



POPULAR CAPITAL, S.A.
(incorporated with limited liability under the laws of Spain)

**Euro 300,000,000 Series A
6 per cent. Non-cumulative Perpetual Guaranteed
Preferred Securities**

irrevocably and unconditionally guaranteed to the extent set forth herein by

BANCO POPULAR ESPAÑOL, S.A.
(incorporated with limited liability under the laws of Spain)

Issue price: 100%

Euro 300,000,000 Series A 6 per cent. Non-cumulative Perpetual Guaranteed Preferred Securities of Euro 1,000 liquidation preference each (the “Preferred Securities”) are being issued by Popular Capital, S.A. (the “Issuer”) on 20 October 2003 (the “Closing Date”).

The Preferred Securities will entitle holders to receive (subject to the limitations described under “Description of the Preferred Securities”) non-cumulative cash distributions at a rate of 6 per cent. per annum of the liquidation preference of Euro 1,000 per Preferred Security, accruing from the Closing Date and payable in arrear on 20 January, 20 April, 20 July, and 20 October of each year, commencing 20 January 2004.

The Preferred Securities are redeemable, at the option of the Issuer (subject to the prior consent of Banco Popular Español, S.A. (the “Bank”, “Banco Popular” or the “Guarantor”) and of the Bank of Spain), in whole or in part, on any distribution payment date falling on or after 20 October 2008, at the liquidation preference of Euro 1,000 per Preferred Security plus accrued and unpaid distributions for the then current distribution period to the date fixed for redemption.

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

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

The Preferred Securities are expected, upon issue, to be assigned an Aa3 rating by Moody’s Investors Services, Inc. (“Moody’s”), an A+ rating by Fitch IBCA Limited (“Fitch IBCA”) and an A rating by Standard & Poor’s Ratings Services, a division of the McGraw Hill Companies, Inc. (“Standard & Poor’s”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Potential holders are alerted to the statement on pages 2 and 3 regarding the tax treatment in Spain of income in respect of Preferred Securities and to the disclosure requirements imposed on the Issuer and the Guarantor relating to the identity of all holders of Preferred Securities. In particular, income in respect of the Preferred Securities will be subject to withholding tax in certain circumstances and neither the Issuer nor the Guarantor will gross up payments in respect of such withholding tax, as described herein.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with Clearstream Banking Aktiengesellschaft (“Clearstream Banking Frankfurt”) as depository. The Preferred Securities are also eligible for clearing and settlement through Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”).

Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange, on the Official Segment of the stock market of Euronext Amsterdam N.V. (“Euronext Amsterdam”), on the Official Market of the Frankfurt Stock Exchange (the “Frankfurt Stock Exchange”) and on AIAF Mercado de Renta Fija (“AIAF”).

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

Lead Managers

Credit Suisse First Boston

Dresdner Kleinwort Wasserstein

JPMorgan

Co-Lead Managers

BCP Investimento, SA

BNP PARIBAS

CDC IXIS Capital Markets

J & E Davy

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

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

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

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

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

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

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

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

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

In connection with the issue of the Preferred Securities, J.P. Morgan Securities Ltd. (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Preferred Securities at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15 per cent., in the case of: (a) holders who are resident in Spain; (b) holders who are not resident in Spain but are acting through a permanent establishment in Spain; and (c) holders who are resident in a tax haven territory (pursuant to Spanish law). In addition, holders which fail to comply with applicable formalities for evidencing their tax residence may receive payments subject to Spanish withholding currently at the rate of 15 per cent. Such formalities may extend to the provision of a tax residence certificate to the Issuer or the Bank. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax. (See “Description of the Preferred Securities — Taxation” on page 15.)

In order to satisfy its obligations under Spanish law, the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities. The precise details and procedure of such disclosure remains to be clarified by way of future legislation. The Bank may, from time to time, request such details from holders of Preferred Securities. In order to comply with the above legal requirements, the Issuer and the Bank may disclose to such Authorities any information provided by holders of Preferred Securities in their tax residence certificates. (See “Taxation — Spanish Taxation — Disclosure of identity of holders” on page 56.) In addition, such legislation may affect the way Preferred Securities are cleared.

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DOCUMENTS INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Guarantor for the years ended 31 December 2001 and 2002 and the unaudited interim consolidated financial statements of the Guarantor for the six months ended 30 June 2003 are incorporated by reference in this Offering Circular.

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

SUMMARY

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

Issuer:	Popular Capital, S.A.
Guarantor:	Banco Popular Español, S.A.
Issue size:	Euro 300,000,000.
Issue details:	Euro 300,000,000 Series A 6 per cent. Non-cumulative Perpetual Guaranteed Preferred Securities (<i>Participaciones Preferentes</i>) (the “ Preferred Securities ”), each with a liquidation preference of Euro 1,000.

The Preferred Securities are governed by the laws of Spain. The Bank of Spain has confirmed that the Preferred Securities will qualify as Tier I capital of the Group pursuant to Spanish banking regulations.

Liquidation Preference: Euro 1,000 per Preferred Security.

Use of Proceeds: The proceeds of the issue of the Preferred Securities, after paying any issue expenses, will be deposited on a permanent basis with the Bank or with another credit entity of the Group and will be available to absorb losses of the Group once shareholders’ equity has been reduced to zero and reserves have been exhausted.

Distributions (*retribución*): The Preferred Securities will entitle holders to receive (subject as described below) non-cumulative cash distributions (“**Distributions**”). Distributions on the Preferred Securities will accrue from the Closing Date and will be payable, subject to the Limitations on Distributions described below, out of the Issuer’s own legally available resources and distributable items, in arrear on 20 January, 20 April, 20 July and 20 October in each year commencing on 20 January 2004.

The Distribution rate will be fixed at a rate per annum of 6 per cent. of the Liquidation Preference of Euro 1,000 per Preferred Security. The Distribution amount payable in respect of any Distribution Period (as defined on page 9) will be computed on the basis of the actual number of days elapsed in a Distribution Period ending in a non-leap year divided by 365 or, in the case of any days elapsed in a Distribution Period ending in a leap year, the number of those days divided by 366.

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

- (a) the aggregate of such Distribution, together with any other distributions previously paid during the then-current Fiscal Year (as defined on page 9) and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities issued by the Bank, the Issuer or by any other Subsidiary (as defined on page 10) (including the Preferred Securities) would exceed the Distributable Profits (as defined on page 9) of the immediately preceding Fiscal Year; or
- (b) even if Distributable Profits are sufficient, to the extent that, in accordance with applicable Spanish banking regulations affecting financial institutions which fail to meet their required capital ratios, the Bank would be prevented at such time from making payments on its ordinary shares or Parity Securities.

If Distributions are not paid on the Preferred Securities on or prior to a Distribution Payment Date (as defined on page 9) in respect of the

relevant Distribution Period, as a consequence of the above Limitations on Distributions, the right of the holders of the Preferred Securities to receive a Distribution from the Issuer or the Bank, as the case may be, in respect of the relevant period will be lost. In such a case, neither the Issuer nor the Bank will be permitted to pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior, as to participation in profits, to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on all outstanding Preferred Securities on four succeeding consecutive Distribution Payment Dates.

Guarantee:

The payment of Distributions, the Liquidation Distribution (as defined below) and the Redemption Price (as defined on page 10) shall be irrevocably and unconditionally guaranteed by the Guarantor.

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

- (a) such Distribution, together with any distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period, in each case on or in respect of the Preferred Securities and any preferred securities (*participaciones preferentes*) or securities or other instruments equivalent to preferred securities issued by the Issuer or any other Subsidiary, including the preference shares issued by BPE Preference International Limited, and entitled to the benefits of a guarantee ranking *pari passu* as to participation in profits with the Bank's obligations under the Guarantee, or issued by the Bank and ranking *pari passu* as to participation in profits with the Bank's obligations under the Guarantee (each "**Parity Securities**"), would exceed Distributable Profits of the immediately preceding Fiscal Year; or
- (b) even if Distributable Profits are sufficient, to the extent that in accordance with applicable Spanish banking regulations affecting financial institutions which fail to meet their required capital ratios, the Bank would be prevented at such time from making payments on its ordinary shares or Parity Securities issued by it.

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

For a full description of the Guarantee, see "The Guarantee" on pages 22 to 27.

Ranking of the Guarantee:

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

Ranking of the Preferred Securities:

The Preferred Securities will rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) *pari passu* with each other and

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

The Issuer is not allowed to issue any securities ranking, as to participation in the profits or assets of the Issuer, senior to the Preferred Securities.

Optional Redemption: The Preferred Securities may be redeemed at the option of the Issuer but subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 20 October 2008.

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

Liquidation Rights: Except as described under "Description of Preferred Securities — Distributions" on pages 10 and 11, the Preferred Securities will confer no right to participate in profits or surplus assets of the Issuer.

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

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

Purchases: None of the Issuer, the Bank or any of their respective Subsidiaries may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 20 October 2008. In the event that such purchases are permitted by law before 20 October 2008, they may be made by tender, in the open market or by private agreement as described under "Description of Preferred Securities — Purchases of Preferred Securities" on page 12.

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

Voting Rights: The Preferred Securities shall not confer an entitlement to receive notice of or attend or vote at any meeting of the shareholders of the Issuer. Notwithstanding the above, the holders of the Preferred Securities will have the right, under certain circumstances, to participate in the adoption of certain decisions in the "**Syndicates Global Assembly**". For a full description, see "Description of Preferred Securities — Exercise of rights by holders of Preferred Securities" on page 13.

Withholding Tax: The payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be made free of Spanish withholding taxes, unless such taxes are required by law to be withheld. In such case, neither the Issuer nor the Bank will pay any additional amounts to holders of Preferred Securities.

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently at the rate of 15 per cent.,

in the case of: (a) holders who are resident in Spain; (b) holders who are not resident in Spain but are acting through a permanent establishment in Spain; and (c) holders who are resident in a tax haven territory (pursuant to Spanish law). In addition, holders which fail to comply with applicable formalities for evidencing their tax residence may receive payments subject to Spanish withholding tax currently at the rate of 15 per cent. Such formalities may extend to the provision of a tax residence certificate to the Issuer or the Guarantor. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax. (See “Description of the Preferred Securities — Taxation on page 15”.)

- Disclosure of identity of holders:** In order to satisfy its obligations under Spanish law, the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of the holders of the Preferred Securities. The precise details and procedure of such disclosure remains to be clarified by way of future legislation. The Bank may, from time to time, request such details from holders of Preferred Securities. In order to comply with the above legal requirements, the Issuer and the Bank may disclose to such Authorities any information provided by holders of Preferred Securities in their tax residence certificates.
- Form:** The Preferred Securities will be issued in bearer form and will be represented by a single global Preferred Security deposited with Clearstream Banking Frankfurt on or about the Closing Date. The Preferred Securities are also eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg.
- Accordingly, for so long as the Preferred Securities are so deposited, holders will have no direct rights against the Issuer or the Bank and such rights will only be exercisable via the relevant clearing system. Definitive Preferred Securities will only be issued directly to holders in exceptional circumstances. (See “Description of the Preferred Securities — Form”.)
- Ratings:** The Preferred Securities are expected, on issue, to be assigned an Aa3 rating by Moody’s, an A+ rating by Fitch IBCA and an A rating by Standard & Poor’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
- Governing Law:** The Preferred Securities and the Guarantee will be governed by the laws of Spain.
- Listing:** Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange, on Euronext Amsterdam, on the Frankfurt Stock Exchange and on AIAF.

DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities are issued by virtue of (i) the shareholders meetings of the Issuer held on 1 September 2003 and 15 October 2003 and (ii) the Executive Committee of the Bank (*Comisión Ejecutiva*) held on 2 September 2003 (together, the “**Corporate Resolutions**”) and in accordance with Law 19/2003, of 4 July, on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*) which amends Law 13/1985, of 25 May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) (“**Ley 19/2003**”).

The Preferred Securities will be created, once paid for, by virtue of a public deed registered with the Mercantile Registry of Madrid on 10 October 2003 and a supplementary public deed to be registered with the Mercantile Registry of Madrid on or about the Closing Date (as defined below) (together, the “**Public Deed of Issuance**”).

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

1. *Definition*

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

“**Closing Date**” means 20 October 2003;

“**Distribution Payment Date**” means 20 January, 20 April, 20 July and 20 October in each year, commencing on 20 January 2004;

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

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

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

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

“**Guarantee**” means the guarantee dated 16 October 2003 and given by the Bank in respect of the Issuer’s obligations under the Preferred Securities for the benefit of holders of Preferred Securities;

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

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

“**Parity Securities**” means any preferred securities (*participaciones preferentes*) or securities or other instruments equivalent to preferred securities issued by the Issuer, or any other Subsidiary, including the preference shares issued by BPE Preference International Limited, and entitled to the benefits of a guarantee ranking *pari passu* as to participation in profits with the Bank’s obligations under Guarantee, or issued by the Bank and ranking *pari passu* as to participation in profits with the Bank’s obligations under the Guarantee;

“**Paying Agency Agreement**” means the paying agency agreement dated 16 October 2003 relating to the Preferred Securities;

“**Paying Agents**” means the Principal Paying Agent, J.P. Morgan Bank Luxembourg S.A., J.P. Morgan AG and the other paying agent named therein as the other paying agents and includes any successors thereto appointed from time to time in accordance with Clause 11 (*Changes in Paying Agents*) of the Paying Agency Agreement;

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

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

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

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

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

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

“**TARGET**” means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System; and

“**Trustee**” means the trustee (*comisario*) of each syndicate of holders of preferred securities of the Issuer.

2. Distributions

- 2.1 Subject as provided in paragraph 2.7, Distributions on the Preferred Securities will accrue from the Closing Date and are payable in arrear on each Distribution Payment Date.
- 2.2 The Distribution payable on each Preferred Security will be fixed at a rate per annum of 6 per cent. of the Liquidation Preference thereof. The amount of Distribution payable for any Distribution Period will be computed on the basis of the actual number of days elapsed in a period ending in a non-leap year divided by 365 or, in the case of any days elapsed in a period ending in a leap year, the number of those days divided by 366.
- 2.3 The Issuer will be discharged from its obligation(s) to pay Distributions declared on the Preferred Securities by payment to the person(s) having physical custody of the relevant Preferred Securities on or after the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the person(s) having physical custody of the relevant Preferred Securities.

In the event that any date on which any payment is due to be made on the Preferred Securities is not a Payment Business Day, the payment due on such date will be made on the next succeeding day which is a Payment Business Day (and without any interest or other payment in respect of any such delay).

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

- 2.4 Distributions shall not be payable to the extent that:
 - (a) the aggregate of such Distribution, together with any other distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities issued by the Bank, the Issuer or by any other Subsidiary (including the Preferred Securities) would exceed the Distributable Profits of the immediately preceding Fiscal Year; or

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

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

- 2.5 If the Issuer does not pay a Distribution with respect to a Distribution Period (as contemplated herein), the Issuer's payment obligation in respect thereof will be satisfied if and to the extent that the Bank pays such Distribution pursuant to the Guarantee.
- 2.6 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities and provided that this is as a result of the limitations set out in 2.4 above, then the right of the holders of the Preferred Securities to receive a Distribution in respect of the relevant Distribution Period will be lost and the Issuer will have no obligation to pay the Distribution accrued for such Distribution Period or to pay any interest thereon, whether or not Distributions on the Preferred Securities are paid in respect of any future Distribution Period.
- 2.7 In the event that a Distribution is not paid in full on the Preferred Securities, all distributions paid upon the Preferred Securities and any Parity Securities of the Bank and its Subsidiaries will be paid *pro rata* in relation to the outstanding amounts of such securities. Therefore, the distribution amount to be received by the holders of Preferred Securities on such Distribution Payment Date will depend on the total outstanding amount of Preferred Securities and Parity Securities of the Bank and its Subsidiaries, and on the distributions scheduled to be paid on such securities, each as of the time of such payment.
- 2.8 If Distributions are not paid on or prior to a Distribution Payment Date in respect of the relevant Distribution Period as a consequence of the limitations set out above, then neither the Issuer nor the Bank will be permitted to pay dividends or any other distributions on its ordinary shares or on any other class of share capital or securities issued by it and expressed to rank junior, as to participation in profits, to the Preferred Securities or to the Bank's obligations under the Guarantee, as the case may be, until such time as the Issuer or the Bank shall have resumed the payment in full of Distributions on all outstanding Preferred Securities on four succeeding consecutive Distribution Payment Dates.
- 2.9 Save as described in this clause, the Preferred Securities will confer no right to participate in the profits of the Issuer.

3. *Liquidation Distribution*

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

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

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

Notwithstanding the availability of sufficient assets of the Issuer to pay a full liquidating distribution in respect of the Preferred Securities or any Parity Securities, if, at the time such liquidating distribution is to be paid, proceedings are or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank or for a reduction in the Bank's shareholders' equity pursuant to Article 169 of the Spanish Corporation Law (*Ley de Sociedades Anónimas*), the liquidating distribution in respect of the Preferred Securities, of all Parity Securities issued by the Bank and of any Parity

Securities issued by any Subsidiary, shall not exceed the liquidating distribution that would have been paid from the assets of the Bank (after payment in full, in accordance with Spanish law, of all creditors of the Bank, including holders of its subordinated debt, but excluding holders of any guarantee or other contractual right expressed to rank *pari passu* with or junior to the Guarantee) had the Preferred Securities and all Parity Securities been issued by the Bank and ranked (A) junior to all liabilities of the Bank, (B) *pari passu* with the Parity Securities, if any, of the Bank, and (C) senior to the Bank's ordinary shares and any other class of share capital expressed to rank junior, as to participation in profits, to the Bank's obligations under the Guarantee. The Issuer shall be released from its obligation to pay such liquidating distributions by payment to each person in physical custody of a certificate representing Preferred Securities against surrender of the relevant certificate.

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

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

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

4. *Optional Redemption*

- 4.1 The Preferred Securities shall not be redeemable prior to 20 October 2008. All, or some only, of the Preferred Securities may be redeemed, at the option of the Issuer but subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling on or after 20 October 2008, at the Redemption Price per Preferred Security.

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

- 4.2 If the Issuer gives a notice of redemption in respect of Preferred Securities, then, by 12:00 (London time) on the relevant redemption date, the Issuer will irrevocably deposit with the Principal Paying Agent immediately available funds sufficient to pay the Redemption Price and will give the Principal Paying Agent irrevocable instructions and authority to pay the Redemption Price to each person in physical custody of the relevant Preferred Security against surrender of the relevant Preferred Security. If notice of redemption shall have been given and funds deposited as required, then, upon the date of such deposit, all rights in respect of the relevant Preferred Securities will cease, except the right to receive the Redemption Price and, subject as provided below, the Preferred Securities so deposited (upon payment of the Redemption Price) will cease to be in issue. Subject to any applicable fiscal or other laws and regulations, payment of the Redemption Price will be made by the Principal Paying Agent in the manner specified in paragraph 2.3 above. If payment of the Redemption Price in respect of any Preferred Securities is improperly withheld or refused by the Issuer (or by the Bank pursuant to the Guarantee) distributions on such Preferred Securities will continue to accrue from the redemption date to the date of payment of the Redemption Price.

5. *Purchases of Preferred Securities*

In order to comply with certain Spanish capital adequacy regulations in force as at 16 October 2003, the Issuer, the Bank or any Subsidiary shall not at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than 20 October 2008. Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before 20 October 2008, then, subject to the applicable law then in force, the Issuer, the Bank or any Subsidiary may at any time and from time to time purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

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

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

6.1 *The Syndicate*

6.1.1 The Syndicate will be constituted upon the registration of the Public Deed of Issuance with the Mercantile Registry of Madrid by the holders of the Preferred Securities, as from the moment on which entries are made at the relevant accounting registries or relevant definitive Preferred Securities are issued, as appropriate.

6.1.2 The rules governing the functioning of the Syndicate and the rules governing its relationship with the Issuer are contained in the regulations of the Syndicate (the “**Regulations**”) attached to the Public Deed of Issuance and set out under “The Regulations” on page 17. The temporary Trustee of the Syndicate will be José Manuel Yélamos, of Spanish nationality and of lawful age. Upon the subscription of the Preferred Securities, the Trustee will call a general assembly of the Syndicate (the “**General Assembly**”), the duty of which shall be to ratify or oppose the acts of the temporary Trustee, confirm him in his post or appoint a person to substitute him and to ratify the Regulations.

6.1.3 The representative body of the Syndicate is the General Assembly, and it has the power to agree all necessary measures to improve the protection of the legitimate interests of holders of the Preferred Securities as against the Issuer and the Bank; modify, in agreement with the Issuer and the Bank, the terms and conditions of the Preferred Securities or the Guarantee; remove or appoint the Trustee; undertake all appropriate judicial action and approve the costs resulting from the defence of common interests.

6.1.4 In accordance with paragraph 6.1.3 above, any amendment to the terms and conditions of the Preferred Securities (including any amendment to the Guarantee) shall be approved by the Syndicate in a General Assembly convened for such purpose.

The Issuer will notify any proposed amendment to the terms and conditions of the Preferred Securities to the Trustee and the General Assembly of the Syndicate shall be convened by the directors of the Issuer or by the Trustee, in accordance with the rules governing the calling and holding of the General Assembly contained in the Regulations. Any resolution to amend the terms and conditions will be adopted by the holders of Preferred Securities in accordance with the provisions for majorities established in the Regulations.

6.2 *Voting Rights*

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

If any of the circumstances set out in 6.2.2, 6.2.3 or 6.2.4 below occur, then the Syndicates Global Assembly will be called by the directors of the Issuer or by the Trustee appointed as Trustee of the issue first made and currently outstanding (the “**General Trustee**”) at its own discretion or at the request of the holders of preferred securities representing at least one twentieth of the aggregate liquidation preference of the preferred securities outstanding.

The convening of the Syndicates Global Assembly will be carried out in accordance with the rules governing the calling and holding of such assemblies contained in the regulations of each of the syndicates of holders of existing preferred securities.

In the Syndicates Global Assembly all resolutions shall be made by an absolute majority of the liquidation preference of the preferred securities present or represented, and will be binding on all of the holders of such preferred securities, including those not in attendance and dissenters. The quorum, at first call, shall be holders of preferred securities holding two-thirds of the liquidation preference of all preferred securities issued and outstanding. If the attendance of two-thirds of the holders of preferred securities issued and outstanding cannot be obtained, the Syndicates Global Assembly can be re-convened one month after the date of the first call, with the resolutions at such re-convened meeting being adopted by absolute majority of the liquidation preference of the

attendees. These resolutions shall be binding on all holders of preferred securities, in the same manner as referred to above.

Apart from the Preferred Securities, the Issuer has not issued any preferred securities, and accordingly, until such time as the Issuer does issue a new series of preferred securities, the Syndicate of holders of the Preferred Securities will assume the duties of the Syndicates Global Assembly.

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

- (a) In the event that neither the Issuer nor the Bank pays full Distributions in respect of the Preferred Securities for four consecutive Distribution Periods, the Board of Directors of the Issuer or the General Trustee will call a meeting of the Syndicates Global Assembly, which will resolve to appoint two further members to the board of directors of the Issuer. The Syndicates Global Assembly may also remove or replace such directors.
- (b) Immediately following a resolution for the appointment or the removal of additional members to the board of directors, the General Trustee shall give notice of such to:
 - (1) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and
 - (2) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.

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

- (c) The foregoing shall apply, in respect of the Preferred Securities, provided that, where the Issuer has failed to fulfil its obligation to make Distributions in respect of the Preferred Securities, the Guarantor has not discharged such obligations pursuant to the Guarantee.
- (d) Any member of the board of directors named pursuant to the foregoing shall vacate his position if, subsequent to the circumstances giving rise to his appointment, the Issuer or the Bank makes Distributions, in respect of the Preferred Securities and any other preferred securities in circulation, in respect of four succeeding consecutive Distribution Periods.
- (e) Both the appointment and the dismissal of directors shall be announced on behalf of the Issuer in accordance with paragraph 8 below.

6.2.3 *Dissolution and winding-up of the Issuer*

- (a) With respect to the carrying out by the board of directors of the Issuer or the Bank of any act providing for the dissolution and winding-up of the Issuer, the intention to adopt such acts will be notified immediately to the Trustees of all of the syndicates of existing preferred securities, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders' equity of the Bank pursuant to Article 169 of the Spanish Corporations Law.
- (b) Once the notice referred to in paragraph (a) above has been received, the directors of the Issuer or the General Trustee shall call the Syndicates Global Assembly in accordance with the rules explained above. The agenda of the Syndicates Global Assembly shall contain a resolution to vote for or against the dissolution and winding-up of the Issuer.
- (c) The General Trustee shall give notice of the result of the aforementioned vote to the shareholders of the Issuer.
- (d) The board of directors of the Issuer are not permitted to call a general meeting of shareholders, nor may the shareholders of the Issuer hold a universal meeting of shareholders, until the Syndicates Global Assembly has resolved to vote for or against the dissolution or winding-up of the Issuer.
- (e) The shareholders of the Issuer have undertaken to vote, in the corresponding general meeting of shareholders, in conformity with the result of the vote of the Syndicates Global Assembly.

6.2.4 Further issuance of preferred securities

The issuance of further Preferred Securities or of other preferred securities by the Issuer will not require the approval of the Syndicates Global Assembly except in the event that the Issuer has duly not made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

6.3 Pre-emptive Rights and other provisions

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

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

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

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

7. Taxation

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

In accordance with current Spanish law, payments under the Preferred Securities to a non-Spanish-resident holder (other than a holder acting through a permanent establishment in Spain, or resident for tax purposes in a tax haven territory, as defined in Royal Decree 1080/1991, of 5 July) shall be made without withholding or deduction provided that such holder complies with the applicable formalities, if and as required by the law, to evidence its tax residence. These formalities may extend to requiring the relevant holder to have provided to the Issuer or the Bank or their agent (such as the Principal Paying Agent), prior to any payment under the Preferred Securities, the relevant tax residence certificate issued by the tax authorities of such holder’s state of residence. Such certificates are valid in Spain for six months from their date of issuance. Payments under the Preferred Securities to holders which do not comply with these formalities may be subject to Spanish withholding tax, currently at the rate of 15 per cent. Payments under the Preferred Securities to: (a) holders which are resident for tax purposes in a tax haven territory, as defined; and (b) holders operating through a permanent establishment in Spain, will be subject to Spanish withholding tax, currently at the rate of 15 per cent.

See “Taxation – Spanish Taxation” for a fuller description of certain tax considerations relating to the Preferred Securities and for a description of certain disclosure requirements imposed on the Issuer and the Bank relating to the identity of holders of Preferred Securities.

8. Notices

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

newspaper of wide circulation in The Netherlands or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe, (iv) by publication in a newspaper of wide circulation in Spain and (v) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice relates).

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

9. Form

The Preferred Securities will be issued in bearer form.

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

10. Use of proceeds

The net proceeds of the Preferred Securities are Euro 294,000,000 and will be deposited in their entirety on a permanent basis with the Bank or with another credit entity (*entidad de crédito*) of the Group and will be used for the Group's general corporate purposes.

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

11. Agents

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

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

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

12. Governing law and Jurisdiction

12.1 Governing Law

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

12.2 Jurisdiction

The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that the courts of Madrid are to have jurisdiction to settle any disputes which may arise out of or in connection with the Preferred Securities and that accordingly any suit, action or proceedings arising out of or in connection with the Preferred Securities (together referred to as "**Proceedings**") may be brought in such courts. The Issuer irrevocably waives any objection which it may have now or hereinafter to the laying of the venue of any Proceedings in the courts of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor

shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

THE REGULATIONS

*This is a translation into English of the Regulations as attached to the Public Deed of Issuance.
The Spanish version of these Regulations shall prevail.*

REGULATIONS OF THE SYNDICATE OF HOLDERS OF THE SERIES A PREFERRED SECURITIES OF POPULAR CAPITAL, S.A.

CHAPTER I

Formation, Objects, Address and Duration

Section I. Formation. – The Syndicate of holders of Series A Preferred Securities shall be formed after the Public Deed of Issuance has been registered, by those persons acquiring the Series A Preferred Securities, as from the moment on which entries are made at the relevant accounting registries or relevant definitive certificates in respect of the Series A Preferred Securities are issued, as appropriate.

Section 4 of Part X of the Spanish Corporations Law (*Ley de Sociedades Anónimas*), and any legislation auxiliary thereto, shall apply to the Syndicate.

Section II. Objects. – The objects and purpose of this Syndicate is protection of the rights and legitimate interests of holders of Series A Preferred Securities as against Popular Capital, S.A. as Issuer and Banco Popular Español, S.A. as Guarantor of the issue of Series A Preferred Securities, in accordance with current law.

Section III. Address. – The address of the Syndicate shall be calle Ortega y Gasset, 29, Madrid.

Section IV. Duration. – The Syndicate will remain in existence whilst there are Series A Preferred Securities in circulation and, once these have been redeemed or cancelled, until Popular Capital, S.A. or Banco Popular Español, S.A. have fulfilled their obligations to the holders of Series A Preferred Securities.

CHAPTER II

General Assembly

Section V. General Meeting of Holders of Series A Preferred Securities. – The supreme representative body shall be the Assembly of holders of Series A Preferred Securities, with power to resolve matters as necessary for best protection of the legitimate interests of holders of Series A Preferred Securities as against the Issuer and the Guarantor; to modify, in agreement with such entities, the terms and conditions of the Series A Preferred Securities or the guarantee established thereof; to appoint and remove the Trustee; to bring the corresponding judicial actions as appropriate, and to approve the expenses incurred in the protection of common interests.

As soon as the issue is subscribed for, the Trustee shall convene a General Assembly of holders of Series A Preferred Securities which must approve or censure the management thereof, confirm the same in his position or designate a person to replace him, and establish the definitive internal Syndicate Regulations, conforming to the provisions of the deed of issue.

Section VI. Resolutions. – All resolutions shall be taken by an absolute majority with an attendance of two thirds of the Series A Preferred Securities in circulation and shall be binding on all holders of Series A Preferred Securities, including those who do not attend and dissenters. Each Series A Preferred Security shall grant entitlement to one vote, and the Chairman shall have a casting vote in the event of a tie, if a holder of Series A Preferred Securities. If two thirds of the Series A Preferred Securities in circulation are not represented by those attending, the Assembly may be again convened one month after the first meeting and resolutions may then be taken by an absolute majority of those in attendance. The said resolutions shall be binding on holders of Series A Preferred Securities in the same manner as previously established.

Resolutions of the Assembly may nevertheless be challenged by holders of Series A Preferred Securities in those cases laid down by law.

Section VII. Proxies. – Holders of Series A Preferred Securities may delegate their representation to another person, whether or not a holder of Series A Preferred Securities, by an individual signed letter for each meeting.

Section VIII. Convening Meetings. – The General Assembly of holders of Series A Preferred Securities may be convened by the Directors of the Issuer or by the Trustee, whenever the same consider the same desirable for protection of the rights of holders of Series A Preferred Securities or to examine proposals of the Board of Directors of the Issuer.

The Trustee shall convene the same when so required by the Board of Directors of the Issuer or so requested by holders of Series A Preferred Securities representing at least one twentieth part of the Series A Preferred Securities issued and not redeemed. The Trustee may request the attendance of the Directors of the Issuer and they may attend even if they have not been formally notified.

The meeting shall be convened (i) so long as any Series A Preferred Security is listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, by publication in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe (ii) so long as any Preferred Security is listed on the Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (which is expected to be the *Börsen-Zeitung*) and in the *Federal Gazette*, (iii) so long as any Preferred Security is listed on the Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Euronext Official Daily List (*Officiele Prijscourant*) of Euronext Amsterdam and in a daily newspaper of wide circulation in The Netherlands or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe, (iv) by publication in a newspaper of wide circulation in Spain and (v) by mail to Clearstream Banking Frankfurt, Euroclear and to Clearstream, Luxembourg in each case not less than 10 days in advance.

If the Assembly is to deal with or resolve matters relating to modification of the terms and conditions of the issue or others of similar importance in the view of the Trustee, it must be convened within the periods and subject to the requirements laid down by Section 97 of the Spanish Corporations Law for General Shareholders Meetings.

Notwithstanding the foregoing, the Assembly shall be deemed to be convened and validly constituted to deal with any matter provided that all holders of Series A Preferred Securities are present and they unanimously agree to hold the Assembly.

Section IX. Right of attendance. – All holders of Series A Preferred Securities who evidence possession of their securities five days prior to the date of the Assembly shall be entitled to attend with the right to speak and vote. Possession must be accredited in the manner and subject to the requirements set out in the announcement published when convening the Assembly.

The Directors of the Issuer, the Trustee and the Secretary may further attend with the right to speak but not vote. The latter two, if holders of Series A Preferred Securities, shall also be entitled to vote.

In the case of co-owners of one or more Series A Preferred Securities, those concerned must designate one of their number to represent them, with rotation in default of agreement on designation.

In the case of a usufruct of Series A Preferred Securities, the usufructuary shall be entitled to the interest and the bare owner to the remaining rights. In the case of a pledge, the holder of Series A Preferred Securities shall exercise all rights and the pledge creditor must facilitate the exercise thereof by the debtor until the pledge is enforced.

Section X. Minutes. – Minutes of the Assembly shall be signed by the Chairman and Secretary and copies and certificates issued in respect thereof shall be signed by the Secretary with the approval of the Chairman.

Section XI. Chairman. – The Assembly shall be chaired by the Syndicate Trustee or person replacing the same, who shall designate a Secretary who need not be a holder of Series A Preferred Securities.

Section XII. Syndicate Trustee. – The body shall be chaired by the Syndicate Trustee with the powers granted thereto by law, these Regulations, the deed of issue of the Series A Preferred Securities and those granted to the same by the General Assembly of holders of Series A Preferred Securities to bring and exercise actions and rights corresponding thereto, acting as intermediary between the Issuer and the Syndicate.

In the event of absence or illness of the Trustee, the same shall be replaced by the holder of Series A Preferred Securities delegated by the same and, in the absence thereof, the holder of Series A Preferred Securities

holding the greatest number of Series A Preferred Securities, until the Assembly resolves on a new appointment, as the case may be.

Notwithstanding the foregoing, if a replacement Trustee is designated, the latter shall stand in for the same in the said cases of illness or absence.

Section XIII. Proceedings. – Proceedings or actions which affect the general or collective interests of the holders of Series A Preferred Securities may only be directed on behalf of the Syndicate pursuant to authorisation by the General Assembly of holders of Series A Preferred Securities and shall be binding on them all without distinction, without prejudice to the right to challenge resolutions of the Assembly laid down by law.

All holders of Series A Preferred Securities who wish to exercise an action of this nature must submit the same to the Syndicate Trustee who, if he considers the same to be well founded, shall convene the General Assembly.

If the General Assembly rejects the proposal of such holder of Series A Preferred Securities, no holder of Series A Preferred Securities may reproduce the same on an individual basis before the Courts unless there is a clear inconsistency between the resolutions and regulations of the Syndicate.

Section XIV. Agreement by Holders of Series A Preferred Securities. – Subscription for or possession of the Series A Preferred Securities shall mean that each holder of Series A Preferred Securities fully ratifies the issue agreement, membership thereof of the Syndicate and these Regulations and agreement to the same having full legal liability for all purposes.

Section XV. Expenses. – Expenses incurred in the functioning of the Syndicate shall be for account of the Issuer and in any event may not exceed 2 per cent. of the annual distribution accrued by the Series A Preferred Securities issued.

Section XVI. – In situations for which no provision is made in these Regulations or in current legislation, the Articles of Association of the Issuer shall apply on a supplementary basis.

CHAPTER III

Syndicates Global Assembly

Section XVII. Syndicates Global Assembly. – The holders of the Preferred Securities, together with the rest of the holders of preferred securities ranking *pari passu* with the Preferred Securities that Popular Capital, S.A. may issue in the future shall constitute, in the event of the occurrence of the circumstances described below, the Syndicates Global Assembly of holders of preferred securities issued by Popular Capital, S.A. (the “**Syndicates Global Assembly**”).

Section XVIII. Convening Meetings. – The Syndicates Global Assembly may be convened by the Directors of the Issuer or by the General Trustee at its own discretion or when so requested by holders of preferred securities representing at least one twentieth of the aggregate liquidation preference of outstanding preferred securities of Popular Capital, S.A., upon the occurrence of one of the following circumstances:

- (i) failure to pay Distributions for four succeeding consecutive Distribution Periods; or
- (ii) the dissolution and winding-up of the Issuer except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders’ equity of the Bank pursuant to Article 169 of the Spanish Corporations Law; or
- (iii) issuance of further preferred securities when the Issuer has not made the most recent distribution required in respect of the preferred securities issued and outstanding.

Any such meeting will be carried out in accordance with the rules governing the calling and holding of such assemblies contained in the regulations of each of the syndicates of holders of existing preferred securities.

Section XIX. General Trustee. – The Trustee of the Syndicates Global Assembly, or the General Trustee, shall be the Trustee of the syndicate of holders of the issue of preferred securities first made and currently outstanding at the time the meeting is convened (the “**General Trustee**”).

Section XX. Resolutions. – With regard to this Syndicates Global Assembly, all resolutions shall be adopted by a clear majority of the liquidation preference of preferred securities present or represented, the quorum

being holders of two thirds of the liquidation preference of preferred securities issued and outstanding, and shall be binding upon all holders of preferred securities, including those not in attendance and dissenters.

In the event that holders of two thirds of the liquidation preference of preferred securities issued and outstanding are not present, the Syndicates Global Assembly may be re-convened one month after the first call, whereby resolutions may be adopted by a clear majority of the liquidation preference of preferred securities represented by the attendees. Such resolutions shall be binding upon all holders of preferred securities, in the same manner as referred to above.

Section XXI. – Where this Chapter does not provide for any aspect of the working of the Syndicates Global Assembly, the provisions of the Regulations of each syndicate of holders of preferred securities issued and outstanding at the time the relevant meeting is convened shall apply.

THE GUARANTEE

THIS GUARANTEE (the “Guarantee”), dated 16 October 2003, is executed and delivered by Banco Popular Español, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Bank**” or the “**Guarantor**”) for the benefit of the Holders (as defined below).

WHEREAS, the Bank wishes to procure the issue by Popular Capital, S.A., a limited liability company (*sociedad anónima*) incorporated under the laws of the Kingdom of Spain (the “**Issuer**”) of the Euro 300,000,000 Series A 6 per cent. Non-cumulative Perpetual Guaranteed Preferred Securities (the “**Preferred Securities**”) and the Bank wishes to issue this Guarantee for the benefit of the Holders, as provided therein.

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

1. *Definitions*

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

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

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

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

“**Distribution Payment Date**” means 20 January, 20 April, 20 July and 20 October in each year, commencing on 20 January 2004;

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

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

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

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

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

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

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

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

“**Offering Circular**” means the offering circular dated 16 October 2003 relating to the Preferred Securities;

“**Parity Securities**” means any preferred securities (*participaciones preferentes*) or securities or other instruments equivalent to preferred securities issued by the Issuer, or any other Subsidiary, including the preference shares issued by BPE Preference International Limited, and entitled to the benefits of a guarantee ranking *pari passu* as to participation in profits with the Bank’s obligations under this

Guarantee, or issued by the Bank and ranking *pari passu* as to participation in profits with the Bank's obligations under this Guarantee;

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

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

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

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

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

2. **Guarantee**

2.1 *Guarantee*

Subject to the limitations contained in the following paragraphs of this Clause 2, the Bank irrevocably and unconditionally agrees to pay in full to the Holders, the Guarantee Payments (to the extent not paid by the Issuer), as and when due, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is continuing, irrevocable, unconditional and absolute.

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

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

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

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

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

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

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

2.4 *Pro rata Payments*

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

limitations. The determination of any such limitation of the Bank's obligations under this Guarantee as set forth will be made on the relevant Distribution Payment Date, redemption date or Liquidation Date, as the case may be.

2.5 *Ranking of the Guarantee*

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

2.6 *Acceptance of the Guarantee*

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

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

3.1 *Waiver*

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

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

3.2 *Obligations and Commitments of the Guarantor*

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

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

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

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

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

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

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

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

3.3 *Subrogation*

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

3.4 *Deposit of the Guarantee*

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

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

4.1 *No further issues*

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

4.2 *Non-Payments*

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

4.3 *Ownership*

With respect to the Issuer, 100 per cent. of the voting shares of which are owned directly or indirectly by the Bank, the Bank undertakes to maintain such level of ownership for so long as any Preferred Securities of the Issuer shall remain outstanding.

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

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

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

4.3.3 to vote, in the corresponding general meeting of shareholders of the Issuer, in conformity with the result of the vote of the Syndicates Global Assembly with respect the issuance of further Preferred

Securities or of other preferred securities where the Issuer has not duly made the most recent distribution required in respect of the preferred securities issued and outstanding at the time.

5. *Termination of the Guarantee*

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

6. *General*

6.1 *Successions and Assigns*

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

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

6.2 *No Transfer*

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

6.3 *Amendments*

Except for those changes (a) required by Clause 4.1 hereof, (b) which do not adversely affect the rights of Holders or, (c) necessary or desirable to give effect to any one or more transactions referred to in the proviso to Clause 6.1 (in any of which cases no agreements will be required), this Guarantee shall be changed only by agreement in writing signed by the Bank with the prior approval of the Syndicate in a general assembly convened for such purpose, in accordance with the rules governing the calling and holding of the general assembly contained in the regulations of the Syndicate.

6.4 *Notices*

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

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

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

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

Frankfurt Stock Exchange and the Frankfurt Stock Exchange so requires, by publication in a leading national German newspaper approved by the Frankfurt Stock Exchange (which is expected to be the *Börsen-Zeitung*) and in the *Federal Gazette*, (iii) so long as any Preferred Security is listed on the Euronext Amsterdam and Euronext Amsterdam so requires, by publication in the Euronext Official Daily List (*Officiele Prijscourant*) of Euronext Amsterdam and in a daily newspaper of wide circulation in The Netherlands or, if such publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe, (iv) by publication in a newspaper of wide circulation in Spain and (v) by mail to Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

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

6.5 *Annual Reports*

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

7. ***Law and Jurisdiction***

7.1 *Law*

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

7.2 *Jurisdiction*

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

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

BANCO POPULAR ESPAÑOL, S.A.

By:

POPULAR CAPITAL, S.A.

The Issuer was incorporated on 23 July 2003 for an indefinite period of time as a limited liability company (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at calle Velázquez 34, esquina Goya 35, 28001 Madrid. The Issuer is registered in Volume 18,873, Book 6, Folio 47, Section 8, Sheet M-329290, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The Issuer has not conducted any operations or issued any debt obligations in any form to date. The authorised share capital of the Issuer is Euro 90,000 divided into 90 ordinary shares, each with a par value of Euro 1,000. The subscribed and fully paid up share capital is Euro 90,000.

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

The directors of the Issuer are Mr. Luis Felipe Marcos García, Ms. Cristina Bajo Martínez and Mr. Javier Moreno Navarro. Outside the Issuer, Ms. Cristina Bajo Martínez and Mr. Luis Felipe Marcos García work principally as legal advisors of the Bank. Mr. Javier Moreno Navarro works principally as a financial officer of the Bank. The directors do not carry on any business activities outside the Bank.

The business address of Mr. Luis Felipe Marcos García and Ms. Cristina Bajo Martínez is Velázquez 34, 28001 Madrid. The business address of Mr. Javier Moreno Navarro is José Ortega y Gasset, 29, 28006 Madrid.

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

Capitalisation of the Issuer

The following table sets out the short-term liabilities, long-term liabilities and stockholders' equity of the Issuer as at the date hereof, adjusted to give effect to the issue of the Preferred Securities and the application of the proceeds as described under "Description of the Preferred Securities — Use of Proceeds", and is derived from the unaudited financial statements of the Issuer as at the date hereof. There has been no material change in the capitalisation of the Issuer since 23 July 2003, being the date of its incorporation.

	<i>(in thousands of Euro)</i>
Short-term liabilities	—
Long-term liabilities	—
Preferred Securities	300,000
	<u>300,000</u>
Stockholders' equity	
Share capital ¹	90
Reserves	—
Retained earnings	—
	<u>—</u>
Total stockholders' equity	90
	<u>90</u>
Total capitalisation	<u><u>300,090</u></u>

Notes:

1 The share capital is subscribed as follows:

- (a) Banco Popular Español, S.A. — 81 ordinary shares
- (b) Gestora Popular, S.A. — 9 ordinary shares

BANCO POPULAR ESPAÑOL, S.A.

Background

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

The Bank and its consolidated subsidiaries (the “**Group**” or “**Popular**”) is Spain's fifth largest banking group (including savings banks) ranked by total assets. At 31 December 2002 the Group had total assets of Euro 42,005,120,000, customer funds of Euro 29,945,653,000 and shareholders funds of Euro 2,586,480,000 (after distribution of year's income). The Group's net income for the year ended 31 December 2002 amounted to Euro 687,735,000.

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

The Bank's shares are listed on all the Spanish stock exchanges and on the Paris Stock Exchange. At 31 December 2002, Allianz Ras held 9.52 per cent. of the Bank's share capital. The Board of Directors control approximately 31 per cent., institutional investors approximately 52 per cent. and individual shareholders approximately 16 per cent. of the Bank's share capital.

The Group

At 2002 year-end the Group included nine other banks which were either wholly- or majority-owned and managed:

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

The Group also includes a total of 13 companies handling substantially all the range of financial services: factoring, mutual and pension fund management, securities intermediation, portfolio management, life insurance, insurance broking, venture capital investment and equipment renting. Some of these companies are joint ventures of Banco Popular and leading partner entities. The Group also includes other minor companies and several instrumental companies to support its activities.

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

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

Banco Popular Group. Companies comprising the consolidated group, the nonconsolidable group and the multigroup companies at 31 December 2002

Registered offices, line of business and consolidation method

	Address		Line of business	Consolidation method
Deposit-taking entities:				
Banco Popular Español	Velázquez, 34	Madrid	Banking	Global integration
Banco de Andalucía	Fernández y González, 4	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
Bancopopular-e	Velázquez, 34	Madrid	Banking	Global integration
Banco Popular France	8, Rue D'Anjou	Paris	Banking	Global integration
Banco Popular Hipotecario	Velázquez, 64-66	Madrid	Banking	Global integration
Popular Banca Privada	P° Castellana, 95	Madrid	Banking	Global integration
Finance companies:				
Heller Factoring Española	María de Molina, 54	Madrid	Factoring	Proportional integration
Heller Factoring Portuguesa	Rua Castilho, 39	Lisboa	Factoring	Global integration
Portfolio and service companies:				
Europensiones	María de Molina, 34	Madrid	Pension plan management	Global integration
Fortior Holding	P° Castellana, 95	Madrid	Share ownership	Global integration
Gestión Premier Fund	Boulevard Royal, 261	Luxemburgo	Mutual fund management	Global integration
Gestora Europea de Inversiones	Velázquez, 64-66	Madrid	Portfolio management	Global integration
Gestora Popular	J.Ortega y Gasset, 29	Madrid	Share portfolio & ownership	Global integration
Iberagentes Previsión	P° Castellana, 95	Madrid	Pension plan management	Global integration
Popular Bolsa	Velázquez, 64-66	Madrid	Stockbroking	Global integration
Popular de Participaciones Financieras	Velázquez, 64-66	Madrid	Venture capital company	Global integration
Popular Gestión Privada	P° Castellana, 95	Madrid	Mutual fund management	Global integration
Sogeval	Velázquez, 64-66	Madrid	Mutual fund management	Global integration
Instrumental companies:				
Aliseda	J.Ortega y Gasset, 29	Madrid	Asset ownership	Global integration
Aula 2000	J.Ortega y Gasset, 29	Madrid	Services	Global integration
BPE Finance International	Ugland House	GeorgeTown	Finance	Global integration
BPE Capital International	Ugland House	GeorgeTown	Finance	Global integration
BPE Preference International	Ugland House	GeorgeTown	Finance	Global integration
Finespa	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Iberagentes Servicios	P° Castellana, 95	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 Asia Trade	13/F Tim Mei Avenue	Hong Kong	Finance	Global integration
Urbanizadora Española	J.Ortega y Gasset, 29	Madrid	Property	Global integration
Nonconsolidable group				
DesarrolloAplicaciones Especiales	Capitán Haya, 38	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 Rio	Ibiza	Asset ownership	Equity method companies
Popular de Comunicaciones	J.Ortega y Gasset, 29	Madrid	Communications services	Equity method companies
Popular de Informática	J.Ortega y Gasset, 29	Madrid	IT services	Equity method companies
Popular de Renting	Velázquez, 64-66	Madrid	Renting	Equity method companies
Proasurancas	8, Rue D'Anjou	Paris	Insurance broking	Equity method companies
Promoción Social de Viviendas	J.Ortega y Gasset, 29	Madrid	Asset ownership	Equity method companies
Sicomi	J.Ortega y Gasset, 29	Madrid	Dormant	Equity method companies
Nonconsolidable multigroup companies				
Dieznet Comercio Electrónico	J.Ortega y Gasset, 29	Madrid	E-commerce	Equity method companies
Sociedad Preparatoria de Medios de Pago	Velázquez, 130	Madrid	Means of payment	Equity method companies

Banco Popular Group. Group and multigroup companies at 31 December 2002

Percentage of direct and indirect ownership and book value of holdings

	% of ownership		Total	Book value of holding (€ thousand)
	Direct	Indirect		
Deposit-taking entities:				
Banco de Andalucía	79.81	0.02	79.83	162,739
Banco de Castilla	95.16	—	95.16	71,047
Banco de Crédito Balear	64.44	0.03	64.47	30,458
Banco de Galicia	92.01	0.01	92.02	55,332
Banco de Vasconia	96.82	0.02	96.84	32,460
Bancopopular-e	100.00	—	100.00	24,908
Banco Popular France	100.00	—	100.00	9,538
Banco Popular Hipotecario	99.94	0.06	100.00	106,476
Popular Banca Privada	—	60.00	60.00	11,721
Finance companies:				
Heller Factoring Española	50.00	—	50.00	4,815
Heller Factoring Portuguesa	49.76	—	49.76	19,469
Portfolio and service companies:				
Europensiones	51.00	—	51.00	7,968
Fortior Holding	52.50	7.50	60.00	79,341
Gestión Premier Fund	—	60.00	60.00	77
Gestora Europea de Inversiones	100.00	—	100.00	651
Gestora Popular	100.00	—	100.00	6,805
Iberagentes Previsión	—	60.00	60.00	522
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
Sogeval	100.00	—	100.00	3,002
Instrumental companies:				
Aliseda	100.00	—	100.00	2,592
Aula 2000	100.00	—	100.00	6
BPE Finance International	100.00	—	100.00	46
BPE Capital International	100.00	—	100.00	46
BPE Preference International	100.00	—	100.00	52
Finespa	4.19	95.81	100.00	8,058
Iberagentes Servicios	—	60.00	60.00	36
Inmobiliaria Viagracia	100.00	—	100.00	20,632
Inmobiliaria Vivesa	100.00	—	100.00	3,113
Intermediación y Servicios Tecnológicos	100.00	—	100.00	1,202
Popular Asia Trade	100.00	—	100.00	—
Urbanizadora Española	97.54	—	97.54	10,381
Nonconsolidable group				
Desarrollo Aplicaciones Especiales	50.67	—	50.67	47
Eurocorredores	90.00	10.00	100.00	62
Eurovida	37.00	10.47	47.47	4,276
Inversiones Inmobiliarias Alprosa	—	100.00	100.00	3,453
Panorama Ibicenca	—	100.00	100.00	357
Popular de Comunicaciones	99.84	0.16	100.00	61
Popular de Informática	99.84	0.16	100.00	61
Popular de Renting	100.00	—	100.00	1,563
Proassurances	—	100.00	100.00	8
Promoción Social de Viviendas	—	91.17	91.17	550
Sicomi	—	100.00	100.00	7
Nonconsolidable multigroup companies				
Dieznet	50.00	—	50.00	500
Sociedad Preparatoria de Medios de Pago	20.00	—	20.00	180

Banking

The Group is engaged in all aspects of general banking but with a strong focus on the domestic retail sector where it enjoys a strong position particularly in the small business sector. It has a national presence with 5 regional banking subsidiaries in which it has majority control (Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia). At 31 December 2002 the Group had 2,160 branches and 12,464 staff.

The Group's lending is almost entirely domestic and spread throughout Spain. At 31 December 2002 Popular's lending was concentrated as follows: industry (18 per cent.); individuals (26 per cent. split 66 per cent./34 per cent. between residential and consumer loans); commerce and hotels (14 per cent.); services (15 per cent.) and construction (17 per cent.). Corporate lending is largely to small and medium-sized companies, mostly short-term and orientated towards financing commercial activity.

In March 2002 Banco Popular reached an agreement with Bayerische Hypo- und Vereinsbank A.G. to acquire the rest of Banco Popular Hipotecario S.A.'s stock to become the sole shareholder for Euro 64.4 million (Euro 918.83 for each of the 70,089 shares). In May 2002 the Bank consolidated 100 per cent. of the assets of Banco Popular Hipotecario S.A. Such assets amounted to Euro 1,619 million at the end of 2002.

Assets and Funds

Total assets

The consolidated balance sheets as of 31 December 2002 and 2001, before the allocation of income for the year, are summarised in the public reporting format demanded by the Bank of Spain.

The total on-balance sheet assets amounted to €42,005 million at 31 December 2002, €4,610 million (12.3 per cent.) more than at 31 December 2001. The average total assets during the year were €40,107 million, 16.0 per cent. higher than at 31 December 2001.

The Group also managed other customer funds in off-balance sheet savings instruments, amounting to €10,001 million at 31 December 2002, an increase of 3.3 per cent. compared with 31 December 2001. The composition of these assets is described in detail in the subsection on customer funds.

Aggregating the on- and off-balance sheet assets, the total volume of assets managed by the Group at 31 December 2002 amounted to €52,006 million, up by 10.5 per cent. since 31 December 2001.

Shareholders' equity

The Group's consolidated equity before the allocation of 2002 income amounted to €2,279 million at 31 December 2002, an increase of 12.5 per cent. year-on-year.

The Bank's capital stock was unchanged during the year at €108.6 million.

The main variations in reserve accounts in 2002, including consolidation reserves, were the allocation of €270.0 million for distribution of year 2001 earnings; the use of €33.0 million from reserves (the amount net of capitalised taxes) to fund an early retirements plan described in detail in Note 2 (i) to the consolidated financial statements; a transfer of €12.8 million of the remaining balance of a similar transaction in 2001; and €2.6 million of other consolidation adjustments.

The resulting book value per share is €11.91, compared with €0.57 at 31 December 2001.

Computable capital

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

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

In order to maintain solvency at a prudent level appropriate to the strong growth of its balance sheet, in December 2002 the Group issued €138 million of preferred stock.

At 31 December 2002, the Group's computable capital, after the distribution of income for the year, amounted to €3,490 million per the Bank of Spain regulations, an increase of €467 million (15.5 per cent.) over 2001.

At that same date, the Group's capital requirement under the Bank of Spain regulations amounted to €2,913 million and, accordingly, it had a cushion of €577 million, 19.8 per cent. over the minimum required amount. The resulting solvency ratio was 9.59 per cent., compared with the required minimum of 8 per cent.

Under the capital requirements stipulated by the Bank for International Settlements (BIS) which are those used internationally to measure the solvency of finance entities, the Group's computable capital at 2002 year end of €4,020 million was €1,097 million in excess of the required minimum of €2,924 million, signifying a BIS solvency ratio of 11.0 per cent., much above the minimum requirement of 8 per cent. Of the total amount, the Tier 1 capital amounted to €3,245 million and the ratio for this tranche was 8.88 per cent.

Customer funds

At 31 December 2002, on-balance sheet customer funds totalled €29,946 million, up by 15.8 per cent. during the year. The average customer funds balance amounted to €28,583 million, 19.6 per cent. more than at 31 December 2001. Customer funds were therefore financing 71 per cent. of the balance sheet at 31 December 2002 and the same percentage of the average balances, compared with 69 per cent. at 31 December 2001.

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

Customer deposits increased by 4.8 per cent. in 2002 to €23,690 million at 31 December, and the average balances amounted to €23,445 million, up 10.2 per cent. in the year. Private sector residents' deposits which represent 86 per cent. of the total — increased by 5.0 per cent. to €20,432 million. By type, time deposits were up by 9.8 per cent. and demand and savings accounts were up by 4.7 per cent.; temporary sales of assets declined by 22.1 per cent.

In 2002 the Group's deposits of private sector residents grew faster than those of Spanish banks as a whole, with an edge of 2.8 percentage points in average growth rates, grew slightly less (-1 percentage point) than those at savings banks, and more (+0.7 percentage points) than the aggregate for all Spanish banks and savings banks. These figures show that, as occurred in 2001, Banco Popular continued to gain market share for deposits in the domestic market, which is its priority field of activity.

Debt and other marketable securities, which amounted to €6,010 million at year end, consist of two different categories which are discussed below.

The first relates to medium-term notes issued in the Euromarket by a Group affiliate, guaranteed by Banco Popular, the proceeds of which are assigned in full to financing for residents. These notes amounted to €4,240 million at 31 December 2002, as compared with €1,968 million at 31 December 2001. This strong growth of 116.7 per cent. was the outcome of the policy of lengthening the average term of funds in order to permit prudent funding of the balance sheet in the face of the sharp growth in long-term credit, mainly for mortgages.

The second category includes the issues of commercial paper amounting to €1,745 million, compared with €1,018 million at 31 December 2001, a substantial increase of 71.4 per cent. year-on-year. These short-term (up to 18 months) securities are placed in Spain as an alternative for deposits, and should therefore be aggregated to the deposits even though under accounting regulations they appear under different captions in the balance sheet. Consequently, the total funds taken by the Group from private sector residents amounted to €22,177 million at 31 December 2002, an increase of 8.3 per cent. compared to 31 December 2001.

The subordinated debt relates to long-term debt securities which rank after common creditors for credit seniority purposes. The amount of €245 million was raised in four issues denominated in euros and other currencies by a Group subsidiary, guaranteed by Banco Popular. All these securities mature in ten years, although the issuer has the option to redeem them early after the end of the fifth year. No issues of subordinated debt were made in 2002 and, therefore, the decrease of 6.9 per cent. with respect to 2001 year end was due exclusively to exchange rate variations during the 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. These funds totalled €10,001 million at 31 December 2002, an increase of 3.3 per cent. over the figure at 31 December 2001.

The Group manages a total of 69 mutual funds through several subsidiaries and the assets managed amounted to €5,939 million, 2.1 per cent. more than at 31 December 2001. Following the acquisition of controlling stakes in two fund management companies (included in Fortior Holding) in 2002, the variation in comparable terms with 2001 was a decline of 4.7 per cent.

This decrease was due mainly to the sharp depreciation of the assets of equity funds (-17.2 per cent.) and mixed funds (-20.4 per cent.), but was lower than the decline in the stock markets during the year. The fixed interest and monetary asset (fiamm) funds performed well, with increases of 30.0 per cent. and 9.9 per cent., respectively, whereas the guaranteed funds remained flat (+0.3 per cent.).

Analysis of the variation in fund assets during 2002 discloses that the volume of new contributions was practically the same as withdrawals, while the value of the assets decreased by 4.7 per cent. Simultaneously there was a substantial transfer between funds towards those of lower risk (monetary assets and fixed-interest instruments).

The latest available advanced data (to December 2002) for this sector in Spain reveal that the total assets of mutual funds fell in 2002 for the third year running by 4.0 per cent., and by 26.7 per cent. in the case of equity funds.

According to the Bank's estimates, the Group's market share was in 2002 3.48 per cent. compared with 3.27 per cent. in 2001.

The assets and securities portfolios managed by the Group, including 37 open-end investment companies (Simcav), amounted to €610 million, an increase of 50.1 per cent. in the year. Adjusted for the effect of the inclusion in the Group of the Fortior Holding companies, the growth rate was 1.3 per cent.

The pension plans managed by the Group amounted to €2,433 million, up by 3.5 per cent. during the year. The scant growth was due to the poor performance of the markets mentioned earlier, since net inflows to pension plans were 9.7 per cent. higher than in 2001.

According to the Bank's estimates, the Group's market share in individual pension plans (at 30 September 2002, the latest date for which sector data are available) was 7.07 per cent., compared with 7.34 per cent. at 31 December 2001. Considering all types of pension plans, the market shares at those same dates were 5.31 per cent. and 5.36 per cent., respectively.

Accordingly, the Group's total on- and off-balance sheet customer funds at 31 December 2002 amounted to €39,946 million, an increase of 12.4 per cent. compared with 31 December 2001.

The following table shows the composition of total customer funds with a breakdown by type of instrument and sector at 2002 year end, with the comparative figures for 2001.

Customer funds

	2002	2001	Variation	
			Amount	%
			<i>(in thousands of Euro)</i>	
Customer deposits:	23,690,329	22,615,236	1,075,093	4.8
<i>From public bodies:</i>	366,946	311,132	55,814	17.9
Demand deposits	322,498	247,083	75,415	30.5
Savings deposits	8,708	12,054	(3,346)	(27.8)
Time deposits	35,684	51,927	(16,243)	(31.3)
Assets sold under repurchase agreements	56	68	(12)	(17.6)
Other accounts	—	—	—	—
<i>From other residents:</i>	20,432,228	19,458,265	973,963	5.0
Deposits of private-sector residents:	19,446,055	18,192,152	1,253,903	6.9
Demand deposits	7,251,913	7,025,173	226,740	3.2
Savings deposits	3,723,869	3,453,534	270,335	7.8
Time deposits	8,470,273	7,713,445	756,828	9.8
Assets sold under repurchase agreements	986,173	1,266,113	(279,940)	(22.1)
Other accounts	—	—	—	—
<i>From non residents:</i>	2,891,155	2,845,839	45,316	1.6
Demand deposits	521,167	479,390	41,777	8.7
Savings deposits	769,318	645,476	123,842	19.2
Time deposits	1,597,828	1,716,511	(118,683)	(6.9)
Assets sold under repurchase agreements	895	2,568	(1,673)	(65.1)
Other accounts	1,947	1,894	53	2.8
Bonds and other marketable debt securities	6,009,968	2,986,466	3,023,502	>
Bonds and debentures outstanding	4,264,766	1,968,146	2,296,620	>
Promissory notes and other securities	1,745,202	1,018,320	726,882	71.4
Subordinated financing	245,356	263,469	(18,113)	(6.9)
Total (a)	29,945,653	25,865,171	4,080,482	15.8
Other intermediated customer funds:				
Financial assets sold outright to customers (outstanding balances)	559,725	655,584	(95,859)	(14.6)
Mutual funds	5,939,233	5,815,695	123,538	2.1
Asset portfolio management	609,964	406,336	203,628	50.1
Pension funds	2,433,446	2,350,675	82,771	3.5
Life insurance technical reserves	458,336	457,414	922	0.2
Total (b)	10,000,704	9,685,704	315,000	3.3
Total (a+b)	39,946,357	35,550,875	4,395,482	12.4

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 "Commitments — unused portion of credit lines".

At 31 December 2002, the Group's loans and discounts totalled €34,322 million, an increase of 23.4 per cent. in the year. In May 2002 the Group acquired the 50 per cent. of the capital stock of Banco Popular Hipotecario (BPH), leading to the addition at that date of €752 million of assets, substantially all mortgage loans, to the consolidated balance sheet. Adjusted for this effect, the growth of loans and discounts was 20.5 per cent. when compared with 31 December 2001.

The average balance during 2002 amounted to €30,959 million, an increase of 20.0 per cent. over 2001.

The volume of lending represented 82 per cent. of the balance sheet total and 115 per cent. of the on-balance sheet customer funds at year end; the matching percentages for average balances during the year were 77 per cent. and 108 per cent., respectively, with a slight increase compared to 2001.

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 €33,711 million at 31 December 2002, an increase of 23.2 per cent. compared with 31 December 2001.

The credit extended to private sector residents (other residents in the table), which accounts for 95 per cent. of the total, amounted to €32,741 million, a year-on-year increase of 22.8 per cent. Analysis by type discloses that mortgage loans, mostly residential, had a year-on-year growth of 43.4 per cent. (35.3 per cent. adjusted for the inclusion of BPH), and accounted for nearly 47 per cent. of the Group's total loans and discounts. Trade discounts, which also include factoring and other transactions, were up by 6.5 per cent., leasing transactions by 12.3 per cent. and overdrafts by 15.1 per cent., while unsecured credits and loans (other term loans) grew by 5.9 per cent.

Based on Bank of Spain statistics, in 2002 the Group's loans and credits to private sector residents grew much faster than in the Spanish financial system as a whole, with an edge of 9.2 percentage points over all Spanish banks, of 2.5 percentage points over savings banks and of 6.1 percentage points on the aggregate of banks and savings banks. As was the case in 2001, Banco Popular continued to gain credit market share in 2002 in the domestic market, which is its area of priority activity.

Premises and equipment

The balance of premises and equipment at 31 December 2002, net of accumulated depreciation and provisions, amounted to €568 million, 2.1 per cent. lower than at 31 December 2001. Within this total balance, €252 million related to premises, 2.3 per cent. lower than in the previous year, and €316 million to equipment (down by 2.0 per cent.).

The premises balance includes €204 million of operating premises (for own use), the same as in 2001. Foreclosed assets had a net value of €36 million (book value of €60 million minus provisions of €24 million), and were 4.7 per cent. lower. The Group has other premises amounting to €11 million, a decrease of 26.4 per cent. during 2002.

Noteworthy in the equipment category was the investment of €40 million, mostly for information technology, during 2002; equipment depreciation amounted to €46 million.

The following table shows the variation in premises and equipment during 2002, detailing the cost values, the accumulated depreciation and the related provisions.

Premises and equipment

	2002	2001	Variation	
			Amount	%
			<i>(in thousands of Euro)</i>	
<i>Premises for own use</i>	204,257	204,289	(32)	–
Cost	285,573	280,065	5,508	2.0
Less: Accumulated depreciation	(81,316)	(75,776)	(5,540)	7.3
<i>Other premises</i>	11,477	15,600	(4,123)	(26.4)
Cost	15,524	19,459	(3,935)	(20.2)
Less: Accumulated depreciation	(4,047)	(3,859)	(188)	49
<i>Foreclosed assets</i>	35,924	37,682	(1,758)	(4.7)
Gross	59,788	63,512	(3,724)	(5.9)
Less: Allowance	(23,864)	(25,830)	1,966	(7.6)
Total premises	251,658	257,571	(5,913)	(2.3)
<i>Equipment</i>	316,622	323,023	(6,401)	(2.0)
Cost	799,894	760,101	39,793	5.2
Less: Accumulated depreciation	(482,782)	(436,660)	(46,122)	10.6
Less: Other allowances	(490)	(418)	(72)	17.2
<i>Total</i>	<u>568,280</u>	<u>580,594</u>	<u>(12,314)</u>	<u>(2.1)</u>

Non-Banking Finance and Service Subsidiaries

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

In June 2002 Banco Popular agreed to increase its stake in Iberagentes from 25 per cent. to 60 per cent. The activities of Grupo Iberagentes in private banking and financial counselling are developed through Popular Banca Privada, S.A., which began its operations in November 2001 and in December 2002 was managing assets that amounted to Euro 790 million. This bank has a network of 15 branches over the whole of the Spanish territory and it is expected to be expanded in the near future.

Strategy

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

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

International strategy

The Group has 11 branch offices (each trading as Banco Popular Español) and a factoring company (Heller Factoring Portuguesa) in Portugal. Expansion in Portugal started in 2001 and will be completed with the purchase of BNC.

At 31 December 2002, the number of branches in France (each trading as Banco Popular France) was 14.

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

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

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

Electronic banking

Since October 1998 Banco Popular has had in operation an Internet banking service (called Bank-on-line) which enables customers to carry out a broad range of banking transactions in real time, 24 hours a day, encompassing demand accounts, mutual and pensions funds, purchase and sale of financial assets and securities, tax payments, etc. At 31 December 2002, there were 884,000 Bank-on-line customers. This figure amounts to 19 per cent. of the Group's total customers.

The Group's Internet banking entity BancoPopular-e.com, S.A. ("**Banco Popular-e**"), which completed its first full year of operation at the end of 2001, has progressed very favourably. At 31 December 2002 it had 77,000 customers, 38,000 more than at the beginning of the year, of whom over 90 per cent. had no previous relationship with the Group and therefore signified a net increase in the customer base. Banco Popular-e's balance sheet total of Euro 242 million and its loan portfolio of Euro 228 million showed increases of 48 per cent. and 45 per cent. respectively between 31 December 2001 and 31 December 2002.

Bancopopular-e's ordinary margin amounted to Euro 8,297,000 in December 2002, compared with Euro 4,502,000 in December 2001, an increase of 84 per cent. year-on-year. The operating profit for the year of 4,477,000 was 225 per cent. higher than in 2001.

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

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

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

Capital

The Group's consolidated equity before allocation of 2002 income amounted to Euro 2,279 million at 31 December 2002, an increase of 12.5 per cent. year-on-year.

The Bank's capital stock was unchanged during the year 2002. The main variations in reserves accounts, including consolidation reserves, in 2002 were the allocation of Euro 270 million for distribution of year 2001 earnings; the use of a net amount of Euro 33 million from reserves to fund an early retirements plan; and transfer to reserves of Euro 13 million of pre-paid taxes arising as a result of similar plans implemented in prior years.

In comparison with the minimum 8 per cent. solvency ratio required by Banco de España, the Bank's solvency ratio was 9.59 per cent. at 31 December 2002. The Bank's BIS ratio stood at 11.00 per cent. at 31 December 2002 (Tier 1 = 8.88 per cent.).

Shareholders

At the end of 2002, the Bank had 70,816 shareholders, compared with 75,379 at the end of the previous year.

The structure of the shareholders varied slightly in 2002, with an increase in ownership by institutional investors, as occurred in previous years. Shareholders owning more than 160,000 shares held 63 per cent. of the common stock at 31 December 2002, as compared with 61.3 per cent. at 31 December 2001.

The largest individual shareholder owned 0.18 per cent. of the common stock. In the legal entities category one group owned 9.52 per cent., and a non-resident finance entity which manages a substantial number of institutional portfolios grouped together around 6.8 per cent. of the capital.

Shareholders who are employees of the Group represented 1.77 per cent. of the total number of shareholders and in aggregate owned 0.61 per cent. of the common stock, without any appreciable variation with respect to 2001.

The holdings of non-resident shareholders accounted for 50.58 per cent. of the capital at 31 December 2002, a slight decrease from the 51.75 per cent. of the previous year.

The Board of Directors controls 31.38 per cent. of the capital; this figure includes the shares owned directly or indirectly by directors and those held on a representation basis.

Earnings per share were €2.92, an increase of 12.1 per cent. compared with the €2.60 in the previous year.

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

Per share data*

Year	Average number of shares (thousands)	Net income (€)	Dividend (€)	Pay-out (%)
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

* Figures adjusted for 2 x 1 share split in 2000

** €0.78 per share was paid to shareholders out of the paid-in surplus reserves

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

Banco Popular share valuation measures*

Year	Closing price** (€)	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

* 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

Securities portfolios

The balance of the securities portfolios reflected on 31 December 2002, consolidated balance sheet was €1,114 million (gross amount of €1,127 million minus €13 million of security price fluctuation allowance), a decrease of 14.2 per cent. from 2001.

The balance of the Government debt securities portfolio (Treasury bills and “book entry system” securities) fell substantially during the year by 79.3 per cent. to €129 million at 31 December 2002.

The balance of the fixed-interest securities portfolio in 2002 was 9.9 per cent. higher than in 2001, at €544 million. The main component item is €406 million of mortgage and SME loan securitisation 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 Note 9 to the consolidated financial statements. The balance at 31 December 2002 was €391 million, compared with €123 million at the end of 2001.

Year-end security portfolios

	2002	2001	Variation	
			Amount	%
			<i>(in thousands of Euro)</i>	
<i>Government debt securities:</i>	129,346	623,813	(494,467)	(79.3)
Treasury bills	23,445	414,116	(390,671)	(94.3)
Other “book entry system” securities	105,935	209,477	(103,542)	(49.4)
Other	8	261	(253)	(96.9)
Less: Allowance for security price fluctuation	(42)	(41)	(1)	2.4
Pro memoria: Balance of security price fluctuation allowance	(42)	(41)	(1)	2.4
Deferred writedowns (unrealised losses)	—	—	—	—
<i>Other fixed-interest securities:</i>	544,143	495,348	48,795	9.9
Issued by: Public bodies	53,490	30,288	23,202	76.6
Financial intermediaries	27,775	51,391	(23,616)	(46.0)
Other residents	6,119	5,719	400	7.0
Non-residents	53,563	84,025	(30,462)	(36.3)
Mortgage-backed-bonds	337,915	231,097	106,818	46.2
Non-mortgage-backed securitisations bonds	67,915	95,182	(27,267)	(28.6)
Less: Allowance for security price fluctuation	(2,634)	(2,354)	(280)	11.9
Pro memoria: Balance of security price fluctuation allowance	(2,634)	(2,354)	(280)	11.9
Deferred writedowns (unrealised losses)	—	—	—	—
<i>Equity securities:</i>	390,872	122,590	268,282	
Gross	401,844	129,629	272,215	
Less: Allowance for security price fluctuation	(10,972)	(7,039)	(3,933)	55.9
<i>Participating interests:</i>	26,599	23,241	3,358	14.4
Gross	26,599	23,241	3,358	14.4
Less: Allowance for security price fluctuation	—	—	—	—
<i>Shares of Group companies:</i>	22,719	33,282	(10,563)	(31.7)
Gross	22,719	35,674	(12,955)	(36.3)
Less: Allowance for security price fluctuation	—	(2,392)	2,392	(100.0)
Total	1,113,679	1,298,274	(184,595)	(14.2)

The portfolios of participating interests include shares of Group, multigroup or associated companies that are carried by the equity method, which amounted to €49 million at 2002 year end, compared with €57 million in 2001.

It should be noted that Popular's equity securities portfolio contains substantial unrealised gains which, under accounting regulations, are not recorded in the books, and amounted to €990 million, based on valuation of the companies at underlying book value per their 2002 year-end balance sheets. The amount of the unrealised gains would be €2,046 million if the listed companies, including among others the five regional banks, were valued at stock market price at year end.

The table above presents a detail of the securities portfolios at 31 December 2002 and 2001, showing also the security price fluctuation allowance booked at those dates in accordance with the applicable regulations.

Recent Developments

On 9 January 2003, the Bank entered into an agreement in principle with the Portuguese corporate group headed by Mr. Américo Amorim for the purchase from him of his 75.1 per cent. stake in the capital of Banco Nacional de Crédito Imobiliário ("BNC"). BNC is a Portuguese bank which was founded in 1991 and has a network of 112 branch offices throughout Portugal. At 2002 year-end, BNC's total assets amounted to Euro 3,660 million, Also as of the above date, its loans and discounts amounted to Euro 2,900 million, customer funds amounted to Euro 2,900 million and total equity amounted to Euro 255 million. At 31 December 2002, net income amounted to Euro 26 million.

On 20 June 2003, Banco Popular acquired the above stake in BNC, 131.5 million shares, at Euro 3.2970 per share, resulting in total consideration of Euro 433.4 million, of which Euro 412.7 million relate to the issuance of 10,232,392 new common shares at Euro 40.33 per share (such securities issuance was approved at Banco Popular's Extraordinary Shareholders' Meeting on 27 May). The new shares have been fully subscribed and paid-up by Grupo Amorim through the swap of its stake in BNC. The remaining Euro 20.7 million payment was made in cash.

Also related to this acquisition, on 10 July 2003, Banco Popular launched a public offering for the acquisition of the remaining shares of BNC (24.9 per cent.) on the same terms in cash (43.5 million shares). Such public offering was registered with the Comissao do Mercado de Valores Mobiliários on 10 July, with an effective period from 14 July through to 25 July 2003, at the end of which it was accepted by all the minority shareholders.

On 27 May 2003, the Board of Directors appointed Mr. Américo Ferreira de Amorim, Mr. Vicente Santana Aparicio and Mr. Emilio Viñas Barba as Directors of the Board of Directors of Banco Popular Español.

Risk management

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

The substantial progression of the Group's lending activity in 2002 was accompanied by rigorous analysis of credit requests and ongoing monitoring of the risks, and even more so in an environment like that presently existing of economic slowdown and less visibility of the future. At the same time, in 2002 the Group strengthened its criteria of prudence by means of provisions to loss allowances which, as is customary, were higher than those set by the demanding Spanish banking regulations.

The Bank believes that the Group starts the year 2003 from a position of great soundness, in anticipation of economic recovery being weaker or tardier than expected.

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

Credit risk

Credit risk arises from the possible loss triggered by the non-recovery of loans and discounts as regards their principal, interest and other contractual obligations of the borrowers. In the case of off-balance sheet risks, it arises from the possible failure by customers to fulfil their commitments, thus forcing the Bank to assume them because of the guarantee provided.

Since the Group's activities focus mainly on the domestic commercial banking business, credit risk is the most important of the risks considered here.

Credit risk analysis requires the existence of systematic procedures for classification of risks as past due assets (in the event of breach of the loan repayment terms), doubtfully collectible assets (due to the poor state of the borrower's financial condition), or disputed assets (where the existence of litigation makes a satisfactory outcome problematical). In the following paragraphs these three categories are denominated as a whole nonperforming loans or troubled balances receivable.

Risks that it has not been possible to recover in the regulatorily stipulated terms are classified as bad debts and are written off and removed from the balance sheet using the provisions recorded for this purpose or charged directly to income, although the Bank continues to pursue repayment of them.

As coverage for its credit risk, the Bank has booked a credit loss allowance, provisions to which are charged to income and which is the sum of the three component items 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. Also, when a balance classified as troubled exceeds a stipulated percentage (25 per cent.), the regulations require a provision to be booked for the remainder of the transaction or for the total risk of that particular borrower (the so-called "carryforward" provisions).

Risk management therefore requires all the assets to be correctly classified, transferring to the nonperforming loans caption those that meet any of the aforementioned conditions, and thereafter to record provisions for covering them. As an additional measure of prudence, classification as nonperforming triggers the non-accrual of the interest on these assets, which is not recognised in income unless it is effectively collected.

Secondly, there is a general credit loss allowance covering all the assets not classified as nonperforming, provision to which is calculated as 1 per cent. of all outstanding risks (loans and discounts, private fixed-interest securities and off-balance sheet risks). The percentage is 0.5 per cent. in the case of certain mortgage assets deemed to be of low risk.

Thirdly, there is the statistical coverage allowance established by the Bank of Spain and in force since June 2000, which as in the previous case is also applied for all outstanding risks and is calculated in accordance with coefficients based on the type of risk assumed (unsecured loans and credits, secured balances, consumer financing, etc.).

Pursuant to these criteria, the control of risk quality requires a meticulous process which starts with the analysis of loan proposals, continues with the monitoring of the risks already assumed, and does not end until the borrowings are finally repaid in accordance with the projected contractual conditions.

For this purpose the Group has in place formal procedures for granting credit and for risk prevention, with which it permanently evaluates borrowers on the basis of numerous variables, especially the economic and financial situation of a borrower and the data generated by its transactions with the Bank. In the light of the resulting information, the monitoring of certain transactions is strengthened (technical alarm signals) or criteria to reduce or eliminate the related risks are established.

In addition to individualised customer-by-customer and transaction-by-transaction evaluations, the Group also analyses on an ongoing basis the structure of its loans and credits, considering their distribution by amount, term, sector, type, geographical location and other relevant attributes, in order to insure continuous appropriate diversification of the total risk exposure.

The following table is a breakdown of the Group's borrowers at 2002 year end by the amount of outstanding risk exposure to them and the nonperforming balances in each bracket.

Risk concentration as of 31 December 2002

Exposure by customer	Outstanding risk					Non-performing loans as % of total risk	Pro memoria: % in 2001
	Total risk	% of total	Credit	Off-balance sheet	Non-performing loans		
	<i>(in thousands of Euro)</i>						
Over 6,000	7,934,676	20.03	5,296,554	2,632,707	5,415	0.07	0.01
From 3,000 to 6,000	2,367,374	5.98	1,880,873	486,452	49	0.00	0.04
From 1,000 to 3,000	4,156,175	10.49	3,531,802	610,005	14,368	0.35	0.18
From 500 to 1,000	3,054,251	7.71	2,669,276	366,069	18,906	0.62	0.50
From 250 to 500	3,528,942	8.91	3,193,635	309,183	26,124	0.74	0.49
From 125 to 250	4,519,410	11.41	4,220,124	263,290	35,996	0.80	0.71
From 50 to 125	6,557,043	16.56	6,261,323	230,063	65,657	1.00	0.97
From 25 to 50	2,948,870	7.45	2,802,046	105,063	41,761	1.42	1.18
Under 25	4,537,473	11.46	4,120,771	271,701	145,001	3.20	2.60
Total	39,604,214	100.00	33,976,404	5,274,533	353,277	0.89	0.80

Banking regulations in Spain set certain limits to avoid undue concentration of risks at credit entities. The maximum exposure to any one customer or group cannot exceed 25 per cent. of the computable capital at consolidated level per Bank of Spain rules. Additionally, the total of all major risks (i.e. those exceeding 10 per cent.) must be less than 8 times the aforementioned amount of capital.

In 2002, as in 2001, the Group complied amply with the foregoing limits, since its in-house criteria are much more rigorous than the regulatorily stipulated ones. Thus, no borrower reached the limit of 10 per cent. (the biggest borrower did not reach 8 per cent.). Accordingly, the second criterion is not applicable.

Risk distribution by industry as of 31 December 2002

Industry	Outstanding risk					Percentages		
	Total risk	Distribution (%)	Credit	Off-balance sheet	Non-performing loans	Writeoffs	Non-performing loans/ Total risk	Writeoffs/ Total risk
	<i>(in thousands of Euro)</i>							
Primary activities	1,022,191	2.58	832,004	180,847	9,340	1,488	0.91	0.15
Industrial sector	7,091,749	17.91	5,616,636	1,410,738	64,375	24,282	0.91	0.34
Construction	6,685,930	16.88	5,151,230	1,498,790	35,910	10,421	0.54	0.16
Services:	13,652,165	34.47	11,657,617	1,887,805	106,743	37,351	0.78	0.27
Trade and hotels	5,683,638	14.35	5,016,760	611,841	55,037	24,130	0.97	0.42
Transport and communications	1,918,421	4.84	1,553,943	343,677	20,801	3,376	1.08	0.18
Other services	6,050,106	15.28	5,086,914	932,287	30,905	9,845	0.51	0.16
To individuals:	10,176,977	25.70	10,084,001		92,976	28,817	0.91	0.28
Home mortgages	6,721,911	16.97	6,715,877		6,034	1,655	0.09	0.02
Consumer credit and other	3,455,066	8.73	3,368,124		86,942	27,162	2.52	0.79
Unclassified	975,202	2.46	634,916	296,353	43,933	1,001	4.51	0.10
Total	39,604,214	100.00	33,976,404	5,274,533	353,277	103,360	0.89	0.26

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

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

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

At 2002 year-end, nonperforming loans, including off-balance sheet balances classified as nonperforming, amounted to €353 million, 38.0 per cent. higher than one year earlier.

Risk performance

	2002	2001	Variation	
			Amount	%
	<i>(in thousands of Euro)</i>			
<i>Nonperforming loans*:</i>				
Balance at 1 January	256,035	208,603	47,432	22.7
<i>Additions</i>	397,063	268,628	128,435	47.8
<i>Balances recovered</i>	(196,461)	(123,135)	(73,326)	59.5
Net variation for the year	200,602	145,493	55,109	37.9
% increase	78.3	69.7	8.6	
Writeoffs	(103,360)	(98,061)	(5,299)	5.4
Balance at 31 December	353,277	256,035	97,242	38.0
<i>Allowance for credit losses:</i>				
Balance at 1 January	506,129	383,891	122,238	31.8
Annual provision:				
<i>Gross</i>	312,871	253,962	58,909	23.2
<i>Recoveries</i>	(58,650)	(35,294)	(23,356)	66.2
Net	254,221	218,668	35,553	16.3
Other variations	17,081	1,631	15,450	>
Writeoffs	(95,683)	(98,061)	2,378	(2.4)
Balance at 31 December	681,748	506,129	175,619	34.7
Foreclosed real estate assets	59,788	63,512	(3,724)	(5.9)
Allowance for potential losses on foreclosed assets	23,864	25,830	(1,966)	(7.6)
<i>Pro memoria:</i>				
Total risks	39,604,214	32,098,293	7,505,921	23.4
Loans transferred to suspense accounts	748,117	673,167	74,950	11.1
Nonperforming mortgage loans	14,230	12,462	1,768	14.2
<i>Risk quality measures (%):</i>				
Nonperformance (Nonperforming loans				
Total risks)	0.89	0.80	0.09	
Insolvency (Writeoffs/Total risks)	0.26	0.31	(0.05)	
Coverage: (Credit loss allowance				
/Nonperforming loans)	192.98	197.68	(4.70)	
Coverage: (Allowance for potential losses on				
foreclosed assets/total foreclosed assets)	39.91	40.67	(0.76)	

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

The variations in this account in 2002 were: new balances classified as nonperforming of €397.1 million; recoveries of €196.5 million; and writeoffs of €103.4 million. The resulting net increase was therefore €97.2 million.

Of the total assets written off during the year, €95.7 million were written off by using credit loss allowances for the same amount and €7.7 million were charged directly to income.

The nonperforming loans balance at the end of 2002 signified a nonperforming ratio of 0.89 per cent. of total risks at that date, a slight (9 basis points) increase over the 0.80 per cent. figure at the end of 2001.

The insolvency ratio, i.e. bad debts written off as a percentage of total risks, was 0.26 per cent., 5 basis points lower than in 2001. Gross nonperforming loans in the year (before writeoffs) consequently increased by 4 basis points over 2001.

The credit loss allowance of €681.7 million at 31 December 2002, was 34.7 per cent. higher than in 2001. The balance is comprised of €151.4 million of the specific allowance, €375.6 million of the general allowance and €154.7 million of the statistical coverage allowance.

The amount of the credit loss allowance at year end signified a coverage ratio of 193.0 per cent. of the balance of troubled assets, compared to 197.7 per cent. a year earlier, and represented 1.72 per cent. of total risks, compared with 1.58 per cent. in 2001.

Considering the credit loss allowance, the net nonperforming ratio was -0.83 per cent. of total risks, an improvement of 5 basis points over the 2001 figure of -0.78 per cent.

The table below shows the required coverage for the different categories of assets at 2002 year end and the loss allowances actually booked. At the end of 2002 the balance of the credit loss allowance was €26.6 million in excess of the required amount, a considerable increase over the €9.9 million in 2001.

Allowance for nonperforming loans as of 31 December

	2002		2001	
	Balance	Total Provisioning	Balance	Total Provisioning
	<i>(in thousands of Euro)</i>			
Doubtful balances with specific allowances:	333,095	150,505	226,894	109,728
Ordinary	322,187	145,240	213,454	103,464
Secured by prime collateral	3,043	1,140	5,051	1,886
Off-balance sheet risks	7,865	4,125	8,389	4,378
Doubtful balances with general allowances	16,975	113	25,889	221
Doubtful balances for which allowances are not required	3,207		3,252	
Total nonperforming loans	353,277	150,618	256,035	109,949
Other specific provisioning	15,417	886	16,265	1,289
Allowances for ordinary risks	38,548,256	348,955	31,427,282	287,585
General provisioning (1%)	31,242,443	312,425	26,098,029	260,937
Reduced provisioning (0.5%)	7,305,813	36,530	5,329,253	26,648
Statistical allowance		154,694		97,365
Total required provisions		655,153		496,188
Balance of credit loss allowances		681,748		506,129
Surplus		26,595		9,941

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

In addition to the credit loss allowance, the Group has also booked other allowances exclusively in accordance with in-house criteria of prudence, which are not assigned to specific risks, in order to strengthen balance sheet soundness. These precautionary provisions, added to the cushion in the credit loss allowance, totalled €94 million at year end, after €55 million had been used during the year to take early amortisation of goodwill, as explained later.

Foreclosed assets, substantially all buildings, amounted to €59.8 million at year end, a decrease of 5.9 per cent. The provisions booked for possible losses on disposal of these assets amounted to €23.9 million, 39.9 per cent. of the book value of the assets.

Cross-border risk

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

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

At 2002 year end, the Group's country risk amounted to €46 million, 43.1 per cent. higher than the €32 million in 2001. The foregoing figures signified 0.12 per cent. and 0.10 per cent., respectively, of the total risks.

The allowance recorded for country risk amounted to €5.8 million, an increase of 129.7 per cent. over 2001; the increase was due to the variation in balances and to the lowering of classification of certain countries in 2002 because of their financial difficulties. The allowance represented coverage of 12.6 per cent. of the balance and includes precautionary provisions in certain cases. In 2001 the coverage was 7.9 per cent.

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

Country risk and related allowances

	2002		2001	
	Balance	Coverage (in thousands of Euro)	Balance	Coverage
Countries				
Coverage not required	35,702	—	24,460	15
Transitory difficulties	524	70	1,373	196
Doubtful	4,092	1,400	5,493	1,608
Very doubtful	5,633	4,338	789	710
Failed	—	—	—	—
Total	<u>45,951</u>	<u>5,808</u>	<u>32,115</u>	<u>2,529</u>
Coverage (%)		12.64		7.87
<i>Pro memoria:</i>				
Total risks	39,604,214		32,098,293	
Country risk total risk (%)	0.12		0.10	

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

Country-risk by balance sheet caption

	2002		2001		% Coverage	
	Balance	Coverage	Balance	Coverage	2002	2001
Due from financial intermediaries*	10,010	4,056	5,220	241	40.52	4.62
Loans and discounts	27,495	1,255	16,685	1,577	4.56	9.45
Contingent liabilities	8,446	497	10,210	711	5.88	6.96
Total	<u>45,951</u>	<u>5,808</u>	<u>32,115</u>	<u>2,529</u>	12.64	7.87

*Including fixed-interest securities

Market risk

Market risk encompasses 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- or off-balance sheet aggregates are denominated, and in the market prices of marketable financial instruments.

These risks have become increasingly important as a result of the greater volatility in the money and exchange markets and also because of the greater weight of marketable assets in the balance sheet total.

The Group has in place an Asset and Liability Committee (ALCO) to analyse and control market risk which, among other tasks, assesses the sensitivity of the balance sheet to variations in the interest rates curve and in exchange rates in differing scenarios, and defines the short- and medium-term policies for managing the prices and aggregates of assets and funds.

The following shows the 2002 year-end consolidated balance sheet on the basis of the sensitivity or non-sensitivity of assets and liabilities to interest rates, to permit assessment of the maturity and repricing gap.

The duration of interest-rate sensitive assets was 203 days and that of sensitive liabilities was 90 days. The duration of equity was 496 days. The sensitivity of equity in the event of a 1 per cent. variation in interest rates was 1.32 per cent., and that of the net interest margin, under the same hypothesis, was 1.42 per cent.

Maturity and repricing gap in the consolidated balance sheet as of 31 December 2002

	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
	<i>(in millions of Euro)</i>									
Money market	3,087.1	428.5	407.1	116.3	114.1	93.0	614.4	1.3	682.0	5,543.8
Credit market	6,340.2	4,039.8	4,039.5	2,405.3	2,321.1	2,421.3	9,809.8	697.7	1,482.5	33,557.2
Capital market	0.2	18.0	0.7	22.0	1.3	5.2	59.4	566.7	—	673.5
Other assets	—	—	—	—	—	—	—	—	2,230.6	2,230.6
Total assets	9,427.5	4,486.3	4,447.3	2,543.6	2,436.5	2,519.5	10,483.6	1,265.7	4,395.1	42,005.1
Money market	5,227.2	2,514.8	2,233.5	330.7	448.1	527.0	962.0	132.0	342.5	12,717.8
Deposit market	3,238.3	1,711.0	3,170.9	565.2	417.4	2,230.7	1,242.3	343.0	9,284.4	22,203.2
Capital market	1,284.7	399.2	574.2	50.6	32.6	43.3	39.7	4.3	—	2,428.6
Other liabilities	—	—	—	—	—	—	—	—	4,655.5	4,655.5
Total liabilities	9,750.2	4,625.0	5,978.6	946.5	898.1	2,801.0	2,244.0	479.3	14,282.4	42,005.1
Off-balance sheet transactions	(101.3)	136.8	232.1	8.9	54.0	(62.5)	(182.8)	(85.2)		
Gap	(424.0)	(1.9)	(1,299.2)	1,606.0	1,592.4	(344.0)	8,056.8	701.2	(9,887.3)	
Accumulated gap	(424.0)	(425.9)	(1,725.1)	(119.1)	1,473.3	1,129.3	9,186.1	9,887.3		

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

The indicator used to measure market risk is that known as Value at Risk (VaR), defined as the maximum potential loss in a position as a result of a given variation in price in a given period of time. In calculating the VaR, the Group applies the past experience of prices with a 95 per cent. statistical confidence level and a time period of one day.

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

The table below shows the variation in VaR during 2002, indicating the daily value at the end of each month and the average, maximum and minimum amounts for each of the groups cited and the aggregate. The aggregate VaR amounted to €167 thousand (average daily value in the year) with a maximum of €286 thousand and a minimum of €59 thousand. The aggregate for short-term operations (money market and short-term assets) was €136 thousand in average daily value, mostly in euro deposit transactions, and ranged from €44 thousand to €314 thousand during the year. The average aggregate for the long-term financial assets markets was €98 thousand, with a high of €202 thousand and a low of €36 thousand. As these figures show, the positions were small and they were managed conservatively.

Value at risk (VaR)

	Short term	Long term	Aggregate
	<i>(in thousands of Euro)</i>		
Month-end data			
January 2002	142.85	166.68	262.50
February 2002	122.58	82.97	177.71
March 2002	85.80	56.26	118.44
April 2002	46.17	36.06	58.61
May 2002	128.07	71.89	164.87
June 2002	91.10	100.55	150.08
July 2002	121.57	178.33	122.64
August 2002	86.10	153.01	127.19
September 2002	245.41	116.20	209.85
October 2002	222.09	88.12	200.76
November 2002	145.56	83.11	160.19

Value at risk (VaR)

	Short term	Long term	Aggregate
	<i>(in thousands of Euro)</i>		
Month-end data			
December 2002	123.42	76.66	116.95
Daily average	136.19	98.41	166.87
Maximum	313.64	202.31	285.82
Minimum	43.57	36.06	58.61
<i>Stress testing</i>			
Rate curve variation:			
+50 bps	135.32	95.11	164.17
-50 bps	137.21	101.66	169.69
Volatility variation:			
+20%	162.99	116.56	198.78
-20%	109.41	80.28	135.26

Stress tests are also performed daily to evaluate the sensitivity of VaR to parallel changes in the euro interest rate curve (± 50 basis points) and to volatility in the euro and dollar interest rates (± 20 per cent.). VaR is also calculated with the confidence level raised from 95 per cent. to 99 per cent.

The results of this analysis are summarised in the previous table, which shows that a 50 basis point decrease in interest rates increases the VaR by 1.7 per cent., and that a 20 per cent. increase in volatility would trigger an increase of 19.1 per cent.

As stated earlier, the Group's activity in equity securities did not give rise to practically any market risk, since substantially all (€339 million) of the trading portfolio of €344 million was covered by index or share futures or were repos.

Finally, the Group's activity in derivatives, apart from the transactions for the account of customers, is concentrated on covering its own balance sheet positions or those in other derivatives, and the trading portfolio is small, the risk being included in the VaR figures discussed earlier. The amounts relating to derivatives transactions, broken down by portfolio, instrument, term and market, are disclosed in Note 29 to the consolidated financial statements.

Liquidity risk

Liquidity risk arises from possible difficulties in having available, or having access to, liquid funds, of sufficient amount and appropriate cost for meeting payment obligations at all times.

As stated earlier, liquidity risk is supervised by the Asset and Liability Committee, which has formal procedures for analysing and monitoring the Group's liquidity, including contingency plans for possible liquidity problems provoked by internal causes or market behaviour. For this purpose it periodically analyses the sensitivity of liquidity in different asset and liability cancellation scenarios in time intervals ranging from one day to one month.

The following table shows the consolidated 2002 year-end balance sheet broken down by residual maturity terms of assets and liabilities, which determines the liquidity gap.

For liquidity management the Group has set an internal limit for net financing in the money markets which presently stands at €3,500 million, together with others that set the maximum amount of maturities of transactions in specified periods in order to avoid their concentration in time. It also maintains long positions of around €400 million in highly liquid securities (debt securities, fixed-interest securities, securitisation bonds and others) which qualify as collateral for funding from the Bank of Spain and the European Central Bank. The Group also has a euro-medium term note issuance program (EMTN) with a limit of US\$6,000 million.

Liquidity gap as of 31 December 2002

	1 day	2 to 8 days	9 to 31 days	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Not sensitive	Total
	<i>(in millions of Euro)</i>									
Money market	888.6	593.9	1,764.1	456.9	249.5	387.3	504.7	16.8	682.0	5,543.8
Credit market	454.4	580.7	2,243.5	2,002.1	1,598.7	2,621.1	3,296.8	19,277.8	1,482.5	33,557.2
Capital market	—	627.9	—	—	—	—	—	45.6	—	673.5
Other assets	—	—	—	—	—	—	—	—	2,230.6	2,230.6
Total assets	1,343.0	1,802.5	4,007.6	2,459.0	1,848.2	3,008.4	3,801.5	19,340.2	4,395.1	42,005.1
Money market	1,590.4	919.1	2,010.0	519.2	658.7	1,043.0	2,871.4	2,763.5	342.5	12,717.8
Deposit market	644.6	2,102.5	4,070.2	3,839.1	3,211.1	3,212.2	1,120.2	2,765.5	1,247.2	22,203.2
Capital market	—	464.4	674.4	290.6	136.2	126.4	35.7	700.9	—	2,428.6
Other liabilities	—	—	—	—	—	—	—	—	4,655.5	4,655.5
Total liabilities	2,235.0	3,486.0	6,754.6	4,648.9	4,006.0	4,381.6	4,027.3	6,220.9	6,245.2	42,005.1
Gap	(892.0)	(1,683.5)	(2,747.0)	(2,189.9)	(2,157.8)	(1,373.2)	(225.8)	13,119.3	(1,850.1)	
Accumulated gap	(892.0)	(2,575.5)	(5,322.5)	(7,512.4)	(9,670.2)	(11,043.4)	(11,269.2)	1,850.1		
Illiquidity ratio (%)	2.5%	7.2%	14.9%							

Management

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

Name	Position within the Bank	Principal activities outside the Group
Javier Valls Taberner	Chairman of the Board	None
Luis Valls Taberner	Chairman of the Board	None
Angel Ron Güimil	Managing Director	None
Gabriel Gancedo de Seras	Vice-Chairman	Chairman, Gancedo y González, S.A. Chairman, Sociedad Manuel Gancedo de Inversiones Mobiliarias, S.A. Director, Deseras, S.A.
Jesús Platero Paz	Secretary of the Board	None
Ildefonso Ayala García	Director	None
Diethart Breipohl	Director	Member, Supervisory Board, Allianz AG
José María Catá Virgili	Director	Director, Castellana de Autopistas SACE Director, Autopista A-6 SACE Chairman, Explotaciones Catel Chairman, Ocatel, S.A. Vice-Chairman, Autopista Vasco Aragonesa Concesionaria Española, S.A. Director, Terraco Eólica, S.A.
Francisco Donate Vigón	Director	Sole Director, Urbanizadora Española Sole Director, Gestora Popular
Manuel Laffón de la Escosura	Director	None
Luis Miralles Ferrer	Director	Director, Hoteles Orange, S.A.
Casimiro Molins Ribot	Director	Chairman, Cementos Molins, S.A. Chairman, Cementos Molins Industrial, S.A. Director, Popularinsa Chairman, Inversora Pedralves, S.A. Chairman, Otinix, S.A.
Santos Montoro Muñoz	Director	Sole Director, Inversora Patrimonial Chairman, Urpesa, S.A. Chairman, Montoro e Hijos, S.A. Chairman, Tilmon España, S.A.

Name	Position within the Bank	Principal activities outside the Group
Luis Montuenga Aguayo	Director	Chairman, Popularinsa Sole Director, Consultores Financieros e Industriales, S.A.
Miguel Nigorra Oliver	Director	Chairman, Unión Europea de Inversiones Chairman, Habitat Golf Santa Ponsa Chairman, Nova Santa Ponsa Golf, S.A. Chairman — CEO, Gestión y Administración Registral, S.L.
Alberto Parera Lluch	Director	Sole Director, Beratusa, SA
Enrique Pérez Sala	Director	None
José Ramón Rodríguez García	Director	Sole Director, Bairsa, S.A.
Miguel Solís-Martínez Campos	Director	Director, Guadacorte, S.A. Director, Sur Compañía Española de Seguros y reaseguros, S.A.
Giorgio Stecher Navarra	Director	Director, Comité Económico y social de la Unión Europea Vice-President, Grupo de Empresarios Europeos Member, Conseto International del Insead
Rafael Termes Carreró	Director	Chairman, Inmobiliaria Urbana de la Moncloa, S.A. Chairman, Promoción de Instituciones Docentes, S.A.
Manuel Morillo Olivera	Director	Chairman, Fundación Privada Carmen y María José Godó
Asociación profesional de directivos	Director	None
Eric Gancedo Holmer	Director	None
Luis Herrando Prat de la Riba	Director	Chairman, Bilbao Equity SIMCAV, S.A. Vice-Chairman, Inmagroup Grupo Promoc. Inmobiliarias Director, Inst. de Educación e Investigación Director, Talde Promoción y Desarrollo Director, Asistencia Universitaria de Navarra, S.A.
Américo Ferreira de Amorim	Director	Chairman Amorim Investimentos e Participaciones, S.G.P.S.A.
Vicente Santana Aparicio	Director	Chairman, Cignus Valores SIMCAV, S.A. Director, FIDES Capital, S.C.R., S.A.
Emilio Viñas Barba	Director	Vice-Chairman, Cignus Valores SIMCAV, S.A. Vice-Chairman, FIDES Capital, S.C.R., S.A.

Shareholders Meetings

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

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

Capitalisation and indebtedness

The following table sets out the capitalisation and indebtedness of the Group, based on unaudited accounts at 30 June 2003 and audited accounts at 31 December 2002, 31 December 2001 and 31 December 2000 prepared in accordance with generally accepted accounting principles in Spain.

	Six months ended 30 June 2003	Year ended 31 December		
		2002	2001	2000
		<i>(in thousands of Euro)</i>		
Long term debt⁴:				
Euro medium term notes ³	4,907,857	4,264,766	1,968,146	1,161,888
Subordinated debt ³	262,476	245,356	263,469	207,469
Minority interests	310,752	225,074	198,347	175,908
Preferred stock	438,000	438,000	300,000	180,000
Shareholders' equity:				
Authorised and issued share capital ¹	113,693	108,577	108,577	108,577
Reserves	2,883,949	2,170,144	1,917,796	1,707,186
Consolidated profit attributable to the group	331,784	633,490	565,282	490,557
Dividends for the year ⁵	—	(325,731)	(295,330)	(259,499)
Total shareholders' equity:	<u>3,329,426</u>	<u>2,586,480</u>	<u>2,296,325</u>	<u>2,046,821</u>
Total capitalisation and indebtedness^{2,6}	<u><u>9,248,511</u></u>	<u><u>7,759,676</u></u>	<u><u>5,026,287</u></u>	<u><u>3,772,086</u></u>

Notes:

- 1 Par value: Euro 0.50 per share. All of the authorised and issued share capital is paid up. The amount of ordinary shares issued by Banco Popular is 227,386,508. During 2002, the Board of Directors approved a buy back programme up to a limit of 5 per cent. of the bank's share capital, but no purchases have been made to date under this programme.
- 2 For contingent liabilities and guarantees of the Group at 30 June 2003 which increased to 6,187 million Euros at that date, see Note 1 on page 51.
- 3 The long term debt has been converted to Euro from US Dollars using the following exchange rates:
 - at 30 June 2003, 1 Euro = US\$1.1427;
 - at 31 December 2002, 1 Euro = US\$1.04871; and
 - at 31 December 2001, 1 Euro = US\$0.8813.
- 4 This debt amount, which increased to approximately Euro 6,149 million at 15 August 2003, is unsecured and guaranteed. At 15 August 2003 approximately Euro 3,239 million of indebtedness is short term.
- 5 The Bank's dividend account of distribution of the consolidated profit for the year ended 31 December 2002 is as follows:
 - Dividend of Euro 78,175,000 paid on 1 October 2002.
 - Dividend of Euro 79,261,000 paid on 2 January 2003.
 - Dividend of Euro 83,604,000 paid on 1 April 2003.
 - Dividend of Euro 88,681,000 paid on 1 July 2003.
 On 26 June 2003 the Board of Directors approved the payment of a dividend on account of the year ending 31 December 2003 amounting to Euro 89,818,000 payable on 1 October 2003.
- 6 Save as disclosed above, there has been no material change in the capitalisation and indebtedness, contingent liabilities and guarantees of the Group since 30 June 2003.

Summary Financial Information

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

	Six months ended 30 June 2003 (Unaudited)	Year ended 31 December			
		2002	2001	2000	1999
		(Audited)			
		<i>(in thousands of Euro, unless otherwise indicated)</i>			
Total assets managed	61,236,943	52,005,824	47,081,263	40,651,787	36,473,451
On-balance sheet assets	50,076,323	42,005,120	37,395,559	31,357,794	26,331,056
Customer funds:	46,350,199	39,946,357	35,550,875	31,585,599	28,658,579
On-balance sheet funds	35,189,579	29,945,653	25,865,171	22,291,606	18,516,184
Other intermediated funds	11,160,620	10,000,704	9,685,704	9,293,993	10,142,395
Loans and discounts	40,412,503	34,321,791	27,820,010	23,307,501	18,939,380
Off-balance sheet risks ¹	6,187,390	5,283,579	4,279,024	3,181,783	2,693,669
Non-performing ratio, net of allowances	(1.01%)	(0.83%)	(0.78%)	(0.66%)	(0.61%)
Total equity	2,997,642	2,278,721	2,026,373	1,815,764	1,611,142
Solvency ratio	8.55%	9.59%	10.03%	10.28%	9.50%
Employees	13,591	12,464	12,309	11,943	11,539
Branch offices	2,274	2,160	2,144	2,069	2,004
Income statements					
Interest revenues	1,248,415	2,387,131	2,294,119	1,776,402	1,368,785
Interest expenses	(378,598)	(795,750)	(892,578)	(649,593)	(368,663)
Intermediate margin	869,817	1,591,381	1,401,541	1,126,809	1,000,122
Fees for services, net	296,903	572,712	567,347	537,421	466,855
Asset trading and exchange profits, net	14,919	28,948	44,984	119,491	45,837
Ordinary margin	1,181,639	2,193,041	2,013,872	1,783,721	1,512,814
Operating costs	(400,369)	(782,775)	(749,208)	(667,660)	(633,923)
Depreciation	(35,795)	(67,907)	(68,203)	(67,474)	(66,135)
Other operating income/expenses, net	(17,393)	(34,256)	(39,878)	(37,670)	(36,097)
Operating margin	728,082	1,308,103	1,156,583	1,010,917	776,659
Other items, net	39,590	18,114	13,578	13,138	16,220
Provisions and writedowns, net	(190,161)	(270,788)	(317,967)	(213,641)	(88,253)
Income before taxes	577,511	1,055,429	852,194	810,414	704,626
Corporate income tax	(215,640)	(367,694)	(238,030)	(282,905)	(238,844)
Net Income	361,871	687,735	614,164	527,509	465,782
Minority interests	(30,087)	(54,245)	(48,882)	(36,952)	(33,055)
Net income attributable to shareholders	331,784	633,490	565,282	490,557	432,727
Average total on-balance sheet assets	44,771,972	40,107,474	34,570,097	28,688,050	24,141,096
Average equity	2,584,785	2,305,817	2,044,235	1,806,494	1,738,980
Net return:					
On assets (ROA)	1.62%	1.71%	1.78%	1.84%	1.93%
On equity (ROE)	25.67%	27.47%	27.65%	27.16%	24.88%
Leverage	15.8x	16.1x	15.5x	14.8x	12.9x

Notes:

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

Consolidated Balance Sheet

The consolidated balance sheets of the Group as of 31 December 2002, 2001 and 2000, are summarised below:

Assets

	31 December		
	2002	2001	2000
	<i>(in thousands of Euro)</i>		
Cash and due from central banks	683,317	1,887,105	412,106
<i>Cash</i>	363,890	347,096	270,284
<i>Bank of Spain</i>	314,313	1,530,168	131,612
<i>Other central banks</i>	5,114	9,841	10,210
Government debt securities	129,346	623,813	302,689
Due from financial intermediaries	4,706,692	4,968,925	5,466,607
<i>Demand balances</i>	182,830	253,897	178,243
<i>Other</i>	4,523,862	4,715,028	5,288,364
Loans and discounts	33,711,019	27,368,371	22,962,523
Private fixed-interest securities	544,143	495,348	591,920
<i>Issued by public bodies</i>	53,490	30,288	23,842
<i>Issued by other issuers</i>	490,653	465,060	568,078
<i>Pro memoria: own securities</i>	—	—	—
Equity securities	390,872	122,590	59,944
Participating interests	26,599	23,241	4,897
<i>In financial intermediaries</i>	—	—	—
<i>Other</i>	26,599	23,241	4,897
Shares of Group companies	22,719	33,282	32,581
<i>Financial intermediaries</i>	—	—	—
<i>Other</i>	22,719	33,282	32,581
Intangible assets	17,938	20,791	13,615
<i>Formation and preopening expenses</i>	184	55	68
<i>Other amortisable expenses</i>	17,754	20,736	13,547
Goodwill in consolidation	7,253	33,613	6,160
<i>Global and proportional integration method companies</i>	3,870	28,308	386
<i>Equity method companies</i>	3,383	5,305	5,774
Tangible assets	568,280	580,594	571,172
<i>Land and buildings for own use</i>	204,257	204,289	193,768
<i>Other properties</i>	47,401	53,282	64,005
<i>Furniture, installations and other</i>	316,622	323,023	313,399
Unpaid subscribed common stock	—	—	—
<i>Unpaid capital calls</i>	—	—	—
<i>Remainder</i>	—	—	—
Treasury stock	—	—	—
<i>Pro memoria: face value</i>	—	—	—
Other asset accounts	890,345	934,273	583,053
Prepayments and accrued income	297,242	299,970	349,480
Losses at consolidated companies	9,355	3,643	1,047
<i>Global and proportional integration method companies</i>	9,195	3,505	871
<i>Equity method companies</i>	156	138	176
<i>Translation differences</i>	4	—	—
Consolidated loss for the year	—	—	—
<i>Group</i>	—	—	—
<i>Minority interests</i>	—	—	—
Total	42,005,120	37,395,559	31,357,794

Liabilities and Capital

	31 December		
	2002	2001	2000
	<i>(in thousands of Euro)</i>		
Due to financial intermediaries	6,965,943	6,925,077	4,888,588
<i>Demand balances</i>	290,351	276,854	202,174
<i>Term or pre-notification balances</i>	6,675,592	6,648,223	4,686,414
Customer deposits	23,690,329	22,615,236	20,424,975
<i>Savings deposits</i>	22,701,258	21,344,593	18,571,635
<i>Demand</i>	12,597,473	11,862,710	10,678,088
<i>Term</i>	10,103,785	9,481,883	7,893,547
<i>Other deposits</i>	989,071	1,270,643	1,853,340
<i>Demand</i>	—	—	—
<i>Term</i>	989,071	1,270,643	1,853,340
Bonds and other marketable debt securities	6,009,968	2,986,466	1,659,162
<i>Bonds and debentures outstanding</i>	4,264,766	1,968,146	1,161,888
<i>Promissory notes and other securities</i>	1,745,202	1,018,320	497,274
Other liability accounts	923,709	878,951	695,844
Accruals and deferred income	301,041	301,009	274,261
Special allowances	229,471	282,380	506,697
<i>Pension allowance</i>	—	—	396,966
<i>Provision for taxes</i>	24,263	12,207	9,904
<i>Other allowances</i>	205,208	270,173	99,827
General banking risk allowance	—	—	—
Negative difference in consolidation	418	444	570
<i>Global and proportional integration method companies</i>	282	18	18
<i>Equity method companies</i>	136	426	552
Consolidated income for the year	687,735	614,164	527,509
<i>Group</i>	633,490	565,282	490,557
<i>Minority interests</i>	54,245	48,882	36,952
Subordinated liabilities	245,356	263,469	207,469
Minority interests	663,074	498,347	355,908
<i>Common shares</i>	225,074	198,347	175,908
<i>Preferred shares</i>	438,000	300,000	180,000
Common stock	108,577	108,577	108,577
Paid-in surplus	21,164	21,164	21,164
Reserves	1,167,403	1,036,194	910,035
Revaluation reserves	—	—	—
Consolidation reserves	990,931	864,080	777,034
<i>Global and proportional integration method companies</i>	983,404	848,354	761,730
<i>Equity method companies</i>	6,631	14,807	14,394
<i>Translation differences</i>	896	919	910
Prior years earnings	1	1	1
Total	42,005,120	37,395,559	31,357,794
Memorandum accounts			
Contingent liabilities	5,283,579	4,279,024	3,181,783
<i>Rediscounts, endorsements and acceptances</i>	—	—	—
<i>Assets securing sundry commitments</i>	604	578	12,999
<i>Guarantees and other sureties</i>	4,897,752	3,941,196	2,899,003
<i>Other contingent liabilities</i>	385,223	337,250	269,781
Commitments	6,121,536	5,015,418	4,464,278
<i>Repos</i>	—	—	—
<i>Unused portion of credit lines</i>	5,375,722	4,256,861	3,708,572
<i>Other commitments</i>	745,814	758,557	755,706

Consolidated Income Statements

The consolidated income statements of the Group for the years ended 31 December 2002, 2001 and 2000, are set out below:

	2002	2001	2000
	<i>(in thousands of Euro)</i>		
Interest and similar revenues	2,355,978	2,284,119	1,768,400
<i>Of which: revenues from fixed-interest securities</i>	29,463	50,604	53,548
Interest and similar charges	795,750	892,578	649,593
Revenues from equity securities	31,153	10,000	8,002
<i>Shares and other equity securities</i>	23,376	1,786	1,270
<i>Participating interests</i>	1,353	1,096	768
<i>Shares of Group companies</i>	6,424	7,118	5,964
Intermediation margin (net interest revenue)	1,591,381	1,401,541	1,126,809
Fee revenues	729,678	703,301	653,375
Fee expenses	156,966	135,954	115,954
Asset trading and exchange profits	28,948	44,984	119,491
Ordinary margin	2,193,041	2,013,872	1,783,721
Other operating income	1,901	1,474	1,474
General administrative expenses	782,775	749,208	667,660
<i>Personnel expenses</i>	552,354	538,666	477,021
— <i>Of which: wages and salaries</i>	407,342	393,024	369,109
<i>social security charges</i>	133,866	132,391	97,059
— <i>Of which: pensions</i>	27,681	29,304	—
<i>Other administrative expenses</i>	230,421	210,542	190,639
Depreciation and writedowns of tangible and intangible assets	67,907	68,203	67,474
Other operating expenses	36,157	41,352	39,144
Operating margin	1,308,103	1,156,583	1,010,917
Net earnings (losses) of equity method companies	4,745	5,048	5,771
<i>Share in income of equity method companies</i>	13,194	13,300	12,539
<i>Share in losses of equity method companies</i>	672	38	35
<i>Value adjustments for dividends collected</i>	(7,777)	(8,214)	(6,733)
Amortisation of goodwill in consolidation	63,420	8,058	2,351
Gains on Group transactions	3,313	3,283	6,355
<i>Gains on disposal of holdings in global and proportional integration method companies</i>	139	97	808
<i>Gains on disposal of holdings in equity method companies</i>	—	132	—
<i>Gains on transactions involving controlling company shares and financial liabilities issued by the Group</i>	3,174	3,054	5,547
<i>Reversal of negative differences in consolidation</i>	—	—	—
Losses on Group transactions	3,205	487	—
<i>Losses on disposal of holdings in global and proportional integration method companies</i>	—	8	—
<i>Losses on disposal of holdings in equity method companies</i>	—	1	—
<i>Losses on transactions involving controlling company shares and financial liabilities issued by the Group</i>	3,205	478	—
Writeoffs and provisions for credit losses (net)	235,088	190,617	101,905
Writedowns of financial investments (net)	—	—	—
Provision to general banking risks allowance	9,402	—	—
Extraordinary income	103,174	32,698	28,361
Extraordinary losses	52,791	146,256	136,734
Income before taxes	1,055,429	852,194	810,414
Corporate income tax	365,259	235,461	282,056
Other taxes	2,435	2,569	849
Consolidated income for the year	687,735	614,164	527,509
<i>Income attributed to minority interests</i>	54,245	48,882	36,952
<i>Common shares</i>	41,972	40,487	35,771
<i>Preferred shares</i>	12,273	8,395	1,181
<i>Net income attributable to BPE shareholders</i>	633,490	565,282	490,557

TAXATION

The following is a general description of certain tax considerations relating to the Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Preferred Securities. Nor is it intended to be a comprehensive description of all tax considerations that may be relevant when making a decision to acquire or sell, nor does it attempt to cover all tax consequences applicable to all investor categories, some of which are subject to special rules (such as, for example, financial institutions, entities exempt from paying Corporate Tax, Collective Investment Institutions, Pension Funds, Cooperatives, etc.). Prospective purchasers of the Preferred Securities should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Spain of acquiring, holding and disposing of Preferred Securities and receiving payments of interest, liquidation preference and/or other amounts under the Preferred Securities. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Spanish Taxation

The tax treatment of the acquisition, possession and subsequent transfer, if appropriate, of Preferred Securities is explained below.

The following analysis is a summary of the tax regime applicable pursuant to Spanish Corporate Income Tax Law 43/1995, dated 27 December (*Impuesto sobre Sociedades*), Spanish Personal Income Tax Law 40/1998, dated 9 December, and other Tax Regulations (*Impuesto sobre la Renta de las Personas Físicas*), and Spanish Non-Resident Income Tax Law 41/1998, dated 9 December, and other Tax Regulations (*Impuesto sobre la Renta de no Residentes*). Equally, consideration has also been given to the provisions of the respective rules for the implementation of said regulations (Royal Decree 537/1997, dated 14 April, Royal Decree 214/1999, dated 5 February, and Royal Decree 326/1999, dated 26 February), as they are worded at the date of this Offering Circular.

On 6 July 2003, new legislation came into force in Spain regulating, *inter alia*, the issuance of preferred shares (*Participaciones Preferentes*) and debt securities issued by Spanish financial and non-financial entities, either directly from Spain or through a subsidiary (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*). Where the Issuer is resident for tax purposes in Spain, the provisions of that Law, and in particular, the tax treatment and disclosure obligations set out in the Third Additional Disposition will apply.

1. Acquisition of Preferred Securities

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

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

2.1 Spanish residents and certain other individuals

This section analyses the tax treatment applicable to both investors residing in Spain as well as individual investors residing in other European Union Member States (provided they are not residents of a territory considered to be a tax haven), who are taxed under Spanish Non-Resident Income Tax, whose employment income and earnings from economic activities obtained in Spain amount to at least 75 per cent. of their annual income and who choose to be taxed under Spanish Personal Income Tax.

Those entities residing within Spanish territory pursuant to Article 8 of Spanish Corporate Tax Law and those individual taxpayers whose habitual residence is in Spain, as defined in Article 9 of Spanish Personal Income Tax Law, as well as those individuals whose habitual residence is outside of Spain and who are members of Spanish diplomatic missions, Spanish consular offices and other official posts, under the terms of Article 9.2 of Spanish Personal Income Tax Law, are considered investors residing in Spain, notwithstanding the provisions of the Double Taxation Treaties ratified by Spain. Spanish nationals with proof of their new residence for tax purposes in a tax haven during the taxation period in which the change of residence occurs and during the following four taxation periods are also considered as residents in Spain for tax purposes.

(a) Distributions from Preferred Securities

According to Law 19/2003, distributions from Preferred Securities would be classified as income deriving from the assignment or transfer of funds to third parties in accordance with Article 23.2 of Spanish Personal Income Tax Law.

Pursuant to said Article, income earned by taxpayers taxed under Spanish Personal Income Tax as yield from funds assigned to third parties, shall be considered as moveable capital income (*Rendimientos del capital mobiliario*).

For the purpose of including this amount in the taxable base of Personal Income Tax, the total income to be computed shall be equal to the gross amount obtained. Administration and deposit costs for the Preferred Securities shall be deducted when calculating net income, but not the costs involved in discretionary and customised portfolio management.

Entities taxed under Spanish Corporate Income Tax shall include in their taxable base the gross amount of income received, less related expenses, in the manner set forth in Article 10 and subsequent of Spanish Corporate Income Tax Law.

(b) Transfer of Preferred Securities

Income arising as a result of the transfer of Preferred Securities made by taxpayers taxed under Personal Income Tax will qualify as moveable capital income (*rendimientos del capital mobiliario*). In the case of Preferred Securities acquired more than two years prior to the date of the transfer, the taxpayer will benefit from a rebate of 40 per cent. on the taxable amount, computed as the difference between transfer and acquisition price.

In the case of taxpayers taxed under Spanish Corporate Income Tax, any loss or gain deriving from the transfer of securities shall be included in the taxable base in the manner established in Article 10 and subsequent of Spanish Corporate Income Tax Law.

(c) Withholding taxes

A withholding on account would be imposed on payments by the Issuer under the Preferred Securities to holders which are resident for tax purposes in Spain and on the income of individual holders resident in Spain for tax purposes resulting from a transfer of Preferred Securities. The current tax rate is 15 per cent. which will be applied on the gross amount of the Distribution made or on the income obtained as a result of a transfer.

The above withholding may be credited against a holder's final tax liability.

2.2 *Investors not resident in Spain*

(a) Income obtained without permanent establishment

No withholding tax would be imposed on payments made by the Issuer under the Preferred Securities (except in the case of holders which are resident for tax purposes in a tax haven territory as currently defined in Royal Decree 1080/1991, of 5 July), to the extent that the holder complies with applicable formalities for evidencing its tax residence as required by law from time to time. In this regard, the holder may be required to provide the Issuer with the relevant tax residence certificate issued by the tax authorities of the holder's State of residence prior to any payment under the Preferred Securities being made. Such certificates are valid in Spain for six months from their date of issuance.

Income obtained by non-Spanish resident holders which fail to comply with the above formalities may be subject to Spanish withholding tax, currently at the rate of 15 per cent. Income obtained by holders which are resident for tax purposes in a tax haven territory (as defined above) will be subject to Spanish withholding tax, currently at a rate of 15 per cent.

(b) Income obtained through permanent establishment

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

3. *Disclosure of identity of holders*

According to the provisions of Law 13/1985, of 25 May, on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de*

inversión, recursos propios y obligaciones de información de los intermediarios financieros), as amended by Law 19/2003, of July 4, on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas del blanqueo de capitales*), the Bank is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of all holders of the Preferred Securities. The precise details and procedure of such disclosure remains to be clarified by way of future legislation. The Bank may, from time to time, request such details from holders of Preferred Securities. In order to comply with the above legal requirements, the Issuer and the Bank may disclose to such Authorities any information provided by holders of Preferred Securities in their tax residence certificates.

Taxation in Germany

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

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

1. Withholding tax

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

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

2. Taxation as debt instruments

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

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

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

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

3.1 *Taxation of Dividends*

50 per cent. of the dividends received by a German Investor who is an individual (“**German Individual Investor**”) will be subject to German income tax (plus solidarity surcharge thereon). Accordingly, only 50 per cent. of the expenses economically related to the dividend income are deductible for income tax purposes. In addition, 100 per cent. of the dividends are subject to trade tax if the German Individual Investor holds the Preferred Securities as business assets unless the German Individual Investor has continuously held a shareholding of at least 10 per cent. in the nominal capital of the Issuer since the beginning of the assessment period.

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

3.2 *Taxation of Capital gains*

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

Capital gains received by a German Corporate Investor from the sale of the Preferred Securities are in principle tax exempt. If the Preferred Securities are held by a credit institution or financial services institution within the meaning of the German Banking Act (*Kreditwesengesetz*) and if the Preferred Securities have been recorded in the trading book, capital gains from the disposal of Preferred Securities are fully subject to corporate income tax. The same applies if the Preferred Securities were acquired by a financial enterprise as defined in the German Banking Act to achieve short-term capital gains from trading activities.

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

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

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

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

Income derived from the Preferred Securities may also be treated as interest and may therefore be taxed in accordance with the paragraph “Taxation as debt instruments” in case the German tax authorities disregard the Issuer for German tax purposes and therefore treat the holders of the Preferred Securities in the same way as if they had directly invested in the Bank. However, in this case it cannot be excluded that the holders of the Preferred Securities are considered to have an equity interest in Bank in which

case the investors would be taxed as described in the paragraph “Tax consequences in case the Preferred Securities are qualified as equity”. In this case the minimum shareholding for the trade tax exemption would be calculated with respect to shareholding in the Bank.

5. Gift or inheritance tax

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

(a) an individual having at the time of the donation or death its residence or habitual abode in Germany or if the individual is a German citizen who has not been living abroad for more than five years without having a residence in Germany; or

(b) a corporation having its seat or central place of management in Germany,

or the Preferred Securities belong to business assets attributable to a permanent establishment or a permanent representative in Germany.

6. Other taxes

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

Taxation in the Netherlands

Dutch Resident Holders

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

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

Taxation in Italy

The bill of law (disegno di legge delega) for the reform of the Italian tax system approved by the Italian Parliament on 26 March 2003, delegates to the Government the introduction of general reform of the tax treatment of financial income. This may impact on the current tax regime of the Preferred Securities, which is summarized below. It is possible that the planned reforms may apply from 2004, although in any case it is expected at present that such reforms will enter in force no later than the end of 2006.

Prospective purchasers are advised to consult their own tax advisors as to the us federal and Italian income tax consequences of the purchase, ownership and disposition of the Preferred Securities, as well as the effect of any state, local or foreign tax laws.

1. Payments under the preferred securities

The following is a general summary of Italian taxes applicable as of the date hereof in relation to payments made under the Preferred Securities to Italian resident beneficial owners.

The analysis is based on the assumption that no redemption will occur within eighteen months from the date of issue. The Italian tax treatment of the Preferred Securities concerning payments received by Italian residents will depend upon the qualification under Italian law of such securities.

2. Treatment as bonds

To the extent that the Preferred Securities qualify as *obbligazioni o titoli similari* pursuant to Art. 41, paragraph 2 (c), of Presidential Decree No. 917 of 22 December 1986, pursuant to Legislative Decree

No. 239 of 1 April 1996, as amended and restated (“**Decree No. 239**”), interest, premium and other proceeds, (including the difference between the redemption amount and the issue price) owed, *inter alia*, by a non-resident Issuer to beneficial owners of Preferred Securities resident in Italy for tax purposes, may be subject to final Italian substitute tax, depending on the legal status of the beneficial owners.

In particular, pursuant to Decree No. 239, as amended and restated, payments of interest, premium and other proceeds, in respect of the Preferred Securities to Italian resident beneficial owners:

- 2.1 will be subject to final *imposta sostitutiva* (substitute tax) at a rate of 12.5 per cent. in Italy if the Italian resident beneficial owners are: (i) private individuals holding Preferred Securities not in connection with entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Preferred Securities, to an Italian authorized financial intermediary and have opted for the *Risparmio Gestito* regime provided for by Article 7 of Legislative Decree No. 461 of 21 November 1997, the “**Asset Management Option**”); (ii) partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), *de facto* partnerships not carrying out commercial activities and professional associations; (iii) public and private entities, other than companies, not carrying out commercial activities; (iv) real estate investment funds established prior to 26 September 2001, pursuant to Italian Law No. 86 of 25 January 1994, unless the managing company of the funds has opted for the application of the new regime provided for by Law Decree No. 351 of 25 September 2001, converted into law with amendments by Law No. 410 of 23 November 2001 (“**Decree No. 351**”); or, (v) entities exempt from corporate income tax.

The 12.5 per cent. final *imposta sostitutiva* will be applied by the Italian resident qualified financial intermediaries that intervene, in any way, in the collection of Interest, premium and other proceeds on the Preferred Securities or in the transfer of the Preferred Securities.

Where interest, premium and other proceeds, on the Preferred Securities are not collected through the intervention of an Italian resident qualified financial intermediary and as such no *imposta sostitutiva* is applied, the Italian resident beneficial owners listed above under (i) to (v) will be required to declare interest, premium and other proceeds in their yearly income tax return and subject them to final substitute tax at a rate of 12.5 per cent., unless the election of a different regime can be and is made. The Italian resident individual beneficial owners indicated above under (i) may elect instead to pay ordinary personal income taxes at the progressive rates applicable to them in respect of interest, premium and other proceeds on the Preferred Securities: if so, the beneficial owners should generally benefit from a tax credit for any withholding taxes applied outside Italy;

- 2.2 will not be subject to the *imposta sostitutiva* at the rate of 12.5 per cent. if made to beneficial owners who are: (i) Italian resident individuals holding Preferred Securities not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Preferred Securities, to an Italian authorized financial intermediary and have opted for the Asset Management Option; (ii) Italian resident collective investment funds and SICAVs and pension funds referred to in Legislative Decree No. 124 of 21 April 1993; (iii) certain Italian resident real estate investment funds; or (iv) Italian resident corporations or permanent establishments in Italy of non resident corporations to which the Preferred Securities are effectively connected.

In case the Preferred Securities are part of an investment portfolio managed on a discretionary basis by an Italian authorized intermediary and the beneficial owner of the Preferred Securities has opted for the Asset Management Option, annual substitute tax at a rate of 12.5 per cent. (the “**Asset Management Tax**”) applies on the increase in value of the managed assets accrued, even if not realized, at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Preferred Securities). The Asset Management Tax is applied on behalf of the taxpayer by the managing authorized intermediary.

Italian resident collective investment funds and SICAVs are subject to a 12.5 per cent. annual substitute tax (the “**Collective Investment Fund Tax**”) on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Preferred Securities).

Italian resident pension funds subject to the regime provided by Art. 14, 14-ter and 14-quater, paragraph 1, of Italian Legislative Decree No. 124 of 21 April 1993, are subject to a 11 per cent. annual substitute tax (the “**Pension Fund Tax**”) on the increase in value of the managed assets accrued at the

end of each tax year (which increase includes interest, premium and other proceeds accrued on Preferred Securities).

Pursuant to Decree No. 351, Italian resident real estate investment funds, established after 26 September 2001 pursuant to Art. 37 of Legislative Decree No. 58 of 24 February 1998, and Art. 14-bis of Law No. 86 of 25 January 1994, or subject to the tax treatment provided for by Decree No. 351 as a result of electing the application of such treatment by the managing company, where allowed, are subject to an annual 1 per cent. substitute tax on the accounting net value of the funds, while interest, premium and other proceeds on the Preferred Securities derived by such funds are not subject to the 12.5 per cent. *imposta sostitutiva* provided for by Decree No. 239.

Interest, premium and other proceeds on Preferred Securities accrued to Italian resident corporations or to permanent establishments in Italy of foreign companies to which the Preferred Securities are effectively connected will be included in the taxable business income for corporate income tax purposes (and, in certain cases, depending on the status of the Preferred Securities holders, may also be included in their taxable net value of production for purposes of regional tax on productive activities — IRAP) of such beneficial owners and be subject to tax in Italy in accordance with ordinary tax rules. A tax credit for any withholding taxes applied outside Italy should be generally available.

To ensure payment of interest premium and other proceeds in respect of the Preferred Securities without application of the *imposta sostitutiva*, where allowed, investors indicated under (i) to (iv) above must be the beneficial owners of payments of interest, premium and other proceeds on the Preferred Securities and promptly deposit the Preferred Securities together with the coupons relating to such Preferred Securities directly or indirectly with an Italian authorized financial intermediary.

3. *Treatment as shares*

Should the Preferred Securities be qualified as shares, payments in respect of the Preferred Securities received by Italian resident beneficial owners would be qualified as dividends (“**Dividends**”) subject to the following regime:

Dividends paid to corporate entities and commercial partnerships are not subject to withholding tax. In such cases, the Dividends received will form part of the aggregate taxable business income of the investors and will be subject to taxation pursuant to their ordinary regime. Therefore, the investors must include the gross amount of the Dividends in their income tax return and may generally benefit from a tax credit equal in principle to any withholding taxes applied outside Italy.

- 3.1 Dividends paid to real Italian resident real estate investment funds, established after 26 September 2001 pursuant to Art. 37 of Legislative Decree No. 58 of 24 February 1998, and Art. 14-bis of Law No. 86 of 25 January 1994, or subject to the tax treatment provided for by Decree No. 351 on electing the application of such treatment by the managing company, where allowed, are subject to an annual 1 per cent. substitute tax on the accounting net value of the funds.
- 3.2 Dividends paid to pension funds (for Dividends which become payable starting from 1 January 2001), investment funds or SICAVs will form part of the aggregate management result of the funds accrued in each year, calculated on the difference between the value of the assets at the beginning of the tax year and the adjusted value of the assets at the end of the same tax year. The management result is subject to a 12.5 per cent. substitute tax or 11 per cent. in case of pension funds.
- 3.3 Dividends paid to pension funds are subject to a definitive 12.5 per cent. withholding tax. This withholding tax is required to be levied by the Italian bank or financial intermediary, if any, used to channel the Dividends in Italy. If Dividends are received directly by the funds, they will be required to declare the Dividends in their tax return and subject them to the 12.5 per cent. final substitute tax.
- 3.4 Dividends paid to entities exempt from corporate income tax are subject to a definitive 27 per cent. withholding tax. This withholding tax is required to be levied by the Italian bank or financial intermediary, if any, used to channel the Dividends in Italy. Where payments on the Preferred Securities are not received through an account maintained with an Italian bank or an Italian financial intermediary and as such no withholding tax is applied, the recipient will be required to declare the payments in its tax return and subject them to a final substitute tax at a rate of 27 per cent.
- 3.5 Dividends paid to individuals holding Preferred Securities not in connection with entrepreneurial activities are subject to Italian withholding tax at a rate of 12.5 per cent. on account of personal income tax due, if the payments are collected through an account maintained with an Italian bank or an Italian financial intermediary. Such payments are then included in the individual beneficial owners’ taxable

income and subject as such to the progressive tax rates applicable to them. A tax credit for any withholding taxes applied outside Italy on beneficial owners should be generally available.

- 3.6 If payments on the Preferred Securities are not received through an account maintained with an Italian bank or an Italian financial intermediary and as such no withholding tax is required to be levied, such payments shall be included in the individual beneficial owners' taxable income and subject as such to the progressive tax rates applicable to them, generally with a tax credit for any withholding taxes applied outside Italy.

If the Preferred Securities form part of a portfolio of securities managed by a qualified Italian professional intermediary, for payments in respect of the Preferred Securities received, and any gain from the disposal of the Preferred Securities derived, by Italian resident individuals holding Preferred Securities not in connection with entrepreneurial activities, the “*Risparmio Gestito*” regime may be available, as an alternative method of taxation. Under the “*Risparmio Gestito*” regime, according to Art. 7, paragraph 3, of Legislative Decree No. 461/1997, the payments will not be subject to any Italian withholding tax, provided that such payments qualify as dividends from shares of a foreign company listed on a regulated market. Under the “*Risparmio Gestito*” regime, the payments will be included in the calculation of the total net appreciation of the portfolio accrued at the end of each year. Such appreciation will be subject to a 12.5 per cent. final substitute tax.

4. *Treatment as atypical securities*

Should the Preferred Securities be qualified as Atypical Securities, any proceeds (including the difference between the amount paid to holders at maturity or value of assets due to them on maturity and the issue price) on Preferred Securities paid to Italian resident (i) private individuals holding the Preferred Securities not in connection with entrepreneurial activities, (ii) real estate investment funds, (iii) pension funds, (iv) collective investment funds and SICAVs and (v) persons and entities exempt from corporate income tax, shall be subject to final “*entrance*” withholding tax at a rate of 27 per cent., if the Preferred Securities are sold (“*collocati*”) in Italy and any entrusted Italian resident bank or financial intermediary intervenes in the collection of payments on the Preferred Securities, in the repurchase or in the transfer of the Preferred Securities. The 27 per cent. “*entrance*” withholding tax shall be levied by such Italian bank or financial intermediary.

If the Preferred Securities are not sold (“*collocati*”) in Italy and payment of proceeds on the Preferred Securities are not received through an entrusted Italian resident bank or financial intermediary that intervenes in the collection of payments on the Preferred Securities, in the repurchase or in transfer of the Preferred Securities, and as such no “*entrance*” withholding tax is required to be levied, the subjects indicated in (i) to (v) above will be required to report the payments in their yearly income tax return, which will be subject to a final substitute tax at rate of 27 per cent. The individual beneficial owners may elect instead to pay ordinary personal income tax at the progressive rates applicable to them in respect of the payments: if so, the beneficial owners should generally benefit from a tax credit for any withholding taxes applied outside Italy.

In the case of Italian resident beneficial owners who are corporate entities, payments received on the Preferred Securities will not be subject to any “*entrance*” withholding tax and will form part of their aggregate taxable business income (and, in certain cases, depending on the status of the holders, may also be included in the taxable net value of production subject to regional tax on productive activities — IRAP) subject to tax in Italy according to ordinary tax provisions. A tax credit for any withholding taxes applied outside Italy should be generally available.

Under current Italian tax law and practice, payments on the Preferred Securities to beneficial owners who are resident in Italy for tax purposes, without a permanent establishment in Italy to which the Preferred Securities are effectively connected, should not be subject to any Italian withholding or substitute tax.

Due to the lack of any tax authority rulings on the tax treatment of Preferred Securities, it cannot be guaranteed that payments will be subject to the 12.5 per cent. Italian tax rather than the 27 per cent. withholding tax.

5. *Capital gains*

Any capital gain realized upon the sale for consideration or redemption of the Preferred Securities would be treated as part of the taxable business income (and, in certain cases, may also be included in

the taxable net value of production for IRAP purposes) and subject to tax in Italy according to the relevant tax provisions, if such gain is made by holders who are:

- 5.1 Italian resident corporations;
- 5.2 permanent establishments in Italy of foreign corporations to which the Preferred Securities are effectively connected; or
- 5.3 Italian resident individuals carrying out a commercial activity, if the capital gains are realized within the scope of such commercial activity.

Pursuant to Legislative Decree No. 461 of 21 November 1997, any capital gain realized by Italian resident individuals holding Preferred Securities not in connection with entrepreneurial activity and certain other persons upon sale for consideration or redemption of the Preferred Securities would be subject to an *imposta sostitutiva* at the current rate of 12.5 per cent. Under the tax declaration regime, which is the standard regime for taxation of capital gains realized by Italian resident individuals not engaged in entrepreneurial activity, *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realized by Italian resident individuals holding Preferred Securities not related to entrepreneurial activity and pursuant to all disposals of Preferred Securities carried out during any given fiscal year. Italian resident individuals holding Preferred Securities not connected to entrepreneurial activity must report overall capital gains realized in any tax year, net of any relevant incurred capital loss, in their annual tax declaration to be filed with the Italian tax authorities for such year and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realized in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual holders holding the Preferred Securities not in connection with entrepreneurial activity may elect to pay a 12.5 per cent. *imposta sostitutiva* separately on capital gains realized on each sale or redemption of the Preferred Securities (the “*Risparmio Amministrato*” regime). Such separate taxation of capital gains is allowed provided that (i) the Preferred Securities are deposited with Italian banks, società di intermediazione mobiliare (SIM) or certain authorized financial intermediaries and (ii) an express election for the *Risparmio Amministrato* regime is promptly made in writing by the relevant noteholder. Under the *Risparmio Amministrato* regime, the financial intermediary is responsible for accounting for *imposta sostitutiva* in respect of capital gains realized on each sale or redemption of the Preferred Securities (as well as in respect of capital gains realized at revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian fiscal authorities on behalf of the taxpayer, deducting a corresponding amount from proceeds to be credited to the noteholder. Under the *Risparmio Amministrato* regime, where a sale or redemption of the Preferred Securities results in capital loss, such loss may be deducted from any capital gains made with the same type of deposit in the same tax year or in the four following tax years. Furthermore, under such regime, the noteholder is not required to declare capital gains in its annual tax declaration and remains anonymous.

Any capital gains realized by Italian resident individuals holding Preferred Securities not in connection with entrepreneurial activity who have elected for the Asset Management Option will be included in the computation of the annual increase in value of the managed assets accrued, even if not realized, at year end, subject to the Asset Management Tax to be applied on behalf of the taxpayer by the managing authorized intermediary. Under the Asset Management Option, any depreciation of the managed assets accrued at year end may be carried forward against the increase in value of the managed assets accrued in any of the four succeeding tax years. Under the Asset Management Option, the noteholder is not required to report capital gains realized in its annual tax declaration and remains anonymous.

Any capital gains realized by holders who are Italian resident collective investment funds will be included in the computation of the taxable basis of the Collective Investment Fund Tax.

Any capital gains realized by holders who are Italian resident pension funds subject to the regime provided by articles 14, 14-ter and 14-quater, paragraph 1, of Legislative Decree No. 124 of 21 April 1993, will be included in the computation of the taxable basis of Pension Fund Tax.

6. **Early redemption**

The early redemption of the securities may create a capital gain/capital loss calculated using the difference between the Redemption Price and the purchase price (with certain adjustments) to be treated in connection with the fiscal regime of each holder as described above.

7. *Italian gift tax*

Law No. 383 of 18 October 2001 (“**Law No. 383**”), abolished Italian inheritance and gift tax, previously payable on transfer of securities on death or by gift, as from 25 October 2001.

However, according to current literal interpretation of Law No. 383, for donees other than spouses, direct descendants or ancestors and other relatives of the fourth degree, if and to the extent that the value of the gift to any such donee exceeds €180,759.91, the gift of notes may be subject to ordinary transfer taxes that would apply if the notes had been transferred for consideration. Future official ministerial decrees or guidelines should clarify this point.

Moreover, an anti-avoidance rule is provided by Law No. 383 for any gift of assets (such as notes) which, if sold for consideration, would give rise to capital gains subject to Italian *imposta sostitutiva* on capital gains. In particular, if the donee sells notes for consideration within 5 years from the receipt thereof as a gift, the donee will be required to pay the relevant Italian *imposta sostitutiva* on capital gains, where applicable, as if the gift had never taken place.

8. *Transfer tax*

Italian transfer tax does not apply, *inter alia*, to the following:

- 8.1 contracts concluded in regulated markets with respect to the transfer of the Preferred Securities;
- 8.2 off-market transactions with respect to the Preferred Securities, provided that the Preferred Securities are listed on a regulated market and such transactions are made either:
 - 8.2.1 between resident or non-resident banks or other investment companies regulated by Legislative Decree No. 58 of February 24th, 1998, or stock brokers; or
 - 8.2.2 between the qualified intermediaries mentioned above, on the one hand, and non-Italian residents, on the other hand; or
 - 8.2.3 between the qualified intermediaries mentioned above, on the one hand, and investment funds or SICAVs, on the other hand; and
 - 8.2.4 contracts related to public sale offering ordered to the listing on regulated markets or involving financial instruments already listed on regulated markets.

Where applicable, upon transfer of Preferred Securities by or to Italian residents, Italian transfer tax will be payable at a rate between a maximum of €0,0723 and a minimum of €0,0465 per €51.65 (or fraction thereof) of the price at which the Preferred Securities are transferred. In certain cases, Italian transfer tax due in respect of transfers of Preferred Securities cannot exceed €929.62 for each transaction.

9. *Tax monitoring obligations*

Italian resident individuals holding notes not in connection with entrepreneurial activity will be required to report, for tax monitoring purposes, in their yearly income tax return:

- 9.1 the amount of notes held at the end of each tax year, if their aggregate is in excess of €10,329.14; and
- 9.2 the amount of any transfers to or from Italy or which occur in their entirety outside of Italy, related to the notes, and which occur during each tax year, if their aggregate is in excess of €10,329.14. This will also apply if at the end of the tax year the notes are no longer held by Italian individuals.

Italian individuals will, however, not be required to comply with the above reporting requirements for Preferred Securities deposited for management with qualified Italian financial intermediaries and in respect of contracts entered into through their intervention, upon condition that the items of income derived from the Preferred Securities are collected through the intervention of the same intermediaries

EU Savings Tax Directive

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system

for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited, Dresdner Bank AG London Branch and J.P. Morgan Securities Ltd. as lead managers (the “**Lead Managers**”) and BCP Investimento — Banco Comercial Português de Investimento, SA, BNP Paribas, CDC IXIS Capital Markets and Davy Stockbrokers as co-managers (together with the Lead Managers, the “**Managers**”) have, in a subscription agreement dated 16 October 2003 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantor and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Preferred Securities at their issue price of Euro 1,000 per Preferred Security less a combined management, underwriting and selling commission of 2 per cent. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Managers for certain of its expenses incurred in connection with the management of the issue of the Preferred Securities. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Preferred Securities.

United States of America

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

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

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

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

United Kingdom

Each Manager has represented, warranted and undertaken to the Issuer and the Guarantor that:

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

- (b) *Financial promotion*: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the United Kingdom.

Spain

The Preferred Securities will not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law save in compliance with the requirements of the Spanish Securities Market Law, of 28 July 1988, as amended and restated, and Royal Decree 291/1992, of 27 March, on issues and public offers for the sale of securities (“RD 291/92”), as amended and restated, and other applicable regulations. Accordingly, the Preferred Securities have not been offered and will not be offered to persons in the Kingdom of Spain, in any way that would constitute an offer to the public other than to institutional investors, as defined in article 7.1.(a) of RD 291/92. Moreover, the Preferred Securities may not be offered or sold in Spain to institutional investors unless a prior notification (*comunicación previa*) of the issue and the documentation relating thereto (*documentos acreditativos*) have been verified and registered with the *Comisión Nacional del Mercado de Valores* (“CNMV”) in accordance with Spanish securities laws.

Institutional investors may not transfer the Preferred Securities other than to other institutional investors as defined in article 7.1.(a) of RD 291/92.

This Offering Circular has not been registered with the CNMV and therefore it is not intended for any public offer of the Preferred Securities in Spain.

Federal Republic of Germany

Each Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) has been or will be published with respect to the Preferred Securities and that it will comply with the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “Act”) of the Federal Republic of Germany. In particular, each of the Managers has represented that it has not engaged and agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Preferred Securities otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

The Netherlands

The Preferred Securities described herein are being issued and offered in The Netherlands in reliance on the “Euro-securities” exemption pursuant to Article 6 of the Exemption Regulation of 21 December 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), as amended, of The Netherlands’ Securities Market Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*) and accordingly:

- (i) the Preferred Securities shall be subscribed for and placed by a syndicate at least two members which have their corporate domicile in different member states that are a party to the treaty to the EEA;
- (ii) at least 60 per cent. of the aggregate amount of the Preferred Securities will be offered in one or more countries outside Spain;
- (iii) the Preferred Securities may only be subscribed for or initially purchased through the intermediation of a credit institution (registered with the Dutch Central Bank) or another financial institution which in the conduct of its business or profession provides one or more services described in §§ 7 and 8 of Annex I to the Banking Co-Ordination Directive (2000/12/EC); and
- (iv) no generalised advertising or cold-calling campaign will be conducted in respect of the Preferred Securities in The Netherlands.

Italy

The offering of the Preferred Securities has not been registered pursuant to the Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Preferred Securities in the Republic of Italy in a solicitation to the public, and that sales of the

Preferred Securities in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each of the Managers has represented and agreed that it will not offer, sell or deliver any Preferred Securities or distribute copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy except:

- (i) to “**Professional Investors**”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 as amended (“**Regulation No. 11522**”), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 as amended (“**Decree No. 58**”), or in any other circumstances where an expressed exemption to comply with the solicitation restrictions provided by Decree No. 58 or Article 33.1 of CONSOB Regulation No. 11971 of 14 May 1999 as amended applies, provided, however, that any such offer, sale or delivery of the Preferred Securities or distribution of copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy must be:
 - (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended (“**Decree No. 385**”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
 - (b) in compliance with Article 129 of Decree No. 385 and the implementing guidelines of the Bank of Italy (*Istruzioni di Vigilanza per le Banche*), pursuant to which the issue or offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities offered in Italy and their characteristics; and
 - (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy; or
- (ii) if Italian residents submit unsolicited offers to any of the Managers to purchase the Preferred Securities.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Manager that would, or is intended to, permit a public offering of the Preferred Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable securities laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Preferred Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Preferred Securities has been authorised by resolutions of the General Shareholders' Meeting dated 1 September 2003 and 15 October 2003. The giving of the Guarantee of the Preferred Securities has been authorised by a resolution of the Executive Committee of the Guarantor dated 2 September 2003.
2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of its/their respective subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Preferred Securities.
3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Guarantor since 31 December 2002 that is material in the context of the issue of the Preferred Securities.
4. For so long as any of the Preferred Securities are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:
 - (a) the *estatutos* of each of the Issuer and the Guarantor;
 - (b) the Public Deed of Issuance of the Preferred Securities;
 - (c) the Guarantee;
 - (d) the Paying Agency Agreement; and
 - (e) the Subscription Agreement.
5. For so long as any of the Preferred Securities are outstanding, copies of the following documents (together with English translations thereof) may be obtained during normal business hours at the Specified Office of each Paying Agent:
 - (a) the audited consolidated and unconsolidated financial statements of the Guarantor for the years ended 31 December 2001 and 31 December 2002;
 - (b) the unaudited consolidated and unconsolidated financial statements of the Guarantor for the six months ended 30 June 2003; and
 - (c) the latest published unaudited interim and audited year-end consolidated and unconsolidated financial statements of the Guarantor.
6. The Guarantor publishes quarterly unaudited consolidated and unconsolidated interim financial statements. As of the date hereof, the Issuer has not published any financial statements. The Issuer intends to publish audited annual financial statements. Such annual financial statements will relate to periods ending 31 December in each year and will be published before 30 June of the following year. The first such financial statements will be published in relation to the period ending 31 December 2003.
7. PricewaterhouseCoopers Auditors, S.A. have audited the Guarantor's accounts in accordance with generally accepted audited standards in Spain for the financial year ended 31 December 2002, 2001 and 2000. These auditors' reports were unqualified.
8. In connection with the application for the Preferred Securities to be listed on the Luxembourg Stock Exchange, copies of each of the *estatutos* of the Issuer and the Guarantor (together with English translations thereof) and a legal notice relating to the issue of the Preferred Securities will be deposited prior to listing with the *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where they may be inspected and copies obtained upon request.
9. The Preferred Securities have been accepted for clearance through Clearstream Banking Frankfurt, Euroclear and Clearstream, Luxembourg. The WKN is 919070, the ISIN is DE0009190702 and the common code is 17876236.
10. Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange. In connection with such application, the *estatutos* of each of the Issuer and the Guarantor (together with translations thereof into English) have been, and the legal notice relating to the issue of the Preferred Securities is being, lodged with the Trade and Commerce Register in Luxembourg (*Registre de Commerce et des Sociétés*) where such documents may be inspected and copies thereof obtained on request.

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