

Popular Finance Europe B.V.

Amsterdam

Annual Report 2007

Contents

Annual report of the directors	3
Annual report of the directors	4
<i>Company annual accounts</i>	6
Balance sheet as at 31 December 2007	7
Profit and loss account 2007	9
Cash flow statement 2007	10
Notes to the annual accounts	11
Notes to the balance sheet and profit and loss account	14
Other information	18
Profit appropriation according to the Articles of Association	18
Proposed appropriation of profit	18
Auditors' report	19

Annual report of the directors

Annual report of the directors

The managing directors (the 'Board') of Popular Finance Europe B.V. (hereinafter the 'Company') submit the annual report and the financial statements of the Company for the year ended 31 December 2007.

Principal activities and business review

The principal activities of the Company consist of financing of group companies.

Financing

The Company has entered into a programme for the issuance of euro medium term notes ('Notes') up to EUR 8 billion. Under this programme the Company may issue from time to time Notes. All amounts payable in respect of these Notes are irrevocable guaranteed by Banco Popular Español S.A. (the 'Parent Company'). In 2003 the Company issued Notes in two Series for a total amount of EUR 2,500,000,000. The main portion of this amount was placed on a fixed deposit with Banco Popular Español S.A. During 2006 one Series of EUR 1,000,000,000 was redeemed in full.

Results

During the year ending 31 December 2007, the Company realized a net profit of EUR 475,716.

Future developments

The remaining Series of Notes for a total amount of EUR 1,500,000,000 had a maturity date set as per 10 November 2008 as per which date the Company redeemed the Series in full. After the aforementioned redemption, the Board decided to put the Company into voluntary liquidation, which is scheduled to take place in the course of 2009.

Financial Risks

Currency risk

The company does not face any currency risk as all transactions are done in Euro.

Interest rate risk

Interest rate risk is the risk that fluctuations in the prevailing levels of market interest rates will affect the Company's financial position and cash flows.

Interest rate exposure on dividends of preference shares is mitigated by the placement and advances with parent company; Banco Popular Español, S.A (Note 4) (hereinafter the 'Parent Company'). Interest rates both of preference shares and loans and advances are matched.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Company's credit risk is concentrated with Banco Popular Español, S.A its Parent Company, which is a high credit quality financial institution in Spain. Please find below the credit ratings of the Parent Company as per 31 December 2007:

Agency	Individual	Short term	Long term
Fitch IBCA	A	F1+	AA
Moody's	A-	P1	Aa1
Standard & Poor		A1+	AA
DBRS		R-1 (high)	AA (high)

The Company has not entered into other transactions that might generate credit risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and other due from parent balances, the availability of funding through an adequate amount of commitment credit facilities and the ability to close out market positions.

Due to the nature of the Company's business, its exposure to liquidity risk is not significant.

Amsterdam, 31 March 2010

The Board of Management:

Mr. J. Perez Enriquez

Mr A.J. Pleguezuelo Witte

Mr. W.H. Kamphuijs

Equity Trust Co. N.V.

Company annual accounts

(before proposed appropriation of result)

7

		31 December 2007		31 December 2006	
	Ref.	€	€	€	€
<i>Shareholders' Equity and Liabilities</i>					
Shareholders' Equity	6				
Issued Share Capital		18,000		18,000	
Share Premium		1,982,000		1,982,000	
Accumulated Results		82,434		39,164	
Result for the Year		475,716		43,270	
			2,558,150		2,082,434
Creditors: amounts falling due more than one year					
Loan Payable EMTN Programme	8	-		1,500,000,000	
Deferred Income	8	-		1,065,993	
			-		1,501,065,993
Creditors: amounts falling due within one year					
Loan Payable EMTN Programme	8	1,500,000,000		-	
Deferred Income	8	493,057			
Interest Payable on EMTN Loans		9,645,000		7,860,000	
Capital Tax Payable		-		2,257	
Corporate Income Tax Payable		214,860		43,223	
Accruals	9	54,119		15,011	
			1,510,407,036		7,920,491
			1,512,965,186		1,511,068,918

Profit and loss account 2007

		2007	2006
	Ref.	€	€
<i>Interest Income</i>			
- Interest Income on Deposit Banco Popular		63,605,301	60,880,589
- Interest Income on Bank		5,921	2,622
- Deferred Income on Deposit		572,936	804,516
<i>Interest Expense</i>			
- Interest Expense on EMTN notes		(62,880,000)	(60,826,796)
- Deferred Expenses on EMTN notes		(572,936)	(804,517)
Interest Margin		731,222	56,413
<i>Other Income</i>		0	46,959
<i>Operational Costs</i>			
- legal			-
- bank		(220)	(287)
- general	12	(84,589)	(42,783)
Result before Tax		646,413	60,302
<i>Corporate Income Tax</i>	13	(171,637)	(17,032)
<i>Corporate Income Tax previous years</i>		940	-
Result after Tax		475,716	43,270

Cash flow statement 2007

		2007	2006
	Ref.	€	€
Cash flow from operating activities			
Operating result (net sales margin)		475,716	43,270
<i>Changes in working capital:</i>			
Changes in current assets		415,667	908,649
Changes in interest receivable		(1,786,013)	871,615
Changes in interest on loans		1,785,000	(872,600)
Changes in current liabilities (exclusive of finance balances)		(364,448)	(898,445)
		50,206	9,219
Cash flow from Ordinary Activities		525,922	52,489
Net Cash Flow		525,922	52,489
Increase/(Decrease) in cash and cash equivalents		525,922	52,489

The movement of funds can be specified as follows:

	2007	2006
	€	€
Balance as at 1 January	2,074,094	2,021,605
Movements during the year	525,922	52,489
Balance as at 31 December	2,600,016	2,074,094

Notes to the annual accounts

1 General

1.1 Activities

Popular Finance Europe B.V., a corporation with limited liability, having its statutory seat in Amsterdam, the Netherlands, was incorporated under the laws of the Netherlands on 15 July 2003.

The principal activities of the Company consist of financing of group entities.

1.2 Related parties

The Company is considered a subsidiary of Grupo Banco Popular, Madrid, Spain. As a result the figures of the Company are consolidated in the consolidated financial statements of Grupo Banco Popular. Therefore Grupo Banco Popular is considered a related party.

1.3 Notes to the cash flow statement

The cash flow statement has been prepared applying the indirect method. The cash and cash equivalents in the cash flow statement comprise the balance sheet items cash at banks and in hand and the bank overdraft forming part of the current liabilities.

Cash flows in foreign currencies have been translated at estimated average exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Receipts and payments of interest and corporate income tax are included in the cash flow from operating activities.

2 Principles of valuation of assets and liabilities

2.1 General

The annual accounts were prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The annual accounts are denominated in euro.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet, profit and loss account and cash flow statement include references to the notes.

2.2 Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

2.3 Financial fixed assets

Other receivables disclosed under financial fixed assets include loans and bonds, which will be held to maturity date. These receivables are stated at nominal value. If debentures are acquired or loans are issued at a discount or premium, the discount or premium is taken to the profit and loss account over the term of the debentures or loans. Fair value of the loans and bonds is the nominal value including accrued interest and without deferred expenses.

2.4 Deferred expenses

Deferred expenses are amortised on a pro-rata basis over the period to maturity of the underlying bond or note.

2.5 Receivables

Trade debtors are carried at the nominal value of the consideration, usually its face value. A provision is made for doubtful debts.

2.6 Cash at bank and in hand

Cash represents cash in hand, bank balances and deposits with a maturity of less than twelve months. Current account overdrafts at banks are included under debts to credit institutions under the heading current liabilities.

2.7 Long-term liabilities

Long-term liabilities are valued at notional value.

2.8 Deferred income

Deferred income is amortised on a pro-rata basis over the period to maturity of the underlying bond or note.

3 Principles for determination of result

3.1 *General*

Results on transactions are recognised in the year in which they are realised; losses are taken as soon as they are foreseeable.

3.2 *Financial income and expense*

Interest income and expense is recognised on a pro-rata basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising the interest charges, the transaction cost on the loans received is taken into account.

3.3 *Tax on profit/(loss) on ordinary activities*

Profit tax is calculated on the profit/loss before taxation in the profit and loss account, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

Notes to the balance sheet and profit and loss account

4 Time deposit

Per 31 December 2007 there were two deposits, the interest on the time deposits is floating under the same conditions as on the loans (Euribor + margin), outstanding with Banco Popular Español S.A.

<u>Amount</u>	<u>Interest rate at year end</u>	<u>Effective interest rate</u>	<u>Maturity date</u>
EUR 1,500,000,000	4.6290%	4.2767%	10/11/2008

Per 31 December 2007 under current assets there was one deposit outstanding with Banco Popular Español S.A.:

<u>Amount</u>	<u>Contract interest rate</u>	<u>Effective interest rate</u>	<u>Maturity date</u>
EUR 1,961,957	4.8980%	3.9586%	17/06/2008

	Time deposit Banco Popular	Deferred expenses
Book value	1,500,000,000	2,834,836
Accumulated amortisation		(1,768,843)
Balance as at 1 January	1,500,000,000	1,065,993
Movements during the year		
- amortisation	-	(572,936)
Balance as at 31 December	1,500,000,000	493,057
Long term portion	-	-
Short term portion	1,500,000,000	493,057

	<u>Present value</u>		<u>Nominal value</u>	
	<u>31-12-2007</u>	<u>31-12-2006</u>	<u>31-12-2007</u>	<u>31-12-2006</u>
	€	€	€	€
Time Deposit	1,509,151,943	1,506,794,007	1,500,000,000	1,500,000,000

5 Receivables

Accrued interest bank

	31-12-2007	31-12-2006
	€	€
Accrued interest bank	1,225	1,790
	<u>1,225</u>	<u>1,790</u>

6 Shareholders' equity

	Issued share capital	Share premium	Accumulated results	Result for the financial year	Total
	€	€	€	€	€
Balance as at 1 January 2007	18,000	1,982,000	39,164	43,270	2,082,434
Movements					
Appropriation of result	0	0	43,270	(43,270)	0
Result for the financial year	0	0	0	475,716	475,716
Balance as at 31 December 2007	<u>18,000</u>	<u>1,982,000</u>	<u>82,434</u>	<u>475,716</u>	<u>2,558,150</u>

7 Share capital

The authorised share capital of the Company consists of 900 shares of EUR 100 each, of which 180 shares have been issued and fully paid-up.

8 Loan payable

Per 31 December 2007, the Company has 1 issue under the programme for the issuance of euro medium term notes (Offering Circular). Banco Popular Español, S.A, unconditionally and irrevocably guarantees the principal and interest of this issue. The ratings assigned to the Euro notes issues under this programme were as follows:

Fitch Ratings:	AA
Moody's:	Aa1
Standard & Poor's:	AA
DBRS:	AAH

The details of the issued note are as follows:

<u>Currency</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Maturity</u>
EUR	1,500,000,000	Euribor 3m + 0.05 %	10/11/2008

	<u>Present value</u>		<u>Nominal value</u>	
	<u>31-12-2007</u>	<u>31-12-2006</u>	<u>31-12-2007</u>	<u>31-12-2006</u>
	€	€	€	€
EMTN Programme	1,509,151,943	1,506,794,007	1,500,000,000	1,500,000,000

9 Current liabilities

<i>Accruals</i>	<u>31-12-2007</u>	<u>31-12-2006</u>
	€	€
Audit expenses	20,710	10,710
General expenses	33,409	4,301
	<u>54,119</u>	<u>15,011</u>

10 Average number of employees

During the year 2007, the average number of employees calculated on a full-time-equivalent basis was 0 (2006: 0). Of these employees 0 is employed abroad (2006: 0).

11 Directors

The Company had four directors during the year under review. Two of them received EUR 3,871 each for their activities (2006: EUR 3,213).

12 Operational costs

The audit fees for PriceWaterhouseCoopers Accountants N.V., included in general operational costs of the Company's profit & loss account, for the year 2007 amounted to EUR 15,403 (2006: EUR 9,520).

13 Taxation on result on ordinary activities

The taxation on result on ordinary activities amounting to EUR 475,716 can be specified as follows:

	2007	2006
	€	€
Result from ordinary activities before taxation	475,716	60,302
Taxation on result on ordinary activities	(171,637)	(17,032)
Effective tax rate	36.08%	28.35%
Applicable tax rate	25.50%	27.55%

The Company has obtained a tax ruling from the Dutch tax authorities stipulating that certain minimum taxes be paid in respect of its finance activities. Furthermore it maximizes the tax deductible expenses.

Amsterdam, 31 March 2010

The Board of Management:

Mr. J. Perez Enriquez

Mr A.J. Pleguezuelo Witte

Mr. W.H. Kamphijs

Equity Trust Co. N.V.

Other information

Profit appropriation according to the Articles of Association

According to article 19 of the Articles of Association the profit for the year is at the free disposal of the General Meeting of Shareholders. If and to the extent that a loss sustained in any fiscal year is not recovered from a reserve or made up in some other way, no distribution of profit shall be made in subsequent years as long as such loss has not been recovered. Article 19 of the Articles of Association provides that, insofar as there is a profit in the Company, The Board of Directors may declare an interim dividend.

Proposed appropriation of profit

The Board of Management proposes to transfer the profit for the year 2007 in the amount of EUR 475,716 to the accumulated results and proposes that consequently no dividend will be declared and paid.

Post balance sheet events

The Company redeemed all outstanding Notes upon maturity as per 10 November 2008 and it is the intention of the Board to liquidate the Company during the course of 2010.

Auditors' report

To: the General Meeting of Shareholders of Popular Finance Europe B.V.

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Accountants N.V.**
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Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2007 of Popular Finance Europe B.V., Amsterdam as set out on pages 3 to 18 which comprise the balance sheet as at 31 December 2007, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Popular Finance Europe B.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 31 March 2010
PricewaterhouseCoopers Accountants N.V.

Original has been signed by:
R. van Adrichem RA