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Annual Results

Highlights

(Amounts in € thousand)	31.12.08	31.12.07	Var. %
Business volume			
Total assets managed	123,806,700	125,109,722	(1.0)
On-balance sheet total assets	110,376,051	107,169,353	3.0
Own funds	6,734,394	6,228,215	8.1
Adjusted customer deposits	51,657,669	42,661,584	21.1
Lending to customers (gross)	93,273,659	88,107,868	5.9
Contingent exposures	15,132,009	12,314,679	22.9
Solvency			
Core capital(%)	7.06	6.47	
Tier 1 (%)	8.04	7.92	
Risk management			
Total risks	108,405,668	100,422,547	7.9
Non-performing loans	3,042,612	834,478	>
Allowances for credit losses	2,221,902	1,822,353	21.9
% nonperforming ratio	2.81	0.83	
% coverage (Credit loss allowance/Nonperforming loans)	73.03	218.38	
Earnings			
Net interest income	2,520,555	2,320,882	8.6
Gross income	3,587,340	3,379,027	6.2
Net operating income	2,325,929	2,232,844	4.2
Profit before tax	1,461,020	1,939,939	(24.7)
Consolidated profit for the year	1,110,700	1,341,474	(17.2)
Profit attributed to the Group	1,052,072	1,264,962	(16.8)
Net return and efficiency			
Average total assets	107,096,110	97,859,830	9.4
Average total equity	5,913,340	5,262,817	12.4
ROA (%)	1.04	1.37	
ROE (%)	17.79	24.04	
Operating efficiency (%) (*)	31.85	30.55	
Per share data			
Final number of shares (thousands)	1,235,741	1,215,433	1.7
Average number of shares (thousands)	1,213,540	1,214,993	(0.1)
Share closing market price (€)	6.08	11.70	(48.0)
Market capitalization	7,506,604	14,220,566	(47.2)
Share book value (€)	5.45	5.12	6.4
Net earnings per share (€)	0.867	1.041	(16.7)
Dividend per share paid in the period (€)	0.5006	0.4347	15.2
Price/Book value	1.12	2.29	
Price/Earnings (annualized)	7.00	11.24	
Other data			
Shareholders	130,282	121,427	7.3
Employees	15,069	15,038	0.2
Spain	13,370	13,299	0.5
Men	9,185	9,319	(1.4)
Women	4,185	3,980	5.2
Abroad	1,699	1,739	(2.3)
Men	1,112	1,199	(7.3)
Women	587	540	8.7
Branches	2,504	2,493	0.4
Spain	2,255	2,245	0.5
Abroad	249	248	0.4
Mundocredit branches	59	38	55.3
ATMs	3,390	3,426	(1.1)

*Operating costs (net compensating fees) divided by gross income + non-financial service income (net).

The Group's consolidated financial statements as of December 31, 2007, the audit of which is being finalized, have been prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

Salient aspects

“The word ‘crisis’ when written in Chinese consists of two characters: one represents danger, the other represents opportunity..... In a crisis, be aware of the danger but recognise the opportunity.”

John Fitzgerald Kennedy

A financial plague wreaked havoc with disastrous consequences on European and American banks in the last quarter of 2008. Banks with any weakness went under or had to be rescued in extremis by their governments. The cackhanded handling of the problems of Lehman Brothers in September struck a mortal blow at international debt markets which were agonising since a year earlier. Any vestige of liquidity interchange vanished completely, and banks with funding weaknesses or paucity of capital were suffered a deadly battering in the stock market. Firm concerted action by the main developed countries staunch – partly and temporarily to judge by subsequent events – the wounds of the institutions affected, with capital and funding reinforcements. Although these measures were necessary because of the virulence of the crisis and fears of its impact on the rest of society, they did introduce grave distortions in the functioning of the international banking system as a result of the substantial state presence in the private financial sector. The year ended with serious uncertainties, the trigger for which was the apparition in 2007 of the US subprime mortgage virus following the bursting of the property bubble.

Banco Popular successfully navigated through the successive crises in 2008, thanks to the strength of its capital and of its funding – and because it was not materially affected by the three viruses of this plague: subprime securitisation, Lehman, and Madoff. The Bank’s capital is among the strongest of the strictly private banks, i.e. those not reinforced by the state. The core capital stands at 7.06% and Tier 1 at over 8% and will be shortly further strengthened by the placement of preferred stock, the launching of which is being finalised. As regards funding, the Group continues to have available the possibility of obtaining of nearly an additional €15,000 million backed by its second liquidity line or collateral. Energetic pursuit of customer deposits, which grew by 21.1%, made it possible to reduce the commercial gap in 2008 by €2,327 million, as compared with the increase of €5,376 million in 2007, with a sharp reduction of dependence on wholesale liabilities.

In the two cases mentioned, a prudent and forward-looking strategy – which indeed provoked incomprehension and criticism at the time – of strengthening capital and building up a powerful second line of liquidity safeguarded the organisation against the vicissitudes of the markets. This same attitude of prudence and foresight characterised the Group’s management decisions during the year and led to priority being given to very conservative and precautionary provisioning for the loan portfolio, although all the possibilities of generating profits under the accounting regulations were not exploited. Despite this conservative decision, attributed profit amounted to €1,052 million, making Banco Popular the thirteenth European bank among the fourteen banks estimated to have exceeded net profit of €1,000 million in 2008. This result, exceptionally high in absolute terms, in an international context of losses or low earnings, is even more outstanding when compared with the much greater balance sheet size of the other twelve banks. As regards earnings on equity, Banco Popular was the third most profitable European bank per these figures. Had the precautionary and savings measures of provisions for the future not been taken, the attributed profit would have been €1,345.9 million, a growth of 6.4% over the 2007 figure, rather than the 16.8% decrease resulting from the accounting attributed profit.

The published accounting profit reflects a voluntary bringing forward of provisions for asset impairment of €189 million and the non-release of €244 million of general allowances, despite being permitted by current regulations. With these conservative criteria, as well as having an additional reserve, the Bank has a general allowance balance of nearly €1,300 million which at the present rate it will be possible to use over more than two years.

The management team is aware that the decision to strengthen provisions at the cost of apparently worsening the earnings may not be unanimously accepted, as occurred when the Bank increased capital without, in the opinion of some, any apparent need, or when it built the second line of liquidity with an increase of the financial costs. These decisions have been revealed as far-sighted and successful with the

passage of time and we are sure that the same will happen with the present strengthening of the balance sheet involving a voluntary reduction of the results.

Net interest income ex dividends grew strongly by 10.4% and shows signs of a clearly expansive trend in 2009. The reduction of certain treasury activities which, though dividend generating, require disproportionate amounts of liquidity – which the Bank prefers to use to reduce the commercial gap and to expand loans to customers – limited the income cum dividends to growth of nearly 9%.

The good performance of net interest income was the result of two factors. The first was the notable increase of credit, in the present circumstances, at an annual rate underlying of 6,1%, a good deal higher than the nominal GDP rise and much higher than Spanish domestic demand. Moreover, 44% of the lending was to SMEs and approximately 32% to private individuals, making Banco Popular one of the most markedly commercial and retail in Europe with unquestionable fidelity to the financing of these two segments. These figures are objective proof of the fact that Banco Popular not only did not restrict credit but indeed boosted it in a context of a sharp decline in credit demand from firms and private people. This behaviour of the social partners is not surprising since it was the foreseeable reaction to deleveraging across the globe in a situation of intense and prolonged recession at international level. The second explanatory factor for the good performance of net income was the 6 basis points improvement in the spread in the last quarter compared with 2007 year end and the 5 basis points rise over the third quarter of 2008.

Noteworthy was the excellent behaviour of risk fees and commissions, which were up 13.9% year on year, and those for management services, which rose by 1.4%. The inevitable downturn in asset management operations – mutual and pension funds – led to a fall in the fees and commissions therefor, which held growth of the gross operating income to 6.2%.

The evolution of expenses showed that the expense control measures are beginning to have an effect. Excluding the increases in headcount arising from the consolidation of Totalbank and the tardy expansion of other units in the Group, which are being checked, personnel expenses would have grown by 4%. Making the same correction for the Totalbank effect and for the higher cost of rentals following the sale the Central Services buildings, general expenses would have increased by 4.2%. This strong downward trend leads us to expect a notable moderation of total costs in 2009.

The combination of sustained fees and commissions with moderation in expenses led the rate of coverage of general expenses with commissions to 74.5%, compared with an average of 51.1% for European banks and of 59.1% for Spanish banks. According to estimates published by analysts, this coverage would be higher than that for all Spanish banks and the highest of European commercial banks.

The efficiency ratio was again the best of all European and Spanish banks: 31.9%, compared with 70.5% for European banks and 38.15% for Spanish banks, per the latest published data.

The nonperforming ratio of 2.71% for the business in Spain was clearly better than the 3.14% 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 2.81% because of the greater delinquency in Portugal.

Of the provisions of €905 million for loans and receivables, €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.

Looking to 2009, the Group expects to continue applying conservative provisioning criteria during the first quarter, and perhaps the second quarter, until this phase of adjustment in the property development sector has been absorbed, especially as regards the big and medium size companies, and so to be able to address with less pressure a less acute flow over the rest of the year. In any case, it is better to engage with the always uncertain future from a basis of capital and funding strength and excess reserves.

Balance Sheet

(Amounts in € thousand)

	31.12.08	31.12.07	% variation
Assets			
Cash and balances with central banks	1,859,577	1,955,178	(4.9)
Financial assets held for trading	1,334,199	1,173,709	13.7
Other financial assets at fair value through profit or loss	336,666	500,157	(32.7)
Available-for-sale financial assets	3,760,410	4,211,248	(10.7)
Loans and receivables	96,606,802	96,739,984	(0.1)
Loans and advances to other debtors	91,522,561	86,642,378	5.6
Other loans and receivables	5,084,241	10,097,606	(49.7)
Held-to-maturity investments	34,854	562	>
Hedging derivatives	992,626	115,615	>
Non-current assets held for sale	1,660,596	228,125	>
Investments	32,151	20,393	57.7
Insurance contracts linked to pensions	182,368	206,213	(11.6)
Reinsurance assets	5,566	3,856	44.3
Tangible assets	1,355,443	729,573	85.8
Intangible assets	546,576	524,792	4.2
Tax assets	827,306	526,188	57.2
Prepayments and accrued income	95,004	65,365	45.3
Other assets	745,907	168,395	>
Total Assets	110,376,051	107,169,353	3.0
Liabilities			
Financial liabilities held for trading	1,729,742	670,365	>
Other financial liabilities at fair value through profit or loss	-	37,016	<
Financial liabilities at amortised cost:	98,506,881	96,281,116	2.3
Deposits from credit institutions	14,272,241	9,421,401	51.5
Deposits from other creditors	51,657,669	42,661,584	21.1
Debt certificates including bonds	30,214,642	41,887,843	(27.9)
Subordinated liabilities	1,178,757	1,356,000	(13.1)
Other financial liabilities	1,183,572	954,288	24.0
Hedging derivatives	404,806	812,958	(50.2)
Insurance contract liabilities	953,324	970,189	(1.7)
Provisions for contingent exposures	474,463	461,730	2.8
Tax liabilities	185,717	253,396	(26.7)
Accrued expenses and deferred income	286,016	302,222	(5.4)
Other liabilities	339,446	297,371	14.1
Capital having the nature of a financial liability	438,000	438,537	(0.1)
Total liabilities	103,318,395	100,524,900	2.8
Equity			
Minority interests	292,492	402,270	(27.3)
Valuation adjustments	30,770	13,968	>
Own funds	6,734,394	6,228,215	8.1
Capital, reserves and retained earnings	5,989,597	5,259,129	13.9
Profit or loss for the period	1,052,072	1,264,962	(16.8)
Dividends paid and declared	(307,275)	(295,876)	3.9
Total equity	7,057,656	6,644,453	6.2
Total liabilities and equity	110,376,051	107,169,353	3.0
Memorandum items:			
Contingent exposures	15,132,009	12,314,679	22.9
Contingent commitments	18,755,570	20,678,554	(9.3)

Business Performance

The year 2008, which began with clear prospects of economic slowdown, exceeded the most pessimistic forecasts and became one of the most negative years in modern history. The fall in the main economic indicators and in levels of confidence deserves inclusion in economic history not only because of its severity but also because of the speed with which it occurred. The fourth quarter of the year, far from showing any sign of recovery, further speeded up the deterioration and 2009 opened in a widespread environment of uncertainty as to the duration of the present downward cycle. In this environment, the strategy that Banco Popular considers most appropriate is that based on the protection of capital, the strengthening of retail funding and the proximity commercial banking business, with extensive knowledge of the risks being incurred.

From the solvency standpoint, Banco Popular began the year as one of the banks with the highest ratio of Tier 1 capital not only in Europe, but in the world, as several financial entities of reference have recognised in their published analyses. Despite the comparative advantage of this situation, during 2008 the Bank made an additional effort to strengthen its solvency in all possible areas. On the one hand, the policy of controlling risks and obtaining guarantees was intensified and, on the other, the instruments for managing and monitoring risks were improved by the use of advanced models to calculate capital in its principal portfolios. As a result of these measures and of the earnings retained, the core capital ratio increased by more than 50 basis points during the year to an outstanding level of 7.06% at year end. This level not only places Banco Popular among the four most solvent banks group in Europe that have not received injections of public capital but also enables it to face with optimism the challenges of 2009. Additionally, the Tier 1 capital at year end stood at a noteworthy 8.04%.

As regards evolution of the business, lending to customers increased by 6.1% despite the probable negative growth of GDP in 2008. This net growth in lending, together with the renewal or replacement with new operations of the transactions which matured during the year, led the volume of the production of the credit extended in 2008 to over €37,000 million.

Another very striking aspect was the growth in customer funds, which increased by 7.3% during the year, led by customer deposits which rose by an extraordinary 21.1%. The funds obtained, insofar as they exceeded the net growth in lending to customers, made possible a substantial reduction of €2,327 million in the Bank's commercial gap. Moreover, the Bank's funding structure also benefited from growth in customer liabilities, and the various sources of retail funding represented 60.4%, 3.7 percentage points more than at 31 December 2007. As a result, the dependence on wholesale liabilities fell by 7.8 percentage points in 2008 and accounted for 33.4% of the funding at year end.

As regards the Bank's liquidity position, and despite the outstanding evolution of retail funding, Banco Popular continued to strengthen its second line of liquidity. At year end it had nearly €15,000 million available in different products of top credit quality. These assets will enable the Bank to cover very comfortably 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 of which no use was made in 2008.

From the credit quality standpoint, Banco Popular's nonperforming ratio of 2.71% in Spain showed higher levels of security than the average of 3.1% for Spanish banks and savings banks in November 2008. This differential in Banco Popular's favour now amounts to 43 basis points and, as occurred in the previous downward cycle, tends to increase as the economy sinks deeper in it. For 2009 and 2010 the Bank foresees higher levels of delinquency in line with the expectations of the Spanish economy. However, based on the stress tests performed, this situation will not involve a deterioration from the present levels of solvency.

Funds Managed

(Amounts in € thousand)

	31.12.08	31.12.07	% variation
Unadjusted customer deposits	51,483,858	42,766,229	20.4
General government	6,491,790	6,092,873	6.5
Other private sectors	44,992,068	36,673,356	22.7
Residents	38,628,812	31,015,565	24.5
Nonresidents	6,363,256	5,657,791	12.5
Valuation adjustments (+/-)	173,811	(104,645)	<
Total customer deposits	51,657,669	42,661,584	21.1
Unadjusted debt certificates including bonds:			
Bonds and other securities outstanding . .	29,846,312	41,814,696	(28.6)
Commercial paper	20,040,340	26,203,705	(23.5)
Commercial paper	9,805,972	15,610,991	(37.2)
Valuation adjustments (+/-)	368,330	73,147	>
Total debt certificates including bonds	30,214,642	41,887,843	(27.9)
Subordinated liabilities	1,178,757	1,356,000	(13.1)
Capital having the nature of a financial liability	438,000	438,537	(0.1)
Total on-balance sheet funds (a)	83,489,068	86,343,964	(3.3)
Mutual funds	8,649,348	12,097,212	(28.5)
Asset portfolio management	875,706	1,571,305	(44.3)
Pension funds	3,905,595	4,271,852	(8.6)
Total other intermediated funds (b) . .	13,430,649	17,940,369	(25.1)
Total funds managed (a+b)	96,919,717	104,284,333	(7.1)

Customer deposits

(Amounts in € thousand)

	31.12.08	31.12.07	% variation
Demand deposits	14,026,839	15,360,499	(8.7)
Savings deposits	4,806,275	5,578,768	(13.8)
Time deposits	25,719,428	18,300,051	40.5
Asset repos	6,681,653	3,247,111	>
Other accounts and valuation adjustments .	423,474	175,155	>
Customer deposits	51,657,669	42,661,584	21.1
Domestic commercial paper	5,737,102	10,806,188	(46.9)
Total	57,394,771	53,467,772	7.3

Lending to customers

(Amounts in € thousand)

	31.12.08	31.12.07	% variation
Lending to general government	561,395	129,943	>
Lending to other private sectors	92,712,264	87,977,925	5.4
Residents.	83,524,458	79,550,141	5.0
Nonresidents.	9,187,806	8,427,784	9.0
Total lending to customers	93,273,659	88,107,868	5.9
Valuation adjustments (+/-)	(1,751,098)	(1,465,490)	19.5
Total	91,522,561	86,642,378	5.6

Lending to customers by type

(Amounts in € thousand)

	31.12.08	31.12.07	% variation	% underlying variation (*)
Trade loans and discounts	6,377,878	7,709,354	(17.3)	(11.0)
Secured loans	48,420,181	47,086,454	2.8	
Mortgage loans	48,276,130	46,860,392	3.0	
Other.	144,051	226,062	(36.3)	
Asset repos	1,923,923	2	>	
Other term loans	26,342,980	26,338,589	-	
Finance leases	3,612,091	3,788,261	(4.7)	
Overdrafts and other	3,743,582	2,364,628	58.3	
Doubtful assets	2,853,024	820,580	>	
Total lending to private sectors	93,273,659	88,107,868	5.9	6.1

(*) Since 31/12/2007 was not a business day and there were no trade discount portfolio maturities, the ending balance of trade loans and discounts would be approximately €7,176 million.

Risk Management Performance*

(Amounts in € thousand)

	31.12.08	31.12.07	Variation	
			Amount	%
Nonperforming loans:				
Balance at 1 January	834,478	635,537	198,941	31.3
Additions	3,645,362	847,097	2,798,265	>
Recoveries	866,502	423,345	443,157	>
Other changes	-	1,309	(1,309)	(100.0)
Net variation	2,778,860	425,061	2,353,799	>
% increase	>	66,9		
Writeoffs	(570,726)	(226,120)	(344,606)	>
Balance at 31 December	3,042,612	834,478	2,208,134	>
Allowance for credit losses:				
Balance at 1 January	1,822,353	1,665,060	157,293	9.4
Annual provision:				
Gross	1,656,596	558,572	1,098,024	>
Recoveries	(936,843)	(184,664)	(752,179)	>
Net	719,753	373,908	345,845	92.5
Other variations	12,039	(12,954)	24,993	<
Writeoffs	(332,243)	(203,661)	(128,582)	63.1
Balance at 31 December	2,221,902	1,822,353	399,549	21.9
Memorandum items:				
Total risks	108,405,668	100,422,547	7,983,121	7.9
Loans transferred to suspense accounts	706,851	312,142	394,709	>
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	2.81	0.83	1.98	
Insolvency (Writeoffs/Total risks)	0.53	0.23	0.30	
Coverage (Credit loss allowance/Nonperforming loans)	73.03	218.38	(145.35)	

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

Credit loss allowances	Specific	General	Country risk	Total
Balance at 1 January	240,472	1,577,405	4,476	1,822,353
Net provisions	982,899	(261,736)	(1,410)	719,753
Amount used	332,243	-	-	332,243
Other variations and transfers	30,909	(19,666)	796	12,039
Balance at 31 December	922,037	1,296,003	3,862	2,221,902

Solvency

(Amounts in € thousand)

	Basilea II**	
	31.12.2008	31.12.07*
Total core capital	6,514,179	5,752,210
Core capital (%)	7.06	6.47
Total Tier 1 Capital	7,410,572	7,040,210
Tier 1 ratio (%)	8.04	7.92
Total Tier 2 Capital	906,541	1,552,135
BIS computable capital	8,317,113	8,592,345
Capital cushion	936,823	1,482,151
BIS ratio (%)	9.02	9.67
Memorandum item:		
Total BIS risk-weighted assets	92,253,625(***)	88,877,415

(*) Per Basel I criteria for comparison purposes

(**) Based on internal models approved by the Bank of Spain.

(***) Including €86,126,475 relating to credit risk and the remainder to exchange and market risk and operational risk

Equity

(Amounts in € thousand)

	Capital & reserves	Valuation adjustments	Minority interests	Net worth
Adjusted balance at 31.12.2006	5,529,203	24,200	361,178	5,914,581
Treasury stock	(8,382)	-	-	(8,382)
Consolidation adjustments (net)	(5,436)	-	(4,217)	(9,653)
Actuarial differences	(894)	-	(142)	(1,036)
Valuation adjustments	-	(10,232)	(230)	(10,462)
2007 net profit	1,264,961	-	76,512	1,341,473
Dividends paid in 2007	(551,237)	-	(30,831)	(582,068)
Balance at 31.12.2007	6,228,215	13,968	402,270	6,644,453
Treasury stock	(71,301)	-	-	(71,301)
Consolidation adjustments (net)	(2,754)	-	(62)	(2,816)
Actuarial differences	3,766	-	(143)	3,623
Capital increase	175,867	-	-	175,867
Merger adjustments	(42,283)	-	(133,584)	(175,867)
Valuation adjustments	-	16,802	84	16,886
Profit 1st half 2008	1,052,072	-	58,628	1,110,700
Dividends paid in 2008	(609,188)	-	(34,701)	(643,889)
Balance at 31.12.2008	6,734,394	30,770	292,492	7,057,656

Consolidated earnings

In an environment of the difficulty described earlier, with sharp falls in economic activity, Banco Popular's income statement shows the solidity of its recurring margins, the outcome of the commercial effort made to attract new lending and deposits and of appropriate management of the financial margins.

The net interest income ex dividends was 10.4% higher at €2,502 million, despite the higher cost of wholesale funding and the strong competition for deposits, which jointly led to an inevitable decline in the spread, offset by successful management of assets and liabilities as a whole, which led to a net interest income margin of 2.35%. Including the dividends collected, the net interest income of €2,521 million was 8.6% higher than for the same period of 2007.

The net fee and commission income amounted to €859 million at 2008 year end, and was virtually steady compared to the previous year, although the behaviour of its component items was uneven. Thus, asset management fees decreased because of the sharp fall in stock markets and investor preference for deposits and more conservative financial assets. Contrarily, there was a significant increase in fees for investment products and services.

The gains on financial assets and liabilities amounted to €90 million, a very positive advance of 24.7% for the year, based fundamentally on the business of distributing treasury products and managing proprietary positions.

As a result, the gross operating income amounted to €3,587 million in 2008, 6.2% up on 2007.

As regards operating costs, Banco Popular maintained its customary level of efficiency, which stood at 31.85% at year end, the best in Spain (average 3Q08 rate for banks of 38.15%) and in Europe (average 3Q08 rate of 70.5%). Also noteworthy was the high level of coverage of general expenses by fees and commissions, which stood at 74.5%, compared with 59.1% for Spanish banks and 51.1% as the European average. The increase in operating costs in 2008 was 9.2% as a result of the inclusion of TotalBank and the increase in rental expenses following the sale of certain corporate buildings. Eliminating the effect of these two factors, the increase would be 6.5%, with a rise of 7.4% in personnel expenses and of 4.2% in general administrative expenses.

In consequence, the net operating profit amounted to €2,326 million, 4.2% up on 2007.

The losses for impairment of assets and the allocations to other allowances reflected the impact of the increase in delinquency as a result of the economic situation. At year end the losses for impairment amounted to €1,086 million and the allocations to other allowances totalled €29 million.

The losses for impairment of loans and receivables amounted to €905 million, including €189 million of precautionary provisions; the risk premium was therefore 81 basis points. Banco Popular also booked €93 million for impairment of the securities portfolio, €85 million for impairment of buildings, and €3 million for other items.

Following the same principle of prudence, the Bank preferred not to release €244 from general allowances, as would have been permitted by the applicable legislation. At year end the general allowances therefore amounted to €1,296 million which, when added to the remaining allowances and to the guarantees provided by customers, signified an overall coverage ratio of 159.4%. The amount of the guarantees, mostly mortgage guarantees, was calculated with a discount of 30% of their valuation, applied voluntarily for future impairment which Banco Popular does not expect to arise.

The profit attributed to the Banco Popular Group amounted to €1,052 million in 2008, a year-on-year decrease of 16.8%; the potential profit that could have been published without precautionary provisions and with the permitted release from the general allowance would have been €1,346 million, i.e. 6.4% higher than in 2008.

The earnings per share were €0.867 in 2008 and the rates of return continued at very solid levels with ROE at 17.79%, compared with an average of 15.5% in Spain and of 6.5% in Europe, and the ROA was 1.04%.

Consolidated income and profitability

(Amounts in € thousand)

(Annualized % of ATA)

	31.12.08	31.12.07	% variation	31.12.08	31.12.07	Variation
Interest and similar income	6,254,811	5,192,802	20.5	5.84	5.31	0.53
- Interest expense and similar charges	3,753,182	2,927,361	28.2	3.51	2.99	0.52
=Net interest income excluding dividends	2,501,629	2,265,441	10.4	2.33	2.32	0.01
+Return on equity instruments.	18,926	55,441	(65.9)	0.02	0.05	(0.03)
=Net interest income	2,520,555	2,320,882	8.6	2.35	2.37	(0.02)
+Share of profit or loss of equity method companies	14,356	3,920	>	0.01	-	0.01
+ Net fees and commissions	858,611	876,275	(2.0)	0.80	0.90	(0.10)
+Insurance business	49,613	53,377	(7.1)	0.05	0.05	-
±Gains or losses on financial assets and liabilities	90,316	72,455	24.7	0.09	0.07	0.02
±Exchange differences (net)	53,889	52,118	3.4	0.05	0.05	-
=Gross income	3,587,340	3,379,027	6.2	3.35	3.45	(0.10)
+ Non-financial service fee income (net)	29,007	39,222	(26.0)	0.03	0.04	(0.01)
+ Compensating fees and other income	47,238	52,829	(10.6)	0.04	0.05	(0.01)
- Operating costs:	1,196,543	1,095,436	9.2	1.11	1.12	(0.01)
Personnel expenses	818,142	747,311	9.5	0.76	0.76	-
Other general administrative expenses.	378,401	348,125	8.7	0.35	0.36	(0.01)
- Depreciation.	100,786	99,642	1.1	0.10	0.10	-
- Other operating expenses	40,327	43,156	(6.6)	0.04	0.04	-
=Net Operating income	2,325,929	2,232,844	4.2	2.17	2.28	(0.11)
- Losses from impairment of assets	1,086,359	321,585	>	1.01	0.33	0.68
- Other provisions to allowances (net)	28,801	11,897	>	0.03	0.01	0.02
±Other gains or losses (net)	250,251	40,577	>	0.23	0.04	0.19
= Profit or loss before tax	1,461,020	1,939,939	(24.7)	1.36	1.98	(0.62)
- Income tax	390,343	605,734	(35.6)	0.36	0.62	(0.26)
± Earnings from discontinued operations	40,023	7,269	>	0.04	0.01	0.03
=Consolidated profit or loss for the period	1,110,700	1,341,474	(17.2)	1.04	1.37	(0.33)
- Profit or loss attributed to minority interests	58,628	76,512	(23.4)	0.06	0.08	(0.02)
=Profit or loss attributed to the Group	1,052,072	1,264,962	(16.8)	0.98	1.29	(0.31)
Net return on average risk-weighted assets (RORWA) (%)				1.23	1.60	(0.37)
Net return on average equity (ROE) (%)				17.79	23.95	(6.16)
Leverage				17.15	17.54	(0.39)
Operating efficiency (%)				31.85	30.55	1.30
€ million:						
Average total assets				107,096	97,860	9,236
Risk-weighted average total assets (RWA)				90,458	83,251	7,207
Average total equity.				5,913	5,263	650

Quarterly Consolidated Income

(Amounts in € thousand)

(Datos en miles de euros)	2008			
	I	II	III	IV
Interest and similar income	1,493,544	1,535,670	1,631,629	1,593,968
- Interest expense and similar charges	876,339	914,675	993,712	968,456
=Net interest income excluding dividends	617,205	620,995	637,917	625,512
+ Return on equity instruments	5,288	9,974	2,817	847
=Net interest income	622,493	630,969	640,734	626,359
+ Share of profit or loss of equity method companies	40	50	1,639	12,627
+ Net fees and commissions	214,240	224,446	207,211	212,714
+ Insurance business	12,761	12,512	12,600	11,740
± Gains or losses on financial assets and liabilities	20,060	27,186	29,846	13,224
± Exchange differences (net)	11,160	11,321	16,271	15,137
= Gross income	880,754	906,484	908,301	891,801
+ Non-financial service fee income (net)	10,191	9,474	8,737	605
+ Compensating fees and other income	12,890	12,020	10,632	11,696
- Operating costs:				
Personnel expenses	198,583	198,129	210,624	210,806
Other general administrative expenses	86,275	89,763	96,208	106,155
- Depreciation	26,209	25,877	26,415	22,285
- Other operating expenses	10,938	10,741	10,713	7,935
= Net Operating income	581,830	603,468	583,710	556,921
- Losses from impairment of assets	135,953	343,648	144,420	462,338
- Other provisions to allowances (net)	2,076	4,878	12,832	9,015
± Other gains or losses (net)	34,324	179,869	(4,346)	40,404
= Profit or loss before tax	478,125	434,811	422,112	125,972
- Income tax	135,594	101,765	123,597	29,387
± Earnings from discontinued operations	2,932	37,091	-	-
= Consolidated profit or loss for the period	345,463	370,137	298,515	96,585
- Profit or loss attributed to minority interests	20,929	17,140	16,620	3,939
= Profit or loss attributed to the Group	324,534	352,997	281,895	92,646

	2007			
	I	II	III	IV
Interest and similar income	1,129,291	1,238,003	1,352,040	1,473,468
- Interest expense and similar charges	597,213	676,886	773,349	879,913
=Net interest income excluding dividends	532,078	561,117	578,691	593,555
+ Return on equity instruments	16,677	18,688	9,857	10,219
=Net interest income	548,755	579,805	588,548	603,774
+ Share of profit or loss of equity method companies	666	2,718	76	460
+ Net fees and commissions	224,049	215,588	212,615	224,023
+ Insurance business	13,813	12,941	11,482	15,141
± Gains or losses on financial assets and liabilities	19,939	28,610	12,617	11,289
± Exchange differences (net)	11,922	12,649	14,936	12,611
= Gross income	819,144	852,311	840,274	867,298
+ Non-financial service fee income (net)	10,092	9,322	8,772	11,036
+ Compensating fees and other income	14,889	13,580	11,478	12,882
- Operating costs:				
Personnel expenses	180,642	181,086	191,770	193,813
Other general administrative expenses	80,362	85,482	90,149	92,132
- Depreciation	24,447	24,373	24,758	26,064
- Other operating expenses	10,751	10,760	10,792	10,853
= Net Operating income	547,923	573,512	543,055	568,354
- Losses from impairment of assets	106,148	80,809	60,834	73,794
- Other provisions to allowances (net)	811	(1,377)	6,913	5,550
± Other gains or losses (net)	6,246	5,808	13,631	14,892
= Profit or loss before tax	447,210	499,888	488,939	503,902
- Income tax	140,732	156,490	153,984	154,528
± Earnings from discontinued operations	1,560	1,777	1,960	1,972
= Consolidated profit or loss for the period	308,038	345,175	336,915	351,346
- Profit or loss attributed to minority interests	18,222	19,240	19,938	19,112
= Profit or loss attributed to the Group	289,816	325,935	316,977	332,234

Quarterly Profitability

(Annualized % of ATA)

	2008				2007			
	I	II	III	IV	I	II	III	IV
Interest and similar income	5.75	5.81	5.95	5.84	4.94	5.16	5.40	5.67
- Interest expense and similar charges	3.37	3.46	3.62	3.54	2.61	2.82	3.09	3.39
=Net interest income excluding dividends	2.38	2.35	2.33	2.30	2.33	2.34	2.31	2.28
+Return on equity instruments	0.02	0.04	0.01	-	0.07	0.08	0.04	0.04
=Net interest income	2.40	2.39	2.34	2.30	2.40	2.42	2.35	2.32
+Share of profit or loss of equity method companies	-	-	-	0.04	-	0.01	-	-
+ Net fees and commissions	0.82	0.85	0.75	0.78	0.98	0.90	0.85	0.86
+Insurance business	0.05	0.05	0.05	0.04	0.06	0.05	0.05	0.06
±Gains or losses on financial assets and liabilities	0.08	0.10	0.11	0.05	0.09	0.12	0.05	0.05
±Exchange differences (net)	0.04	0.04	0.06	0.06	0.05	0.05	0.06	0.05
=Gross income	3.39	3.43	3.31	3.27	3.58	3.55	3.36	3.34
+ Non-financial service fee income (net)	0.04	0.04	0.03	-	0.05	0.04	0.03	0.04
+ Compensating fees and other income	0.05	0.05	0.04	0.04	0.07	0.06	0.05	0.05
- Operating costs:	1.10	1.09	1.12	1.16	1.14	1.12	1.13	1.10
Personnel expenses	0.77	0.75	0.77	0.77	0.79	0.76	0.77	0.75
Other general administrative expenses	0.33	0.34	0.35	0.39	0.35	0.36	0.36	0.35
- Depreciation	0.10	0.10	0.09	0.08	0.11	0.10	0.10	0.10
- Other operating expenses	0.04	0.04	0.04	0.03	0.05	0.04	0.04	0.04
=Net Operating income	2.24	2.29	2.13	2.04	2.40	2.39	2.17	2.19
- Losses from impairment of assets	0.52	1.30	0.52	1.69	0.46	0.34	0.24	0.28
- Other provisions to allowances (net)	0.01	0.02	0.05	0.03	0.01	(0.01)	0.03	0.02
±Other gains or losses (net)	0.13	0.68	(0.02)	0.14	0.03	0.02	0.05	0.05
= Profit or loss before tax	1.84	1.65	1.54	0.46	1.96	2.08	1.95	1.94
- Income tax	0.52	0.39	0.45	0.11	0.62	0.65	0.62	0.60
± Earnings from discontinued operations	0.01	0.14	-	-	0.01	0.01	0.01	0.01
=Consolidated profit or loss for the period	1.33	1.40	1.09	0.35	1.35	1.44	1.35	1.35
- Profit or loss attributed to minority interests	0.08	0.06	0.06	0.01	0.08	0.08	0.08	0.07
=Profit or loss attributed to the Group	1.25	1.34	1.03	0.34	1.27	1.36	1.27	1.28
Net return on average risk-weighted assets (RORWA) (%)	1.54	1.63	1.32	0.43	1.55	1.67	1.59	1.61
Net return on average equity (ROE) (%)	21.95	23.87	19.06	6.29	22.01	24.76	24.11	25.26
Leverage	16.51	17.03	17.51	17.77	16.33	17.20	17.92	18.69
Operating efficiency (%)	30.58	30.17	32.35	34.34	29.73	29.40	31.90	31.14
€ million:								
Average total assets	103,913	105,639	109,672	109,160	91,415	95,913	100,150	103,961
Risk-weighted average total assets (RWA)	89,349	90,452	90,723	91,488	79,056	82,343	84,513	87,094
Average total equity	5,915	5,917	5,915	5,895	5,267	5,266	5,259	5,261

Yields and Costs

(Amounts in € thousand and rates annualized)

	31.12.08				31.12.07			
	Average balance	Distribution (%)	Income or expense	Average rate (%)	Average balance	Distribution (%)	Income or expense	Average rate (%)
Financial system	7,862,651	7.34	308,151	3.92	8,097,492	8.27	319,498	3.92
Lending to customers (a)	88,821,092	82.94	5,755,815	6.48	81,411,301	83.19	4,777,147	5.85
Securities portfolio	4,168,544	3.89	196,606	4.72	2,703,615	2.76	159,416	5.90
Other earning assets	319,607	0.30	13,165	4.12	343,808	0.35	12,438	3.62
Total earning assets(b)	101,171,894	94.47	6,273,737	6.20	92,556,216	94.57	5,268,499	5.67
Other assets	5,924,216	5.53	-	-	5,303,614	5.43	-	-
Total assets (c)	107,096,110	100.00	6,273,737	5.86	97,859,830	100.00	5,268,499	5.36
Financial system	12,012,499	11.22	484,716	4.04	9,798,427	10.01	359,016	3.69
Customer funds (d)	43,413,558	40.54	1,348,247	3.11	35,801,541	36.58	802,061	2.23
Demand accounts	13,250,724	12.37	226,038	1.71	13,027,900	13.31	149,825	1.15
Savings and time deposits	30,162,834	28.17	1,122,209	3.72	22,773,641	23.27	652,236	2.84
Marketable debt securities & other	39,377,588	36.77	1,900,978	4.83	41,400,175	42.31	1,754,252	4.24
Other interest-bearing liabilities	303,281	0.28	19,241	6.34	325,101	0.33	14,182	4.36
Total interest-bearing liabilities (e)	95,106,926	88.81	3,753,182	3.95	87,325,244	89.23	2,929,511	3.35
Other non-interest-bearing liabilities	6,075,844	5.67	-	-	5,271,769	5.39	-	-
Equity	5,913,340	5.52	-	-	5,262,817	5.38	-	-
Total liabilities and equity (f)	107,096,110	100.00	3,753,182	3.51	97,859,830	100.00	2,929,511	2.99
Customer spread (a-d)				3.37				3.62
Spread (b-e)				2.25				2.32
Net interest margin (c-f)				2.35				2.37

Quarterly Yields and Costs

(Data in % and rates annualized)

	1st		2nd		3rd		4th	
	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate
Financial system	7.46	3.96	7.07	3.97	8.44	3.96	6.39	3.76
Loans and discounts (a)	83.61	6.29	83.60	6.39	81.58	6.62	83.01	6.61
Securities portfolio	3.92	5.10	4.13	5.19	4.13	5.27	3.40	3.06
Other earning assets	0.33	3.74	0.31	4.11	0.29	3.88	0.27	4.84
Total earning assets(b)	95.32	6.05	95.11	6.15	94.44	6.31	93.07	6.28
Other assets	4.68	-	4.89	-	5.56	-	6.93	-
Total assets (c)	100.00	5.78	100.00	5.85	100.00	5.96	100.00	5.84
Financial system	9.90	3.98	11.83	4.24	11.86	3.80	11.23	4.12
Customer funds (d)	38.37	2.88	39.38	2.98	39.11	3.22	45.15	3.29
Demand accounts	12.83	1.62	12.16	1.49	11.80	1.76	12.72	1.94
Savings and time deposits	25.54	3.52	27.22	3.65	27.32	3.85	32.43	3.82
Marketable debt securities & other	40.34	4.60	37.28	4.74	37.55	5.05	32.09	4.93
Other interest-bearing liabilities	0.29	6.48	0.28	6.60	0.28	6.22	0.28	6.08
Total interest-bearing liabilities (e)	88.90	3.79	88.77	3.90	88.80	4.08	88.75	4.00
Other non-interest-bearing liabilities	5.41	-	5.63	-	5.81	-	5.85	-
Equity	5.69	-	5.60	-	5.39	-	5.40	-
Total liabilities and capital (f)	100.00	3.37	100.00	3.46	100.00	3.62	100.00	3.54
Customer spread (a-d)		3.41		3.41		3.40		3.32
Spread (b-e)		2.26		2.25		2.23		2.28
Net interest margin (c-f)		2.40		2.39		2.34		2.30

	1st		2nd		3rd		4th	
	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate
Financial system	8.04	3.70	8.56	3.64	8.27	4.22	8.22	4.08
Loans and discounts (a)	84.22	5.46	83.54	5.72	83.13	5.92	82.03	6.24
Securities portfolio	1.42	7.65	1.89	7.27	3.09	5.10	4.43	5.40
Other earning assets	0.39	2.69	0.36	4.54	0.34	3.59	0.33	3.68
Total earning assets(b)	94.07	5.33	94.35	5.55	94.83	5.74	95.01	6.01
Other assets	5.93	-	5.65	-	5.17	-	4.99	-
Total assets (c)	100.00	5.01	100.00	5.24	100.00	5.44	100.00	5.71
Financial system	9.80	3.49	9.96	3.46	10.20	3.82	10.07	3.95
Customer funds (d)	38.38	1.90	36.38	2.03	35.54	2.27	36.21	2.67
Demand accounts	14.39	0.99	13.20	0.95	12.71	1.12	13.06	1.53
Savings and time deposits	23.99	2.45	23.18	2.65	22.83	2.92	23.15	3.31
Marketable debt securities & other	40.75	3.76	42.61	4.04	43.01	4.37	42.71	4.70
Other interest-bearing liabilities	0.37	2.45	0.34	5.76	0.32	4.32	0.30	5.01
Total interest-bearing liabilities (e)	89.30	2.93	89.29	3.16	89.07	3.47	89.29	3.79
Other non-interest-bearing liabilities	4.94	-	5.22	-	5.68	-	5.65	-
Equity	5.76	-	5.49	-	5.25	-	5.06	-
Total liabilities and capital (f)	100.00	2.61	100.00	2.82	100.00	3.09	100.00	3.39
Customer spread (a-d)		3.56		3.69		3.65		3.57
Spread (b-e)		2.40		2.39		2.27		2.22
Net interest margin (c-f)		2.40		2.42		2.35		2.32

Net Fee and Commission Income

(Amounts in € thousand)

	31.12.08	31.12.07	% variation	Distribution (%)	
				2008	2007
Risk fees and commissions	266,031	233,540	13.9	31.0	26.7
Asset transaction services	143,108	107,202	33.5	16.7	12.2
Provision of collateral and other guarantees	122,923	126,338	(2.7)	14.3	14.4
Asset management fees and commissions	191,140	246,935	(22.6)	22.3	28.2
Securities portfolios	30,257	32,029	(5.5)	3.5	3.7
Mutual funds	108,555	159,446	(31.9)	12.6	18.2
Pension plans	52,328	55,460	(5.6)	6.1	6.3
Management service fees and commissions	401,440	395,800	1.4	46.8	45.2
Collection and payment handling	215,876	215,528	0.2	25.1	24.6
Securities and foreign currency purchase and sale	17,374	26,101	(33.4)	2.0	3.0
Demand account administration	106,553	101,373	5.1	12.4	11.6
Other	61,637	52,798	16.7	7.2	6.0
Total	858,611	876,275	(2.0)	100.00	100.00

	2008			
	1st	2nd	3rd	4th
Risk fees and commissions	63,370	66,024	66,205	70,432
Asset transaction services	32,738	35,823	36,377	38,170
Provision of collateral and other guarantees	30,632	30,201	29,828	32,262
Asset management fees and commissions	52,774	50,495	45,942	41,929
Securities portfolios	6,855	8,842	7,037	7,523
Mutual funds	32,196	28,212	25,873	22,274
Pension plans	13,723	13,441	13,032	12,132
Management service fees and commissions	98,096	107,927	95,064	100,353
Collection and payment handling	52,396	58,819	51,049	53,612
Securities and foreign currency purchase and sale	5,220	2,972	3,155	6,027
Demand account administration	24,632	28,456	27,784	25,681
Other	15,848	17,680	13,076	15,033
Total	214,240	224,446	207,211	212,714

Personnel and general expenses

(Amounts in € thousand)

	31.12.07	31.12.06	% variation	Distribution (%)	
				2007	2006
Personnel expenses:	818,142	747,311	9.5	68.4	68.2
Wages and salaries	617,781	565,939	9.2	51.6	51.5
Social security charges	142,379	135,101	5.4	11.9	12.5
Other personnel expenses	26,165	21,051	24.3	2.2	1.9
Pensions	31,817	25,220	26.2	2.7	2.3
General expenses:	378,401	348,125	8.7	31.6	31.8
Rents and common services	68,820	55,206	24.7	5.8	5.0
Communications	28,607	25,597	11.8	2.4	2.4
Maintenance of premises and equipment	25,307	23,382	8.2	2.1	2.1
IT and other technical expenses	73,711	72,516	1.6	6.2	6.6
Stationery and office supplies	8,475	7,831	8.2	0.7	0.7
Technical reports and legal expenses	19,785	16,852	17.4	1.7	1.6
Advertising and publicity	37,557	38,715	(3.0)	3.1	3.5
Insurance	4,504	4,399	2.4	0.3	0.4
Security and fund transport services	20,353	18,877	7.8	1.7	1.7
Travel	12,695	12,782	(0.7)	1.0	1.2
Property taxes, VAT and other	51,273	51,406	(0.3)	4.3	4.7
Other general expenses	27,314	20,562	32.8	2.3	1.9
Total	1,196,543	1,095,436	9.2	100.00	100.00

	2008			
	1st	2nd	3rd	4th
Personnel expenses:	198,583	198,129	210,624	210,806
Wages and salaries	150,319	148,988	159,722	158,752
Social security charges	35,539	35,469	35,832	35,539
Other personnel expenses	6,419	6,575	6,312	6,859
Pensions	6,306	7,097	8,758	9,656
General expenses:	86,275	89,763	96,208	106,155
Rents and common services	14,085	16,411	19,496	18,828
Communications	6,909	6,138	7,418	8,142
Maintenance of premises and equipment	5,781	5,606	6,796	7,124
IT and other technical expenses	16,593	18,806	19,126	19,186
Stationery and office supplies	2,114	1,783	2,023	2,555
Technical reports and legal expenses	3,736	4,084	5,257	6,708
Advertising and publicity	8,090	7,365	9,846	12,256
Insurance	1,062	1,113	1,247	1,082
Security and fund transport services	4,980	3,556	6,273	5,544
Travel	3,213	3,526	2,828	3,128
Property taxes, VAT and other	12,285	12,938	12,371	13,679
Other general expenses	7,427	8,437	3,527	7,923
Total	284,858	287,892	306,832	316,961

Information by segment

As stated in the 2006 annual reporting documents, the Banco Popular Group is managed and directed at entity level. For the purposes of the information by segment and as indicated in that annual report, the main segment defined is the geographical segment, and the secondary segment is the activity segment. The balance sheet total in each geographical segment reflects the amount corresponding to Spain and Portugal, respectively. In each of the secondary segments the contribution of each to total assets in the consolidated balance sheet is shown.

The information by geographical segment is as follows:

	31.12.08		31.12.07		% variation	
	Spain	Portugal	Spain	Portugal	Spain	Portugal
Net interest income	2,366,520	154,035	2,179,546	159,442	8.6	(3.4)
Gross income	3,389,485	197,855	3,192,303	212,189	6.2	(6.8)
Net operating income	2,239,376	86,553	2,136,032	109,562	4.8	(21.0)
Total assets	101,040,089	9,335,962	99,286,113	7,883,240	1.8	18.4
Number of employees	13,693	1,376	13,698	1,340	-	2.7
Number of branch offices	2,328	235	2,311	220	0.7	6.8

(*) Also includes the remaining international activity that does not constitute a separate segment.

The breakdown by business activity segment is as follows:

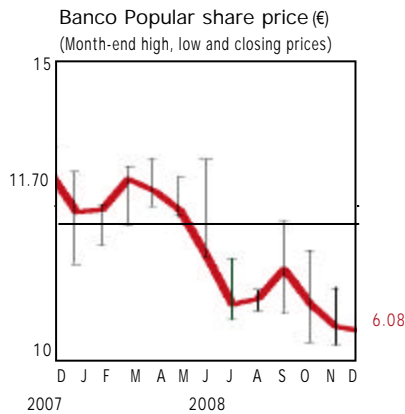
	Consolidated profit			Total assets		
	31.12.08	31.12.07	% variation	31.12.08	31.12.07	% variation
Asset management	48,140	61,459	(21.7)	323,941	1,750,344	(81.5)
Insurance activity	26,168	30,033	(12.9)	829,447	1,123,260	(26.2)
Commercial banking	890,113	1,163,359	(23.5)	91,834,924	88,249,385	4.1
Corporate and markets	66,233	86,623	(23.5)	17,317,739	16,046,364	7.9
Total	1,110,700	1,341,474	(17.2)	110,376,051	107,169,353	3.0

Market Performance of the Bank's Shares

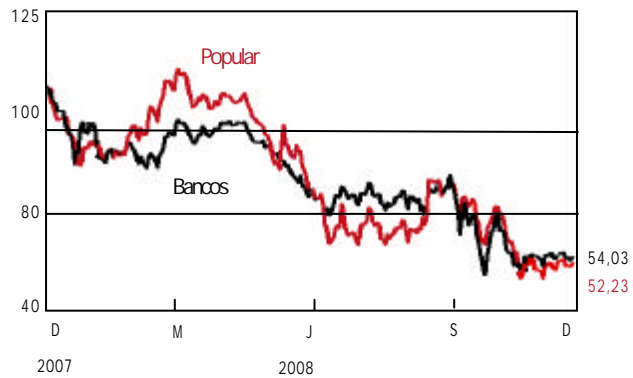
Market information

Quarters	Share liquidity (Number in thousands)			Share market price (€)			Dividend paid (€)	Market return*
	Average shares outstanding	Shares traded	%	High	Low	Closing		
2007 1st	1,215,433	577,638	47.53	15.65	13.73	15.44	0.1033	13.2
2nd	1,215,433	511,582	42.09	16.07	13.55	13.82	0.1044	(9.8)
3rd	1,215,433	607,837	50.01	14.16	11.27	12.05	0.1057	(12.0)
4th	1,215,433	657,763	54.12	12.61	11.30	11.70	0.1213	(1.9)
Year total	1,215,433	2,354,820	193.74	16.07	11.27	11.70	0.4347	(11.6)
2008 1st	1,215,433	998,308	81.93	11.98	8.51	11.50	0.1222	(0.7)
2nd	1,215,433	805,224	66.25	12.21	8.69	8.79	0.1234	(22.5)
3rd	1,215,433	944,346	77.70	9.98	6.50	8.29	0.1250	(4.5)
4th	1,216,743	638,486	52.50	8.91	5.60	6.08	0.1300	(0.3)
Year total	1,215,753	3,386,364	278.54	12.21	5.60	6.08	0.5006	(43.8)

* Appreciation (depreciation) and dividend as % of initial price in each period.



Banco Popular compared with Spanish banks in the IBEX 35
December 2007 - December 2008
(Datos a fin de cada mes, en base 100)



Market ratios	31.12.08	31.12.07
Price / Book value	1.12	2.29
Price / Earnings (PE ratio)	7.00	11.24
Dividend return*	8.55	4.15

* Calculated with the dividend paid in the fourth quarter, annualized

Treasury Stock

(Thousands of shares)	Number				Total outstanding (a)	Total traded (b)	Treasury Stock*	
	Average	Maximum	Minimum	Closing			As % of (a)	As % of (b)
2007								
First quarter	201	1,946	64	167	1,215,433	577,638	0.02	0.03
Second quarter	191	217	155	214	1,215,433	511,582	0.02	0.04
Third quarter	647	781	213	697	1,215,433	607,837	0.05	0.11
Fourth quarter	710	720	691	720	1,215,433	657,763	0.06	0.11
2008								
First quarter	723	724	720	724	1,215,433	998,308	0.06	0.07
Second quarter	724	724	724	724	1,215,433	805,224	0.06	0.09
Third quarter	1.011	2.634	724	2,634	1,215,433	944,346	0.08	0.11
Fourth quarter	7.323	10,116	724	10,116	1,235,741	638,486	0.59	1.15

* Calculated on average treasury stock held in the quarter.

Bank of Spain Circular 6/2008

In 2008 the Bank of Spain modified the formats of the public financial statement forms to adapt them to the general international consensus, thus taking an important step towards the comparability of financial statements among credit institutions.

Shown below are the consolidated income statement and the consolidated balance sheet affected by the change in presentation formats.

Consolidated Statement of Income at 31/12/08 and 31/12/07

	31/12/2008	31/12/2007	% Variación
Interest and similar income	6,289,255	5,216,413	20.6
Interest expense and similar charges	3,753,994	2,928,539	28.2
<u>Net interest income ex dividends</u>	<u>2,535,261</u>	<u>2,287,874</u>	<u>10.8</u>
Return on equity instruments	23,839	58,763	(59.4)
Share of results of entities accounted for using the equity method	14,356	3,920	>
Fees and commissions collected	1,015,647	1,048,136	(3.1)
Fees and commissions paid	151,099	165,343	(8.6)
Net fees and commissions	74,484	65,864	13.1
Exchange differences (net)	54,229	52,638	3.0
Other operating income	250,380	253,774	(1.3)
Other operating expenses	160,327	153,197	4.7
<u>Gross operating income</u>	<u>3,656,770</u>	<u>3,452,429</u>	<u>5.9</u>
Personnel expenses	818,142	747,311	9.5
Other general administrative expenses	397,628	370,900	7.2
Depreciation	100,786	99,642	1.1
Provisions to allowances (net)	29,515	12,563	>
Losses from impairment of assets (net)	998,162	302,278	>
<u>Net operating profit</u>	<u>1,312,537</u>	<u>1,919,735</u>	<u>(31.6)</u>
Losses from impairment of other assets (net)	15,242	349	>
Gains (losses) on disposal of assets not classified as non-current assets held for sale	233,020	8,622	>
Negative difference in consolidation	-	-	
Gains (losses) of non-current assets held for sale not classified as discontinued operations	(69,295)	11,931	<
<u>Profit before taxes</u>	<u>1,461,020</u>	<u>1,939,939</u>	<u>(24.7)</u>
Income tax	390,343	605,734	(35.6)
<u>Profit for the year from ongoing operations</u>	<u>1,070,677</u>	<u>1,334,205</u>	<u>(19.8)</u>
Profit/Loss from discontinued operations (net)	40,023	7,269	>
<u>Consolidated profit for the year</u>	<u>1,110,700</u>	<u>1,341,474</u>	<u>(17.2)</u>
a) Attributed to minority interests	58,628	76,512	(23.4)
b) Attributed to the controlling entity	1,052,072	1,264,962	(16.8)

The presentation format change involved several reclassifications. The main variations from the previous format are as follows:

Net interest income: Net interest income ex dividends + insurance income + gains or losses on financial assets and liabilities.

Other operating income: Basically includes insurance premium income, other operating income, Other Gains-Other items and sales and income from non-financial services.

Other operating expenses: Includes the former Other operating expenses less provisions to foundations, cost of sales for non-financial services + Other losses - Other items except Other payments to pensioners + Insurance and reinsurance contract expenses.

Other general administrative expenses: general expenses + provisions to foundations

Provisions to allowances: provisions to allowances + Other payments to pensioners

Losses for impairment of financial assets: Impairment of financial assets held for sale + Impairment of loans and receivables.

Gains/Losses on the disposal of assets not classified as non-current assets held for sale: Gains or losses on the sale of buildings and shareholdings not classified as non-current assets held for sale.

Finally, the option to recognise actuarial gains and losses through equity was taken.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

	2008	2007	% Variación
ASSETS			
Cash and balances with central banks	1,859,577	1,955,178	(4.9)
Financial assets held for trading	1,334,199	1,173,709	13.7
Other financial assets at fair value through profit or loss	336,666	500,157	(32.7)
Available-for-sale financial assets	3,760,410	4,211,248	(10.7)
Loans and receivables	96,606,802	96,739,984	(0.1)
Held-to-maturity investments	34,854	562	>
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	992,626	115,615	>
Non-current assets held for sale	1,660,596	228,125	>
Investments	32,151	20,393	57.7
Insurance contracts linked to pensions	182,368	206,213	(11.6)
Reinsurance assets	5,566	3,856	44.3
Tangible assets	1,355,443	729,573	85.8
Intangible assets	546,576	524,792	4.2
Tax assets	827,306	526,188	57.2
Other assets	840,911	233,760	>
TOTAL ASSETS	110,376,051	107,169,353	3.0
LIABILITIES			
Financial liabilities held for trading	1,729,742	670,365	>
Other financial liabilities at fair value through profit or loss	134,520	326,784	(58.8)
Financial liabilities at amortised cost	98,957,138	96,768,994	2.3
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	414,217	914,312	(54.7)
Liabilities connected with non-current assets held for sale	-	-	-
Insurance contract liabilities	932,135	680,421	37.0
Provisions	474,463	461,730	2.8
Tax liabilities	185,717	253,396	(26.7)
Other liabilities	490,733	448,898	9.3
Capital redeemable on demand	-	-	-
TOTAL LIABILITIES	103,318,395	100,524,900	2.8
EQUITY			
Own funds	6,734,394	6,228,215	8.1
Valuation adjustments	30,770	13,968	>
Minority interests	292,492	402,270	(27.3)
TOTAL EQUITY	7,057,656	6,644,453	6.2
TOTAL LIABILITIES AND EQUITY	110,376,051	107,169,353	3.0
MEMORANDUM ITEMS			
Contingent exposures	15,132,009	12,314,679	22.9
Contingent commitments	18,755,570	20,678,554	(9.3)

Los principales cambios en la presentación del balance de situación respecto del publicado con anterioridad son los siguientes:

- En el activo, se incluye la partida "Resto de Activos" agrupando y resumiendo las líneas correspondientes a "Periodificaciones" y "Otros activos" del balance consolidado del Grupo publicado en 2007.
- En el pasivo, se elimina la partida "Capital con naturaleza de pasivo financiero" cuyo saldo se ha reclasificado en "pasivos subordinados" dentro del capítulo correspondiente a los "Pasivos financieros a coste amortizado".
- Incluye en el pasivo la rúbrica "Resto de pasivos", que agrupa las partidas del pasivo del balance consolidado incluido en las cuentas anuales a 31 de diciembre de 2007 "Periodificaciones" y "Otros pasivos".
- El componente de depósito de los seguros de vida se ha reclasificado desde "pasivos por contratos de seguros" a "otros pasivos a valor razonable con cambios en pérdidas y ganancias"

Basis of presentation and accounting principles and standards

Pursuant to Regulation 1606/2002 of the European Parliament and Council, dated July 19, 2002, the obligation for companies whose securities were listed on a regulated market in a Member State of the European Union at the date of their balance sheets to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) came into force on January 1, 2005.

The Bank of Spain, as the accounting regulator of the Spanish banking industry, implemented and adapted the accounting standards for credit institutions in its Circular 4/2004, as published in the Official State Gazette on December 30, 2004. That Circular was partly amended by Circular 6/2008.

Basis of presentation

The accompanying financial information was prepared in accordance with the new regulations and reflects all the economic activities of the Banco Popular Group, both financial and insurance and non-financial, and accordingly provides a true and fair view of the consolidated net worth, financial position, risks and results of operations.

As a result of the disposal in the first half of 2008 of the Group's business unit in France, the income statements, statements of yields and costs and profitability data in this report have been restated pursuant to IFRS 5 for comparison purposes. Also, the entry into force of Circular 6/2008 enabled the Group to take the option of recording actuarial gains and losses through net worth.

Accounting principles and policies and valuation standards

The Group's accounting policy is based on the accounting principles set forth in Note 15 to the 2007 consolidated financial statements, which included most notably the following:

- A) Impairment of the value of assets: The treatment of financial assets differs from that of all other assets, as discussed below.

Coverage is envisaged for the losses on financial assets, provided that they are based on objective evidence. Specific and general allowances are booked for customer-attributable credit-loss risk, and specific allowances for country risk.

The specific allowance reflects the deterioration of assets individually identified as impaired, and the general allowance reflects the inherent loss incurred based on the nature of each risk and estimated by statistical procedures pending allocation to specific transactions.

The Bank of Spain has stipulated models and methodology conforming to IFRS for the calculation of the foregoing allowances.

The regulations require strict treatment in the classification of doubtful balances in customer transactions, since default in the payment of one installment triggers the classification as nonperforming of the entire transaction.

For all other assets, including goodwill, impairment is deemed to exist if and when the book value of the assets exceeds their recoverable amount. In the case of goodwill, an impairment test must be performed at least once a year, since goodwill is not systematically amortized, and the appropriate writedown is booked if there is evidence of impairment.

- B) Income:

B1) Fees: Under IFRS the treatment of fees collected or paid differs depending on whether they are compensation for a service rendered or a cost incurred, or are remuneration additional to the interest rate on the transaction. The former are recognized as income when the service is rendered or the cost is incurred, and the latter are accrued over the term of the transaction.

B2) Interest and dividends: Interest is recognized on an accrual basis by the effective interest rate method, and dividends are recorded when declared.

C) Financial instruments are classified for valuation purposes and recorded as follows:

- Instruments classified in the trading portfolio, including financial derivatives, are recorded at fair value, with changes taken to the income statement.
- Loans and discounts and held-to-maturity investments are recorded at their amortized cost.
- Available-for-sale financial assets are valued at fair value, and changes in value are recorded in net worth until realized, at which time they are recognized in the income statement.
- Substantially all financial liabilities are valued at amortized cost.

D) Non-financial and intangible assets and inventories. These are valued at cost. For the valuation of tangible assets, the Banco Popular Group has not, on a general basis, taken the option provided in IFRS to revalue them, and accordingly they are presented in the balance sheet at cost restated, where appropriate, pursuant to the applicable enabling legislation, net of accumulated depreciation.

E) Non-current assets for sale. This heading is used to record foreclosed assets.

F) Capital having the nature of a financial liability. Issues of preferred shares launched by the Banco Popular Group qualify as liabilities and the remuneration on them therefore forms part of the financial cost.

Disclaimer

This financial report has been prepared by Banco Popular solely for purposes of information. It may contain estimates and forecasts with respect to the future development of the business and to the financial results of the Banco Popular Group, which stem from the expectations of the Banco Popular Group and which, by their very nature, are exposed to factors, risks and circumstances that could affect the financial results in such a way that they might not coincide with such estimates and forecasts. These factors include, but are not restricted to, (i) changes in interest rates, exchange rates or any other financial variable, both on the domestic as well as on the international securities markets, (ii) the economic, political, social or regulatory situation, and (iii) competitive pressures. In the event that such factors or other similar factors were to cause the financial results to differ from the estimates and forecasts contained in this report, or were to bring about changes in the strategy of the Banco Popular Group, Banco Popular does not undertake to publicly revise the content of this report.

This financial report contains summarised information and in no case shall its content constitute an offer, invitation or recommendation to subscribe or acquire any security whatsoever, nor is it intended to serve as a basis for any contract or commitment whatsoever.

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NOTES

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