

2 0 0 8

Quarterly report

July | August | September

Highlights

(Amounts in € thousand)	30.9.08	30.9.07	Var. %
Business volume			
Total assets managed	124,570,244	123,092,320	1.2
On-balance sheet total assets	110,210,805	105,102,945	4.9
Own funds	6,700,381	6,043,037	10.9
Funds managed:	99,716,385	100,990,373	(1.3)
Deposits from customers	42,102,554	33,907,578	24.1
Lending to customers (gross)	91,959,219	86,998,444	5.7
Contingent exposures	12,424,592	11,890,300	4.5
Solvency (1)			
BIS ratio (%)	9.63	9.94	
Of which: Tier 1 (%)	8.19	8.17	
(1) Calculated under BIS I for comparison.			
Risk management			
Total risks	104,383,811	98,888,744	5.6
Non-performing loans	2,285,262	761,625	>
Allowances for credit losses	1,955,532	1,773,950	10.2
% nonperforming ratio	2.19	0.77	
% coverage (Credit loss allowance/Nonperforming loans)	85.57	232.92	
Earnings			
Net interest income	1,894,196	1,717,108	10.3
Gross income	2,695,539	2,511,729	7.3
Net operating income	1,769,008	1,664,490	6.3
Profit before tax	1,330,702	1,430,584	(7.0)
Consolidated profit for the year	1,011,073	986,344	2.5
Profit attributed to the Group	956,497	929,053	3.0
Net return and efficiency			
Average total assets	106,408,198	95,826,037	11.0
Average total equity	5,914,534	5,263,554	12.4
ROA (%)	1.27	1.37	
ROE (%)	21.56	23.53	
Operating efficiency (%) (*)	31.04	30.35	
Per share data			
Final number of shares (thousands)	1,215,433	1,215,433	-
Average number of shares (thousands)	1,214,613	1,215,084	(0.04)
Share closing market price (€)	8.29	12.05	(31.2)
Market capitalization	10,075,940	14,645,962	(31.2)
Share book value (€)	5.51	4.97	10.9
Net earnings per share (€)	0.787	0.765	3.0
Dividend per share paid in the period (€)	0.371	0.313	18.5
Price/Book value	1.50	2.42	
Price/Earnings (annualized)	7.9	11.8	
Other data			
Shareholders	122,359	115,414	6.0
Employees	15,273	14,559	4.9
Spain	13,574	13,138	3.3
Men	9,282	9,269	0.1
Women	4,292	3,869	10.9
Abroad	1,699	1,421	19.6
Men	1,118	1,114	0.4
Women	581	307	89.3
Branches	2,569	2,490	3.2
Spain	2,321	2,263	2.6
Abroad	248	227	9.3
Mundocredit branches	59	26	>
ATMs	3,428	3,396	0.9

*Operating costs (net of compensating fees) divided by gross income + non-financial service income (net).
 The Group's consolidated financial statements at 30 September 2008 included herein have not been audited, but they were prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which are consistent with those used in preparing the audited financial statements in the 2007 Annual Report.

Salient aspects

The third quarter of 2008 witnessed the burgeoning of one of the most serious financial crises that has wracked the international banking system in the last seventy years. Despite the urgent defensive measures adopted by many governments, it is probable that the end of the financial problems and, of course, the magnitude of the impact on the world economy still remain to be seen.

While prestigious centuries-old banks that seemed, only weeks before, to be beyond doubt collapsed, due to enormous losses and uncertainties about the adequacy of their equity and their liquidity, Banco Popular has evidenced in the trusting reaction of customers and investors the strength of its model. The factors explaining this better performance were the absence of toxic assets from its balance sheets, firmly controlled cash exposures, absence of material exposures to fallen banks, one of the strongest capital ratios in the international banking community, a powerful second line of liquidity to face up to the closure of the markets, and the net increase in bank deposits when the spread of the financial panic was most acute.

The Bank's equity has continued to strengthen with core capital per Basel I at 6.78%, a rise of 31 basis points during the year. According to a study at the end of August 2008, conducted by a prestigious American investment bank, Banco Popular has the greatest capital strength among a group of twenty-eight major European and American banks. Around the same date another leading investment bank published a study which rated Banco Popular as the third least capital-leveraged bank among forty-three of the biggest and most prestigious on both sides of the Atlantic and, therefore, one of the banks with least need for capital in the future.

The balance sheet funding structure underwent an exceptionally rapid improvement due to the 200 basis point decrease in dependence on wholesale liabilities compared to the preceding quarter. This improvement was the outcome of the rapid increase of over 24%, in annual terms, in traditional customer deposits (57% time deposits), while loans and receivables, excluding asset repos, rose by 6.6%. This relatively high growth of lending was responsive to the Group's availability of liquidity, thus avoiding having to resort to the emergency measure for the slowdown of lending because of the market situation. However, the loan arrangement strategy has been reformulated, with special vigilance of the criteria for extending credit and a progressive increase in margins to reflect the rising cost of liabilities. Thanks to these criteria, the customer spread has remained surprisingly unaffected during the crisis, and was only 1 basis point lower at quarterly level than in the first two quarters of 2008. Something similar occurred with the spread between the yield on funds and the cost of total assets, which only declined by 2 basis points in so turbulent a quarter as that ended 30 September, and exceeded the Bank's margin at 2007 year end.

Net interest income excluding dividends grew at an annual rate of 12.2%, an exceptionally high figure in a worldwide context of weak financial revenues. The lower dividend income, a consequence of the Bank's prudent reaction to the international crisis, decreased the margin after dividends to growth of 10.3%. Gross income in the third quarter was better than in the two preceding quarters considered individually and 8.1% more than in the same quarter in 2007, compared with equivalent growth of 7.5% in the first quarter and 6.4% in the second. In part this good result was the outcome of the recovery in the sale of insurance products, which were 9.7% up in the third quarter individually over the same period of 2007, by contrast with the decreases in the two preceding quarters. Income from financing activities also grew spectacularly by 26% in annual terms, reflecting low risk activities performed to take advantage of market opportunities.

Also highly relevant was the performance of net operating income, with the highest quarterly growth during the year at 7.5% compared with the third quarter of 2007, a recovery from the downward trend in the two preceding quarters (6.2% in the first and 5.2% in the second).

The non-performing ratio of 2.19%, which compares favourably with the average 2.47% August figure for Spanish banks as a whole, reveals a rise in the last two quarters of between 39 and 44 basis points per quarter – excluding the one-off effect of Martinsa. The evolution during the third quarter itself was that of a clear decrease in gross delinquent additions from August to September, although this very brief period does not make it possible to conclude that there is a trend of deceleration.

As regards the booking of provisions for troubled risks, a voluntarily demanding criterion has been applied, within the scope of current regulations, giving priority to coverage over profit.

The Banco Popular Group continued to distance itself from the rest of the Spanish banking system by its higher rates of: ROE 21.6%, compared with 20.0% for banks and 18.6% for savings banks (March data); ROA 1.3%, compared with 1.2% for banks and 1.1% for savings banks (March data); and an efficiency ratio of 31%, compared with 37.1% for banks and 42.7% for savings banks (March data).

A particularly noteworthy aspect of the Banco Popular Group in this situation of crisis in financial confidence has been – and will continue to be – the security afforded by a powerful second line of liquidity, which can be activated at the European Central Bank at Banco Popular's convenience, amounting to over €13,350 million at the end of the third quarter net of drawdowns, and which will rise to nearly €19,000 million towards the end of December. The security arising from this strength in liquidity enables us to address the immediate future without distractions for managing the change of economic cycle, focused on the customer, which must count on the funding appropriate to its characteristics and needs and to market conditions.

Balance Sheet

(Amounts in € thousand)

	30.9.08	31.12.07	30.9.07	% variation	
				9 months	12months
Assets					
Cash and balances with central banks.....	4,416,481	1,955,178	1,736,502	>	>
Financial assets held for trading.....	1,466,672	1,173,709	1,442,581	25.0	1.7
Other financial assets at fair value through profit or loss	398,737	500,157	458,366	(20.3)	(13.0)
Available-for-sale financial assets.....	3,593,909	4,211,248	4,049,097	(14.7)	(11.2)
Loans and receivables.....	95,760,463	96,739,984	94,826,485	(1.0)	1.0
Loans and advances to other debtors.....	90,471,200	86,642,378	85,578,976	4.4	5.7
Other loans and receivables.....	5,289,263	10,097,606	9,247,509	(47.6)	(42.8)
Held-to-maturity investments.....	26,488	562	426	>	>
Hedging derivatives.....	253,579	115,615	191,822	>	32.2
Non-current assets held for sale	986,941	228,125	183,754	>	>
Investments	19,524	20,393	20,326	(4.3)	(3.9)
Insurance contracts linked to pensions	187,375	206,213	210,963	(9.1)	(11.2)
Reinsurance assets.....	5,084	3,856	4,643	31.8	9.5
Tangible assets	1,109,321	729,573	717,539	52.1	54.6
Intangible assets	537,897	524,792	368,562	2.5	45.9
Tax assets.....	799,792	526,188	644,539	52.0	24.1
Prepayments and accrued income	141,167	65,365	73,003	>	93.4
Other assets.....	507,375	168,395	174,337	>	>
Total Assets	110,210,805	107,169,353	105,102,945	2.8	4.9
Liabilities					
Financial liabilities held for trading	529,417	670,365	835,492	(21.0)	(36.6)
Other financial liabilities at fair value through profit or loss.....	17,233	37,016	34,754	(53.4)	(50.4)
Financial liabilities at amortised cost:	98,698,589	96,281,116	94,466,551	2.5	4.5
Deposits from credit institutions	12,634,971	9,421,401	10,887,084	34.1	16.1
Deposits from other creditors	46,400,935	42,661,584	37,862,492	8.8	22.6
Debt certificates including bonds.....	37,380,445	41,887,843	43,379,096	(10.8)	(13.8)
Subordinated liabilities.....	1,137,029	1,356,000	1,320,897	(16.1)	(13.9)
Other financial liabilities	1,145,209	954,288	1,016,982	20.0	12.6
Hedging derivatives	841,264	812,958	513,394	3.5	63.9
Insurance contract liabilities	933,059	970,189	905,217	(3.8)	3.1
Provisions for contingent exposures	463,244	467,005	470,412	(0.8)	(1.5)
Tax liabilities.....	429,657	251,998	496,181	70.5	(13.4)
Accrued expenses and deferred income.....	299,124	302,222	310,009	(1.0)	(3.5)
Other liabilities.....	446,135	297,371	184,913	50.0	>
Capital having the nature of a financial liability.....	438,537	438,537	438,513	-	-
Total liabilities	103,096,259	100,528,777	98,655,436	2.6	4.5
Equity					
Minority interests	427,198	402,270	389,199	6.2	9.8
Valuation adjustments	(13,033)	13,968	15,273	<	<
Own funds	6,700,381	6,224,338	6,043,037	7.6	10.9
Capital, reserves and retained earnings	5,901,890	5,260,024	5,261,416	12.2	12.2
Profit or loss for the period.....	956,497	1,260,190	929,053		3.0
Dividends paid and declared	(158,006)	(295,876)	(147,432)		7.2
Total equity.....	7,114,546	6,640,576	6,447,509	7.1	10.3
Total liabilities and equity	110,210,805	107,169,353	105,102,945	2.8	4.9
Memorandum items:					
Contingent exposures	12,424,592	12,314,679	11,890,300	0.9	4.5
Contingent commitments	18,753,372	20,678,554	20,199,487	(9.3)	(7.2)

Business Performance

The latest data and indicators show that the international economic situation worsened significantly during the third quarter, and during the year there have been successive downward adjustments to the prospects of growth in the world economy. The Spanish economy was not unaffected by this trend and in the third quarter went into a phase of more rapid slowdown, with inflation staying at high levels and a drop in the level of confidence. Against this complicated background Banco Popular intensified the capture of on-balance sheet customer funds and simultaneously cut back the growth of lending to customers.

The strategy of strengthening funding led to traditional customer deposits, demand and time accounts growing by 24.1% year on year, underpinned by the strong commercial activity of the branch network. This increase was led by time deposits, which have risen by 56.8% in the last twelve months. This spectacular growth made it possible to offset the decrease in liquidity in the capital markets and to narrow the commercial gap by approximately €2,500 million. Also, despite the notable decrease in the assets invested in mutual funds, the Group was able to increase its market share from 4.61% in September 2007 to 4.87% in September 2008.

As in preceding quarters, Banco Popular continued to implement its strategy of building a robust second line of liquidity in case the present situation of lack of liquidity in international financial markets persists. At the end of the third quarter, this second line stood at over €13,350 million net of drawdowns. It is estimated that at year end this liquidity reserve will amount to nearly €19,000 million, an amount which is much higher than the maturities of long- and short-term wholesale liabilities throughout 2009. Moreover, the Bank would be able to take advantage of the funding facilities approved by the Spanish Government.

Total assets grew year on year by 4.9% to €110,211 million, due basically to the 6.6% growth of lending to customers, excluding repos, representing nearly 81.6% of the assets. Mortgage lending has been the driver of the business although its growth rate continues to decline, having gone from 12.1% a year ago to 7.2% at the end of September 2008. Similarly, other term loans and receivables grew moderately by 3.3%.

The unstable economic situation is leading to a widespread increase of delinquency among other resident sectors in the Spanish financial system, banks and savings banks, which stood at 2.47% in August 2008. Banco Popular is not unaffected by this process and its non-performing ratio rose to 2.19% at 30 September. Excluding the effect of Banco Popular Portugal to facilitate comparison, the non-performing ratio was 2.13%, very much lower than that of Spanish banks and savings banks as a whole through August, evidencing the Group's better relative performance. Also, the exposure to the Martinsa-Fadesa group was classified as a doubtful asset in the third quarter. Excluding this effect in order to compare the evolution of the underlying non-performing rate with that of the second quarter, the non-performing ratio increased by 39 basis points in the third quarter compared with the rise of 44 basis points in the second quarter, demonstrating the absence of acceleration in the growth rate.

Also, the Group has booked allowances of €1,956 million for insolvencies; of this amount, €1,460 million are the general allowance, to which the provisions have very nearly reached the maximum permitted.

The Bank's level of capitalisation continued to strengthen, in terms both of the BIS I ratio, which is 9.63%, and in the composition of capital, with 6.78% of core capital at 30 September 2008. The core capital ratio was 31 basis points higher than the December 2007 figure as a result of the growth in earnings and the slowdown in the lending activity.

Funds Managed

(Amounts in € thousand)

	30.9.08	31.12.07	30.9.07	% variation	
				9 months	12 months
Unadjusted customer deposits	46,398,935	42,766,229	37,629,476	8.5	23.3
General government	3,937,575	6,092,873	3,492,995	(35.4)	12.7
Other private sectors	42,461,360	36,673,356	34,136,481	15.8	24.4
Residents	36,359,051	31,015,565	28,896,069	17.2	25.8
Nonresidents	6,102,309	5,657,791	5,240,412	7.9	16.4
Valuation adjustments (+/-)	2,000	(104,645)	233,016	<	(99.1)
Total customer deposits	46,400,935	42,661,584	37,862,492	8.8	22.6
Unadjusted debt certificates including bonds:	37,209,151	41,814,696	43,230,036	(11.0)	(13.9)
Bonds and other securities outstanding . .	22,262,095	26,203,705	26,392,216	(15.0)	(15.6)
Commercial paper	14,947,056	15,610,991	16,837,820	(4.3)	(11.2)
Valuation adjustments (+/-)	171,294	73,147	149,060	>	14.9
Total debt certificates including bonds	37,380,445	41,887,843	43,379,096	(10.8)	(13.8)
Subordinated liabilities	1,137,029	1,356,000	1,320,897	(16.1)	(13.9)
Capital having the nature of a financial liability	438,537	438,537	438,513	-	-
Total on-balance sheet funds (a)	85,356,946	86,343,964	83,000,998	(1.1)	2.8
Mutual funds	9,414,685	12,097,212	12,082,660	(22.2)	(22.1)
Asset portfolio management	971,928	1,571,305	1,763,122	(38.1)	(44.9)
Pension funds	3,972,826	4,271,852	4,143,593	(7.0)	(4.1)
Total other intermediated funds (b) . .	14,359,439	17,940,369	17,989,375	(20.0)	(20.2)
Total funds managed (a+b)	99,716,385	104,284,333	100,990,373	(4.4)	(1.3)

Customer deposits

(Amounts in € thousand)

	30.9.08	31.12.07	30.9.07	% variation	
				9 months	12 months
Demand deposits	13,895,736	15,360,499	13,634,057	(9.5)	1.9
Savings deposits	5,000,801	5,578,768	5,477,609	(10.4)	(8.7)
Time deposits	23,206,017	18,300,051	14,795,912	26.8	56.8
Asset repos	4,012,716	3,247,111	3,468,682	23.6	15.7
Other accounts	283,665	279,800	253,216	1.4	12.0
Domestic commercial paper	8,717,588	10,806,188	12,736,214	(19.3)	(31.6)
Total	55,116,523	53,572,417	50,365,690	2.9	9.4

Lending to customers

(Amounts in € thousand)

	30.9.08	31.12.07	30.9.07	% variation	
				9 months	12 months
Lending to general government	463,271	129,943	260,190	>	78.1
Lending to other private sectors	91,495,948	87,977,925	86,738,254	4.0	5.5
Residents	82,708,327	79,550,141	79,186,553	4.0	4.4
Non-residents	8,787,621	8,427,784	7,551,701	4.3	16.4
Total lending to customers	91,959,219	88,107,868	86,998,444	4.4	5.7
Valuation adjustments (+/-)	(1,488,019)	(1,465,490)	(1,419,468)	1.5	4.8
Total	90,471,200	86,642,378	85,578,976	4.4	5.7

Lending to customers by type

(Amounts in € thousand)

	30.9.08	31.12.07	30.9.07	% variation	
				9 months	12 months
Trade loans and discounts	6,536,167	7,709,354	7,841,987	(15.2)	(16.7)
Secured loans	48,827,229	47,086,454	45,669,509	3.7	6.9
Mortgage loans	48,643,108	46,860,392	45,380,026	3.8	7.2
Other	184,121	226,062	289,483	(18.6)	(36.4)
Asset repos	569,541	2	1,281,678	>	(55.6)
Other term loans	26,519,729	26,338,589	25,664,160	0.7	3.3
Finance leases	3,716,616	3,788,261	3,755,870	(1.9)	(1.0)
Overdrafts and other	3,610,238	2,364,628	2,045,647	52.7	76.5
Doubtful assets	2,179,699	820,580	739,593	>	>
Total lending to customers	91,959,219	88,107,868	86,998,444	4.4	5.7

Risk Management Performance (*)

(Amounts in € thousand)

	30.9.08	30.9.07	Variation	
			Amount	%
Nonperforming loans:				
Balance at 1 January	834,478	635,537	198,941	31.3
Additions	2,259,893	576,755	1,683,138	>
Recoveries	361,594	296,533	65,061	21.9
Other changes	-	-	-	-
Net variation	1,898,299	280,222	1,618,077	>
% increase	227.5	44.1		
Writeoffs	(447,515)	(154,134)	(293,381)	>
Balance at 30 September	2,285,262	761,625	1,523,637	>
Allowance for credit losses:				
Balance at 1 January	1,822,353	1,665,060	157,293	9.4
Annual provision:				
Gross	847,299	402,801	444,498	>
Recoveries	(448,775)	(134,755)	(314,020)	>
Net	398,524	268,046	130,478	48.7
Other variations	(19,921)	(17,299)	(2,622)	15.2
Writeoffs	(245,424)	(141,857)	(103,567)	73.0
Balance at 30 September	1,955,532	1,773,950	181,582	10.2
Memorandum items:				
Total risks	104,383,811	98,888,744	5,495,067	5.6
Loans transferred to suspense accounts	644,677	1,280,023	(635,346)	(49.6)
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	2.19	0.77	1.42	
Insolvency (Writeoffs/Total risks)	0.43	0.16	0.27	
Coverage (Credit loss allowance/Nonperforming loans)	85.57	232.92	(147.35)	

* 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	502,002	(103,584)	106	398,524
Amount used	245,424	-	-	245,424
Other variations and transfers	(6,534)	(13,349)	(38)	(19,921)
Balance at 30 September	490,516	1,460,472	4,544	1,955,532

Solvency

(Amounts in € thousand)	30.9.08 (*)	31.12.07(*)	30.9.07 (*)	% variation	
				9 months	12 months
Capital	121,543	121,543	121,543	-	-
Reserves	5,803,750	5,147,122	5,147,122	12.8	12.8
Minority interests	376,918	334,922	336,026	12.5	12.2
Retained earnings in the period	516,540	705,090	502,517	(26.7)	2.8
Deductions	(666,460)	(555,303)	(425,130)	20.0	56.8
Total core capital	6,152,291	5,752,210	5,682,078	7.0	8.3
<i>Core capital (%)</i>	<i>6.78</i>	<i>6.47</i>	<i>6.66</i>		
Preferred shares and equity interests	1,279,792	1,288,000	1,288,000	(0.6)	(0.6)
Total Tier 1 Capital	7,432,083	7,040,210	6,970,078	5.6	6.6
<i>Tier 1 ratio (%)</i>	<i>8.19</i>	<i>7.92</i>	<i>8.17</i>		
Total Tier 2 Capital	1,308,021	1,552,135	1,512,946	(15.7)	(13.5)
BIS computable capital	8,740,104	8,592,345	8,483,024	1.7	3.0
Capital cushion	1,455,588	1,482,151	1,657,961	(1.8)	(12.2)
<i>BIS ratio (%)</i>	<i>9.63</i>	<i>9.67</i>	<i>9.94</i>		
<i>Memorandum item:</i>					
Total BIS risk-weighted assets	90,722,720	88,877,415	85,313,284	2.1	6.3

(*) Figures for solvency per Basel I for comparison.

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)
Valuation adjustments	-	(10,232)	(230)	(10,462)
2007 net profit	1,260,190	-	76,370	1,336,560
Dividends paid in 2007	(551,237)	-	(30,831)	(582,068)
Balance at 31.12.2007	6,224,338	13,968	402,270	6,640,576
Treasury stock	(15,926)	-	-	(15,926)
Consolidation adjustments (net)	(4,609)	-	266	(4,343)
Valuation adjustments	-	(27,001)	(230)	(27,231)
Profit 3rd quarter 2008	956,497	-	54,576	1,011,073
Dividends paid in 2008	(459,919)	-	(29,684)	(489,603)
Balance at 30.9.2008	6,700,381	(13,033)	427,198	7,114,546

Consolidated Earnings

The consolidated earnings highlight Banco Popular's ability to safeguard the attributed profit in an adverse macroeconomic environment characterised by an increase in losses for asset impairment, moderate growth in credit extension, and more competition for customer funds because of the absence of liquidity in international financial markets.

In this context, one of the successes of the Group's strategy has been the soundness of its net interest income ex-dividends, which maintained growth of 12.2%, evidencing strength in the ability to generate earnings based on recurring business. Additionally, the profitability of the net interest income ex-dividends was slightly better than that for the same period of 2007, demonstrating the Group's successful management in order to absorb the higher financial costs arising from higher interest rates both in the wholesale market and in customer liabilities.

Adding in the dividends, the Group's net interest income of €1,894 million was 10.3% higher than for the same period of 2007.

The net fee and commission income amounted to €646 million at 30 September, practically unchanged from the same month in 2007. This performance was positive in the present market situation and shows that effective management made it possible to offset the lower fees for mutual fund and pension management as a result of a commercial policy focused more on capturing on-balance sheet deposits, with higher service fees for asset transactions and demand account administration.

Gains on financial assets and liabilities amounted to €77 million in the third quarter, a year-on-year rise of 26.0%. This growth was based on the distribution of treasury products to customers and the management of the Bank's own coverages and positions.

Gross income amounted to €2,696 million at the end of the third quarter of 2008, 7.3% up on the figure for the same period in 2007. The upturn in the quarter was a very notable event in the current situation. The gross income in the third quarter alone was 8.1% higher than in the same quarter of 2007 and was the highest in the present year.

Operating costs in the first nine months of 2008 were 8.7% higher as a result of the integration in the Group of TotalBank, the opening of new branch offices, particularly of MundoCredit, and the processes of adaptation to Basel II and other regulatory requirements.

Despite the rise in operating costs, the Group's efficiency level of 31.04% at 30 September 2008 was another of its great strengths and one of the signs distinguishing it from its Spanish and European competitors.

At the end of the third quarter of 2008, the net operating income of €1,769 million was 6.3% higher than for the same period of 2007. Noteworthy once again was the 7.5% improvement of net operating income in the third quarter alone, higher than in the two preceding quarters.

The losses for impairment of assets and the allocations to other provisions evidenced the impact of the adverse economic situation. At the end of the third quarter of 2008, the losses for impairment of assets totalled €624 million and the allocations to other provisions totalled €24 million. The increase in the first item was due to the widespread upturn in borrower delinquency being experienced by banks. However, the charge in the third quarter was lower than that recorded in preceding quarters as a result of two effects. On the one hand, the net provisions required in the quarter were lower and, on the other, a partial use of approximately €112 million of the general allowance was made. The amount so used was much lower than that permitted by current regulations and represented 7.1% of the balance of the general allowance at the end of the previous quarter.

The net profit attributable to the Group amounted to €956 million, representing year-on-year growth of 3.0%.

The earnings per share were €0.787 compared with €0.765 per share in the third quarter of 2007. The rates of return continued at very sound levels: the ROE was 21.56%, in line with the preceding quarters, and the ROA was 1.27%.

Consolidated income and profitability

(Amounts in € thousand)

(Annualized % of ATA)

	30.9.08	30.9.07	% variation	30.9.08	30.9.07	Variation
Interest and similar income	4,660,843	3,719,334	25.3	5.84	5.18	0.66
- Interest expense and similar charges	2,784,726	2,047,448	36.0	3.49	2.85	0.64
=Net interest income excluding dividends	1,876,117	1,671,886	12.2	2.35	2.33	0.02
+ Return on equity instruments	18,079	45,222	(60.0)	0.02	0.06	(0.04)
=Net interest income	1,894,196	1,717,108	10.3	2.37	2.39	(0.02)
+ Share of profit or loss of equity method companies	1,729	3,460	(50.0)	-	-	-
+ Net fees and commissions	645,897	652,252	(1.0)	0.81	0.91	(0.10)
+ Insurance business	37,873	38,236	(0.9)	0.05	0.05	-
± Gains or losses on financial assets and liabilities	77,092	61,166	26.0	0.10	0.08	0.02
± Exchange differences (net)	38,752	39,507	(1.9)	0.05	0.06	(0.01)
=Gross income	2,695,539	2,511,729	7.3	3.38	3.49	(0.11)
+ Non-financial service fee income (net)	28,402	28,186	0.8	0.04	0.04	-
+ Compensating fees and other income	35,542	39,947	(11.0)	0.04	0.06	(0.02)
- Operating costs:	879,582	809,491	8.7	1.10	1.13	(0.03)
Personnel expenses	607,336	553,498	9.7	0.76	0.77	(0.01)
Other general administrative expenses	272,246	255,993	6.3	0.34	0.36	(0.02)
- Depreciation	78,501	73,578	6.7	0.10	0.10	-
- Other operating expenses	32,392	32,303	0.3	0.04	0.04	-
=Net Operating income	1,769,008	1,664,490	6.3	2.22	2.32	(0.10)
- Losses from impairment of assets	624,021	247,791	>	0.78	0.34	0.44
- Other provisions to allowances (net)	24,132	11,800	>	0.03	0.02	0.01
± Other gains or losses (net)	209,847	25,685	>	0.26	0.03	0.23
= Profit or loss before tax	1,330,702	1,430,584	(7.0)	1.67	1.99	(0.32)
- Income tax	359,652	449,537	(20.0)	0.45	0.63	(0.18)
± Earnings from discontinued operations	40,023	5,297	>	0.05	0.01	0.04
=Consolidated profit or loss for the period	1,011,073	986,344	2.5	1.27	1.37	(0.10)
- Profit or loss attributed to minority interests	54,576	57,291	(4.7)	0.07	0.08	(0.01)
=Profit or loss attributed to the Group	956,497	929,053	3.0	1.20	1.29	(0.09)

Net return on average risk-weighted assets (RORWA) (%) (*)	1.50	1.60	(0.10)
Net return on average equity (ROE) (%)	21.56	23.53	(1.97)
Leverage	17.02	17.15	(0.13)
Operating efficiency (%)	31.04	30.35	0.69

€ million:

Average total assets	106,408	95,826	10,582
Risk-weighted average total assets (RWA) (*)	90,114	81,971	8,143
Average total equity	5,915	5,264	651

* Calculated under BIS I for comparison.

Quarterly Consolidated Income

(Amounts in € thousand)

	2007			2008		
	2nd	3rd	4th	1st	2nd	3rd
Interest and similar income	1,238,003	1,352,040	1,473,468	1,493,544	1,535,670	1,631,629
- Interest expense and similar charges	676,886	773,349	879,913	876,339	914,675	993,712
=Net interest income excluding dividends.	561,117	578,691	593,555	617,205	620,995	637,917
+Return on equity instruments.	18,688	9,857	10,219	5,288	9,974	2,817
=Net interest income	579,805	588,548	603,774	622,493	630,969	640,734
+Share of profit or loss of equity method companies	2,718	76	460	40	50	1,639
+ Net fees and commissions	215,588	212,615	224,023	214,240	224,446	207,211
+Insurance business.	12,941	11,482	15,141	12,761	12,512	12,600
±Gains or losses on financial assets & liabilities	28,610	12,617	11,289	20,060	27,186	29,846
±Exchange differences (net)	12,649	14,936	12,611	11,160	11,321	16,271
=Gross income	852,311	840,274	867,298	880,754	906,484	908,301
+ Non-financial service fee income (net)	9,322	8,772	11,036	10,191	9,474	8,737
+ Compensating fees and other income	13,580	11,478	12,882	12,890	12,020	10,632
- Operating costs:	252,988	270,441	273,063	271,968	287,892	306,832
Personnel expenses	181,086	191,770	193,813	198,583	198,129	210,624
Other general administrative expenses.	85,482	90,149	92,132	86,275	89,763	96,208
- Depreciation.	24,373	24,758	26,064	26,209	25,877	26,415
- Other operating expenses	10,760	10,792	10,853	10,938	10,741	10,713
=Net Operating income	573,512	543,055	568,354	581,830	603,468	583,710
- Losses from impairment of assets	80,809	60,834	73,794	135,953	343,648	144,420
- Other provisions to allowances (net)	(413)	8,166	7,177	5,049	6,071	13,012
±Other gains or losses (net)	5,808	13,631	14,892	34,324	179,869	(4,346)
=Profit or loss before tax	498,924	487,686	502,275	475,152	433,618	421,932
- Income tax	156,195	153,600	154,031	134,702	101,407	123,543
± Earnings from discontinued operations	1,777	1,960	1,972	2,932	37,091	-
=Consolidated profit or loss for the period	344,506	336,046	350,216	343,382	369,302	298,389
- Profit or loss attributed to minority interests	19,221	19,913	19,079	20,864	17,059	16,653
=Profit or loss attributed to the Group	325,285	316,133	331,137	322,518	352,243	281,736

Quarterly Profitability

(Annualized % of ATA)

	2007			2008		
	2nd	3rd	4th	1st	2nd	3rd
Interest and similar income	5.16	5.40	5.67	5.75	5.81	5.95
- Interest expense and similar charges	2.82	3.09	3.39	3.37	3.46	3.62
=Net interest income excluding dividends	2.34	2.31	2.28	2.38	2.35	2.33
+Return on equity instruments.	0.08	0.04	0.04	0.02	0.04	0.01
=Net interest income	2.42	2.35	2.32	2.40	2.39	2.34
+Share of profit or loss of equity method companies	0.01	-	-	-	-	-
+ Net fees and commissions	0.9	0.85	0.86	0.82	0.85	0.75
+Insurance business	0.05	0.05	0.06	0.05	0.05	0.05
±Gains or losses on financial assets and liabilities	0.12	0.05	0.05	0.08	0.10	0.11
±Exchange differences (net)	0.05	0.06	0.05	0.04	0.04	0.06
=Gross income	3.55	3.36	3.34	3.39	3.43	3.31
+ Non-financial service fee income (net)	0.04	0.03	0.04	0.04	0.04	0.03
+ Compensating fees and other income	0.06	0.05	0.05	0.05	0.05	0.04
- Operating costs:	1.12	1.13	1.10	1.10	1.09	1.12
Personnel expenses	0.76	0.77	0.75	0.77	0.75	0.77
Other general administrative expenses.	0.36	0.36	0.35	0.33	0.34	0.35
- Depreciation.	0.1	0.1	0.10	0.10	0.10	0.09
- Other operating expenses	0.04	0.04	0.04	0.04	0.04	0.04
=Net Operating income	2.39	2.17	2.19	2.24	2.29	2.13
- Losses from impairment of assets	0.33	0.24	0.28	0.52	1.30	0.52
- Other provisions to allowances (net)	-	0.03	0.03	0.02	0.03	0.05
±Other gains or losses (net)	0.02	0.05	0.05	0.13	0.68	(0.02)
= Profit or loss before tax	2.08	1.95	1.93	1.83	1.64	1.54
- Income tax	0.65	0.62	0.59	0.52	0.38	0.45
± Earnings from discontinued operations (net)	0.01	0.01	0.01	0.01	0.14	-
=Consolidated profit or loss for the period	1.44	1.34	1.35	1.32	1.40	1.09
- Profit or loss attributed to minority interests	0.08	0.08	0.07	0.08	0.07	0.06
=Profit or loss attributed to the Group	1.36	1.26	1.27	1.24	1.33	1.03
Net return on average risk-weighted assets (RORWA) (%) (*)	1.67	1.59	1.61	1.54	1.63	1.32
Net return on average equity (ROE) (%)	24.71	24.05	25.18	21.81	23.81	19.05
Leverage	17.2	17.92	18.69	16.5	17.03	17.50
Operating efficiency (%)	29.4	31.9	31.14	30.58	30.17	32.35
€ million:						
Average total assets	95,913	100,150	103,961	103,913	105,639	109,672
Risk-weighted average total assets (RWA) (*)	82,343	84,513	87,094	89,349	90,452	90,723
Average total equity	5,266	5,259	5,261	5,915	5,917	5,915

* Calculated under BIS I for comparison.

Yields and Costs

(Amounts in € thousand and rates annualized)

	30.9.08				30.9.07			
	Average balance	Distribution (%)	Income or expense	Average rate (%)	Average balance	Distribution (%)	Income or expense	Average rate (%)
Financial system	8,160,052	7.67	242,663	3.97	7,947,313	8.29	230,138	3.86
Lending to customers (a)	88,223,298	82.91	4,258,383	6.44	80,121,822	83.61	3,427,864	5.70
Securities portfolio	4,321,307	4.06	168,212	5.19	2,069,052	2.16	97,252	6.27
Other earning assets	329,677	0.31	9,664	3.91	344,872	0.36	9,302	3.60
<i>Total earning assets(b)</i>	<i>101,034,334</i>	<i>94.95</i>	<i>4,678,922</i>	<i>6.17</i>	<i>90,483,059</i>	<i>94.42</i>	<i>3,764,556</i>	<i>5.55</i>
Other assets	5,373,864	5.05	-	-	5,342,978	5.58	-	-
Total assets (c)	106,408,198	100.00	4,678,922	5.86	95,826,037	100.00	3,764,556	5.22
Financial system	11,929,428	11.21	358,524	4.01	9,573,868	9.99	258,232	3.60
Customer funds (d)	41,456,859	38.96	942,575	3.03	35,188,071	36.72	546,222	2.07
Demand accounts	13,038,108	12.25	158,534	1.62	12,845,438	13.40	97,920	1.02
Savings and time deposits	28,418,751	26.71	784,041	3.68	22,342,633	23.32	448,302	2.68
Marketable debt securities & other	40,828,624	38.37	1,468,970	4.80	40,398,752	42.16	1,232,715	4.07
Other interest-bearing liabilities	303,892	0.29	14,657	6.43	329,624	0.34	10,279	4.16
<i>Total interest-bearing liabilities (e)</i>	<i>94,518,803</i>	<i>88.83</i>	<i>2,784,726</i>	<i>3.93</i>	<i>85,490,315</i>	<i>89.21</i>	<i>2,047,448</i>	<i>3.19</i>
Other non-interest-bearing liabilities	5,974,861	5.61	-	-	5,072,168	5.30	-	-
Equity	5,914,534	5.56	-	-	5,263,554	5.49	-	-
Total liabilities and equity (f)	106,408,198	100.00	2,784,726	3.49	95,826,037	100.00	2,047,448	2.84
<i>Customer spread (a-d)</i>				<i>3.41</i>				<i>3.63</i>
<i>Spread (b-e)</i>				<i>2.24</i>				<i>2.36</i>
<i>Net interest margin (c-f)</i>				<i>2.37</i>				<i>2.39</i>

Quarterly Yields and Costs

(Data in % and rates annualized)

	2007				2008					
	Distribu tion	3rd Rate	Distribu tion	4th Rate	Distribu tion	1st Rate	Distribu tion	2nd Rate	Distribu tion	3rd Rate
Financial system	8.27	4.22	8.22	4.08	7.46	3.96	7.07	3.97	8.44	3.96
Loans and discounts (a)	83.13	5.92	82.03	6.24	83.61	6.29	83.60	6.39	81.58	6.62
Securities portfolio	3.09	5.10	4.43	5.40	3.92	5.10	4.13	5.19	4.13	5.27
Other earning assets	0.34	3.59	0.33	3.68	0.33	3.74	0.31	4.11	0.29	3.88
<i>Total earning assets(b)</i>	<i>94.83</i>	<i>5.74</i>	<i>95.01</i>	<i>6.01</i>	<i>95.32</i>	<i>6.05</i>	<i>95.11</i>	<i>6.15</i>	<i>94.44</i>	<i>6.31</i>
Other assets	5.17	-	4.99	-	4.68	-	4.89	-	5.56	-
Total assets (c)	100.00	5.44	100.00	5.71	100.00	5.77	100.00	5.85	100.00	5.96
Financial system	10.20	3.82	10.07	3.95	9.90	3.98	11.83	4.24	11.86	3.80
Customer funds (d)	35.54	2.27	36.21	2.67	38.37	2.88	39.38	2.98	39.11	3.22
Demand accounts	12.71	1.12	13.06	1.53	12.83	1.62	12.16	1.49	11.80	1.76
Savings and time deposits	22.83	2.92	23.15	3.31	25.54	3.52	27.22	3.65	27.32	3.85
Marketable debt securities & other	43.01	4.37	42.71	4.70	40.34	4.60	37.28	4.74	37.55	5.05
Other interest-bearing liabilities	0.32	4.32	0.30	5.01	0.29	6.48	0.28	6.60	0.28	6.22
<i>Total interest-bearing liabilities (e)</i>	<i>89.07</i>	<i>3.47</i>	<i>89.29</i>	<i>3.79</i>	<i>88.90</i>	<i>3.79</i>	<i>88.77</i>	<i>3.90</i>	<i>88.80</i>	<i>4.08</i>
Other non-interest-bearing liabilities	5.68	-	5.65	-	5.41	-	5.63	-	5.81	-
Equity	5.25	-	5.06	-	5.69	-	5.60	-	5.39	-
Total liabilities and capital (f)	100.00	3.09	100.00	3.39	100.00	3.37	100.00	3.46	100.00	3.62
<i>Customer spread (a-d)</i>		<i>3.65</i>		<i>3.57</i>		<i>3.41</i>		<i>3.41</i>		<i>3.40</i>
<i>Spread (b-e)</i>		<i>2.27</i>		<i>2.22</i>		<i>2.26</i>		<i>2.25</i>		<i>2.23</i>
<i>Net interest margin (c-f)</i>		<i>2.35</i>		<i>2.32</i>		<i>2.40</i>		<i>2.39</i>		<i>2.34</i>

Net Fee and Commission Income

(Amounts in € thousand)

	30.9.08	30.9.07	% variation	Distribution (%)	
				2008	2007
Asset transaction service fees:	104,938	78,060	34.4	16.2	12.0
Bill discounting	33,209	35,501	(6.5)	5.1	5.5
Other	71,729	42,559	68.5	11.1	6.5
Provision of guarantees and other sureties	90,661	93,027	(2.5)	14.0	14.3
Operating services:	450,298	481,165	(6.4)	69.8	73.7
Collection and payment handling	162,264	162,562	(0.2)	25.1	24.9
Securities and foreign currency purchases and sales.	11,347	20,495	(44.6)	1.9	3.1
Customer financial asset management:	149,211	182,654	(18.3)	23.1	28.0
Securities portfolios and asset management	22,734	23,097	(1.6)	3.5	3.6
Mutual funds	86,281	118,316	(27.1)	13.4	18.1
Pension plans	40,196	41,241	(2.5)	6.2	6.3
Administration of demand deposits	80,872	73,944	9.4	12.5	11.3
Other	46,604	41,510	12.3	7.2	6.4
Total	645,897	652,252	(1.0)	100.0	100.0

Personnel and general expenses

(Amounts in € thousand)

	30.9.08	30.9.07	% variation	Distribution (%)	
				2008	2007
Personnel expenses:	607,336	553,498	9.7	69.0	68.4
Wages and salaries	459,029	418,176	9.8	52.2	51.7
Social security charges	106,840	100,540	6.3	12.1	12.4
Other personnel expenses	19,306	15,059	28.2	2.2	1.9
Pensions	22,161	19,723	12.4	2.5	2.4
General expenses:	272,246	255,993	6.3	31.0	31.6
Rents and common services	49,992	40,502	23.4	5.7	5.0
Communications	20,465	18,650	9.7	2.3	2.3
Maintenance of premises and equipment	18,183	17,368	4.7	2.0	2.1
IT and other technical expenses	54,525	54,779	(0.5)	6.2	6.8
Stationery and office supplies	5,920	5,625	5.2	0.7	0.7
Technical reports and legal expenses	13,077	10,888	20.1	1.5	1.3
Advertising and publicity	25,301	29,571	(14.4)	2.9	3.7
Insurance	3,422	3,276	4.5	0.4	0.4
Security and fund transport services	14,809	14,390	2.9	1.7	1.8
Travel	9,567	8,947	6.9	1.1	1.1
Property taxes, VAT and other	37,594	37,594	-	4.3	4.6
Other general expenses	19,391	14,403	34.6	2.2	1.8
Total	879,582	809,491	8.7	100.00	100.0

Information by segment

As stated in the 2007 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 most relevant figures relating to the first segment are as follows:

	30.9.08		30.9.07		% variation	
	Spain *	Portugal	Spain *	Portugal	Spain *	Portugal
Net interest income	1,782,091	112,105	1,598,389	118,719	11.5	(5.6)
Gross income	2,549,937	145,602	2,353,344	158,385	8.4	(8.1)
Net operating income	1,703,123	65,885	1,580,700	83,790	7.7	(21.4)
Total assets	101,153,412	9,057,393	97,716,853	7,386,092	3.5	22.6
Number of employees	13,895	1,378	13,276	1,283	4.7	7.4
Number of branch offices	2,335	234	2,277	213	2.5	9.9

(*) 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		
	30.9.08	30.9.07	% variation	30.9.08	30.9.07	% variation
Asset management	37,521	43,565	(13.9)	403,289	1,258,490	(68.7)
Insurance activity	22,304	22,401	(4.3)	904,635	1,026,225	(11.8)
Commercial banking	707,511	829,642	(15.7)	91,917,249	86,999,659	5.7
Corporate and markets	163,691	90,736	>	16,985,632	15,818,571	7.4
Total	1,011,073	986,344	2.5	110,210,805	105,102,945	4.9

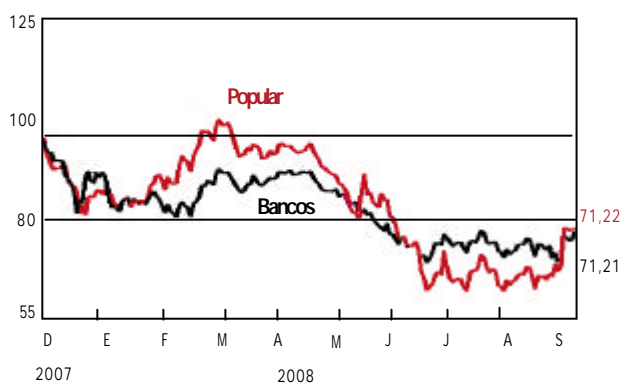
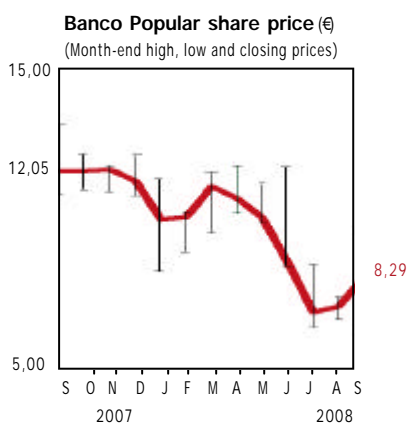
Market Performance of the Bank's Shares

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)

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

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



Market ratios

	30.9.08	30.9.07
Price / Book value	1.50	2.42
Price / Earnings (PE ratio)	7.9	11.8
Dividend return*	6.03	3.51

* Calculated with the dividend paid in the third 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

* Calculated on average treasury stock held in the quarter.

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.

Basis of presentation

The accompanying interim 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.

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.

The distribution of this document in other jurisdictions may be forbidden, accordingly, holders of this document should be aware of such restrictions and comply with them.

NOTES

BANCO POPULAR ESPAÑOL

34 Velázquez. 28001 Madrid

Telephone: 34 91 520 72 65

Fax: 34 91 577 92 09

**BANCO POPULAR ESPAÑOL
BANCO DE ANDALUCÍA
BANCO DE CASTILLA
BANCO DE CRÉDITO BALEAR
BANCO DE GALICIA
BANCO DE VASCONIA**

**BANCO POPULAR PORTUGAL
TOTALBANK
BANCO POPULAR HIPOTECARIO
BANCOPOPULAR-E.COM
POPULAR BANCA PRIVADA**

www.grupobancopopular.es