



BPE FINANCIACIONES, S.A.

(Incorporated with limited liability under the laws of the Kingdom of Spain)

€6,000,000,000

Euro Medium Term Note Programme

guaranteed by

BANCO POPULAR ESPAÑOL, S.A.

(Incorporated with limited liability under the laws of the Kingdom of Spain)

This document constitutes a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive as defined below. Under the Euro Medium Term Note Programme described in this Base Prospectus (the “**Programme**”), BPE Financiaciones, S.A. (the “**Issuer**”) may from time to time issue notes (“**Notes**”), subject to compliance with all relevant laws, regulations and directives. The Base Prospectus replaces the previous base prospectus in respect of the Programme dated 29 August 2008.

The payment of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by Banco Popular Español, S.A. (the “**Guarantor**” or the “**Bank**”), provided the Bank executes the relevant Final Terms in relation to the relevant Notes. The aggregate principal amount of Notes outstanding and guaranteed will not at any time exceed €6,000,000,000 (or the equivalent in other currencies).

This Base Prospectus has been approved by the Irish Financial Services Regulatory Authority (the “**Financial Regulator**”), as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and the Prospectus (Directive 2003/71/EC) Regulations 2005 and for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months after the date hereof. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. The Programme also permits Notes to be issued on the basis that they will be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

Such approval relates only to Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State for the European Economic Area.

Arranger

BARCLAYS CAPITAL

Dealers

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.
 BANCO POPULAR ESPAÑOL, S.A.
 BARCLAYS CAPITAL
 BMO CAPITAL MARKETS
 BNP PARIBAS
 BOFA MERRILL LYNCH
 CALYON CORPORATE AND INVESTMENT BANK
 CITI
 COMMERZBANK
 CREDIT SUISSE
 DEUTSCHE BANK
 DZ BANK AG
 FORTIS BANK

GOLDMAN SACHS INTERNATIONAL
 HSBC
 LANDESBANK BADEN-WÜRTTEMBERG
 MORGAN STANLEY
 NATIXIS
 NATIONAL BANK FINANCIAL
 NOMURA INTERNATIONAL
 SANTANDER GLOBAL BANKING & MARKETS
 SEB
 SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING
 THE ROYAL BANK OF SCOTLAND
 UBS INVESTMENT BANK
 UNICREDIT BANK

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

This Base Prospectus should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Final Terms (as defined herein).

The language of this Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

The Issuer and the Guarantor have confirmed to the Dealers named under “Plan of Distribution” below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers (as defined in “Plan of Distribution”). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this document has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in the final terms (the “Final Terms”) which, with respect to Notes to be listed on the Irish Stock Exchange, will be delivered to Financial Regulator on or before the date of issue of the Notes of such Tranche.

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restriction.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see “Plan of Distribution”.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Dealers to subscribe for, or purchase, any Notes.

The Dealers have not separately verified the information contained in this Base Prospectus. None of the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €6,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Euros at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer

Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement, as defined under “Plan of Distribution”.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to a “Member State” are references to a Member State of the European Economic Area, references to “EUR”, “Euro” or “euro” are to the single currency introduced at the third stage of the European Economic and Monetary Union, pursuant to the Treaty establishing the European Communities, as amended (the “Treaty”), and to “U.S.\$”, “U.S. Dollars” and “dollars” are to the lawful currency of the United States of America.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES 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 RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

ISSUE OF NOTES

Notes will be issued on a continuous basis in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set forth in a final terms to this Base Prospectus (a “**Final Terms**”) the form of which is set out in “Pro Forma Final Terms” below.

DOCUMENTS INCORPORATED BY REFERENCE

The documents numbered (1) to (4) below have been filed with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and English translations of those documents (which are direct and accurate translations of the Spanish originals) together with the documents numbered (5) below, which has been filed previously with the Financial Regulator, shall be deemed to be incorporated in, and to form part of, the Base Prospectus:

- (1) the audited consolidated annual accounts of the Guarantor for the years ended 31 December 2008 and 31 December 2007 prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“**IFRS**”) together with the auditor’s reports thereon;
- (2) the unaudited consolidated half-year financial report of the Guarantor for the six month period ended 30 June 2009 prepared in accordance with IFRS;
- (3) the unaudited interim consolidated financial report of the Guarantor for the three month period from 1 July 2009 to 30 September 2009 (inclusive) prepared in accordance with IFRS;
- (4) the audited non-consolidated annual accounts of the Issuer for the years ended 31 December 2008 and 31 December 2007 prepared in accordance with generally accepted accounting principles in Spain (“**Spanish GAAP**”) together with the auditor’s reports thereon; and
- (5) the terms and conditions of the Notes contained in the previous base prospectuses dated 2 August 2007, pages 13-35 (inclusive) and 29 August 2008, pages 14-36 (inclusive) prepared by the Issuer in connection with the Programme.

Copies of this Base Prospectus (and any document incorporated by reference in this Base Prospectus) will be made freely available at the office of the Irish Listing Agent. Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus.

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SUMMARY

This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the persons responsible for this summary in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

Information relating to the Issuer

The Issuer: BPE Financiaciones, S.A.

The Issuer was incorporated on 19 February 2004 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 19.873, Folio 164, Section 8 and Sheet M-350196, Registration 1 of the Mercantile Registry (*Registro Mercantil*) of Madrid.

Business: The principal objects of the Issuer are set forth in Clause 2 of its Memorandum of Association and are the issuance of bonds (*bonos, obligaciones, pagarés, etc.*) and other financial instruments.

Directors: The Directors of the Issuer are as follows:

Name	Principal Occupation
Julio Coto de la Casa	Chairman of the Board
Javier Moreno Navarro	Director
Teresa Palacios Blasco	Secretary — Director
Carlos Ignacio Vivas Sotillos	Director
Aránzazu Ruiz Cotero	Director

Information Relating to the Guarantor

The Bank and the Group: Banco Popular Español, S.A. was founded on 14 July 1926 for an undefined period of time as a limited liability corporation (*sociedad anónima*) as Banco Popular de los Previsores del Porvenir, adopting its current name in February 1947.

It is registered in Volume 174, Folio 44, Sheet 5458, Registration 1 of the Mercantile Registry of Madrid.

Its objects are to provide the widest possible services to its clients in all business services and banking matters.

The Bank's registered office is at C/Velázquez, 34, 28001, Madrid, Spain.

At 31 December 2008, Allianz Group held 9.4 per cent. of the Bank's share capital. The Board of directors represented approximately 40.62 per cent., institutional investors approximately 18.98 per cent. and individual shareholders approximately 20.59 per cent. of the Bank's share capital.

Business: The Bank and its consolidated subsidiaries are Spain's fifth largest banking group ranked by total assets. At 31 December 2008 the Group's total assets amounted to €110,376,051 and its consolidated income for the year amounted to €1,110,700.

The Group's business concentrates on domestic retail banking, being the business of savings and loans the most important. It also provides through its specialised subsidiaries, factoring, investment management, mutual and pension funds, stock broking, life insurance and mortgage lending.

Directors and Employees: The members of the Board of Directors of the Bank as of the date of this Base Prospectus are as follows:

Ángel Carlos Ron Guimil (President)
 Francisco Aparicio Valls (Secretary)
 Roberto Higuera Montejo (Vice President)
 Luis Herrando Prat de la Riba (Vice President)
 Asociación de Directivos de BPE (represented by Roberto Higuera Montejo)
 Américo Ferreira de Amorim
 Eric Gancedo Holmer
 Casimiro Molins Ribot
 Helena Devotedo Delveccio
 Manuel Morillo Olivera
 Miguel Nigorra Oliver
 José Ramón Rodríguez García
 Nicolás Osuna Garcia
 Sindicatura de Accionistas de BPE (represented by José María Más Millet)
 Miguel Ángel de Solís Martínez-Campos
 Vicente Tardío Barutel
 Allianz S.E. (represented by Herbert Walter)
 Unión Europea de Inversiones, S.A. (represented by Luis Montuenga)

Description of the Programme

Description: Guaranteed Euro Medium Term Note Programme (the “Programme”)

Arranger: Barclays Bank PLC

Dealers: Banco Bilbao Vizcaya Argentaria, S.A., Banco Popular Español, S.A., Banco Santander, S.A., Bank of Montreal, London Branch, Barclays Bank PLC, BNP PARIBAS, Calyon, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Fortis Bank nv-sa, Goldman Sachs International, HSBC Bank plc, Landesbank Baden-Württemberg, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, NBF Securities UK, Nomura International plc, Skandinaviska Enskilda Banken AB (publ), Société Générale, The Royal Bank of Scotland plc, UBS Limited and UniCredit Bank AG.

The Issuer may from time to time terminate the appointment of any Dealers under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the Programme.

Fiscal Agent: The Bank of New York Mellon

Registrar: The Bank of New York Mellon (Luxembourg) S.A.

Listing and admission to trading: Application has been made for Notes issued under the Programme to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes will not be issued under the Programme.

Size: Up to €6,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.

Currencies: Notes may be denominated in Euro or U.S. dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Maturities:	Any maturity greater than one year, subject to compliance with all relevant laws, regulations, central bank requirements and directives. Subordinated Notes will have a maturity of not less than five years or as otherwise permitted by applicable Spanish law or by <i>Banco de España</i> .
Denomination:	No Notes may be issued under the Programme which (a) have a minimum denomination of less than €50,000 (or nearly equivalent in another currency) or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in one or more Series (which may be issued on the same date or which may be issued in more than one Tranche on different dates). The Notes may be issued in Tranches on a continuous basis with no minimum issue size, subject to compliance with all applicable laws, regulations and directives. Further Notes may be issued as part of an existing Series.
Form of Notes:	<p>Notes may be issued in registered form, without interest coupons (“Registered Notes”), or in bearer form, with or without interest coupons (“Bearer Notes”).</p> <p>Bearer Notes will, unless otherwise specified, only be sold outside the United States to non-U.S. persons in reliance on Regulation S and will, unless otherwise specified in the applicable Final Terms, initially be represented by a Temporary Global Note without interest coupons attached, deposited: (a) in the case of a global note which is not intended to be issued in new global note form (a “Classic Global Note” or “CGN”), as specified in the relevant Final Terms, with or on behalf of a Common Depositary located outside the United States for Euroclear and Clearstream, Luxembourg; or (b) in the case of a global note which is intended to be issued in new global note form (a “New Global Note” or “NGN”), as specified in the relevant Final Terms, with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Interests in a Temporary Global Note will be exchangeable (i) for interests in a permanent global Note in bearer form, without coupons (a “Permanent Global Note”). Bearer Notes will not be exchangeable for Registered Notes. Registered Notes will not be exchangeable for Bearer Notes.</p> <p>Registered Notes which are held in Euroclear and Clearstream will be registered in the name of nominees for Euroclear and Clearstream, or a common nominee for both, and the relative Certificate(s) will be delivered to the appropriate depository or, as the case may be, a common depository.</p>
Issue Price:	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly-paid Notes may also be issued, the Issue Price of which will be payable in two or more instalments. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.
Fixed Interest Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR, LIBOR, LIBID or LIMEAN (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.

Variable Coupon Amount Notes:	The Final Terms issued in respect of each issue of variable coupon amount Notes will specify the basis for calculating the amounts of interest payable, which may be by reference to equity, an index or a formula or as otherwise provided in the relevant Final Terms.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Final Terms.
Variable Redemption Amount Notes:	The Final Terms issued in respect of each issue of variable redemption amount Notes will specify the basis for calculating the redemption amounts payable, which may be by reference to equity, an index or a formula or as otherwise provided in the relevant Final Terms.
Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the date on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, dual currency Notes, reverse dual currency Notes, optional dual currency Notes, partly-paid Notes and any other type of Note which the Issuer, and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms or in a drawdown prospectus.
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. Subordinated Notes may not be redeemed until five years after the issue date (or otherwise as permitted by applicable law) and such redemption is subject to the prior consent of <i>Banco de España</i> .
Status of the Notes and the Deed of Guarantee:	Senior Notes and the guarantee in respect of them will constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, and Subordinated Notes and the guarantee in respect of them will constitute subordinated obligations of the Issuer and the Guarantor, respectively, all as described in “Terms and Conditions of the Notes — Status”.
Negative Pledge:	Applicable exclusively to Senior Notes. The Senior Notes will contain a negative pledge as more fully set out in “Terms and Conditions of the Notes — Negative Pledge”.
Cross Default:	The Notes will contain a cross default in respect of Relevant Indebtedness of the Issuer and the Guarantor as more fully set out in “Terms and Conditions of the Notes — Events of Default”.
Early Redemption:	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons.
Withholding Tax:	Payments in respect of Notes will be made 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 Guarantor will (subject to certain exceptions described below) pay such additional amounts as will result in the holders of Notes or Coupons receiving such amounts as they would have received in respect of such Notes or Coupons had no such withholding or deduction been required. In addition to certain customary exceptions, no such additional amounts shall be payable to: (a)

Individual holders who are resident in Spain; (b) Holders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Holder's identity and tax residence as it may require in order to comply 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") and any implementing legislation; and (c) if the Spanish tax authorities make the determination described in Condition 9 (vi) (see "Terms and Conditions of the Notes — Taxation" and "Taxation and Disclosure of Information in Connection with Payments").

Disclosure of Identity of Holders:

Under Law 13/1985 as amended by Law 4/2008 the Guarantor is obliged to disclose to the Spanish Tax and Supervisory Authorities the identity of Holders of the Notes who are Spanish resident holders (individuals or corporates) and non-Spanish resident holders operating through a permanent establishment. The Issuer, the Guarantor, the Fiscal Agent, the common depository for the Notes and the clearing system will follow certain procedures to facilitate the collection of the above details from Holders. The implementation of the changes contemplated by Law 4/2008 is subject to the adoption of the relevant secondary legislation, which has not been adopted at the date of this Prospectus. The Clearing Systems are expected to follow certain procedures to facilitate to the Paying Agents the collection of the details referred to the Holders of the Notes. If the Clearing Systems are, in the future, unable to facilitate the collection of such information they may decline to allow the Notes to be cleared through the relevant system as this may affect the liquidity of the Notes.

Pending the enactment of such secondary legislation, and in accordance with consultations from the General Directorate for Taxation dated 20 January 2009, the current procedures relating to the identity of the Holders of the Notes, as laid down in section 44 of Royal Decree 1065/2007, remain applicable irrespective of whether or not the Holders of the Notes are resident in Spain, and the Clearing Systems continue to require the compliance with such obligation.

A summary of those procedures is set out in "Taxation and Disclosure of Information in Connection with Payments – the Kings of Spain".

Holders must seek their own advice to ensure that they comply with all applicable procedures and to ensure that correct tax treatment of their Notes. Non of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the Clearing Systems assume any responsibility therefore.

Governing Law:

English, save for the issue of the Notes, including their legal nature and status, the capacity of the Issuer and Guarantor, the relevant corporate resolutions, the appointment of the Commissioner, the constitution of the Syndicate of Noteholders and status of the payment obligations under the Deed of Guarantee, which are governed by the laws of Spain.

Listing:

This Base Prospectus has been approved by the Financial Regulator as competent authority under the Prospectus Directive. The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market, as specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may or may not be listed on the Irish Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system.

Selling Restrictions:

United States, United Kingdom, Spain and Italy. See “Plan of Distribution”.
In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.

Risk Factors:

Prospective investors should understand the risks of investing in any type of Note before they make their investment decision. They should make their own independent decision to invest in any type of Note and as to whether an investment in such Note is appropriate or proper for them based upon their own judgment and upon advice from such advisers as they consider necessary.

For a description of certain risks involved in investing in the Notes, see “Risk Factors”.

Risk factors are designed both to protect investors from investments from which they are not suitable and to set out the financial risks associated with an investment in a particular type of Note.

Representation of holders of the Notes:

The Fiscal Agency Agreement contains provisions for convening the Syndicate of holders of Notes to consider any matter affecting their interests.

Rating:

Tranches of Notes may be rated or unrated and if rated, such ratings will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

RISK FACTORS

Prospective investors should read the entire Base Prospectus. Certain capitalised terms used in this section are defined in the Conditions and/or will be defined in the applicable Final Terms. Investing in the Notes involves certain risks, as more fully set out below. Prospective investors should consider, among other things, the following:

Each of the Issuer and the Bank believe that the following factors may affect its ability to fulfil its obligations under the Notes. 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.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes 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 Notes, but the inability of the Bank to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Potential Noteholders (as defined herein) are alerted to the statements under "Taxation and Disclosure of Information in connection with Payments" regarding the tax treatment in the Kingdom of Spain of income in respect of Notes and to the disclosure requirements imposed on the Guarantor relating to the identity of certain Noteholders. In particular, income in respect of the Notes will be subject to withholding tax if certain information regarding Noteholders is not received by the Guarantor as described herein.

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

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

Dependence on other Group members

The Issuer is a finance vehicle established by the Guarantor for the purpose of issuing the Notes 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 Notes and that is the reason why the Notes 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 Notes

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.
- (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 Bank, which in particular include movements in employment and the housing market and growth in the economy in general.

Increased exposure to the real estate market has made the Bank more vulnerable to market fluctuations in the price of real estate

As a material portion of the Bank's loan portfolio is linked to the real estate market, it is exposed to market fluctuations in the price of real estate in various ways.

To begin with, mortgage loans are one of the Bank's main assets. Population increase, economic growth and the strength of the labor market in Spain, together with the decrease in interest rates within the EU, have led to an increase in demand for mortgage loans in the last few years. This has contributed to increased real estate prices in Spain, which, in turn, has led to speculation that there could be a significant downturn in the Spanish real estate market. A decrease in real estate prices, particularly coupled with an increase in interest rates or unemployment in Spain, could have a significant negative impact on the default rate of the Bank's mortgage portfolio.

Accordingly, a deterioration in the Spanish real estate market could materially adversely affect, the Bank's business, financial position and results of operations.

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 Spain and in the European Union have increased competition among both local and foreign financial institutions, and the Bank believes that this trend will continue. Some of the Bank's competitors, including well-established domestic banks

in each of the regional Spanish markets in which it operates, as well as international banks with operations in the regions in which the Bank operates, may have better banking relationships with corporate clients that comprise one of its target customer bases and may have greater resources.

These and other factors related to competition could have a material adverse effect on the Bank's ability to compete effectively in these markets, and could adversely affect its business, financial condition and results of operations.

In addition, the Bank faces increased pressure to meet rising customer demands to provide new banking products. There is no guarantee that the Bank's management and employees will succeed in adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect its ability to successfully compete in its primary markets.

Further, the number of banking transactions conducted over the internet in the markets in which the Bank operates has grown in recent years and is expected to grow further. The Bank may be unable to compete with other banks that offer more extensive online services to their customers than it currently offers to its customers. The Bank also faces competition from non-bank financial institutions and other entities, such as leasing companies, mutual funds, pension funds and insurance companies and, to a lesser extent, department stores (for some consumer finance products).

Risks in Relation to the Banking Market generally

The Group is vulnerable to the current disruptions and volatility in the global financial markets as well as to government action intended to alleviate the effects of the current financial crisis.

Since August 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. In September 2008, global financial markets deteriorated sharply following the bankruptcy filing by Lehman Brothers Holding Inc. In the days that followed, it became apparent that a number of other major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, were experiencing significant difficulties.

In recent months, there have been runs on deposits at several financial institutions and numerous institutions have sought additional capital. Central banks around the world have coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or "swap lines").

Global investor confidence remains low and credit remains relatively scarce. In addition, the world's largest developed economies, including Spain, are widely considered to be in the midst of, or about to enter, economic recessions. Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Group, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates would entail a repricing of loans, which would result in a reduction of volumes, and may also have an adverse effect on the Group's interest margins.

Risk Factors Relating to the Notes

Some Notes may be subordinated to most of the Issuer's liabilities

If in the case of any particular Tranche of Notes the relevant Final Terms specify that the Notes are subordinated obligations of the Issuer and the Issuer is declared insolvent and a winding up is initiated, it will be required to pay the holders of senior debt and meet its obligations to all its unsubordinated creditors in full before it can make any payments on the relevant Notes. Depending on the status of a particular Tranche of subordinated Notes, the Issuer may also be required to pay the holders of other subordinated debt instruments in full before it can make any payments on the relevant Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under the relevant Notes.

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing

interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop.

Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

If the Final Terms specify that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Because the Global Notes will be held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communications with the Issuer and/or the Guarantor

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes the Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

If Subordinated Notes are intended to be computed as own funds, their terms may need to be modified

The regulatory capital regime established under Bank of Spain Circular 3/2008 of 22 May may necessitate the modification of certain of the terms and conditions applicable to Subordinated Notes set out under "Terms and Conditions of the Notes" to the extent that such Subordinated Notes are intended to be computed as own funds. In such event, the modifications will be set out in the applicable Final Terms. Such changes may prejudice the rights of holders of Subordinated Notes. In particular, Condition 11 (Events of Default) provides that the events or circumstances set out in that condition will be acceleration events unless otherwise specified in the applicable Final Terms. As a result, the Issuer may provide that certain events or circumstances are not considered acceleration events for a particular Series of Notes.

Risk Factors in case of issuing Structured Notes

General Considerations

The Structured Notes involve a degree of risk, which may include interest rate, corporate, market, foreign exchange, time value and/or political risks as well as other risks and general risks applicable to the stock market (or markets) and capital markets which may be specified in the applicable Final Terms.

In order to realise a return upon an investment in the Structured Notes, an investor must have correctly anticipated the timing and magnitude of an anticipated increase or the absence of a decrease in the value of the Structured Notes relative to the Issue Price and must also be correct about when any change will occur. If the value of the Structured Notes does not increase, or decrease, as the case may be, before such Structured Notes are redeemed, part of the investor's investment in such Structured Notes may be lost on such redemption. Other than in respect of Structured Notes which are redeemable prior to the Maturity Date at the option of the Noteholder, the only means by which a Noteholder can realise value from its Structured Notes prior to their Maturity Date is to sell such Structured Notes at their then market price in the secondary market (if available) (see "Possible Illiquidity of the Secondary Market" below).

The Issuer may issue Structured Notes under the Programme and as such potential investors should be aware that fluctuations in the value of the relevant index or basket of indices (including the prices of securities included in an index or basket of indices) will affect the value of single index notes and basket of indices notes. Fluctuations in the price of the relevant equity security or value of the basket of equity securities will affect the value of single currency notes, single currency basket notes and multiple currency basket notes. In both these cases and in the case of currency linked Notes, fluctuations in the value of the currency or currencies in or to which the Structured Notes or the underlying securities or index are denominated or linked will also affect the value of such Structured Notes. Also, due to the character of the particular markets on which most equity securities are traded, the absence of last sale information and the limited availability of quotations for such equity securities may make it difficult for many investors to obtain timely, accurate data for the price or yield of such equity securities.

The occurrence of certain events or circumstances, in each case as specified in the applicable Final Terms, will affect the value of credit linked notes and the Issuer's obligation to pay principal may be replaced by an obligation to pay other amounts calculated by reference to the value of the reference obligation(s) and/or to deliver the reference obligation(s). The Issuer's obligations in respect of credit linked Notes are not dependent on the existence of credit exposure of the relevant Issuer to a reference entity and the relevant Issuer need not itself suffer any loss nor provide evidence of any loss as a result of the occurrence of a credit event.

Fluctuations in the value of the relevant commodity will affect the value of commodity linked Notes.

The terms and conditions of the Structured Notes may include adjustment, early redemption and event of default/acceleration provisions and other terms which along with general market conditions and the financial conditions of the Issuer of the Notes may affect the amounts due and payable under such debt securities and/or their Maturity Date. In these cases the Structured Notes may be affected and may, in some cases, result in the Structured Notes being redeemed early. Investors are advised to consider carefully the information set forth in the relevant Final Terms regarding such features.

Prospective investors in Structured Notes should understand the risks of transactions involving the relevant Notes and should reach an investment decision only after careful consideration of the suitability of such Structured Notes in the light of their particular financial circumstances, the information set forth herein and any other available information regarding the relevant Structured Notes. Where the Issuer is required to redeem the Structured Notes prior to the Maturity Date at the option of the Noteholders an investor should understand the consequences of liquidating any investment in the Notes by redeeming such investment as opposed to selling it. This includes knowing when the Structured Notes are redeemable and how to redeem them.

Certain Factors Affecting the Value and Trading Price of Structured Notes

Generally, Structured Notes offer investment diversification opportunities, but also pose some additional risks with regard to interim value. The interim value of the Structured Notes varies with the price and is affected by a number of other factors, including but not limited to:

- (i) market interest rates;
- (ii) fluctuations in currency exchange rates;
- (iii) fluctuations in commodities prices;

- (iv) the liquidity of the Structured Notes or any reference item(s) in the secondary market;
- (v) the time remaining to any redemption date or the maturity date; and
- (vi) economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the stock exchange(s) on which the Structured Notes may be traded.

There can be no assurance that a Noteholder will be able to sell any Structured Notes prior to maturity at a price equal to or greater than the market value of the Structured Notes on the Issue Date and such Holder may only be able to sell Structured Notes at a discount, which may be substantial.

Hedging

In connection with the offering of the Structured Notes, the Issuer, the Guarantor and/or any of its affiliates may enter into one or more hedging transactions with respect to any potential reference item(s) or related derivatives. In connection with such hedging activities or with respect to proprietary or other trading activities by the Issuer and/or any of its affiliates, the Issuer, the Guarantor and/or any of its affiliates may enter into transactions in the reference item(s) or related derivatives which may, but are not intended to, affect the market price, liquidity or value of the Structured Notes and which could be deemed to be adverse to the interest of the relevant Noteholders.

Possible Illiquidity of the Secondary Market

There can be no assurance as to how Structured Notes will trade in the secondary market or whether such market will be liquid or illiquid. The number of Structured Notes of any Series may be relatively small, further adversely affecting the liquidity of such Structured Notes. The Issuer may list Structured Notes on the Irish Stock Exchange or may issue Structured Notes which are not listed on any exchange. However, no assurance can be given that any secondary trading market will develop for the Structured Notes. If Structured Notes are not listed or traded on any exchange, pricing information for such Structured Notes may be more difficult to obtain and the liquidity of such Structured Notes may be adversely affected.

Potential Conflicts of Interest

The Issuer, the Guarantor and its affiliates may engage in trading and market-making activities and may potentially hold long or short positions in the relevant reference item(s) and other instruments or derivative products based on or related to the relevant reference item(s) for their proprietary accounts or for other accounts under their management. The Issuer, the Guarantor and their respective affiliates may also issue Structured Notes in respect of the relevant reference item(s) which are securities, or issue derivative instruments in respect thereof. To the extent that either of the Issuer, the Guarantor directly or through its affiliates, serves as issuer, agent, manager or underwriter of such securities or other instruments, its interests with respect to such products may be adverse to those of the Noteholders. The Issuer, the Guarantor or their affiliates may also act as underwriter in connection with future offerings of securities which comprise the reference items or may act as financial advisors to certain underlying companies or reference entities. Such activities could present certain conflicts of interest, could influence the prices of such reference items and could adversely affect the value of the Structured Notes.

Taxation

Potential purchasers of Structured Notes should be aware that stamp duty and other taxes and/or charges may be levied in accordance with the laws and practices in the countries where the Structured Notes are transferred and/or where any potential reference items are delivered.

The summaries set out under the heading "Taxation" in this document do not consider the tax treatment of payments in respect of Structured Notes. Potential purchasers of Structured Notes should note that the tax treatment of payments in respect of Structured Notes may be different (and in some cases significantly different) from that set out in those summaries. Potential purchasers of Structured Notes who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, potential purchasers should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.

Risks Relating to Law 22/2003 (Ley Concursal) dated 9 July 2003 ("Law 22/2003")

Law 22/2003 (Ley Concursal) dated 9 July 2003 ("Law 22/2003"), which came into force on 1 September 2004 supersedes all Spanish provisions prior to it which regulated the bankruptcy, insolvency

(including suspension of payments) and any process affecting creditors' rights generally, including the ranking of its credits.

Law 22/2003 provides, among other things, that: (i) any claim may become subordinated if it is not included in a company's accounts or otherwise reported to the insolvency administrators within one month from the last official publication of the court order declaring the insolvency, (ii) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, (iii) interest accrued and unpaid until the commencement of the insolvency proceedings (*concurso*) shall become subordinated, and (iii) interest shall cease to accrue from the date of the declaration of insolvency.

Risks Relating to Withholding

Under Spanish law, income in respect of Notes issued by the Issuer will be subject to withholding tax in Spain, currently at the rate of 18 per cent., in relation to payments to (a) individual Holders who are resident in Spain; and (b) Holders in respect of whom the Issuer or the Guarantor does not receive such information (which may include a tax residence certificate) concerning such Holder's identity and tax residence as it may require in order to comply with Law 13/1985 and any implementing legislation. Neither the Issuer nor the Guarantor will gross up payments in respect of any such withholding tax in any of the above cases (See "Terms and Conditions of the Notes — Taxation" and "Taxation and Disclosure of Information in Connection with Payments"). Despite the Issuer's and the Guarantor's opinion that the Notes are not placed in Spain (on the basis that there will be no public offer into Spain, as contemplated in "Plan of Distribution — The Kingdom of Spain") for the purposes of the exemption from withholding tax on payments to Spanish corporate Holders (as described in "Taxation and Disclosure of Information in Connection with Payments — 2. Legal Entities with Tax Residence in Spain"), the Spanish tax authorities may determine that a Tranche of Notes has been placed in Spain and that the exemption referred to above does not apply to such Notes. If such determination were made, under "Terms and Conditions of the Notes — Taxation" paragraph (vii), the Issuer would be required to make a withholding at the applicable rate, currently 18 per cent., on payments of interest under the Notes and no additional amounts will be payable by the Issuer or the Guarantor in such circumstances.

Risks relating to procedures for collection of holders' details

Law 4/2008 of 23 December, abolishing the Wealth Tax Levy, generalising the Value Added Tax monthly refund system and introducing other amendments to the tax legal system (Law 4/2008) amends, among other things, Additional Provision Two of Law 13/1985 which was the source of the obligation on Spanish issuers and their parent companies to report to the Spanish tax authorities on the identity and residence of Holders of their debt securities.

Law 4/2008 removes the obligation on Spanish issuers and their parent companies to provide to the Spanish tax authorities the relevant information concerning holders who are not resident in Spain. The amended wording of Additional Provision Two of Law 13/1985 continues to apply the obligation on the Issuer or the Guarantor to disclose to the Spanish tax authorities the identity of certain Holders of the Notes who are Spanish resident Holders (individual and corporate) and non-Spanish resident Holders operating through a permanent establishment in Spain.

The implementation of the changes contemplated by Law 4/2008 is subject to the adoption of the relevant secondary legislation. At the date of this Prospectus, such secondary legislation had not yet been adopted.

Pending the enactment of such secondary legislation, and in accordance with the consultations from the General Directorate for Taxation dated 20 January 2009, the current procedures relating to the identity of the Holders of the Notes remain applicable, irrespective of whether or not the Holders of the Notes are resident in Spain.

Euroclear and Clearstream, Luxembourg (the "ICSDs") have established procedures to assist entities in complying with the reporting obligations required by Spanish tax law and regulations and to enable Noteholders to obtain a refund of amounts withheld on interest payments. These procedures were implemented by the European ICSDs in response to certain tax rulings made by the Spanish tax authorities (Consultas V 2050-07, V 2051-07, V 0175-08 and V 0179-08). The procedures which the Issuer and other parties expect to follow are stipulated in the global tax procedures published by the ICSDs, which are also described in the Fiscal Agency Agreement. In this regard, Noteholders should also consult announcements in relation to these global tax procedures published on a periodic basis on the websites of the ICSDs (www.Euroclear.com, www.Clearstream.com).

Noteholders should be aware that these procedures may be revised from time to time in accordance with applicable Spanish laws and regulations, further clarification from the Spanish tax authorities regarding such laws and regulations and the operational procedures of the ICSDs or in the event that the relevant Notes are not bearer Notes in global form which are held by the Fiscal Agent in its capacity as Common Depositary or, as the case may

be, Common Safekeeper for Euroclear and Clearstream, Luxembourg, and, in such circumstances, the parties undertake to use their best endeavours to revise the procedures and, if required by the Issuer, ensure that relevant Noteholders are made aware of such revised procedures. Any revision to the procedures agreed by the Issuer and Fiscal Agent shall be binding on all parties. Noteholders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuer, the Guarantor, the Arranger, the Dealers, the Paying Agents, the Registrars and the ICSDs assumes any responsibility therefor.

EU Savings Directive

If a payment were to be made or collected through a Member State which has opted for a transitional withholding system as referred to below on page 89 under the heading “EU Savings Directive” and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any 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 a paying agent, the Issuer 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.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series and, subject further to simplification by deletion of non-applicable provisions, will be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Final Terms. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes, which may be issued under the Programme.

The Notes of each Tranche will, if so required by Spanish law, be issued by virtue of a public deed of issuance (the “**Public Deed of Issuance**”) to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Madrid on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Notes. The Notes are issued pursuant to an amended and restated fiscal agency agreement dated 22 December 2009 (the “**Fiscal Agency Agreement**”) between BPE Financiaciones, S.A. as issuer (the “**Issuer**”), Banco Popular Español, S.A. (the “**Guarantor**”), The Bank of New York Mellon as fiscal agent (the “**Fiscal Agent**”), paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the “**Paying Agents**”), transfer agent (together with any additional or other transfer agents in respect of the Notes from time to time appointed, the “**Transfer Agents**”) and The Bank of New York Mellon (Luxembourg S.A.) as registrar and transfer agent (the “**Registrar**”). The Guarantor has, for the benefit of the holders of the Notes from time to time, executed and delivered a deed of guarantee dated 22 December 2009 (the “**Deed of Guarantee**”) under which it has guaranteed the due and punctual payment of all sums from time to time payable by the Issuer under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The holders of the Notes (the “**Noteholders**”), the holders of the interest coupons (the “**Coupons**”) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the instalment receipts (the “**Receipts**”) appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Fiscal Agency Agreement applicable to them.

Copies of the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents.

Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. Each Tranche is the subject of a Final Terms (the “**Final Terms**”) which supplements these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

1. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Relevant Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Relevant Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Relevant Business Day;
- (iii) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Relevant Business Day;
- (iv) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

- (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Relevant Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Relevant Business Day, then such date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Relevant Business Day; and if the preceding such date occurred on the last day in a calendar month which was a Relevant Business Day, then all subsequent such dates will be the last day which is a Relevant Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

“Calculation Amount” has the meaning given in the relevant Final Terms;

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if **“Actual/Actual (ICMA)”** is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if **“Actual/365 (Fixed)”** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if **“Actual/360”** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if **“30/360”** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x (Y_2 - Y_1)] + [30x (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30”;

- (vi) if “**30E/360**” or “Eurobond Basis” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x (Y_2 - Y_1)] + [30x (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30; and

- (vii) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x (Y_2 - Y_1)] + [30x (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified the first day of the Interest Accrual Period to which such Interest Determination Date relates;

“Euro-zone” means the member states of the European Union that are participating in the third stage of European Monetary Union;

“Final Redemption Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Fixed Coupon Amount” has the meaning given in the relevant Final Terms;

“Indebtedness” means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the date of issue of the Notes (the **“Issue Date”**) or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

“Interest Determination Date” means, with respect to an Interest Rate and Interest Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Period if the Relevant Currency is sterling (ii) or the day falling two Relevant Business Days in London prior to the first day of such Interest Period if the Relevant Currency is not sterling, or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Period if the Relevant Currency is Euro;

“Interest Payment Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon;

“Interest Rate” means the rate of interest payable from time to time in respect of this Note and which is either specified, or calculated in accordance with the provisions, hereon;

“ISDA Definitions” means unless otherwise specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc;

“Issue Date” has the meaning given in the relevant Final Terms;

“Margin” has the meaning given in the relevant Final Terms;

“Maturity Date” has the meaning given in the relevant Final Terms;

“Maximum Redemption Amount” has the meaning given in the relevant Final Terms;

“Minimum Redemption Amount” has the meaning given in the relevant Final Terms;

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Optional Redemption Date (Call)” has the meaning given in the relevant Final Terms;

“**Optional Redemption Date (Put)**” has the meaning given in the relevant Final Terms;

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

“**Principal Financial Centre**” means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (i) in relation to Euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“**Redemption Amount**” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

“**Reference Banks**” has the meaning given in the relevant Final Terms or, if none, four (or if the principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“**Reference Rate**” has the meaning given in the relevant Final Terms;

“**Regular Period**” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

“**Relevant Business Day**” means:

- (i) in the case of a specified currency other than Euro and/or one or more specified financial centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency and/or each of the financial centres so specified; and/or
- (ii) in the case of Euro a day on which the TARGET2 System is operating; and/or
- (iii) in the case of a specified currency and for one or more specified financial centres, a day (other than a Saturday or a Sunday) in which commercial banks and foreign exchange markets settle payments in the specified currency or, if none is specified, generally in each of the financial centres so specified;

“**Relevant Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

“**Relevant Date**” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“**Relevant Financial Centre**” has the meaning given in the relevant Final Terms;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Moneyline Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” has the meaning given in the relevant Final Terms;

“**Specified Denomination(s)**” has the meaning given in the relevant Final Terms;

“**Specified Currency**” has the meaning given in the relevant Final Terms;

“**Specified Duration**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to a Business Day Convention;

“**Specified Period**” has the meaning given in the relevant Final Terms;

“**Structured Notes**” means debt securities in which the repayment of interest, and sometimes principal, is tied to movements in an underlying index or formula, prices of securities or commodities, currency exchange rates or other factors;

“**Subordinated Issuer**” means such issuer as may accede to the Programme as issuer of Subordinated Notes;

“**Subsidiary**” means, at any particular time, any company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the first person and/or one or more of its subsidiaries. For a company to be “controlled” by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

“**TARGET Business Day**” means a day on which the TARGET2 System is operating; and

“**TARGET2 System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which utilises a single shared platform and was launched on 19 November 2007.

2. Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”), in each case in the Denomination(s) shown thereon.

All Registered Notes shall have the same Denomination.

Bearer Notes are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Notes which do not bear interest in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”), each Certificate representing a holding of one or more Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to the Notes.

All capitalised terms which are not defined in these conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the Definitive Notes.

3. Transfers of Registered Notes

(a) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(b) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an option by an Issuer or a holder of Notes in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) Delivery of new Certificates

Each new Certificate to be issued pursuant to Conditions 3(a), (b) or (c) will, within three business days (being a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar to whom such request for exchange or form of transfer shall have been delivered) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom such delivery shall have been made or, at the option of the holder making such delivery as aforesaid and as specified in the relevant request for exchange or form of transfer, be mailed at the risk of the holder entitled to the new Certificate to such address as may be specified in such request for exchange or form of transfer.

(d) Exchange free of charge

Exchange and transfer of Notes on registration, transfer, partial redemption or exercise of an option will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

(e) Closed periods

No holder of a Note may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 7(e) or (iii) after any such Note has been drawn for redemption in whole or in part.

4. Guarantee and Status

(a) Status of Senior Notes

If this Condition 4(a) is specified in the final Terms as being applicable, the Notes shall be “**Senior Notes**”. The Senior Notes and the Receipts and Coupons relating thereto constitute direct, unconditional, unsubordinated and (without prejudice to the provisions of Condition 5) unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among the obligations of the Issuer in respect of other Senior Notes of the same Series of the Issuer and (subject to any applicable statutory exceptions and without prejudice as aforesaid) at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

In the event of insolvency (*concurso*) of the Issuer, under Law 22/2003 claims relating to Senior Notes (unless they qualify by law as subordinated credits under Article 92 of Law 22/2003) will be ordinary credits (*créditos*

ordinarios) as defined in Law 22/2003. Ordinary credits rank below credits against the insolvency state (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits and the rights of shareholders.

(b) Senior Guarantee

This Condition 4(b) is applicable to Senior Notes only. The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Senior Notes, Receipts and Coupons on an unsubordinated basis. The obligations of the Guarantor in respect of Senior Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 5) unsecured obligations of the Guarantor and rank *pari passu* without any preference in respect of its guarantee of other Notes of the same Series and (subject to any statutory exceptions and without prejudice as aforesaid) rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor.

In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to Senior Notes (unless they qualify by law as subordinated credits under Article 92 of Law 22/2003) will be ordinary credits (*créditos ordinarios*) as defined in Law 22/2003. Ordinary credits rank below credits against the insolvency state (*créditos contra la masa*) and credits with a privilege (*créditos privilegiados*). Ordinary credits rank above subordinated credits and the rights of shareholders and creditors of the Guarantor which are characterised as holders of equity (*otros acreedores a título asimilable al de aportación de capital*).

(c) Status of Subordinated Notes

If this Condition 4(c) is specified in the Final Terms as being applicable, the Notes shall be “**Subordinated Notes**”. The Subordinated Notes and the Receipts and Coupons relating thereto constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference in respect of other Notes of the same Series and (subject to any applicable statutory exceptions) with all other present and future subordinated obligations of the Issuer, other than subordinated obligations that are expressed to rank junior to the subordinated notes.

In the event of insolvency (*concurso*) of the Issuer, under Law 22/2003, claims relating to the Subordinated Notes will fall within the category of “subordinated debts” (*créditos subordinados*), as defined in Law 22/2003. The obligations of the Issuer under the Subordinated Notes, whether on account of principal, interest or otherwise, are subordinated to all other unsubordinated obligations of the Issuer. After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Issuer will meet such subordinated debts in the order established in Law 22/2003.

Subordinated Notes may be computed by the Guarantor as regulatory capital (*recursos propios*) of the Guarantor pursuant to the relevant provisions in current Spanish law relating to equity and consolidated groups of financial institutions: Law 13/1985 of 25 May, Law 13/1992 of 1 June, Royal Decree 216/2008 of 15 February and *Banco de España* Circular 3/2008 of 22 May, all the above as amended and restated (or such provisions as may replace, supplement or implement the foregoing in the future).

(d) Subordinated Guarantee

This Condition 4(d) is applicable to Subordinated Notes only. The obligations of the Guarantor under the Guarantee in respect of Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions) rank *pari passu* without any preference in respect of other Notes of the same Series and rank *pari passu* with all other present and future subordinated obligations of the Guarantor, other than subordinated obligations that are expressed to rank junior to the Guarantor’s obligations under the Guarantee.

In the event of insolvency (*concurso*) of the Guarantor, under Law 22/2003, claims relating to the Subordinated Guarantee will fall within the category of “subordinated debts” (*créditos subordinados*, as defined in Law 22/2003).

After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Guarantor will meet such subordinated debts in the order established in Law 22/2003.

(e) Noteholder Acknowledgement of Ranking

Holders of Notes acknowledge that all Senior Notes issued or to be issued by BPE Financiaciones, S.A. shall rank *pari passu* among themselves, and (as the case may be) all Subordinated Notes issued or to be issued by BPE Financiaciones, S.A. under the Programme shall rank *pari passu* among themselves, in each case regardless of their respective issue date.

5. Negative Pledge

(a) So long as any of the Senior Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement):

- (i) neither the Issuer of the Senior Notes nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“**Security**”) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or guarantee of the Relevant Indebtedness of the Issuer or the Guarantor;
- (ii) the Guarantor will procure that no Relevant Subsidiary of the Guarantor creates or permits to subsist any Security upon the whole or part of the undertaking, assets or revenues present or future, to secure any Relevant Indebtedness or guarantee of the Guarantor, such Relevant Subsidiary or any other Person,

without, at the same time or prior thereto, securing the Issuer’s obligations under the Senior Notes, Receipts and Coupons or as the case may be the Guarantor’s obligations under the Senior Notes are secured equally and rateably therewith or providing such other security for the Senior Notes as may be approved by a resolution of the relevant Syndicate of holders of the Senior Notes.

(b) Nothing in this Condition shall prevent either the Issuer or the Guarantor from creating or having outstanding any Security upon the whole of, any part of its undertaking, assets or revenues present or future which:

- (i) arises by operation of law and in the ordinary course of business;
- (ii) is created over assets purchased by the Guarantor or any of its Subsidiaries which (a) is created or arises or, in the case of real estate, exists at the time of the purchase of such assets and (b) secures solely all or part of the unpaid balance of the purchase price of such assets;
- (iii) created pursuant to any securitisation, asset-backed financing of like arrangement, including, but not limited to issues of participaciones preferentes, cédulas hipotecarias, bonos hipotecarios, participaciones hipotecarias, certificados de participaciones hipotecarias, cédulas territoriales, in accordance with normal practice in Spain and whereby the Relevant Indebtedness (or any guarantee or other obligation in any Relevant Indebtedness) secured by such Security or having the benefit of such secured guarantee or other obligations is limited to the value of such undertaking, assets or revenues.

(c) For the purposes of this Condition:

“**Group**” means the Guarantor and its consolidated subsidiaries;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

“**Relevant Indebtedness**” means any Indebtedness in the form of, or represented by, bonds, notes, debentures or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market (for which purpose any such bonds, notes, debentures or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt if the terms of the issue thereof expressly so provide), having an original maturity of more than the one year from its date of issue;

“**Relevant Subsidiary**” means, at any time, a Subsidiary of the Guarantor (a) whose net assets represent not less than 10 per cent. of the net consolidated assets of the Group as calculated by reference to the then latest audited accounts (or, as the case may be, consolidated accounts) of such Subsidiary and the then latest audited consolidated accounts of the Group or (b) whose gross revenues represent not less than 10 per cent. of the net consolidated gross revenues of the Group as calculated by reference to the then latest audited accounts (or, as the case may be, consolidated accounts) of such Subsidiary and the then latest audited consolidated accounts of the Group.

6. Interest Provisions

(a) Fixed Rate Note Provisions

(i) *Application:* This Condition 6(a) (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(ii) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Payments and Talons*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in

accordance with this Condition 6(a) (as well after as before judgment) until whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Fiscal Agent or Registrar (as the case may be) has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(iii) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(iv) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.

(b) Floating Rate Note and Index-Linked Interest Note Provisions

(i) *Application:* This Condition 6(b) (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.

(ii) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 8 (*Payments and Talons*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (A) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (B) the day which is seven days after the Fiscal Agent or Registrar (as the case may be) has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(iii) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

- (A) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (B) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (C) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (1) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (2) determine the arithmetic mean of such quotations; and
- (D) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(iv) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (B) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
- (C) the relevant Reset Date (as defined in the ISDA Definitions) is either (X) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (Y) in any other case, as specified in the relevant Final Terms.

(v) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

(vi) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(vii) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.

(viii) *Calculation of other amounts*: If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

(ix) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(x) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(c) **Dual Currency Note Provisions**

(i) *Application:* This Condition 6(c) (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.

(ii) *Rate of Interest:* If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

7. Redemption, Purchase and Options

Subordinated Notes may not be redeemed without the consent of Banco de España and, in any event, such Notes may not be redeemed within a period of five years from their issue date.

(a) **Final Redemption**

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Redemption Amount (which, unless otherwise provided, is its principal amount) on the Maturity Date. Subordinated Notes qualifying as regulatory capital (*recursos propios*) in accordance with Spanish law and *Banco de España* requirements will have a maturity of not less than five years or as otherwise permitted by Spanish legislation or regulation or requirements of any applicable regulatory authority.

(b) **Redemption for taxation reasons**

The Notes may (subject in the case of Subordinated Notes to the prior consent of Banco de España) be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of Notes (which notice shall be irrevocable), at their Early Redemption Amount (Tax), (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Senior Guarantee or the Subordinated Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Ireland or the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligations cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or either Guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer (or the Guarantor, as the case may be) so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

In the case of Subordinated Notes, redemption for tax reasons is subject to the prior consent of Banco de España and may not take place within a period of five years of their date of issue or of the date of disbursement if disbursement does not take place at issuance (unless otherwise permitted by Spanish legislation or regulation or requirements of any applicable regulatory authority).

(c) **Purchases**

The Issuer, the Guarantor and any of the Guarantor's Subsidiaries may at any time purchase Senior, but not Subordinated Notes which qualify as regulatory capital (*recursos propios*) (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price.

(d) **Redemption at the Option of the Issuer and Exercise of Issuer's Options**

(i) If Issuer Call is specified in the applicable Final Terms, subject to paragraph (v) below, the Issuer may on giving irrevocable notice to the holders of Notes of not less than 30 days nor more than 60 days, redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Optional Redemption Amount (Call) together with interest accrued to the date fixed for redemption.

(ii) All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

(iii) In the case of a partial redemption or a partial exercise of an Issuer's option the notice to holders of Notes shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.

(iv) Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and listing authority, stock exchange and/or quotation system requirements.

(v) In the case of Subordinated Notes qualifying as regulatory capital (*recursos propios*) in accordance with the requirements of Spanish law and *Banco de España*, redemption at the option of the Issuer is subject to the prior consent of *Banco de España* and may not take place within a period of five years from their date of issue or from their date of disbursement if disbursement does not take place at issuance (unless otherwise permitted by Spanish legislation or regulation or requirements of any applicable regulatory authority).

(e) Redemption at the Option of Noteholders and holders' Exercise of Noteholders Options

(i) If Investor Put is specified in the applicable Final Terms, subject to paragraph (iii) below, the Issuer shall, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Optional Redemption Amount (Put) together with interest accrued to the date fixed for redemption.

(ii) To exercise such option or any other option of a holder of Notes which may be set out hereon the holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Option Period of a holder of Notes (as specified in the relevant Final Terms). Such Exercise Notice must be deposited in accordance with the Notice period specified in the relevant Final Terms. Such Notice period shall not be less than 15 business days. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement) without the prior consent of the Issuer.

(iii) In the case of Subordinated Notes qualifying as regulatory capital (*recursos propios*) in accordance with the requirements of Spanish law and *Banco de España*, redemption at the option of a Noteholder is subject to the prior consent of *Banco de España* and may not take place within a period of five years from their date of issue or from their date of disbursement if disbursement does not take place at issuance (unless otherwise permitted by Spanish legislation or regulation or requirements of any applicable regulatory authority).

(f) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 7, each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Note shall be reduced by the Instalment Amount for all purposes.

(g) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

8. Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipts are presented for payment together with its

relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8 (f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency; and in the case of Euro, by cheque drawn on, or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) Registered Notes

(i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned or, if the currency is Euro, in such financial centre or centres in the Euro-zone as designated by the Registrar and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency designated by the holder with a bank in the principal financial centre of the country of that currency or, if the currency is Euro, in such financial centre in the Euro-zone notified to the Registrar by such holder.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments Subject to Law, etc

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the holders of Notes or Couponholders in respect of such payments.

(e) Appointment of Agents

The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents provided that the Issuer will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities, (vi) a Paying Agent in an EU Member State 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 ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to confirm to, such Directive and (vii) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, such other agents as are required by such listing authority, stock exchange and/or quotation system.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office will promptly be given to the holders of Notes in accordance with Condition 15.

(f) Unmatured Coupons and Receipts and unexchanged Talons

(i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).

(ii) If the relevant Notes so provide, upon the due date for redemption of any Bearer Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date failing on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provisions of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 10).

(h) Non-Business Days

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks are open for general business in the relevant place of presentation for payment of debt securities and for dealings in foreign currencies, in such jurisdictions as shall be specified as “**Business Day Jurisdictions**” hereon and:

- (i) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings in foreign currencies may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in Euro) where payment is to be made by transfer to an account on a day on which the TARGET2 System is operating.

9. Taxation

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons by the Issuer or (as the case may be) the Guarantor under the Deed of Guarantee will be made 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 authority 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 Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the holders and the Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes, Receipts or (as the case may be) Coupons, in the absence of such withholding or deduction; except that no additional amounts shall be payable with respect to any payment in respect of any Note, Receipt or Coupon or (as the case may be) under the Deed of Guarantee:

- (i) to, or to a third party on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Kingdom of Spain otherwise than merely by holding the Note, Receipt or Coupon;
- (ii) to, or to a third party on behalf of, a holder in respect of whom the Issuer or the Guarantor, or the Fiscal 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 Spanish Law 13/1985 of 25 May, as amended, Royal Decree 1065/2007 of 27 July, Royal Legislative Decree 4/2004 of 5 March and Order of 22 December 1999 and developing regulations in force or as may be enacted from time to time; or
- (iii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on the thirtieth such day;
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (v) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union;
- (vi) to, or to a third party on behalf of, a Spanish-resident corporate entity if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to Consultation of the General Directorate for Taxation (Dirección General de Tributos) dated 27 July 2004 and require a withholding to be made.

As used in these Conditions, "Relevant Date" in respect of any Note, Receipt or Coupon means the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 15 that, upon further presentation of the Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition. See "Taxation — Disclosure of Noteholder Information in connection with Interest Payments" for a fuller description of certain tax considerations (particularly in relation to Noteholders which are resident in Spain) relating to the Notes, the formalities which Noteholders must follow in order to claim exemption from withholding tax and for a description of certain disclosure requirements imposed on the Issuers and the Guarantor relating to the identity of Noteholders.

10. Prescription

Claims against the Issuer and the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

11. Events of Default

If any of the following events (each an “**Event of Default**”) occurs and is continuing, the Commissioner, acting upon a resolution of the Syndicate of Holders of the Notes or any Holder of a Note of any Series (provided such holders does not contravene any resolution of the Syndicate) may give written notice to the Issuer and the Guarantor that the Notes of such Series or of such Holder, as the case may be, are immediately repayable, whereupon the Redemption Amount of such Notes together with accrued interest to the date of payment shall (when permitted by applicable Spanish law) become immediately due and payable (provided however, that paragraph (c) below and any other paragraph below specified in the applicable Final Terms shall not constitute an Event of Default in relation to Subordinated Notes):

- (a) *Non-Payment:* default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) *Breach of Other Obligations:* the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (c) *Cross-Default:* (i) any Indebtedness of the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or, as the case may be, the Guarantor, or (ii) any Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness provided that the aggregate amount of the Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds Euro 30,000,000 or its equivalent in other currencies; or
- (d) *Enforcement Proceedings:* a distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries and is not discharged or stayed within 90 days; or
- (e) *Security Enforced:* any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (f) *Insolvency etc.:* (a) the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries becomes insolvent or is unable to pay its debts as they fall due or (b) an administrator, liquidator or a similar officer under applicable (insolvency) law of the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries is appointed (or application for any such appointment is made); or
- (g) *Readjustment:* the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee given by it; or
- (h) *Cessation of Business:* the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or
- (i) *Application of Priorities:* any other proceeding is commenced which requires the application of priorities provided by applicable Spanish law; or
- (j) *Winding-up:* an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries, or the Issuer or the Guarantor or any of the Guarantor’s Subsidiaries shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a

Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another of the Guarantor's Subsidiaries; or

- (k) *Ownership*: the Issuer ceases to be wholly-owned and controlled by the Guarantor; or
- (l) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done and such failure remains unremedied 15 days after written notice to the Issuer and the Guarantor; or
- (m) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or
- (n) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, *concurso* as defined in Law 22/2003; or
- (o) *Guarantee*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (p) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Subsidiaries.

12. Syndicate of Noteholders and Modification of Fiscal Agency Agreement

(a) Syndicate of Noteholders

The holders of the Notes of the relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Noteholders (the "**Regulations**"). The Regulations shall contain the rules governing the functioning of each Syndicate of Noteholders and its relationship with the Issuer and shall be attached to the relevant Public Deed of Issuance. A set of pro forma Regulations is contained in the Fiscal Agency Agreement.

A temporary Commissioner will be appointed for each Syndicate of Noteholders. Upon the subscription of the Notes, the temporary Commissioner will call a general meeting of the Syndicate of Noteholders to ratify or reject the acts of the temporary Commissioner, confirm its appointment or appoint a substitute Commissioner and to ratify the Regulations.

(b) Modification of Fiscal Agency Agreement

The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the holders of Notes.

Provisions for meetings of the Syndicate of Noteholders will be contained in the Regulations and the Agency Agreement (which shall have effect as if incorporated herein).

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the holders of the Notes of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Notes to correct a manifest error. Subject as aforesaid, no other modification may be made to, or waiver of any breach or proposed breach of, these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Noteholders.

For the purposes of these Terms and Conditions,

(i) "**Commissioner**" means the Commissioner (*comisario*) as this term is defined under the Spanish Companies Act, Royal Legislative Decree 1564/1989, of 22 December (*Texto Refundido de la Ley de Sociedades Anónimas*) (the "**Spanish Companies Act**"), of each Syndicate of Noteholders; and

(ii) "**Syndicate**" means the syndicate (*sindicato*) as this term is described under Spanish Companies Act.

13. Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and listing authority, stock exchange and/or quotation system requirements,

at the specified office of the Fiscal Agent (in the case of the Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to holders in accordance with Condition 15, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. Further Issues

The Issuer may from time to time without the consent of the holders of Notes or Couponholders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to “Notes” shall be construed accordingly.

15. Notices

Notices to the holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes listed on the Irish Stock Exchange, any notices to holders must also be published in a daily newspaper of general circulation in Dublin (which is expected to be the *Financial Times*) and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

Notices to the holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and in the case of any Notes which are listed on the Irish Stock Exchange, (so long as such Notes are listed on the Irish Stock Exchange and the rules of that exchange so require), in a leading newspaper having general circulation in Dublin (which is expected to be the *Financial Times*). If any such publication is not practicable, notice will be validly given if published in another leading daily English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition.

Copies of any notice given to any Noteholders will be also given to the Commissioner of the Syndicate of Noteholders of the relevant Series.

16. Substitution of the Issuer

(a) The Issuer and the Guarantor may at any time, without the consent of the holders or the Couponholders (but, in the case of Subordinated Notes, subject to the prior consent of Banco de España), substitute for such Issuer any company (the “**Substitute**”) upon notice to the holders by such Issuer, the Guarantor and the Substitute to be given in accordance with Condition 15, provided that:

- (i) no payment in respect of the Notes, the Receipts or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;
- (ii) the Substitute shall, by means of a deed poll in the form scheduled to the Fiscal Agency Agreement as Schedule 4 (the “**Deed Poll**”), agree to indemnify each holder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute’s residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;
- (iii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;
- (iv) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of

- Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;
- (v) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;
 - (vi) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (ii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 16 and the other matters specified in the Deed Poll and that the Notes, Receipts, Coupons and Talons are legal, valid and binding obligations of the Substitute;
 - (vii) each listing authority, stock exchange and/or quotation system by which the Notes are admitted to listing, trading and/or quotation shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system;
 - (viii) Standard & Poor's and/or Moody's as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected; and
 - (ix) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Notes.

(b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Fiscal Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Fiscal Agency Agreement.

(c) After a substitution pursuant to Condition 16(a), the Substitute may, without the consent of any holder, effect a further substitution. All the provisions specified in Condition 16(a) and 16(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.

(d) After a substitution pursuant to Condition 16(a) or 16(c) any Substitute may, without the consent of any holder, reverse the substitution, *mutatis mutandis*.

(e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

17. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any holder of Notes or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer, failing whom the Guarantor, shall indemnify it against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the holder of Notes or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder of Notes or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt of any other judgment or order.

18. Redenomination, Renominalisation and Reconventioning

(a) *Application:* This Condition 18 (*Redenomination, Renominalisation and Reconventioning*) is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

(b) *Notice of redenomination:* If the country of the Relevant Currency becomes or, announces its intention to become a Participating Member State the Issuer may, without the consent of the Noteholders and the

Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

(c) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Relevant Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided however, that, if the Issuer determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
- (ii) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in the Relevant Currency (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes denominated in the Relevant Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 18) shall remain in full force and effect; and
 - (C) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Relevant Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Relevant Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

(d) *Interest*: Following redenomination of the Notes pursuant to this Condition 18, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

(e) *Interest Determination Date*: If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET2 Settlement Day before the first day of the relevant Interest Period.

19. Governing Law and Jurisdiction

(a) Governing law

The issue of the Notes, including their legal nature (*obligaciones*) and status, the capacity of the Issuer, the relevant corporate resolutions, the appointment of the Commissioner and the constitution of the Syndicate of Noteholders (including a dispute relating to any non-contractual obligations arising out of or in connection with them) are and shall be governed by Spanish law. Save as mentioned above, the Notes, Receipts, Coupons and Talons and all matters arising from or connected with the Notes, Receipts, Coupons and Talons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law except for the status of the payment obligations under the Deed of

Guarantee, including any non-contractual obligations arising out of or in connection with it, which are governed by, and shall be construed in accordance with, Spanish law.

(b) English courts

The courts of England have exclusive jurisdiction to settle any dispute arising from or connected with the Notes, Receipts, Coupons and/or Talons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) (a “**Dispute**”).

(c) Appropriate forum

Each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) Rights of the holders of the Notes to take proceedings outside England

Condition 19(b) (English courts) is for the benefit of the holders of the Notes, Receipts, Coupons and/or Talons only. As a result, nothing in this Condition 19 (Governing law and jurisdiction) prevents any holder of a Note, Receipt, Coupon or Talon from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, holders of Notes, Coupons, Receipts and/or Talons may take concurrent Proceedings in any number of jurisdictions.

(e) Process agent

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Ltd., Fifth Floor 100 Wood Street, London, EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer or Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuers or the Guarantor, as the case may be, the Issuer and the Guarantor (acting together) shall, on the written demand of any holder of Notes addressed and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any holder of Notes shall be entitled to appoint such a person by written notice addressed to the Issuer and Guarantor and delivered to the Issuer and Guarantor or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any holder of Notes to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

20. Rights of Third Parties

No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

PRO FORMA FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated []

BPE Financiaciones, S.A.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

BANCO POPULAR ESPAÑOL, S.A.

under the

€6,000,000,000 Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 22 December 2009 [and the supplemental Prospectus dated •] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 22 December 2009 [and the supplemental Prospectus dated •]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 22 December 2009 [and the supplemental prospectus dated •], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 22 December 2009 [and the supplemental Prospectus dated •] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 22 December 2009 [and the supplemental Prospectus dated •]. [The Base Prospectus [and the supplemental Prospectus] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]

[When completing [any] final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|----|------------------------|-----------------------------|
| 1. | (i) Issuer: | BPE Financiaciones, S.A. |
| | (ii) Guarantor: | Banco Popular Español, S.A. |
| 2. | [(i)] Series Number: | [] |
| | [[ii)] Tranche Number: | [] |

(If fungible with existing Series, details of that Series, including the date on which the Notes became fungible).]

- | | | |
|----|-----------------------------------|------------------------|
| 3. | Specified Currency or Currencies: | [] |
|----|-----------------------------------|------------------------|

4. Aggregate Nominal Amount of Notes:
 [(i)] Series: []
 [(ii)] Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
6. (i) Specified Denominations: []
No Notes may be issued which have a minimum denomination of less than €50,000 (or nearly equivalent in another currency)
- (ii) Calculation Amount:
7. [(i)] Issue Date: []
 [(ii)] Interest Commencement Date: [*Specify/Issue Date/Not Applicable*]
8. Maturity Date: [*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9. Interest Basis: [• per cent. Fixed Rate]
 [*specify reference rate*]+/- • Floating Rate]
 [Index Linked Interest]
 [Other (*specify*)]
 (Further particulars specified below)
10. Redemption/Payment basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency]
 [Partly Paid]
 [Instalment]
 [Other (*specify*)]
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. [(i)] Status of the Notes: [Senior/Subordinated]. Condition [4(a)/4(c)] applies.
 [(ii)] Status of the Guarantee: [Senior/Subordinated]
 [(iii)] [Date Board] approved for issuance of Notes [and Guarantee] obtained: [] and [] respectively]]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of the Notes or related Guarantee)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(if not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
 - (ii) Interest Payment Date(s): [] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Day Jurisdictions for Condition 8(h)]]/[not adjusted]
 - (iii) Fixed Coupon Amount[(s)]: [] [per Note of [] Specified Denomination and per Note of [] Specified Denomination]
 - (iv) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)/ISDA]/[If neither of these options applies, give details]
 - (v) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]
 - (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes (e.g. day count fractions): [Not Applicable/give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): []
 - (ii) Specified Interest Payment Dates: []
 - (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
 - (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination other (give details)]
 - (v) Calculation Agent: []
 - (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): []
 - (vii) Screen Rate Determination:
 - Reference Rate: [For example, LIBOR or EURIBOR]
 - Reference Banks: []
 - Relevant Time: [For example, 11.00 a.m. London time/Brussels time]
 - Relevant Screen Page: [For example, Reuters LIBOR 01/EURIBOR 01]
 - Interest Determination Date(s): []
 - Relevant Financial Centre: [For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the Euro)]

(viii) ISDA Determination:	
— Floating Rate Option:	[]
— Designated Maturity:	[]
— Reset Date:	[]
(ix) Margin(s):	[+/-] [] per cent., per annum
(x) Minimum Rate of Interest:	[] per cent. per annum
(xi) Maximum Rate of Interest:	[] per cent. per annum
(xii) Day Count Fraction:	[]
(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
17. Variable Coupon Amount Provisions	[Applicable/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Equity/Index/Formula:	[give or annex details]
(ii) Calculation Agent responsible for calculating the interest due:	[]
(iii) Provisions for determining Coupon where calculation by reference to Equity and/or Index and/or Formula:	[]
(iv) Provisions for determining Coupon where calculation by reference to Equity and/or Index and/or Formula is impossible or impracticable or otherwise disrupted:	[]
(v) Interest Payment Dates/Interest Period Dates:	[]
(vi) Specified Period(s):	[]
(vii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
(viii) Minimum Rate of Interest:	[] per cent. per annum
(ix) Maximum Rate of Interest:	[] per cent. per annum
(x) Day Count Fraction	[]
18. Dual Currency Note Provisions	[Applicable/Not Applicable] <i>(if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Rate of Exchange/method of calculating Rate of Exchange:	[give details]
(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[]
(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[]
(iv) Person at whose option Specified Currency(ies) is/are payable:	[]

PROVISIONS RELATING TO REDEMPTION

- 19. **Call Option** [Applicable/Not Applicable]
(if not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Note of [] specified denomination
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
 - (iv) Notice period []

- 20. **Put Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): []
 - (iii) Notice period: []

- 21. **Final Redemption Amount:** [[]per Note of specified denomination/other/see Appendix]

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

 - (i) Equity/Index/Formula/variable: [give or annex details]
 - (ii) Calculation Agent responsible for calculating the Final Redemption Amount: []
 - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: []
 - (iv) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: []
 - (v) Minimum Final Redemption Amount: []
 - (vi) Maximum Final Redemption Amount: []

- 22. **Early Redemption Amount** [Not Applicable *(if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*]

Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes: Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]
[Temporary Global Note exchangeable for Definitive Notes on [] days' notice.]
[Permanent Global Note exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]
[Registered Notes]
24. Business Day Jurisdictions for Condition 8(h) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(ii) and 19(vii) relate]
25. New Global Note Form: [Applicable/Not Applicable]
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
28. Details relating to Instalment Notes: amount of each instalment ("Instalment Amount"), date on which each payment is to be made ("Instalment Date"): [Not Applicable/give details]
29. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 18 (Redenomination, Renominatisation and Reconventioning)] [annexed to these Final Terms] apply]
30. Consolidation provisions: [Not Applicable/The provisions [in Condition 14 (Further Issues)] [annexed to these Final Terms] apply]
31. Other terms or special conditions: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)
(If Subordinated Notes, consider appropriate amendments to comply with regulatory capital regime, including disapplication of Events of Default)
32. Temporary Commissioner: []

DISTRIBUTION

33. (i) If syndicated, names [and addresses] of Managers [and underwriting commitments]: [Not Applicable/give names, [*addresses and underwriting commitments*]]
[(*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers*)]
- (ii) Stabilising Manager (if any): [Not Applicable/give names]
- (iii) Date of [Subscription] Agreement: []
34. If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]
35. [Total commission and concession:] [[] per cent. of the Aggregate Nominal Amount]
36. U.S. Selling Restrictions [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable]
37. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprises the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €6,000,000,000 Euro Medium Term Note Programme of BPE Financiaciones, S.A.

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [• has been extracted from • . [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by •, no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: _____

By: _____

Duly authorised

Duly authorised

PART B — OTHER INFORMATION

1. LISTING

- (i) Listing: [Ireland/London/Luxembourg/other (*specify*)]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on []]
- [(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)]*

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S&P: []]
- [Moody's: []]
- [[Other]: []]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3. [NOTIFICATION]

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Plan of Distribution”] and “General Information”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer []
(See [“Use of Proceeds”] wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(ii) Estimated net proceeds: [•]
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]
- [(iii) Estimated total expenses: [•] [Include breakdown of expenses.]
[(If the Notes are derivative securities to which Annex XII of Commission Regulation (EC) No. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements applies it is only] Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

6. [Fixed Rate Notes only — YIELD

- Indication of yield: [•].
[Calculated as [include details of method of calculation in summary form] on the Issue Date.]
[As set out above, the] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. [FLOATING RATE NOTES ONLY — HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

8. [Index-Linked or other variable-linked notes only — PERFORMANCE OF INDEX/FORMULA/other variable, [EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS] AND OTHER INFORMATION CONCERNING THE UNDERLYING

*Need to include details of where past and future performance and volatility of the equity/index/formula/other variable can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident]. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.] **

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

9. [Dual Currency Notes only — PERFORMANCE OF RATE[S] OF EXCHANGE AND [EXPLANATION OF EFFECT ON VALUE OF INVESTMENT]

[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

10. OPERATIONAL INFORMATION

ISIN Code: []
Common Code: []
CUSIP Code: []

New Global Note intended to be held in a manner which would allow Eurosystem eligibility: [Not Applicable/Yes/No]
Note that the designation “Yes” simply means that the Notes are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][Include this text if “Yes” selected in which case the Notes must be issued in NGN form]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
Delivery: Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any): []
Calculation Agent: []

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM OR WHILE REGISTERED IN THE NAME OF A NOMINEE FOR A CLEARING SYSTEM

Initial Issue of Notes

Each tranche of Bearer Notes having an original maturity of more than one year shall be represented initially by a Temporary Global Note in bearer form, without Coupons (a “**Temporary Global Note**”), which shall be deposited with (a) in the case of a global note which is not intended to be issued in new global note form (a “**Classic Global Note**” or “**CGN**”), as specified in the relevant Final Terms, with or on behalf of a Common Depository located outside the United States for Euroclear and Clearstream, Luxembourg; or (b) in the case of a global note which is intended to be issued in new global note form (a “**New Global Note**” or “**NGN**”), as specified in the relevant Final Terms, with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Notes issued in registered form will be represented by Note certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes which are held in Euroclear and Clearstream, Luxembourg will be registered in the name of nominees for Euroclear and Clearstream, Luxembourg, or a common nominee for both, and the relative Certificate(s) will be delivered to the appropriate depository or as the case may be, a common depository. Upon the initial deposit of a Global Note with the Common Depository, or the initial registration in the name of nominees for Euroclear and Clearstream, Luxembourg, or a common nominee for both, and delivery of the relative Certificate(s) to the appropriate depositories, or a common depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof to which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or such approved intermediary as the holder of a Note represented by a Global Note or a Certificate must look solely to Euroclear, Clearstream, Luxembourg or such approved intermediary (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Notes in registered form, as the case may be, and in relation to all other rights arising under the Global Notes, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Notes in registered form, as the case may be, in respect of each amount so paid.

Amendment to Conditions

The Temporary Global Notes, the Permanent Global Notes and Certificates contain provisions which apply to the Notes which they represent, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

Exchange: Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note or, if so provided in a Temporary Global Note, for definitive Bearer Notes (as described in the next paragraph) after the date falling 40 days after the issue date of the Notes upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement in the case of Bearer Notes. If specified in the relevant Final Terms, each Permanent Global Note is exchangeable in whole (or, in the case of Partly-paid Notes only, in part) at the request and cost and expense of the Issuer for definitive Bearer Notes by such holder giving notice to the Fiscal Agent, or by the Issuer giving notice to the Fiscal Agent and the Noteholders of its intention to exchange (at the option, cost and expense of the Issuer) such Permanent Global Note for definitive Bearer Notes, in each case on or after the Exchange Date specified in the notice.

On or after any Exchange Date (as defined below) the holder of a Permanent Global Note may surrender such Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bearer Notes (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts which have not already been paid on the Permanent Global Note and a Talon), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant definitive Bearer Notes.

“Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing system is located.

Payments: No payment falling due more than 40 days after the Issue Date will be made on a Temporary Global Note unless exchange for an interest in a Permanent Global Note or for definitive Bearer Notes or Certificates is improperly withheld or refused. Payments on any Temporary Global Note during the period up to 40 days after its Issue Date will only be made against presentation of certification as to non U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

Notices: Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Temporary Global Note (or by the Temporary Global Note and the Permanent Global Note) deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Purchase and Cancellation: Cancellation of any Note surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Default: Following the giving of a notice of an event of default by or through a common depository for Euroclear and Clearstream, Luxembourg or if the holder of a Global Note so elects, the Global Note or Registered Notes represented by the Global Certificate will become void as to the specified portion and the persons entitled to such portion as accountholders with a clearing system will acquire direct enforcement rights against the Issuer under the terms of the Deed of Covenant.

Prescription: Claims against the Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

Meetings: The holder of a permanent Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, as having one vote in respect of each minimum Denomination of Notes for which such Global Note may be exchanged.

Partly-paid Notes: The provisions relating to Partly-paid Notes will be contained in the Global Notes. For so long as any instalments of the subscription moneys due from the holder of Partly-paid Notes are due, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for definitive Bearer Notes (as the case may be). In the event that any holder of Notes fails to pay any instalment due on any Partly-paid Notes within the time specified, the Issuer may be entitled to forfeit such Notes and shall have no further obligation to their holder in respect of them.

In relation to the Permanent Global Note only:

Exercise of call option: In connection with an exercise of the option contained in Condition 7(e) (*Redemption at the option of the Issuer and exercise of Issuer's options*) in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (this shall be recorded in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion) or any other clearing system (as the case may be).

Exercise of put option: In order to exercise the option contained in Condition 7(f) (*Redemption at the option of Noteholders and Holders exercise of Noteholder's options*) the bearer of the Permanent Global Note must give notice to the Fiscal Agent (via the relevant clearing system) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent for notation.

In the case of any Tranche of Notes having a maturity of more than 365 days, the following legend will appear on all Global Bearer Notes and Definitive Notes and any related Coupons or Talons:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in the above legend provide that a United States taxpayer, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any gain realized on any sale, exchange or redemption of Bearer Notes or any related Coupons.

Notwithstanding any other provision herein, Bearer Notes with maturities of one year or less may be issued.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be used for the general corporate purposes of the Guarantor.

BPE FINANCIACIONES, S.A.

Background

The Issuer was incorporated on 19 February 2004 for an indefinite period of time as a limited liability corporation (*sociedad anónima*) under the laws of the Kingdom of Spain, with its registered office at calle José Ortega y Gasset 29, 28006 Madrid (telephone +34 915 207 278). The Issuer is registered in Volume 19,873, Book 0, Folio 164, Section 8, Sheet M-350196, Registration 1 of the Spanish Mercantile Registry (*Registro Mercantil*). The Issuer has no subsidiaries.

The authorized share capital of the Issuer is Euro 100,000 divided into 100 common shares, each with a par value of Euro 1,000. The subscribed and fully paid up share capital is Euro 100,000.

The objects of the Issuer are to issue promissory notes, bonds, notes or other analogous subordinated or unsubordinated securities, in national or foreign currencies, for placement both on the domestic as well as the international markets, as specified in Article 2 of the Issuer's By-Laws (*estatutos*).

The directors of the Issuer are Mr. Julio Coto de la Casa, Ms. Teresa Palacios Blasco, Mr. Javier Moreno Navarro, Mr. Carlos Ignacio Vivas Sotillos and Ms. Aránzazu Ruiz Cotero. Ms. Teresa Palacios Blasco also works as legal adviser to the Bank. Mr. Julio Coto de la Casa works as the Treasurer of the Bank and Mr. Javier Moreno Navarro and Ms. Aránzazu Ruiz Cotero work as a financial officer of the Bank. As at the date of this Base Prospectus, there were no conflicts of interest in relation to members of the board of directors of the Issuer between any duties owed to the Issuer and their private interests and other duties.

The business address of Ms. Teresa Palacios Blasco, Mr. Julio Coto de la Casa, Mr. Javier Moreno Navarro, Mr. Carlos Ignacio Vivas Sotillos and Ms. Aránzazu Ruiz Cotero is José Ortega y Gasset, 29, 28006 Madrid.

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

Activities of the Issuer

The Issuer is a subsidiary wholly-controlled by Banco Popular Español, S.A. It was incorporated for the purpose of raising funds for the Banco Popular Group on the domestic and international market through the issuance of promissory notes, bonds, notes or other analogous subordinated or unsubordinated securities, for placement both on the domestic as well as the international markets.

Funds raised by the Issuer are assigned principally towards the establishment of deposits with the Bank, the remuneration on which is designed to repay the interest on the negotiable securities issued and outstanding.

The deposits are remunerated at the cost of the debt plus a spread in order to cover the direct and indirect costs of the respective issues.

As at the date of this document, the outstanding debt securities admitted to trading on secondary markets of the Issuer relate to simple bonds and subordinated debt and have an aggregate nominal amount of €10.8 billion.

Balance Sheet and Income Statements

The balance sheet and income statements of the Issuer as at 31 December 2008 and 2007 (prepared in accordance with Spanish GAAP) are summarized below.

	2008	2007
	(Thousands Euro) (Audited)	(Thousands Euro) (Non-Audited)
ASSETS		
Non-current Assets	4,882,347	8,296,847
Long-term financial investments	4,882,347	8,296,847
Current Assets		
Commercial debts	20	15
Short-term financial investments	3,544,226	2,569,095
Others	30	-
Cash on hand and at banks	2,141	1,694
TOTAL ASSETS	8,433,764	10,867,651
LIABILITIES		
Equity	536	520
Subscribed Capital	100	100
Reserves	420	375
Profit for the year	16	45
Long-term accounts payable	4,883,590	8,297,888
Short-term accounts payable	3,549,638	2,569,243
TOTAL LIABILITIES	8,433,764	10,867,651
	2008	2007
	(Thousands Euro)	(Thousands Euro)
+ Interest and related income	460,986	479,426
- Interest and related expense	460,775	479,130
= Financial income	211	296
- Other operating expense	189	230
- Pre-tax profit	22	66
- Corporate Income Tax	6	21
- Profit for the year	16	45

BANCO POPULAR ESPAÑOL, S.A.

Background

The Bank is a *sociedad anónima* (limited liability corporation) organised and existing under the laws of the Kingdom of Spain. The Bank was founded in July 1926 as Banco Popular de los Previsores del Porvenir and its current name was adopted in February 1947. The Bank is registered at 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*). The telephone number of the bank is +34 915 207 268.

Banco Popular heads a banking group with a strictly financial vocation, i.e. it has no strategic corporate investees other than financial instrumentality companies. It focuses on commercial and retail banking, specializing in meeting all the financial needs of businesses, with a particular emphasis on SMEs, and on banking for individuals. Other activity lines such as investment banking or wholesale banking address the coverage of the requirements of its commercial or retail banking customers.

The Group's basic management criteria are:

- The pursuit of profitability, maximizing ROE, which at 31 December 2008 stood at 17.79 per cent. and was the third highest of Spanish and comparable European banks.
- On-going strengthening of balance sheet soundness and solvency, as reflected by the Bank's high rating, underpinned by the following factors:
 - At 2008 year end, Banco Popular had core capital of over 7.15 per cent., which is among the highest in Europe of banks that have not been recapitalised by the public sector.
 - Banco Popular's liquidity line is one of the biggest in Spanish banking.
 - Although the credit quality is not immune to the present macroeconomic environment, there is a positive gap with respect to the Spanish financial sector, as was also the case in the last cycle.
 - The systematic improvement in efficiency, making the Group the most efficient bank not only in Spain but also in Europe, with an efficiency ratio of 33.25 per cent.

To apply these principles, management considers that it is essential to place customers at the centre of all decisions, to be responsive to the aim of maximizing shareholder value with a medium and long-term outlook. At 31 December 2008 the Group had 6.7 million customers, was managing assets worth €123,807 million and onbalance sheet funds of €98,957 million, with a capital base of €6,734,000 million.

To serve its customers and support the commercial network, the Group had a headcount of 15,069 persons, compared with 15,038 in 2007. 13,370 of them are in Spain and 1,699 are in Portugal and the United States. The Group's vocation for creating value in the long term is also reflected in its human resources policy focused on internal promotion and work-life balance, which are both aspects that contribute to a more expert and motivated workforce.

The Group has made efforts to introduce a variety of worklife balance measures which many of the Group's staff are now enjoying.

The Group is committed to financial personalisation and therefore sees the commercial network as its main and most direct channel of communication with customers, due to its proximity and accessibility. To provide coverage to its customers, the Group has 2,504 branch offices (2,493 in 2007). 2,255 of these are distributed throughout Spain, 235 of them are in Portugal and 14 are in the United States.

In addition to its operations in Portugal and the United States, the Group also has a substantial international presence through representative offices or operating staff seconded to local correspondent banks in other countries, to cater for the financial needs of customers without exposure to cross-border risk.

In addition to the commercial banking branch network, the Bank has more specialised offices that support the network and provide direct service to private individuals, businesses and institutions: personal banking, banking for businesses and corporate banking. It also has Mundocredit, a Banco Popular and Mundo Envíos agent specialising in providing financial services – international giros, mini-loans, mortgage loans, insurance and cards – and non-financial services – marketing of consumer goods.

Against a background of extreme crisis in the international financial sector, with leading American and European banks going under or having to be bailed out by their governments, Banco Popular has shown its strength and its effective management.

In 2008, the Group was able to maintain its signs of identity: (i) adequate solvency, underpinned by a volume of own funds that covers all the risk exposures plus possible increases associated with unexpected events, (ii) high profitability, founded on recurring business and on a pricing policy that takes into account the individual characteristics and risks of each customer, (iii) extraordinary efficiency, which is possible as a result not only of a proper expense control culture, but also of a high base of recurring income, and (iv) good credit quality resulting from a business model based on businesses and private individuals, who are well known to the Bank, and the absence from the balance sheet of lending originated by third parties that present a high level of impairment and uncertainty as to their fair value.

The strategy based on strengthening these signs of identity has proven to be the most appropriate in the current economic climate, as shown by the fact that Banco Popular has improved its relative position in the different league tables of comparable European and Spanish banks, based on either rating or capitalisation.

In addition, the closure of the international capital markets in response to the different episodes of crisis occurring since July 2007, the fall in value of assets linked to subprime mortgages, the bankruptcy of Lehman Brothers and the Madoff fraud all made it necessary to round out this strategy with a clear objective of strengthening the liquidity position, amply achieved by the Bank, with the result that at 31 December 2008 it had sufficient funds and sources of liquidity for it to cope with the possible disappearance of capital markets for more than a year.

The Group's most significant ratios and its position in relation to its domestic and international competitors are analysed in the following paragraphs.

Solvency

Even though it started the year with one of the best core capital ratios in the world, the Group continued to strengthen its solvency, focusing, on the one hand, on the policy of controlling risks and obtaining guarantees and, on the other, on managing risks by using advanced models for the capital calculation of its main portfolios. These measures, together with the retained profit for the year, generated 70 basis points of core capital, which stood at 7.17 per cent. at the end of 2008. This means that Banco Popular is one of the 4 most solvent banks in Europe that have not received public capital. In addition, at year end the Bank had a notable 8.12 per cent. of Tier 1 capital. For comparison purposes, at 30 September (the latest data published by the Spanish Banking Association (AEB)), Spanish banks had on average a Tier 1 capital ratio of 7.83 per cent. It should also be mentioned that Banco Popular has the best ratio of tangible equity to tangible total assets of all European and American banks, according to different analyses published in 2008.

Profitability and efficiency

Despite the current economic situation, the Banco Popular Group continues to demonstrate its ability to generate recurring earnings and to grow the business in both volume and new customers, especially SMEs and private individuals, as evidenced by the improvements in the market share of loans and receivables – 4.51 per cent. compared with 4.49 per cent. in 2007 – and customer deposits – 4.19 per cent. compared with 4.10 per cent. in 2007. These figures were obtained from Bank of Spain data for September.

The commercial banking business model and the strategy implemented by the Group received their reward in the net interest income and the gross operating income, which were up by 10.8 per cent. and 5.9 per cent. on 2007, respectively. The net operating profit achieved was substantial, despite the impact of the asset impairment losses as a result of the deterioration of the Spanish economy during the year. Finally, the profit attributed to the Group amounted to €1,052 million, which was among the highest not only in Spain but also in Europe.

The Group succeeded in ending the year with an attributed profit of €1,052 million. This is an exceptional result if we take into account that only 14 European banks obtained a profit of more than €1,000 million in 2008. This has enabled the Group to reach 13th place in Europe and 9th place in the euro area in terms of profit, which is far higher than it should be based on its balance sheet size, according to which Banco Popular would be 20th among comparable banks.

The Group's relative strength is evident despite the conservative policies applied, leading it to record precautionary asset impairment provisions of €189 million and to prefer not to release a further €244 million from general allowances, as would have been permitted by the applicable legislation. Had these decisions not been taken, the profit would have risen to €1,346 million.

One of the pillars of the income statement is the net interest yield, i.e. net interest income as a percentage of total assets, which remained at an exceptional 2.36 per cent. in December 2008. This represents an important competitive advantage, since it is well above the average figure of 2.01 per cent. for Spanish banks at 30 September, the most recent published by the Spanish Banking Association, compared to the Group's 2.38 per cent. at that date.

This yield is the result of a model based on the traditional banking business, primarily with small and medium size companies, and of the Group's skilful management of the risk-return ratio.

Another significant aspect is the recurring nature of both the financial and the fee and commission income, as well as the income from the trading activity, which made it possible to grow the net interest income and the gross operating income by an outstanding 10.8 per cent. and 5.9 per cent., respectively. This recurrence is especially appreciable in this economic environment, since it makes it possible to measure the capacity to absorb the impairment of assets without jeopardising solvency.

The third element that characterises Banco Popular's income statement is its high operating efficiency – operating costs as a percentage of operating income – which stood at 33.25 per cent. in December 2008. This rate proves the success of the Group's strategy of controlling costs and maximising income, and makes it top among Spanish banks, where the average ratio is 38.15 per cent. and comparable European banks, where it is 70.5 per cent.

Another aspect that shows the success of the policy of controlling costs and maximising income is the high level of coverage of operating costs by fee and commission income: an outstanding 71.1 per cent. This ratio is topped by only one bank in Europe whose main business is investment banking and whose main source of income is service fees.

As a result of the circumstances described above, the 17.79 per cent. return on equity at the end of 2008 was the third highest among Spanish and comparable European banks, where the averages were 15.5 per cent. and 6.5 per cent., respectively.

Credit Quality

One of Banco Popular's traditional strengths has been the high quality of its assets. This is a consequence of a business model based on proximity commercial banking undertaken through an extensive branch network, and the absence from the balance sheet of risks that do not originate in one of the Group's areas and have not been subjected to the strict criteria governing the extension of credit that have always been applied. The practical result of this strategy is a balance sheet in which 84.7 per cent. consists of loans and advances extended to businesses, mainly SMEs, and to private individuals the majority of whom are resident in the Iberian peninsula.

Additionally, the rest of the balance sheet consists primarily of financial assets and interbank deposits of the highest credit quality as certified by the most important rating agencies. Nevertheless, despite these characteristics that set Banco Popular clearly apart from its competitors, the Bank is not immune to the macroeconomic environment in which it operates.

For this reason, at 2008 year end the nonperforming loans ratio had risen to 2.80 per cent. at consolidated level and to 2.71 per cent. considering only the business in Spain.

Comparing this performance with the rest of Spanish banks, which had a non-performing loans ratio of 3.14 per cent. in November 2008, shows that there is a positive differential in Banco Popular's favour which increases as the Spanish economy continues to deteriorate, as occurred in the previous cycle.

To absorb the increase in the non-performing loans ratio, the Group has provisions of €2,222 million, giving a coverage rate of 73.03 per cent. However, if the guarantees provided by delinquent debtors are included, the coverage rate rises to a healthy 159.4 per cent. Of the total amount of provisions, €1,296 million relate to general allowances not allocated to any specific risk, and it is estimated that it will be possible to use these for at least the next two years.

Business

Despite the steady decline in GDP in 2008, there was a 5.6 per cent. increase in lending to customers. This net growth, together with the renewal or replacement by other new transactions of the transactions that matured during the year, meant that the volume of production of loans granted in the year was more than €37,000 million. This growth made it possible to increase the market share in Spain by 2 basis points through September 2008, per the latest data published by the Bank of Spain.

On the liability side, noteworthy was the 21.3 per cent. growth in customer deposits, leading to an increase in market share of 9 basis points, and the 7.5 per cent. increase in customer funds, against a background of strong commercial competition due to the shortage of liquidity on the international markets. At year end the Group had 6,734,206 customers, including most notably the addition of 16,207 new businesses, mainly from the SME segment.

Liquidity

The extraordinary growth in the customer deposits attracted discussed above made it possible to reduce the commercial gap substantially by €2,327 million, thereby generating an additional flow of liquidity.

Mention should also be made of the 8 percentage point reduction in the dependence on wholesale liabilities, which accounted at year end for 32 per cent. of the funding, compared with 40 per cent. the previous year.

The Group also continued to strengthen its second line of liquidity consisting of top credit quality assets, which at €14,640 million at year end was one of the biggest in Spanish banking. These assets will enable the Bank to cover all the maturities of wholesale funding during 2009. Additionally, during 2009 Banco Popular will be able to use the state guarantee line for an amount of €4,500 million and the auctions of the Financial Asset Acquisition Fund, although no use was made of this option in 2008.

To summarise, in a year marked by a very profound financial crisis and very pronounced macroeconomic deterioration, Banco Popular was able to maintain and boost its strengths. The strategy followed both in 2008 and in previous years has proven to be correct, as is shown by the fact that the Group's relative position compared with Spanish and comparable European banks has improved significantly at all levels. This makes it possible to face with optimism the coming years which will continue to be marked by economic weakness and higher levels of nonperforming loans, with the conviction that Banco Popular will be able to maintain its signs of identity and to improve its competitive position.

The Group

Up to December 19, 2008, the Banco Popular Group was made up of a parent company, Banco Popular, with headquarters in Spain, 10 banking subsidiaries of which eight operated in Spain (the Andalucía, Castilla, Credito Balear, Galicia, Vasconia, Popular Hipotecario, Popular-e and Popular Banca Privada banks), and one each in Portugal (Banco Popular Portugal), and the USA (TotalBank). The Group also has other units covering substantially all the financial services demanded by its customers.

At the end of the year, four Spanish subsidiaries (Banco de Castilla, Banco de Credito Balear, Banco de Galicia and Banco de Vasconia) were merged together and became integrated with Banco Popular Español. Banco de Andalucía was not included in this operation, since it was carried out up to August 10, 2009.

These corporate operations were consistent with the Governance Rules introduced by the Bank of Spain, and were aimed at rationalizing management of the regional brands of the Banco Popular Group and their liquidity on the stock market.

The Group controls Banco Popular Hipotecario, a wholly-owned subsidiary specializing in property financing; Bancopopular-e, a wholly-owned subsidiary which is an Internet bank; and the Popular Banca Privada private banking unit (owned 60 per cent. by the Group and 40 per cent. by Dexia-BIL).

In 2007, the Banco Popular Group extended its activities to the United States through the acquisition of TotalBank, A US bank located in Florida. TotalBank's business and type of customers, principally SMEs and individuals, fit perfectly in the Group's model. This entity operates through 14 branch offices located in the Miami Dade county, in the state of Florida. The operation fits into the strategy of transferring Banco Popular's experience, based on service quality to SMEs and individuals, to profitable business niches in strong economies in a stable and consolidated legal environment.

Additionally, during the last year 22 branches were opened by MundoCredit S.A., a financial entity and agent for the Banco Popular Español, specialized in providing financial services – international giros, mini-loans, mortgage loans, insurance and cards – to foreign workers resident in Spain. Currently, MundoCredit has its own network of offices, with 59 offices in operation in Spain. In this case, the Group's experience is transferred to a segment, that of immigrants resident in Spain, with little banking history and with high potential growth.

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

The following tables show the key administrative details of the companies comprising the Group and the Bank's ownership percentages in relation thereto:

Banco Popular Group. Companies comprising the consolidated group and the multigroup companies at 31 December 2008

	Registered Office		Business activity
Deposit-taking companies:			
Bancopopular-e	Velázquez, 34	Madrid	Banking
Banco Popular Hipotecario	Labastida, 9-11	Madrid	Banking
Banco Popular Portugal	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada	Luca de Tena, 13	Madrid	Banking
Totalbank	2720 Coral Way	Miami	Banking
Financing companies:			
Popular Factoring	Rua Castilho, 39	Lisbon	Factoring
Popular de Factoring	Maria de Molina, 54	Madrid	Factoring
Portfolio & Service Companies:			
Gerfundos	Rua Ramalho Ortigao, 51	Lisbon	Mutual fund management
Predifundos	Rua Ramalho Ortigao, 51	Lisbon	Pension plan management
Europensiones, EGFP	María de Molina, 34	Madrid	Pension plan management
Gestión Premier Fund	Boulevard Royal, 261	Luxembourg	Mutual fund management
Gestora Popular	J.Ortega y Gasset, 29	Madrid	Share portfolio & ownership
Popular Bolsa	Labastida, 9-11	Madrid	Stockbroker
Popular de Participaciones Fin.	Labastida, 9-11	Madrid	Venture capital
Popular Gestión Privada	Luca de Tena, 13	Madrid	Mutual fund management
Popular Gestión	Labastida 9-11	Madrid	Mutual fund management
Instrumentality companies:			
Aliseda	J.Ortega y Gasset, 29	Madrid	Asset ownership
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
Consulteam-Consultores de Gestao, S.A. consultant	Rua Tomás Ribeiro, 50	Lisboa	Real estate Management
Finespa	J.Ortega y Gasset, 29	Madrid	Property instrumentality
Fondo Imopopular	J. Ortega y Gasset, 29	Madrid	Property investment fund
Gestora Europea de Inversiones	Labastida, 9-11	Madrid	Services instrumentality
Gold Leaf Title Company	2720 Coral Way	Miami	Financial Instrumentality
IM Banco Popular FTPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Securitisation fund Asset
IM Banco Popular FTPYME 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Securitisation fund Asset
IM Banco Popular MBS 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Securitisation fund Asset
IM Cédulas Grupo Banco Popular 2, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 1, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 4, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 2, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Grupo Banco Popular Financiaciones 1, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Grupo Banco Popular FTPYME 1, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund

	Registered Office		Business activity
IM Grupo Banco Popular FTPYME 2, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
IM Grupo Banco Popular Leasing 1, FTA	Pz. Pablo Ruiz Picasso	Madrid	Asset securitisation fund
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Jeraguilas, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.L.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques	J. Ortega y Gasset, 29	Madrid	Financial instrumentality
MUNDOCREDIT	J. Ortega y Gasset, 29	Madrid	Financial instrumentality
Mundoenvios	J. Ortega y Gasset, 29	Madrid	Financial instrumentality
Populargest Gestao de Imóveis	Rua do Comércio, 85	Lisbon	Property management
Inmobiliaria Viagracia	J.Ortega y Gasset, 29	Madrid	Property instrumentality
Inmobiliaria Vivesa	J.Ortega y Gasset, 29	Madrid	Property instrumentality
Intermediación y SS Tecnológicos	Luca de Tena, 13	Madrid	Services instrumentality
Popular Capital	J.Ortega y Gasset, 29	Madrid	Financial instrumentality
Popular Capital Europe	Strawinskyiaan, 3106	Amsterdam	Financial instrumentality
Popular Español Asia Trade	13/F Tim Mei Avenue	Hong Kong	Financial instrumentality
Popular Finance Europe	Strawinskyiaan, 3105	Amsterdam	Financial instrumentality
Urbanizadora Española	J.Ortega y Gasset, 29	Madrid	Property instrumentality
Velázquez 34.S.L.	J.Ortega y Gasset, 29	Madrid	Real Estate
Non-financial companies:			
Desarrollo Aplicaciones Especiales	Juan de Olías, 1	Madrid	Data processing
FIB Realty Corporation	2720 Coral Way	Miami	Dormant
Eurovida (Portugal)	Av. da República, 57	Madrid	Insurance
Panorama Ibicenca	J.Ortega y Gasset, 29	Madrid	Asset ownership
Popular de Comunicaciones	J.Ortega y Gasset, 29	Paris	Communications services
Popular de Informática	J.Ortega y Gasset, 29	Madrid	IT services
Popular de Renting	Labastida, 9-11	Madrid	Renting
Popular Mediación	J.Ortega y Gasset, 29	Madrid	Insurance brokering
Popular Seguros	Av. da Republica, 57	Lisbon	Insurance
Promoción Social de Viviendas	J.Ortega y Gasset, 29	Madrid	Asset ownership
Total Sunset Inc	2720 Coral Way	Miami	Dormant

Banco Popular Group. Group and multigroup companies at 31 December 2008

Percentage of direct and indirect ownership of the Bank and book value

	Direct	Indirect	Total	Carrying value (EUR)
Deposit-taking companies:				
Bancopopular-e	100.00	–	100.00	34,908
Banco Popular Hipotecario	99.94	0.06	100.00	106,476
Banco Popular Portugal	100.00	–	100.00	780,448
Popular Banca Privada	52.50	7.50	60.00	13,784
Totalbank	100.00	–	100.00	264,053
Financing companies:				
Popular Factoring	49.76	50.06	99.82	43,334
Popular de Factoring	100.00	–	100.00	45,818
Portfolio & Service Companies:				
Europensiones	51.00	–	51.00	7,968
Gestión Premier Fund	–	60.00	60.00	76
Gestora Popular	35.00	65.00	100.00	12,363
Gerfundos	–	100.00	100.00	300
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	2,404
Predifundos	–	100.00	100.00	375
Popular Gestión	99.99	0.01	100.00	3,010
Instrumentality companies:				
Aliseda	100.00	–	100.00	302,599
BPE Finance International	100.00	–	100.00	45
BPE Financiaciones	90.00	10.00	100.00	100
BPE Preference International	100.00	–	100.00	52
Consulteam-Consultores de Gestao	73.10	26.90	100.00	735
Finespa	4.19	95.81	100.00	8,058
Fondo Imopopular	–	100.00	100.00	5,030
Gestora Europea de Inversiones	99.90	0.10	100.00	655
Gold Leaf Title Company	–	100.00	100.00	256
IM Banco Popular FTPYME 1, FTA	100.00	–	100.00	–
IM Banco Popular FTPYME 2, FTA	100.00	–	100.00	–
IM Cédulas Grupo Banco Popular 2, FTA	100.00	–	100.00	–
IM Cédulas Grupo Banco Popular 1, FTA	100.00	–	100.00	–
IM Cédulas Grupo Banco Popular 3, FTA	100.00	–	100.00	–
IM Cédulas Grupo Banco Popular 4, FTA	100.00	–	100.00	–
IM Grupo Banco Popular Empresas 1, FTA	100.00	–	100.00	–
IM Grupo Banco Popular Empresas 2, FTA	100.00	–	100.00	–
IM Grupo Banco Popular Financiaciones 1, FTA	100.00	–	100.00	–
IM Grupo Banco Popular FTPYME 1, FTA	100.00	–	100.00	–
IM Grupo Banco Popular FTPYME 2, FTA	100.00	–	100.00	–
IM Banco Popular MBS 1, FTA	100.00	–	100.00	–
IM Grupo Banco Popular Leasing 1, FTA	100.00	–	100.00	–
Inmobiliaria Viagrancia	99.99	0.01	100.00	20,635
Inmobiliaria Vivesa	99.99	0.01	100.00	1,170
Intermediación y Servicios Tecnológicos	99.50	0.50	100.00	1,203
Inversiones Inmobiliarias Alprosa	35.61	64.39	100.00	54,636
Inversiones Inmobiliarias Canvives	–	100.00	100.00	3

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	<u>Carrying value (EUR)</u>
Inversiones Inmobiliarias Cedaceros	–	100.00	100.00	38,000
Inversiones Inmobiliarias Gercebios	–	100.00	100.00	3
Inversiones Inmobiliarias Jeráguilas	–	100.00	100.00	3
Inversiones Inmobiliarias Tamadaba	99.00	1.00	100.00	30
Isla de los Buques	99.98	0.02	100.00	61
MUNDOCREDIT	99.83	0.17	100.00	26,500
Mundoenvios	99.96	0.04	100.00	500
Populargest Gestao de Imóveis	–	100.00	100.00	11,751
Popular Capital	90.00	10.00	100.00	90
Popular Capital 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	11,449
Velázquez 34 S.L.	97.80	2.20	100.00	3
Non-financial companies:				
Desarrollo Aplicaciones Especiales	50.67	–	50.67	47
FIB Realty Corporation	–	100.00	100.00	–
Eurovida (Portugal)	–	100.00	100.00	69,730
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
Promoción Social de Viviendas	–	91.84	91.84	553
Popular Seguros	–	100.00	100.00	–
Popular de Mediación	90.00	10.00	100.00	62
Total Sunset Inc	–	100.00	100.00	–

Ratings

The ratings assigned to Banco Popular by the leading international credit rating agencies are among the highest in the entire Spanish and European financial system. These ratings, which are exceptional for a bank of the size of Banco Popular whose business focuses on regional commercial banking in Europe, are based on levels of excellence in all the aggregates assessed by the agencies, which are higher than those required of other banks with similar level ratings, but are much more diversified both geographically and by business lines. In general terms, Banco Popular's ratings are based on its high profitability, good asset quality and adequate level of solvency, achieved through implementation of a well-defined and coherent strategy that is consistent with the Bank's objectives.

In 2008, Banco Popular succeeded in maintaining its ratings at similar levels to those of 2007. This performance is particularly noteworthy in a year in which the global economic situation and the specific risks of many banks led to the toughening of agency rating policies, resulting in a significant deterioration in the ratings of financial institutions around the world. The loss of ratings is even more dramatic if the levels of individual financial strength, which measure a bank's credit quality without considering public support, are analysed. It should be pointed out that in the case of Banco Popular, unlike the majority of comparable institutions in Europe and internationally by level of rating, the adjustments to the credit rating had their origin in systemic factors relating to the future prospects of the Spanish economy, and were not prompted by the existence of severely impaired assets at international level, as explained in the following paragraphs.

The ratings at the date hereof are as follows:

<u>Agency</u>	<u>Individual/Financial Strength</u>	<u>Short-term</u>	<u>Long-term</u>
Fitch Ratings	A/B	F1+	AA-
Moody's	B	P1	Aa3
Standard & Poor's		A-1+	A
DBRS		R-1+ (high)	AA (high)

Commercial banking

The activities of the commercial banking business are focused on offering financial products and services to businesses, mainly SMEs, and private individuals. Its degree of specialisation means that customers receive personalised attention according to their requirements, either through the branch office network or through the channels made available for remote operating. The commercial banking activity is conducted mainly in Spain and Portugal, with a contribution from each to the main balance sheet and earnings aggregates in line with what was stated earlier. The contribution of USA is lower than 1 per cent. because of the small size of the franchise in that country.

The total number of customers in 2008 was 6,734,206.

There was significant year-on-year growth in the recurring income from this business. The net interest income of €2,444 was 14.8 per cent. up on 2007. The fact that the net fees and commissions remained practically flat and the financial asset trading income was lower was offset by the other operating income, giving rise to a 10 per cent. increase in gross operating income, which totalled €3,350 million.

As explained in greater detail in the previous section, the operating costs in 2008 included the integration of TotalBank at the end of 2007. These additional expenses, together with the new expenses of renting the buildings for own use sold during the year, explain the sharp increase. The Group expects them to remain flat in 2009.

The net operating profit was down by 20.4 per cent. as a result of the increase in impairment losses and other provisions due to the inevitable growth of non-performing loans, even though the Banco Popular Group is below the sector average, and to the application of a policy of prudence which has led the Bank to allocate higher provisions than those legally required. "Other results" reflects mainly the impairment losses of non-current assets held for sale, after which the profit before taxes amounted to €1,272 million at year end, which was 25.6 per cent. lower than in 2007. After reorienting the business in Portugal from a mortgage profile to a retail banking business that is closer to the business conducted in Spain, the commercial banking business is segmented into the business of both countries – the Iberian Peninsula – on the one hand, and, on the other the business in USA, the special characteristics of which require individual analysis.

Commercial banking in Spain

The business in Spain is conducted through: (i) Banco Popular, which is present throughout Spain; (ii) and three specialist banks, one for mortgage lending (Banco Popular Hipotecario), another for private banking (Popular Banca Privada), and a third operating exclusively through the Internet (Bancopopular-e).

Banking for businesses

Banking for businesses contributed 68.4 per cent. of the interest and similar income from customers, 51.8 per cent. of the costs and 48.8 per cent. of the service fee and commission income. From the standpoint of average assets managed, the proportion is similar, since they represent 66.9 per cent. of the assets and 48.5 per cent. of the liabilities. Comparison with the previous year reveals an increase in the weight of banking for businesses as a proportion of the business overall, as a result of the efforts made to attract new businesses, mainly SMEs, which led to the substantial addition of 15,122 new businesses in 2008.

This segment includes big companies and SMEs. A big company is defined as a company with total assets of over €100 million and income of over €100 million. In the SME section, three types of enterprise are identified: a medium-sized enterprise is one whose total assets or income exceed €10 million, a small enterprise is one whose total assets or income exceed €1 million; and a micro-enterprise has total assets or income of under €1 million. As stated earlier, the strategy focuses fundamentally on the SMEs sub-segment, which provides higher profitability, as evidenced by the fact that 42.9 per cent. of the assets contributed 46.3 per cent. of the interest income, and 17.1 per cent. of the liabilities accounted for only 13.8 per cent. of the financial costs. It also contributed 35.2 per cent. of the service fee and commission income, as a result of using such products as bill discounting, guarantees, credit lines and factoring.

Banking for private individuals

Banking for private individuals contributed 33.1 per cent. of the total lending to customers and 31.6 per cent. of the interest and similar income. On the liability side, customer deposits contributed 51.5 per cent. of the total business and 48.2 per cent. of the costs, with an increase in weight in the course of the year. This growth was the result of the strong increase in the amount of deposits in 2008 aimed at reducing the commercial gap, with commercial efforts targeted on the personal banking segment, which is the most important in banking for private individuals with a weight of 32.8 per cent. in total deposits and 36.1 per cent. in financial costs, contributing

13.6 per cent. of the banking services fees and commissions. The personal banking segment is especially focused on customers with medium high income that do not own sufficiently high assets to qualify as private banking customers but that demand personalized service. Mention should also be made of the strong competition faced during the year in deposits for private individuals. The Group's commercial activity concentrated on attracting new customers, retaining existing customers and developing the personal banking and private banking value proposal.

Noteworthy was the contribution of homogeneous groups of customers, generally in the same profession, to which the Bank offers a series of asset and liability products tailored to their level of income and financial needs. The actions constantly targeting these groups achieve growth in volume and number of customers, both of them commercial banking priority objectives. These groups contributed 4.4 per cent. of the income, 1.1 per cent. of the financial costs and 4.2 per cent. of the service fee and commission income.

Commercial banking outside Spain

Noteworthy with regard to Banco Popular Portugal is the Group's emphasis on reorienting the bank's business towards commercial or retail banking, fundamentally with small and medium sized companies. With this objective, in 2007 and part of 2008 a plan to expand the network was undertaken and is now complete, giving a total of 235 branch offices and 1,376 staff distributed throughout Portugal.

This reorientation and expansion of the business enabled the bank's gross risk, which includes gross lending to customers and contingent exposures, to grow by 5.4 per cent. in the year to a total of €6,902 million in December 2008, with outstanding growth in non-mortgage products. The net interest income rose by 6.4 per cent. to €170 million.

United States

The commercial banking business in the United States is conducted through TotalBank, the accounting acquisition and consolidation of which were made at the end of 2007.

At 31 December 2008, the bank had 233 employees and 14 branch offices in the south of Florida. Of a balance sheet total of €1,363 million, lending to customers accounted for almost 70 per cent. and customer funds for 88.4 per cent. In a very unfavourable environment marked by the severe economic crisis, the TotalBank business experienced spectacular growth in 2008, both in lending to customers and customer deposits with variations of 36.7 per cent. and 24.6 per cent., respectively, totalling in the first case €698 million and in the second €655 million. This growth is proof of the strong commercial capability of a bank that had difficulties accessing the capital and funding that it needed.

Its inclusion in the Banco Popular Group has enabled it to overcome these restrictions and give a boost to its franchise. As a result of this growth the net interest income was up by 15.5 per cent.

Asset management

The asset management business unit comprises the collective investment institution management activities, the management of individual and collective plans, and Private Banking. For this business, the Group has one bank and a number of companies engaged in asset management, the most significant of which from the standpoint of contribution to Group earnings are located in Spain.

In 2008 the business was marked by the adversities of the fixed income and equities markets which, affected by the liquidity and solvency crisis, suffered a widespread crisis of confidence that led investors to undo their positions in favour of other safer assets such as government debt securities or bank deposits. As a result of this situation, the funds managed fell year on year by 25.1 per cent., with an impact on fees and commissions of 10.4 per cent., illustrating the improvement in the return by unit managed. The inevitable loss of fees and commissions, although partially offset by an improvement in net interest income, brought the gross operating income down by 17.2 per cent. and the pre-tax profit by 24.7 per cent.

Private banking

This activity is conducted mainly through the Banco Popular Banca Privada bank, in which the Group holds 60 per cent. of the capital stock and voting rights. The remaining 40 per cent. is held by the Luxembourg Dexia-BIL bank. This bank is orientated to servicing high net worth (at least €300,000) customers. The most outstanding aspect of the business in 2008 was the 7.5 per cent. increase in the number of customers of this segment, taking the total to 3,656. This growth was achieved against a background of widespread lack of confidence of customers in services of this type as a result of the Lehman bankruptcy, the Madoff fraud, the lack of liquidity of some investments,

and the heavy losses accumulated in direct or indirect investment in hedge funds, and is proof of the recognition of the prudent management that is the Group's sign of identity applied to this business unit.

Apart from that, due fundamentally to the loss in value of the assets managed, the net asset value was down by 24 per cent. from 2007, and closed the year with a volume of €5,087 million. This loss in net asset value was offset by the balance sheet growth from €1,473 million in 2007 to €1,977 million at the end of 2008, due to the increase in the volume of customer saving attracted.

Individual and collective pension plans management.

This activity is conducted mainly through Europensiones, a company domiciled in Spain which is owned 51 per cent. by the Group and 49 per cent. by the Allianz insurance company, and Predifundos, a wholly owned Portuguese subsidiary of Banco Popular Portugal. The assets managed by both institutions at 31 December 2008 amounted to €3,734 million, with a market share in Spain of 4.77 per cent., which was 7 basis points more than in 2007. The market share for individual system plans was 5.78 per cent.

Mutual fund management.

The Group manages a total of 107 mutual funds (109 in 2007) through several subsidiaries, with €8,649 million of assets managed. The fund managers in Spain, Popular Gestión and Popular Gestión Privada, were managing assets of €8,073 million at 2008 year end, which represents 93 per cent. of the total funds managed by the Group. At 2008 year end, there were 359,525 participants in the funds of these companies. As was the case for the sector as a whole, the performance in comparison with the previous year was not positive and 30.8 per cent. of the volume managed was lost. As explained earlier, the turmoil in the markets and the lack of investor confidence prompted a flight from funds towards deposits and other financial assets considered to be safer by fund participants, since they have the guarantee of public agencies or the Spanish Deposit Guarantee Fund.

The present crisis has also triggered a shift of assets from equities funds to more conservative funds. This meant that at the end of 2008 money market and fixed income funds accounted for 16.4 per cent. and 47.4 per cent., respectively, of the total assets managed, whereas in 2007 these figures were 11.8 per cent. and 38 per cent., respectively. Guaranteed funds accounted for 25 per cent. of the total assets, showing that our fund participants are currently in favour of products with a conservative profile.

Insurance activity

The insurance banking business unit is focused on pension and insurance products that include life insurance (both as a means of saving and for protection), miscellaneous insurance (mainly home, health and car insurance) and those linked to retirement. The range of products is adapted to each of the Bank's individual businesses and customer segments, be they private individuals, businesses or institutions.

This business contributed €37 million to the Group's income statement in 2008, which was 15.3 per cent. less than in 2007. This performance is related, on the one hand, to the lower volume of insurance and reinsurance premiums received in the year as a result of the lower volume of loans and credits and, on the other, to the negative impact of the markets on savings insurance (see Table 20). Eurovida (Spain) and Eurovida (Portugal) are the Group's two life insurance companies. The former is 49 per cent. owned by the Group, the rest of the capital stock being owned by the Allianz insurance group, and the latter is a wholly owned subsidiary of the Group. The on-balance sheet assets of Eurovida España grew by 12.8 per cent. in 2008, to €930 million, and its earnings by 2.8 per cent. In contrast, Eurovida Portugal sustained an 8.5 per cent. contraction in its assets with a year-end volume of €589 million, which was 11.4 per cent. less than in 2007. The Group also has the Popular Seguros non-life company, and an insurance broking subsidiary called Popular de Mediación, both of which are wholly-owned.

Institutional and markets activity

This segment mainly includes all the centralized activities plus those not assigned to any of the previous segments. Among the most significant are i) the raising of funds in the wholesale and inter-bank markets, ii) the treasury activity assigned to the held-to-maturity, the available-for sale and the trading portfolios, iii) asset and liability hedging transactions, iv) management of tangible and intangible assets including non-current assets for sale. Also assigned to this business area are the asset and liability balances arising from pensions, tax assets and liabilities, risk provisions, and all remaining assets and liabilities not expressly mentioned in the previous points. From the results standpoint, in addition to those arising from the activities listed above, the operating costs of the central services and non-recurring income are also included.

The profit for the year is marked by the deterioration of the net interest income as a result of the preference for liquidity, above all at moments of maximum uncertainty, and by the policies of maximum prudence applied,

which gave rise to heavy liquidity surpluses invested at very short term in products of maximum credit quality, with yields noticeably lower than the financing cost due to the positive slope of the curve and the spread differential. With regard to the other components of the income statement, the good performance of the treasury activities results and the allocation to this segment of the extraordinary gains arising out of the sale of the central services buildings and Banco Popular France, made it possible to absorb the increase in costs and financial and real estate asset impairment losses

The consolidated profit for the year, €83,604 million, is highly conditioned by the deterioration of net interest income on these activities. The strong convulsions that occurred on the monetary markets caused an abrupt increase in inter-bank financing costs at all terms, particularly at over three months.

Shareholders

At the end of 2008, Banco Popular Español, S.A. had 130,282 shareholders, compared with 121,427 at the end of the previous year.

The structure of the Bank's shareholder group remains in line with the previous year, with an increase in the ownership by investors owning a smaller numbers of shares. The vast majority of the Bank's shareholders (86 per cent.) own less than 4,000 shares. There are 118 shareholders owning more than 800,000 shares and they control 60.46 per cent. of the capital, compared to 125 shareholders that represent 58.25 per cent. that at the close of the previous year. Non-Spanish shareholders hold 36.69 per cent. of the capital at the end of 2008, compared with 34.94 per cent. in 2007.

The Board of Directors controls 501.9 million shares, 40.62 per cent. of the capital compared to 41.16 per cent. in the previous year, including shares owned directly or indirectly by the directors and those habitually represented by them.

Shares controlled by the Board of Directors at the close of the year 2008

Name	Directly	%	Indirectly	%	Total	% ⁽¹⁾
Allianz SE	10	0.00	116,197,622	9.40	116,197,632	9.40
Aparicio Valls, Francisco	380,560	0.03	0	0.00	380,560	0.03
Asociación de Directivos de BPE	40,000	0.00	0	0.00	40,000	0.00
Lucía, José María	14,108	0.00	0	0.00	14,108	0.00
Ferreira de Amorim, Americo	500	0.00	94,177,632	7.74	94,177,632	7.62
Gancedo, Eric	229,228	0.02	131,307	0.01	360,535	0.03
Herrando, Luis	3,950	0.00	4,000	0.00	7,950	0.00
Higuera, Roberto	67,000	0.01	0	0.00	67,000	0.01
Molins, Casimiro	22,000	0.00	0	0.00	22,000	0.00
Montuenga, Luis	83,479	0.01	0	0.00	83,479	0.01
Morillo, Manuel	50	0.00	0	0.00	50	0.00
Nigorra, Miguel	517,003	0.04	2,608,747	0.21	3,125,750	0.25
Osuna, Nicolás	-	0.00	34,218,232	2.77	34,218,232	2.77
Revoredo, Helena	-	0.00	5,671,840	0.46	5,671,840	0.46
Rodríguez, José Ramón	146,364	0.01	132,402	0.01	278,766	0.02
Ron Güimil, Angel	62,554	0.01	0	0.00	62,554	0.01
Santana, Vicente	11,000	0.00	1,403,140	0.12	1,414,140	0.12
Sindicatura de Accionistas de BPE ⁽²⁾	16,236,760	1.31	159,682,473	12.92	175,919,233	14.24
Solís y Mtnez.-Campos, Miguel Angel de	763,805	0.06	308,935	0.02	1,072,704	0.09
Tardío, Vicente	15,690	0.00	0	0.00	15,690	0.00
Total (directly and indirectly)	18,594,061	1.50	414,536,330	33.55	433,130,391	35.05
Represented shares (habitually) ⁽¹⁾					68,779,024	5.57
Total shares					501,909,415	40.62

(1) **Shares represented:** This table does not include the breakdown of the shares represented habitually by Members of the Board amounting to approximately 5.57 per cent. of the capital. Within this percentage the following participations are noteworthy: 1.20 per cent. of the Gancedo family, represented by Eric Gancedo; 1.04 per cent. represented by Luis Montuenga; 0.83 per cent. of the Solís family, represented by Miguel Ángel Solís; 0.75 per cent. represented by Vicente Santana.

(2) **Indirect holding of the Sindicatura de Accionistas de BPE:** includes the shares that Unión Europea de Inversiones, S.A. holds directly or indirectly syndicated, representing 5.421 per cent. of capital. 600,482 shares that are direct holdings of other Directors have been deducted. Without this deduction the indirect holding of the Sindicatura is 160,282,955 shares and its total holding is 176,519,715 shares (14.285 per cent.).

At December 31, 2008, the capital of Banco Popular Español was represented by 1,235,740,551 ordinary shares with a par value of €0.10 each, and they are listed on the four Spanish Stock Exchanges and traded in the Spanish continuous market. They are also listed on the Lisbon Exchange. Banco Popular shares are included in the Madrid Stock Exchange general price index, with a weighting of 2469 per cent. of the total and in the Ibex-35 index, which comprises the thirty-five most liquid stocks in the Spanish market, with a weighting of 2.32 per cent.

The capital increase for the takeover of the Group banks Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia was completed on 19 December 2008. As a result of this increase to cover the takeover swap equation, Banco Popular Español increased its capital by a nominal amount of €2,030,801.10 by issuing 20,308,011 ordinary shares with a par value of €0.10 each, of the same class and series of the shares currently outstanding, represented by book entries. Consequently, Banco Popular Español now has capital of €123,574,055.10 represented by 1,235,740,511 shares.

The new shares acquired the same dividend rights as the old shares on 12 January 2008, after payment of the second interim dividend for 2008. Consequently, the holders of the 20,308,011 new shares issued on 19 December 2008 will be entitled to the corporate earnings distributed hereafter.

The closing price of Banco Popular common stock was €6.08 at 2008 year end, a decline of 48.03 per cent. during the year. This decline can be compared to the 64.95 per cent. fall in the principal European banks (Dow Jones Europe Stoxx index). Taking into account the dividends paid during 2008, the fall in the shares of Banco Popular is reduced to 43.8 per cent. After sliding during the first two months of the year, the share price gained ground to reach a high of €12.21 at the close of 2 April. From then on the share price declined, in line with the sector and the market. And although in the month of September there appeared to be a timid recovery, it slid again and reached the minimum for the year of €5.60 on 5 December. It finally managed to scale ten percentage points by the end of the year.

In these conditions Banco Popular shares offer a very high intrinsic value, whether in terms of PER (7 times the EPS in 2008) or dividend yield (more than 8 per cent., both figures at 2008 closing prices).

The Executive Committee of Banco Popular, at its meeting held on 9 September 2009, in accordance with the conferred authority and resolutions passed at the Ordinary General Shareholders' Meeting held on 26 June 2009 and by the Board of Directors at its meeting dated 27 July 2009, resolved to initiate a share capital increase process in an effective amount of 499 million Euros.

Such share capital increase referred to above shall take place without pre-emptive shareholder acquisition rights and was for private placement amongst qualified institutional buyers, by means of an "Accelerated Bookbuilding" process, as the term is understood in international financial markets.

As stated, the share capital increase was directed only to the institutional sector comprised of qualified institutional buyers, resident in as well as outside Spain, by means of an accelerated bookbuilding process to be coordinated by the entity Credit Suisse Securities (Europe) Limited ("**Credit Suisse**") appointed by the Bank as lead manager and bookrunner of the placement.

As a consequence of the proposed transactions, core capital would increase to 8.49 per cent.-8.71 per cent. and Tier I capital to 9.80 per cent.-10.03 per cent. These capital levels would make Popular one of the best capitalized Western banks that has not received capital injections from the Government.

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 Offering Circular. The business address of all the members of the Board of Directors is C/Ortega y Gasset nº 29, 7th Floor, Edificio Beatriz, 28006-Madrid, Spain. As at the date of this Base Prospectus, there were no conflicts of interest in relation to members of the board of Directors of the Bank between any duties owed to the Bank and their private interests and other duties.

Nombre	Sociedad	Cargo
Allianz SE (representant: Herbert Walter)	Dresdner Bank AG	President
	Allianz AG	Director
	Deutsche Börse AG	Director
	TSV München von 1860 GmbH&.KG aA	Director
	Banco Portugués de Inversión	Director
Aparicio Valls, Francisco	Centro Social Universitario Pan de Azúcar, S.A.	Sole Director
Asociación Profesional de Directivos (representante físico: Roberto Higuera Montejo)	Popular de Mediación, S.A.	President
	Banco Popular Hipotecario, S.A.	Director
	Popular de Factoring, S.A., E.F.C	President
	Totalbank	Director
Ferreira de Amorim, Americo	Grupo Amorim	President
	Unión Europea de Inversiones S.A.	Director
Gancedo Holmer, Eric	bancopopular-e, S.A.	President
	Manuel Gancedo, S.A.	Director
	Gancedo y González, S.A.	Director
Herrando Prat, Luis	Instituto de Educación e Investigación, S.A.	President
	Sociedad de Promoción y Desarrollo Talde, S.A.	Director
	Bilbao Equity SIMCAV, S.A.	President
	Asistencia Clínica Universitaria de Navarra, S.A.	Director
	Popular Banca Privada, S.A.	President
Mas Millet, José María (representante físico de Sindicatura de Accionistas)	Autopistas Aumar, S.A.	Director
	SOS Cuétara, S.A.	Director
	Telefónica Móviles, S.A.	Secretary Director
Molins Ribot, Casimiro	Norokapp Inversiones, S.V., S.A.	Secretary Director
	Cementos Molins, S.A.	President
	Cementos Molins Industrial, S.A.	President
	Inversora Pedralves, S.A.	President
	Otinix, S.A.	President
Morillo Olivera, Manuel	–	–
Nigorra Oliver, Miguel	Nova Santa Ponsa Golf, S.A.	President
	Gestión y Administración Registral, S.L.	President-CEO
	Habitat Golf Santa Ponsa, S.A.	President
Osuna García, Nicolás	Invernima, S.L.	President
	Grupo de Inversiones Noga, S.A.U	President
Rodríguez García, José Ramón	Banco Popular Hipotecario, S.A.	President
	Inmobiliaria Urbana de la Moncloa, S.A.	President
	Prosegur, S.A.	President
Revoredo Delveccio, Helena	Hispaninver, S.A.	Sole Director
	Prorevisa, S.A.	Sole Director
Ron, Ángel Carlos	–	–
Higuera, Roberto	Popular de Mediación, S.A.	President
	Banco Popular Hipotecario, S.A.	Director
	Popular de Factoring, S.A., E.F.C	President
	Totalbank	Director
Solís, Miguel Ángel de	Sur CIA. Española de Seguros y Reaseguros, S.A.	Director

<u>Nombre</u>	<u>Sociedad</u>	<u>Cargo</u>
Tardío Barutel, Vicente	Allianz Compañía de Seguros y Reaseguros, S.A	President and CEO
	Mundial Asistencia Seguros y Reaseguros, S.A.	Representant
	Fénix Directo Compañía de Seguros y Reaseguros, S.A.	Representant
	Allianz Inversiones Sociedad de Valores, S.A.	President
	Eurovida S.A.	Director
Unión Europea de Inversiones, S.A. (representante físico D. Luis Montuenga Aguayo)	Consultores Financieros e Industriales, S.A.	Sole Director
	Unión Europea de Inversiones, S.A.	President

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) 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.

Risk Management

The risks implicit in the banking activities conducted by the Group are managed with criteria of prudence, permanently safeguarding the basic objectives of solvency, profitability, efficiency and adequate liquidity.

The risk policy is a synthesis of strictly professional criteria for the analysis, assessment, assumption and monitoring of risks by all the entities comprising the finance group, which are conducive to maximization of the risk/return concept inherent to credit and market risk, and minimization of all other risks (operational, liquidity, interest rate, concentration, business, reputational and other).

The in-house policies, which are known to and applied by all the Group's business areas to achieve integral risk management and control, are set forth in a Lending Policies Manual, approved by management, which vigilantly verifies effective compliance with them. Noteworthy in Risk Management, as signs of identity and management criteria, are the following aspects:

- Involvement of senior management: Among other functions, the Group's senior management regularly monitors the progress made in the internal management of risk with the aim of expediting the implementation of the new international capital regulations (Basel II), which are already being used in the day-to-day risk management, allocating the necessary material and human resources, as well as defining a comprehensive risk framework, setting an appropriate risk policy and taking care to ensure its ongoing adaptation to any variations in markets, customers and regulations that may occur.
- Separation between the risk and commercial areas.
- Formal system of attributions for the extension of credit, under which the various hierarchical levels in the organisation have been assigned delegated powers for the authorisation of transactions.
- Priority of risk policies intended to guarantee the Group's stability, short- medium- and long-term viability, and to maximise the risk-return ratio.
- Scrupulous compliance with all aspects of the applicable legislation, paying particular attention to following the instructions for the prevention of money laundering and the financing of terrorism.
- Bespoke tailoring. Terms and conditions are negotiated with the customer depending on their connection to the Bank, the risk being assumed and the return thereon.
- Nimble response in deciding on proposed transactions, as a basic competitive instrument, without detriment to the thoroughness of the analysis.
- Pursuit of maximum balance between lending and funds.
- Diversification of the risk attached to lending, setting or complying with the limits extended to borrowers, sectors and distribution by terms.

- Profitable, quality lending, opting for profitable, balanced and sustained growth overall and for risk-adjusted return at individual borrower level.
- Flexibility of the target-oriented organisational structure.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Application of in-house automatic rating or scoring systems.
- Monitoring of risk from analysis to termination.

The Group has in place risk control systems covering the entire range of its activities, which basically consist of the commercial banking business. These systems address credit or counterparty risk, including concentration risk, market risk, liquidity risk, interest rate risk, operational risk, business risk and reputational risk, and embody formal procedures for analysis, authorization, monitoring and control, which are applied in a way consistent with the nature and amount of the risks and under the supervision, as appropriate, of collegiate decision-making bodies, specifically the Risk Committee, the Management Committee and the Assets and Liabilities Committee.

In accordance with the new framework of International Convergence of Capital Measurement and Capital Standards (Basel II), the comprehensive management of the different risk exposures and their coverage in terms of regulatory and economic capital is performed by the General Management Risks Department on the premises defined by the Board of Directors through its Risk Committee.

For the purposes of the following analysis, seven major categories of risk are addressed: credit risk, cross-border risk, structural balance sheet risk, market risk, liquidity risk, operational risk and reputational risk.

Credit risk

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

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

Credit risk analysis

The Group has in place a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organization have been assigned delegated powers for the authorization of transactions, which vary depending on a number of factors, such as:

- The probability of default according to Bis II internal models/Technical Alerts
- The amount of the transaction
- The transaction interest rate
- The maximum term of the transaction
- The party to the transaction
- The sector of activity
- The yield

For these purposes, the steps in the organization with delegated powers for authorising transactions are as follows:

- Branch Office
- Regional Management to which the branch belongs in the case of Banco Popular, Area Management in the case of the banking and other subsidiaries, or the Retail Banking Office.
- Senior Line Management in the case of Banco Popular and General Managements in the case of the banking and other subsidiaries
- Commercial Network Lending/Corporate Risks

- General Management Risk Department
- Risk Committee
- Board of Directors or Executive Committee

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

- International Financial Institutions and Treasury Offices, which through the units that report directly to them may propose the acceptance of Financial Institution risks, or Public and Private Sector issues covering a range of financial assets traded on capital markets to the Risk Department.
- Wholesale Banking, which through Commercial Network Risks or Corporate Risks may propose the acceptance of risks to the Risk Department, if the complexity of the risk structures and designs so requires.

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

The Committee analyzes and decides on a half-yearly basis on risk limit authorizations for customers or economic groups relating to amounts exceeding €60 million, and limits exceeding €30 million are decided on yearly. This limit is lowered to €20 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 or a PD of more than 10 per cent. of the economic group. In addition, it takes decisions regarding any new risk with a unit amount exceeding €15 million. Transactions originated by the network of commercial agents also commence through a Branch Office and are subject to the control of attributions as described above.

Risks with related parties, such as transactions with significant shareholders, members of the Board of Directors, General Managers or their equivalents, or with companies related to them, and with Group companies, are expressly excluded from the foregoing delegated powers, and can only be authorized by the Board of Directors or the Executive Committee, after receiving a report from the Risk Committee, unless they are performed under standardized contracts or with generally stipulated conditions or involve low amounts, and other exceptions established by the regulations.

For the admission of risks and the rating of customers based on their credit profile, and as support for decisionmaking, the Group has internal credit risk rating and scoring models. For the retail segment the credit-scoring models used are tailored to each kind of product. For the businesses segment, the internal rating is calculated on the basis of analysis of variables representative of their economic and financial position and their activity sector. For the big companies and financial institutions segments, the Group has replication models.

At 31 December 2008 Banco Popular had received authorisation from the Bank of Spain to use advanced models for risk management within the framework of Basel II for its retail and medium-size business mortgage portfolios.

Lastly, the Bank has developed its own complete model for measuring credit risk and concentration risk in order to estimate the adequate economic capital for its risk profile and comply with the capital self-assessment obligations under Pillar II of the Accord, which is supported by and integrated with the developments undertaken to estimate the risk parameters included in the models described above.

To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Group's network has received numerous training actions on the philosophy and objectives of Basel II in order to adapt to its requirements, to the new concepts, tools and management models.

A new Lending Policies Manual has been authorised and published containing:

- The Bank's risk profile
- Credit risk operating standards
- Risk analysis, admission and monitoring policies

- System of attributions and delegation procedure.
- Credit rating models
- Definition of and exposure to other risks

The Group has an Internal Validation unit in line with the guidelines established by the Supervisor in “Validation Document no. 2: Internal validation criteria of risk management advanced models.” The opinion of the Internal Validation unit is a fundamental requirement for the approval of the internal risk rating models, and for the monitoring of them and any changes that are required after approval.

The scope of the validation covers the essential elements of an advanced risk management system, which requires the review of the following items:

- *Methodology*: adequacy of the statistical method, the assumptions and the techniques applied.
- *Documentation*: quality and sufficiency of the documents supporting the models.
- *Data Used*: quality of the data used when developing the models and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.
- *Quantitative Items*: a number of measures are developed that permit the periodic evaluation of the validity and efficiency of the parameters and models.
- *Qualitative Items*: review of the information generated by the models, and compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to Corporate Governance and the adequacy of the internal controls.
- *Technological Environment*: review of the systems integration, the applications environment and the quality of the information provided by the systems.”

Credit risk monitoring

The monitoring of the transactions approved makes it possible to evaluate risk quality at borrower level and establish mechanisms for special supervision of their evolution, and to react to avoid situations of default. In this respect, the Group has a surveillance system in place, based on “Technical Alerts” and “Information Alerts”, that uses the evolution of the rating levels to enable it to take preventive measures for current risks.

This system 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 and be warned of situations such as: negative information, financial statements, variation in rating levels, past-due credit accounts, overruns, overdrafts, non-payment of trade discounts, loan repayments not made at due date, etc.

The monitoring of the technical alerts is performed by the Risk Monitoring offices located at each of the territorial headquarters and banking subsidiaries and at the Central Services. Risk Monitoring performs thorough monitoring of certain customer risks and economic groups with a high volume of risk exposure or that present certain incidents.

This monitoring is divided into three groups according to its intensity: intensive, i.e. weekly review of the status of risks; periodical, i.e. monthly review; and sporadic, i.e. quarterly review.

The Control and Audit Area performs monthly analyses of customers with incidents. Based on this information, plus additional financial or other documentation relating to the customer, Risk Monitoring 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 based on the circumstances of each case analyzed is inserted graphically in the borrower’s electronic file, a teleprocessing application that includes all the customer’s information with all the positions, for consideration in risk-related decisions. In drafting and defining this report the BIS II probability of default parameters are also taken into account.

This system of alerts is supplemented by an analyst’s report, also included in the customer’s electronic file, which by means of a questionnaire about the evolution of the customer, of the customer’s risks and incidents, asset situation, guarantees, etc., summarises the policy to be followed and identifies the necessary actions for the satisfactory outcome of the risks. If there is more than one rating and more than one risk policy for the same customer, those assigned by the Risk Monitoring Office prevail over those assigned by the branch office or territorial management.

The risk of concentration is also constantly monitored by continually analysing the structure of the loans and receivables, broken down by amounts, terms, sector of activity, type of transaction, geographical area and other attributes that are considered relevant.

Management of non-performing balances and recovery of impaired assets

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

The Default Analysis and Claim Centre is responsible, in the first instance, for handling defaults; it analyzes the risks in an irregular situation and establishes, based on 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 the appropriate measures for balance regularisation. Initially, use is made of the out-of-court or amicable route by means of direct negotiation with the debtors (by telephone, mail or personal contact) or by engaging the services of prestigious collection entities.

If it is necessary to file a claim through the courts, the procedure is as follows:

- Depending on the type of transaction, an internal or external manager is assigned to the claim. A claim is filed, and irrespective of whether the proceedings are handled by an in-house or external legal practitioner, the managers constantly monitor any positive or negative court rulings.
- The final court rulings by the legal practitioners will ultimately give rise to either the recovery of the investment or a negative ruling (leading to a loss for the Bank).
- For adequate management of non-performing balances, the Group has an internal computer application, integrated into the teleprocessing system, which permits prompt and precise monitoring of the evolution of all delinquent risks and, in particular, of the debt actions filed.

Total exposure to credit risk

The Group's total exposure to credit risk at 2008 year end amounted to €112,737 million, an increase of 3.4 per cent. year on year.

Overall credit risk exposure

Amounts in Euro thousand

	<u>31 December</u>		<u>Per cent. Variation</u>
	<u>2008</u>	<u>2007</u>	
Commercial banking activity:			
Lending to customers	93,452,619	88,513,558	5.6
Contingent risks	15,132,009	12,314,679	22.9
Total	108,584,628	100,828,237	7.7
Market activity (counterparty risk)	4,151,980	8,192,095	(49.3)
Total exposure	112,736,608	109,020,332	3.4
Unused portion of credit lines	17,099,900	19,707,259	(13.2)
Maximum credit risk exposure	129,836,508	128,727,591	0.9

The Group's credit risk is primarily the outcome of commercial banking, which is its main field of business. 86 per cent. of its exposure at 2008 year end consisted of loans and receivables and the remaining 14 per cent. related to contingent exposures. Activities in the markets contributed 3.68 per cent. of the total exposure.

In the commercial banking activity nearly 93 per cent. of the risk is exposure related to Spain, 6.4 per cent. to Portugal and 0.9 per cent. to USA.

As regards the unused portion of credit lines, Spain again accounted for the largest part with 93.5 per cent., Portugal contributed 5.5 per cent. and USA 1 per cent. Of the business in Spain, the major portion was concentrated in businesses and private individuals, accounting for 91.6 per cent. of the total commercial banking risk and 53.9 per cent. of the total unused portion of credit lines. Finally, the heading Remaining Risks includes non-segmented customers, among which €1,924 million in public asset repos are booked.

In Spain, the 71.13 per cent. of the direct risk relates to the businesses segment and 28.87 per cent. to private individuals. Having regard to the limits granted, the weight of the businesses segment is 72.92 per cent., since

93.85 per cent. of the unused portion of credit lines relates to this segment. Having regard to the total risk drawn down, 62.02 per cent. relates to the small and medium-sized business segment and the remaining 37.98 per cent. relates to large companies. If the risk limit is taken into account, the weights are very similar, 62.30 per cent. and 37.70 per cent., respectively.

The degree of risk concentration with businesses, making a distinction between large, medium-sized and small companies, as well as the default rates in each sector, is set out in Table 28. At the aggregate level, it may be observed that the maximum concentration arises in the service sector, which reflects 52.2 per cent. of active risks and a default rate of 3.42 per cent. The second largest concentration arises in the construction sector at 24.4 per cent., which is logical bearing in mind its weight in the Spanish economy. This sector, which includes both public and private works, has a non-performing loans ratio of 3.52 per cent. The industrial sector accounts for 18.1 per cent., and the primary sector for 2.0 per cent. of the total segment risk. This distribution also holds for the breakdown by type of business, although as the size of the business decreases there is a lower contribution from the construction sector, to the benefit, above all, of the retail, hotel, transportation and industrial sectors. The nonperforming ratio is 3.49 per cent. for big companies, 2.86 per cent. for medium-sized companies and 2.80 per cent. for micro and small companies.

In the business mortgage portfolio, the Bank has a high level of over-collateralization, which is almost twice the value of the investment. In accordance with criteria of maximum prudence, the value of this guarantee is calculated based on the original price and has not been updated, and therefore the realizable value is much higher, particularly in the longest-standing portion of the portfolio.

On mortgage loans to developers breaks down the total balance in order to identify the nature of some homogeneous groups. There are 2,583 transactions, for a total amount of €721 million, whose initial balance is less than €1 million, which represents a large dispersal of risk. There are loans totalling €668 million relating to assets for the Bank's own use and not available for sale, and therefore they are unaffected by the situation of the real estate market. Of the rest, €5,076 are home mortgages.

With regard to the degree of concentration of credit risk, the Bank of Spain regulations stipulate that no customer, or group of customers that form an economic group, may represent risk exceeding 25 per cent. of the Group's equity. Also, 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. The calculations in this respect are based on the Group's consolidated computable capital used for the purposes of the Bank of Spain solvency ratio.

The Group applies internal risk dispersion criteria that are much stricter than the regulatorily stipulated ones. In 2008, as in 2007, all individual and economic group borrowers were below the stipulated 10 per cent. limit.

Accordingly, neither of the two aforementioned limits of concentration are exceeded by the Group. As indicated in the section on Credit Risk Analysis, the Bank has internal credit rating models for large, medium sized and small companies. It also has advanced models for financial institutions and for the mortgages of private individuals. Table 30 shows the main risk parameters of the models used to calculate capital by the advanced method. The probability of default (PD) is the indicator used by the Group for its management.

In the case of severity or LGD, the figure shown is calculated for a recessive period of the Spanish economy. This was done taking into account not only the behaviour of certain variables during the last cycle, but they were also stress-tested based on their possible future evolution.

Banco Popular therefore considers that the LGD reported are minimum amounts and expects to obtain higher rates of recovery. Actual defaults are much lower than the estimated probability of non-performance, due to the high rates of recovery attained. As regards risks with private individuals the breakdown of these risks by type of product, indicating in each case the non-performing loans ratio. As may be observed, 79.6 per cent. of the risk with private individuals is concentrated in loans with mortgage guarantees. The average non-performing ratio of this product is 1.83 per cent.

In the private individual mortgage portfolio, as is the case with corporate entities, in addition to the low probabilities of default, the Bank also has a high level of overcollateralization in Spain, which is 1.7 per cent. times the value of the lending. Since the value of this guarantee is calculated based on the original price and has not been updated, the realizable value therefore is much higher, particularly in the longest-standing portion of the portfolio.

The quality of the private individual mortgage portfolio can also be seen by observing the use to which the collateral is put. As shown in Table 32, 74.68 per cent. of the risk is backed by a primary residence and has an average LTV ratio of 60.1 per cent. In addition, a further 14.73 per cent. is guaranteed by second homes, with an LTV of 62.1 per cent. Overall, 89.41 per cent. of the mortgage guaranteed risk of private individuals is backed by a residential use guarantee.

Another significant aspect that illustrates the criteria of prudence applied by the Group in extending credit is the average rate of effort. In the private individual mortgage portfolio, this indicator stands at 22.8 per cent., which is well below the standard for the market of 30 per cent.

The commercial banking business in Portugal accounts for 73.9 per cent. of its balance sheet. At 31 December 2008, it amounted to €6,902 million and consisted of €6,284 million of lending to customers and €617 million of contingent exposures, after consolidation adjustments.

The gross risk of this segment increased by 5.4 per cent. This growth is based on the good performance of all the headings except for the mortgage portfolio, which is still undergoing restructuring, with a 15.9 per cent. reduction in the balance of loans with mortgage guarantees for property development and construction, and a 10.4 per cent. increase in the home purchase loans to private individuals.

The growth of the other portfolios is a result of the strategy applied by the Group to diversify the business lines and increase the penetration in the SMEs segment of the Portuguese market. 40.6 per cent. of the total risk to customers has some type of collateral: mortgage guarantee, goods under finance lease, and recourse to the ceding entity in the case of the trade discount portfolio.

The doubtful assets amounted to €238 million, a significant increase deriving from Portugal's macroeconomic situation. Credit loss allowances totalled €216 million at the end of 2008, after increasing by €97 million during the year. As a result, the non-performing loans coverage ratio stood at 72.73 per cent. at 31 December 2008, compared with 92.52 per cent. the previous year.

Markets activity: all the credit or counterparty risk arises from the treasury and capital market activities. For analysis purposes, the types of products are classified in three groups depending on the credit risk exposure measurement: (i) principal and interest risk, which affects deposits and fixed income instruments; (ii) risk consisting of the market value plus a factor that reflects the estimated future potential risk based on term and volatility, which affects IRS, repos, FRAs, foreign currency dealing, etc.; and (iii) other derivatives risk (exotic options, commodities, etc.) calculated by simulating the market value in response to an extreme variation of the risk factors.

At the end of the year this risk amounted to €4,152 million, with an overall decrease of 49.3 per cent. compared with 2007, mainly as a result of the inclusion of the €2,372 million of derivatives credit risk mitigations gains. These mitigation gains come from the coverage provided by the netting arrangements and the collateral deposits under the ISDA-CSA master agreements, which hedge the net revaluation, at market price, of all the outstanding derivatives transactions. 2008 ended with 22 collateral agreements concluded with the counterparties that are most active in derivatives trading, with daily review of the guarantee for the majority of the agreements.

Without these mitigation gains, the overall risk would be €6,915 million, a drop of 16 per cent. year on year due to the reduction in exposure, mainly in fixed income and interbank deposits. Excluding the mitigation effect, 50.58 per cent. of the total exposure related to interbank deposits and fixed income financial assets, 48.27 per cent. related to repos and simultaneous exchanges, interest rate derivatives and foreign currency purchase and sale, and the remaining 1.15 per cent. related to equity derivatives.

With regard to the geographical distribution, 91.37 per cent. of the risks were concentrated in the euro area, 6.57 per cent. in non-euro Europe, mainly the United Kingdom, and 2.06 per cent. in the Dollar-Yen area. The exposure to financial institutions is spread over rating levels of AA+ to A-. There is also exposure to issuers of government debt securities, for which there is no internal rating.

Analysis of credit risk quality

For credit risk analysis purposes, problematic assets are classified on the basis of several criteria: breach of the loan repayment schedule (past due assets); the unsatisfactory state of the borrower's asset or financial situation (doubtfully collectible assets); or the existence of litigation that makes recovery uncertain (disputed assets). In the following text, these three components are generically classified as non-performing loans or troubled balances receivable. Risks that it has not been possible to recover after expiration of the regulatory term are classified as bad debts and are removed from the balance sheet. Regardless of whether they have been written off for accounting purposes, the Bank maintains its collection rights against the debtor and continues to pursue repayment of them.

As coverage for its credit risk, the Bank has credit loss provisions booked with a charge to profit, as described below.

First, there is a specific provision for non-performing loans in accordance with a regulatory established calendar and, in the case of the doubtful or disputed balances, based on a reasonable estimate of their recoverability.

Secondly, there is a general credit loss provision covering all the assets not classified as non-performing. This allowance is booked, having regard to past experience of impairment and other circumstances known at the

time of evaluation, and reflects the inherent losses incurred at the date of the financial statements which are pending assignment to specific transactions. For this purpose, two tranches of coverage percentages that rise depending on the estimated degree of risk (no risk, low risk, medium-low risk, medium risk, medium-high risk and high risk) are applied for all outstanding risks segregated into homogeneous groups. The first tranche is called the alpha component and is applied to the variation in the balance during the year. The second is called the beta component and is applied to the ending balance of the period addressed. The figure determined by these calculations, which are performed quarterly, minus the specific provisions booked in the period, constitutes the amount of the allocation to this provision. The general allowance is limited to the amount resulting from application to the period ending balance of a parameter equal to 1.25 of the alpha component. A change has recently been made to the minimum amount of this provision in order to facilitate greater use of it in response to the change in cycle.

Following this regulatory change, the minimum general allowance is the result of applying 10 per cent. of the alpha component to the ending balance for the period. The aggregate amount of the two provisions described above constitutes the credit loss provision.

Over the past few years the Group has applied very demanding credit quality criteria. At 31 December 2008, the balance of troubled risks or non-performing loans amounted to €3,043 million, an increase of €2,208 million in the year (see Table 34). This was the outcome, on the one hand, of a net addition to the exposure for nonperforming loans of €2,779 million and, on the other, of the writeoff of €571 million of non-performing balances, of which €332 million were charged against credit loss provisions and the remainder was charged directly against profit.

The non-performing ratio of 2.76 per cent. for the business in Spain was clearly better than the 3.14 per cent. figure published in November for all Spanish banks and savings banks. The 43 basis points improvement signified an expansion of the delinquency differential between Banco Popular and the Spanish banking system, which in December 2007 stood at 17 basis points. In the consolidated balance sheet the rate was 2.80 per cent. because of the greater delinquency in Portugal.

The insolvency ratio, i.e. bad debts written off as a percentage of total risks, was 0.53 per cent., 30 basis points higher than in 2007. Of the provisions of €905 million for loans and receivables booked in the year, €189 million related to voluntary or precautionary provisions. The latter, as stated earlier, are a reserve to absorb potential future needs for provisions which may be considered to be added to the nearly €1,300 million of general allowances. Excluding the effect of these precautionary provisions, the risk premium was 81 basis points in 2008. Also following principles of prudence, the Bank preferred not to release €244 million from general allowances.

The credit loss provisions booked at the end of 2008 amounted to €2,222 million, which was €400 million (22.0 per cent.) more than at 31 December 2007. The total provisions are the sum of €922 million of specific allowances for troubled risks, €1,296 million of general allowances and €4 million to cover cross-border risk.

To face the tricky economic situation, the Group has a set of instruments to provide coverage of its non-performing loans. The first are the guarantees received and the second are the provisions booked in accordance with the criteria of prudence discussed earlier. In total, as shown in Table 35, the coverage ratio is a healthy 159.4 per cent. of the nonperforming loans, which descends to 133.4 per cent. if 30 per cent. of the value of the guarantees is subjected to stress.

Foreclosed assets

The non-current assets held for sale, substantially all buildings, amounted to €1,661 million at 2008 year end, an increase of €1,433 million in the year.

Some of them are foreclosed assets. Others are opportunistic investments made by the Group with the aim of obtaining capital gains in the medium- and long-term. The remainder are assets purchased from customers in special situations with the aim of facilitating the continuance of their business without impairing the Bank's position.

These assets are presented on the balance sheets at the lower of their carrying amount and their fair value, which is determined on the basis of the estimated amount for which they will be sold, net of the cost of sale. Any losses detected are recorded immediately under the Losses from impairment of assets caption in the statement of income. Losses of €73 million were recorded in 2008.

Cross-border risk

Cross-border risk, also known as country risk, is an additional component of credit risk. It arises from the difficulties being experienced by borrowers in certain foreign countries in meeting their payment obligations. Breach of these obligations may be due to the financial situation of the borrower (in which case the risk is treated as credit risk), or to the fact that, even though the loans could be repaid in local currency, the funds cannot be

transferred abroad due to the country's economic difficulties. Under the applicable regulations, provisions must be recorded for these risks on the basis of the estimated impairment.

The principles for managing cross-border risk continued to reflect a policy of maximum prudence, with cross-border risk being assumed very selectively in transactions that were clearly profitable for the Group and strengthened global relations with its customers.

At the end of the year, all of the Group's risks affected by country risk totalled €106.6 million, which was higher than the figure recorded at the end of 2007 (€66.1 million). These figures are not significant compared with the Group's total risk, as they represented 0.10 per cent. and 0.07 per cent. in 2008 and 2007, respectively. The provision recorded for country risk amounted to €3.9million (4.5 per cent. less than in 2007).

The balance of the allowance recorded represents country risk coverage of 3.6 per cent., compared with 6.8 per cent. in the preceding year. This reduction is the result of higher crossborder risk quality compared with 2007, with a higher weighting of countries with negligible risk.

Structural balance sheet risk

This consists of the risks arising from possible adverse variations in the interest rates on assets and liabilities, in the exchange rates of the currencies in which the on- (asset and liability) or off-balance sheet aggregates are denominated, and in the market prices of marketable financial instruments. It also includes business risk, defined as the possibility that the gross operating income may not be sufficient to cover the fixed costs due to changes in the amounts of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions.

Given Banco Popular's efficiency ratio, the risk of the gross operating income being lower than the fixed costs is practically impossible. Nevertheless, the estimated variations in the gross operating income as a result of changes in the balance sheet structure and in the amounts of the various items based on the macroeconomic scenarios considered are analysed periodically.

The exchange rate risk of the business in the Iberian Peninsula is practically nonexistent as a result of the criterion applied in this respect: cash and financial asset positions in currencies other than the euro are confined to the placement of surplus cash arising from the commercial banking activities in the same currency and at similar terms.

The acquisition of Totalbank at the end of 2007 has given rise to some US dollar exchange rate risk as a result of the profits generated by the franchise. Additionally, given the performance of the dollar in the first months of the year, it was decided to renew in euros the financing of the purchase amount. There is therefore an open position in dollars for the sum of both items. This risk is monitored constantly and is managed by carrying out partial or full hedges based on the expected evolution of the dollar in the short- and medium-term. As a result mainly of this management, a positive valuation adjustment of €24 million in the net asset value of Banco Popular was recorded in 2008.

Interest rate risk

For analysis and control of this risk, the Group has an Assets and Liabilities Committee (ALCO), the tasks of which include evaluation of balance sheet sensitivity to variations in the interest rate curve in different scenarios, setting short- and medium-term policies for managing the rates, the spreads and the aggregates of assets and funds. For this purpose, simulations are made using different scenarios of growth of the balance sheet aggregates (optimistic, pessimistic and base), of the performance of margins and of variation in the interest rate curve in order to measure the sensitivity of the financial margin to these variables over a time horizon of three years.

The maturities and re-pricing gap in the consolidated balance sheet, broken down by the sensitivity or not to interest rates of the assets and liabilities grouped together in different periods, 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 Group periodically measures the effects of the variations in interest rates on the sensitive net interest income over different time scales, and on the economic value. This is done by considering all of the positions sensitive to interest rates, including both the implicit and explicit interest rate derivatives, and excluding the positions that form part of the held-for-trading portfolio, the risk of which is measured separately. Also included are the internal hedging positions taken to manage balance sheet interest rate risk that correspond to positions of opposite sign that form part of the held-for-trading portfolio.

The economic value is calculated as the sum of the fair value of the net interest rate sensitive assets and liabilities and the net carrying amount of the asset and liability items that are not sensitive to interest rates. The fair value of the interest-rate sensitive items is obtained as the adjustment, using the interest rate curve of the interbank market at the date of reference, of the future flows of principal and interest of all the interest-rate sensitive items, also considering the sensitive positions that form part of the held- for-trading portfolio. To evaluate the potential impact of interest rate risk on the economic value, the assumption of permanent stability of the size of the balance sheet is considered.

At 31 December 2008, interest-rate sensitive assets totalled €96,229.9 million, compared with €85,235.6 million of similarly sensitive liabilities, with an aggregate positive gap of €10,994.3 million. For a good part of 2009 the maturities of sensitive liabilities exceed those of sensitive assets. As a result, in the most likely scenario for 2009, i.e. the one discounted by the market, of falling interest rates through the second quarter and a slight rise thereafter, Banco Popular expects an improvement in the net interest income.

The same conclusions can be reached by analysing the duration of the different sensitive items of the balance sheet in euros, distinguishing between the duration of all the transactions and that of those maturing or being repriced in the first year. Interest rate risk is mainly managed with derivatives. The policy is to arrange the most perfect possible hedges, and this is why the preference is to arrange individual hedges. As a result, most of the hedges are concentrated in wholesale market funding operations. An exceptional case is that of liability and interest rate derivatives sold to customers of the commercial network which, due to their amount, are hedged by aggregates as soon as a volume permitting this is accumulated.

A special characteristic of the Group's interest rate management is the existence of lower limits or "floors" in a majority of the transactions that comprise the lending to customers. At 31 December 2008, transactions with floors accounted for 55 per cent. of the outstanding balances. Taking into account the distribution of floors by exercise price and the evolution of interest rates during 2008, at 31 December around 1.6 per cent. of the outstanding balances with floors were operational. Taking into account the expected evolution of interest rates as indicated in previous paragraph, most of the floors will be exercised in 2009, signifying a clear resistance to the lowering of interest income which, together with the expected reduction in costs, will boost the net interest income.

At the end of the year, the effect of a 200 basis points shift in euro interest rates with respect to the current implicit rates had an impact on the income over a one-year time scale of 1.38 per cent. of equity. With regard to the sensitivity of the economic value, the impact of a similar shift of 200 basis points is 4.79 per cent. on equity and 3.46 per cent. of the economic value. The impact due to the variation in rates of other currencies is considered to be immaterial because of the Group's scant position at year end. The sensitivity of both the income and the economic value to very stressed variations in interest rates is well below the maximum thresholds recommended by current legislation.

Market risk

Market risk consists of the risks arising from possible adverse variations in the market prices of the marketable financial instruments managed by the Group's Treasury as a result of adverse variations in interest rates, exchange rates, share or commodity prices, credit spreads, or the volatility thereof. It also includes the liquidity risk associated with these positions, i.e. the impossibility of closing out positions in the market in a short space of time. For this purpose, positions are valued over a time scale equal to the estimated time it will take to close the risk.

In order to control the market risk of the area's activity, on a daily basis the Treasury Risks Management area monitors the trades, calculates the impact on positions of market performance, quantifies the market risk assumed, the regulatory capital consumed, monitors compliance with the limits established and analyses the ratio between the result obtained and the risk assumed.

The Bank's Treasury activities in the financial markets are exposed to market risk due to unfavourable variations in the following risk factors: interest rates, exchange rates, share prices and volatility. The indicator used to measure market risk is Value at Risk (VaR), defined as the estimated maximum potential loss based on historical data on price variations, calculated with a given level of confidence and over a given period of time. To standardise the Group's overall risk measurement, the parametric VaR methodology is used. It is calculated with a 99 per cent. confidence level, based on past 75-day variations, giving greater weight to more recent observations, taking a time period of one day to measure the possible losses, since all the open positions are highly liquid.

To round out the parametric VaR estimates obtained, for trades with optionality the delta-gamma VaR is also estimated by historical simulation. This methodology makes it possible to capture non-linear relationships between the risk factors. The methodology for measuring the risks is based on analysing the sensitivity of the Treasury activity positions to variations in interest rates and volatilities. These sensitivities provide information about the impact of an increase in each risk factor on the economic value of the positions. Past variations in the risk factors

over the preceding 250 days are taken into account, and the calculation is performed with a confidence interval of 99 per cent. It should be mentioned that the risk of the trading in structured or exotic products is very low because there is active management to hedge the risk: in the case of smaller branch network trades, the positions are closed on reaching the minimum amount that can be hedged efficiently, and in the case of big custom trades the hedging is immediate, on a trade-by-trade basis.

In 2008, the average VaR of the Treasury trading activity was €1.73 million. Despite the prudent risk management which characterises the Group, the risk assumed increased in the second half of the year, triggered mainly by the volatility prevailing in the financial markets.

The aggregate risk presents a substantial diversification benefit of 29 per cent., on average, as a result of the scant correlation between the prices of equities and the yield curves. To check the suitability of the risk estimates and the consistency of the VaR model, the daily results are compared with the VaR estimated loss. This exercise is called Backtesting. Following the recommendations of the regulator and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

- **Clean backtesting:** this relates the portion of the daily result of transactions that were outstanding at the close of the previous session with the estimated VaR amount over a time horizon of one day, calculated on the transactions outstanding at the close of the previous session. This exercise is the most appropriate for self-assessment of the methodology used for measuring market risk.
- **Complementary backtesting:** this evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions outstanding at the close of the previous session. This makes it possible to evaluate the importance of the intraday trading in the generation of earnings and in the estimation of the total portfolio risk.

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 backtesting models are compared and reconciled daily. The results of the clean backtesting analysis evidences that in 2008 only two excesses due to risk factor variations higher than those envisaged in the model were recorded. Under the evaluation procedure proposed by the Basel Supervision Committee, the Group's model would be in the green zone, indicating adequate accuracy.

In addition to calculating VaR and conducting backtesting analysis, two types of stress tests are performed on the value of the Treasury positions in order to estimate the possible losses of the portfolio in extraordinary situations of crisis:

- **Analysis of theoretical scenarios (systematic stress):** this calculates the value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 80 per cent. of the total VaR. In order to reflect the possible combinations of the different variations in risk factors, the following three scenarios are analysed each day: greatest impact expected a priori on earnings; most probable scenario; and maximum value of VaR at the time of revision.
- **Analysis of historical scenarios:** this considers the impact that real-life situations would have on the value of the positions. The market conditions of the most significant crises in the past for each group of risk factors since 1990 have been 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. In the present market conditions, the VaR figures show a higher risk than that obtained under some of the defined historical scenarios. As a result, the evolution of the financial markets since the start of the latest crisis in July 2007 is being analysed to define a new historical crisis scenario.

Liquidity risk

Liquidity risk reflects the possible difficulties for a bank to have available, or to have access to, liquid funds of sufficient amount and at appropriate cost for meeting its payment obligations at all times. Supervision of this risk is the responsibility of the Assets and Liabilities Committee (ALCO), which has formal procedures for analysing and monitoring 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.

The simulations cover two different risks: systemic, which would affect the entire financial system and specific, which would only affect Banco Popular. The assumptions on which they are based are different, as are the consequences for the balance sheet and the liquidity situation. The measures to be taken as defined in the contingency plan respond in each case to the different nature of both types of crisis. These simulations allow a minimum amount of available assets to be quantified as a second line of liquidity, thereby assuring that the scenarios may be easily faced.

The sensitive assets amounted to €98,728 million, compared with €74,575 million of sensitive liabilities, with a positive differential of €24,153 million. The higher accumulated gap arises in up to nine months, with a total of €14,991 million. It should be pointed out that this information is distorted by the current situation of the international financial markets, which are selectively open at short terms for institutions with high credit ratings, and at long terms for government backed issues. In this environment, momentary needs for liquidity are covered by using the second line of liquidity available at the terms established by the respective central banks, which in general are under one year. For this reason, if we calculate the liquidity gap eliminating the maturities of the financing obtained from official agencies, which are going to be renewed upon maturity, there is a maximum negative gap up to nine months of €11,560 million that is covered by liquid on- or off-balance sheet assets, the maturities of which can be brought forward.

One of the successes of the liquidity management policy is the construction over the past three years of a robust second line of liquidity that is capable of covering not only the negative gap but also the maturities of the current liabilities in different scenarios of non-renewal without affecting the growth of the loans and receivables. At 31 December 2008, the Group had available liquid assets worth €14,640 million. The total amount of liquid assets was €23,971 million, €9,331 million of which were discounted at the European Central Bank or held under repo arrangements by financial institutions and customers.

Practically all of the liquid assets have a very high credit rating, making them eligible both for discounting at the European Central Bank and as collateral for transactions with financial institutions and customers. The equities consist of securities listed in the main European markets. Accordingly, in the face of liquidity contingencies the Banco Popular Group could obtain funds without sustaining losses in a time scale of not more than one week.

To evaluate the adequacy of the second line of liquidity, a scenario has been developed that assumes the nonrenewal of all the maturities of wholesale financing sources and of large customer deposits and commercial paper during 2009. In addition, the use as sources of liquidity has been considered of liquid assets and issues not at risk of foreclosure such as those that meet the eligibility requirements of the Spanish Government's Financial Assets Acquisition Fund (FAAF). The Group's liquidity is amply sufficient to cover the maturities indicated and permit the normal performance of loan extension.

With regard to its financing strategy, the Group applies criteria of maximum prudence in managing its liquidity, endeavouring not only to minimize the cost but also to avoid concentration at certain terms or in certain markets. For this purpose, it has various carefully selected sources of retail and wholesale funding for each term, based on cost, stability, rapidity of access and depth. However, in 2008, taking into account that the international markets went through different phases of accessibility and were completely closed from mid-September until November, Banco Popular applied its policy by prioritising at all times the availability of funds so that it could do business normally, assuming at times a scenario of closure of the wholesale markets for more than a year. In this respect, the keystone of the financing strategy was the attraction of the different kinds of retail liabilities, taking advantage of the ability to access private individuals and business customers afforded by the Group's extensive commercial network. In addition, as the measures adopted by central banks and governments to facilitate access to liquidity by financial institutions gradually took shape, the Group was adding new sources of financing to the catalogue of alternatives in order to use those that are most appropriate at each moment.

At 31 December 2008, 62 per cent. of financing was from retail sources: (i) 48 per cent. from demand and term accounts, (ii) 6 per cent. from commercial paper marketed among business customers of the commercial network, and (iii) temporary sales of assets to customers. As a result of the strategy described above, the retail funds performed very well in the year, with growth of 6.9 per cent., led by time deposits, which were up by 40.5 per cent. This led to a reduction in the commercial gap of more than €2,300 million, which is particularly significant bearing in mind that in 2007 it had increased by nearly €5,400 million. Commercial paper is marketed by the Bank as an alternative to time deposits because of the tax benefits, particularly for businesses. These are securities issued at a

discount, and are represented by book entries. Their effective value is calculated at the time each note is issued, based on the agreed interest rate.

To issue short-term commercial paper in the domestic market, Banco Popular and its regional subsidiaries had six issuing programs in 2008. The aggregate limit was €14,180 million until 19 December 2008, when the takeover of the banking subsidiaries, Banco de Galicia, Banco de Crédito Balear, Banco de Vasconia and Banco de Castilla by Banco Popular became effective. At 31 December 2008 the programs of Banco Popular and Banco de Andalucía remained in force with a joint limit of €13,500 million. These programs, which have a 1-year duration, have been registered with the Spanish National Securities Market Commission (CNMV). All the programs are listed for trading in the AIAF organized secondary bond market. The nominal value of each note is €3,000 and their effective value is determined depending on the implicit interest rate and duration of each transaction. They mature in periods of between 3 days and 18 months, as from the date of issue. In 2008 the average maturity was 81 days and the average cost was 4.5 per cent.

Wholesale funding, which accounted for 32 per cent. of borrowed funds, was diversified among a wide variety of financing sources. As a result of the situation of the international markets, the outstanding balance of these sources of financing fell by €6,297 million in the year. In normal market conditions, the Group's strategy for the different terms is as described below. At short term (up to 18 months) it uses the money market and issues Euro notes.

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. The short-term products include particularly international promissory notes which are issued through a program listed and registered on the Dublin Exchange for a maximum amount of €8,000 million. In spite of the volatility of the international financial markets, the outstanding balance at 2008 year end remained at similar levels to that of the previous year. However the balance rose significantly at different times during the year as a result of the short-term nature of the paper and Banco Popular's high credit quality, which gave it the nature of a safe haven investment. The program permits issues to be made in any currency, including the euro, with a range of maturities that vary from 21 to 364 days. The notes were issued at a discount for an average term of 89 days in 2008. All issues in currencies other than the euro are covered by a swap between the issue currency and the euro and are indexed to the Euribor. Therefore, the actual issue cost for the Group is denominated in euros and the average cost rate in 2008 was 4.76 per cent.

The Group has set an internal limit for net calls for financing in the money market which presently stands at €7,500 million, together with other sublimits fixing the maximum amount of maturities in the money market for each time interval, so as to avoid their concentration in time. The net balance in the money market at 31 December 2008 was €4,148 million, compared with €3,096 million in 2007. For longer terms the Group has two programs for issuing bonds. The first was registered with the Spanish National Securities Market Commission (CNMV) on 19 September 2008 and has an issue limit of €8,000 million. The second was registered with the Dublin Exchange on 29 August 2008 and its limit is €12,000 million. Both programs, each annual in duration, allow for the issue of senior debt and subordinated debt in any currency and using any interest rate structure. The securities are issued in all cases by an instrumental subsidiary created for this purpose, BPE Financiaciones, S.A, which is wholly owned by Banco Popular and domiciled in Spain. 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 program, since credit ratings are requested individually for each issue launched under the program. At 31 December 2008, the outstanding balance of the issues outstanding was €8,021,000, a decrease of 34.52 per cent. compared with the €12,250,000 recorded in 2007. The average term of the outstanding transactions was 1 year and 5 months and the average cost was 3-month Euribor + 8 bp. No new issues were carried out during the year.

Given the situation of the international capital markets, the purpose of the issues of mortgage bonds and asset securitisation bonds carried out in the year was to strengthen the Group's liquid assets. This was achieved by carrying out mortgage bond and asset securitisation transactions for €3,000 million and €9,780 million, respectively, which have been fully retained. Funding from official agencies accounted for 6 per cent. of the total and amounted to €5,282 million, €2,000 million of which came from ICO, the European Investment Bank and other public institutions and are to be used to finance small and medium-sized companies in accordance with the objectives of the various programs. The remainder came from using the various facilities provided mainly by the European Central Bank with the guarantee of a portion of the available liquid assets. No use was made in 2008 of the sources of liquidity made available by the Spanish Government through the Financial Assets Acquisition Fund.

Operational risk

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord (Basel II): “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. The senior management has approved the “Framework for managing Operational Risk” which includes the design of policies and functions for the development and implementation of methodologies and tools that will permit better management of the Group’s operational risk.

Initially, the Group has opted for the standard method envisaged in Basel II for calculating the capital for operational risk, although there are plans to apply the advanced method in the future. In this respect a historical database is being created for operational risk events since January 2004. In addition, in December 2006 the Group joined ORX (Operational Risk Data Exchange Association), an international consortium that maintains a database to which the main financial institutions around the world contribute events and with which data exchanges are carried out on a quarterly basis.

The Group also has qualitative tools with which great progress has been made over the past year in developing risk maps, which are updated regularly, to measure the frequency and impact of operational risk and improve controls and hedges in the areas of highest exposure, as well as to analyse the necessary contingency plans to ensure the continuity of the Bank’s operations. Training courses were also run and frequent meetings were held with all the areas to raise awareness throughout the organisation regarding the monitoring and control of this risk, with a view to mitigating its impact on both, the commercial activities and the operating procedures, etc. Officers have been appointed in each of the organisation’s units for this purpose.

Reputational risk

The Regulatory Compliance Office, which reports functionally to the Audit and Control Committee, is responsible for identifying, evaluating and preventing possible risks of material breaches from the economic or reputational standpoint which might arise in connection with laws and regulations, codes of conduct and standards of good practice, especially as regards business activities, prevention of money laundering and financing of terrorism, conduct in the securities markets, data privacy and protection and business activities. In this respect, it identifies and assesses risks of non-compliance associated with the development of new products and the practices of each business area, ensuring respect for the regulations on transparency and customer protection.

It also analyses and promotes the development of the systems established for providing staff training on the aforementioned areas.

PLAN OF DISTRIBUTION

Subject to the terms and conditions contained in a dealer agreement dated 22 December 2009 (the “**Dealer Agreement**”) between the Issuer, the Guarantor, the Arranger and the Dealers, the Notes will be offered on a continuous basis by the Issuer to the Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to other dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Dealers. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

Each of the Issuer failing whom, the Guarantor, has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the Issuer or, in relation to itself and the Issuer only, by any Dealer, at any time on giving not less than ten business days’ notice.

1. United States of America

- 1.1 The Notes have not been and will not be registered under 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 Dealer represents and agrees that it has offered and sold any Notes, and will offer and sell any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Tranche. Each Dealer also agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes 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 or 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 completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and 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 subclause 1.1 have the meanings given to them by Regulation S.

- 1.2 Each Dealer represents and agrees that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.
- 1.3 In addition in respect of Notes where TEFRA D is specified in the applicable Final Terms:
- (a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the **D Rules**), each Dealer (i) represents that it has not offered or sold, and agrees that during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) represents that it has not delivered and agrees that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;
 - (b) each Dealer represents that it has and agrees that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

- (c) if it is a United States person, each Dealer represents that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6); and
- (d) with respect to each affiliate that acquires Notes in bearer form from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer repeats and confirms the representations and agreements contained in subclauses 1.3(a), 1.3(b) and 1.3(c) on such affiliate's behalf;

Terms used in this subclause 1.3 have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

- 1.4 In respect of Notes where TEFRA C is specified in the applicable Final Terms, such Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer represents and agrees in connection with the original issuance of such Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Notes.

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. The relevant Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

2. United Kingdom

In relation to each Tranche of Notes, the Dealers subscribing for or purchasing such Notes have represented to and agreed with, or will represent to and agree with, the Issuer, the Guarantor and each other such Dealer (if any) that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;

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

3. The Kingdom of Spain

Each Dealer has represented and agreed that the Notes may not be offered or sold in Spain other than by institutions authorised under the Securities Market Law 24/1988 of 28 July 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) as amended (the "Securities Market Law") and related legislation, and Royal Decree 217/2008 of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el Régimen Jurídico de las empresas de servicios de inversión y de las demás entidades que*

prestan servicios de inversión), to provide investment services in Spain, and in compliance with the provisions of the Securities Market Law and any other applicable legislation, provided that offers of the Notes shall not be directed specifically at or made to investors located in Spain.

4. Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (“**Regulation No. 11971**”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS

The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Other than in accordance with Condition 9, neither the Issuer nor the Guarantor assume responsibility for withholding taxes. Prospective investors who are in any doubts as to their position should consult with their own professional advisers.

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 Base Prospectus:

- (a) of general application, Additional Provision Two of Law 13/1985, of 25 May on investment ratios, own funds and information obligations of financial intermediaries, as amended by Law 19/2003, of 4 July on legal rules governing foreign financial transactions and capital movements and various money laundering prevention measures Law 23/2005, of 18 November on certain measures to promote the productivity and Law 4/2008, of 23 December abolishing the Wealth Tax levy, generalising the Value Added Tax monthly refund system and introducing other amendments to the tax legal system (Law 4/2008), as well as Royal Decree 1065/2007, of 27 July, approving the General Regulations for tax inspection and management procedures and the development of common rules for the procedures to apply taxes and other tax rules;
- (b) for individuals with tax residence in Spain which are Personal Income Tax taxpayers, Law 35/2006, of 28 November, on Personal Income Tax, and Royal Decree 439/2007, of 30 March, promulgating the Personal Income Tax Regulations, along with Law 19/1991, of 6th June on Wealth Tax as amended by Law 4/2008, and Law 29/1987, of 18 December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax taxpayers, Royal Legislative Decree 4/2004, of 5 March promulgating the Consolidated Text of the Corporate Income Tax Law, and Royal Decree 1777/2004, of 30 July promulgating the Corporate Income 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 as amended by Royal Decree Law 2/2008 of 21 April, on measures to promote economic activity, 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 as amended by Law 4/2008, and Law 29/1987, of 18 December on Inheritance and Gift Tax.

VAT, Transfer Tax and Stamp Duty

Whatever the nature and residence of the holder of Notes, the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, i.e. 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 Residence in Spain

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

Both payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in the savings income (*base del ahorro*) of the investor and taxed at the rate applicable from time to time, currently 18 per cent.

Both types of income are subject to a withholding on account at the rate applicable from time to time, currently 18 per cent.

The Bill of Law for the 2010 General State Budget (the “**Bill of Law**”), which is currently passing through the parliamentary procedure states that, from 1 January 2010, the tax rate applicable to financial income will be 19 per cent. for taxable income up to €6,000 and 21 per cent. for taxable income exceeding €6,001.

Such income is subject to a withholding on account of Personal Income Tax at the tax rate applicable from time to time, currently 18 per cent. According to the Bill of Law, as from 1 January 2010 the withholding tax rate applicable will be 19 per cent.

1.2 Wealth Tax (*Impuesto sobre el Patrimonio*)

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

However, Law 4/2008 has amended Law 19/1991 introducing a credit of 100 per cent. over the tax due and removing the obligation to file Wealth Tax declaration as from 1 January 2008. Due to this amendment to Law 19/1991, Spanish resident individuals are not effectively subject to Wealth Tax.

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

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

2. Legal Entities with Tax Residence in Spain

2.1 Corporate Income Tax (*Impuesto sobre Sociedades*)

Both Payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the taxable income of legal entities with tax residence in Spain for Corporate Income Tax purposes in accordance with the rules for this tax.

In accordance with Section 59.s) of the Corporate Income Tax Regulations there is no obligation to make a withholding on income obtained by Spanish Corporate Income 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. In relation to Notes which are listed on the Irish Stock Exchange, this requirement will be satisfied. On 27 July 2004, the Directorate General for Taxation (*Dirección General de Tributos — “DGT”*) issued a reply to a consultation indicating that in the case of issues made by entities resident in Spain, as with the Issuer, the exemption requires that the Notes be placed outside Spanish territory, in another OECD country. The Issuer considers that the Notes will fall within this exemption as the Notes are to be sold outside Spain and in the international capital markets. Consequently, the Issuer will not make any withholding on payments to Spanish Corporate Income 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, shall make the appropriate withholding and the Issuer will not, as a result, be under any obligation to pay additional amounts.

In order to implement the exemption from withholding, the procedures laid down in the Order of 22 December 1999 will be followed.

(Please see “Disclosure of Holder Information in Connection with Payments of Interest” 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 residence in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Notes in their taxable income for Spanish Corporate Income Tax purposes.

3. Individuals and Legal Entities with no tax residence in Spain

3.1 Non-resident income tax (*Impuesto sobre la Renta de No Residentes*)

(a) With permanent establishment in Spain

Ownership of the Notes 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 Notes 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 Notes are the same as those previously set out for Corporate Income Tax taxpayers.

(b) With no permanent establishment in Spain

Both Payments of interest periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who have no tax residence in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax.

Law 4/2008 amends, among other things, Additional Provision Two of Law 13/1985, which was the source of the obligation on Spanish issuers or their parent companies to report to the Spanish tax authorities on the identity and residence of holders of their debt securities. This reporting obligation was typically satisfied, in part, by the collection of certain information from investors at the time of each payment of interest or principal. Spanish issuers, Euroclear and Clearstream, Luxembourg (among others) developed certain procedures to enable the timely delivery of such information.

Law 4/2008 removes the obligation on Spanish issuers or their parent companies to provide to the Spanish tax authorities the relevant information concerning holders who are not resident in Spain. The amended wording of Additional Provision Two of Law 13/1985, therefore, continues to apply the reporting obligation only in respect of Spanish resident holders (individual and corporate) and non-resident holders operating through a permanent establishment in Spain.

The implementation of the changes contemplated by Law 4/2008 is subject to the adoption of relevant secondary legislation. At the date of this Prospectus, such secondary legislation had not yet been adopted.

Pending the enactment of such secondary legislation, and in accordance with the consultation from the General Directorate of Taxation dated 20 January 2009, the current procedures relating to the identity of Holders of the Notes (detailed under “**Disclosure of holder information in connection with Payments**” below) as laid down in section 44 of Royal Decree 1065/2007, remain applicable irrespective of whether or not the Holders of the Notes are resident in Spain, and both Euroclear and Clearstream, Luxembourg, and any other relevant clearing system require compliance with such obligations.

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*)

Law 4/2008 has amended Law 19/1991 introducing a credit of 100 per cent. over the tax due and removing the obligations to file Wealth Tax declaration as from 1 January 2008. Due to this amendment to Law 19/1991 non-Spanish resident individuals effectively subject to Wealth Tax.

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 residence in Spain who acquire ownership or other rights over the Notes 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 State legislation.

Non-resident entities which acquire ownership or other rights over the Notes 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 Rules for payments made by the Guarantor

On the basis that payments of principal and interest made by the Guarantor under the Deed of Guarantee are characterised as an indemnity under Spanish law, such payments may be made free of withholding or deduction on account of any Spanish tax.

However, although there is no precedent or regulation on the matter, if the Spanish Tax Authorities take the view that the Guarantor has effectively assumed the obligations of the Issuer under the Notes (whether contractually or by any other means) they may determine that Spanish tax rules apply to payments made by the Guarantor relating to interest on the Notes. If such determination were made, payments by the Guarantor relating to interest on the Notes would be subject to the same tax rules as described above in relation to payments by the Issuer.

5. Disclosure of holder information in connection with payments

5.1 Tax Reporting Obligations of the Guarantor

The Guarantor, as the parent of the Issuer, is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to payments made in respect of the Notes. The Spanish tax authorities may rely on such returns in order to assess whether or not the Issuer has correctly withheld tax on payments made by it under the Notes.

The Guarantor must complete each annual return on the basis of the information provided to it by, or on behalf of, Noteholders. The information required by the Guarantor in order to comply with its annual reporting obligations and provide a refund of amounts withheld in respect of the Notes (as described below) is that set out in Section 44 of Royal Decree 1065/2007 (Royal Decree 1065/2007).

5.2 Individuals and Legal Entities without tax residency in Spain

In accordance with sub-section 44(1) of Royal Decree 1065/2007, each annual return filed by the Guarantor with the Spanish tax authorities must include the following information with respect to the relevant Notes:

- (a) the identity and country of residence of the recipient of the income from the Notes or, when such income is received on behalf of the Noteholder by a third party, the identity and country of residence of that third party;
- (b) the amount of income received; and
- (c) details identifying the Notes.

In accordance with sub-section 44(2) of Royal Decree 1065/2007, for the purpose of preparing the return referred to in sub-section 44(1), certain documents with information regarding the identity and country of residence of each Noteholder must be received by the Guarantor (or the Issuer on behalf of the Guarantor) at the time of each payment in respect of the Notes.

In particular, the Guarantor (or the Issuer on behalf of the Guarantor) must obtain the documents described below regarding the Noteholders:

1. In the case of transactions in which the Noteholder is (a) a non-Spanish resident which is: (i) a central bank or other public institution or international organisation; (ii) a bank, credit institution or financial entity (including collective investment institutions, pension funds and insurance entities) which is resident in an OECD country or in a country with which Spain has entered into a treaty for the avoidance of double-taxation and which is subject to a specific administrative registration or supervision scheme (each a “**qualifying entity**”) and (b) acts on its own account, that Noteholder, must certify its name and tax residency in accordance with Annex I of the Order of 16 September 1991 (the “**Order**”), in the form of Annex I below;
2. In the case of transactions in which any of the qualifying entities acts as an intermediary, the entity in question must, in accordance with the information contained in its own records, certify the name and tax residency of each non-Spanish resident Noteholder in accordance with Annex II of the Order, in the form of Annex II below;
3. In the case of transactions which are channelled through a securities clearing and deposit entity recognised for these purposes by Spanish law or by the law 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 non-Spanish resident Noteholder in accordance with Annex II of the Order, in the form of Annex II below;
4. In all other cases, the relevant non-Spanish resident Noteholder must arrange annually for the delivery of a tax residency certificate issued by the tax authorities of the country in which it is resident for tax purposes.

In accordance with sub-section 44(3) of Royal Decree 1065/2007, 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 Noteholder 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**).

Noteholder 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.

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

Noteholders who are legal entities resident for tax purposes in Spain and subject to Spanish Corporation Tax (and a permanent establishment in Spain of a non-resident subject to Non-Resident Income Tax) may receive payments in respect of the Notes free of withholding provided that they provide (or arrange to be provided on their behalf) accurate and timely information enabling them to qualify for such an exemption from withholding.

In particular, the Issuer must obtain from any of the suitable entities a list of Noteholders who are subject to Spanish Corporation Tax, specifying each Noteholder's name, address and Tax Identification Number as well as the ISIN code of the relevant Notes, the number of such Notes held on the relevant payment date, the gross income and the amount withheld substantially in the form set out below (see Annex III).

Euroclear and Clearstream, Luxembourg procedures

Euroclear and Clearstream, Luxembourg (the "**European ICSDs**") have established procedures to assist entities in complying with the reporting obligations required by Spanish tax law and regulations and to enable Noteholders to obtain a refund of amounts withheld on interest payments. These procedures were implemented by the European ICSDs in response to certain tax rulings made by the Spanish tax authorities (Consultas V 2050-07, V 2051-07, V 0175-08 and V 0179-08). The procedures which the Issuer and other parties expect to follow are stipulated in the global tax procedures published by the European ICSDs, which are also described in the Fiscal Agency Agreement. In this regard, Noteholders should also consult announcements in relation to these global tax procedures published on a periodic basis on the websites of the European ICSDs (www.Euroclear.com, www.Clearstream.com).

Noteholders' attention is drawn to the risk factor in respect of risks relating to procedures for collection of holders' details on page 12 of this Base Prospectus.

Set out below is a summary of certain aspects of the procedures described in the Fiscal Agency Agreement which the Issuer and the Guarantor consider most relevant to Noteholders. For the purposes of this section, references to "**Tax Certificates**" are to the certificates described in paragraphs 1 to 3 under "*Individuals and Legal Entities without tax residency in Spain*" and the certificate described under "*Legal Entities with tax residency in Spain subject to Spanish Corporation Tax*".

1. In accordance with the current procedures of the European ICSDs, Noteholders entitled to receive payment on the relevant Interest Payment Date, and accordingly those persons required to comply with the Spanish tax procedures in order to obtain a refund of the relevant withheld amount (as defined below), are those persons holding Notes at close of business on the day preceding the relevant Interest Payment Date. Tax Certificates may therefore not be dated and may not be submitted to the Fiscal Agent as agent for the Issuer prior to close of business on the day preceding the relevant Interest Payment Date.
2. Immediately upon receipt of a notice from the Fiscal Agent, each of the European ICSDs will notify the entities holding accounts with the European ICSDs ("**Participants**" and "**Customers**") of the relevant interest payment and that the procedures established under Law 13/1985, Royal Decree 1065/2007, Royal Legislative Decree 4/2004 and Order 22 December 1999 ("**Spanish tax procedures**") apply in connection with such interest payment and prepare or (as the case may be) request their Participants and

Customers provide Tax Certificates and other information by no later than the time on the relevant Interest Payment Date specified by the European ICSDs.

3. In order to obtain an immediate refund of the withheld amount, the Participants and Customers (or a legal representative acting under a power of attorney on behalf of such Participant or Customer) will have to provide duly completed Tax Certificates by the relevant time. The Fiscal Agent shall verify that the Tax Certificates and other information received by it is in accordance with the Spanish tax procedures and calculate the aggregate net amounts and withheld amounts payable on the relevant Interest Payment Date.
4. If a Noteholder would be entitled to receive an immediate refund of the withheld amount on an Interest Payment Date but duly completed Tax Certificates are either not received by the relevant time or are considered by the Fiscal Agent not to be in accordance with the Spanish tax procedures, such Noteholder may obtain a quick refund of the withheld amount by ensuring that duly completed Tax Certificates are received by the Fiscal Agent no later than 10:00 am (CET) on the business day before the 10th calendar day of the month following that in which the relevant Interest Payment Date falls (the “**Quick Refund Deadline**”). Upon receipt and verification of such Tax Certificates, the Fiscal Agent shall pay the relevant withheld amounts to the Noteholder.
5. No later than the business day following the Quick Refund Deadline, the Fiscal Agent shall return any remaining withheld amounts to the Issuer and forward any additional tax certificates received by it in relation to quick refunds claimed up to and including the Quick Refund Deadline.
6. Noteholders that do not provide documentation on or before a Quick Refund Deadline may obtain a full refund of the withheld amount directly with the Spanish tax authorities to the extent that they are entitled to such refund.

DTC procedures

The procedures to be put in place in circumstances where a Noteholder holds its Notes (directly or indirectly) through an account with DTC and such Notes are registered in the name of a nominee or custodian for DTC will be set out in more detail in the applicable Final Terms or otherwise made available to Noteholders. In such circumstances, the Issuer may, but is not obliged to, enter into arrangements with third parties to facilitate the collection of Tax Certificates and other relevant documentation and, if appropriate, will enter into a supplemental agency agreement to the Fiscal Agency Agreement.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, 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.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission’s advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

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 reciprocal 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.

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 44.2.b) y c) del Real Decreto 1065/2007,

(function) _____, in the name and on behalf of the Entity indicated below for the purposes of article 44.2.b) and c) of Royal Decree 1065/2007,

CERTIFICO:

CERTIFY:

- Que el nombre o razón social de la Entidad que represento es:**
that the name of the Entity I represent is:
- Que su residencia fiscal es la siguiente:**
that its residence for tax purposes is:
- 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
- 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).
- 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 vigor¹.**

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 regulations².

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

1 Derogado con arreglo al artículo 4 y la Disposición Derogatoria del Real Decreto Ley 2/2008, de 21 de abril, de medidas de impulso a la actividad económica.
2 Requirement abolished by article 4 and Repealing Disposition of Royal Decree Law 2/2008, of 21 April, on measures to promote economic activity.

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 Corporate Income 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** (Órgano 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 Corporate Income 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 A CUMPLIMENTAR:

TO BE ATTACHED

Identificación de los valores:

Identification of the securities

Razón social/Domicilio/Número de identificación fiscal/Número de valores/Importe de los rendimientos.

Name/Domicile/Fiscal Identification Number/Number of securities/Amount of income.

GENERAL INFORMATION

1. This Base Prospectus has been approved by the Financial Regulator as competent authority under the Prospectus Directive. The Financial Regulator only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the notes to be admitted to the Official List and trading on its regulated market.

However, Notes may be issued pursuant to the Programme which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

2. Each of the Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in Ireland and the Kingdom of Spain in connection with the establishment of the Programme and the issue and performance of the Notes and the guarantees relating to them. The establishment of the Programme was authorised by the resolution of the shareholders of the Issuer passed on 17 April 2007, and the establishment of the Programme and the giving of the guarantees relating to the Notes by the Guarantor was authorised by a resolution of the executive committee of the Guarantor passed on 18 April 2007. The update of the Programme was authorised by the shareholders of the Issuer passed on 19 October 2009, by the board of directors of the Issuer passed on 3 December 2009 and by the executive committee of the Guarantor passed on 20 October 2009.

3. Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: **“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”**.

4. There are no pending or threatened governmental, legal or arbitration actions, suits or proceedings against or affecting the Issuer or the Guarantor or any of the Guarantor’s subsidiaries, which, if determined adversely to the Issuer, the Guarantor or the Guarantor’s subsidiaries, may have, or have had during the 12 months prior to the date hereof, individually or in the aggregate, a significant effect on the financial position of the Issuer or the Guarantor and, to the best knowledge of the Issuer or the Guarantor, no such actions, suits or proceedings are threatened or contemplated.

5. The Issuer has no significant changes in financial and trading position and no material adverse change in prospects since 31 December 2008. The Guarantor and its subsidiaries, taken as a whole, have no significant changes in financial position since 30 September 2009 and no material adverse change in prospects since 31 December 2008.

6. Notes will be accepted for clearance through the Euroclear and Clearstream systems. The Common Code and the International Securities Identification Number (ISIN) will be set out in the relevant Final Terms.

7. For so long as the Programme remains in effect or any Notes remain outstanding, the following documents will be available for inspection and (in the case of the items listed under (vii), (viii) and (ix) below) obtainable, during usual business hours on any weekday (Saturdays and public holidays excepted) in physical form, at the registered offices of the Issuer, the Guarantor, the Fiscal Agent and each of the Paying Agents:

- (i) the Fiscal Agency Agreement;
- (ii) the Programme Manual (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);
- (iii) the Dealer Agreement;
- (iv) the Deed of Covenant;
- (v) the Deed of Guarantee;
- (vi) the *Estatutos* (together with English translations) of each of the Issuer and the Guarantor;
- (vii) each of the documents referred to in “Documents Incorporated by Reference”;
- (viii) any Final Terms relating to Notes which are listed on the Irish Stock Exchange or which are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system. (In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant holders of the Notes);
- (ix) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus; and

(x) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.

8. The consolidated annual accounts of the Guarantor for the years ended 31 December 2008 and 2007 prepared in accordance with IFRS, were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' reports were unqualified.

9. The non-consolidated annual accounts of the Issuer for the years ended 31 December 2008 and 2007 prepared in accordance with Spanish GAAP were audited by PricewaterhouseCoopers Auditores, S.L. (auditors in Spain, who are members of the *Registro Oficial de Auditores de Cuentas*). The auditors' report was unqualified.

10. The unaudited consolidated half-year financial report of the Guarantor for the six month period ended 30 June 2009 prepared in accordance with IFRS has not been subject to an audit or limited review.

11. The unaudited interim consolidated financial report of the Guarantor for the three month period from 1 July 2009 to 30 September 2009 (inclusive) prepared in accordance with IFRS has not been subject to an audit or a limited review.

12. Any websites mentioned in this Base Prospectus shall not form part of this Base Prospectus.

13. Allen & Overy have acted as legal advisers to the Arranger and Dealers as to Spanish law and English law in relation to the Programme.

14. There are no material contracts which could result in any member of the Group being under an obligation that is material to the Issuer's ability to meet its obligations to holders of Notes.

THE ISSUER

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THE GUARANTOR

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ARRANGER AND DEALER

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UBS Limited
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London EC2M 2PP
United Kingdom

UniCredit Bank AG
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Germany

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REGISTRAR AND TRANSFER AGENT

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To the Issuer and the Guarantor as to Spanish law

Teresa Palacios, Legal Adviser

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To the Arranger and the Dealers as to Spanish law and English law

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