

PROSPECTUS DATED 28 FEBRUARY 2007



## POPULAR CAPITAL, S.A.

*(incorporated with limited liability under the laws of Spain)*

**Euro 300,000,000 Series C**

### **Step-Up Fixed/Floating Rate 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: 100.0 per cent.

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Euro 300,000,000 Series C Step-Up Fixed/Floating Rate Non-cumulative Perpetual Guaranteed Preferred Securities (the "Preferred Securities") of Euro 50,000 liquidation preference (the "Liquidation Preference") are being issued by Popular Capital, S.A. (the "Issuer") on 6 March 2007 (the "Closing Date").

Each Preferred Security will entitle its holder to receive (subject to the limitations described under "Conditions of the Preferred Securities") non-cumulative cash distributions ("Distributions"). From (and including) the Closing Date to (but excluding) 6 March 2017 Distributions will accrue at a rate of 4.907 per cent. per annum and, subject as aforesaid, will be payable on each 6 March commencing 6 March 2008. From (and including) 6 March 2017, Distributions will accrue at a rate of 1.65 per cent. per annum above Three Month EURIBOR (as defined in "Conditions of the Preferred Securities — Definitions") and, subject as aforesaid, will be payable on 6 March, 6 June, 6 September and 6 December in each year commencing 6 June 2017. In each case Distributions accrue on the Liquidation Preference.

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 (as defined in "Conditions of the Preferred Securities — Definitions") falling on or after 6 March 2017, at the Redemption Price (as defined in "Conditions of the Preferred Securities — Definitions" Section) per Preferred Security. Prior to 6 March 2017, the Preferred Securities are redeemable at the option of the Issuer (subject to the prior consent of the Bank and the Bank of Spain), in whole but not in part, on any Distribution Payment Date if, (i) due to certain changes in Spanish tax laws (a) the Issuer would not be entitled to claim a deduction in computing its tax liabilities in respect of the Distributions paid on the Preferred Securities or (b) the Issuer (or the Guarantor) would be required to pay additional amounts in respect of the Distributions or payments under the Guarantee, in each case, at the Redemption Price per Preferred Security or (ii) the Preferred Securities cease to qualify as Tier 1 capital of the Group (as defined below) pursuant to Spanish banking regulations at the higher of (a) the Liquidation Preference per Preferred Security plus any accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption and (b) the Make Whole Amount (as defined in "Conditions of the Preferred Securities — Definitions").

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. (XIII 7.5 "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.

An investment in the Preferred Securities involves certain risks. For a discussion of these risks see "Risk Factors".

**Potential holders are alerted to the information on page 56 regarding the tax treatment in Spain of income in respect of Preferred Securities and to the disclosure requirements imposed on the Guarantor relating to the identity of all holders of Preferred Securities. In particular, income in respect of the Preferred Securities will be subject to withholding tax if holders fail to provide tax residence certificates on time as described herein and neither the Issuer nor the Guarantor will gross up payments in respect of such withholding tax.**

This Prospectus has been approved by the United Kingdom Financial Services Authority (the "FSA"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Preferred Securities. Applications have been made for the Preferred Securities to be admitted to listing on the Official List of the FSA and to trading on the gilt edged and fixed interest market of the London Stock Exchange plc (the "London Stock Exchange"). (XIII 5.1)

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 Lead 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.

The Preferred Securities will be issued in bearer form and will be represented by a global Preferred Security deposited on or about the Closing Date with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg" and, together with Euroclear, the "Clearing Systems").

#### **Lead Managers**

**ABN AMRO**

**Credit Suisse**

**Dresdner Kleinwort**

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

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XIII 1.2

Each of the Issuer and the Guarantor confirms that any information contained in this Prospectus and sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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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 Prospectus 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 Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.

Neither the delivery of this Prospectus 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 Prospectus.

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

The distribution of this Prospectus and the offering, sale and delivery of Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus 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 Prospectus 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 Prospectus, 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, CREDIT SUISSE SECURITIES (EUROPE) LIMITED (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER ALLOT PREFERRED SECURITIES (PROVIDED THAT THE AGGREGATE LIQUIDATION PREFERENCE OF PREFERRED SECURITIES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE LIQUIDATION PREFERENCE OF THE PREFERRED SECURITIES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE PREFERRED SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE PREFERRED SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE PREFERRED SECURITIES.**

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### DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

- (a) the audited consolidated annual accounts of the Guarantor for each of the years ended 31 December 2006 and 2005 prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and;
- (b) the audited non-consolidated annual accounts of the Issuer for the years ended 31 December 2004 and 2005 prepared in accordance with Spanish GAAP and the auditor’s report thereon.

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The above documents may be inspected as described under “General Information”.

## KEY FEATURES

The following key information 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 Prospectus with which it should be read in conjunction.

Capitalised terms herein shall have the meaning given to them in “Conditions of the Preferred Securities”.

<b>Issuer:</b>	Popular Capital S.A.
<b>Guarantor:</b>	Banco Popular Español S.A. (the “Bank”)
<b>Joint-Lead Managers:</b>	ABN AMRO Bank N.V., Credit Suisse Securities (Europe) Limited, Dresdner Bank AG London Branch.
<b>Issue Size:</b>	Euro 300,000,000
<b>Issue Details:</b>	<p>Euro 300,000,000 Series C Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities (<i>participaciones preferentes</i>) (the “Preferred Securities”).</p> <p>The Bank will apply for the Preferred Securities to qualify as Tier 1 capital of the Bank and its consolidated Subsidiaries (the “Group”) pursuant to Spanish banking regulations and the issue of the Preferred Securities shall be subject to the Bank receiving written confirmation from the Bank of Spain of such qualification.</p>
<b>Liquidation Preference:</b>	EUR 50,000 per Preferred Security.
<b>Ranking of the Preferred Securities:</b>	<p>The Preferred Securities will be unsecured and subordinated obligations of the Issuer and will rank (a) junior to all liabilities of the Issuer including subordinated liabilities, (b) <i>pari passu</i> with each other and with any Parity Securities of the Issuer and (c) senior to the Issuer’s ordinary shares and any other class of share capital expressed to rank junior to the Preferred Securities.</p> <p>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.</p>
<b>Use of Proceeds:</b>	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 Bank or the Group once shareholders’ equity has been reduced to zero and reserves have been exhausted.
<b>Distributions (<i>remuneración</i>):</b>	<p>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.</p> <p>Distributions will accrue at the fixed Distribution rate of 4.907 per cent. per annum for the period from (and including) the Closing Date to (but excluding) 6 March 2017 (the “First Call Date”) and thereafter in respect of each Distribution</p>

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Period (Floating) (as defined herein) at a rate of Three Month EURIBOR for the relevant Distribution Period (Floating) plus a margin equal to 1.65 per cent. per annum.

Distributions are payable on each 6 March up to and including 6 March 2017 (each, a “Distribution Payment Date (Fixed)”) commencing on 6 March 2008 and, thereafter, on 6 March, 6 June, 6 September and 6 December of each year falling after the First Call Date (each, a “Distribution Payment Date (Floating)”) commencing on 6 June 2017. For further information, see “Conditions of the Preferred Securities — Distributions”.

**Limitations on Distributions:**

Distributions shall not be payable to the extent that:

(a) the aggregate of such Distributions, together with any other distributions previously paid during the then current Fiscal Year (as defined herein) 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 (as defined herein) 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 on Parity Securities issued by it.

If Distributions are not paid on the Preferred Securities on or prior to a Distribution Payment Date in respect of the relevant Distribution Period, 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 such Distribution 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 any Distribution Payment Date (Fixed) or on any four consecutive Distribution Payment Dates (Floating).

**Guarantee:**

The payment of accrued but unpaid Distributions for the most recent Distribution Period, the Liquidation Distribution and the Redemption Price or the Early Redemption Amount (each as defined herein), as the case may be, shall be irrevocably and unconditionally guaranteed by the Guarantor.

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Notwithstanding the foregoing, the Bank will not be obliged to make payment of any Distribution (including accrued and unpaid Distributions relating to the Redemption Price or the Early Redemption Amount as the case may be, or the Liquidation Distribution) on the Preferred Securities to the extent that:

(a) the aggregate of such Distributions, together with any distributions previously paid during the then current Fiscal Year and any distributions proposed to be paid during the then current Distribution Period, in each case on or in respect of the Preferred Securities and any Parity Securities issued by the Bank, the Issuer or any other Subsidiary (including the Preferred 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".

**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.

**Optional Redemption:**

The Preferred Securities may be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price (as defined herein) per Preferred Security on any Distribution Payment Date falling on or after the First Call Date.

The Preferred Securities may also be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank in whole but not in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling prior to the First Call Date if, as a result of a tax law change on or after the Closing Date, the Issuer or the Bank would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Issuer or the Bank would be materially reduced.

The Preferred Securities may also be redeemed at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank in whole but not in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling prior to the First Call Date if, as a result of a tax law change on or after the Closing Date, the Issuer or the Bank would be required to pay additional amounts in respect of Spanish withholding tax in accordance with “Withholding Tax” below.

The Preferred Securities may also be redeemed, at the option of the Issuer subject to the prior consent of the Bank of Spain and the Bank, in whole but not in part, at the higher of (i) the Liquidation Preference plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption and (ii) the Make-Whole Amount (as defined herein), on any Distribution Payment Date falling prior to the First Call Date if as a result of any change in Spanish law or banking regulations the Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations.

For further information, see “Conditions of the Preferred Securities — Optional Redemption”.

**Liquidation Distribution:**

The Liquidation Distribution payable in relation to each Preferred Security shall be its Liquidation Preference per Preferred Security plus, if applicable, an amount equal to accrued and unpaid Distributions for the then current Distribution Period to the date of payment of the Liquidation Distribution.

**Liquidation Rights:**

Except as described under “Conditions of the Preferred Securities — Distributions” and “— Liquidation Distribution” the Preferred Securities will confer no right to participate in the 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 (*Ley de Sociedades Anónimas*), 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 other Subsidiary may purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than the First Call Date. In the event that such purchases are permitted by law before the First Call Date, they may be made by tender, in the open market or by private agreement.

**Pre-emptive rights:**

The Preferred Securities do not grant their holders 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 together with the rest of holders of preferred securities in the Syndicates Global Assembly.

For further information, see “Conditions of the Preferred Securities — Exercise of rights by holders of Preferred Securities”.

**Withholding Tax:**

Save as set out below, the payment of Distributions and other amounts in respect of the Preferred Securities and payments under the Guarantee will be made without deduction for or on account of Spanish withholding taxes, unless such taxes are required by law to be withheld. In such case, the Issuer or the Bank, as the case may be, will, save in certain limited circumstances, pay additional amounts to holders of Preferred Securities to cover the amounts so deducted.

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

Under Spanish law, income in respect of the Preferred Securities will be subject to withholding tax in Spain, currently 18 per cent. in the case of (a) individual holders who are resident in Spain; and (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991 of 5 July 1991). In addition, holders who fail to provide information regarding their identity and tax residence will also receive payments subject to Spanish withholding tax.

For further information, see “Conditions of the Preferred Securities — Taxation”.

**Disclosure of identity of holders:**

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

The Clearing Systems are expected to follow certain procedures to facilitate the Paying Agent in the collection of the details referred to above from holders of the Preferred Securities. If the Clearing Systems are, in the future, unable to facilitate the collection of such information they may decline to allow the Preferred Securities to be cleared through the relevant Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities.



For further information see “Taxation — Disclosure of holder information in connection with payments on Distribution”.

**Form:**

The Preferred Securities will be issued in bearer form and will be represented by a single global Preferred Security deposited with a common depository for the Clearing Systems.

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**Ratings:**

The Preferred Securities are expected, on issue to be assigned an Aa3 rating by Moody’s, an A rating by Standard & Poor’s and an A+ rating by Fitch. 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.

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**Listing and Admission to Trading:**

Application has been made to the UK Listing Authority for the Preferred Securities to be admitted to the Official List and to the London Stock Exchange for the Preferred Securities to be admitted to trading on the London Stock Exchange’s Gilt-Edged and Fixed Interest Market.

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**Clearing Systems:**

Euroclear and Clearstream, Luxembourg.

## RISK FACTORS

*Each of the Issuer and the Bank believe that the following factors may affect its ability to fulfil its obligations under the Preferred Securities. Most of these factors are contingencies which may or may not occur and each of the Issuer and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

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*In addition, factors which are material for the purpose of assessing the market risks associated with the Preferred Securities are also described below.*

*Each of the Issuer and the Bank believes that the factors described below represent the principal risks inherent in investing in the Preferred Securities, but the inability of the Bank to pay interest, principal or other amounts on or in connection with the Preferred Securities may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Preferred Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

*Defined terms used in the statements below have the meanings assigned to them elsewhere in this Prospectus, including in "Conditions of the Preferred Securities".*

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Preferred Securities**

#### *Dependence on other Group members*

The Issuer is a finance vehicle established by the Guarantor for the purpose of issuing the Preferred Securities and on-lending the proceeds within the Group. The Issuer is therefore dependent upon other members of the Group paying interest on and repaying their loans in a timely fashion. Should any Group member fail to pay interest on or repay any loan in a timely fashion this could have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Preferred Securities and that is the reason why the Preferred Securities are guaranteed. By virtue of its dependence on other Group members, each of the risks described below that affect the Guarantor will also indirectly affect the Issuer.

### **Factors that may affect the Bank's ability to fulfil its obligations under the Guarantee of the Preferred Securities**

#### *The Bank's business is substantially dependent on the Spanish economy*

As the Bank's activity is mainly concentrated in Spain, its performance is influenced by the cyclical nature of financial activity in that country, which is in turn impacted by both domestic and international economic and political events. There can be no assurance that any adverse changes that may affect the Spanish economy will not negatively affect the Bank's financial position.

#### *Risks involved in the Bank's activities*

The principal types of risk to which the banking activities of the Group (as defined below) are subject include the following:

*Credit Risk:* Credit risk can be defined as possible losses which may be generated by a potential default in whole or in part of obligations by a counterparty or debtor. These obligations arise in both the financial activities of the Group and its dealing and investment activities since they arise by means of loans, fixed interest or equity securities, derivative instruments or other types of products (for example, guarantees).

*Market Risk:* Market risk refers to the uncertainties to which the Group's financial position and future income are exposed as a result of adverse movements in the prices of financial instruments with which the Group operates in its activities in financial and securities markets.

*Interest Rate Risk:* Overall balance sheet interest risk can be defined as the extent to which an institution may be affected by future movements which occur in market interest rates. The principal reasons for this risk derive from the different speed and intensity with which changes in market interest rates are passed on to assets, liabilities and off-balance sheet positions based on the times when they fall due and repricing.

Short term effects are shown in the profit and loss account and in the medium term are manifested by movements in the financial value of assets and liabilities which form part of the balance sheet.

*Liquidity Risk:* Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover its obligations to customers, meet the maturity of its

liabilities and to satisfy capital requirements. It includes both the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able to meet its payment obligations on time at a reasonable price due to liquidity pressures.

*Exchange Rate Risk:* The exchange rate risk consists of the potential losses which may occur as a result of adverse movements in exchange rates in respect of the different currencies in which the Group operates. The Issuer has adopted a policy of maintaining a low or very low profile in its exposure to this type of risk factor.

*Operational Risk:* Operational risk includes:

- a. The business risk which may result from unforeseeable changes in external factors without sufficient time to make the structural changes necessary to adapt to them, and the risk that unforeseeable events occur which could lead to losses for the Group. A.13.2
- b. Transactional risks resulting from errors in execution, registration failure, deriving from the complexity of certain products, errors in delivery and/or liquidation and/or human error.
- c. Risks in operational controls which include losses resulting from potential errors in transaction documentation, in obtaining the appropriate authorisations, fraud, lack of personnel training, failure to comply with limits or procedures laid down, failure of internal controls or unavailability of personnel.
- d. Losses resulting from material loss and damage as well as extreme events, for example natural disasters.
- e. Data processing risks, such as programming errors, systems failure and application design errors.
- f. Legal risks, including the possibility that transactions may not be legally enforceable in the existing legal and/or regulatory framework, and also that change in law and regulations may negatively affect the situation of the Group.

*Other Risk Factors:* There are other risk factors linked to the evolution of the Spanish economy which could have an adverse effect on developments in the business and profitability of the Issuer, which in particular include movements in employment and the housing market and growth in the economy in general.

*The cyclical nature of the real estate industry may adversely affect the Bank's operations*

Over the past decade, the Spanish real estate market has grown due to various factors, including general economic growth in Spain, low interest rates, the lengthening of mortgage loan repayment terms, and decreases in unemployment and increases in disposable income among Spanish households, among other factors. There can be no assurance that this trend will continue.

*Changes in house prices and other market factors affect the Bank's business*

Decreases in interest rates in Spain have led to an increase in demand for mortgage loans in that country in the last few years. This has had repercussions on real estate prices in Spain, which have significantly increased. Since mortgage loans are one of the Bank's main assets, the Bank is exposed to performance in the real estate market.

*Household and corporate indebtedness could endanger the Bank's asset quality and future revenues*

The indebtedness of Spanish households and firms has increased in recent years, which represents increased risk for the Spanish banking system. The increase of loans referenced to variable interest rates make debt service on such loans more vulnerable to changes in interest rates than in the past. The increase in households' and firms' indebtedness also limits their ability to incur additional debt, decreasing the number of new products the Bank may otherwise be able to sell them.

*The Bank faces increasing competition in its business lines*

The markets in which the Bank operates are highly competitive. Financial sector reforms in the markets in which it operates have increased competition among both local and foreign financial institutions, and it believes that this trend will continue. For example, the adoption of the euro as the common currency throughout the EU is making it easier for European banks to compete against the Bank in Spain. In addition, the trend towards consolidation in the banking industry has created larger and stronger banks with which it must now compete.

### **Specific risks associated with the Preferred Securities**

*The Preferred Securities may not be a suitable investment for all investors*

Each potential investor in the Preferred Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Preferred Securities, the merits and risks of investing in the Preferred Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Securities and the impact the Preferred Securities will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Securities, including where the currency for distributions is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Preferred Securities and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

*The Bank is subject to capital requirements that could limit its operations*

The Bank is subject to capital adequacy guidelines adopted by the Bank of Spain, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on an unconsolidated basis expressed as a percentage. At least half of the total capital must be maintained in the form of Tier I capital. The Bank's failure to maintain its ratios may result in administrative actions or sanctions against it which may impact on the Bank's ability to fulfil its obligations in relation to the Preferred Securities or other indebtedness of the Bank.

*Distribution payments on the Preferred Securities are subject to certain conditions and will be non-cumulative*

The payment of Distributions on the Preferred Securities is subject to certain conditions and Distributions will be non-cumulative. Distributions on the Preferred Securities will be subject to the availability of Distributable Profits and to the ability of the Bank to meet certain capital adequacy requirements. Furthermore, Distributions will not be paid if the Bank is instructed by the Bank of Spain not to make such payments.

Accordingly, if Distributions on the Preferred Securities for any Distribution Period are not paid, or are paid partially, then holders of the Preferred Securities will not be entitled to receive such Distributions or the unpaid part thereof.

*Perpetual Nature of the Preferred Securities*

The Preferred Securities have no fixed final redemption date and holders have no rights to call for the redemption of the Preferred Securities. The Bank may redeem the Preferred Securities in the circumstances described in Condition 4 (*Optional Redemption*). However, the Bank may be prevented from doing so by the Bank of Spain for regulatory capital reasons. Therefore, holders should be aware that they may be required to bear the financial risks of an investment in the Preferred Securities for an indefinite period of time.

*The Preferred Securities are subject to optional redemption by the Bank, subject to the prior consent of the Bank of Spain*

The Preferred Securities include an optional redemption feature which would enable the Bank to redeem the Preferred Securities, as described in Condition 4 (*Optional Redemption*).

The optional redemption feature of the Preferred Securities is likely to limit their market value. During any period when the Bank may elect to redeem the Preferred Securities, the market value of the Preferred

Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

In particular, the Bank may be expected to redeem the Preferred Securities when its cost of borrowing is lower than the distribution rate payable on the Preferred Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the distribution rate on the Preferred Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*The Issuer's obligations under the Preferred Securities and the Bank's obligations under the Guarantee are subordinated*

The Preferred Securities will be unsecured and subordinated obligations of the Issuer and 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 Bank's obligations under the Preferred Securities will be unsecured and subordinated and will rank (a) junior in priority of payment to all liabilities of the Bank including subordinated liabilities, (b) *pari passu* with each other and with any Parity Securities of the Bank and (c) senior to the Bank's ordinary shares.

Although the Preferred Securities may pay a higher distribution rate than comparable securities which are not subordinated or as subordinated as the Preferred Securities, there is a real risk that an investor in the Preferred Securities will lose all or some of his investment should the Bank become insolvent.

After payment in full of unsubordinated claims, but before distributions to shareholders, under articles 92 and 158 of Law 22/2003, of 9 July, on Insolvency Proceedings as amended ("Law 22/2003"), the Issuer or the Bank (as the case may be) will meet subordinated claims in the following order and pro-rata within each class: (i) late or incorrect claims; (ii) contractually subordinated debts; (iii) interest; (iv) fines; (v) claims of creditors which are related to the Issuer or the Bank, as the case may be; and (vi) detrimental claims against Issuer or the Bank, as the case may be, where a Spanish Court has determined that the relevant creditor has acted in bad faith (*recisión concursal*).

*Holder's of the Preferred Securities will have limited voting rights*

The Preferred Securities do not give holders the right to receive notice of, attend or vote at the Issuer's shareholders' meetings. The rights conferred by the Preferred Securities to attend at Syndicates Global Assemblies of holders of preferred securities are described in Condition 6 (*Exercise of Rights by Holders of Preferred Securities*). Holders should note that such rights must be exercised together with holders of all Parity Securities of the Issuer issued from time to time.

The rights of holders of the Preferred Securities to convene a Syndicates Global Assembly (as defined in Condition 1 (*Definitions*)) and vote on matters to be resolved at such meeting are limited. At any such meeting, holders of Preferred Securities may vote on (a) proposals to amend any of the conditions of the Preferred Securities and (b) proposals to consent to any further issuance of Parity Securities (including further preferred securities) in circumstances where Distributions in respect of the Preferred Securities have not been paid in full.

However, holders of the Preferred Securities will have no rights to convene a Syndicates Global Assembly and vote on the nomination, removal or replacement of directors of the Issuer in the event of any failure by the Issuer to pay Distributions. Furthermore, holders of the Preferred Securities will have no rights to convene a Syndicates Global Assembly and vote on any proposal by the shareholder of the Issuer to liquidate, dissolve or wind-up the Issuer.

*Spanish Tax Rules*

Under Spanish law, Distributions in respect of the Preferred Securities will be subject to withholding tax in Spain (at the date of this Prospectus, 18 per cent.) in the case of:

- (a) individual holders who are resident in Spain; and
- (b) holders who receive payments through a Tax Haven (as defined in Royal Decree 1080/1991 of 5 July 1991).

The Bank is required pursuant to Spanish law to submit to the Spanish tax authorities certain details relating to holders of the Preferred Securities. Holders in respect of whom such information is not provided in accordance with procedures described herein to the Bank will also receive payments subject to Spanish withholding (at the date of this Prospectus, 18 per cent.). The Bank will not gross up payments in respect of any such withholding tax in any of the above cases (see Condition 7 (*Taxation*) and “Taxation — Taxation in the Kingdom of Spain — Disclosure of Holder Information in Connection with Payments of Distributions”).

Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) and, together with Euroclear, the “**Clearing Systems**”) are expected to follow certain procedures to facilitate the Bank and the Paying Agent in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow any or all of the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of such Preferred Securities.

The procedures agreed and described in the Agency Agreement may, in the future, be amended to comply with Spanish law and regulations and operational procedures of the Clearing Systems. The procedure described in this Prospectus for the provision of information required by Spanish laws and regulations is a summary only and is subject to review and amendment by the Clearing Systems as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. **Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities.** None of the Issuer, the Bank, the Managers, the Paying Agent or the Clearing Systems assume any responsibility therefor.

### **Risks related to the Preferred Securities generally**

#### *Change of law*

The conditions of the Preferred Securities are based on Spanish law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Spanish law or administrative practice after the date of this Prospectus.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Bank nor the Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by the Paying Agent following implementation of this Directive, the Bank will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

### **Risks related to the market generally**

#### *The secondary market generally*

The Preferred Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Preferred Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Preferred Securities.

*Exchange rate risks and exchange controls*

Payments made by the Bank will be in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Preferred Securities, (ii) the Investor's Currency-equivalent value of the redemption monies payable on the Preferred Securities and (iii) the Investor's Currency-equivalent market value of the Preferred Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or may receive nothing at all.

*Interest rate risk*

Investment in the Preferred Securities involves the risk that changes in market interest rates (prior to the First Call Date) may adversely affect the value of the Preferred Securities.

*Credit ratings may not reflect all risks*

The Preferred Securities are expected, upon issue, to be assigned an Aa3 rating by Moody's, an A+ rating by Fitch and an A rating by S&P. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Preferred Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

*Legal investment considerations may restrict certain investments*

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (i) the Preferred Securities are lawful investments for it, (ii) the Preferred Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Preferred Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Preferred Securities under any applicable risk-based capital or similar rules.

## CONDITIONS OF THE PREFERRED SECURITIES

The Preferred Securities are issued by virtue of (i) the shareholders meeting of Popular Capital S.A. (the “**Issuer**”) held on 30 January 2007 and 16 February 2007, (ii) the Board of Directors meeting of the Issuer held on 16 February 2007 and (iii) the Executive Commission (*Comisión Ejecutiva*) of Banco Popular Español S.A. (the “**Bank**”) held on 30 January 2007 (together, the “**Corporate Resolutions**”) and in accordance with 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 (“**Law 13/1985**”).

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The Preferred Securities will be created by virtue of a public deed registered with the Mercantile Registry of Madrid on 14 February 2007 and a supplementary public deed registered with the Mercantile Registry of Madrid or about the Closing Date (as defined below) (together, the “**Public Deed of Issuance**”).

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

### 1. *Definitions*

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

“**Adjusted Yield**” means the Bond Yield plus 0.50 per cent.;

“**Agency Agreement**” means the agency agreement to be dated 6 March 2007 relating to the Preferred Securities;

“**Agent Bank**” means Citibank, N.A. and includes any successor agent bank appointed in accordance with the Agency Agreement;

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“**Agents**” means the agents appointed in accordance with the Agency Agreement;

“**Bond Yield**” means the rate per annum equal to the annual yield to maturity of the Comparable Bond Issue, assuming a price equal to the Comparable Bond Price for the Calculation Date;

“**Calculation Date**” means the third TARGET Settlement Day prior to the Early Redemption Date;

“**CET**” means Central European Time;

“**Closing Date**” means 6 March 2007;

“**Comparable Bond Issue**” means, with respect to the Early Redemption Date, the bond selected by the Quotation Agent that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity from the Early Redemption Date to the First Call Date;

“**Comparable Bond Price**” means (a) the average of five Reference Bond Dealer Quotations, after excluding the highest and lowest such Reference Bond Dealer Quotations (or, in the case of repeated highest and/or lowest quotations, only one of such repeated highest and/or lowest quotations), or (b) if the Quotation Agent obtains fewer than five such Reference Bond Dealer Quotations, the average of all such Reference Bond Dealer Quotations;

“**Distributions**” means the non-cumulative cash distributions determined in accordance with Condition 2 (*Distributions*) below;

“**Distribution Payment Date**” means each Distribution Payment Date (Fixed) (as defined in Condition 2.1) and each Distribution Payment Date (Floating) (as defined in Condition 2.2);

“**Distribution Period**” means the period from and including one Distribution Payment Date (Fixed) (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next Distribution Payment Date (Fixed) and each Distribution Period (Floating) (as defined in Condition 2.2);

“**Distributable Profits**” means, in respect of any Fiscal Year, the lesser of the net profit (calculated in accordance with the Bank of Spain’s calculation standards), of (i) the Bank and (ii) the Group,



in each case, as reflected in the reserved financial statements of the Bank and the Group, respectively, approved by the Board of Directors of the Bank and submitted to the Bank of Spain in compliance with regulations applicable from time to time to financial institutions relating to their obligation to file such financial statements. Circular 4/2004, of 22 December 2004, on Public and Restricted Financial Reporting Standards and Model Financial Statements shall be applicable to any such reserved financial statements. In the event that on any Distribution Payment Date, the reserved financial statements of the Bank and/or the Group, respectively, referred to above have not been submitted to the Bank of Spain, the Distributable Profits shall be the lesser of the net profit (calculated in accordance with the Bank of Spain's calculation standards), of (i) the Bank and (ii) the Group, in each case determined by reference to the latest reserved financial statements of the Bank and the Group, respectively, approved by the Board of Directors of the Bank and submitted to the Bank of Spain. In all cases, the net profit shown in the reserved financial statements of the Bank and the Group, respectively, shall be audited figures and if the net profit figure contained in such reserved financial statements is different from that contained in the published annual financial statements of the Group, prepared in accordance with Circular 4/2004, of 22 December 2004, on Public and Restricted Financial Reporting Standards and Model Financial Statements, the amount of, and reason for, such difference shall be highlighted by the Bank in the relevant annual report prepared by it containing such published annual financial statements of the Group;

*The reserved financial statements of the Bank and the Group, respectively, are prepared for, and delivered to, the Bank of Spain purely for supervisory reasons as required under applicable Spanish law.*

**“Early Redemption Amount”** means an amount payable in respect of each Preferred Security, which shall be the higher of (i) the Redemption Price and (ii) the Make Whole Amount;

**“Euro”** means 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;

**“Euro-zone”** means the region comprised by Member States of the European Union which have adopted the Euro in accordance with the Treaty establishing the European Community, as amended;

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

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

**“Guarantee”** means the guarantee to be dated 6 March 2007 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 Conditions 2.5 and 2.8, an amount per Preferred Security equal to the sum of the Liquidation Preference per Preferred Security plus accrued and unpaid Distributions for the then current Distribution Period to (but excluding) the date of payment of the Liquidation Distribution;

**“Liquidation Preference”** means €50,000 per Preferred Security;

**“Make Whole Amount”** means an amount, per Preferred Security in Euro rounded to the nearest cent (half a cent being rounded upwards), as determined by the Agent Bank, equal to the sum of (a) the then present value of the Liquidation Preference, and (b) the then present values of the scheduled Distribution amounts, calculated on the basis of the Liquidation Preference, from (but excluding) the Early Redemption Date to (and including) the First Call Date, plus accrued and unpaid Distributions for the then current Distribution Period to the date fixed for redemption. The present values of (a) and (b) shall be calculated by discounting the Liquidation Preference and the scheduled Distribution amounts from (but excluding) the Early Redemption Date to (and including) the First Call Date at the Adjusted Yield on the basis of the Day Count Fraction (Fixed) (as defined in Condition 2.1);

**“Parity Securities”** means any preferred securities (*participaciones preferentes*) issued under Law 13/1985 or other securities or instruments equivalent to preferred securities issued by the Issuer (such as the Series A Preferred Securities and the Series B Preferred Securities), or any other Subsidiary, including (but not limited to) the preference shares issued by BPE Preference International Limited which are entitled to the benefit of a guarantee ranking *pari passu* as to

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

“**Paying Agent**” means Citibank, N.A. and includes any additional or successor Paying Agent appointed by the Issuer from time to time in accordance with the Agency Agreement and notice of whose appointment is published in the manner specified in Condition 8 (*Notices*) below);

“**Payment Business Day**” means a day on which banks in the relevant place of presentation or surrender (if required) are open for presentation or surrender and payment of bearer securities and for foreign exchange dealings and which is a TARGET Settlement Day;

“**Preferred Securities**” means the Euro 300,000,000 Series C Step-Up Fixed/Floating Rate Non-Cumulative Perpetual Guaranteed Preferred Securities issued by the Issuer on the Closing Date;

“**Prospectus**” means the prospectus dated 28 February 2007 relating to the Preferred Securities;

“**Primary Bond Dealer**” means any credit institution or financial services institution that regularly deals in bonds and other debt securities;

“**Quotation Agent**” means any international bank or securities firm in London of international repute, appointed by the Issuer for the purpose of carrying out the role of Quotation Agent in respect of the Preferred Securities;

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

“**Reference Banks**” means any four major banks in the Euro-zone interbank market selected by the Agent Bank, with the agreement of the Issuer;

“**Reference Bond Dealer**” means either the Quotation Agent or any other Primary Bond Dealer selected by the Quotation Agent after consultation with the Issuer;

“**Reference Bond Dealer Quotations**” means the average, as determined by the Quotation Agent, of the bid and ask prices for the Comparable Bond Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by the relevant Reference Bond Dealer at 11:00 a.m. (CET) on the Calculation Date;

“**Relevant Screen Page**” means Reuters page EURIBOR01 or such replacement page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to Three Month EURIBOR;

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

“**Series B Preferred Securities**” means the EUR 250,000,000 Series B CMS-Linked Non-cumulative Perpetual Guaranteed preferred Securities issued by the Issuer on 30 June 2004;

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

“**Subsidiaries**” shall have a corresponding meaning;

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

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

“**TARGET Settlement Day**” means any day on which TARGET, or any successor thereto, is operating.

## 2. *Distributions*

- 2.1 Subject to Conditions 2.5 and 2.8, each Preferred Security bears Distributions from (and including) the Closing Date to (but excluding) 6 March 2017 (the “**Fixed Rate Period**”) at the rate of 4.907 per cent. per annum (the “**Distribution Rate (Fixed)**”) payable in arrear on 6 March in each year falling on or before 6 March 2017 and commencing on 6 March 2008 (each, a “**Distribution Payment Date (Fixed)**”).

If a Distribution is required to be paid in respect of a Preferred Security during the Fixed Rate Period on any other date, it shall be calculated by the Agent Bank by applying the Distribution Rate (Fixed) to the Liquidation Preference in respect of each Preferred Security, multiplying the product by the Day Count Fraction (Fixed) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). For this purpose, “**Day Count Fraction (Fixed)**” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and “**Regular Period**” means each period from (and including) a Distribution Payment Date (Fixed) (or, in the case of the first period, the Closing Date) to (but excluding) the next Distribution Payment Date (Fixed).

- 2.2 Subject to Conditions 2.5 and 2.8, each Preferred Security bears Distributions from (and including) 6 March 2017, payable on 6 March, 6 June, 6 September and 6 December in each year falling after 6 March 2017 and commencing on 6 June 2017 (each, a “**Distribution Payment Date (Floating)**”); provided, however, that if any Distribution Payment Date (Floating) would otherwise fall on a date which is not a TARGET Settlement Day, it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) a Distribution Payment Date (Floating) (or, in the case of the first period, 6 March 2017) to (but excluding) the next Distribution Payment Date (Floating) is a “**Distribution Period (Floating)**”.

The rate of Distributions applicable to each Preferred Security for each Distribution Period (Floating), (the “**Distribution Rate (Floating)**”) will be determined by the Agent Bank by applying the rate equal to Three Month EURIBOR for the relevant Distribution Period (Floating) plus 1.65 per cent. per annum to the Liquidation Preference in respect of each Preferred Security multiplying the product by the Day Count Fraction (Floating) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). For this purpose, “**Day Count Fraction (Floating)**” means the number of days in the period from and including the date from which the relevant Distribution begins to accrue for the relevant period of calculation to but excluding the date on which it falls due, divided by 360.

- 2.3 For the purpose of calculating the Distribution Rate (Floating), “**Three Month EURIBOR**” means the rate for deposits in Euro which appears on the Relevant Screen Page as at 11:00 am (CET) (or such other time as may be customary for the daily reset of such rate) on the day that is two TARGET Settlement Days preceding the first day of the relevant Distribution Period (Floating).

If such rate does not appear on the Relevant Screen Page on the day that is two TARGET Settlement Days preceding the first day of the relevant Distribution Period (Floating), Three Month EURIBOR for the relevant Distribution Period (Floating) will be determined on the basis of the rates at which three month deposits in Euro are offered by the Reference Banks at approximately 11:00 am (CET) on the day that is two TARGET Settlement Days preceding the first day of the relevant Distribution Period (Floating) to prime banks in the Euro-zone interbank market for a period of three months commencing on the first day of the relevant Distribution Period (Floating) and in an amount that is representative for a single transaction in the relevant market at the relevant time. The Agent Bank will request the principal Euro-zone office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, Three Month EURIBOR for the relevant Distribution Period (Floating) will be the arithmetic mean of such quotations.

If fewer than two quotations are provided as requested, Three Month EURIBOR for the relevant Distribution Period (Floating) will be the arithmetic mean of the rates quoted by major banks in the Eurozone, selected by the Agent Bank at approximately 11:00 am (CET) on the day that is two TARGET Settlement Days preceding the first day of the relevant Distribution Period (Floating) for loans in Euro to leading banks in the Euro-zone for a period of three months commencing on the first day of such Distribution Period (Floating) and in an amount that is representative for a single transaction in the relevant market at the relevant time, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, Three Month EURIBOR for such Distribution Period (Floating) shall be Three Month EURIBOR in effect for the last preceding Distribution Period (Floating) to which one of the preceding paragraphs of this definition of Three Month EURIBOR shall have applied or if none, the Distribution Rate (Floating) for the relevant Distribution Period (Floating) shall be the Distribution Rate (Fixed).

The Agent Bank shall, as soon as practicable after 11:00 am (CET) on each day on which the Distribution Rate (Floating) is calculated, determine, subject as provided in Condition 2.5 below, the Distribution payable on each Preferred Security for the relevant Distribution Period (Floating).

The Agent Bank shall cause the Distribution Rate (Floating) and the Distribution payable, subject as provided in Conditions 2.5 and 2.8 below, for each Distribution Period (Floating) and the relative Distribution Payment Date (Floating) to be notified to the Issuer, the Bank, the Paying Agent and, for so long as any Preferred Security is admitted to the official list maintained by the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSA") and is admitted to trading on the London Stock Exchange plc's gilt-edged and fixed interest market, the London Stock Exchange plc as soon as possible after their determination but in no event later than the first day of the relevant Distribution Period (Floating). The Distribution Rate (Floating) and Distribution Payment Date (Floating) and therefore, the Distribution payable, may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the relevant Distribution Period (Floating).

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

- 2.4 The Issuer will be discharged from its obligations (as contemplated herein) to pay Distributions on the Preferred Securities by payment to the Agent Bank for the account of the holders of the relevant Preferred Securities against presentation of the Preferred Securities on or after the relevant Distribution Payment Date. Subject to any applicable fiscal or other laws and regulations, each such payment in respect of the Preferred Securities will be made in Euro by transfer to an account capable of receiving Euro payments, as directed by the Agent Bank.

If any date on which any payment is due to be made on the Preferred Securities would otherwise fall on a date which is not a Payment Business Day, it will be postponed to the next Payment Business Day and the holder shall not be entitled to any further interest or other payment in respect of any such delay.

- 2.5 Distributions shall not be payable to the extent that:

2.5.1 the aggregate of such Distributions, together with any other distributions previously paid during the then-current Fiscal Year and any distributions proposed to be paid during the then-current Distribution Period in each case on or in respect of Parity Securities 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

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

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

- 2.6 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.

- 2.7 Distributions on the Preferred Securities will be non-cumulative. Accordingly, if Distributions are not paid on a Distribution Payment Date in respect of the Preferred Securities as a result of the limitations set out in Condition 2.5 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.

- 2.8 If a Distribution is not paid in full on the Preferred Securities, all distributions paid upon the Preferred Securities and any Parity Securities of the Bank, the Issuer or any other Subsidiary 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, the Issuer or any other Subsidiary and on the distributions scheduled to be paid on such securities, each as of the time of such payment.
- 2.9 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 any Distribution Payment Date (Fixed) or on any four succeeding consecutive Distribution Payment Dates (Floating).
- 2.10 Save as described in this Condition 2, the Preferred Securities will confer no right to participate in the profits of the Issuer.

### 3. **Liquidation Distribution**

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

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

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

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

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

- 3.3 If, upon any Liquidation Distribution described in Condition 3.1 being made, the amounts payable are limited by reason of Condition 3.2, such amounts will be payable *pro rata* among holders of

Parity Securities in proportion to the amounts that would have been payable but for such limitation (taking account, if applicable, of the different entitlement of each series of Parity Securities to accrued and unpaid distributions). After payment of the full or limited Liquidation Distribution in respect of a Preferred Security as described in Conditions 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 Subject to Conditions 4.2, 4.3 and 4.4 below, the Preferred Securities shall not be redeemable prior to the Distribution Payment Date falling on 6 March 2017 (the “**First Call Date**”). All, or some only, of the Preferred Securities may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling on or after the First Call Date, at the Redemption Price per Preferred Security.

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

- 4.2 If, prior to the First Call Date, as a result of any change in Spanish law, applicable Spanish banking regulations or any change in the official application or interpretation thereof becoming effective on or after the Closing Date, the Preferred Securities cease to qualify as Tier 1 capital of the Group pursuant to Spanish banking regulations, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling prior to the First Call Date (the “**Early Redemption Date**”), at the Early Redemption Amount per Preferred Security.
- 4.3 If, prior to the First Call Date, as a result of any change in the laws or regulations of Spain or in either case of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the official interpretation or administration of any such laws or regulations which becomes effective on or after the Closing Date, the Issuer would not be entitled to claim a deduction in computing taxation liabilities in Spain in respect of any Distribution to be made on the next Distribution Payment Date or the value of such deduction to the Issuer would be materially reduced, the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling prior to the First Call Date, at the Redemption Price per Preferred Security.
- 4.4 If, prior to the First Call Date, as a result of any change in the laws or regulations of Spain or in either case of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the official interpretation or administration of any such laws or regulations which becomes effective on or after the Closing Date, the Issuer (or, in the case of a demand under the Guarantee, the Bank) would be required to pay additional amounts as provided in Condition 7 (*Taxation*), the Preferred Securities may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, on any Distribution Payment Date falling prior to the First Call Date, at the Redemption Price per Preferred Security, provided, however, that no notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or (as the case may be) the Bank would be obliged to pay such additional amounts were a payment in respect of the Preferred Securities then due.
- 4.5 Prior to the publication of any notice of redemption pursuant to Condition 4.2, 4.3 or 4.4, the Issuer shall deliver to the Paying Agent (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; (ii) an opinion of independent legal advisers of recognised standing to the effect that the circumstances in Condition 4.2, 4.3 or 4.4, as the case may be, exist; and (iii) a copy of the Bank of Spain consent to the redemption.

The decision to redeem the Preferred Securities must be irrevocably notified by the Issuer upon not less than 30 nor more than 60 days’ notice prior to the relevant redemption date in accordance with Condition 8 (*Notices*) below.

- 4.6 If the Issuer gives notice of redemption of the Preferred Securities, then by 12:00 (London time) on the relevant redemption date, the Issuer will:
- 4.6.1 irrevocably deposit with the Paying Agent, immediately available funds sufficient to pay the Redemption Price or the Early Redemption Amount, as the case may be; and
  - 4.6.2 give the Paying Agent irrevocable instructions and authority to pay the Redemption Price or the Early Redemption Amount, as the case may be, to the Agent Bank for the account of the holders of the Preferred Securities, against surrender of the relevant Preferred Securities.
- 4.7 If the notice of redemption has been given, and the funds deposited as required, then on the date of such deposit:
- 4.7.1 Distributions on the Preferred Securities called for redemption shall cease;
  - 4.7.2 such Preferred Securities will no longer be considered outstanding; and
  - 4.7.3 the holders will no longer have any rights as holders except the right to receive the Redemption Price or Early Redemption Amount, as the case may be.
- 4.8 If either the notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Issuer (or the Bank pursuant to the Guarantee) improperly withholds or refuses to pay the Redemption Price or the Early Redemption Amount, as the case may be, of the Preferred Securities, Distributions will continue to accrue at the rate specified from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price or the Early Redemption Amount, as the case may be.

## 5. *Purchases of Preferred Securities*

In order to comply with certain Spanish capital adequacy regulations in force as at the Closing Date, none of the Issuer, the Bank or any of its other Subsidiaries shall at any time purchase Preferred Securities, save with the prior consent of the Bank of Spain and in any event no earlier than the First Call Date. Notwithstanding the foregoing, if Spanish law were to change and such purchases were permitted before the First Call Date, then, subject to the applicable law then in force, the Issuer, the Bank or any of its other Subsidiaries 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 Bank, the Issuer or any other Subsidiary shall be immediately cancelled.

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

### 6.1 *The Syndicates Global Assembly*

- 6.1.1 The Syndicates Global Assembly, which will be formed by all holders of preferred securities of the Issuer, will be called by the directors of the Issuer or, as long as the Series A Preferred Securities remain outstanding, by the Trustee appointed as Trustee of the Series A Preferred Securities (the “**General Trustee**”).
- 6.1.2 The directors of the Issuer or, as the case may be, the General Trustee, will call the Syndicates Global Assembly, at its own discretion or at the request of the holders of preferred securities representing at least one twentieth of the aggregate liquidation preference of the preferred securities outstanding, in any of the circumstances set out below:
- (i) Failure to pay Distributions on any Distribution Payment Date (Fixed) or on four consecutive Distribution Payment Dates (Floating);
  - (ii) Liquidation, dissolution or winding-up of the Issuer, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders’ equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*);
  - (iii) Further issuance of preferred securities, when the Issuer has not paid the most recent distribution due under its outstanding preferred securities; and
  - (iv) Amendment to the terms and conditions of the preferred securities, including the Preferred Securities (except the amendment to the terms and conditions of Series A Preferred Securities, which will be governed by the Regulations of the Syndicate of Holders of the Series A Preferred Securities).

- 6.1.3 The convening of the Syndicates Global Assembly will be carried out in accordance with the rules governing the calling and holding of holders of each series of preferred securities. As regards the Series A Preferred Securities such rules will be the rules contained in the regulations of the syndicate constituted by the holders of the Series A Preferred Securities. The holders of the Preferred Securities will be convened (i) so long as any Preferred Security is admitted to the official list maintained by the FSA and is admitted to trading on the London Stock Exchange plc's gilt-edged and fixed interest market, and the FSA so requires, by publication of notice in a leading newspaper having a general circulation in the United Kingdom (which is expected to be the Financial Times) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe, and (ii) by mail to Euroclear and Clearstream Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).
- 6.1.4 In the Syndicates Global Assembly all resolutions shall be made by an absolute majority of the liquidation preference of the preferred securities present or represented, and will be binding on all of the holders of such preferred securities, including those not in attendance and dissenters. The quorum shall be the holders of preferred securities holding two-thirds of the liquidation preference of all preferred securities issued and outstanding. If the attendance of two-thirds of the holders of preferred securities issued and outstanding cannot be obtained, the Syndicates Global Assembly may be re-convened one month after the date of the first meeting (so long as the Series A Preferred Securities are outstanding) or (if the Series A Preferred Securities have been redeemed) one day after the first meeting and the resolutions at such re-convened meeting may be adopted by absolute majority of the liquidation preference of the attendees. These resolutions shall be binding on all holders of preferred securities, in the same manner as referred to above.

## 6.2 Voting Rights

- 6.2.1 The holders of the Preferred Securities will have no voting rights. Notwithstanding the foregoing, the holders of the Preferred Securities will, in the circumstances set out in 6.2.2, 6.2.3 or 6.2.4 below, have the right to participate in the adoption by the Issuer of certain decisions in the Syndicates Global Assembly. The rights referred to in the above Condition will be enjoyed not only by the holders of Preferred Securities, but shall be exercised together with all other holders of preferred securities of the Issuer ranking *pari passu* with the Preferred Securities.
- 6.2.2 *Failure to pay Distributions on any Distribution Payment Date (Fixed) or on four consecutive Distribution Payment Dates (Floating)*
- (a) In the event that neither the Issuer nor the Bank pays full Distributions in respect of the Preferred Securities on any Distribution Payment Date (Fixed) or on four consecutive Distribution Payment Dates (Floating), the holders of the Preferred Securities through the Syndicates Global Assembly may resolve to appoint two further members to the board of directors of the Issuer and may also remove or replace such directors.
- (b) Immediately following a resolution for the appointment or the removal of additional members to the board of directors, the General Trustee or, should the Series A Preferred Securities have been redeemed, the person appointed for such purposes by the Syndicates Global Assembly shall give notice of such appointment or removal to:
- (1) the board of directors of the Issuer so that it may, where necessary, call a general meeting of the shareholders of the Issuer; and
  - (2) the shareholders of the Issuer, so that they may hold a universal meeting of shareholders.
- The shareholders of the Issuer have undertaken to vote in favour of the appointment or removal of the directors so named by the Syndicates Global Assembly and to take all necessary measures to approve such appointment or removal.
- (c) The foregoing shall apply, in respect of the Preferred Securities, provided that, where the Issuer has failed to fulfill its obligation to make Distributions in respect of the Preferred Securities, the Bank 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 on any Distribution Payment Date (Fixed) or on four consecutive Distribution Payment Dates (Floating) and distributions in full in respect of such number of consecutive distribution periods of any other preferred securities in circulation, as shall be equal to or exceed 12 calendar months.
- (e) Both the appointment and the dismissal of directors shall be announced on behalf of the Issuer in accordance with Condition 8 (*Notices*) below.

#### 6.2.3 *Liquidation, dissolution or winding-up of the Issuer*

- (a) With respect to the carrying out by the board of directors of the Issuer or the Bank of any act providing for the liquidation, dissolution or winding-up of the Issuer, the intention to adopt such acts will be notified immediately to the General Trustee, as long as the Series A Preferred Securities remain outstanding and to all holders of preferred securities in accordance with Condition 8 (*Notices*) below, except in the event that proceedings for the liquidation, dissolution or winding-up of the Issuer are commenced as a result of the liquidation, dissolution or winding-up of the Bank or the reduction of the shareholders' equity of the Bank pursuant to Article 169 of the Spanish Corporations Law (*Ley de Sociedades Anónimas*).
- (b) Once the notice referred to in paragraph (a) above has been given and as long as the Series A Preferred Securities remain outstanding has been received by the General Trustee, the Syndicates Global Assembly shall be called in accordance with the rules explained above. The agenda of the Syndicates Global Assembly shall contain a resolution to vote for or against the dissolution and winding-up of the Issuer.
- (c) The General Trustee or, should the Series A Preferred Securities have been redeemed, the person appointed for such purposes by the Syndicates General Assembly shall give notice of the result of the aforementioned vote to the shareholders of the Issuer.
- (d) The board of directors of the Issuer are not permitted to call a general meeting of shareholders, nor may the shareholders of the Issuer hold a universal meeting of shareholders, until the Syndicates Global Assembly has resolved to vote for or against the dissolution or winding-up of the Issuer.
- (e) The shareholders of the Issuer have undertaken to vote, in the corresponding general meeting of shareholders, in conformity with the result of the vote of the Syndicates Global Assembly.

#### 6.2.4 *Further issuance of preferred securities*

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

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

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

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

Such resolution shall be made by an absolute majority of the Preferred Securities present or represented with an attendance of two thirds of the outstanding preferred Securities, and will be binding on all the holders of the Preferred Securities issued and outstanding.

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

6.4 *Pre-emptive Rights and other provisions*

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

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

6.4.3 No vote in respect of the Preferred Securities will be required for the Issuer to redeem and cancel the Preferred Securities, in accordance with these terms and conditions.

7. *Taxation*

7.1 All payments of Distributions and other amounts payable in respect of the Preferred Securities and the Guarantee by the Issuer or the Bank (as the case may be) will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Bank shall, subject to Condition 7.2, pay such additional amounts as would have been received had no such withholding or deduction been required.

7.2 Neither the Issuer nor the Bank shall be required to pay any additional amounts as referred to in Condition 7.1 in relation to any payment in respect of Preferred Securities or the Guarantee, as the case may be:

- (i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of the Preferred Securities by reason of his having some connection with Spain other than the mere holding of Preferred Securities; or
- (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Bank, or the Paying Agent on its behalf, does not receive such details concerning such holder's identity and country of residence as it requires in order to comply with Law 13/1985, Royal Decree 2281/1998 of 23 October 1998, and Order of 22 December 1999, no later than 10.00 a.m. (CET) on the 10th calendar day of the month following the relevant date upon which the payment was due (or if such date is not a day on which commercial banks are open for general business in Spain, the immediately preceding such date); or
- (iii) presented (where required) for payment more than thirty days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days; or
- (iv) where the withholding or deduction referred to in Condition 7.1 is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented (where required) for payment by or on behalf of a holder of Preferred Securities who would have been able to avoid such withholding or deduction by presenting the Preferred Securities to a paying agent in another Member State of the European Union; or
- (vi) to, or to a third party on behalf of, individuals resident for tax purposes in The Kingdom of Spain or a resident of a tax haven (as defined in Royal Decree 1080/1991 of 5 July 1991); or
- (vii) to, or to a third party on behalf of, a Spanish resident corporate entity if the Spanish tax authorities determine that the Preferred Securities do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made.

*A list of the tax havens referred to in Condition 7.2 (vi) as at the date of this Prospectus is set out on page 59 of this Prospectus.*

- 7.3 For the purposes of Condition 7, the “**Relevant Date**” means, in respect of any payment, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders of Preferred Securities, notice to that effect shall have been duly given to the holders of Preferred Securities in accordance with Condition 8 (*Notices*) below.

*See “Taxation and Disclosure of Holder Information in Connection with Payments of Distributions” for a fuller description of certain tax considerations (particularly in relation to holders which are resident in Spain) relating to the Preferred Securities, the formalities which holders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Bank relating to the identity of holders of Preferred Securities.*

*In order to facilitate compliance with Law 13/1985, the Issuer, the Bank, the Paying Agent, the European Clearing Systems and their respective participants have initially established certain procedures to ensure that each payment (where applicable subject to withholding tax in accordance with Condition 7 (Taxation)) shall be received by the Paying Agent for the account of such person as the European Clearing Systems or their respective participants, as the case may be, have certified to be the beneficial owner (titular) of the relevant Preferred Security in their “certificate for own account investments” or “certificate for third party investments” as of the Distribution Payment Date in accordance with the procedures described in the Agency Agreement.*

*As at the date of this Prospectus, the Clearing Systems are in discussions to harmonise the procedure for the provision of information as required by Spanish laws and regulations. The procedure contained in this Prospectus is a summary only and is subject to such discussions as well as to further clarification from the Spanish tax authorities regarding such laws and regulations. Holders of Preferred Securities must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Preferred Securities. None of the Issuer, the Bank, the Joint-Lead Managers, the Paying Agent or the European Clearing Systems assume any responsibility therefore.*

*It is intended that the Preferred Securities will be represented by a global Preferred Security in bearer form for the total number of the Preferred Securities. Such global Preferred Security will be delivered into the physical custody of a common depository for the European Clearing Systems on or about the Closing Date. The European Clearing Systems will make payment of any amounts received by them to their accountholders in accordance with their published rules and regulations.*

## **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 admitted to the official list maintained by the FSA and is admitted to trading on the London Stock Exchange plc’s gilt-edged and fixed interest market, and the FSA so requires, by publication in a leading newspaper having a general circulation in the United Kingdom (which is expected to be the *Financial Times*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to Euroclear and Clearstream Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

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

## **9. Form and Status**

The Preferred Securities will be issued in bearer form.

*It is intended that a global Preferred Security representing the Preferred Securities will be delivered by the Issuer to a common depository for Euroclear and Clearstream, Luxembourg. As a result, accountholders should note that they will not themselves receive definitive Preferred Securities but instead Preferred Securities will be credited to their securities account with the relevant clearing system. It is anticipated that only in exceptional circumstances (such as the closure of Euroclear and Clearstream, Luxembourg, the non-availability of any alternative or successor clearing system 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.*

The Preferred Securities are unsecured and subordinated obligations of the Issuer and 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 or other securities issued by it and expressed to rank junior to the Preferred Securities.

#### **10. Use of proceeds**

The net proceeds of the Preferred Securities are EUR 300,000,000 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 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 its reserves have been exhausted.

#### **11. Agents**

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

The initial Agents and their initial specified offices are listed in the Agency Agreement. The Issuer and the Bank reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor agent bank, and additional or successor paying agents; provided, however, that the Issuer and the Bank will maintain (i) a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive and (ii) to the extent not already satisfied by (i) above, if, and for so long as, the Preferred Securities are admitted to the official list maintained by the FSA and are admitted to trading on the London Stock Exchange plc's gilt-edged and fixed interest market and the rules of the FSA so require, a Paying Agent having its specified office in London.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the holders of the Preferred Securities in accordance with Condition 8 (*Notices*).

#### **12. Prescription**

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

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

##### **13.1 Governing Law**

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

##### **13.2 Jurisdiction**

The Issuer hereby irrevocably agrees for the benefit of the holders of the Preferred Securities that the courts of the city 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 the city of Madrid. Nothing contained in this clause shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.

## THE GUARANTEE

**THIS GUARANTEE** (the “**Guarantee**”), dated 6 March 2007, 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). VI 1

**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 C Step-Up Fixed/Floating Rate 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;

“**Conditions**” means the conditions of the Preferred Securities, as set out in the Prospectus;

“**Guaranteed Payments**” means (without duplication) (i) any accrued but unpaid Distribution payable on the Preferred Securities for the most recent Distribution Period; (ii) the Redemption Price or the Early Redemption Amount, as the case may be, payable with respect to any Preferred Securities due to be redeemed by the Issuer; (iii) the Liquidation Distribution per Preferred Security due on the Liquidation Date; and (iv) any other sums (if any) due but unpaid by the Issuer in respect of the Preferred Securities;

“**Holder**” means any bearer from time to time of any Preferred Security.

“**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);

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

Terms used but not defined in the Guarantee shall have the meanings ascribed thereto in the Conditions.

### 2. *Guarantee*

#### 2.1 *Guarantee*

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

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

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

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

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

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

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

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

2.6 *Acceptance of the Guarantee*

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

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

3.1 *Waiver*

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

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

3.2 *Obligations and Commitments of the Guarantor*

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

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

3.2.2 the extension of the Distribution Payment Date, the Liquidation Date or the date for payment of the Redemption Price or the Early Redemption Date 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 Citibank, N.A. as Paying Agent until all the obligations of the Bank hereunder have been discharged in full. The Bank hereby acknowledges the right of every Holder to the production of and to obtain a copy of this Guarantee. A Holder may enforce this Guarantee directly against the Bank, and the Bank waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Bank. Subject to Clause 3.1, all waivers contained in this Guarantee shall be without prejudice to the Holder's right to proceed against the Issuer. The Bank agrees that this Guarantee shall not be discharged except by payment of the Guaranteed Payments in full and by complete performance of all obligations of the Bank under this Guarantee.

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

### 4.1 *No further issues*

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

### 4.2 *Non-Payments*

The Bank undertakes that if any amount required to be paid pursuant to this Guarantee in respect of any Distribution payable in respect of the most recent Distribution Period has not been paid, whether by reason of the limitations of Clause 2.2 and 2.3 or otherwise, no distributions (except distributions in the form of the Bank Shares or other shares of the Bank ranking junior to the obligations of the Bank under this Guarantee) will be declared or paid or set aside for payment, nor other distribution made, upon the Bank Shares or any other class of share capital or any securities of the Bank ranking junior to this Guarantee, nor will any Bank Shares or any other class of share capital or securities of the Bank ranking *pari passu* with or junior to the obligations of the Bank under this Guarantee, be redeemed, repurchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such

Bank Shares, class of share capital or securities) by the Bank (except by conversion into or in exchange for shares or securities of the Bank ranking junior to this Guarantee), until such time as the Issuer or the Bank pursuant to this Guarantee shall have made payment in full of Distributions on any Distribution Payment Dates (Fixed) or on four consecutive succeeding Distribution Payment Dates (Floating) in respect of all Preferred Securities then outstanding.

#### 4.3 *Ownership*

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

#### 4.4 *Voting*

The Bank undertakes in connection with the right of the Holders to participate in the adoption by the Issuer of certain decisions in the Syndicates Global Assembly as contemplated in the Conditions:

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

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

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

### 5. *Termination of the Guarantee*

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

### 6. *General*

#### 6.1 *Successions and Assigns*

Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders, each of whom shall be entitled severally to enforce this Guarantee against the Bank. The Bank shall not transfer its obligations hereunder without the prior approval of the Holders, 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 Prospectus.

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

#### 6.2 *No Transfer*

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

#### 6.3 *Amendments*

This Guarantee shall be changed only by agreement in writing signed by the Bank (a) with the prior approval of the Bank of Spain, and (b) with the prior approval of the Holders in accordance



with paragraph 6.3 of the Conditions of the Preferred Securities. The prior approval of the Bank of Spain shall be required but not the prior approval of the Holders for those changes (i) required by Clause 4.1 hereof; (ii) which do not adversely affect the rights of Holders; or (iii) necessary or desirable to give effect to any one or more transactions referred to in the proviso to Clause 6.1.

#### 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 85 05  
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 Citibank, N.A. as 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 admitted to the official list maintained by the FSA and is admitted to trading on the London Stock Exchange plc's gilt-edged and fixed interest market, and the FSA so requires, by publication in a leading newspaper having a general circulation in the United Kingdom (which is expected to be the *Financial Times*) or, if such a publication is not practicable, in a leading daily newspaper in English and having general circulation in Europe and (ii) by mail to Euroclear and Clearstream Luxembourg (in each case not less than 30 nor more than 60 days prior to the date of the act or event to which such notice, request or communication relates).

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

#### 6.5 *Annual Reports*

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

### 7. *Law and Jurisdiction*

#### 7.1 *Law*

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

#### 7.2 *Jurisdiction*

The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of the city 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 the city 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 José Ortega y Gasset 29, 28006 Madrid. The Issuer is registered in Volume 18,873, Book 0, Folio 47, Section 8, Sheet M-329290, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries. IX 4.1.1  
IX 4.1.2  
IX 4.1.3  
IX 4.4.1  
IX 6.1

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

The objects of the Issuer are to issue preferred securities pursuant to Ley 19/2003 which are to be traded on national and international markets, as specified in Article 2 of the Issuer's By-Laws (*estatutos*). IX 5.1.1

The directors of the Issuer are Mr. Ernesto Rey Rey, Ms. Teresa Palacios Blasco and Mr. Javier Moreno Navarro. Ms. Teresa Palacios Blasco also works as a legal adviser to the Bank. Mr. Ernesto Rey Rey works as the Deputy Chief Financial Officer of the Bank and Mr. Javier Moreno Navarro works as a financial officer of the Bank.

The business address of Ms. Teresa Palacios Blasco, Mr. Ernesto Rey Rey and Mr. Javier Moreno Navarro is José Ortega y Gasset, 29, 28006 Madrid.

The auditors of the Issuer are PricewaterhouseCoopers Auditores, S.L.

IX 2.1

### Activities of the Issuer

The Issuer issued EUR 300,000,000 Series A 6 per cent. non-cumulative Perpetual Guaranteed Preferred Securities of EUR 1,000 liquidation preference in 2003 (the "**Preferred Securities A**"). The Preferred Securities A may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 20 February 2008.

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

In 2004 the Issuer issued a EUR 250,000,000 Series B non-cumulative Perpetual Guaranteed Preferred Securities of EUR 1,000 liquidation preference (the "**Preferred Securities B**"). The Preferred Securities B may be redeemed at the option of the Issuer, subject to the prior consent of the Bank of Spain and the Bank, in whole or in part, at the Redemption Price per Preferred Security on any Distribution Payment Date falling on or after 30 June 2009.

The Preferred Securities B will entitle holders to receive non-cumulative cash distributions at a rate of 0.125 per cent. per annum above the EUR CMS 10, accruing from the Closing Date and payable quarterly in arrear, commencing on the Distribution Payment Date falling in September 2004. In relation to any Distribution Period, the Distribution Rate may not exceed 9 per cent. per annum.

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

Any duties owed to the Issuer by its Directors do not conflict or potentially conflict with their private interests and/or other duties. IX 9.1

The following financial information of the Issuer has been extracted from the Issuer's audited non-consolidated annual accounts which are prepared in accordance with Spanish GAAP:

**Balance Sheet and Income Statements**

	<u><i>31 December, 2005</i></u> <i>(EUR) (Spanish GAAP)</i>
<u>Balance Sheet</u>	
<b>Assets</b>	
Banks	920,881.23
Temporary financial investments	3,697,093.88
Accrual expenses account	10,447,941.79
Intergroup loans	<u>539,000,000.00</u>
Total	<u><u>554.065.916,90</u></u>
<b>Liabilities and Capital</b>	
Short-term creditors	3,762,340.66
Tax authorities	108,242.34
Other debts	3,654,098.32
Bearer bond issues 300,000,000.00	550,000,000.00
Stockholders' equity	63,390.34
Share capital	90,000.00
Profit/(Loss) of the year	<u>150,185.90</u>
Total	<u><u>554,065,916.90</u></u>
<u><i>Year Ended</i></u> <u><i>31 December, 2005</i></u> <i>(EUR) (Spanish GAAP)</i>	
<u>Profit and Loss account</u>	
<b>Debit balance</b>	
<b>Total expenses</b>	(27,505,743.87)
Permanent assets depreciation provision	
Other operating expenses (External services and taxes)	(4,165.45)
Financial charges	(27,420,709.09)
<b>Credit balance</b>	
<b>Total income</b>	
Operating losses	(4,165.45)
Other interests income from Group companies	27,655,925.29
Losses from ordinary activities	
Losses before taxes	
<b>Profit/(losses)</b>	150,185.90

## BANCO POPULAR ESPAÑOL, S.A.

IX 4.1.5

### Background

The Bank is a *sociedad anónima* (limited liability corporation) organised and existing under the laws of the Kingdom of Spain. The Bank was founded in July 1926 as Banco Popular de los Previsores del Porvenir and its current name was adopted in February 1947. The Bank is registered at Tomo 174, Folio 44, Page 5458, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The objects of the Bank are to provide the widest possible services to its clients in all business and banking matters (as specified in Article 4 of the Bank's *estatutos*). VI 3  
IX 4.1.1  
IX 4.1.2  
IX 4.1.3  
IX 4.1.4

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 2005 the Group's total assets amounted to EUR 77,697,748 thousand, the funds managed amounted to EUR 73,036,880 thousand and shareholders funds stood at EUR 4,989,779 thousand (after distribution of the profit for the year). The Group's consolidated income for the year ended 31 December 2005 amounted to EUR 937,605 thousand. IX 5.1.2  
XIII 7.4

Popular's business concentrates on domestic retail banking being the 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. IX 5.1.1

The Bank's shares are listed on all the Spanish stock exchanges, on the Lisbon Stock Exchange and on the Paris Stock Exchange. At 31 December 2005, Allianz Ras held 8.81 per cent. of the Bank's share capital. The Board of Directors control approximately 34 per cent, institutional investors approximately 46.35 per cent. and individual shareholders approximately 19.33 per cent. of the Bank's share capital.

### The Group

IX 6.1

At 2005 year-end the Group included ten other banks which were either wholly or majority-owned and managed:

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

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

By virtue of the Bank's majority in capital stock, voting rights and agreements with its partners, the Group operates as a single entity with unified direction and management and common technical services 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 one.

The following table shows the key administrative details of the companies comprising the Group:

**Companies comprising the consolidated group, the nonconsolidable group and the multigroup companies at 31 December 2005**

Registered offices and line of business

	<i>Address</i>		<i>Business activity</i>
<b><i>Deposit-taking companies:</i></b>			
Banco de Andalucía	Fernández y González, 4	Sevilla	Banking
Banco de Castilla	Pl. de los Bandos, 10	Salamanca	Banking
Banco de Crédito Balear	Pl. de España, 1	P.Mallorca	Banking
Banco de Galicia	Policarpo Sanz, 23	Vigo	Banking
Banco de Vasconia	Pl. del Castillo, 39	Pamplona	Banking
Bancopopular-e	Velázquez, 34	Madrid	Banking
Banco Popular France	8, Rue D'Anjou	París	Banking
Banco Popular Hipotecario	Labastida, 9-11	Madrid	Banking
Banco Popular Portugal	Rua Ramalho Ortigao, 51	Lisboa	Banking
BNC International Cayman	Cardinal Avenue	Cayman	Banking
Popular Banca Privada	Luca de Tena, 13	Madrid	Banking
<b><i>Financing companies:</i></b>			
Heller Factoring Portuguesa	Rua Castilho, 39	Lisboa	Factoring
<b><i>Portfolio &amp; Service Companies:</i></b>			
BNC Gerfundos	Rua Ramalho Ortigao, 51	Lisboa	Mutual fund management
BNC Predifundos	Rua Ramalho Ortigao, 51	Lisboa	Pension plan management
Europensiones	María de Molina, 34	Madrid	Pension plan management
Gestión Premier Fund	Boulevard Royal, 261	Luxemburgo	Mutual fund management
Gestora Europea de Inversiones	Labastida, 9-11	Madrid	Portfolio management
Gestora Popular	J.Ortega y Gasset, 29	Madrid	Share portfolio & ownership
Inca	Avenida Arriaga, 73	Funchal	Share portfolio & ownership
Popular Bolsa	Labastida, 9-11	Madrid	Stockbroker
Popular de Participaciones Fin.	Velázquez, 64-66	Madrid	Venture capital
Popular Gestión Privada	Luca de Tena, 13	Madrid	Mutual fund management
Popular Previsión Privada	Luca de Tena, 13	Madrid	Pension plan management
Sogeval	Labastida 9-11	Madrid	Mutual fund management
<b><i>Instrumentality companies:</i></b>			
Aliseda	J.Ortega y Gasset, 29	Madrid	Asset ownership
Aula 2000	Luca de Tena, 13	Madrid	Services instrumentality
BNC Gestao de Imóveis	Rua do Comércio, 85	Lisboa	Property management
BPE Capital International	Ugland House George	George Town	Financial instrumentality
BPE Finance International	Ugland House George	George Town	Financial instrumentality
BPE Financiaciones	J.Ortega y Gasset, 29	Madrid	Financial instrumentality
BPE Preference International	Ugland House George	George Town	Financial instrumentality
Finespa	J.Ortega y Gasset, 29	Madrid	Property instrumentality
IM BP FTPYME, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Cédulas 1 GBP, FTA	Pz. Pablo Ruiz Picasso,	Madrid	Asset securitisation fund
Inmobiliaria Viagracia	J.Ortega y Gasset, 29	Madrid	Property instrumentality
Inmobiliaria Vivesa	J.Ortega y Gasset, 29	Madrid	Property instrumentality

	<i>Address</i>		<i>Business activity</i>
<b><i>Deposit-taking companies:</i></b>			
Intermediación y SS Tecnológicos	Luca de Tena, 13	Madrid	Services instrumentality
Popular Capital	J.Ortega y Gasset, 29	Madrid	Financial instrumentality
Popular Capital Europe	Strawinskylaan, 3106	Amsterdam	Financial instrumentality
Popular Commercial Europe	Strawinskylaan, 3107	Amsterdam	Financial instrumentality
Popular Español Asia Trade	13/F Tim Mei Avenue	Hong Kong	Financial instrumentality
Popular Finance Europe	Strawinskylaan, 3105	Amsterdam	Financial instrumentality
Urbanizadora Española	J.Ortega y Gasset, 29	Madrid	Property instrumentality
<b><i>Non-financial companies:</i></b>			
Consulteam-Consultores de Gestao	Rua Tomás Ribeiro, 50	Lisboa	Management consulting
Desarrollo Aplicaciones Especiales	Juan de Olías, 1	Madrid	Data processing
Eurocorredores	J.Ortega y Gasset, 29	Madrid	Insurance brokering
Eurovida (Portugal)	Av. da República, 57	Madrid	Insurance
Inversiones Inmobiliarias Alprosa	J.Ortega y Gasset, 29	Madrid	Property development
Panorama Ibicenca	J.Ortega y Gasset, 29	Madrid	Asset ownership
Popular de Comunicaciones	J.Ortega y Gasset, 29	París	Communications services
Popular de Informática	J.Ortega y Gasset, 29	Madrid	IT services
Popular de Renting	Labastida, 9-11	Madrid	Renting
Proassurances	8, Rue D'Anjou	Lisboa	Insurance broking
Promoción Social de Viviendas	J.Ortega y Gasset, 29	Madrid	Asset ownership
Sicomi	J.Ortega y Gasset, 29	Madrid	Dormant

The following table shows the percentage of ownership of the companies comprising the Group:

**Group and multigroup companies at 31 December 2005**

Percentage of direct and indirect ownership and book value

	<i>Direct</i>	<i>Indirect</i>	<i>Total</i>	<i>Book value</i>
<b><i>Deposit-taking companies:</i></b>				
Banco de Andalucía	80.07	0.05	80.12	166,816
Banco de Castilla	95.16	—	95.16	71,079
Banco de Crédito Balear	64.47	0.03	64.50	30,558
Banco de Galicia	92.56	0.06	92.62	59,175
Banco de Vasconia	96.82	0.04	96.86	32,548
Bancopopular-e	100.00	—	100.00	34,908
Banco Popular France	100.00	—	100.00	15,538
Banco Popular Hipotecario	99.94	0.06	100.00	106,476
Banco Popular Portugal	100.00	—	100.00	580,448
BNC International Cayman	—	100.00	100.00	25,396
Popular Banca Privada	52.50	7.50	60.00	13,785
<b><i>Financing companies:</i></b>				
Heller Factoring Portuguesa	49.76	—	49.76	19,469
<b><i>Portfolio &amp; Service Companies:</i></b>				
BNC Gerfundos	—	100.00	100.00	300
BNC Predifundos	—	100.00	100.00	375
Europensiones	51.00	—	51.00	7,968
Gestión Premier Fund	—	60.00	60.00	127
Gestora Europea de Inversiones	99.90	0.10	100.00	655
Gestora Popular	35.00	65.00	100.00	12,363
Inca	—	100.00	100.00	14,025
Popular Bolsa	100.00	—	100.00	6,100
Popular de Participaciones Fin.	100.00	—	100.00	36,000
Popular Gestión Privada	—	60.00	60.00	3,005
Popular Previsión Privada	—	60.00	60.00	870
Sogeval	99.99	0.01	100.00	3,008
<b><i>Instrumentality companies:</i></b>				
Aliseda	100.00	—	100.00	2,592
Aula 2000	99.00	1.00	100.00	6
BNC Gestao de Imóveis	—	100.00	100.00	—
BPE Capital International	100.00	—	100.00	46
BPE Finance International	100.00	—	100.00	46
BPE Financiaciones	90.00	10.00	100.00	100
BPE Preference International	100.00	—	100.00	52
Finespa	4.19	95.81	100.00	8,058
IM Banco Popular FTPYME, FTA	100.00	—	100.00	—
IM Cédulas 1 GBP, FTA	100.00	—	100.00	—
Inmobiliaria Viagracia	99.99	0.01	100.00	20,635
Inmobiliaria Vivesa	99.99	0.01	100.00	1,170
Intermediación y SS Tecnológicos	99.50	0.50	100.00	1,203
Popular Capital	90.00	10.00	100.00	90
Popular Capital Europe	100.00	—	100.00	2,000
Popular Commercial Europe	100.00	—	100.00	2,000
Popular Español Asia Trade	100.00	—	100.00	—
Popular Finance Europe	100.00	—	100.00	2,000
Urbanizadora Española	7.00	90.55	97.55	11,448

	<i>Direct</i>	<i>Indirect</i>	<i>Total</i>	<i>Book value</i>
<b><i>Non-financial companies:</i></b>				
Consulteam-Consultores de Gestao	—	100.00	100.00	623
Desarrollo Aplicaciones Especiales	50.67	—	50.67	47
Eurocorredores	90.00	10.00	100.00	62
Eurovida (Portugal)	—	100.00	100.00	13,500
Inversiones Inmobiliarias Alprosa	63.41	36.59	100.00	53,437
Panorama Ibicenca	—	100.00	100.00	357
Popular de Comunicaciones	99.84	0.16	100.00	60
Popular de Informática	99.84	0.16	100.00	61
Popular de Renting	100.00	—	100.00	3,005
Proassurances	—	100.00	100.00	8
Promoción Social de Viviendas	—	91.84	91.84	553
Sicomi	—	100.00	100.00	7

### **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 2005 the Group had 2,385 branches and 13,804 staff.

The Group's lending is almost entirely domestic and spread throughout Spain. At 31 December 2005 Popular's lending was concentrated as follows: industry (18 per cent.); services (53 per cent.); construction (27 per cent.); primary sector (1 per cent.); and others (1 per cent.). Corporate lending is largely to small and medium-sized companies, mostly short-term and orientated towards financing commercial activity.

In June 2003, the Bank carried out a transaction of strategic importance, namely the purchase of a medium-sized commercial bank in Portugal, Banco Nacional de Crédito, SA ("**BNC**"). BNC is an unlisted Portuguese bank based in Lisbon, formed in 1991. At year end 2003 it had total assets of EUR 34,080 million, equity of EUR 3,259 million and a network of 127 branch offices covering substantially all of Portugal. With the BNC transaction, the Group substantially broadened its presence in the Portuguese market by adding an important financial institution that is firmly established in Portugal. In 2005, BNC Portugal changed its name to Banco Popular Portugal.

### **Assets and Funds**

#### *Total assets*

The total on-balance sheet assets amounted to EUR 77,698 million at 2005 year end, EUR 14,121 million more than at the end of 2004, a year-on-year growth of 22.2 per cent. The average total assets during the year were EUR 70,721 million, 20.4 per cent. higher than in 2004.

Aggregating the on and off-balance sheet assets, the total volume of assets managed by the Group at 2005 year end amounted to EUR 93,038 million, up by EUR 16,581 million, an increase of 21.7 per cent.

#### *Shareholders' equity*

On 15 March 2005, the Bank's capital was increased by EUR 795,421 million of which EUR 7,850 million related to capital stock and the remainder, net of capital increase expenses, related to additional paid-in capital. At 31 December 2005 and 2004, the capital stock consisted of 1,215,433 and 1,136,933 fully subscribed and paid shares, respectively (the 2004 figure after adjustment for the 5 x 1 split on 21 June 2005), of EUR 0.10 face value each.

By resolution of the Shareholders Meeting on 25 May 2005, the Board of Directors may increase capital stock up to the legally permitted maximum, by increasing the face value of the existing shares or by issuing new voting or non-voting, common, privileged, redeemable shares. These may be issued with or without additional capital payment, and may be of the classes and types admitted by law and the current bylaws, and in the amount that the Board may decide, without prior consultation of the Shareholders Meeting.



These shares may be issued once or several times within a period of five years ending on 24 May 2010, in conformity with Article 153.1.b) of the Corporations Law, subject to the provisions of Article 161.1 of the Corporations Law, with possible exclusion of the preferential subscription right pursuant to Article 159.2 of the Corporations Law.

The shares of Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia are also listed.

At 31 December 2005 and 2004, no holder of shares in the Bank directly or indirectly owned 10 per cent. or more of the capital stock.

#### *Capital Adequacy*

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

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

At 31 December 2005, the Group's capital adequacy, after the distribution of profit for the year, amounted to EUR 7,148 million per the Bank International Settlements (BIS), an increase of EUR 1,267 million (21.5 per cent.) over 2004.

At that same date, the Group's minimum capital requirement under the BIS regulations amounted to EUR 5,631 million and, accordingly, it had a cushion of EUR 1,517 million, 26.9 per cent. over the minimum required amount. The resulting solvency ratio was 10.15 per cent., compared with the required minimum of 8 per cent.

#### *Customer funds*

At 2005 year end, on-balance sheet funds totalled EUR 57,696 million, up by EUR 10,837 million (23.1 per cent.) during the year.

Customer funds were therefore financing 74 per cent. of the balance sheet at year end and 72 per cent. of the average balances; this percentage remained steady compared to 2004.

Customer deposits increased by 11.5 per cent. in 2005, to EUR 34,882 million at year end.

In this area, private sector residents' deposits increased by 11.9 per cent. to EUR 27,839 million. By type, current and savings accounts were up by 13.3 per cent., time deposits by 5.9 per cent. and temporary sales of assets by 32 per cent.

The deposits of non-resident customers increased by EUR 56,623 thousand in 2005, and at year end amounted to EUR 5,339 million, plus EUR 185,784 of deposits from the non-resident public sector.

The composition of the debt and other marketable securities, which amounted to EUR 21,621 million, up 51.2 per cent. year on year, is described below.

Medium-term notes denominated in euros and other currencies issued in the euromarket by Group subsidiaries and guaranteed by Banco Popular amounted to EUR 10,869 million, 45.1 per cent. more than at the end of 2004. The purpose of these note issues is to have available a funds basis for the prudent financing of longer-term loans, mainly mortgage loans.

In addition the Group issued commercial paper amounting to EUR 6,119 million at 2005 year end, a year-on-year increase of 36.5 per cent. These short-term (up to 18 months) securities are intended for domestic customers and, in commercial terms, therefore constitute an instrument similar to deposits. Aggregating medium term note and commercial paper, the total funds taken by the Group amounted to EUR 16,988 million at 2005 year end, up 41.9 per cent. in the year.

The subordinated debt relates to long-term debt securities which rank after common creditors for credit seniority purposes. At year end 2005 subordinated debt amounted to EUR 579,685 thousand.

The following intermediated off-balance sheet funds, are the aggregate of the participations in mutual funds, managed portfolios, pension plans, funds raised via insurance instruments, and financial assets sold to maturity. The total of these funds at the Group was EUR 15,341 million at 2005 year end, an increase of 19.1 per cent. over 2004.

*Loans and discounts*

This area 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. "Unused portion of credit lines" accounts or any portion not used but drawable by one borrower.

At the end of 2005, the Group's loans and discounts totaled EUR 71,425 million, an increase of EUR 13,057 million in the year, 22.3 per cent. higher than at 2004 year end.

The volume of lending represented 76.7 per cent. of the balance sheet total and 97.8 per cent. of the on-balance sheet customer funds at year end.

The credit extended to private sector residents ("Other residents" in the balance sheet), which accounted for 83.59 per cent. of the total lending, amounted to EUR 59,703 million, a year-on-year increase of 23.03 per cent.

**Non-Banking Finance and Service Subsidiaries**

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

**Strategy**

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

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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, personal service via its network of small branches.

**Commercial banking in Portugal and France**

The Group's presence in Portugal is headed by Banco Popular Portugal (formerly Banco Nacional de Crédito, which adopted its present corporate name on 5 November 2005). On 30 November 2005, the two offices that the Bank had in Portugal (one in Lisbon and the other in Oporto) were integrated into Banco Popular Portugal so as to concentrate the commercial and retail banking business of the Group in Portugal. Since acquisition of this subsidiary, a reorientation of the Group's business in Portugal was carried out, since Banco Popular Portugal, which was traditionally a bank with a mortgage profile, is now directing its strategy towards the Group's traditional area of commercial banking, with an emphasis on small and medium-sized enterprises. The Group's presence in Portugal was increased in 2005 with the opening of 30 branch offices.

Lending to customers by Banco Popular Portugal consists mainly of mortgage loans, which account for 45 per cent. of the total, and personal loans, which represent 46 per cent. of the total. Loans and discounts grew by 17.8 per cent. in 2005, from EUR 4,059 million in December 2004 to EUR 4,783 million in 2005. The contribution to this growth from non-mortgage lending was 62 per cent., with mortgage loans contributing 38 per cent., emphasizing the reorientation of its activities referred to earlier.

Customer deposits increased by 59.4 per cent. in the year, from EUR 1,803 million in 2004 to EUR 2,875 million in 2005. This strong growth came basically from the increase in time deposits, which practically doubled their amount by rising from EUR 1,071 million at 31 December, 2004, to EUR 2,083 million at the end of 2005. Part of this growth was due to cessation of the activities of the Bank's Cayman subsidiary and the transfer of its deposits to the parent company.

The substantial expansion of the branch office network in 2005 involved heavy investment, both for the offices opened during the year and for those pending opening, the cost of which was charged to 2005. This increase in costs together with the increase in nonperforming loans, which required higher provisions for credit loss, led to a slight (3.1 per cent.) deterioration of the income statement of Banco Popular Portugal at individual level in 2005. However, the consolidated income of Banco Popular Portugal and its group grew by 13.6 per cent.

Consequently, the contribution of Banco Popular Portugal to the aggregate income of the Group was 2.7 per cent. in 2005, compared with 3.1 per cent. in 2004.

The Group's commercial activity in France is conducted through Banco Popular France, a wholly-owned commercial banking subsidiary of the Group, which had 14 branch offices in France at 31 December 2005. The income of this bank grew substantially by 66 per cent. in 2005, mainly as a consequence of the growth of loans and discounts, which increased by 17 per cent. However, this bank's contribution to aggregate Group income is not material and was 0.5 per cent. in 2005, as compared with 0.4 per cent. in 2004.

### **Shareholders**

At the end of 2005, the Bank had 99,451 shareholders, compared with 81,054 at the end of 2004.

The structure of the shareholders varied in 2005, with an increase in ownership by investors owning a smaller numbers of shares. Shareholders owning more than 800,000 shares numbered 140 and held 60.07 per cent. of the common stock, as compared with 141 and 60.29 per cent., respectively, in 2004.

Non-Spanish shareholders owned slightly less (46.16 per cent.) than half the capital stock, which was slightly lower than the percentage of 47.68 per cent. in 2004.

Shareholders who are employees of the Group numbered 1,298, representing 1.31 per cent. of the total number of shareholders and in aggregate owned 0.51 per cent. of the common stock.

The Board of Directors controlled 417 million shares, 34.32 per cent. of the capital, compared with 34.20 per cent. in 2004; this figure includes the shares owned directly or indirectly by directors and those habitually represented by them.

Net income per share was EUR 0.732, an increase of 27.7 per cent. compared with the 0.573 in the previous year.

### **Risk Management**

#### *Credit risk*

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

In order to facilitate the management of credit risk, the Group has established a methodology, the main elements of which are described in the following paragraphs.

#### *Credit risk analysis*

The Group has established a system of attributions for the extension of credit. Various hierarchical levels in the organisation are assigned powers for the authorisation of transactions, depending on the nature and amount of the risk assumed.

The levels in the organisation in the commercial banking area, which accounts for substantially all of the Group's business, are as follows: first, the branch office, followed by the management of the region or area to which the branch belongs or by General Management in the case of the banking and other subsidiaries, then the Group's Retail Banking Office followed by the Credit Office and, finally, the CEO. Each level is granted a specific credit risk assumption level.

New transactions originate at the branch level and may be approved by the branch if it has sufficient authority to approve such a transaction, otherwise it will be reported to the next level. The same process applies at the following levels, and thus the largest transactions will be assessed throughout the chain of approval levels. No office or area in the Group, regardless of the position of its management, is empowered to make or propose risk transactions outside the established circuit. Transactions originating from the network of commercial agents also commence through a branch office and are subject to the controls described above.

In the other business areas, the procedure is similar: risk assumption proposals originate in the relevant operating office, which has certain decision-making powers. Transactions exceeding its powers will be

reported to the Credit Office and beyond that, to the CEO. Transactions exceeding the CEO's limits are submitted to the Credit Committee (see below).

Transactions with related parties such as members of the Board, executive management or companies related to them, and with Group companies, are excluded from the above process, and may only be authorised by the Credit Committee or the Executive Committee, regardless of the amount involved.

The Credit Committee is the most senior body with respect to risk. It is chaired by the Chairman of the Bank and consists of the members of the Board's Executive Committee and the CEO. The Group's Credit & Risk Manager participates as a reporter. The Credit Committee meets weekly, but may meet more frequently if necessary.

The Credit Committee analyses and decides on all risk requests beyond the delegated powers of the organisation. Its authorisation is required for all transactions amounting to a risk for the Group as a whole in excess of EUR 15 million, taking into account the aggregate limits of monetary risk and off-balance sheet risks with any one company or economic group. This limit is reduced to EUR 7.5 million in the case of off-balance sheet risks in which the Group's risk represents more than 50 per cent. of its debt in the system.

The Group has internal credit risk rating and scoring models for the admission of risks and classification of customers based on their credit profile.

In the business segment, internal ratings are based on the analysis of variables relating to economic and financial position and industry. In the private individuals segment, the credit-scoring models used are tailored to each kind of product: mortgage loans, consumer loans, self-employed business loans and credit cards.

The Group's standard analysis process includes the evaluation of the customer's profitability, and for this purpose it uses tools applying RAROC (risk adjusted return on capital) methodologies.

The Group has decided to apply the advanced internal credit risk management method proposed by the Basel Committee, and the models referred to above therefore comply with the requirements of the Accord.

#### *Credit risk monitoring and control*

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

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

The first level of monitoring starts with a quantitative "Incident Report", which is sent each day to the territorial offices. This report records all defaults and incidents, detailing the amount and nature (past due credit accounts, overruns, overdrafts, non-payment of trade discounts, loan repayments not made on the due date, etc.).

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

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

This two-fold classification is inserted graphically in the borrower's electronic file; a teleprocessing application that includes all the customer's information together with all positions, for consideration in risk-related decisions.

The system based on technical alerts is supplemented by the analyst's report, also included in the customer's electronic file which, by responding to a series of questions about the evolution of the customer, of the customer's risks and incidents, the balance sheet situation, guarantees, etc., summarises the policy to be followed and identifies the necessary actions for the satisfactory outcome of the risks. These reports constitute a preventive action plan (PAP) and are produced at all decision-making levels as often as may be necessary in the light of incidents, alerts, new risk proposals, etc.

As a supplement to the monitoring systems referred to above, the central Risk Prevention Office exhaustively monitors certain customers and economic groups with a high volume of risks assumed, with certain assigned classifications or that present certain incidents.

This monitoring is divided, into three groups based on the intensity of monitoring required: intensive, i.e. weekly review of the status of risks, incidents, information, advanced accounting data, or any other aspect; periodical, i.e. monthly review; and circumstantial, i.e. quarterly review.

In addition to the individual evaluation of each customer and transaction, the structure of loans and discounts is analysed on an ongoing basis, having regard to their distribution by amount, term, activity sector, type of transaction, geographical area and any other attributes considered relevant. The Group keeps its risks satisfactorily diversified with regard to a large number of attributes, and this diversification goes beyond that which is required by law. No customer or set of customers of the Group constituting an economic group reaches any of the concentration limits stipulated by the Bank of Spain.

#### *Management of non-performing balances*

Management units of non-performing loans exist in the Group at each of the territorial headquarters, banking subsidiaries, and also at headquarters level. The fundamental objective of these units is to recover the balances classified as non-performing as quickly as possible and on the best possible terms.

The Default Analysis and Claim Centre is responsible, in the first instance, for handling defaults; it analyses the risks in an irregular situation and establishes, based on an individual analysis of the particular circumstances of each customer or transaction, the most effective claim strategies. It also coordinates with the Group branch offices in carrying out appropriate measures for recoveries.

Initially, out-of-court methods are used, such as negotiation with the debtors or engaging the services of reputable collection entities. If this course of action is not successful, legal proceedings will be commenced, and for this purpose the Group uses its in-house specialist lawyers, and, as necessary, an extensive network of external legal practitioners throughout Spain.

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

#### *Total exposure to credit risk*

The Group's credit risk is primarily the outcome of commercial banking, which is its main business. 93.2 per cent. of its exposure at 31 December 2005 consisted of loans and discounts and off-balance sheet risks amounting to EUR 75,935 million, an increase of 22.1 per cent. over 2004; the counterparty risk in the markets area amounted to EUR 5,497 million, being 6.8 per cent. of total risk.

Total exposure to credit risk at 31 December 2005 amounted to EUR 81,432 million, 27.7 per cent. higher than in 2004.

The maximum exposure to credit risk was EUR 98,516 million; obtained by adding to the total exposure EUR 17,084 million relating to contractual limits of funds committed to third parties.

The following table shows the exposure to credit risk at 31 December 2005 compared with 31 December 2004.

#### **Overall credit risk exposure**

<i>Amounts in EUR thousands</i>	<i>31 December 2005</i>	<i>31 December 2004</i>	<i>% Variation</i>
Commercial banking activity:			
Lending to customers	66,323,318	54,484,345	21.7%
Contingent risks	9,611,758	7,723,744	24.4%
Total	75,935,076	62,208,089	22.1%
Market activity (counterparty risk)	5,497,040	1,581,710	>
Total exposure	81,432,116	63,789,799	27.7%
Unused portion of credit lines	17,083,871	13,712,709	24.6%
Maximum credit risk exposure	98,515,987	77,502,508	27.1%

Bank of Spain regulations stipulate that the exposure to any one customer or to various customers constituting an economic group must be less than 25 per cent. of the Group's capital and the total of all

major risks (i.e. those exceeding 10 per cent. of the Group's capital) must be less than 8 times its capital. These calculations are based on the Group's consolidated computable capital used for the purposes of the Bank of Spain solvency ratio.

The Group applies internal risk dispersion criteria that are substantially stricter than those required by law. In 2005, as in 2004, all individual and economic group borrowers were below the stipulated 10 per cent. limit. At 2005 year end, the highest risk to any one customer was 8.3 per cent. Accordingly, none of the above concentration limits applied to the Group.

The Bank uses internal credit rating models for large and medium-sized companies. The table below shows the distribution of these two segments based on the rating level assigned and the cycle-adjusted probability of default for the first year for each level.

<i>Probability of default by large companies per rating level</i>		<i>Probability of default by medium-sized companies per rating level</i>	
Level 1	0.07%	Level 1	0.06%
Level 2	0.11%	Level 2	0.10%
Level 3	0.16%	Level 3	0.16%
Level 4	0.24%	Level 4	0.25%
Level 5	0.36%	Level 5	0.39%
Level 6	0.53%	Level 6	0.61%
Level 7	0.79%	Level 7	0.98%
Level 8	1.18%	Level 8	1.56%
Level 9	1.74%	Level 9	2.52%
Level 10	2.59%	Level 10	4.10%
Total (*)	0.47%	Total(*)	0.81%

For small companies individualised credit-scoring models have been developed by type of risk: collateral, bill discounting, mortgage loans, cards, credits and loans. The table below shows the probability of non-payment in the first year calculated for each of the economic cycle-adjusted models.

The probability of default is calculated by the methods stipulated by Basel II for calculating regulatory capital, and expected and unexpected losses are therefore included, adjusted to a complete economic cycle from 1993 to 2004.

	<i>Collateral</i>	<i>Discount</i>	<i>Mortgage</i>	<i>Cards</i>	<i>Credits</i>	<i>Loans</i>
Level 1	0.06%	0.16%	0.38%	0.08%	0.64%	0.18%
Level 2	0.07%	0.22%	0.64%	0.12%	0.84%	0.32%
Level 3	0.08%	0.30%	1.06%	0.17%	1.11%	0.58%
Level 4	0.09%	0.41%	1.77%	0.26%	1.48%	1.05%
Level 5	0.12%	0.59%	2.97%	0.39%	1.98%	1.88%
Level 6	0.15%	0.85%	4.99%	0.59%	2.67%	3.40%
Level 7	0.20%	1.24%	8.40%	0.91%	3.63%	6.15%
Level 8	0.27%	1.85%	14.20%	1.42%	4.96%	11.13%
Level 9	0.38%	2.79%	24.11%	2.24%	6.82%	20.18%
Average (*)	0.10%	0.72%	4.12%	0.39%	2.07%	2.45%

These are probabilities relating to the first year of each transaction, which is when the risk is at its highest. The Bank's credit risk is substantially lower than the level required by law (4 per cent. for effective mortgage loans and 8 per cent. for other loans) and the non-performing ratio is lower than the estimated probability of default.

Individuals are grouped as "private individuals" and "self-employed persons". Mortgage loans account for 81.5 per cent. of the risk with private individuals and 61.8 per cent. of the risk with self-employed persons. The average non-performing rate for mortgage loans is 0.6 per cent., approximately half of the overall non-performing rate of 1.05 per cent. in the individuals segment. Private individuals account for 10.35 per cent. of the Bank's consumer loan risk, with a non-performing rate of 3.11 per cent., amply covered by the risk premium on these transactions. The self-employed segment is more risk-diversified because of the use of products specifically designed for businesses such as bill discounting, financial leases, credits and other loans, which account for 32.1 per cent. of the risk, with an average non-performing rate of 1.21 per cent..

The Group uses credit-scoring models to analyse and support decision-making in the main product types for private individuals (mortgage loans, consumer loans, loans for self-employed businesses, and credit cards). Each of these models contains nine levels of risk, which are assigned on the basis of past experience of non-payment and variables relating to the customer, such as age, occupation, income and net worth level, length of time with the Bank and the transaction, such as purpose, term, guarantee, using multivariate analysis and logistic regression.

In the market business, all of the credit or counterparty risk arises from activities in the treasury and capital markets areas. In this area, risk is classified in the following three groups by type of transaction: (i) principal and interest risk affecting deposits and fixed-income instruments; (ii) interest-only risk in flow exchange transactions (IRS, repos, FRAs, foreign currency purchases and sales etc.); and (iii) other derivatives risks (options, equity swaps, etc.). In general terms, exposure is calculated on the basis of the market value of each instrument plus a potential risk factor indicating the variability of the market value over the residual term.

At 2005 year end, market risk totalled EUR 5,497 million, a substantial increase on 2004, especially in the first two risk categories as a result of the higher volume of interbank deposits placed and repos and simultaneous exchanges. Of the total risk, 54 per cent. related to interbank deposits and fixed income financial assets, 45 per cent. to repos and simultaneous exchanges, interest rate derivatives and foreign currency purchase and sale, and the remaining 1 per cent. to equity derivatives. 84.8 per cent. of the risks were concentrated in the euro area and 13 per cent. in non-euro area, mainly the UK, with a minimum "A" rating from Standard & Poor's and Fitch Ratings.

#### *Analysis of credit risk quality*

For credit risk analysis purposes, problematical assets are classified on various criteria: breach of the loan repayment schedule (past due assets); the unsatisfactory state of the borrower's financial condition (doubtfully collectible assets); or the existence of litigation that makes recovery uncertain (disputed assets). These three categories are generically referred to herein as non-performing loans or doubtful loans.

Risks that are not recovered after the regulatory term has expired are classified as bad debts and are removed from the balance sheet, but the Bank will nevertheless pursue repayment in such a case.

The Bank books maintains credit loss allowance provisions which are charged to income.

Firstly, there is a specific allowance for non-performing loans in accordance with a legally-established timetable and, in the case of doubtful or disputed balances, based on a reasonable estimate of recoverability.

Secondly, there is a general credit loss allowance covering all assets not classified as non-performing. This allowance, which matches the statistical loss, is booked having regard to past experience of non-payment and other circumstances known at the time of evaluation, and reflects the inherent losses incurred at the date of the financial statements, calculated using statistics. For this purpose, the Bank uses two series of coverage percentages that rise progressively depending on the estimated degree of risk (no risk, low risk, medium-low risk, medium risk, medium-high risk and high risk) and are applied to all outstanding risks, segregated into homogeneous groups. The first series (the "alpha component") is applied to the variation in the balance during the year. The second (the "beta component") is applied to the end balance of the relevant period. The figure determined using these calculations, which are performed quarterly, minus the specific provisions booked in the period, constitutes the amount of the provision for the allowance. The general allowance is limited to the amount determined by applying to the period end balance a parameter equal to 1.25 of the alpha component.

The aggregate amount of the two allowances described above constitutes the credit loss allowance.

In recent years the Group has applied strict credit quality criteria, and in 2005 it obtained a 3.5 per cent. reduction in the balance of non-performing items, despite substantial increases in lending over the last few years. At 31 December 2005, the balance of troubled risks or non-performing loans amounted to EUR 591.0 million, a decrease of EUR 21.5 million in respect of 2004. This was due, on one hand, to a net addition to the exposure for non-performing loans of EUR 109.5 million and, on the other hand, the write-off of EUR 131.0 million of non-performing balances, of which EUR 124.0 million were charged against credit loss allowances and the remainder was charged directly to income.

As a result, the non-performing ratio, i.e. non-performing loans as a percentage of total risk, decreased by 20 basis points in 2005 to 0.78 per cent. at year end (0.70 per cent. excluding Banco Popular Portugal).

The insolvency ratio, i.e. bad debts written off as a percentage of total risks, was 0.17 per cent., 14 basis points lower than in 2004.

Non-performing loans were not fully reflected in the credit loss provisions charges of EUR 390.4 million in 2005 as a result of the method of calculation of the general allowance. However, the 2005 provision was EUR 76.4 million (16.4 per cent.) lower than that booked in 2004, as a result of the effort made in that year to raise the general allowance up to the maximum permitted level. Provisions consisted of EUR 174.3 million of specific provisions expense for troubled risks, EUR 215.8 million for the general allowance and EUR 0.3 million for cross-border risk coverage.

At 31 December 2005, credit loss allowances, including allowances for loans and discounts, credit institutions and off-balance sheet risks, amounted to EUR 1,463.2 million, 20.7 per cent. more than in 2004, as recorded in total risks. The total is made up of EUR 218.7 million in the specific allowance and EUR 1,244.5 million in the general allowance.

As a result of the improvement in non-performing loans and high provisions for credit loss, the coverage ratio of non-performing loans showed a significant improvement of 49.7 per cent. over 2004, and stood at 248.7 per cent. at 31 December, 2005. Total specific and general credit loss allowances represented 1.93 per cent. of total risks (1.95 per cent. in 2004).

#### *Cross-border risk*

Cross-border risk, also known as country risk, arises from the difficulties 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, even where the loans could be repaid in local currency, the funds cannot be transferred abroad due to the country's economic difficulties. Under applicable regulations, provisions must be recorded for these risks on the basis of estimated non-payment.

At 2005 year end, the Group's overall country risk amounted to EUR 37.3 million, 78.5 per cent. higher than in 2004 at EUR 20.9 million. Despite the increase, these amounts are not significant in relation to the Group's total risks, representing only 0.05 per cent. and 0.03 per cent. of total risks in 2005 and 2004, respectively.

The allowance recorded for country risk amounted to EUR 6.7 million, an increase of 4.7 per cent. compared with 2004. The provisions booked in 2005 amounted to EUR 0.3 million.

The allowance represented coverage for country risk of 18.0 per cent., compared with 30.7 per cent. in 2004. This reduction was due to the better quality of cross-border risk as compared to 2004, with greater weighting of countries without appreciable risk or substandard risk and a clear reduction of doubtful risks.

#### *Market risk*

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

In view of the business of the Group and the structure of its balance sheet, market risk is confined to interest rate risk and financial instrument trading risk. The Group has virtually no exchange rate risk exposure as cash and financial asset positions in currencies other than the euro are confined to the use of surplus cash arising from its commercial banking business in the same currency and on similar terms.

#### *Interest rate risk*

The Group's Assets and Liabilities Committee (ALCO) evaluates balance sheet sensitivity to variations in the interest rate curve and exchange rates in different scenarios, setting short- and medium-term policies for managing prices, durations and the aggregates of assets and funds.

For this purpose, dynamic simulations are made using different scenarios of growth of the balance sheet aggregates, of the performance of margins and of variation in the interest rate curve in order to measure the sensitivity of the financial margin in the desired time horizon.

The maturities and repricing gap in the consolidated balance sheet, broken down by the sensitivity or not to interest rates of the assets and liabilities, is also evaluated. For sensitive assets and liabilities that mature or change the interest rate in a given period, regard is had only to the first contract revision. For



balance sheet items with no maturity but with interest rate revision, albeit not on a fixed date, the frequency of review is based on historical performance.

Finally, the duration of the balance sheet and the sensitivity of the financial margin and of net worth in a time scale of 1 year to variations of 1 per cent. in the rates of the main foreign currencies in which the assets and liabilities are denominated are analysed.

At 31 December 2005, interest-rate sensitive assets totalled EUR 73,838 million, compared with EUR 55,888 million of interest-rate sensitive liabilities, with an aggregate positive gap of EUR 17,950 million (EUR 12,424 million in December 2004). There has been a progressive increase in rate movement sensitivity at the Group in recent years.

The Group's interest rate risk profile during the first year, given 1 per cent. variations in the interest rates of the euro, increased slightly in relative terms during 2005, as the evolution of the sensitivity of net interest margin and net worth value indicates. The maximum effect was 2.52 per cent. in the first case and 1.20 per cent. in the second.

At 31 December 2005, the impact of a 1 per cent. variation in euro interest rates was 2.06 per cent. on the net interest margin in the first year and the sensitivity of equity to a 1 per cent. variation was 1.20 per cent..

These figures may be partly modified by the evolution of the rates of the remaining currencies included in the balance sheet, especially the US dollar.

As the cumulative gap in foreign currency transactions is negative, a variation in the interest rates of each currency identical to that estimated for the euro rates reduces the sensitivity of the net interest margin in the first year by approximately 50 per cent.

The duration of interest-rate sensitive assets was 219 days and that of sensitive liabilities was 124 days, which was lower than in 2004 (230 and 160 days, respectively).

#### *Treasury activity risk*

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

The market risk in this activity consists of interest rate risk and equity price risk. Each category includes not only the cash positions but also the related derivatives. There are no open positions in currencies other than the euro because the activity in this market is confined to hedging the operations of the commercial network. The equity component is the major contributor to the Group's VaR — approximately 75 per cent. on average — both because of the size of the open positions and because of its greater volatility. The diversification benefits are important and average 20 per cent., because of the scant correlation between equity prices and interest rates.

In 2005 the average VaR was EUR 206,000 and ranged from EUR 100,000 to EUR 400,000.

In addition to calculating VaR, daily stress tests are performed to evaluate the sensitivity of VaR to variations in the most significant risk factors; the risk factors addressed are interest rate risk and equity price risk, which account for more than 80 per cent. of the total VaR. The variations simulated are historical and the probability of occurrence is less than 1 per cent. on a 1 day time scale, and therefore they supplement the VaR model. In order to reflect the possible combinations of the different risk factors, the following three scenarios which are modified quarterly are analysed each day: A — greatest impact expected a priori on earnings; B — most probable scenario; and C — maximum value of VaR at the time of revision.

The market conditions of the most significant crises in the past for each group of risk factors since 1990 were also reproduced. These crises were: (i) the equity crisis in the spring/summer of 2002; (ii) the global consequences of the 9/11 attacks in the US in 2001; (iii) the equity crisis in emerging markets in 1998; (iv) the long-term bond crisis in 1994; and (v) the EMS crisis in 1992. The performance of the portfolio in each of these scenarios is analysed monthly.

As regards the historical crises scenarios, the Group's portfolio is more sensitive to global crises such as those of 1992, 1994 and 1998 which, despite their differing origins, ultimately affected the equity, bond and currency markets. In these cases, the Group's risk would be multiplied approximately ten times. The

equity crisis of 2002 and that of September 2001 would signify a risk five times higher than that recorded at 31 December 2005 in the first case this was due to its scant effect on the bond and currency markets, whereas in the second case it was due to its short duration because of the rapid corrective action by the main economic agents at world level.

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

#### *Liquidity risk*

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

ALCO supervises liquidity risk, using procedures that analyse and monitor the Group's overall liquidity, including contingency plans for possible deviations in liquidity due to internal causes or to market behaviour. For this purpose periodic analyses are made of the sensitivity of liquidity in different scenarios of asset and liability cancellation in time brackets from 1 day to 1 year in the short term and up to 10 years in the long term.

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

Sensitive assets amounted to EUR 73,838.4 million, compared with the EUR 49,686.9 million of sensitive liabilities, with a positive differential of EUR 24,151.5 million. In the terms up to 6 months, the sensitive liabilities exceeded the sensitive assets with a maximum monthly gap of EUR 4,909 million in the 8- to 31-days bracket and an accumulated maximum gap of EUR 5,865 million in the 3-6 months time bracket. In the first case, the negative gap was 6.32 per cent. of total liabilities, and in the second case it was 7.55 per cent.. The gap became positive after 6 months. In order to limit the effect of this negative gap, at 31 December 2005, the Group had EUR 3,658 million of highly liquid assets. 39 per cent. of this amount consisted of SME securitisation bonds of the related issues launched in 2004 and 2005; 29 per cent. came from the trading portfolio (equity securities 26 per cent. and bonds 3 per cent.); 24 per cent. were from the available-for-sale portfolio (bonds 22 per cent. and equity securities 2 per cent.); 3 per cent. consisted of securitisation "cédulas" (covered bonds) issued by Group banks; and 5 per cent. were loans discountable at the Bank of Spain. Substantially all the fixed-income securities and loans qualify as collateral for financing facilities from the Bank of Spain and the European Central Bank. As regards the equity portion, the entire portfolio consists of securities listed in the main European markets with no significant concentration on any particular security. The Bank considers that all the liquid assets referred to could be realized in a maximum of 1 week without any discount having to be applied. Taking these liquid assets into account, the maximum net negative gap was EUR 2,207 million in the 3-6 month time bracket, representing 2.8 per cent. of total liabilities.

The Group applies criteria of maximum prudence in managing its liquidity, endeavouring not only to minimize the cost but also to avoid concentration of certain terms or certain markets. For this purpose, it has various carefully selected sources of wholesale funding for each term, based on cost, stability, speed of access and depth. At 31 December 2005, 63 per cent. of the funding came from retail sources: (i) 53 per cent. from demand and term accounts and (ii) 10 per cent. from commercial paper marketed by the Group's Treasury function among business customers of the commercial network. The demand accounts, which accounted for 30 per cent. of funding, exhibited great stability despite their availability. The wholesale funding, which accounted for 37 per cent., was diversified among a wide variety of financing sources, with possibilities of future growth, especially in those of lesser weight. In coming years, the Group will be able to have increasing recourse, for example, to the issuance of "cédulas" based on its substantial mortgage loan portfolio. At short term (up to 18 months) it uses the money market and issues commercial paper. At medium term (up to 5 years) it issues senior debt; and at long term (over 5 years) mortgage

bonds (“cédulas”) are issued. The loan securitisation operations are structured in bonds of differing maturities, which therefore constitute an alternative to the foregoing sources at each of the terms, thus increasing the degree of diversification.

Retail funding increased significantly by 13.6 per cent. in 2005, comprised of 13.3 per cent. in demand accounts, 6 per cent. in time deposits and 36.6 per cent. in commercial paper. For the issuance of short-term commercial paper in the domestic market, Banco Popular and its regional subsidiaries have six programmes with an aggregate limit at 2005 year end of EUR 9,995 million (Banco Popular EUR 6,600 million, Banco de Andalucía EUR 3,000 million, Banco de Galicia EUR 200 million, Banco de Vasconia EUR 120 million, Banco de Castilla EUR 60 million and Banco de Crédito Balear EUR 15 million), which can be raised to EUR 10,145 million. These programmes, which have a 1 year duration, have been recorded with the Spanish National Securities Market Commission. The face value of each note is EUR 3,000 and they are represented by the book entry system, with maturities at any term from 3 working days to 18 months (540 calendar days). The notes are issued at a discount, and their effective value is determined at the time of issuance of each note, based on the agreed interest rate. All the programmes are listed for trading in the AIAF organised secondary bond market. The average cost of the notes in 2005 was 2.20 per cent. for an average residual term of approximately 2 months.

The Group has set an internal limit for net calls for financing in the money market which presently stands at EUR 7,500 million, together with other sub-limits fixing the maximum amount of maturities in the money market for each time interval so as to avoid their concentration in time. The net balance in the inter-bank market at 31 December 2005, was EUR 5,316 million, compared with EUR 5,261 million in 2004.

At longer terms, the Group registered a bond issuance programme with the Spanish National Securities Market Commission on 25 August 2005, with an issuance limit of EUR 8,000 million. This one year programme permits the issuance of senior and subordinated debt. Through 25 August 2005, Banco Popular had another programme, also registered with the CNMV, for the same amount of EUR 8,000 million. The securities are issued by a Spanish wholly owned subsidiary called BPE Financiaciones, S.A. which was set up for this purpose. The payments of principal and interest on these issues are unconditionally and irrevocably guaranteed by Banco Popular. BPE Financiaciones has not requested ratings for the bond issuance programme, since credit ratings are requested individually for each issue launched under the programme. The issues launched in 2005 were assigned the following ratings:

	<i>Senior Debt</i>	<i>Subordinated Debt</i>
Fitch Ratings	AA	AA-
Moody's	Aa1	Aa2
Standard & Poor's	AA	AA-

At 31 December 2005, the balance of the issues outstanding was EUR 10,869 thousand, an increase of 45.1 per cent. over the EUR 7,491 thousand in 2004, the average term was 2.3 years and the average cost was 3-month Euribor +3.4bp. The average term of senior debt issues made in 2005 was 2.8 years and the average cost was 3-month Euribor +2.3bp, as described below:

<i>Amount (million)</i>	<i>Date paid</i>	<i>Term</i>
500	02/08/2005	3 years
500	03/04/2005	18 months
1,000	05/26/2005	5 years
1,500	06/23/2005	19 months
1,000	09/08/2005	3 years

In October 2005, Banco Popular launched the first open issue of covered bonds (“cédulas”) of EUR 2,500 million maturing in October 2012, in order to increase the diversification and maturity of its sources of funding. This issue, which is secured by Banco Popular's entire mortgage portfolio, was made at the lowest cost of any previous issue by a Spanish issuer, at 3-month Euribor +2bp and was assigned Aaa, AAA and AAA credit ratings of by Moody's, Standard & Poor's and Fitch Ratings, respectively.

### *Operational risk*

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

Initially, the Group has opted for the standard method envisaged in Basel II for calculating capital for operational risk, although it intends to apply the advanced method in the future. In this regard, a historical event database is being created and steps are being taken to join the international Operational Risk Exchange (ORX) Consortium — the database of this kind for events at international level.

The Group also uses qualitative tools such as risk maps, which are updated annually, to measure the frequency and impact of operational risk and to improve controls and coverage in the area of greatest exposure, and is also studying contingency plans necessary to ensure operational continuity.

### *Reputation risk*

The Regulatory Compliance Office (the “RCO”) , which reports to the Audit and Control Committee, supervises Group entities’ continued legal compliance. It identifies, evaluates and prevents risks of material breach of laws and regulations, codes of conduct and standards of good practice, particularly with respect to business activities, prevention of money laundering and financing of terrorism, conduct in the securities markets, and data privacy and protection. The RCO analyses and promotes the development of systems for staff training in these areas.

### **Management**

The table below sets forth the names of the members of the Board of Directors of the Bank, their positions within the Bank and their principal activities outside the Group as at the date of this Prospectus. IX 9.1  
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.

<i>Name and position within the Bank</i>	<i>Principal activities outside the Group and position</i>	
Francisco Aparicio, Director and Secretary of the Board.	Centro Social Universitario Pan de Azúcar, S.A.	Sole Administrator
Francisco Fernández, C.E.O.	Sistemas 4B Mobipay España, S.A.	President Director
Americo Ferreira de Amorim, Director	Grupo Amorim	President
Eric Gancedo, Director	Sociedad Manuel Gancedo de Inversiones Mobiliarias, S.A. Gancedo y González, S.A.	Member Director
Luis Herrando, Director and President of the Nomination, Remuneration, Corporate Governance and Conflicts Committee	Instituto de Educación e Investigación, S.A. Sociedad de Promoción y Desarrollo Talde, S.A. Bilbao Equity SIMCAV, S.A. Asistencia Universitaria de Navarra, S.A.	Director Director President Director
Sindicatura de Accionistas	None	
Casimiro Molins, Director	Cementos Molins, S.A. Cementos Molins Industrial, S.A. Inversora Pedralbes, S.A. Otinix, S.A.	President President President President
Luis Montuenga, Director	Consultores Financieros e Industriales, S.A. Unión Europea de Inversiones, S.A.	Sole Administrator President
Manuel Morillo, Director	None	
Miguel Nigorra, Director	Nova Santa Posa Golf, S.A. Gestión y Administración Registral, S.L. Habitat Golf Santa Ponsa, S.A.	President President-Delegate Director President
José Ramón Rodríguez, Director	None	
Ángel Carlos Ron, President of the Board of Directors	None	
Vicente Santana, Director	Cignus Valores SIMCAV, S.A. Fides Capital, S.C.R., S.A.	President Director
Asociación de Directivos de Banco Popular, represented by Roberto Higuera Montejo, Director	None	
Miguel Ángel de Solís, Director	Sur CIA. Española de Seguros y Reaseguros, S.A.	Director
Emilio Viñas, Director	Cignus Valores SIMCAV, S.A. Fides Capital, S.C.R., S.A.	Vice President Vice President
Herbert Walter, Director	Dresdner Bank AG Allianz AG Deutsche Börse AG TSV München von 1860 GmbH&.KG aA Banco Portugués de Investimento S.A.	President Director Director Director Director

IX 9.1

Any duties owed to the Bank by its Directors do not conflict or potentially conflict with their private interests and/or other duties. IX 9.1

### 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 91 520 72 65; fax +34 91 577 92 09; e-mail [accionista@bancopopular.es](mailto: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.

## SUMMARY FINANCIAL INFORMATION

The following key financial figures for the Group have been extracted from the Group's financial statements and prepared in accordance with IFRS.

**Consolidated Balance Sheets as of 31 December 2006 and 2005**

	<i>Amounts in EUR thousand</i>		<i>% var</i>
	<i>31.12.06</i>	<i>31.12.05</i>	
	<i>(audited)</i> <i>(IFRS)</i>	<i>(audited)</i> <i>(IFRS)</i>	
Cash and due from central banks	1,502,261	959,545	56.6
Trading portfolio	2,588,379	1,385,503	86.8
Other financial assets at fair value	400,252	311,467	28.5
Available-for-sale financial assets	697,392	890,521	(21.7)
Loan and discounts:	84,144,648	71,425,197	17.8
Lending to customers	75,897,896	65,000,869	16.8
Other loans and discounts	8,246,752	6,424,328	28.4
Held-to-maturity investment portfolio	441	455	(3.1)
Asset hedging derivatives	205,752	442,221	(53.5)
Non-current assets for sale	129,034	98,646	30.8
Participating interest	17,488	22,007	(20.5)
Pension-linked insurance contracts	223,846	240,556	(6.9)
Reinsurance assets	3,866	4,010	(3.6)
Tangible assets	707,359	724,616	(2.4)
Intangible assets	369,232	362,548	1.8
Tax assets	555,969	660,596	(15.8)
Accrual accounts	23,143	45,515	(49.2)
Other asset accounts	81,372	124,345	(34.6)
<b>Total assets</b>	<b>91,650,434</b>	<b>77,697,748</b>	<b>18.0</b>

	<i>Amounts in EUR thousand</i>		<i>% var</i>
	<i>31.12.06</i>	<i>31.12.05</i>	
	<i>(audited)</i>	<i>(audited)</i>	
Trading portfolio	511,239	340,869	50.0
Other financial liabilities	43,830	—	>
Financial liabilities at amortized cost:	82,440,853	69,767,490	18.2
Deposit of credit institutions	8,393,081	11,268,799	(25.5)
Customer deposit	36,941,191	34,882,497	5.9
Bonds & other marketable debt securities	35,096,737	21,621,592	62.3
Subordinated liabilities	1,023,156	1,122,616	(8.9)
Other financial liabilities	986,688	871,986	13.2
Hedging derivatives	338,695	166,561	>
Insurance contract liabilities	844,410	618,364	36.6
Allowance	495,528	501,435	(1.2)
Tax liabilities	232,960	175,436	32.8
Accrual accounts	317,450	271,020	17.1
Other liabilities accounts	70,929	71,286	(0.5)
Financial liabilities classified as capital	439,959	438,268	0.4
<b>Total liabilities</b>	<b>85,735,853</b>	<b>72,350,729</b>	<b>18.5</b>

	<i>Amounts in EUR thousand</i>		
	<i>31.12.06</i>	<i>31.12.05</i>	<i>% var</i>
	(audited) (IFRS)	(audited) (IFRS)	
Minority interest	361,178	342,455	5.5
Valuation adjustments	24,200	14,785	63.7
Equity	5,529,203	4,989,779	10.8
Capital, reserves and retained earnings	4,753,413	4,331,537	9.7
Income for the period	1,026,031	877,749	16.9
Dividends paid and declared	(250,241)	(219,507)	14.0
<b>Total net worth</b>	<b>5,914,581</b>	<b>5,347,019</b>	<b>10.6</b>
<b>Total net worth and liabilities</b>	<b>91,650,434</b>	<b>77,697,748</b>	<b>18.0</b>

*Pro memoria:*

Contingent risks	11,281,128	9,611,758	17.4
Contingent commitments	19,023,187	18,659,159	2.0

**Consolidated Statements of Income for the years ended 31 December 2006 and 2005**

	<i>Amounts in EUR thousand</i>		
	<i>31.12.06</i>	<i>31.12.05</i>	<i>% var</i>
	(audited) (IFRS)	(audited) (IFRS)	
Interest and similar revenues	3,719,559	2,959,547	25.7
Interest and similar charges	1,689,034	1,089,681	55.0
Revenues from capital instruments	37,005	18,561	99.4
<b>Net interest revenue income</b>	<b>2,067,530</b>	<b>1,888,427</b>	<b>9.5</b>
Revenues from equity method entities	3,097	1,458	>
Net fees	880,579	789,993	11.5
Insurance business	45,163	26,083	73.2
Asset trading and exchange profits	59,948	16,290	>
Foreign exchange gains	51,166	42,195	21.3
<b>Gross income</b>	<b>3,107,483</b>	<b>2,764,446</b>	<b>12.4</b>
Non-financial service fee revenue	34,474	29,941	15.1
Operating cost	979,254	926,600	5.7
Personal expenses	705,971	664,521	6.2
Other general administrative expenses	327,453	316,482	3.5
Other revenues	(54,170)	(54,403)	(0.4)
Depreciation	103,130	100,208	2.9
Other operating expenses	43,127	41,790	3.2
<b>Net operating income</b>	<b>2,016,446</b>	<b>1,725,789</b>	<b>16.8</b>
Losses from impairment	348,926	349,174	(0.1)
Other income	55,937	37,868	47.7
<b>Income before taxes</b>	<b>1,723,457</b>	<b>1,414,483</b>	<b>21.8</b>
Corporate income tax provision	632,242	476,878	32.6
<b>Consolidated income for the period</b>	<b>1,091,215</b>	<b>937,605</b>	<b>16.4</b>
Income attributed to minority	65,184	59,856	8.9
<b>Income attributed to the Group</b>	<b>1,026,031</b>	<b>877,749</b>	<b>16.9</b>

## TAXATION

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

*Also investors should note that the appointment by an investor in Preferred Securities, or any person through which an investor holds Preferred Securities, of a custodian, collection agent or similar person in relation to such Preferred Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from 1 July 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

### Taxation in the Kingdom of Spain

#### Introduction

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

- (a) of general application, Additional Provision two of Spanish Law 13/1985, as well as Royal Decree 2281/1998, of 23 October developing certain disclosure obligations to the tax authorities, as amended by Royal Decree 1778/2004, of 30 July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules;
- (b) for individuals with tax residency in Spain which are Individual Income Tax (IRPF) taxpayers, Law 35/2006, of 28 November, on Individual Income Tax and partial amendment of Corporation Tax Law, Non Residents Income Tax Law and Wealth Tax Law, (the “**Individual Income Tax Law**”), and Royal Decree 1775/2004, of 30 July promulgating the Individual Income Tax Regulations which will be in force in all aspects not contrary to the aforementioned Individual Income Tax Law until the enactment of new Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporation tax taxpayers, Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporation Tax Law, and Royal Decree 1777/2004, of 30 July promulgating the Corporation Tax Regulations (the “**Corporation Tax Regulations**”); and
- (d) for individuals and entities who are not resident for tax purposes in Spain which are non-resident income tax taxpayers, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax.



Whatever the nature and residence of the holder of Preferred Securities, the acquisition and transfer of the Preferred Securities will be exempt from indirect taxes in Spain, for example, exempt from Capital Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

## **1. Individuals with Tax Residency in Spain**

### **1.1 Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)**

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25 of the Individual Income Tax Law, and therefore will form part of the so called savings income tax base pursuant to the provisions of the aforementioned Law. Accordingly, such income will be subject to the flat 18 per cent. rate applicable to savings income.

### **1.2 Wealth Tax (*Impuesto sobre el Patrimonio*)**

Individuals with tax residency in Spain under an obligation to pay Wealth Tax must take into account the amount of the Preferred Securities which they hold as at 31 December in each year when calculating their wealth tax liabilities.

### **1.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

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

## **2. Legal Entities with Tax Residency in Spain**

### **2.1 Corporation Tax (*Impuesto sobre Sociedades*)**

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

In accordance with Section 59.s) of the Corporation Tax Regulations there is no obligation to make a withholding on income obtained by Spanish corporation tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. Applications have been made for the Preferred Securities to be admitted to listing on the Official List of the FSA and to trading on the London Stock Exchange's gilt-edged and fixed interest market and they will therefore, upon admission to trading on the London Stock Exchange's gilt-edged and fixed interest market, fulfil the requirements laid down by the legislation for exemption from withholding. The Directorate General for Taxation (*Dirección General de Tributos* — "DGT"), on 27 July 2004, issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, such as the Issuer, application of the exemption requires that the Preferred Securities be placed outside Spanish territory in another OECD country. The Issuer considers that the issue of the Preferred Securities falls within this exemption as the Preferred Securities are to be sold outside Spain and in the international capital markets and none of the entities placing the Preferred Securities is resident in Spain.

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

No reduction percentage will be applied. (Please see "Disclosure of Holder Information in Connection with Payments of Distributions" below).

## 2.2 *Wealth Tax (Impuesto sobre el Patrimonio)*

Legal entities are not subject to Wealth Tax.

## 2.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

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

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

### 3.1 *Non-resident Income Tax (Impuesto sobre la Renta de no Residentes)*

#### (a) *With permanent establishment in Spain*

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

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

#### (b) *With no permanent establishment in Spain*

Both Distributions periodically received and income deriving from the transfer, redemption or repayment of the Preferred Securities, obtained by individuals or entities who have no tax residency in Spain, being Non-resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-resident Income Tax on the same terms laid down for income from public debt. This exemption is not applicable if such income is obtained through countries or territories classified as tax havens (being those included in Royal Decree 1080/1991, of 5 July), in which case such income will be subject to Non-resident Income Tax in Spain, currently at the rate of 18 per cent.

For these purposes it is necessary to comply with certain information obligations relating to the identity of the holders of Preferred Securities, in the manner detailed under "Disclosure of Holder information in connection with payments of distributions" as laid down in section 12 of Royal Decree 2281/1998, as promulgated by Royal Decree 1778/2004. If these information obligations are not complied with in the manner indicated the Issuer will apply a withholding, currently at the rate of 18 per cent. and the Issuer will not, as a result, be under any obligation to pay additional amounts.

### 3.2 *Wealth Tax (Impuesto sobre el Patrimonio)*

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

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

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

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

### 3.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

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

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

Non-resident entities which acquire ownership or other rights over the Preferred Securities by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to

Non-resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

#### 4. Tax havens

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

Principality of Andorra,	Channel Islands (Jersey and,	Republic of Liberia,
Netherlands Antilles,	Guernsey),	Principality of Liechtenstein,
Aruba,	Jamaica,	Grand Duchy of Luxembourg
Kingdom of Bahrain,	Falkland Islands,	Area (as regards the income
Sultanate of Brunei,	Isle of Man,	received by the Companies
Republic of Cyprus,	Marianas Islands,	referred to in paragraph 1 of
United Arab Emirates,	Mauritius,	Protocol annexed Avoidance
Gibraltar,	Montserrat,	of Double Taxation Treaty,
Hong-Kong,	Republic of Nauru,	dated 3 <sup>rd</sup> June, 1986),
The Island of Anguila,	Solomon Islands,	Macao,
Islands of Antigua and	Saint Vincent & the	Principality of Monaco,
Barbuda,	Grenadines,	Sultanate of Oman,
The Bahamas,	Saint Lucia,	Republic of Panama,
The Island of Barbados,	Republic of Trinidad and	Republic of San Marino,
The Bermuda Islands,	Tobago,	Republic of Seychelles,
Cayman Islands,	Turks and Caicos Islands,	Republic of Singapore.
The Cook Islands,	Republic of Vanuatu,	
The Republic of Dominica,	British Virgin Islands,	
Grenada,	Virgin Islands (of the United	
Fiji Islands,	States),	
	Hashemite Kingdom of Jordan,	
	Republic of Lebanon,	

#### 5. Disclosure of holder information in connection with payments of Distributions

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

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

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

##### 5.2 Individuals and Legal Entities with no tax residency in Spain

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

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

- (a) the identity and country of residence of the recipient of the income. When the income is received on behalf of a third party, the identity and country of residence of that third party
- (b) the amount of income received; and
- (c) details identifying the Preferred Securities.

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

- (a) if the non-resident holder of Preferred Securities acts on its own account and is a central bank, other public institution or international organisation, a bank or credit institution or a financial entity, including collective investment institutions, pension funds and insurance entities, resident in an OECD country or in a country with which Spain has entered into a double tax treaty subject to a specific administrative registration or supervision scheme, the entity in question must certify its name and tax residency in the manner laid down in Annex I of the Order of 16 September 1991, promulgated pursuant to Royal Decree 1285/1991 (see Annex I below), of 2 August establishing the procedure for the payment of interest on Book Entry State Debt (as defined therein) to non-residents who invest in Spain without the intervention of a permanent establishment;
- (b) in the case of transactions in which any of the entities indicated in the foregoing paragraph a) acts as intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16 September, 1991 (see Annex II below);
- (c) in the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by that of another OECD member country, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each holder of Preferred Securities in the manner laid down in Annex II of the Order of 16 September 1991 (see Annex II below);
- (d) in other cases, residency must be evidenced by submission of the residency certificate issued by the tax authorities of the country of residency of the holder of Preferred Securities. These certificates will be valid for one year as from the date of issue.

In accordance with sub-section 4 of Section 12, for the purpose of implementing the exemption provided for, the following procedure must be followed: on the due date of each Distribution the Issuer must transfer the net amount to the entities referred to in paragraphs (a), (b) and (c) resulting from applying the general withholding rate (currently 18 per cent.) to the whole of the Distribution. If the certificates referred to are received prior to the Distribution Payment Date, the Issuer will pay the amounts withheld to the extent that they correspond with the information provided. In the case of both paragraph 5.1 and paragraph 5.2 above, in order for a beneficial owner to benefit from an exemption from withholding, the above documentation should be received by the Paying Agent in accordance with the procedures established in the Agency Agreement, which may be inspected during normal business hours at the specified office of the Paying Agent.

If the Paying Agent does not receive complete documentation in respect of an eligible holder of Preferred Securities by the Distribution Date, such holder may obtain a quick refund of the full amount of withholding tax by ensuring that the documentation described above is received by the Paying Agent no later than 10:00 am (CET) on the second Business Day prior to the 10th calendar day of the month following the relevant Distribution Date (or if such date is not a Business Day, the Business Day immediately preceding such date) (the “**Quick Refund Deadline**”).

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

Set out below are Annexes I, II and III. Sections in English have been translated from the original Spanish. In the event of any discrepancy, the Spanish versions shall prevail.

## Annex I

### Modelo de certificación en inversiones por cuenta propia

#### *Form of Certificate for Own Account Investments*

(**nombre**) (name)

(**domicilio**) (address)

(**NIF**) (fiscal ID number)

(**en calidad de**) , en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.a) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,

(function) , in the name and on behalf of the Entity indicated below, for the purposes of article 12.3.a) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

#### **CERTIFICO:**

CERTIFY:

**1. Que el nombre o razón social de la Entidad que represento es:**

that the name of the Entity I represent is:

**2. Que su residencia fiscal es la siguiente:**

that its residence for tax purposes is:

**3. Que la Entidad que represento está inscrita en el Registro de**

that the institution I represent is recorded in the Register of

**(país estado, ciudad), con el número**

(country, state, city), under number

**4. Que la Entidad que represento está sometida a la supervisión de**

that the institution I represent is supervised by

**en virtud de**

under

**(Organo supervisor)**

(Supervision body)

**(normativa que lo regula)**

(governing rules).

#### **Todo ello en relación con:**

All the above in relation to:

#### **Identificación de los valores poseídos por cuenta propia**

Identification of securities held on own account

#### **Importe de los rendimientos**

Amount of income

**Lo que certifico en**

I certify the above in

**a**

on the

**de**

of

**de 20**

of 20

**Annex II**  
**Modelo de Certificación en inversiones por cuenta ajena**

*Form of certificate for third party investments*

(nombre) (name)

(domicilio) (address)

(NIF) (fiscal ID number)

(en calidad de) \_\_\_\_\_, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 12.3.b) y c) del Real Decreto 2281/1998, modificado por el Real Decreto 1778/2004,

(function) \_\_\_\_\_, in the name and on behalf of the Entity indicated below for the purposes of article 12.3.b) and c) of Royal Decree 2281/1998, as amended by Royal Decree 1778/2004,

**CERTIFICO:**

CERTIFY:

**1. Que el nombre o razón social de la Entidad que represento es:**

that the name of the Entity I represent is:

**2. Que su residencia fiscal es la siguiente:**

that its residence for tax purposes is:

**3. Que la Entidad que represento está inscrita en el Registro de**

that the institution I represent is recorded in the Register of

**(país estado, ciudad), con el número**

(country, state, city), under number

**4. Que la Entidad que represento está sometida a la supervisión de \_\_\_\_\_ (Órgano supervisor)**

that the institution I represent is supervised by

(Supervision body)

**en virtud de**

**(normativa que lo regula)**

under

(governing rules).

**5. Que, de acuerdo con los Registros de la Entidad que represento, la relación de titulares adjunta a la presente certificación, comprensiva del nombre de cada uno de los titulares no residentes, su país de residencia y el importe de los correspondientes rendimientos, es exacta, y no incluye personas o Entidades residentes en España o en los países o territorios que tienen en España la consideración de paraísos fiscal de acuerdo con las normas reglamentarias en vigor.**

That, according to the records of the Entity I represent, the list of beneficial owners hereby attached, including the names of all the non-resident holders, their country of residence and the corresponding income amounts are accurate, and does not include person(s) or institution(s) resident either in Spain or, in tax haven countries or territories as defined under Spanish applicable regulations.

**Lo que certifico en**  
I certify the above in

**a**  
on the

**de**  
of

**de 20**  
of 20

**RELACIÓN ADJUNTA A CUMPLIMENTAR:**

TO BE ATTACHED:

**Identificación de los valores:**

Identification of the securities

**Listado de titulares:**

List of beneficial owners:

**Nombre / País de residencia / Importe de los rendimientos**

Name / Country of residence / Amount of income

### Annex III

#### **Modelo de certificación para hacer efectiva la exclusión de retención a los sujetos pasivos del Impuesto sobre Sociedades y a los establecimientos permanentes sujetos pasivos del Impuesto sobre la Renta de no Residentes**

*Certificate for application of the exemption on withholding to Spanish Corporation Tax taxpayers and to permanent establishments of Non-resident Income Tax taxpayers*

(nombre) (name)

(domicilio) (address)

(NIF) (fiscal ID number)

(en calidad de) \_\_\_\_\_, en nombre y representación de la Entidad abajo señalada a los efectos previstos en el artículo 59.s) del Real Decreto 1777/2004,

(function) \_\_\_\_\_, in the name and on behalf of the Entity indicated below, for the purposes of article 59.s) of Royal Decree 1777/2004,

#### **CERTIFICO:**

CERTIFY:

- 1. Que el nombre o razón social de la Entidad que represento es:**  
that the name of the Entity I represent is:
- 2. Que su residencia fiscal es la siguiente:**  
that its residence for tax purposes is:
- 3. Que la Entidad que represento está inscrita en el Registro de**  
that the institution I represent is recorded in the Register of  
(país estado, ciudad),, con el número  
(country, state, city), under number
- 4. Que la Entidad que represento está sometida a la supervisión de** (Organo supervisor)  
that the institution I represent is supervised by (Supervision body)  
en virtud de (normativa que lo regula)  
under (governing rules).
- 5. Que, a través de la Entidad que represento, los titulares incluidos en la relación adjunta, sujetos pasivos del Impuesto sobre Sociedades y establecimientos permanentes en España sujetos pasivos del Impuesto sobre la Renta de no Residentes, son perceptores de los rendimientos indicados.**

That, through the Entity I represent, the list of holders hereby attached, are Spanish Corporation Tax taxpayers and permanent establishment in Spain of Non-resident Income Tax taxpayers, and are recipients of the referred income.

- 6. Que la Entidad que represento conserva, a disposición del emisor, fotocopia de la tarjeta acreditativa del número de identificación fiscal de los titulares incluidos en la relación.**

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

**Lo que certifico en** a **de** **de 20**  
I certify the above in on the of of 20



**RELACIÓN ADJUNTA  
TO BE ATTACHED**

**Identificación de los valores:**  
Identification of the securities

**Razón social / Domicilio / Número de identificación fiscal / Número de valores / Rendimientos brutos  
/ Retención al 18 per cent.**

Name / Domicile / Fiscal Identification Number / Number of securities / Gross income / Amount withheld  
at 18 per cent.

## SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., Credit Suisse Securities (Europe) Limited and Dresdner Bank AG London Branch as lead managers (the “**Lead Managers**”) have, in a subscription agreement dated 28 February 2007 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantor and the Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Preferred Securities at their issue price of EUR 50,000 per Preferred Security. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Lead Managers for certain of its expenses incurred in connection with the management of the issue of the Preferred Securities. The Lead 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.

XIII 4.7  
XIII 4.14

### United Kingdom

Each Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Preferred Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) 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.

### 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.

### The Kingdom of Spain

Each Lead Manager has represented, warranted and agreed that no marketing of the Preferred Securities shall be specifically made to investors in Spain.

## **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Lead Manager that would, or is intended to, permit a public offering of the Preferred Securities, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Lead 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 Prospectus 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 was authorised by resolutions of the shareholders of the Issuer dated 30 January 2007 and 16 February 2007 and a resolution of the board of directors of the Issuer dated 16 February 2007. The Guarantee of the Preferred Securities was authorised by a resolution of the Executive Committee of the Guarantor dated 30 January 2007.
2. None of the Issuer, the Guarantor or any of the Guarantor's subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Guarantor or any of the Guarantor's subsidiaries is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer or the Group. IX 11.5
3. There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since 31 December 2005. There has been no significant change in the financial or trading position of the Guarantor and its subsidiaries since and there has been no material adverse change in the financial position or prospects of the Guarantor and its subsidiaries in each case since 31 December 2006. IX 7.1  
IX 11.6
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 the Guarantor and the Paying Agent: VI 4
  - (a) the *estatutos* (articles of association) of each of the Issuer and the Guarantor; IX 14
  - (b) the Public Deed of Issuance of the Preferred Securities;
  - (c) the Guarantee;
  - (d) the Paying Agency Agreement; XIII 4.11
  - (e) the Subscription Agreement; and
  - (f) the documents listed under "Documents Incorporated by Reference".
5. The Guarantor publishes quarterly unaudited consolidated and unaudited interim financial statements. The Issuer does not publish interim financial statements.
6. PricewaterhouseCoopers Auditores, S.L., registered as auditors on the *Registro Oficial de Auditores de Cuentas*, have audited each of the Issuer and the Guarantor's accounts in accordance with generally accepted audited standards in Spain for the financial years ended 31 December 2005 and 2004. Each of these auditors' reports were unqualified. XIII 7.2  
IX 2.1
7. The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. The ISIN is XS0288613119 and the common code is 028861311. The Clearing Systems are expected to follow certain procedures to facilitate the Issuer, the Guarantor and the Paying Agent in the collection of the details referred to above from holders of the Preferred Securities. If any Clearing System is, in the future, unable to facilitate the collection of such information, it may decline to allow the Preferred Securities to be cleared through such Clearing System and this may affect the liquidity of the Preferred Securities. Provisions have been made for the Preferred Securities, in such a case, to be represented by definitive Preferred Securities (see "Conditions of the Preferred Securities — Form and Status"). The procedures agreed and fully described in the Agency Agreement may be amended to comply with Spanish laws and regulations and operational procedures of the Clearing Systems. XIII 4.2
8. The Issuer does not intend to provide any post-issuance information in relation to the issue of the Preferred Securities.
9. The yield on the Preferred Securities until the First Call Date is 4.907 per cent. per annum. XIII 4.10
10. The total expenses related to the admission to trading of the Preferred Securities on the London Stock Exchange's Gilt-Edged and Fixed Interest Market equal approximately pounds Sterling 4,200. XIII 6.1

11. The Issuer and the Guarantor have not entered into any material contracts outside the ordinary course of business which could result in any Group member being under an obligation or entitlement that is material to the Issuer and Guarantor's ability to meet its obligations to holders of the Preferred Securities. <sup>IX 12</sup>
12. Save as discussed in "Subscription and Sale", so far as the Issuer or Guarantor is aware, no person <sup>XIII 3</sup> involved in the offer of the Preferred Securities has an interest material to the offer.

**THE ISSUER**

**Popular Capital, S.A.**  
José Ortega y Gasset, 29  
28006 Madrid  
Spain

**THE GUARANTOR**

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28001 Madrid  
Spain

**PAYING AGENT AND AGENT BANK**

**Citibank, N.A.**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
England

XIII 5.2

**LEGAL ADVISERS**

*To the Managers as to Spanish  
law and English law*

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XIII 7.1

**AUDITORS TO THE ISSUER AND  
THE GUARANTOR**

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Paseo de la Castellana, 43  
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Spain

XIII 7.1  
IX 2.1

XIII 7.3

IX 13.1

