the Portuguese bank Banco Nacional de Crédito (BNC) for €433,422 thousand, of which €412,672 thousand were paid by the issuance of 10,232,392 shares of Banco Popular and the remainder in cash. In July 2003, Banco Popular raised its holding in the capital of BNC to 100% as a result of the public purchase offer to BNC's minority shareholders, thus acquiring 24.88% of shares of BNC at the same price as in the preceding transaction. The book value of the holding is €577,120 thousand. The goodwill in consolidation, after certain harmonization adjustments to conform the financial statements of BNC to Spanish regulations as a result of the acquisition of all the Portuguese entity's capital, amounted to €347,635 thousand. Banco Nacional de Crédito is a Portuguese banking group, the parent entity of which has six subsidiaries (financial instrumental, fund and asset management and operating instrumental companies) and a holding in the

multigroup company Eurovida BNC. BNC and its affiliates were consolidated, by the global integration or equity methods, as appropriate, on June 30, 2003, and the consolidated results of the Banco Popular Group have included those generated by these companies from that date, after the related adjustments in consolidation.

In 2003, Banco Popular formed the Spanish company Popular Capital for the issuance of preferred shares and the Dutch instrumental companies Popular Capital Europe, for the issuance of subordinated debt; Popular Commercial Europe, for the issuance of short-term commercial paper; and Popular Finance Europe, for the issuance of medium-term Euronotes. Also in 2003, Fortior Holding was merged into Popular Banca Privada and BNC Corretora into BNC, and Iberagentes Previsión changed its name to Popular Previsión Privada.

### Other companies included within the scope of consolidation

Although these are not Group companies, they are consolidated by virtue of being multigroup and associated companies.

The accompanying exhibits present significant data of each of these companies.

There were no variations in these companies in 2004. The variations in 2003 in the companies included in consolidation were as follows:

Banco Popular's 6.98% holding in Inmobiliaria Bami was reduced in 2003 to 1.80% after the merger of this company with Metrovacesa. Since this percentage of ownership is below the 3% limit established by Bank of Spain Circular 4/1991, this company ceased to be an associated company and was reclassified to "equity securities" in the ordinary investment portfolio. Banco Popular sold this holding in September 2004.

2003 variations:			
Eurovida BNC	Addition	Holding through BNC	Multigroup (P.I.)
Sociedad Preparatoria de Medios de Pago	Deletion	Merged with Sociedad Conjunta para la Emisión y Gestión de Medios de Pago	Multigroup (P.I.)
Inmobiliaria BAMI	Deletion	Reduction in shareholding	Associated (E.M.)

P.I.: Proportional integration; E.M.: Equity method

### Banco Popular Group outside Spain

At December 31, 2004, the Banco Popular Group network outside Spain consisted of the following operating entities:

In Portugal:

BPE branch in Portugal (Lisbon and Oporto offices)  
 Banco Nacional de Crédito (137 branch offices, 6 subsidiaries and 1 multigroup company)  
 Heller Factoring Portuguesa (offices in Lisbon and Oporto)

In France:

Banco Popular France (14 offices)

On November 1, 2003, 11 of the 13 offices of Banco Popular's branch in Portugal were transferred to BNC, in order to concentrate in BNC the Group's commercial and retail banking in Portugal. The transfer was made by the "entry of assets" formula, and consisted of the transfer from Banco Popular to BNC of the assets and liabilities of the aforementioned offices, with the contra item of a capital increase at BNC which was received by Banco Popular. The assets transferred amounted to €85,055 thousand and the liabilities transferred amounted to €81,995 thousand, and the resulting net value of €3,060 thousand was paid by BNC by means of a capital increase of the same amount, of which €928 thousand related to capital stock and €2,132 thousand to paid-in surplus. As a result of this operation, at 2003 year end BNC had a network of 127 offices in Portugal.

The balance sheet and income statement amounts, harmonized to conform with Bank of Spain accounting requirements, of Banco Popular's

branch in Portugal, arising from the activities of the Lisbon and Oporto offices, are included in the accounts of Banco Popular.

The balance sheets and income statements, harmonized to conform with the principles of consolidation, of Banco Nacional de Crédito (BNC) and Banco Popular France are presented separately in the Banking subsidiaries section of this document, and the balance sheets and income statements of Heller Factoring Portuguesa are included in the Non-banking finance and services subsidiaries section.

The Banco Popular Group also has financial instrumental subsidiaries in Holland, the Cayman Islands, Hong Kong and Luxembourg.

### (4) Distribution of income and Board remuneration

#### Distribution of income

The proposed distribution of Banco Popular Español's 2004 income is as follows:

	€
Net income for the year	588,398,415
Brought forward from prior year	-
Total distributable income	588,398,415
Dividend	400,200,254
Allocation to reserves:	
Voluntary reserves	186,198,161
Canary Islands investment reserve	2,000,000
Carried forward to next year	-

In 2004, Banco Popular availed itself of the possibility provided by Law 19/1994 to make a provision to the reserve for investments in the Canary Islands. The provision of €2,000 thousand to this reserve led to a reduction of €700 thousand in the taxes payable in 2004. This amount is included under the "Accruals and deferred income" caption on the liability side of the balance sheet and reduces the expense for corporate income tax as the investments for which the reserve is used are made. The period for making the investments ends on December 31, 2008. The provisions to this reserve in 2001, 2002 and 2003 were €3,750 thousand, €2,400 thousand and €1,200 thousand, respectively. Investments made in 2004 amounted to €3,167 thousand, signifying a reduction of €1,109 thousand in the corporate income tax expense.

The Bank's policy is to pay dividends quarterly, as follows: in October a first interim dividend is paid out of income for the year; second and third interim dividends are paid in the following January and April; and the final supplementary dividend is paid in the following July.

The dividends per share paid in the last two years were as follows:

(Data in €)	Date of payment	Amount	% variation over previous year
<b>2003</b>			
1st Interim	10/01/03	0.395	9.7
2nd Interim	01/02/04	0.400	9.6
3rd Interim	04/01/04	0.405	5.2
4th Final	07/01/04	0.410	5.1
Total		1.610	7.3
<b>2004 (*)</b>			
1st Interim	10/15/04	0.430	8.9
2nd Interim	01/12/05	0.435	8.7
3rd Interim	04/12/05	0.445	9.9
4th Final	07/12/05	0.450	9.8
Total		1.760	9.3

(\*) Declared by the Board of Directors on January 26, 2005, pending approval by the Shareholders Meeting.

The detail of the dividends paid out of income for 2004, compared with the year-to-date net income at the end of each preceding quarter, is as follows:

€ thousand	September 2004	December 2004
Year-to-date net income	432,643	588,398
Interim dividends paid	97,776	98,913

### Remuneration and other benefits of Banco Popular Board members

The names of the Board members at December 31, 2004, together with additional information about them, are shown below.

The amounts in the following table for directors' fees, executive remuneration and risk exposure relate to Banco Popular and, where appropriate, to consolidated subsidiaries.

Of the risk exposure to directors, €158 thousand relate to direct risks and €62,435 thousand to companies related to them, of which €9,224 thousand are guaranteed by the directors.

The breakdown of these risks is: €61,042 thousand of credits and loans, €174 thousand of trade discounts, €198 thousand of leasing transactions and €1,179 thousand of guarantees.

The interest rates on the trade discounts range from 3.84% to 6.58%, on the loans and discounts from 2.00% to 6.49%, and the quarterly fees for guarantees range from 0.25% to 1%.

The related 2003 figures were directors' fees: €56 thousand; executive remuneration: €1,886 thousand; and direct and indirect risk exposure: €49,795 thousand.

In October 2004 Luis Valls ceased to be a director; his remuneration amounted to €750 thousand. The cost of coverage of the pension commitments amounted to €343 thousand, and €2 thousand of health insurance premiums were also paid.

The cost borne by the Group in 2004 for coverage of pension commitments to the directors who are beneficiaries, namely Messrs. Fernández Dopico, Ron and Valls, amounted to €836 thousand, €386 thousand and €1,195 thousand, respectively, and the total was therefore €2,417 thousand. They were also beneficiaries of life and health insurance premiums totaling €26 thousand.

Name	Directors fees (€thousand)	Executive remuneration (€ thousand)	Risk exposure (€thousand)
Francisco Aparicio .....	-	-	-
Asociación de Directivos BPE .....	-	-	-
Francisco Fernández Dopico (*) .....	-	422	117
Américo Ferreira de Amorim .....	-	-	45,106
Eric Gancedo .....	-	-	-
Luis Herrando .....	-	-	-
Casimiro Molins .....	-	-	6,000
Luis Montuenga .....	-	-	1,354
Manuel Morillo .....	-	-	-
Miguel Nigorra .....	56	-	1,586
José Ramón Rodríguez .....	-	-	-
Ángel Ron .....	-	604	-
Vicente Santana .....	-	-	2
Sindicatura de Accionistas BPE .....	-	-	-
Miguel Ángel de Solís .....	-	-	8,425
Rafael Termes .....	-	-	-
Javier Valls .....	-	790	-
Emilio Viñas .....	-	-	3
Herbert Walter (**) .....	-	-	-
<b>Total .....</b>	<b>56</b>	<b>1,816</b>	<b>62,593</b>

(\*) Board member since October 19, 2004.

(\*\*) Board member since April 20, 2004

### Shareholdings and offices of Banco Popular Español directors in companies engaging in similar business activities

As required by Article 127 ter of the Corporations Law, inserted therein by Law 26/2003 which amended Securities Market Law 24/1988 and the revised Corporations Law, as approved by Legislative Royal

Decree 1564/1989, in order to strengthen the transparency of listed corporations, the following table details the companies engaging in a business activity identical, similar or complementary to that constituting the corporate purpose of Banco Popular in which members of the Bank's Board of Directors have shareholdings and the offices and functions of said Board members in these companies:

Director	Company engaging in a business activity identical, similar or complementary to that constituting Banco Popular's corporate purpose	Holding in capital stock (number of shares and %)			Office or function performed
		Number of shares	% Holding	Direct/ Indirect	
Francisco Aparicio	Banco de Andalucía	90	0.00	Direct	-
	Banco de Castilla	200	0.00	Direct	-
	Banco de Crédito Balear	183	0.00	Direct	-
	Banco de Galicia	192	0.00	Direct	-
	Banco de Vasconia	270	0.00	Direct	-
Asociación de Directivos BPE	-	-	-	-	-
Francisco Fernández Dopico	Banco de Andalucía	40	0.00	Direct	-
	Banco Popular France	-	-	-	Director
	Banco Popular Hipotecario	-	-	-	Director
	Mobipay	-	-	-	Director
	Sistema 4B	-	-	-	Chairman
Américo Ferreira de Amorim	Millenium bcp	2,429,000	0.07	Indirect	-
Eric Gancedo	Banco de Castilla	-	-	-	Representing BPE
	Banco de Crédito Balear	-	-	-	Representing BPE
	bancopopular-e	-	-	-	Chairman
	Banco Popular Francia	-	-	-	Chairman
Luis Herrando	Banco de Galicia	100	0.00	Direct	Representing BPE
	Popular Banca Privada	-	-	-	Chairman
Casimiro Molins	-	-	-	-	-
Luis Montuenga	Banco de Andalucía	120	0.00	Direct	Representing BPE
	Banco de Andalucía	865	0.00	Indirect	Representing BPE
	Banco de Castilla	195	0.00	Indirect	-
	Banco de Crédito Balear	4	0.00	Indirect	-
	Banco de Galicia	500	0.00	Direct	Director
	Banco de Vasconia	-	-	-	Representing BPE
Manuel Morillo	-	-	-	-	-
Miguel Nigorra	Banco de Andalucía	2,976	0.01	Direct	-
	Banco de Crédito Balear	131,059	0.93	Direct	Chairman
	Banco de Crédito Balear	953,325	6.76	Indirect	Chairman
José Ramón Rodríguez	Banco de Crédito Balear	4,000	0.03	Direct	Representing B.Alcalá
	Banco de Vasconia	3,200	0.01	Direct	Chairman
	Banco Popular Hipotecario	-	-	-	Chairman
	Popular Banca Privada	-	-	-	Director
Ángel Ron	Popular Banca Privada	-	-	-	Director
Vicente Santana	Popular Banca Privada	-	-	-	Director
	Bancoval	80,202	3.21	Indirect	-
Sindicatura de Accionistas BPE	-	-	-	-	-
Miguel Ángel de Solís	Banco de Andalucía	6,832	0.03	Direct	Chairman
	Banco de Andalucía	1,500	0.01	Indirect	Chairman
	Banco de Crédito Balear	3,400	0.02	Direct	Director
	Banco de Galicia	5,100	0.02	Direct	-
	Banco de Vasconia	1,750	0.01	Direct	Director
Rafael Termes	-	-	-	-	-
Javier Valls	-	-	-	-	-
Emilio Viñas	Bancoval	80,202	3.21	Indirect	-
Herbert Walter	Dresdner Bank	-	-	-	Chairman
	Allianz AG	-	-	-	Director
	Deutsche Börse	-	-	-	Director

### (5) Government debt securities

The breakdown of this caption is shown in the following table.

In 2004, no transfers were made from the trading portfolio to the ordinary investment portfolio. In 2003, transfers amounting to €4,265 thousand were

made from the trading portfolio to the ordinary investment portfolio.

The government debt securities pledged for commitments of the Group and third parties amounted to €250 thousand in 2004 and €18,171 thousand in 2003.

€ thousand	2004	2003	2002	2001	2000
<b>Government debt securities:</b>					
<i>Treasury bills</i> .....	14,722	7,116	23,445	414,116	232,626
<i>Other book-entry system securities</i> .....	54,799	20,884	105,935	209,477	69,913
<i>Other securities</i> .....	8	8	8	261	278
<b>Total</b> .....	69,529	28,008	129,388	623,854	302,817
<b>Detail by portfolios:</b>					
<i>Trading</i> .....	54,202	16,815	68,610	117,167	23,803
<i>Ordinary investment</i> .....	15,327	11,193	25,861	187,313	238,365
<i>Held to maturity investment</i> .....	—	—	34,917	319,374	40,649
<b>Total</b> .....	69,529	28,008	129,388	623,854	302,817
Security price fluctuation allowance charged to income	—	—	42	41	128

### (6) Due from financial intermediaries

An itemized detail of this asset caption is shown in the following table, with breakdowns by type, by currency, by company category, and by term. Also included are the amounts of nonperforming balances and the coverage for them.

The amounts shown for multigroup companies are the balances not eliminated at the companies consolidated by the global integration method for their positions with the companies consolidated by the proportional integration method (multigroup companies).

€ thousand	2004	2003	2002	2001	2000
<b>By type:</b>					
Banks operating in Spain .....	117,696	182,124	359,830	729,396	406,701
Savings banks .....	161,917	111,006	395,700	368,775	394,974
Credit cooperatives .....	1,500	—	—	2	66
Nonresident credit entities .....	963,350	1,650,140	1,650,760	2,025,307	1,897,553
Asset repos .....	2,869,982	2,332,320	2,047,690	1,698,170	2,539,231
Other .....	262,545	292,358	256,768	147,516	228,460
<b>Total</b> .....	4,376,990	4,567,948	4,710,748	4,969,166	5,466,985
<b>By currency:</b>					
Euros .....	3,592,666	3,697,712	2,662,019	2,743,878	3,835,225
Foreign currencies .....	784,324	870,236	2,048,729	2,225,288	1,631,760
<b>Total</b> .....	4,376,990	4,567,948	4,710,748	4,969,166	5,466,985
<b>By company category:</b>					
<b>Group companies:</b>					
Banks operating in Spain .....	—	—	—	—	—
Resident credit entities .....	—	—	—	—	—
Nonresident credit entities .....	—	—	—	—	—
Multigroup companies .....	60,547	101,207	80,007	413,048	230,318
Associated companies .....	—	—	—	—	—
Other .....	4,316,443	4,466,741	4,630,741	4,556,118	5,236,667
<b>Total</b> .....	4,376,990	4,567,948	4,710,748	4,969,166	5,466,985
<b>Distribution of term accounts:</b>					
Up to 3 months .....	3,531,998	3,690,030	3,658,134	3,839,703	4,292,124
3 months to 1 year .....	450,254	508,380	556,109	555,927	635,316
1 to 5 years .....	194,447	188,015	298,621	307,353	347,729
Over 5 years .....	43,870	25,010	10,998	12,045	13,195
<b>Total</b> .....	4,220,569	4,411,435	4,523,862	4,715,028	5,288,364
<b>Nonperforming balances and coverage:</b>					
Nonperforming balances .....	912	3,625	4,480	117	209
Provision for credit loss and country risk ..	871	3,736	4,056	241	378

## (7) Loans and discounts

The following table provides breakdowns of this balance sheet caption by type of lending, by borrower sector, by currency, by company category and by term; also shown is the related credit loss and country risk allowance.

The credit loss allowance reflected in the balance sheets as a deduction from the balance of loans and discounts is the aggregate of the allowances (specific, general and statistical) for credit loss and for country risk. The variations in these allowances and in the provisions for off-balance sheet risks are disclosed in Note 20.

€ thousand	2004	2003	2002	2001	2000
<b>By type:</b>					
Trade loans	6,432,249	5,645,500	4,713,686	4,392,653	4,111,975
Secured loans	27,486,464	22,468,865	16,578,695	11,565,185	8,758,365
Other term loans	13,827,180	11,810,748	9,246,716	8,605,334	7,117,432
Demand and sundry loans	1,737,479	1,643,029	1,356,520	1,155,489	942,094
Leasing	2,897,286	2,330,506	2,080,787	1,853,490	1,576,885
Nonperforming loans	439,642	406,405	345,387	247,859	200,750
<i>Total</i>	<i>52,820,300</i>	<i>44,305,053</i>	<i>34,321,791</i>	<i>27,820,010</i>	<i>23,307,501</i>
<b>By borrower sector:</b>					
Public authorities	101,070	61,926	31,395	30,429	32,656
Other residents	46,489,641	39,131,313	32,740,751	26,652,900	22,657,246
Nonresidents	5,789,947	4,705,409	1,204,258	888,822	416,849
Doubtful balances	439,642	406,405	345,387	247,859	200,750
<i>Total</i>	<i>52,820,300</i>	<i>44,305,053</i>	<i>34,321,791</i>	<i>27,820,010</i>	<i>23,307,501</i>
<b>By currency:</b>					
Euros	52,383,545	43,974,128	33,971,413	27,387,459	23,029,149
Foreign currencies	436,755	330,925	350,378	432,551	278,352
<i>Total</i>	<i>52,820,300</i>	<i>44,305,053</i>	<i>34,321,791</i>	<i>27,820,010</i>	<i>23,307,501</i>
<b>By company categories:</b>					
Group companies	75,076	77,608	78,474	22,153	10,894
Associated companies	—	—	180,731	73,479	—
Other	52,745,224	44,227,445	34,062,586	27,724,378	23,296,607
<i>Total</i>	<i>52,820,300</i>	<i>44,305,053</i>	<i>34,321,791</i>	<i>27,820,010</i>	<i>23,307,501</i>
<b>By term:</b>					
Up to 3 months	11,375,139	10,035,010	8,906,469	8,301,769	7,030,370
3 months to 1 year	9,956,535	8,269,635	5,981,057	5,404,025	4,623,378
1 to 5 year	17,493,179	14,427,269	10,055,395	7,816,108	6,617,650
Over 5 year	13,995,447	11,573,139	9,378,870	6,298,108	5,036,103
Indefinite	—	—	—	—	—
<i>Total</i>	<i>52,820,300</i>	<i>44,305,053</i>	<i>34,321,791</i>	<i>27,820,010</i>	<i>23,307,501</i>
<b>Coverage allowance:</b>					
Allowances for credit losses and country risk	976,543	838,448	610,772	451,639	344,978

In December 2004, Banco Popular securitized €2,000 million of collection rights against SMEs, of which €1,600 million related to mortgage transactions, €387 million to non-mortgage loans, and €13 million to loans to local authorities. In

2003, Banco Popular participated in an asset securitization operation by contributing assets of €25,003 thousand, consisting of €19,223 thousand of mortgage loans and €5,780 thousand of unsecured loans.

## (8) Private fixed-interest securities

The criteria for assignment of securities to the different types of portfolio are described in Note

2.d). Itemized breakdowns of the balances of this caption, showing also the portfolio to which they are assigned, yield rates and coverage allowances, are presented in the following table:

€ thousand	2004	2003	2002	2001	2000
<b>By issuer:</b>					
Public bodies	137,306	132,442	53,490	30,288	23,842
Credit entities:	26,607	14,551	27,775	51,391	30,660
Own securities	—	—	—	—	—
Other issuers	26,607	14,551	27,775	51,391	30,660
Other residents	1,696,709	359,314	411,949	331,998	456,449
Other nonresidents	37,547	53,403	53,563	84,025	84,437
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By listing status:</b>					
Listed	1,898,169	559,710	546,777	493,898	588,023
Unlisted	—	—	—	3,804	7,365
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By currency:</b>					
Euros	1,876,144	522,635	501,222	437,401	537,426
Foreign currencies	22,025	37,075	45,555	60,301	57,962
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By nationality:</b>					
Spanish securities	1,757,980	413,188	475,822	364,283	504,804
Foreign securities	140,189	146,522	70,955	133,419	90,584
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By portfolio:</b>					
Trading	60,859	35,310	5,337	11,588	20,475
Ordinary investment	1,807,396	494,498	511,550	486,114	574,913
Held to maturity	29,914	29,902	29,890	—	—
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By company category:</b>					
Group companies	—	—	—	—	—
Other	1,898,169	559,710	546,777	497,702	595,388
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By term:</b>					
Maturity in following year	2,319	14,059	26,187	35,667	16,085
Other maturities	1,895,850	545,651	520,590	462,035	579,303
<i>Total</i>	<i>1,898,169</i>	<i>559,710</i>	<i>546,777</i>	<i>497,702</i>	<i>595,388</i>
<b>By valuation:</b>					
Total market value	1,914,057	571,370	559,454	499,452	596,202
Total book value	1,898,169	559,710	546,777	497,702	595,388
Difference	15,888	11,660	12,677	1,750	814
Unrealized gains	19,807	13,287	12,800	2,017	1,722
Unrealized losses	3,919	1,627	123	267	908
<b>Allowance coverage:</b>					
Security price fluctuation allowance charged to income	3,919	1,412	113	267	917
Credit loss allowance	1,100	2,403	2,521	2,087	2,551
<i>Total</i>	<i>5,019</i>	<i>3,815</i>	<i>2,634</i>	<i>2,354</i>	<i>3,468</i>
<b>Yield rates by issuer type (in %):</b>					
Public bodies	5.55	5.48	5.62	5.85	5.79
Credit entities	2.20	3.80	4.36	6.17	5.09
Other residents	3.78	3.59	3.88	4.76	4.46
Other nonresidents	4.13	4.45	3.55	5.01	5.87
<i>Total</i>	<i>3.72</i>	<i>3.89</i>	<i>3.96</i>	<i>4.88</i>	<i>4.71</i>

The total balance of the "Other residents" account in the foregoing table included €1,695,681 thousand in 2004 (of which €1,580,410 thousand related to the securitization carried out in 2004) and

€156,614 thousand in 2003 of bonds corresponding to the securitizations carried out by the Group in 2004 and prior years. The variations in the balance of private fixed-interest securities were as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balances</i> .....	555,895	544,143	495,348	591,920	466,415
Increase .....	4,087,516	2,322,107	2,567,654	1,104,519	579,522
Decrease .....	2,749,057	2,309,174	2,518,579	1,202,205	453,444
Coverage allowance (net) .	1,204	1,181	280	(1,114)	573
<i>Ending balances</i> .....	1,893,150	555,895	544,143	495,348	591,920

### (9) Equity securities

This balance sheet caption reflects the amount of the investment, net of the security price fluctuation allowance, in shares of or participating interests in companies other than the Group, multigroup and associated companies. These securities are assigned to the trading and ordinary investment portfolios, in accordance with the classification criteria described in Note 2.d).

The holding in Metrovacesa was transferred to this caption in 2003 since this company ceased to be classified as an associated company. In 2004, this holding was sold with a gain of €13,710 thousand which is recorded under the asset trading and exchange profits caption in the income statement.

Breakdowns by listing status and currency, together with valuation and price fluctuation allowance details, are shown in the following table.

€ thousand	2004	2003	2002	2001	2000
<b>By listing status:</b>					
Listed .....	821,593	331,776	374,534	107,213	60,036
Unlisted .....	29,068	28,251	27,310	22,416	7,975
<i>Total</i> .....	850,661	360,027	401,844	129,629	68,011
<b>By currency:</b>					
Euros .....	846,341	355,749	397,143	123,284	68,011
Foreign currencies .....	4,320	4,278	4,701	6,345	
<i>Total</i> .....	850,661	360,027	401,844	129,629	68,011
<b>By type of portfolio:</b>					
Trading .....	799,066	273,658	344,429	63,871	–
Ordinary investment .....	51,595	86,369	57,415	65,758	68,011
<i>Total</i> .....	850,661	360,027	401,844	129,629	68,011
<b>By valuation:</b>					
Total market value .....	849,387	363,704	394,823	127,918	63,955
Total book value .....	850,661	360,027	401,844	129,629	68,011
Difference .....	(1,274)	3,677	(7,021)	(1,711)	(4,056)
Unrealized gains .....	7,542	13,395	3,951	5,328	4,011
Unrealized losses .....	8,816	9,718	10,972	7,039	8,067
<b>Security price fluctuation allowance</b> .....	8,816	9,718	10,972	7,039	8,067

The variations in the caption balance in the consolidated balance sheets are shown below.

For the variations in the security price fluctuation allowance, see Note 20.

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balances</i> .....	350,309	390,872	122,590	59,944	45,957
Increase .....	3,876,882	2,487,735	2,273,903	297,887	104,443
Decrease .....	3,386,248	2,529,552	2,001,688	236,269	87,089
Security price fluctuation allowance .....	(902)	(1,254)	3,933	(1,028)	3,367
<i>Ending balances</i> .....	841,845	350,309	390,872	122,590	59,944

## (10) Participating interests

This caption reflects the amount, net of the related security price fluctuation allowance, of the investment made in shares of non-Group companies in order to establish lasting links with them that will contribute to the Banco Popular Group's business activities. In view of the nature of the investment, these securities are assigned to the permanent shareholdings portfolio, the classification criteria for which are described in Note 2.d).

The multigroup companies, i.e. entities at least 20% owned by Banco Popular which are jointly managed by the Bank and other partners, are consolidated by the proportional integration method if they engage in financial business activities as defined in Article 3.1 of Royal Decree 1343/1992. The interests in associated companies are carried by the equity method in the consolidated balance sheets, as required by Bank of Spain Circular 4/1991.

The companies in this group are listed in Exhibit II, which also details the percentages of direct and indirect ownership and other relevant data.

There was no change in participating interests in 2004. In 2003, the Portuguese insurance company Eurovida BNC, owned through BNC, was added; Inmobiliaria Bami (Metrovacesa) was excluded as a result of the ownership interest being reduced from 6.98% to 1.80%; and was transferred from "Participating interests" to "Equity securities". Sociedad Preparatoria de Medios de Pago was eliminated following its merger with Sociedad Conjunta para Emisión y Gestión de Medios de Pago.

€ thousand	2004	2003	2002	2001	2000
Multigroup companies	5,128	4,335	465	-	-
Associated companies	5,687	5,573	26,134	23,241	4,897
Listed	-	-	21,040	18,699	-
Unlisted	5,687	5,573	5,094	4,542	4,897
<i>Total</i>	<i>10,815</i>	<i>9,908</i>	<i>26,599</i>	<i>23,241</i>	<i>4,897</i>
Security price fluctuation allowance	-	-	-	-	-

The resulting amounts in consolidation by the proportional integration and equity methods are individually disclosed in the appropriate notes.

## (11) Shares of Group companies

The companies in which the Banco Popular Group directly or indirectly owns a majority of the common stock or of the voting rights or which, in the case of investees which are 20% or more owned, are managed solely by the Group and treated as Group companies. Those engaging in financial business, in a broad sense, including the instrumental companies used as legal support for financial business activities, constitute the global integration method consolidated Group, and the remaining companies, i.e. those not engaging in financial business activities, constitute the nonconsolidable Group. All the shares representing these investments in Group companies are assigned to the permanent shareholdings portfolio. For the portfolio classification criteria, see Note 2.d).

The exhibits list all the companies comprising the consolidated - by the global and proportional integration methods - Group and the nonconsolidable Group, and disclose the variations in 2004.

There is no amount in the consolidated balance sheet caption relating to financial intermediaries because this investment was eliminated in consolidation by the global integration method. The amount shown for "Other" relates in full to companies in the nonconsolidable Group, which are carried by the equity method as required by Bank of Spain Circular 4/1991. All the amounts arising from consolidation by the global integration or equity methods are individually disclosed in the appropriate notes. The balance sheet presentation of these amounts is net of the security price fluctuation allowance.

See Exhibit IV for an itemized breakdown of the shareholdings in Group companies, the detail by company and the variations in 2004. In 2004, the Banco Popular Group formed the Spanish subsidiary BPE Financiaciones. Added in 2003 were Banco Nacional de Crédito (BNC) and its subsidiaries, the financial instrumental companies set up in Holland, and Popular Capital. Fortior Holding was eliminated after it was merged with Popular Banca Privada; all these companies are listed in the "Group companies" section of Note 3.

The listing status breakdown of these shareholdings is as shown below.

€ thousand	2004	2003	2002	2001	2000
Nonconsolidable:					
Listed .....	—	—	—	—	—
Unlisted .....	31,486	27,741	22,719	35,674	34,973
<i>Total</i> .....	<i>31,486</i>	<i>27,741</i>	<i>22,719</i>	<i>35,674</i>	<i>34,973</i>
Security price fluctuation allowance .....	—	—	—	2,392	2,392

### (12) Goodwill and negative difference in consolidation

The balance of the "Goodwill in consolidation" account in the Group's balance sheets reflects the amount by which the price paid for investee companies' shares exceeded the book value per the latter's accounting records, net of amortization charged to the consolidated income statement. This goodwill was not attributed to any balance sheet item and is amortized on a straight-line basis in five years, this being the period for which the Group considers that it will benefit therefrom.

The goodwill in consolidation of Banco Nacional de Crédito (BNC) includes certain harmonization adjustments to conform the financial statements of this entity to Spanish regulations. This goodwill will be amortized on a straight-line basis in twenty years.

Based on the foreseeable contribution of earnings from BNC and subsidiaries attributable to the Banco Popular Group, the revenues will exceed the amount pending amortization in the residual period.

The detail of this consolidated balance sheet caption, at company level, is as follows:

€ thousand	2004	2003	2002	2001	2000
Group and multigroup companies					
Bancopopular-e .....	—	—	—	281	386
Fortior Holding .....	—	—	—	22,434	—
BNC Group .....	321,571	338,947	—	—	—
Heller Factoring Portuguesa .....	1,360	2,615	3,870	5,593	—
<i>Total global &amp; proportional consolidation</i> .....	<i>322,931</i>	<i>341,562</i>	<i>3,870</i>	<i>28,308</i>	<i>386</i>
Associated companies:					
Inmobiliaria Bami (Metrovacesa) .....	—	—	948	1,247	—
Sistema 4B .....	—	812	2,435	4,058	5,774
Other companies .....	—	—	—	—	—
<i>Equity method total</i> .....	<i>—</i>	<i>812</i>	<i>3,383</i>	<i>5,305</i>	<i>5,774</i>
<b>Total</b> .....	<b>322,931</b>	<b>342,374</b>	<b>7,253</b>	<b>33,613</b>	<b>6,160</b>

€19,443 thousand and €11,815 thousand of amortization of goodwill were booked in 2004 and 2003, respectively.

The amount of the "Negative difference in consolidation" caption on the liability side of the consolidated balance sheet reflects the differences in the initial consolidation of the Group companies by the global or proportional integration or equity

methods. Following the inclusion of the equity method in banking regulations in 1992, the date of initial consolidation was taken to be June 1985, when consolidation was first performed for the calculation of the capital ratio. In the case of the companies which entered the Group after that date, the calculations were based on the relevant data at their dates of entry. The negative difference in consolidation is deemed to be a provision.

The detail by company is as follows:

€ thousand	2004	2003	2002	2001	2000
<b>Companies consolidated (by the global and proportional integration methods)</b>					
Aula 2000 .....	18	18	18	18	18
Urbanizadora Española .....	264	264	264	—	—
<i>Total global and proportional integration methods</i> .....	282	282	282	18	18
<b>Nonconsolidable group</b>					
Desarrollo Aplicaciones Especiales .....	12	12	12	12	12
Panorama Ibicenca .....	106	106	106	—	—
Promoción Social de Viviendas .....	18	18	18	18	18
Other companies .....	—	—	—	264	390
<b>Associated companies</b>					
Other .....	—	—	—	132	132
<i>Total equity method</i> .....	136	136	136	426	552
<b>Total</b> .....	<b>418</b>	<b>418</b>	<b>418</b>	<b>444</b>	<b>570</b>

### (13) Intangible assets

described in Note 2 are shown below, disclosing the year-by-year variations.

The intangible assets recorded by the consolidated companies in accordance with the principles

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balance</i> .....	20,666	17,938	20,791	13,615	13,500
Increase .....	7,968	15,497	9,977	17,554	16,767
Decrease .....	9,463	11,859	12,675	10,012	16,288
Period amortization .....	1,651	910	155	366	364
<i>Ending balance</i> .....	17,520	20,666	17,938	20,791	13,615

### (14) Tangible assets

The "Furniture and installations" and "Buildings" columns include any assets leased to the consolidated companies by Group companies that engage in leasing. Buildings rented by consolidated companies from other consolidated companies are classified in the "Own use" column.

The variations in the last five years in the book balance of premises and equipment, net of depreciation and special allowances, are shown below.

€ thousand	Furniture and installations	Buildings		Total
		Own use	Other	
<i>Balance at 12/31/99</i> .....	295,972	194,364	99,439	589,775
Net variation in 2000 .....	78,963	4,736	(35,192)	48,507
Period depreciation .....	61,536	5,332	242	67,110
<i>Balance at 12/31/00</i> .....	313,399	193,768	64,005	571,172
Net variation in 2001 .....	71,729	16,144	(10,615)	77,258
Period depreciation .....	62,105	5,623	108	67,836
<i>Balance at 12/31/01</i> .....	323,023	204,289	53,282	580,594
Net variation in 2002 .....	55,470	5,699	(5,731)	55,438
Period depreciation .....	61,871	5,731	150	67,752
<i>Balance at 12/31/02</i> .....	316,622	204,257	47,401	568,280
Net variation in 2003 .....	62,843	97,411	26,081	186,335
Period depreciation .....	67,057	7,854	116	75,027
<i>Balance at 12/31/03</i> .....	312,408	293,814	73,366	679,588
Net variation in 2004 .....	82,056	12,051	18,906	113,013
Period depreciation .....	69,699	9,535	254	79,488
<i>Balance at 12/31/04</i> .....	324,765	296,330	92,018	713,113

Further information about premises and equipment is presented below. The nonoperating assets

consist of buildings, commercial premises, housing units and land.

€ thousand	2004	2003	2002	2001	2000
<i>Nonoperating fixed assets:</i>					
Book value	147,242	108,037	75,312	82,971	100,770
Accumulated depreciation	15,234	3,842	4,047	3,859	3,994
Allowance for foreclosed assets	32,988	30,829	23,864	25,830	32,771
Period net rental revenues	219	1,659	1,696	1,302	1,351
Annual fixed asset insurance premiums	127	135	139	262	179

Foreclosed assets are recorded at the lower of foreclosure price or appraised value. The credit loss allowance for these assets is maintained for up to 25% of the loan principal and 100% of the interest recovered. Also, in the case of foreclosed assets not added to the banks' functional fixed assets, an allowance must be set up to cover possible losses thereon, based on a scale tied to the net book value and the length of time elapsed since obtention of the asset. This allowance is not

applicable for completed housing units and multipurpose premises if the book value is supported by a current appraisal by an independent appraisal entity other than that which appraised the market value of the assets when they were repossessed.

The variations in foreclosed assets and the related allowance in the last five years are shown below.

€ thousand	Foreclosed assets		
	Total	Allowance	Net
<i>Balance at 12/31/99</i>	113,278	34,666	78,612
Net variation in 2000	(32,643)	(1,895)	(30,748)
<i>Balance at 12/31/00</i>	80,635	32,771	47,864
Net variation in 2001	(17,123)	(6,941)	(10,182)
<i>Balance at 12/31/01</i>	63,512	25,830	37,682
Net variation in 2002	(3,724)	(1,966)	(1,758)
<i>Balance at 12/31/02</i>	59,788	23,864	35,924
Net variation in 2003	21,196	6,965	14,231
<i>Balance at 12/31/03</i>	80,984	30,829	50,155
Net variation in 2004	17,327	2,159	15,168
<i>Balance at 12/31/04</i>	98,311	32,988	65,323

Under the regulations for determination and control of the minimum capital base, net tangible assets cannot exceed 70% of computable capital. The Banco Popular Group's tangible assets at 2004 year end, after distribution of the income for the year, represented 19.78% of computable capital. The percentage at the end of 2003 was 16.38%.

#### (15) Other asset and other liability accounts

The main items in "Other asset accounts" in the consolidated balance sheets are disclosed below.

€ thousand	2004	2003	2002	2001	2000
Checks on credit entities	213,943	241,595	179,398	188,831	86,124
Transactions in transit	25,681	24,883	44,372	80,476	40,269
Interim dividends	135,077	110,981	97,040	85,537	68,853
Prepaid taxes	474,768	397,392	342,277	339,343	215,972
Other	428,367	335,512	227,258	240,086	171,835
<i>Total</i>	1,277,836	1,110,363	890,345	934,273	583,053

The detail of the "Other liability accounts" caption in the consolidated balance sheets is as follows:

€ thousand					
	2004	2003	2002	2001	2000
Payment obligations	78,452	71,397	63,132	66,196	47,646
Factoring payables	35,575	31,960	29,666	37,778	15,726
Transactions in transit	14,979	10,913	14,036	46,574	16,869
Tax collection accounts	531,819	465,566	449,500	454,935	383,299
Special accounts	409,876	82,258	80,784	66,379	158,650
Other	531,276	513,295	286,591	207,089	73,654
<i>Total</i>	<i>1,601,977</i>	<i>1,175,389</i>	<i>923,709</i>	<i>878,951</i>	<i>695,844</i>

### (16) Prepayments and accrued income and accruals and deferred income

The following table provides breakdowns of the asset and liability accrual accounts balances in the consolidated balance sheets.

€ thousand					
	2004	2003	2002	2001	2000
<b>Assets:</b>					
Prepaid interest on funds taken at a discount	145,757	114,622	115,610	111,190	127,473
Accrued unmatured revenues from investments not taken at a discount	188,036	172,185	167,027	166,733	157,590
Other accruals	93,556	57,721	67,560	62,229	101,982
Accrued unmatured costs of funds taken at a discount	(61,842)	(41,021)	(52,955)	(40,182)	(37,565)
<i>Total</i>	<i>365,507</i>	<i>303,507</i>	<i>297,242</i>	<i>299,970</i>	<i>349,480</i>
<b>Liabilities:</b>					
Deferred revenues from asset transactions at a discount	112,460	93,130	84,466	80,065	77,682
Accrued unmatured costs of funds not taken at a discount	212,146	114,193	144,682	157,084	141,075
Other accruals	132,427	122,680	112,574	102,786	93,449
Accrued unmatured revenues from investments taken at a discount	(49,229)	(39,903)	(40,681)	(38,926)	(37,945)
<i>Total</i>	<i>407,804</i>	<i>290,100</i>	<i>301,041</i>	<i>301,009</i>	<i>274,261</i>

Under Bank of Spain accounting regulations for credit institutions, interest revenues and expenses relating to asset and liability discount transactions must be recorded in specific accounts at the transaction date for the total amount concerned. Thereafter, the amounts accrued are reflected as unmatured accruals through maturity of the

transaction, at which time this account is eliminated against the first account in which the total amount of the discount was recorded. For this reason they are presented net of the unmatured accrued amounts, so that the balance of accruals for discount transactions in the balance sheet only includes the unaccrued advanced amounts.

### (17) Due to financial intermediaries

The following table presents breakdowns of this caption by nature, currency and company category, and by term for the term accounts.

€ thousand	2004	2003	2002	2001	2000
<b>By type:</b>					
Bank of Spain	–	–	–	82,796	184,001
Banks operating in Spain	765,883	811,290	833,517	922,177	615,195
Savings banks	363,105	1,619,747	574,108	663,576	896,115
Credit cooperatives	37,387	38,681	72,874	83,714	107,254
Official Credit Institute	843,756	1,141,467	767,221	684,933	620,961
Credit entities abroad	5,988,053	4,394,443	3,431,868	3,478,022	1,621,477
Asset repos	745,606	465,989	1,187,952	954,497	767,720
Other	69,137	60,909	98,403	55,362	75,865
<i>Total</i>	<i>8,812,927</i>	<i>8,532,526</i>	<i>6,965,943</i>	<i>6,925,077</i>	<i>4,888,588</i>
<b>By currency:</b>					
Euros	5,471,647	6,181,117	4,978,758	4,683,225	3,682,183
Foreign currencies	3,341,280	2,351,409	1,987,185	2,241,852	1,206,405
<i>Total</i>	<i>8,812,927</i>	<i>8,532,526</i>	<i>6,965,943</i>	<i>6,925,077</i>	<i>4,888,588</i>
<b>By company category:</b>					
Group companies					
Banks operating in Spain	–	–	–	–	–
Other resident credit entities	–	–	–	–	–
Nonresident credit entities	–	–	–	–	–
Multigroup companies	1,465	115	15	8,881	10,280
Associated companies	–	–	–	–	–
Other	8,811,462	8,532,411	6,965,928	6,916,196	4,878,308
<i>Total</i>	<i>8,812,927</i>	<i>8,532,526</i>	<i>6,965,943</i>	<i>6,925,077</i>	<i>4,888,588</i>
<b>Distribution of term accounts:</b>					
Up to 3 months	4,406,199	4,222,474	3,439,832	4,576,236	3,250,276
3 months to 1 year	2,854,544	2,764,063	2,210,312	1,118,543	772,986
1 to 5 year	1,079,812	1,047,682	953,880	814,092	566,862
Over 5 years	174,117	192,835	71,568	139,352	96,290
<i>Total</i>	<i>8,514,672</i>	<i>8,227,054</i>	<i>6,675,592</i>	<i>6,648,223</i>	<i>4,686,414</i>

The amounts shown for the multigroup companies are the balances not eliminated at the global integration method consolidated companies for their positions with the proportional integration method (i.e. multigroup) companies.

The "Credit entities abroad" account includes in 2004 and 2003, in addition to the deposit balances, €180 million relating to a single registered mortgage bond issued in April 2003 by Banco Popular and subscribed by the European Investment Bank (EIB), maturing in March 2011, for the purpose of financing certain SME projects.

### (18) Customer deposits

In the balance sheets this caption is broken down into savings deposits and other deposits, each of which is subdivided into demand and term accounts. The savings deposits category includes those relating to Spanish public bodies, to other residents and nonresidents, in sight, savings and term accounts.

The other deposits category reflects the balance of the accounts of the sectors mentioned above for asset repo and other accounts.

At 2004 year end, the customer deposits - term deposits of other residents caption included €1,700

million of long-term mortgage bonds ("cédulas") issued by several banking subsidiaries in February 2004. This figure is the net amount of the €2,000 million issued and the €300 million of bonds issued by the securitization fund acquired.

The following table provides additional breakdowns by account type, depositor sector, currency and company category, and by term for the term accounts.

€ thousand	2004	2003	2002	2001	2000
<b>By type:</b>					
Sight accounts	10,993,220	9,593,821	8,095,578	7,751,646	6,880,501
Savings accounts	5,493,152	5,108,726	4,501,895	4,111,064	3,797,587
Time deposits	14,786,164	12,181,565	10,103,785	9,481,883	7,893,547
Asset repos	2,031,256	1,993,268	987,124	1,268,749	1,852,542
Other accounts	62,269	17,137	1,947	1,894	798
<i>Total</i>	<i>33,366,061</i>	<i>28,894,517</i>	<i>23,690,329</i>	<i>22,615,236</i>	<i>20,424,975</i>
<b>By sector:</b>					
Public bodies	1,009,748	639,136	366,946	311,132	355,111
Other residents	27,030,356	23,062,554	20,432,228	19,458,265	17,463,529
Nonresidents	5,325,957	5,192,827	2,891,155	2,845,839	2,606,335
<i>Total</i>	<i>33,366,061</i>	<i>28,894,517</i>	<i>23,690,329</i>	<i>22,615,236</i>	<i>20,424,975</i>
<b>By currency:</b>					
Euros	32,574,561	28,188,266	22,906,813	21,725,307	19,569,236
Foreign currencies	791,500	706,251	783,516	889,929	855,739
<i>Total</i>	<i>33,366,061</i>	<i>28,894,517</i>	<i>23,690,329</i>	<i>22,615,236</i>	<i>20,424,975</i>
<b>By company category:</b>					
Group companies					
Consolidated	—	—	—	—	—
Nonconsolidable	9,976	10,100	11,753	25,004	21,936
Multigroup companies	6,319	28,813	—	1,919	—
Associated companies	84	50	14,046	23	147
Other	33,349,682	28,855,554	23,664,530	22,588,290	20,402,892
<i>Total</i>	<i>33,366,061</i>	<i>28,894,517</i>	<i>23,690,329</i>	<i>22,615,236</i>	<i>20,424,975</i>
<b>Distribution of term accounts:</b>					
Up to 3 months	8,737,876	7,299,414	5,399,617	6,737,106	6,093,492
3 months to 1 year	5,833,763	4,889,377	4,374,731	3,097,989	2,840,175
1 to 5 years	2,302,040	2,084,966	1,312,933	914,471	811,830
Over 5 years	38,806	19,975	5,575	2,960	1,390
<i>Total</i>	<i>16,912,485</i>	<i>14,293,732</i>	<i>11,092,856</i>	<i>10,752,526</i>	<i>9,746,887</i>

### (19) Bonds and other marketable debt securities

The balance of this caption in the consolidated balance sheet as of December 31, 2004, relates to the balance of the outstanding issues launched by BPE Financiaciones, Popular Finance Europe and BPE Finance International under the Euronotes programs described in Note 2 n), to the commercial paper issues described in the same note, and to the

promissory notes issued by BNC and BNC International Cayman.

The detail of the issues launched by BPE Financiaciones, Popular Finance Europe and BPE Finance International, by currency, showing the amount in the currency of issuance and the equivalent euro value at the end of 2004 and 2003, is shown below.

Issuance currency	2004	Amounts in thousand		2003
		€	€	
In Euros:	7,550,807	7,550,807	4,950,943	4,950,943
In foreign currencies:				
US dollar .....	120,000	88,099	444,000	351,544
HK dollar .....	—	—	100,000	46,620
Japanese yen .....	1,000,000	7,161	1,000,000	7,405
<i>Bonds and debentures outstanding</i> .....		7,646,067		5,356,512
By issuing companies:				
BPE Finance International .....		1,646,067		2,856,512
BPE Financiaciones .....		3,500,000		—
Popular Finance Europe .....		2,500,000		2,500,000
<i>Total</i> .....		7,646,067		5,356,512

The breakdown of the 2004 year-end balance by contractual maturity and by issuance currency is as follows:

€ thousand	Currency	2004	2005	2006	2007	2008	Subsequent years	Total
In Euros .....		1,100,515	2,010,435	1,012,924	1,507,674	1,644,714	274,545	7,550,807
In foreign currencies:								
US dollar .....		—	88,099	—	—	—	—	88,099
Japanese yen .....		—	—	—	—	—	7,161	7,161
<i>Total</i> .....		1,100,515	2,098,534	1,012,924	1,507,674	1,644,714	281,706	7,646,067

All the issues in foreign currencies are hedged by issuance currency/euro swaps (rate linked mainly to Euribor and Libor) and therefore the real cost of the issues for the Group is in euros. The detail of the average rate of cost of the transactions in 2004 and 2003, by type of instrument, is as follows:

(In %)	2004	2003
Fixed rate	2.15	2.53
Floating rate	2.20	2.49
Zero-coupon:		
Fixed rate	2.11	2.48
Floating rate	2.07	2.50
Average rate	2.20	2.49

At 2004 year end the outstanding balance of the commercial paper issued by the Group banks under the program described in Note 2 n) was €4,549,081 thousand, with average maturity of 74 days and an average rate of cost of 2.23%. The matching figures for 2003 were €2,723,982 thousand, 68 days and 2.17%, respectively. Also, the balance of promissory notes of BNC and BNC International Cayman at December 31, 2004 and 2003, was €34,223 thousand and €34,887 thousand, respectively.

## (20) Special allowances

In the consolidated balance sheet this caption is broken down into "Pension allowance", "Provision for taxes" and "Other allowances".

The allowances for credit losses and country risk (excluding that for off-balance sheet risks) are presented in the balance sheets as deductions from the asset accounts covered by them, basically loans and discounts; the security price fluctuation allowance provided by charges to the income statement has been deducted from the balances comprising the securities portfolio, with the allowance provided by charges to "Prepayments and accrued income" being netted off against this account; and the allowance for foreclosed assets has been deducted from tangible assets. The allowance for off-balance sheet risks is presented on the liability side under the "Other allowances" caption. In order to provide an overall picture, the following paragraphs present general descriptions of the type of coverage provided by each allowance, regardless of where it appears in the balance sheet, and, for ease of analysis, a detail of the variations in each year.

The pension allowance of €143,695 thousand in the consolidated balance sheet at the end of 2004 relates, on the one hand, to the 2004 early retirements plan approved by Banco Popular and its regional banking subsidiaries referred to elsewhere in these Notes to the Financial Statements and additional coverage at these entities, and, on the other, to the externalization of pensions by BNC because, under Bank of Spain regulations, since BNC maintains the risk for these commitments, the pension allowance must be included in the balance sheet. The amount of €69,438 thousand for BNC includes the

mathematical reserve and the harmonization adjustments described in Note 2.i).

The €60,776 thousand at the end of 2003 related in full to BNC.

Except for the allowance for contingent liabilities which is recorded on the liability side of the balance sheet, the allowances for credit losses and country risk, the accounting treatment of which is described in Note 2.c), are presented as deductions from the following captions in the consolidated balance sheets:

€ thousand	For credit losses					For country risk				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Due from banks	–	3,625	–	–	–	871	111	4,056	241	378
Loans and discounts	971,363	835,507	609,517	450,062	344,202	5,180	2,941	1,255	1,577	776
Private fixed-interest securities	1,100	2,403	2,521	2,087	2,551	–	–	–	–	–
Contingent liabilities	113,864	89,819	69,710	53,980	37,138	1,225	667	497	711	1,555
<i>Total</i>	<i>1,086,327</i>	<i>931,354</i>	<i>681,748</i>	<i>506,129</i>	<i>383,891</i>	<i>7,276</i>	<i>3,719</i>	<i>5,808</i>	<i>2,529</i>	<i>2,709</i>

In 2004 and 2003, the Group also wrote off certain balances amounting to €36,721 thousand and €11,951 thousand, respectively, with a direct charge to income because they were not fully covered by the special allowance.

The variations in the balances of the credit loss and country risk allowances in the last five years were as follows:

€ thousand	For credit losses					For country risk				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
<i>Beginning balances</i>	<i>931,354</i>	<i>681,748</i>	<i>506,129</i>	<i>383,891</i>	<i>328,201</i>	<i>3,719</i>	<i>5,808</i>	<i>2,529</i>	<i>2,709</i>	<i>2,788</i>
Variations:										
Net provisions	321,138	347,659	254,221	218,668	133,664	3,558	(2,090)	3,278	(178)	(79)
Amount used	(160,253)	(135,253)	(95,683)	(98,061)	(77,515)	–	–	–	–	–
Other variations and transfers	(5,912)	37,200	17,081	1,631	(459)	(1)	1	1	(2)	(1)
<i>Ending balances</i>	<i>1,086,327</i>	<i>931,354</i>	<i>681,748</i>	<i>506,129</i>	<i>383,891</i>	<i>7,276</i>	<i>3,719</i>	<i>5,808</i>	<i>2,529</i>	<i>2,709</i>

At December 31, 2004 and 2003, the breakdown of the credit loss allowance into the special, general

and statistical provisions and the variation from year to year were as follows:

€ thousand	Credit loss allowance							
	Special		General		Statistical		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Loans and discounts	180,778	165,480	469,810	466,493	320,775	207,159	971,363	839,132
Private fixed interest securities	–	–	488	1,963	612	440	1,100	2,403
Contingent liabilities	6,787	5,852	74,922	61,329	32,155	22,638	113,864	89,819
<i>Total</i>	<i>187,565</i>	<i>171,332</i>	<i>545,220</i>	<i>529,785</i>	<i>353,542</i>	<i>230,237</i>	<i>1,086,327</i>	<i>931,354</i>
<i>Beginning balance</i>	<i>171,332</i>	<i>151,398</i>	<i>529,785</i>	<i>375,656</i>	<i>230,237</i>	<i>154,694</i>	<i>931,354</i>	<i>681,748</i>
Net provisions	182,394	143,244	15,438	128,872	123,306	75,543	321,138	347,659
Amounts used	(160,253)	(135,253)	–	–	–	–	(160,253)	(135,253)
Other variations & transfers	(5,908)	11,943	(3)	25,257	(1)	–	(5,912)	37,200
<i>Balance at year-end</i>	<i>187,565</i>	<i>171,332</i>	<i>545,220</i>	<i>529,785</i>	<i>353,542</i>	<i>230,237</i>	<i>1,086,327</i>	<i>931,354</i>

The security price fluctuation allowance, reflecting the coverage for the ordinary investment and permanent shareholdings portfolios and for financial futures, is presented in the balance sheets as a deduction from the "Government debt securities", "Private fixed-interest securities", "Equity securities", "Participating interests" and "Shares of Group companies" captions, with the provisions for financial futures being included under "Other allowances" on the liability side. The joint presentation of the various coverages provided by this allowance is for ease of analysis.

The price fluctuation allowance for the listed securities in the ordinary investment portfolio is provided partly by charges to the income statement and also, since the entry into force of Bank of Spain Circular 6/1994, with a contra item in an account under the "Prepayments and accrued income" caption, for the negative differences net of the positive differences; this treatment is not applied to securities loaned. The year-end coverage detail for each of the accounts cited is as follows:

€ thousand	2004	2003	2002	2001	2000
Government debt securities .....	–	–	42	41	128
Private fixed interest securities .....	3,919	1,412	113	267	917
Equity securities .....	8,816	9,718	10,972	7,039	8,067
Participating interests .....	–	–	–	–	–
Shares of Group companies .....	–	–	–	2,392	2,392
Financial futures (memorandum accounts) ..	81	101	403	1,297	1,530
<i>Total</i> .....	<i>12,816</i>	<i>11,231</i>	<i>11,530</i>	<i>11,036</i>	<i>13,034</i>

The variations in this allowance were as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balance</i> .....	<i>11,231</i>	<i>11,530</i>	<i>11,036</i>	<i>13,034</i>	<i>9,587</i>
Variations:					
Net provisions .....	2,138	(1,229)	8,852	1,723	4,442
Amount used .....	(260)	(295)	(5,894)	(3,723)	(995)
Accruals .....	–	–	–	–	–
Other variations and transfers .....	(293)	1,225	(2,464)	2	–
<i>Ending balance</i> .....	<i>12,816</i>	<i>11,231</i>	<i>11,530</i>	<i>11,036</i>	<i>13,034</i>

The remaining special allowances include the following: provisions for potential tax contingencies; allowance for potential losses on foreclosed assets; and other special allowances. The allowance for potential losses on foreclosed assets is presented in the balance sheets as a deduction from "Tangible assets"; the other

special allowances are shown on the liability side of the balance sheet under "Provision for taxes" and "Other allowances".

The year-end balances of these allowances were as follows:

€ thousand	2004	2003	2002	2001	2000
For tangible assets .....	34,017	32,150	24,354	26,248	33,049
For taxes .....	23,441	27,154	24,263	12,207	9,904
Other allowances .....	37,917	231,927	134,598	214,185	59,604
<i>Total</i> .....	<i>95,375</i>	<i>291,231</i>	<i>183,215</i>	<i>252,640</i>	<i>102,557</i>

"Other allowances" include €147 million in 2003 relating to the transfers from reserves for the early

retirements plan approved in 2002. The variations in the last five years were as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balance</i> .....	<i>291,231</i>	<i>183,215</i>	<i>252,640</i>	<i>102,557</i>	<i>48,843</i>
Variations:					
Net provisions .....	(39,699)	6,643	(55,220)	79,299	61,468
Amount used .....	(130,163)	(54,506)	(1,182)	(1,259)	(3,301)
Other variations and transfers .....	(25,994)	155,879	(13,023)	72,043	(4,453)
<i>Ending balance</i> .....	<i>95,375</i>	<i>291,231</i>	<i>183,215</i>	<i>252,640</i>	<i>102,557</i>

The reconciliation detail of "Other allowances" in the consolidated balance sheets, classified by coverage nature, is as follows:

€ thousand	2004	2003	2002	2001	2000
In credit loss allowance:					
For contingent liabilities .....	115,089	90,486	70,207	54,691	38,693
In security price fluctuation allowance:					
For financial futures .....	81	101	403	1,297	1,530
In other specific allowances:					
Other allowances .....	37,917	231,927	134,598	214,185	59,604
<i>Total</i> .....	<i>153,087</i>	<i>322,514</i>	<i>205,208</i>	<i>270,173</i>	<i>99,827</i>

## (21) General banking risk allowance

The balance of this account is booked, after payment of the relevant taxes (since it is a nondeductible expense), as a non-specific coverage provision for possible fluctuations and extraordinary risks. The balances of the consolidated companies other than Banco Popular are deemed to form part of net worth and are therefore eliminated in the consolidated balance sheets, giving rise to consolidation reserves and minority interests at individual banking subsidiary

level. Under current regulations, for so long as this allowance is maintained as such, it is included in the capital base. There was no balance in this account at consolidated level at the end of 2004 or 2003, reflecting the situation at Banco Popular, the Group's parent company.

## (22) Subordinated liabilities

The detail of the subordinated debt securities issued by BPE Financiaciones, BPE Capital International, Popular Capital Europe and Banco Nacional de Crédito (BNC) is as follows:

Issuer	Currency	Issue date	Amount thousand	Maturity	Interest rate
<b>BPE Financiaciones</b>					
	EUR	06.30.04	100,000	06.30.14	Euribor 3m+25bp
<b>BPE Capital International</b>					
	EUR	04.27.00	100,000	04.27.10	Euribor 3m+55bp
	USD	05.30.00	50,000	05.30.10	Libor 3m+50bp
	USD	06.15.00	50,000	06.15.10	Libor 3m+54bp
	EUR	09.24.01	50,000	09.26.11	Euribor 3m+45bp
<b>Popular Capital Europe</b>					
	EUR	08.22.03	200,000	08.22.13	Euribor 3m+30bp
<b>BNC</b>					
	EUR	11.21.97	14,964	11.15.07	Lisbor 6m+30bp
	EUR	12.17.01	10,000	01.17.12	Euribor 6m+100bp

The spread on the issues of BPE Financiaciones, BPE Capital International and Popular Capital Europe will be increased by 50 basis points from the sixth year.

These issues are classified as subordinated debt and, for credit ranking purposes, after all common creditors; they are jointly and severally and irrevocably guaranteed by Banco Popular as regards principal and interest in the case of the issues of BPE Financiaciones, BPE Capital International and Popular Capital Europe, and are redeemable after five years at the issuer's decision, with prior authorization from the Bank of Spain and from the Bank of Portugal for the BNC issues. Also, in 2004 BNC issued €55,000 thousand of subordinated debt which is not included in the consolidated balance sheet because it was subscribed by Banco Popular and was eliminated in consolidation. These issues are authorized by the respective central banks to serve as computable capital for solvency ratio purposes.

The interest on subordinated liabilities in 2004 and 2003 amounted to €13,831 thousand and €10,085 thousand, respectively, adjusted for the issues hedged by swaps, signifying that the actual rate of cost for the Group was 2.58% and 2.96% in 2004 and 2003, respectively.

## (23) Minority interests

The minority interests reflected in the 2004 and 2003 consolidated balance sheets relate to shareholders not linked either directly or indirectly to the Banco Popular Group.

Common shares:

The following tables disclose the balances which arose at the global integration method consolidated companies and the minority interests which arose by equity method consolidation at the end of 2004 and 2003 as regards the common shares, and the variations at each company in 2004, when the increases were basically due to the allocation to reserves out of the prior year's income and the prepaid taxes relating to the early retirements plans and the decreases were due to implementation of the early retirements plan only in 2003. The other increases or decreases were due fundamentally to variations in shareholdings or adjustments in consolidation. It should be noted that although the minority interests at nonconsolidable and associated equity method companies are generated by these companies, they are attributed to the shareholder companies. No minority interests can arise at the multigroup companies consolidated by the proportional integration method.

The early retirements plans gave rise to a decrease of €6,123 thousand in 2003 and the taxes capitalized increased minority interests by €2,148 thousand in 2003. Also, €678 thousand and €546 thousand were recorded in 2004 and 2003, respectively, as the net amount of the funds not used for the early retirements plans approved in 2003 and 2002.

The variations under this heading were as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balance</i> . . . . .	263,829	245,500	218,177	191,928	178,393
Variations:					
Inclusion of companies . . . . .	—	—	10,310	12,975	—
Early retirement plan (net) . . . . .	—	(3,975)	(2,102)	(3,286)	—
Transfer from early retirements and adjustment of policies . . . . .	678	789	1,293	—	—
For capital increases . . . . .	—	—	—	—	—
Transfer of prepaid taxes . . . . .	—	—	—	1,291	492
Consolidation transactions (net) . . . . .	84	(1,725)	(2,604)	(4,561)	(2,977)
Net income for the year . . . . .	53,728	45,824	41,972	40,487	35,771
Dividend for the year . . . . .	(24,724)	(22,584)	(21,546)	(20,657)	(19,751)
<i>Ending balance, after the distribution of income</i> . . . . .	293,595	263,829	245,500	218,177	191,928

Preferred ownership interest securities:

The amount shown for BPE Preference International and Popular Capital relates exactly to the issuance of preferred non-cumulative, non-voting ownership interest securities jointly and severally and irrevocably guaranteed by Banco Popular. These securities were subscribed by third parties outside the Group and can be wholly or partly cancelled by decision of the issuer, with prior authorization from the Bank of Spain, at any time from the sixth year after the disbursement date.

The detail of the balance of preferred shares at the end of 2004 is as follows:

Issuer	Currency	Issue date	Amount (€ thousand)	Interest rate
<b>BPE Preference International</b>				
	EUR	11.16.00	180,000	Euribor 3m+5bp
	EUR	12.21.01	120,000	Euribor 3m+5bp
	EUR	12.27.02	138,000	Euribor 3m+5bp
<b>Popular Capital</b>				
	EUR	10.20.03	300,000	6%
	EUR	06.30.04	250,000	EurCMS 10a+12,5bp

The holders of the preferred ownership interest securities of BPE Preference International are entitled to collect a non-cumulative preferred dividend, payable quarterly in arrears, calculated at 3-month Euribor plus a margin of 5 basis points; however, during the first three years of the issue the minimum annual nominal interest rate will be 2.25% for the 2002 issue. The annual variations were as follows:

€ thousand	2004	2003	2002
<i>Beginning balance</i> .....	738,000	438,000	300,000
Variations:			
Issuance of preferred shares .....	250,000	300,000	138,000
Net income for the year attributable to preferred shares .....	33,595	17,702	12,273
Dividend on preferred shares .....	(33,595)	(17,702)	(12,273)
<i>Ending balance, after distribution of income</i> .....	988,000	738,000	438,000

The detail, by company, of the balances of this account in the 2004 and 2003 balance sheets,

showing the variation in 2004, before the distribution of income, is as follows:

€ thousand	Balance at 12/31/03	Variation in 2004		Balance at 12/31/04
		Increase	Decrease	
<b>Deposit-taking entities:</b>				
Banco de Andalucía .....	123,942	14,649	–	138,591
Banco de Castilla .....	16,380	1,645	67	17,958
Banco de Crédito Balear .....	41,662	4,664	146	46,180
Banco de Galicia .....	20,811	2,778	224	23,365
Banco de Vasconia .....	4,254	500	11	4,743
Banco Nacional de Crédito Inmobiliario .....	–	–	–	–
Bancopopular-e .....	–	–	–	–
Banco Popular France .....	–	–	–	–
Banco Popular Hipotecario .....	–	–	–	–
BNC International Cayman .....	–	–	–	–
Popular Banca Privada .....	8,955	–	884	8,071
<b>Finance companies:</b>				
Heller Factoring Española .....	–	–	–	–
Heller Factoring Portuguesa .....	14,587	807	552	14,842

€ thousand	Balance at 12/31/03	Variation in 2004		Balance at 12/31/04
		Increase	Decrease	
<i>(Continuation)</i>				
<b>Portfolio and services companies:</b>				
BNC Gerfundos	—	—	—	—
BNC Predifundos	—	—	—	—
Europensiones	9,210	786	—	9,996
Gestión Premier Fund	12	—	—	12
Gestora Europea de Inversiones	—	—	—	—
Gestora Popular	—	—	—	—
Inca	—	—	—	—
Popular Bolsa	—	—	—	—
Popular de Participaciones Financieras	—	—	—	—
Popular Gestión Privada	302	3	—	305
Popular Previsión Privada	30	1	—	31
Sogeval	—	—	—	—
<b>Instrumental companies:</b>				
Aliseda	—	—	—	—
Aula 2000	—	—	—	—
BNC Gestao de Imóveis	—	—	—	—
BPE Capital International	—	—	—	—
BPE Finance International	—	—	—	—
BPE Financiaciones	—	—	—	—
Finespa	—	—	—	—
Iberagentes Servicios	—	—	—	—
Inmobiliaria Viagracia	—	—	—	—
Inmobiliaria Vivesa	—	—	—	—
Intermediación y Servicios Tecnológicos	—	—	—	—
Popular Capital	—	—	—	—
Popular Capital Europe	—	—	—	—
Popular Commercial Europe	—	—	—	—
Popular Español Asia Trade	—	—	—	—
Popular Finance Europe	—	—	—	—
Urbanizadora Española	288	2	—	290
<i>Subtotal global integration method companies</i>	<i>240,433</i>	<i>25,835</i>	<i>1,884</i>	<i>264,384</i>
<b>Nonconsolidable companies</b>				
Consulteam-Consultores de Gestao	—	—	—	—
Desarrollo Aplicaciones Especiales	—	—	—	—
Eurocorredores	—	—	—	—
Eurovida	156	52	1	207
Inversiones Inmobiliarias Alprosa	—	—	—	—
Panorama Ibicenca	—	—	—	—
Popular de Comunicaciones	—	—	—	—
Popular de Informática	—	—	—	—
Popular de Renting	—	—	—	—
Proassurances	—	—	—	—
Promoción Social de Viviendas	—	—	—	—
Sicomi	—	—	—	—
<b>Nonconsolidable multigroup companies</b>				
Dieznet Comercio Electrónico	—	—	—	—
Eurovida BNC	—	—	—	—
<b>Associated companies</b>				
Sistema 4B	—	—	—	—
Sdad. conjunta para la Emisión y Gestión de Medios de Pago	—	—	—	—
<i>Subtotal equity method companies</i>	<i>156</i>	<i>52</i>	<i>1</i>	<i>207</i>
<b>Total common shares</b>	<b>240,589</b>	<b>25,887</b>	<b>1,885</b>	<b>264,591</b>
BPE Preference International	438,000	—	—	438,000
Popular Capital	300,000	250,000	—	550,000
<b>Total preferred shares</b>	<b>738,000</b>	<b>250,000</b>	<b>—</b>	<b>988,000</b>
<b>Total</b>	<b>978,589</b>	<b>275,887</b>	<b>1,885</b>	<b>1,252,591</b>

## (24) Common stock

As of December 31, 2004, Banco Popular's capital stock consisted of 227,386,508 shares of €0.50 face value each, after the capital increase with paid-in surplus on June 20, 2003, as part payment for acquisition of Banco Nacional de Crédito (BNC) by the issuance of 10,232,392 shares at a price of €40.33 per share amounting to €5,116 thousand.

All the shares are listed on the Spanish stock exchanges and are traded on the continuous market.

As of December 31, 2004, Banco Popular held 94,818 shares of treasury stock amounting to €4,599 thousand. The acquisition value of the treasury stock bought and sold in the last five years was as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Beginning balance</i> .....	–	–	–	–	–
Increase .....	33,895	234,285	117,464	85,341	134,061
Decrease .....	29,296	234,285	117,464	85,341	134,061
<i>Ending balance</i> .....	4,599	–	–	–	–

## (25) Reserves

Under the legislation applicable to corporations in Spain, 10% of a company's income for each year must be transferred to the Legal Reserve until the balance of this reserve reaches 20% of common stock. The balance of the Legal Reserve in excess of 10% of common stock can be capitalized. Except for such capitalization, until the Legal Reserve exceeds 20% of common stock it can only be used to offset losses, if sufficient other reserves are not available for this purpose.

Companies in Spain are also legally required to set up restricted reserves for transactions involving their own shares or the shares of their parent company, for amounts equal to the related asset balances (acquisitions of such shares or financing provided to acquire them) or to the effective value of such shares held as collateral for loans. These reserves become unrestricted when the reasons for their recording cease to exist.

Under Spanish corporate law, the paid-in surplus reserve can be capitalized and there are no restrictions on its use.

The paid-in surplus reserve increased by €407,556 thousand on June 20, 2003, as a consequence of the capital increase made for part payment for the acquisition of the shares of BNC.

In 2003, €101,000 thousand of Banco Popular Español's unrestricted reserves were used to cover the financial requirements arising from the execution of the extraordinary early retirements plan.

In 2003, transfers of €35,400 thousand were made to unrestricted reserves in connection with the prepaid taxes arising from the retirement plan executed in that year. In 2004 and 2003, €1,169 thousand and €292 thousand, respectively, were booked in reserves as the net amount of the funds not used for the 2003 and 2002 plans completed in March 2004 and March 2003, respectively.

The breakdown of the aggregate reserves included in the consolidated balance sheet under the "Paid-in surplus", "Reserves" and "Revaluation reserves" captions is as follows:

€ thousand	2004	2003	2002	2001	2000
<i>Restricted reserves:</i>					
Legal reserve .....	35,696	35,696	35,696	35,696	35,696
Reserves for own shares:					
For acquisition .....	4,599	–	–	–	–
For collateral .....	8,287	9,012	8,775	10,829	11,298
For share purchase loans .....	251	94	84	742	946
Other restricted reserves .....	11,100	9,900	9,303	5,553	27,015
<i>Unrestricted reserves:</i>					
Bylaw reserve .....	56,847	56,847	54,289	54,289	54,289
Paid-in surplus .....	428,720	428,720	21,164	21,164	21,164
Voluntary and other reserves .....	1,364,574	1,216,522	1,059,256	929,085	780,791
<b>Total</b> .....	<b>1,910,074</b>	<b>1,756,791</b>	<b>1,188,567</b>	<b>1,057,358</b>	<b>931,199</b>

The €4,599 thousand of Reserves for own shares - For acquisition recorded at 2004 year end

relate to the balance of treasury stock on the asset side of the consolidated balance sheet.

The detail of the variations in the aggregate reserves in the last five years is as follows:

€ thousand	2004	2003	2002	2001	2000
<b>Increases:</b>					
Capital increase	–	407,556	–	–	–
Distribution of prior year's income	139,046	162,225	151,274	116,791	89,749
Transfer of prepaid taxes	–	35,400	11,900	35,998	7,212
Transfer from early retirements	1,169	292	7,257	–	–
Adjustment of policies	–	4,134	–	–	–
Consolidation adjustments	13,068	59,617	–	17,370	7,879
<b>Decreases:</b>					
Capital increase	–	–	–	–	–
Cancellation of shares	–	–	–	–	–
Transfer to pension allowance	–	–	–	–	–
Transfer to early retirements allowance	–	101,000	34,000	44,000	–
Distribution of reserves	–	–	–	–	–
Consolidations adjustments	–	–	5,222	–	–
<b>Net period variation</b>	<b>153,283</b>	<b>568,224</b>	<b>131,209</b>	<b>126,159</b>	<b>104,840</b>

The increases due to capitalization of taxes relate to the prepaid taxes in connection with the early retirements operations.

The variations in each account in 2004 were as follows:

€ thousand	Balance at 12/31/03	Variation in 2004		Balance at 12/31/04
		Increase	Decrease	
<b>Restricted reserves:</b>				
Legal reserve	35,696	–	–	35,696
Reserves for own shares:				
<i>For acquisition</i>	–	20,647	16,048	4,599
<i>For collateral</i>	9,012	3,866	4,591	8,287
<i>For share purchase loans</i>	94	1,076	919	251
Other restricted reserves	9,900	1,200	–	11,100
<b>Unrestricted reserves:</b>				
Bylaw reserve	56,847	–	–	56,847
Paid-in surplus	428,720	–	–	428,720
Voluntary and other reserves	1,216,522	175,072	27,020	1,364,574
<b>Total</b>	<b>1,756,791</b>	<b>201,861</b>	<b>48,578</b>	<b>1,910,074</b>
<b>Causes of the variations:</b>				
Capital increase	–	–	–	–
Distribution of the prior year's income	–	139,046	–	–
Transfers between reserves	–	47,147	47,147	–
Transfer of prepaid taxes	–	–	1,431	–
Consolidation adjustments	–	13,068	–	–
Transfer for early retirements	–	2,600	–	–
<b>Total</b>	–	<b>201,861</b>	<b>48,578</b>	–

The balances of the aggregate of these reserves in the consolidated balance sheets differ from those in Banco Popular's individual balance sheets (see Note 3) due to the inclusion of the contra items for certain adjustments and

eliminations relating to intra-Group transactions imputable to the parent company. The effect of these adjustments, which basically relates to intra-Group dividends, is shown below in the following table.

€ thousand	2004	2003	2002	2001	2000
Amount in Banco Popular balance sheet	1,786,336	1,646,121	1,137,514	1,001,083	892,294
<b>Consolidation adjustments:</b>					
For dividends	123,738	110,670	51,053	56,275	38,905
For other items (net)	59,147	57,738	57,170	68,032	51,294
For other items (net)	64,591	52,932	(6,117)	(11,757)	(12,389)
Amount in consolidated balance sheet	1,910,074	1,756,791	1,188,567	1,057,358	931,199

## (26) Consolidation reserves and losses at consolidated companies

The reserves of companies consolidated by the global and proportional integration methods reflect the differences disclosed in consolidation when the investment in the affiliates consolidated is eliminated against their equity. The equity method consists of valuing the Group's nonconsolidable, non-financial multigroup and associated companies at their net worth per books and recording the difference from the portfolio carrying value in these accounts. The differences disclosed by application of the aforementioned methods and procedure are calculated from the date of each company's inclusion within the scope of consolidation; the variations relate to the accumulation of the portion of the company's earnings or losses which is attributable to the Group, net of the eliminations and adjustments made in consolidation for internal business relationships between the various companies within that scope.

The reserves used for early retirements by Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia gave rise to a decrease in consolidation reserves of €39,877 thousand in 2003. These reserves increased by €13,952 thousand due to the return to the account of origin of the prepaid taxes in those years (see Note 2.q).

€9,048 thousand in 2004 and €1,764 thousand in 2003 were also recorded as the net amounts of the funds not used for the 2003 and 2002 plans which concluded in March 2004 and March 2003, respectively.

The detail, by company, of the balance of the consolidation reserves account in the last five years is shown in the following table.

€thousand	2004	2003	2002	2001	2000
<b>Deposit-taking entities:</b>					
Banco de Andalucía . . . . .	394,969	336,060	288,549	242,586	208,596
Banco de Castilla . . . . .	283,336	252,897	235,072	213,420	196,666
Banco de Crédito Balear . . . . .	54,058	45,763	41,221	36,506	33,856
Banco de Galicia . . . . .	216,547	186,873	172,306	151,351	133,413
Banco de Vasconia . . . . .	113,282	97,899	85,778	74,279	63,360
Banco Nacional de Crédito . . . . .	11,025	1	—	—	—
Bancopopular-e . . . . .	—	—	—	—	—
Banco Popular France . . . . .	4,615	3,113	2,249	737	14,003
Banco Popular Hipotecario . . . . .	45,405	27,440	20,906	12,583	9,925
BNC International Cayman . . . . .	—	—	—	—	—
Popular Banca Privada . . . . .	—	—	111	—	—
<b>Finance companies:</b>					
Heller Factoring Española . . . . .	11,203	9,974	9,060	7,842	6,772
Heller Factoring Portuguesa . . . . .	—	—	—	—	—
<b>Portfolio and service companies:</b>					
BNC Gerfundos . . . . .	142	—	—	—	—
BNC Predifundos . . . . .	108	—	—	—	—
Europensiones . . . . .	2,436	1,617	1,617	1,617	1,617
Gestión Premier Fund . . . . .	—	—	16	—	—
Gestora Europea de Inversiones . . . . .	2,925	2,990	2,932	2,770	2,364
Gestora Popular . . . . .	8,137	279	426	718	663
Inca . . . . .	563	—	—	—	—
Popular Bolsa . . . . .	927	924	923	915	857
Popular de Participaciones Financieras . . . . .	—	—	395	44	—
Popular Gestión Privada . . . . .	57	52	104	—	—
Popular Previsión Privada . . . . .	8	5	13	—	—
Sogeval . . . . .	116,742	108,851	101,479	92,596	79,667
<b>Instrumental companies:</b>					
Aliseda . . . . .	1,126	1,086	1,544	1,609	1,610
Aula 2000 . . . . .	3	1	1	1	1
BNC-Gestao de Imóveis . . . . .	—	—	—	—	—
BPE Capital International . . . . .	—	—	—	—	—
BPE Finance International . . . . .	—	—	—	—	—
BPE Preference International . . . . .	—	—	—	—	—
Finespa . . . . .	9,640	9,556	1,738	1,795	1,769
Iberagentes Servicios . . . . .	—	—	—	—	—
Inmobiliaria Viagracia . . . . .	23,420	6,106	5,472	5,492	5,110
Inmobiliaria Vivesa . . . . .	1,456	1,452	1,452	1,452	1,452
Intermediación y Servicios Tecnológicos . . . . .	177	91	59	41	29
Popular Capital . . . . .	—	—	—	—	—
Popular Capital Europe . . . . .	—	—	—	—	—
Popular Commercial Europe . . . . .	—	—	—	—	—
Popular Español Asia Trade . . . . .	—	—	—	—	—
Popular Finance Europe . . . . .	—	—	—	—	—
Urbanizadora Española . . . . .	10,137	10,070	9,981	—	—
<i>Total global and proportional integration method companies (a) . .</i>	<i>1,312,444</i>	<i>1,103,100</i>	<i>983,404</i>	<i>848,354</i>	<i>761,730</i>

€ thousand	2004	2003	2002	2001	2000
<i>Continuation</i>					
<b>Nonconsolidable companies</b>					
Consulteam-Consultores de Gestao . . . . .	—	—	—	—	—
Desarrollo Aplicaciones Especiales . . . . .	536	313	313	313	313
Eurocorredores . . . . .	16	16	16	18	20
Eurovida . . . . .	6,577	4,963	3,760	3,482	3,116
Inversiones Inmobiliarias Alprosa . . . . .	500	422	409	381	164
Panorama Ibicenca . . . . .	—	—	—	—	—
Popular de Comunicaciones . . . . .	—	—	—	—	—
Popular de Informática . . . . .	—	—	—	—	—
Popular de Renting . . . . .	2,023	1,021	483	150	58
Proasurancas . . . . .	61	47	42	28	—
Promoción Social de Viviendas . . . . .	228	178	122	65	—
Sicomi . . . . .	7	4	3	3	2
Other companies . . . . .	—	—	—	9,984	10,338
<i>Subtotal nonconsolidable companies (b)</i> . . . . .	<b>9,948</b>	<b>6,964</b>	<b>5,148</b>	<b>14,424</b>	<b>14,011</b>
<b>Nonconsolidable multigroup companies</b>					
Dieznet Comercio Electrónico . . . . .	—	—	—	—	—
Eurovida BNC . . . . .	867	1	—	—	—
<i>Subtotal nonconsolidable multigroup(c)</i> . . . . .	<b>867</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Associated companies</b>					
Inmobiliaria Bami . . . . .	—	—	1,100	—	—
Sistema 4B . . . . .	177	407	383	383	383
Sdad. Conjunta para la Emisión y Gestión de Medios de Pago . . . . .	—	—	—	—	—
<i>Subtotal associated companies (d)</i> . . . . .	<b>177</b>	<b>407</b>	<b>1,483</b>	<b>383</b>	<b>383</b>
Total equity method companies (b)+(c)+(d) . . . . .	<b>10,992</b>	<b>7,372</b>	<b>6,631</b>	<b>14,807</b>	<b>14,394</b>
<b>Translation differences</b>					
BPECapital International . . . . .	—	—	2	11	8
BPE Finance International . . . . .	—	—	2	11	8
BPE Preference International . . . . .	—	—	—	5	2
Banco Popular France . . . . .	892	892	892	892	892
BNC International . . . . .	—	—	—	—	—
Popular Asia Trade . . . . .	—	—	—	—	—
Other companies . . . . .	—	—	—	—	—
<i>Total translation differences (e)</i> . . . . .	<b>892</b>	<b>892</b>	<b>896</b>	<b>919</b>	<b>910</b>
<b>Consolidation reserves (a)+(b)+(c)+(d)+(e)</b> . . . . .	<b>1,324,328</b>	<b>1,111,364</b>	<b>990,931</b>	<b>864,080</b>	<b>777,034</b>

The detail, by company, of losses at consolidated companies in the last five years is shown below.

€ thousand	2004	2003	2002	2001	2000
<b>Global &amp; proportional integration method companies</b>					
Bancopopular-e . . . . .	3,039	3,770	4,161	3,505	860
BNC - Gestao de Imóveis . . . . .	122	—	—	—	—
BNC - International Cayman . . . . .	6,827	—	—	—	—
BPE Capital International . . . . .	—	—	—	—	11
BPE Finance International . . . . .	—	—	—	—	—
BPE Preference International . . . . .	—	—	1	—	—
Fortior Holding . . . . .	—	—	4,460	—	—
Gestión Premier Fund . . . . .	214	214	—	—	—
Heller Factoring Portuguesa . . . . .	2,155	1,151	573	—	—
Iberagentes Servicios . . . . .	1	—	—	—	—
Popular Banca Privada . . . . .	66,562	65,234	—	—	—
Popular Capital . . . . .	2	—	—	—	—
Popular Capital Europe . . . . .	15	—	—	—	—
Popular Commercial Europe . . . . .	5	—	—	—	—
Popular Finance Europe . . . . .	20	—	—	—	—
Popular de Participaciones Financieras . . . . .	487	625	—	—	—
<i>Subtotal global and proportional integration method</i> . . . . .	<b>79,449</b>	<b>70,994</b>	<b>9,195</b>	<b>3,505</b>	<b>871</b>

€ thousand

Continuation

	2004	2003	2002	2001	2000
<b>Equity method companies</b>					
Consulteam - Consultores de Gestao	3				
Dieznet Comercio Electrónico	363	217	34	–	–
Panorama Ibicenca	98	97	95	94	94
Popular de Comunicaciones	2	1	1	–	–
Popular de Informática	1	1	1	–	–
Sdad. Conjunta para la Emisión y Gestión de Medios de Pagos	337	352	–	–	–
Sociedad Preparatoria de Medios de Pago			25	–	–
Subtotal equity method	804	668	156	138	176
<b>Translation differences</b>					
BPE Capital International	9	6	–	–	–
BPE Finance International	9	6	–	–	–
BPE Preference International	15	12	4	–	–
Subtotal translation differences	33	24	4		
<b>Losses at consolidated companies</b>	<b>80,286</b>	<b>71,686</b>	<b>9,355</b>	<b>3,643</b>	<b>1,047</b>

### (27) Tax matters

Unless expressly indicated otherwise, the information in this note refers to the tax situation of the companies in Spain.

The Banco Popular Group is not taxed on a consolidated basis, and each company therefore files an individual tax return.

The amounts for the payment of the taxes applicable to each consolidated company are, as regulatorily required, included under the "Other liability accounts" caption on the liability side of the balance sheets, net of tax withholdings and prepayments.

In calculating the amount of corporate income tax included under the "Income tax" caption in the consolidated income statement, regard was had to the various legally authorized tax credits.

The consolidated companies generally have the last five years open for inspection by the tax authorities with respect to the taxes applicable to them.

The differing interpretations that can be made of the tax regulations applicable to certain operations might give rise to contingent tax liabilities. However, the consolidated companies' tax advisors consider that the possibility of these liabilities materializing is remote and that, in any case, the tax charges which might arise therefrom would not materially affect the consolidated financial statements.

Although the 2004 corporate income tax returns have not yet been filed, the table below summarizes the calculations for determining, starting from the income before taxes, the consolidated expense for income tax, taking into account not only the pretax income but also that

€ thousand	2004	2003	2002	2001	2000
Income before taxes	1,292,430	1,205,182	1,055,429	852,194	810,414
Additions to the taxable base (per detail)	362,877	279,334	277,923	305,344	255,198
Reductions of the taxable base (per detail)	287,821	137,900	191,589	87,623	108,932
Offset of prior years' tax losses	2,231	2,297	1,061	79	–
Taxable base (income for tax purposes)	1,365,255	1,344,319	1,140,702	1,069,836	956,680
Tax charge (35%)	477,839	470,512	399,246	374,443	334,838
Tax credits:					
For double taxation	44,502	43,028	37,795	33,862	52,123
For tax relief	606	601	592	631	665
For donations	6,364	7,593	–	–	–
For investments	430	313	362	439	815
For reinvestments	2,114	8,219	1,784	–	–
For contributions to pension plans	34	1,037	1,024	–	–
Tax payable	423,789	409,721	357,689	339,511	281,235
Tax for timing differences (net)	(33,868)	11,763	16,424	(9,458)	14,302
Other adjustments (net)	651	(3,095)	(8,854)	(94,592)	(13,481)
Corporate income tax charge	390,572	418,389	365,259	235,461	282,056

arising from the permanent differences in the taxable base. The tax credits for double taxation, for donations, for tax relief, for investments, for reinvestment and for contributions to pension plans are treated as reductions of the period corporate income tax. Entitlement to these tax credits is conditional upon compliance with the current regulatory requirements.

The tax expense arising from prior years was negative by €5,292 thousand in 2004 and €9,053 thousand in 2003.

The details referred to in the foregoing table, relating to increases and decreases in the taxable base, based on their classification as timing or permanent differences, are disclosed in the following information.

€ thousand	2004	2003	2002	2001	2000
Increases: . . . . .	362,877	279,334	277,923	305,344	255,198
Permanent difference . . . . .	139,195	188,900	220,690	211,684	223,700
Current year timing difference . . . . .	219,344	88,158	55,123	91,039	30,975
Prior years' timing difference . . . . .	4,338	2,276	2,110	2,621	523
Decreases: . . . . .	287,821	137,900	191,589	87,623	108,932
Permanent difference . . . . .	160,906	16,155	88,611	20,983	36,571
Current year timing difference . . . . .	348	8,859	–	6,950	8,451
Prior years' timing difference . . . . .	126,567	112,886	102,978	59,690	63,910

In 2004, the Group companies availed themselves of the tax credit for reinvestment of extraordinary gains in 2003 and 2004 because the reinvestment relating to these gains was made in 2004. This tax credit amounted to €7,239 thousand for 2003 and €2,114 thousand for 2004.

The reinvestment was made as shown in the following table:

€ thousand	Amount
Reinvestment in	
Furniture and installations . . . . .	16,350
Automation equipment and installations . . . . .	18,739

The following table details the capital gains qualifying for reinvestment tax credits.

Year	Qualifying capital gains	Tax credit taken	Reinvestment year
1999	10,895	1,852	1999
2000	7,714	1,311	2000
2001	6,938	1,179	2001
2002	15,398	2,765	2002 & 2003
2003	25,695	7,239	2003 & 2004
2004	10,569	2,114	2004

Apart from the taxes capitalized in 2003 and recovered in 2004 in connection with the 2003 early retirements plan discussed elsewhere in

these Notes, other taxes of €1,100 thousand in 2004 and €9,807 thousand in 2003, which were paid because contributions to the external pension fund are not tax-deductible, were capitalized with a credit to income. A further €33,501 thousand, out of which €21,315 thousand relate to the pre-retirement plan approved for this year. As required by Bank of Spain Circular 7/1991, only the taxes which are expected to be recovered in the next ten years for the contributions to the pension plan or for the pension payments effectively made, as appropriate, have been capitalized. In this same connection €44,185 thousand were used in 2004. Taxes of €42,149 thousand in 2004 and €22,725 thousand in 2003 were capitalized as a result of the provision to a statistical credit loss allowance, the provisions to which are not a tax-deductible expense. Other timing differences for €4,194 thousand in 2004 and €2,675 thousand in 2003 were capitalized, and €576 thousand and €25 thousand were used in 2004 and 2003, respectively.

There are €79,860 thousand of other balances to be recovered from the Tax Administration, and prepaid taxes of €15,031 thousand relating to pensions which have not been capitalized because their recovery period exceeds ten years.

Another €130,226 thousand of prepaid taxes, basically relating to provisions to allowances not deducted for tax purposes, and €460 thousand of tax losses qualifying for carry-forward were not

capitalized, in accordance with the accounting principle of prudence.

In 2004 and 2003, taxes of €523 thousand and €791 thousand were paid in application of the authorization contained in Royal Decree-Law 3/1993 for tax recognition of higher than technical depreciation on new tangible fixed assets acquired.

The total prepaid and deferred taxes which will revert in future years amount to €394,908 thousand and €2,320 thousand, respectively.

The €13,646 thousand of foreign taxes similar to the Spanish corporate income tax which were levied basically on the income obtained by companies taxed outside Spain in 2004 were recognized in the "Other taxes" account in the statement of income.

The table below shows the detail of income tax on ordinary and extraordinary income. The latter consists of income from non-financial business transactions and prior years' income.

€ thousand	2004	2003	2002	2001	2000
Income tax:					
Ordinary income .....	406,491	413,702	372,943	245,610	282,615
Extraordinary income .....	(15,919)	4,687	(7,684)	(10,149)	(559)
Total .....	390,572	418,389	365,259	235,461	282,056

## (28) Guarantees for Group and third-party commitments

The following table details the assets assigned to

secure Group and third-party commitments at each year end in the Banco Popular Group's consolidated balance sheet.

€ thousand	2004	2003	2002	2001	2000
Public-sector securities .....	250	18,171	18,171	18,275	18,052
Own buildings mortgaged .....	1	75	66	67	68
Other assets assigned in guarantee .....	2,385,686	365,642	408,424	242,230	252,812
Total .....	2,385,937	383,888	426,661	260,572	270,932
Coverage allowance .....	7	7	8	7	130

## (29) Futures transactions

The year-end data of the financial futures contracts entered into by the Group in the normal course of

its business are shown in the following table:

€ thousand	2004	2003	2002	2001	2000
Forward foreign currency transactions:					
Purchases .....	3,709,017	3,173,522	1,824,840	1,606,154	792,439
Sales .....	546,263	721,357	812,212	545,171	456,051
Foreign currency financial futures .....	—	—	—	—	—
Forward financial asset transactions:					
Purchases .....	—	—	—	415	—
Sales .....	—	—	—	26	—
Security and interest rate futures:					
Purchases .....	65,644	39,269	9,786	223,738	2,511,887
Sales .....	651,834	229,659	114,221	95,150	2,445,618
Options:					
On securities:					
Purchases .....	999,703	1,040,823	923,153	681,708	38,220
Sales .....	3,076,625	2,819,882	921,871	846,375	37,932
On interest rates:					
Purchases .....	186,195	—	—	—	—
Sales .....	—	—	—	—	—
On foreign currencies:					
Purchases .....	5,451	28,504	73,871	—	2,192
Sales .....	5,451	28,504	73,871	—	2,192
Other interest rate transactions:					
FRAs .....	—	—	—	—	—
Swaps .....	11,142,171	4,616,891	6,913,435	3,124,769	3,743,448
Other .....	—	—	—	—	—
Commodity futures transactions .....	—	—	—	—	—
Unsettled on-credit securities transactions .....	—	—	—	—	—
Coverage for futures transactions:					
Allowance for futures .....	81	101	403	1,297	1,530

The detail of the trading portfolio and hedging operations is as follows:

€ thousand	Hedge					
	Trading		Balance sheet items		Other derivatives	
	2004	2003	2004	2003	2004	2003
Financial asset purchases and sales . . . . .	-	-	-	-	-	-
Security & interest rate futures . . . . .	139,860	16,632	483,238	151,524	94,380	100,772
Options:						
On securities & interest rates . . . . .	2,221,691	1,912,059	6,350	-	2,034,482	1,948,646
On currencies . . . . .	-	-	-	-	10,902	57,008
FRAs . . . . .	-	-	-	-	-	-
Swaps . . . . .	603,508	535,628	8,133,888	1,889,890	2,404,775	2,191,373

The information with respect to transactions in organized and not organized (OTC) markets is shown in the following table:

€ thousand	Market traded in					
	Organized				OTC	
	Spanish		Foreign			
	2004	2003	2004	2003	2004	2003
Financial asset purchases and sales . . . . .	-	-	-	-	-	-
Security & interest rate futures . . . . .	578,366	227,034	139,112	23,190	-	18,704
Options:						
On securities & interest rates . . . . .	2,149	-	-	-	4,260,374	3,860,705
On currencies . . . . .	-	-	-	-	10,902	57,008
FRAs . . . . .	-	-	-	-	-	-
Swaps . . . . .	-	-	-	-	11,142,171	4,616,891

As regards measurement of credit and counterparty risk in transactions involving financial derivatives on interest rates in OTC markets, the Group uses the

market price valuation system regulated by Bank of Spain Circular 3/2003, amending Circular 5/1993 on minimum capital requirements.

€ thousand	Balances by term					
	< 1 year		1 to 5 years		> 5 years	
	2004	2003	2004	2003	2004	2003
FRAs . . . . .	-	-	-	-	-	-
Swaps . . . . .	5,653,354	1,740,508	1,446,312	496,012	4,042,505	2,380,371

The positive valuation of these transactions, net of the respective specific allowance, and the notional book amounts adjusted on the base of residual term are jointly weighted by counterparty. The weighted risks for the Banco Popular Group as of December 31, 2004 and 2003, thus calculated

amounted to €97,021 thousand and €131,596 thousand, respectively, signifying a minimum capital requirement for transactions of this type amounting to €7,762 thousand and €10,528 thousand at each year end.

€thousand	Counterparties			
	Credit entities		Private sector	
	2004	2003	2004	2003
FRAs .....	—	—	—	—
Swaps .....	10,461,825	3,996,791	680,346	620,100

### (30) Transactions with Group, multigroup and associated companies

This note refers to the balances in the consolidated balance sheets and income statements relating to transactions with Group, multigroup and associated companies.

The dividends collected from subsidiaries which are not consolidable because of their line of business and from associated companies are recorded in the consolidated income statements as equity securities portfolio income and, simultaneously, as value adjustments for the collection of dividends paid by equity method companies, the breakdown being as follows:

€thousand	2004	2003	2002	2001	2000
Relating to income of:					
Current year .....	—	—	—	183	228
Prior years .....	7,409	6,138	7,777	8,031	6,504
<b>Total .....</b>	<b>7,409</b>	<b>6,138</b>	<b>7,777</b>	<b>8,214</b>	<b>6,732</b>

The following table details the 2004 and 2003 year-end balances, as reflected in the consolidated balance sheets and income statements, of the transactions with companies consolidated by the

proportional integration method, with companies not consolidable because of their line of business, and with associated companies.

€ thousand	Equity method companies					
	Proportional integration method companies		Nonconsolidable		Associated	
	2004	2003	2004	2003	2004	2003
<b>Balance sheet</b>						
<b>Assets:</b>						
Due from financial intermediaries .	60,547	101,207	—	—	—	—
Loans and discounts .....	—	—	75,076	77,608	—	—
Prepayments and accrued income	253	326	344	228	—	1
<b>Liabilities:</b>						
Due to financial intermediaries . . .	1,465	115	—	—	—	—
Customer deposits .....	—	—	9,976	10,100	6,403	28,863
Accruals and deferred income . . .	—	—	56,997	21	—	66
	1	—	134	—	325	—
<b>Memorandum accounts:</b>						
Contingent liabilities .....	13,632	11,397	206	203	—	—
Commitments .....	41,090	112,148	20,840	31,655	—	—
<b>Income statement:</b>						
Interest and similar revenues . . . .	1,618	2,018	2,316	2,606	—	18
Interest and similar charges .....	—	—	964	112	536	557
Fee revenues .....	989	1,017	22,901	20,209	—	—
Fee expenses .....	—	—	9,973	8,712	532	—

### (31) Income statement disclosures

Following are relevant disclosures relating to the consolidated income statements.

#### a. Geographical distribution

The consolidated Group's financial activity outside Spain is performed by the following companies,

grouped together by the countries in which they operate: in Portugal, the branch of Banco Popular, Banco Nacional de Crédito (BNC) and its branches in Portugal, and Heller Factoring Portuguesa; in France, Banco Popular France. The Group also has the following instrumental companies: Popular Capital Europe, Popular Commercial Europe and Popular Finance Europe in Holland; BPE Finance International, BPE Capital International, BPE

Preference International and BNC International Cayman in the Cayman Islands; Popular Asia Trade in Hong Kong; and Gestion Premier Fund in Luxembourg.

The following table shows the split of the balances of the main consolidated income statement captions for the last five years among the countries where the Group companies are located.

€ thousand	2004	2003	2002	2001	2000
<b>Interest and similar revenues</b>					
Spain .....	2,545,832	2,390,595	2,326,851	2,250,713	1,754,408
Rest of Europe .....	180,173	112,677	29,127	33,406	13,992
America .....	297	163	–	–	–
<b>Service fee revenues (net)</b>					
Spain .....	634,801	588,544	565,034	558,627	534,116
Rest of Europe .....	34,192	19,057	7,517	8,533	3,305
America .....	333	127	–	(1)	–
Asia .....	109	110	161	188	–
<b>Asset trading and exchange profits</b>					
Spain .....	41,104	30,640	28,880	44,974	119,471
Rest of Europe .....	(1,351)	1,320	67	10	20
America .....	(766)	(245)	1	–	–
<b>Interest and similar charges (*)</b>					
Spain .....	609,636	558,172	675,679	799,354	579,397
Rest of Europe .....	145,643	48,369	10,425	12,996	5,799
America .....	77,499	128,580	109,646	80,228	64,397

(\*) Including the financial costs of the issues by the instrumental subsidiaries the yields of which are recorded in Spain.

## b. Nature of transactions

The detail of certain consolidated income statement captions by type of originating transactions is as follows:

€ thousand	2004	2003	2002	2001	2000
<b>Interest and similar revenues</b>					
Bank of Spain and other central banks .....	14,142	14,402	17,811	18,522	14,642
Financial intermediaries .....	95,356	104,079	149,501	237,279	222,496
Fixed-interest securities .....	15,822	22,229	29,463	50,604	53,548
Loans and discounts .....	2,600,982	2,362,725	2,159,203	1,977,714	1,477,714
<i>Total</i> .....	<i>2,726,302</i>	<i>2,503,435</i>	<i>2,355,978</i>	<i>2,284,119</i>	<i>1,768,400</i>
<b>Revenues from equity securities</b>					
Shares and other equity securities .....	42,679	25,446	23,376	1,786	1,270
Participating interests .....	87	537	1,353	1,096	768
Shares of Group companies .....	7,322	5,601	6,424	7,118	5,964
<i>Total</i> .....	<i>50,088</i>	<i>31,584</i>	<i>31,153</i>	<i>10,000</i>	<i>8,002</i>
<b>Service fee revenues</b>					
Contingent liabilities .....	78,534	67,127	57,042	49,151	41,692
Collection and payment services .....	251,438	244,276	242,504	228,779	198,034
Securities services .....	195,049	173,946	153,155	160,861	175,011
Other transactions .....	144,414	122,489	120,011	128,556	122,684
<i>Total</i> .....	<i>669,435</i>	<i>607,838</i>	<i>572,712</i>	<i>567,347</i>	<i>537,421</i>
<b>Asset trading and exchange profits</b>					
Spanish and foreign fixed-interest securities ...	9,574	2,448	6,676	3,365	5,730
Equity securities .....	49,989	30,733	(79,505)	(10,464)	81,233
Exchange and derivatives .....	(23,348)	(5,220)	98,025	49,206	30,588
Asset securitization .....	2,772	3,754	3,752	2,877	1,940
<i>Total</i> .....	<i>38,987</i>	<i>31,715</i>	<i>28,948</i>	<i>44,984</i>	<i>119,491</i>

(Continuation)	2004	2003	2002	2001	2000
<b>Interest and similar charges</b>					
Bank of Spain .....	–	1	1,818	3,241	10,431
Financial intermediaries .....	183,353	163,970	193,029	252,838	182,488
Depositors .....	416,506	376,089	438,928	506,301	368,486
Debt securities and subordinated liabilities .....	232,269	194,274	161,211	110,348	67,658
Cost imputable to recorded pension allowance .....	–	–	–	19,347	20,125
Other interest .....	650	787	764	503	405
<i>Total</i> .....	<i>832,778</i>	<i>735,121</i>	<i>795,750</i>	<i>892,578</i>	<i>649,593</i>

### c. Asset trading and exchange profits, net

The detail of the balances of this income statement caption is as follows:

€ thousand	2004	2003	2002	2001	2000
<b>Exchange differences</b> .....	31,065	30,815	36,028	36,556	32,826
<b>Fixed-interest securities</b>					
Trading profit .....	12,082	1,894	6,600	2,772	6,139
Portfolio writedown .....	2,508	(554)	(76)	(593)	409
<i>Subtotal</i> .....	<i>9,574</i>	<i>2,448</i>	<i>6,676</i>	<i>3,365</i>	<i>5,730</i>
<b>Equity securities</b>					
Trading profit .....	49,640	30,359	(69,683)	(7,915)	85,445
Portfolio writedown .....	(349)	(374)	9,822	2,549	4,212
<i>Subtotal</i> .....	<i>49,989</i>	<i>30,733</i>	<i>(79,505)</i>	<i>(10,464)</i>	<i>81,233</i>
<b>Derivatives</b>					
Trading profit .....	(54,434)	(36,336)	61,103	12,417	(2,417)
Writedown of futures .....	(21)	(301)	(894)	(233)	(179)
<i>Subtotal</i> .....	<i>(54,413)</i>	<i>(36,035)</i>	<i>61,997</i>	<i>12,650</i>	<i>(2,238)</i>
<b>Asset securitization</b> .....	2,772	3,754	3,752	2,877	1,940
<i>Total</i> .....	<i>38,987</i>	<i>31,715</i>	<i>28,948</i>	<i>44,984</i>	<i>119,491</i>

### d. General administrative expenses.

#### Personnel expenses

The breakdown of the balances of this consolidated income statement caption is as follows:

€ thousand	2004	2003	2002	2001	2000
Remuneration .....	462,230	435,221	407,342	393,024	369,109
Social security charges .....	151,501	146,987	133,866	132,391	97,059
Social security taxes .....	115,981	112,108	106,185	103,087	97,059
Contribution to external pension fund .....	35,520	34,879	27,681	29,304	–
Other .....	14,780	14,640	11,146	13,251	10,853
<i>Total</i> .....	<i>628,511</i>	<i>596,848</i>	<i>552,354</i>	<i>538,666</i>	<i>477,021</i>
Pension payments (charged to special allowance) . . . .	–	–	–	–	–

The aggregate amount of gross remuneration paid to the members of the Group's executive management, excluding the figure for the CEO which is disclosed in Note 4, was €4,494 thousand in 2004, consisting of €4,448 thousand of monetary remuneration and €46 thousand of compensation in kind (basically life and health insurance premiums and use of housing).

The contributions made by the Group to the pension fund and supplementary insurance contract for these executives amounted to €3,741 thousand in 2004.

The Group does not have in place any executive remuneration system directly or indirectly linked to the price of Banco Popular shares or other Group securities, or to stock options.

The following tables show the variations in the Group's year-end and average annual headcount,

the distribution of the staff by age group and length of service.

	Year-end					Annual average				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Authorized officers . . .	8,268	8,247	7,715	7,492	7,130	8,228	8,312	7,595	7,352	6,997
Clerical staff . . . . .	4,821	4,767	4,710	4,775	4,772	5,081	5,045	4,785	4,792	4,814
General services . . . .	38	75	39	42	41	41	74	41	38	42
<b>Total . . . . .</b>	<b>13,127</b>	<b>13,089</b>	<b>12,464</b>	<b>12,309</b>	<b>11,943</b>	<b>13,350</b>	<b>13,431</b>	<b>12,421</b>	<b>12,182</b>	<b>11,853</b>

Data in %

Years of service	Age						Marginal distribution of years of service
	Under 21	21-30	31-40	41-50	51-60	Over 60	
Under 6 . . . . .	—	25.52	6.82	0.44	0.10	0.01	32.89
6 - 10 . . . . .	—	0.93	9.96	0.22	0.04	—	11.15
11 - 20 . . . . .	—	—	9.02	4.23	0.34	0.01	13.60
21 - 30 . . . . .	—	—	0.01	13.14	8.87	0.12	22.14
31 - 40 . . . . .	—	—	—	4.68	14.64	0.39	19.71
41 - 50 . . . . .	—	—	—	—	0.38	0.13	0.51
Distribution by age group . .	—	26.45	25.81	22.71	24.37	0.66	100.00

#### e. Other operating income and expenses

The detail of "Other operating income" in the last five years is shown in the following table. The

property rental income figures are after elimination of intra-Group rental income.

€ thousand	2004	2003	2002	2001	2000
Net property rental income . . . . .	219	1,659	1,696	1,302	1,351
Other sundry revenues . . . . .	860	454	205	172	123
<b>Total . . . . .</b>	<b>1,079</b>	<b>2,113</b>	<b>1,901</b>	<b>1,474</b>	<b>1,474</b>

The items comprising "Other operating expenses" in the consolidated income statements of the last five years were as follows:

€ thousand	2004	2003	2002	2001	2000
Net property rental losses . . . . .	—	—	—	—	—
Contribution to Deposit Guarantee Fund . . . . .	14,663	13,490	12,361	17,389	15,278
Directors' fees . . . . .	116	116	163	202	253
Contributions to welfare foundations . . . . .	22,772	22,773	22,773	22,774	22,774
Other items . . . . .	1,495	991	860	987	839
<b>Total . . . . .</b>	<b>39,046</b>	<b>37,370</b>	<b>36,157</b>	<b>41,352</b>	<b>39,144</b>

## f. Extraordinary gains and losses

The main items comprising "Extraordinary gains" in

the income statements of the last five years were as follows:

€ thousand					
	2004	2003	2002	2001	2000
Net gains on fixed asset disposals .....	14,262	42,050	17,401	9,566	11,333
Fee income for atypical services .....	978	136	952	700	1,471
Prior years' income .....	38,573	43,556	15,995	8,625	9,780
Other .....	9,975	11,872	13,606	10,221	5,777
Recovery of other specific allowances .....	43,328	–	55,220	3,586	–
<i>Total</i> .....	<i>107,116</i>	<i>97,614</i>	<i>103,174</i>	<i>32,698</i>	<i>28,361</i>

The detail for "Extraordinary losses" is as follows:

€ thousand					
	2004	2003	2002	2001	2000
Net losses on fixed asset disposals .....	691	595	572	482	1,482
Provision to other special allowances (net) .....	3,629	6,643	–	82,885	61,468
Prior years' losses .....	20,681	23,489	13,081	9,112	12,129
Other losses .....	22,158	18,594	21,040	13,784	13,738
Extraordinary provisions to pension plans .....	89,258	13,920	18,098	39,993	47,917
<i>Total</i> .....	<i>136,417</i>	<i>63,241</i>	<i>52,791</i>	<i>146,256</i>	<i>136,734</i>

### (32) Statements of changes in financial position

€ thousand

	2004	2003	2002	2001	2000
<b>Source of funds</b>					
Net income for the year	888,212	777,797	687,735	614,164	527,509
Amounts which reduce income but do not involve an application of funds:					
Net provision to allowances:					
For credit loss	321,138	347,659	254,221	218,668	133,664
For country risk	3,558	(2,090)	3,278	(178)	(79)
For pensions	77,904	–	–	72,072	68,042
For other purposes	(39,699)	6,643	(55,220)	79,299	61,468
Writedown of securities portfolio	2,138	(1,229)	8,852	1,723	4,442
Depreciation	100,582	87,768	131,327	76,261	69,825
Gain on sale of permanent assets (-)	(14,325)	(42,285)	(16,937)	(11,880)	(16,206)
Imputation of results of equity method subsidiaries (-)	(12,520)	(12,191)	(8,542)	(9,347)	(8,720)
<i>Funds provided by operations</i>	<i>1,326,988</i>	<i>1,162,072</i>	<i>1,004,714</i>	<i>1,040,782</i>	<i>839,945</i>
Capital increase	–	412,672	–	–	–
Net increase in:					
Subordinated debt securities	94,239	208,785	–	56,000	207,469
Due to banks (net)	625,513	1,363,283	1,519,307	1,135,922	–
Customer deposits	8,520,176	7,310,589	4,094,175	3,533,848	3,540,074
Other assets and liabilities (net)	469,885	305,964	197,172	–	250,534
Net decrease in:					
Fixed-interest securities	–	90,258	445,391	96,317	69,281
Shares and nonpermanent participating interests	–	61,364	–	–	–
Sale of permanent assets	55,034	122,259	80,369	39,973	50,322
<i>Total</i>	<i>11,091,835</i>	<i>11,037,246</i>	<i>7,341,128</i>	<i>5,902,842</i>	<i>4,957,625</i>
<b>Application of funds</b>					
Prior year's dividend	406,378	363,541	324,382	280,431	252,319
Equity reduction	–	–	–	–	–
Net increase in:					
Due from banks (net)	–	–	–	–	171,966
Loans and discounts	8,654,827	10,072,548	6,572,912	4,599,878	4,427,718
Fixed-interest securities	1,379,981	–	–	–	–
Shares and nonpermanent participating interests	491,187	–	272,215	61,616	17,354
Other assets and liabilities (net)	–	–	–	478,077	–
Net decrease in:					
Subordinated securities issued	–	–	18,113	–	–
Acquisition of permanent assets	159,462	601,157	153,506	482,840	88,268
<i>Total</i>	<i>11,091,835</i>	<i>11,037,246</i>	<i>7,341,128</i>	<i>5,902,842</i>	<i>4,957,625</i>

### (33) Environmental information

The environmental policy defined and adopted by the Banco Popular Group did not give rise in 2004 and 2003 to any risk or contingency relating to environmental actions or to protection and improvement of the environment.

During 2004, the Banco Popular Group installed at new and refurbished offices modern air conditioning systems more friendly to the environment and conducive to energy saving; the investment in tangible assets amounted to €1,856 thousand and the accumulated depreciation thereon amounted to €130 thousand. The matching figures for 2003 were €1,510 thousand and €60,000, respectively.

Also, work started on the progressive replacement of the cooling towers, and where this was not possible, periodic, mostly monthly, analyses were conducted at the cooling towers, as a preventive measure against bacteriological contamination and the related costs of €68 thousand in 2004 and €74 thousand in 2003 were recorded as general expenses in each year.

### (34) Customer Service Activities

Ministry of Economy Order 734/2004 made it obligatory, inter alia, for financial entities' customer service departments and units to issue explanatory reports on their activities in the previous year. This Order stated that a summary of such report should be included in the notes to the financial statements.

The Banco Popular Group's Customer Service Office accordingly prepared a report on its activities in 2004 which was submitted to Banco Popular's Board of Directors at its meeting on January 26, 2005.

Per this report, the Group received a total of 3,208 complaints, claims and inquiries in 2004, 8.41% more than in 2003, of which 3,182 (5.64% more than in 2003) were cleared by the Customer Service Office. The decisions issued by this Office numbered 2,949 (5.81% more than in 2003), of which 1,432 were in the customer's favor, 1,138 were in the Bank's favor, 60 recognized grounds for both sides, and 319 contained no ruling. No complaint or claim led to litigation in 2004.

92 of these matters were routed through the Bank of Spain (96 in 2003). Of them 61 were against Banco Popular, 23 were against banking subsidiaries and 8 were against other entities involving transactions in which some Group bank had participated.

Of the cases analyzed, 20 were settled by prior agreement between the claimants and the Group. The Bank of Spain Claims Service issued a total of 68 reports: 9 were in favor of the claimant (13%); 51 accepted the representations of the Group (75%); and in 8 cases the Service refrained from expressing an opinion because the subject of the claim was outside its competence.

A total of 9 claims was also received in 2004 through the Spanish Securities & Exchange Commission, 1 fewer than in 2003. Of these claims, 4 were against Banco Popular and 5 were against banking subsidiaries.

Of these matters, one was settled by prior agreement between the claimant and the Group. Of the 9 decisions issued by the Commission (one of which related to a matter raised in 2003), 7 were in the Group's favor, one was favorable to the claimant, and the Commission refrained from expressing an opinion on the remaining claim because the subject was outside its competence.

### (35) Subsequent events

Regulation 1606/2002 of the European Parliament and Council made it obligatory, with effect from January 1, 2005, for companies to prepare their consolidated financial statements in conformity with International Financial Reporting Standards if, at the date of their balance sheets, their securities are listed on a regulated market in any Member State.

The Bank of Spain, as the accounting regulator of the Spanish banking industry, has implemented and adapted, in its Circular 4/2004 (published in the Official State Gazette on December 30, 2004), the accounting standards for credit entities, stating that in preparing these standards it respected the contents of the International Financial Reporting Standards approved by the Regulations of the European Union, having regard to the conceptual framework on which they are based. In the explanatory introduction to the Circular, the Bank of Spain stated that, in its opinion, the entities obliged to prepare consolidated financial statements in conformity with the standards set therein will, as regards the matters regulated therein, fulfill their obligation, if appropriate, to prepare consolidated financial statements in accordance with the International Financial Reporting Standards embodied in the European Union Regulations.

The salient aspects of the changes introduced by these standards affecting the Group's financial statements are summarized below.

1º) Greater flexibility and responsibility of managers in setting the Group's accounting policy.

2º) Greater transparency, requiring the managers to be responsible for detailed explanation of the accounting policies adopted, for disclosure thereof to the market and for completing them with ad hoc information.

3º) Classification of financial instruments for valuation purposes in the following groups:

-Instruments classified in the trading portfolio, and others meeting certain requirements, must be recorded at fair value, with variations shown in the income statement.

-Held-to-maturity investments include securities representing a debt for the issuer when the investor entity meets certain requirements, with recording at amortized cost value.

-Loans and discounts - non-traded financial assets representing debts for the issuer or the party obliged to make payment - must be recorded at amortized cost.

-Available-for-sale financial assets - debt securities and equity instruments not classified in other categories - must be valued at fair value and changes in value must be recorded in net worth until realized, when they must be recognized in the income statement.

Also stipulated are the criteria for classifying instruments as financial liabilities or equity instruments, with the economic substance of the instrument prevailing over its form. Trading in issuer equity instruments must be recorded directly against equity, together with all the expenses and possible revenues arising therefrom.

The Bank of Spain clarifies that derivatives whose underlying asset is the interest rate, the exchange rate, etc. are financial instruments and must be reflected in the financial statements at fair value as financial assets or liabilities.

The valuations of contingent liabilities, guarantees and documentary credits must also be recorded in the balance sheet as financial instruments.

As a general rule, financial assets, including securitized assets, must be removed from the balance sheet when they are sold or when the rights on the asset have expired. In the case of sale, a financial asset cannot be eliminated from the balance sheet until substantially all its risks and

benefits have been assigned; if the risks and benefits have not been substantially retained or sold, the asset sold will be eliminated partially if control of it has been assigned to third parties.

4º) Non-financial assets, intangible assets and inventories must be valued at cost.

5º) Foreclosed assets must be recorded as non-current assets for sale, and the Board of Directors must undertake to achieve sale in the stipulated period which, except in exceptional cases, will be one year.

6º) Accounting hedges: except for exchange rate hedges, only derivatives can be used as hedging instruments. Three types of hedge are identified: of fair value, of cash flows, and of net investment in a business abroad, and the different ways of recording the results of the instrument hedged are as follows:

-In fair value hedges, the instruments hedged must be valued at fair value.

-For the two other types of hedge, the variations in value of the hedge instruments must be recorded in equity until they are recognized in the income statement symmetrically with the results of the instruments hedged.

-For portfolio interest rate hedges, an option has been included permitting application of the criterion adopted by the European Union to accept the hedging of stable deposits and to relax the requirements for estimating the efficiency of the hedge.

7º) Impairment of the value of assets, with differentiated treatment for financial assets and other assets.

Coverage of the losses on financial assets is envisaged, provided that the losses are based on objective evidence. To estimate the losses due to deterioration of the credit risk, the standards address the need to book specific and general allowances for the risk of insolvency attributable to the customer, and specific allowances for country risk.

The specific allowance covers the impairment of assets individually identified as damaged and the general allowance reflects the inherent loss - which for these purposes is the loss incurred at the date of the financial statements, calculated statistically, that is pending assignment to specific transactions - in the loan portfolio that has not yet become apparent or been individually detected.

On the basis of its past experience and its information about the Spanish banking sector, the Bank of Spain has established models and a methodology to calculate the allowance coverages mentioned above, based on the following:

-The specific allowance for losses due to customer delinquency must be calculated by applying certain percentages based on delinquency calendars which are different for companies and business persons from those for all other customers, and different depending on the effective guarantees for the transactions, and which take into account the value of money over time. Debt instruments classified as doubtful for reasons other than delinquency must be analyzed individually, and the coverage allowance for them must be equal to the difference between the amount recorded in the assets and the current value of the cash flows expected to be collected. In general, the coverage for these transactions cannot be less than 25% of the balances classified as doubtful, except in certain cases in which the percentage will be 10%.

-The general allowance must be calculated by banks in accordance with the method and the parameters established by the Bank of Spain for coverage of the losses for impairment inherent in the debt instruments and contingent risks classified as normal risk, as follows:

-The alpha and beta parameters take into account the historical inherent loss and the adjustments for adaptation to current economic circumstances. For each of the risk categories, these parameters are as follows:

	Alpha %	Beta %
No appreciable risk	0	0
Low risk	0.6	0.11
Medium-low risk	1.5	0.44
Medium risk	1.8	0.65
Medium-high risk	2.0	1.10
High risk	2.5	1.64

-The general allowance provision to be booked in each year will be:

-The product of multiplying the positive or negative variation in the period of the amount of each risk category by their corresponding alpha parameter, plus

-The product of multiplying the total amount of the transactions included in each risk category at period end by their corresponding beta parameter, minus

-The amount of the net total specific allowance provision booked in the period.

-The total balance of the general allowance must at all times be between 33% and 125% of the amount obtained by aggregating the products of multiplying the amount of each risk category by the corresponding alpha parameter.

The Bank of Spain will periodically amend Circular 4/2004 to update the calendars based on the evolution of the banking sector data for the specific coverage allowance and the general coverage allowance parameters.

For all other assets, including goodwill, there will be deemed to be impairment if the book value of the assets exceeds their recoverable amount. In the case of goodwill, an impairment test must be performed at least once each year.

8º) Fees. The treatment for fees collected or paid depends on whether they are compensation for a service rendered or for a cost incurred, or whether they are remuneration additional to the interest rate on the transaction. The former must be recognized as revenues when the service is rendered or the cost is incurred, and the latter must be accrued over the term of the transaction, in the same way as fees for services rendered over a period of time. It is envisaged that banks will offset the higher costs they may have incurred with a portion of the fees collected.

9º) Pensions. A clear distinction is established between defined-contribution and defined-benefit post-employment benefits. Defined-contribution benefits are defined as those in which the bank makes pre-set contributions to a separate entity and has no obligation except to make such contributions.

The accounting treatment of defined-contribution benefits, including those completely transferred to a separate entity, is very similar to that stipulated under the previous regulations.

However, there are substantial changes as regards defined-benefit benefits, based mainly on the valuation both of the commitments and of the related assets at fair value, unless the benefits plan is covered by an insurance policy and its flows match the plan benefits. In this case, the fair value of the policy will be the current value of the related plan commitments.

In the case of defined-benefit benefits, immediate recognition is generally required of the accrued

commitments, except for the past service cost of serving employees, which will be accrued on a straight-line basis during the period until entitlement to collect the benefits; and actuarial gains and losses which need not be recognized as an expense or revenue for up to 10% of the current value of the commitments; of the amount in excess of this percentage at least one fifth must be expensed currently. This is what is known as the corridor method.

10<sup>o</sup>) Consolidation. The most relevant novelty is the elimination of the exclusion from consolidation because of line of business and the strengthening

of the concept of control for global integration consolidation of dependent entities or companies in which the parent company has significant influence to apply the equity method for associated companies. The general principle established for multigroup companies is proportional integration consolidation and, exceptionally, the equity method.

11<sup>o</sup>) The contents of the notes to the financial statements and the disclosures about related parties signify a substantial increase in the information to be provided and the levels of transparency compared with the present regulatory requirements.

## EXHIBIT I

### Banco Popular Group. Companies comprising the consolidated group at December 31, 2004

Registered offices , line of business and consolidation method

	Address		Line of business	Consolidation method
<b>Deposit-taking entities:</b>				
Banco Popular Español	Velázquez, 34	Madrid	Banking	Global integration
Banco de Andalucía	Fernández y González, 4	Sevilla	Banking	Global integration
Banco de Castilla	Pl. de los Bandos, 10	Salamanca	Banking	Global integration
Banco de Crédito Balear	Pl. de España, 1	P.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 Ramalho Ortigao, 51	Lisboa	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	Labastida, 9-11	Madrid	Banking	Global integration
BNC International Cayman	Carcinal Avenue	Gran Cayman	Banking	Global integration
Popular Banca Privada	J. Ignacio Luca de Tena, 13	Madrid	Banking	Global integration
<b>Finance companies:</b>				
Heller Factoring Española	María de Molina, 54	Madrid	Factoring	Proportional integration
Heller Factoring Portuguesa	Rua Castilho, 39	Lisboa	Factoring	Global integration
<b>Portfolio and service companies:</b>				
BNC Gerfundos	Rua Ramalho Ortigao, 51	Lisboa	Mutual fund management	Global integration
BNC Predifundos	Rua Ramalho Ortigao, 51	Lisboa	Mutual fund management	Global integration
Europensiones	María de Molina, 34	Madrid	Pension plan management	Global integration
Gestión Premier Fund	Boulevard Royal, 261	Luxemburgo	Mutual fund management	Global integration
Gestora Europea de Inversiones	Labastida, 9-11	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	Labastida, 9-11	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	Labastida, 9-11	Madrid	Mutual fund management	Global integration
<b>Instrumental companies:</b>				
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	Lisboa	Real estate services & management	Global integration
BPE Capital International	Ugland House	George Town	Finance	Global integration
BPE Finance International	Ugland House	George Town	Finance	Global integration
BPE Financiaciones	J.Ortega y Gasset, 29	Madrid	Finance	Global integration
BPE Preference International	Ugland House	George Town	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 Capital	J.Ortega y Gasset, 29	Madrid	Finance	Global integration
Popular Capital Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Popular Commercial Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Popular Español Asia Trade	13/F Tim Mei Avenue	Hong Kong	Finance	Global integration
Popular Finance Europe	Strawinskylaan, 3105	Amsterdam	Finance	Global integration
Urbanizadora Española	J.Ortega y Gasset, 29	Madrid	Property	Global integration

**Banco Popular Group. Companies comprising the nonconsolidable group and the multigroup companies at December 31, 2004**
*Registered offices , line of business and consolidation method*

	Address		Line of business	Consolidation method
<i>(continuation)</i>				
<b>Nonconsolidable group</b>				
Consulteam-Consultores de Gestao . . .	Rua Tomás Ribeiro, 50	Lisboa	Management Consultants	Equity method Companies
Desarrollo Aplicaciones Especiales . . .	Juan de Olías, 1	Madrid	Data processing	Equity method Companies
Eurocorredores . . . . .	J.Ortega y Gasset, 29	Madrid	Insurance broking	Equity method Companies
Eurovida . . . . .	María de Molina, 34	Madrid	Insurance	Equity method Companies
Inversiones Inmobiliarias Alprosa . . . . .	J.Ortega y Gasset, 29	Madrid	Property	Equity method Companies
Panorama Ibicenca . . . . .	Santa Eulalia del Río	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 . . . . .	Labastida, 9-11	Madrid	Renting	Equity method Companies
Proassurances . . . . .	8, Rue D'Anjou	París	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
<b>Nonconsolidable multigroup companies</b>				
Dieznet Comercio Electrónico . . . . .	J.Ortega y Gasset, 29	Madrid	E-commerce	Equity method Companies
Eurovida BNC . . . . .	Avenida da República, 57	Lisboa	Insurance	Equity method Companies

**EXHIBIT II**
**Banco Popular Group. Companies comprising the consolidated group at December 31, 2004**
*Percentage of direct and indirect ownership and book value of holdings*

	% ownership			Book value of holding (Euro thousand)
	Direct	Indirect	Total	
<b>Deposit-taking entities:</b>				
Banco de Andalucía	80.07	0.04	80.11	166,749
Banco de Castilla	95.16	0.01	95.17	71,084
Banco de Crédito Balear	64.47	0.13	64.60	30,837
Banco de Galicia	92.06	0.03	92.09	55,665
Banco de Vasconia	96.82	0.03	96.85	32,529
Banco Nacional de Crédito	100.00	—	100.00	580,179
Bancopopular-e	100.00	—	100.00	34,908
Banco Popular France	100.00	—	100.00	9,538
Banco Popular Hipotecario	99.94	0.06	100.00	106,476
BNC International Cayman	—	100.00	100.00	25,396
Popular Banca Privada	52.50	7.50	60.00	79,341
<b>Finance companies:</b>				
Heller Factoring Española	50.00	—	50.00	4,815
Heller Factoring Portuguesa	49.76	—	49.76	19,469
<b>Portfolio and service companies:</b>				
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	3,008
<b>Instrumental companies:</b>				
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 Capital International	100.00	—	100.00	46
BPE Finance International	100.00	—	100.00	46
BPE Financiaciones	90.00	10.00	100.00	100
BPE Preference International	100.00	—	100.00	52
Finespa	4.19	95.81	100.00	8,058
Iberagentes Servicios	—	60.00	60.00	37
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

EXHIBIT II  
(continuation)

**Banco Popular Group. Companies comprising the nonconsolidable group and the multigroup companies at December 31, 2004**

*Percentage of direct and indirect ownership and book value of holdings*

	% ownership			Book value of holding (Euro thousand)
	Direct	Indirect	Total	
<i>(continuation)</i>				
<b>Nonconsolidable group</b>				
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
Proasuranzas.....	–	100.00	100.00	8
Promoción Social de Viviendas .....	–	91.84	91.84	553
Sicomi.....	–	100.00	100.00	7
<b>Nonconsolidable multigroup companies</b>				
Dieznet Comercio Electrónico .....	50.00	–	50.00	1,000
Eurovida BNC.....	–	50.00	50.00	3,750

**Banco Popular Group. Associated companies and other significant investees at December 31, 2004**

*Percentage of direct and indirect ownership and book value of holdings*

	% ownership			Book value of holding (Euro thousand)
	Direct	Indirect	Total	
<b>Associated companies</b>				
Sistema 4B .....	20.71	–	20.71	17,027
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago.....	20.00	–	20.00	2,019
<b>Other significant investee companies</b>				
Chamartín Sur .....	–	20.00	20.00	6,244
Construcciones y Conducciones del Sur. ....	–	14.82	14.82	–
Corretaje e Información Monetaria y de Divisa .....	–	5.00	5.00	575
Global Ends .....	–	21.52	21.52	452
Inversiones Area Sur .....	–	50.00	50.00	8,950
Inversiones y Construcciones .....	8.33	–	8.33	290
Inizia Guarderías .....	–	25.91	25.91	100
MCC Navarra .....	–	12.11	12.11	364
Neva Rica Industrias .....	–	10.76	10.76	167
Proinserga Inversiones .....	–	28.09	28.09	3,669

*Associated companies:* those at least 20% owned, if unlisted, or at least 3% owned, if listed, or whose business activity is a clear prolongation of the Group's financial activity, regardless of the percentage of ownership.

*Other significant investee companies:* those 5% or more, whose shares are unlisted.

**EXHIBIT III**
**Banco Popular Group. Companies comprising the consolidated group at December 31, 2004**
*Common stock, reserves, income and dividends collected*
*(Data in € thousand, unless otherwise indicated)*

	Common stock	Reserves	Income for the year		Dividends collected in the year
			Total	Extraordinary	
<b>Deposit-taking entities:</b>					
Banco Popular Español	113,693	1,786,336	588,398	(20,114)	147,283
Banco de Andalucía	16,297	678,227	129,931	(3,725)	569
Banco de Castilla	26,036	342,715	51,750	(2,364)	433
Banco de Crédito Balear	10,572	118,462	27,507	1,127	160
Banco de Galicia	9,129	285,973	45,325	1,449	327
Banco de Vasconia	9,600	140,675	31,212	1,986	318
Banco Nacional de Crédito	175,928	89,886	42,145	(3,001)	15,986
Bancopopular-e	31,000	869	8,713	(96)	–
Banco Popular France	19,100	19,422	3,403	212	–
Banco Popular Hipotecario	84,250	58,229	15,307	569	–
BNC International Cayman (3)	28,000	–	6,917	(1)	–
Popular Banca Privada	22,779	(2,911)	1,315	38	309
<b>Finance companies:</b>					
Heller Factoring Española (1)	3,456	12,374	2,021	(23)	–
Heller Factoring Portuguesa	12,500	19,725	2,481	37	–
<b>Portfolio and service companies:</b>					
BNC Gerfundos	300	530	671	–	–
BNC Predifundos	375	722	252	–	–
Europensiones	15,626	4,774	18,065	75	27
Gestión Premier Fund	124	12	29	9	–
Gestora Europea de Inversiones	100	3,546	18	(1)	–
Gestora Popular	3,744	11,664	196	27	35
Inca	14,000	1,331	5,913	–	6,302
Popular Bolsa	4,515	2,512	2,388	11	916
Popular de Participaciones Financieras	36,000	(487)	496	–	303
Popular Gestión Privada	3,006	760	522	18	2
Popular Previsión Privada	870	78	56	12	–
Sogeval	962	118,562	10,855	2	10
<b>Instrumental companies:</b>					
Aliseda	2,043	1,959	35	1	13
Aula 2000	6	21	2	91	–
BNC Gestao de Imóveis	249	(445)	(635)	(506)	–
BPE Capital International (3)	50	–	–	–	–
BPE Finance International (3)	50	–	–	–	–
BPE Financiaciones	100	–	22	–	–
BPE Preference International (3)	50	–	13,166	–	–
Finespa	1,292	8,999	76	179	39
Iberagentes Servicios	60	–	–	6	–
Inmobiliaria Viagracia	4,688	41,224	157	(9)	146
Inmobiliaria Vivesa	902	272	4	–	–
Intermediación y Servicios Tecnológicos	1,202	178	14	(1)	–
Popular Capital	90	(2)	23,880	–	–
Popular Capital Europe	18	1,967	47	–	–
Popular Commercial Europe	18	1,977	47	–	–
Popular Español Asia Trade (2)	1	–	–	–	–
Popular Finance Europe	18	1,962	30	–	–
Urbanizadora Española	240	11,581	94	19	–

(1) Consolidated by the proportional integration method.

(2) Data in thousands of HK \$ (HK \$1=Euros 0.0944 at 12/31/2004).

(3) Data in thousands of US \$ (US \$1=Euros 0.7341 at 12/31/2004).

**Banco Popular Group. Nonconsolidable group at December 31, 2004**

*Common stock, reserves, income and dividends collected*

*(Data in € thousand, unless otherwise indicated)*

<i>(continuation)</i> Nonconsolidable group	Common stock	Reserves	Income for the year		Dividends collected in the year
			Total	Extraordinary	
Consulteam-Consultores de Gestao . . .	300	71	2	18	—
Desarrollo Aplicaciones Especiales . . .	90	1,084	818	65	—
Eurocorredores . . . . .	60	18	220	—	—
Eurovida . . . . .	9,015	13,705	18,796	144	—
Inversiones Inmobiliarias Alprosa . . . . .	3,005	539	25	—	—
Panorama Ibicenca . . . . .	60	305	68	73	—
Popular de Comunicaciones . . . . .	61	(2)	10	—	—
Popular de Informática . . . . .	61	(1)	—	—	—
Popular de Renting . . . . .	3,005	2,023	990	445	—
Proassurances . . . . .	8	61	19	1	—
Promoción Social de Viviendas . . . . .	270	434	3	—	—
Sicomi . . . . .	12	2	1	—	—

**Banco Popular Group. Nonconsolidable multigroup companies at December 31, 2004**

*Common stock and reserves*

*(Data in € thousand, unless otherwise indicated)*

	Common stock	Reserves
Dieznet Comercio Electrónico . . . . .	2,000	(726)
Eurovida BNC . . . . .	7,500	(51)

**Banco Popular Group. Associated companies at December 31, 2004**

*Capital stock and reserves*

*(Data in € thousand, unless otherwise indicated)*

	Address	Common stock	Reserves
<b>Associated companies:</b>			
Sistema 4B . . . . .	Francisco Sancha, 12. Madrid	2,533	12,976
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago . . . . .	Velázquez, 130. Madrid	6,000	2,408

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**EXHIBIT IV**


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**Banco Popular Group. Nonconsolidable companies at December 31, 2004**
*Breakdown of book value in the consolidated balance sheets*
*(Data in € thousand)*

	Balance at 12/31/03	Balance at 12/31/04
Book value .....	10,338	10,338
Difference in initial consolidation .....	136	136
Variations in value:		
In consolidation reserves .....	17,267	21,012
In minority interests .....	6,865	9,843
For imputed period income .....	156	207
For adjustments in consolidation .....	10,257	10,962
For balance sheet restatement under Article 17 of Royal Decree 7/1996 .....	(11) —	— —
<i>Subtotal</i> .....	<i>27,741</i>	<i>31,486</i>
Security price fluctuation allowance .....	—	—
<i>Total</i> .....	<i>27,741</i>	<i>31,486</i>

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**Banco Popular Group. Nonconsolidable companies at December 31, 2004**
*Breakdown by company of book value amounts and variations in the consolidated balance sheets*
*(Data in € thousand)*

	Balance at 12/31/03	2004 variations		Balance at 12/31/04
		Increase	Decrease	
Consulteam .....	374	2	3	373
Desarrollo Aplicaciones Especiales .....	1,010	525	526	1,009
Eurocorredores .....	186	220	108	298
Eurovida .....	17,807	9,210	6,676	20,341
Inversiones Inmobiliarias Alprosa .....	3,548	26	—	3,574
Panorama Ibicenca .....	365	68	—	433
Popular de Comunicaciones .....	60	—	—	60
Popular de Informática .....	59	10	—	69
Popular de Renting .....	3,586	990	—	4,576
Proasuranzas .....	69	19	—	88
Promoción Social de Viviendas .....	648	3	1	650
Sicomi .....	29	1	15	15
<i>Consolidated total</i> .....	<i>27,741</i>	<i>11,074</i>	<i>7,329</i>	<i>31,486</i>

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**Banco Popular Group. Consolidated companies at December 31, 2004**
*Net income*
*(Data in € thousand)*

	Net income		Corresponding to			
			BPE shareholders		Minority interests	
	2004	2003	2004	2003	2004	2003
<b>Deposit-taking entities:</b>						
Banco Popular Español	588,398	505,137	588,398	505,137	–	–
Banco de Andalucía	129,931	117,028	104,088	93,751	25,843	23,277
Banco de Castilla	51,750	49,297	49,250	46,921	2,500	2,376
Banco de Crédito Balear	27,507	22,419	17,770	14,458	9,737	7,961
Banco de Galicia	45,325	44,168	41,740	40,674	3,585	3,494
Banco de Vasconia	31,212	26,293	30,229	25,462	983	831
Banco Nacional de Crédito (1)	42,145	8,270	42,145	8,270	–	–
Bancopopular-e	8,713	730	8,713	730	–	–
Banco Popular France	3,403	2,537	3,403	2,537	–	–
Banco Popular Hipotecario	15,307	17,965	15,307	17,965	–	–
BNC International Cayman (1)	5,078	4,665	5,078	4,665	–	–
Popular Banca Privada	1,315	(1,764)	789	(1,058)	526	(706)
<b>Finance companies:</b>						
Heller Factoring Española (2)	2,021	1,229	2,021	1,229	–	–
Heller Factoring Portuguesa	2,481	2,682	1,235	1,335	1,246	1,347
<b>Portfolio and service companies:</b>						
BNC Gerfundos (1)	671	142	671	142	–	–
BNC Predifundos (1)	252	108	252	108	–	–
Europensiones	18,065	16,051	9,213	8,186	8,852	7,865
Gestión Premier Fund	29	44	17	26	12	18
Gestora Europea de Inversiones	18	(65)	18	(65)	–	–
Gestora Popular	196	7,886	196	7,886	–	–
Inca (1)	5,913	7,911	5,913	7,911	–	–
Popular Bolsa	2,388	1,459	2,388	1,459	–	–
Popular de Participaciones Financieras	496	138	496	138	–	–
Popular Gestión Privada	522	263	313	158	209	105
Popular Previsión Privada	56	33	34	20	22	13
Sogeval	10,855	8,057	10,855	8,057	–	–
<b>Instrumental companies:</b>						
Aliseda	35	60	35	60	–	–
Aula 2000	2	2	2	2	–	–
BNC Gestao de Imóveis (1)	(635)	(122)	(635)	(122)	–	–
BPE Capital International	–	–	–	–	–	–
BPE Finance International	–	–	–	–	–	–
BPE Financiaciones	22	–	22	–	–	–
BPE Preference International	9,666	14,008	(9)	(61)	9,675	14,069
Finespa	76	389	76	389	–	–
Iberagentes Servicios	–	–	–	–	–	–
Inmobiliaria Viagrancia	157	18,617	157	18,617	–	–
Inmobiliaria Vivesa	4	3	4	3	–	–
Intermediación y Servicios Tecnológicos	14	86	14	86	–	–
Popular Capital	23,880	3,589	(40)	(44)	23,920	3,633
Popular Capital Europe	47	(2)	47	(2)	–	–
Popular Commercial Europe	47	1	47	1	–	–
Popular Español Asia Trade	–	–	–	–	–	–
Popular Finance Europe	30	(7)	30	(7)	–	–
Urbanizadora Española	94	69	92	67	2	2
<i>Subtotal integración global</i>						
<i>y proporcional</i>	1,027,486	879,376	940,374	815,091	87,112	64,285

(1) The results of these companies are those obtained from June 30, 2003, when they were first included in the consolidated income statements of the Banco Popular Group.

(2) Consolidated by the proportional integration method, its income is that attributable to the Group.

**EXHIBIT V**  
(continuation)

**Banco Popular Group. Nonconsolidable and associated companies at December 31, 2004**

*Net income*

(Data in € thousand)

	Net income		Corresponding to			
			BPE shareholders		Minority interests	
	2004	2003	2004	2003	2004	2003
<b>Nonconsolidable companies</b>						
<b>Group companies</b>						
Consulteam-Consultores de Gestao (1) .....	2	—	2	—	—	—
Desarrollo Aplicaciones Especiales .....	818	1,260	414	638	—	—
Eurocorredores .....	220	108	220	108	—	—
Eurovida .....	18,796	17,020	8,925	8,082	285	258
Inversiones Inmobiliarias Alprosa .....	25	77	25	77	—	—
Panorama Ibicenca .....	68	(1)	68	(1)	—	—
Popular de Comunicaciones .....	10	(1)	10	(1)	—	—
Popular de Informática .....	—	—	—	—	—	—
Popular de Renting .....	990	1,002	990	1,002	—	—
Proassurances .....	19	14	19	14	—	—
Promoción Social de Viviendas .....	3	67	3	62	—	—
Sicomi .....	1	18	1	18	—	—
Subtotal equity method nonconsolidable group companies .....	20,952	19,564	10,677	9,999	285	258
Soc. multigrupo por puesta en equivalencia ...	1,531	1,387	765	693	—	—
Empresas asociadas por puesta en equivalencia Imputable a terceros ajenos al grupo de soc. puestas en equivalencia .....	3,925	3,033	793	1,252	—	—
	(13,888)	(11,782)	—	—	—	—
Subtotal equity method companies .....	12,520	12,202	12,235	11,944	285 *	258 *
<b>Total .....</b>	<b>1,040,006</b>	<b>891,578</b>	<b>952,609</b>	<b>827,035</b>	<b>87,397</b>	<b>64,543</b>
Adjustments and eliminations .....	(151,794)	(113,781)	(151,720)	(112,764)	(74)	1,017
<b>Total .....</b>	<b>888,212</b>	<b>777,797</b>	<b>800,889</b>	<b>714,271</b>	<b>87,323</b>	<b>63,526</b>

(1) The results of these companies are those obtained from June 30, 2003, when they were first included in the consolidated income statements of the Banco Popular Group.

\* Earnings of these companies attributable to minority interests of the shareholder entities

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**Banco Popular Group. Capital increase authorizations at December 31, 2004**

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	Capital increase authorizations		
	€	Deadline	Number of
	thousand	date	shares listed
Banco Popular .....	56,847	06.19.2007	227,386,508
Banco de Andalucía .....	8,148	04.11.2007	21,729,240
Banco de Castilla .....	13,018	04.18.2007	43,392,900
Banco de Crédito Balear .....	5,286	04.25.2007	14,096,448
Banco de Galicia .....	4,564	05.02.2007	30,429,000
Banco de Vasconia .....	4,800	04.18.2007	32,000,000

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