

Popular Finance Europe B.V.

Amsterdam

Annual Report 2008

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Annual Report of the Directors

The managing directors of Popular Finance Europe B.V. (hereinafter the 'Company') submit the annual report and the financial statements of the Company for the year ended December 31, 2008.

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 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 connection with the programme, on 22 August 2003, the Company issued Series 2,500,000,000 EUR Guaranteed Subordinated Callable Floating Rate Notes due August 2013 (the 'Notes'). The main portion of this amount was placed on a fixed deposit with Banco Popular Español S.A.

Results

During the year ending 31 December 2008, the Company realized loss of EUR 49,959.

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, it is the intention to put the Company into voluntary liquidation, which is scheduled to take place in the course of 2010.

Financial Risks

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 were mitigated by the placement and advances with its Parent Company. Interest rates both of preference shares and loans and advances were matched. At present no significant financial risks are to be disclosed.

Amsterdam, 27 August 2010

The Board of Management:

Mr. J. Perez Enriquez

Mr. W.H. Kamphuijs

Mr A.J. Pleguezuelo Witte

Equity Trust Co. N.V.

Balance Sheet as at 31 December 2008

(Before proposed appropriation of result)

		December 31, 2008		December 31, 2007	
	Notes	€	€	€	€
Current assets					
Time deposit (Banco Popular)		0		1,500,000,000	
Deferred Expenses Subordinated EMTN		0		493,057	
Interest receivable on Deposits (Banco Popular)		2,824		9,648,949	
Interest Receivable on Deposits (Deutsche Bank)		96		1,225	
Intercompany Receivable		190,382		190,382	
Cash at banks		2,450,036		2,600,016	
Total current assets			2,643,338		1,512,933,629
TOTAL ASSETS			2,643,338		1,512,933,629
Shareholder's equity and liabilities					
Shareholder's equity	4				
Share Capital		18,000		18,000	
Share Premium		1,982,000		1,982,000	
Accumulated Profits		558,150		82,434	
Result of the financial year		(49,959)		475,716	
			2,508,191		2,558,150
Current liabilities					
Loans Payable EMTN Programme		0		1,500,000,000	
Deferred Income Subordinated EMTN		0		493,057	
Interest Payable on Loans EMTN Programme		0		9,645,000	
Corporation Income Tax Payable		89,491		183,303	
Other Payables and Accrued Expenses		45,656		54,119	
			135,147		1,510,375,479
			2,643,338		1,512,933,629
Total shareholder's equity and liabilities					

Profit and Loss Account 2008

	2008	2007
Notes	€	€
FINANCIAL INCOME/(CHARGES)		
Interest Income on Deposits EMTN Programme	62,318,014	63,455,559
Deferred Income Subordinated EMTN	493,057	572,936
Interest Expenses on Loans EMTN Programme	(62,220,000)	(62,880,000)
Deferred Expenses Subordinated EMTN	(493,057)	(572,936)
Other Interest Income	2,645	5,921
Other Interest Expense	(8,420)	(259)
Total financial income/(charges)	92,239	581,221
OTHER INCOME (EXPENSES)		
Commitment & Administration Fees	(25,449)	(18,598)
Professional Services Fees	(21,749)	(64,865)
Administration and Office Expenses	(151)	(867)
Bank Charges	(297)	(220)
Other income /(expenses)	0	149,742
Total other income/ expenses	(47,646)	65,192
Result before tax	44,593	646,413
TAXATION		
Corporate tax	7 (108,479)	(171,637)
Corporate tax previous years	13,927	940
Result after tax	(49,959)	475,716

Cash Flow Statement 2008

	2008		2007	
	€	€	€	€
Cash flow from operating activities				
Result after tax		(49,959)		475,716
<i>Change in working capital:</i>				
Change in current assets	(159,068)		415,667	
Change in interest receivable	9,647,255		(1,786,013)	
Change in interest on loans	(9,645,000)		1,785,000	
Change in current liabilities (exclusive of finance balances)	56,792		(364,448)	
Cash flow from ordinary activities		<u>(100,021)</u>		<u>50,206</u>
Cash flow from investment activities				
Increase/(decrease) in financial fixed assets	(1,500,493,057)		0	
		<u>(1,500,493,057)</u>		<u>0</u>
Cash flow financial activities				
Increase/(decrease) liabilities	1,500,493,057		0	
		<u>1,500,493,057</u>		<u>0</u>
Net cash flow		<u>(149,980)</u>		<u>525,922</u>
Increase/(decrease) in cash and cash equivalents		<u>(149,980)</u>		<u>525,922</u>

The movements of funds can be specified as follows:

	2008		2007	
	€	€	€	€
Balance cash at banks as at 1 January		2,600,016		2,074,094
Movements during the year		(149,980)		525,922
Balance cash at banks as at 31 December		<u>2,450,036</u>		<u>2,600,016</u>

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, with registered office at Strawinskylaan 3105 postal code 1077 ZX, 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*

Corporate 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 Shareholders' equity

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.

	<u>31-Dec-2008</u>	<u>31-Dec-2007</u>
Issued share capital	<u>18,000</u>	<u>18,000</u>
Share premium	<u>1,982,000</u>	<u>1,982,000</u>
Accumulated deficit at beginning of year	558,150	82,434
Profit/(Loss) for the year	<u>(49,959)</u>	<u>475,716</u>
Accumulated deficit at end of year	508,191	558,150
Capital and reserves	<u><u>2,508,191</u></u>	<u><u>2,558,150</u></u>

5 Average number of employees

During the year 2008, the average number of employees calculated on a full-time-equivalent basis was 0 (2007: 0). Of these employees 0 is employed abroad (2007: 0).

6 Directors

The Company had four directors during the year under review. Two of them received EUR 7,216 for their activities (2007:EUR 7,612).

7 Taxation on result on ordinary activities

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 and a maximum of expenses is deductible. In view of the early redemption and the taxable income ruling for past and future years a compromise was reached with the tax authorities and in 2008 an adjustment remuneration of Euro 539,696 was reported in the taxable income of 2008, resulting in taxation for the year of Euro 108,479.

Amsterdam, 27 August 2010

The Board of Management:

Mr. J. Perez Enriquez

Mr A.J. Pleguezuelo Witte

Mr. W.H. Kamphuijs

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 carry forward transfer the loss for the year 2008 in the amount of EUR 49,959 to the accumulated results.

Post balance sheet events

The Company early redeemed the Notes on 22 August 2008, pursuant to condition 6(e) of the terms and conditions of the Notes included in the offering circular of the programme, and to condition 21 of the pricing supplement dated 20 August 2003. It is the intention to liquidate the Company in the course of 2010.

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

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2008 of Popular Finance Europe B.V. , Amsterdam as set out on pages 3 to 12 which comprise the balance sheet as at 31 December 2008, the profit and loss account for the year then ended and the notes.

The Board of Management's responsibility

The Board of Management of the company is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Annual Report of the Directors, 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by The Board of Management, as well as evaluating the overall presentation of the financial statements.

Reference: e0179768

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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 2008, 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 Annual Report of the Directors is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 27 August 2010
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R.E.H.M. van Adrichem RA