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Quarterly report

july | august | september

Highlights

(Amounts in € thousand)	9.30.07	9.30.06	Var. %	
Business volume				
Total assets managed	123,092,320	104,617,637	17.7	
On-balance sheet total assets	105,102,945	87,441,609	20.2	
Own funds	6,043,037	5,443,396	11.0	
Ownfunds:	100,990,373	84,051,407	20.2	
On-balance sheet funds	83,000,998	66,875,379	24.1	
Other intermediated funds	17,989,375	17,176,028	4.7	
Lending to customers (gross)	86,998,444	73,964,403	17.6	
Contingent exposures	11,890,300	10,468,426	13.6	
Solvency				
BIS ratio (%)	9.94	9.93		
Of which: Tier 1 (%)		8.07		
Risk management				
Total risks	98,888,744	84,432,829	17.1	
Nonperforming loans	761,625	628,242	21.2	
Allowances for credit losses	1,773,950	1,596,699	11.1	
% nonperforming ratio	0.77	0.74		
% coverage (Credit loss allowance/Nonperforming loans)	232.92	254.15		
Earnings				
				Ex-BME(**)
Net interest income	1,730,408	1,542,221	12.2	12.2
Gross income	2,529,904	2,297,140	10.1	11.5
Net operating income	1,673,457	1,484,888	12.7	14.9
Profit before tax	1,438,471	1,286,958	11.8	14.3
Consolidated profit for the year	986,344	859,163	14.8	17.4
Profit attributed to the Group	929,053	807,699	15.0	17.7
Net return and efficiency				
Average total assets	96,154,332	82,106,734	17.1	
Average total equity	5,263,554	4,762,237	10.5	
ROA (%)	1.37	1.40		
ROE (%)	23.53	22.61		
Operating efficiency (%)*	30.48	31.44		
Per share data				
Final number of shares (thousands)	1,215,433	1,215,433	-	
Average number of shares (thousands)	1,215,084	1,215,057	-	
Share closing market price (€)	12.05	12.93	(6.8)	
Market capitalization	14,645,962	15,715,543	(6.8)	
Share book value (€)	4.97	4.48	10.9	
Net earnings per share (€)	0.765	0.665	15.0	
Dividend per share paid in the period (€)	0.313	0.273	14.7	
Price/Book value	2.42	2.89	(16.1)	
Price/Earnings (annualized)	11.8	14.6	(19.2)	
Other data				
Shareholders	115,414	107,162	7.7	
Employees	14,559	14,053	3.6	
Spain	13,138	12,661	3.8	
Abroad	1,421	1,392	2.1	
Branches	2,490	2,419	2.9	
Spain	2,263	2,224	1.8	
Abroad	227	195	16.4	
Mundocredit branches	26	-		
ATMs	3,396	3,381	0.4	

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

(**) The gain on the sale of BME shares, which arose mainly in 2006, has been eliminated as non-recurring.

The financial information as of September 30, 2007 was not audited, although it was prepared in accordance with EU International Financial Reporting Standards, and was consistent with the 2006 audited financial statements.

Salient aspects

In a quarter marked by serious financial convulsions at international level, Banco Popular persisted with its strategy of decreasing its exposure to property risk, of accelerating interest income (net interest income excluding dividends), and of technological improvement with substantial investments and spending. The sharp repricing of the loan portfolio and the ample funding support constructed in the last two years have made it possible to apply without changes, despite the international crisis, the strategy announced and implemented at the beginning of 2006.

Net interest income excluding dividends, the true source the Bank's recurring income, speeded up to growth of 13.5% in the third quarter by itself, compared with rates of 8.3% in the first quarter and 12.8% in the second quarter, all surpassing the matching quarters of 2006. This acceleration does not pass through to the net interest income including dividends because of the seasonality of the latter, a characteristic that was apparent in the third quarter, although foreseeably dividends will return to their upward trend in the fourth quarter. Even so, total net interest income grew by 12.2% in the year to 30 September. The energetic updating of the rates applied to loans and receivables with which the Bank responded to the sharp rise in the three-month Euribor is reflected in the strong growth of 15.5% in net interest income excluding dividends in September over the same period of 2006, compared with the rises of 12.1% and 13.0% in the other two months of the quarter.

Banco Popular has stolen a march on the upcoming new economic environment by changing the composition of the growth of its loans, with contributions of 62.5% from non-mortgage transactions and of only 37.5% from mortgage transactions. The latter are now growing at a modest 12.1% in annual terms, compared with the nearly 27% rise in unsecured loans and credits – other term loans – and that of 12.5% in trade loans and discounts, which are the preferred working capital funding mechanism of SMEs; the growth in trade loans and discounts is a measure of Banco Popular's sustained penetration in this production sector.

The 17.6% growth in credit (15.8% excluding doubtful balances and repos) was funded with a 16.0% increase in customer funds, driven by the time deposits of resident private sector borrowers, which were up 19.3%, and domestic commercial paper, which grew at an annual rate of 58.3%. With 57% of the total funds coming from customer deposits and domestic commercial paper, with the foresighted lengthening of the maturities of funding carried out in recent years, and backed by a high second line of liquidity, the Bank's credit growth strategy has not been, and will not be, conditioned by the vicissitudes of international financial markets.

Service fee income continued off-colour due to the volatility of the stock markets and its impact on asset management income. However, the evolution of gross income was stronger than suggested by the 10.1% year-on-year growth, due to the extraordinary income booked in 2006 mainly from the part sale of the holding in BME. Subtracting in both years all the extraordinary income under this heading, the underlying annual growth of gross income was 11.5%. Applying the same adjustment, net operating income was up 14.9%, compared with the published figure of 12.7%, and similarly the attributed profit was up 17.7% rather than 15.0%.

As regards non-performing loans, noteworthy is the quality of the property development companies sector, the non-performing loans ratio of which fell from 0.20% in June to 0.19% in September. However, in all other sectors there was a slight upturn in delinquency, which raised the overall rate by 3 basis points in the last twelve months to the very low figure of 0.77% together with high allowance coverage of 232.9%, much higher than that customary in other countries.

ROE again improved, by 92 basis points in the year to 23.53%, and operating efficiency was nearly 100 basis points better in the same period at 30.48%.

Balance Sheet

(Amounts in € thousand)

	9.30.07	12.31.06	9.30.06	% variation	
				9 months	12 months
Assets					
Cash and balances with central banks	1,736,502	1,502,261	958,226	15.6	81.2
Financial assets held for trading	1,442,581	2,588,379	1,014,644	(44.3)	42.2
Other financial assets at fair value through profit or loss	458,366	400,252	330,775	14.5	38.6
Available-for-sale financial assets	4,049,097	697,392	873,461	>	>
Loans and receivables	94,826,485	84,144,648	81,685,030	12.7	16.1
Loans and advances to other debtors	85,578,976	75,897,896	72,574,159	12.8	17.9
Other loans and receivables	9,247,509	8,246,752	9,110,871	12.1	1.5
Held-to-maturity investments	426	441	439	(3.4)	(3.0)
Hedging derivatives	191,822	205,752	236,706	(6.8)	(19.0)
Non-current assets held for sale	183,754	129,034	116,459	42.4	57.8
Investments	20,326	17,488	15,683	16.2	29.6
Insurance contracts linked to pensions	210,963	223,846	227,367	(5.8)	(7.2)
Reinsurance assets	4,643	3,866	4,354	20.1	6.6
Tangible assets	717,539	707,359	720,935	1.4	(0.5)
Intangible assets	368,562	369,232	371,323	(0.2)	(0.7)
Tax assets	644,539	555,969	744,458	15.9	(13.4)
Prepayments and accrued income	73,003	23,143	46,017	>	58.6
Other assets	174,337	81,372	95,732	>	82.1
Total Assets	105,102,945	91,650,434	87,441,609	14.7	20.2
Liabilities					
Financial liabilities held for trading	835,492	511,239	434,657	63.4	92.2
Other financial liabilities at fair value through profit or loss	34,754	43,830	-	(20.7)	>
Financial liabilities at amortised cost:	94,466,551	82,440,853	78,366,714	14.6	20.5
Deposits from credit institutions	10,887,084	8,393,081	10,892,140	29.7	-
Deposits from other creditors	37,862,492	36,941,191	35,371,244	2.5	7.0
Debt certificates including bonds	43,379,096	35,096,737	29,971,071	23.6	44.7
Subordinated liabilities	1,320,897	1,023,156	1,082,390	29.1	22.0
Other financial liabilities	1,016,982	986,688	1,049,869	3.1	(3.1)
Hedging derivatives	513,394	338,695	199,612	51.6	>
Insurance contract liabilities	905,217	844,410	796,166	7.2	13.7
Provisions for contingent exposures	470,412	495,528	490,694	(5.1)	(4.1)
Tax liabilities	496,181	232,960	466,310	>	6.4
Accrued expenses and deferred income	310,009	317,450	332,486	(2.3)	(6.8)
Other liabilities	184,913	70,929	78,985	>	>
Capital having the nature of a financial liability	438,513	439,959	450,674	(0.3)	(2.7)
Total liabilities	98,655,436	85,735,853	81,616,298	15.1	20.9
Equity					
Minority interests	389,199	361,178	368,955	7.8	5.5
Valuation adjustments	15,273	24,200	12,960	(36.9)	17.8
Own funds	6,043,037	5,529,203	5,443,396	9.3	11.0
Capital, reserves and retained earnings	5,261,416	4,753,413	4,760,400	10.7	10.5
Profit or loss for the period	929,053	1,026,031	807,699		15.0
Dividends paid and declared	(147,432)	(250,241)	(124,703)		18.2
Total equity	6,447,509	5,914,581	5,825,311	9.0	10.7
Total liabilities and equity	105,102,945	91,650,434	87,441,609	14.7	20.2
<i>Memorandum items:</i>					
Contingent exposures	11,890,300	11,281,128	10,468,426	5.4	13.6
Contingent commitments	20,199,487	19,023,187	20,341,304	6.2	(0.7)

Business Performance

At 30 September 2007, the total assets managed continued to reflect the Group's commercial vigour and amounted to €123,092 million, an increase of 17.7% in the last twelve months. This growth was driven by total on-balance sheet assets of €105,103 million, an increase of €17,661 million (20.2%) in the last twelve months. The most dynamic captions were lending to customers and the portfolio of available-for-sale financial assets.

The loans and advances to other debtors, accounting for 82.8% of total on-balance sheet assets, amounted to €86,998 million, up 17.6% year on year. The drivers of the growth in the quarter were unsecured loans and credits (other term loans), up 26.9% year on year, and trade loans and discounts, up 12.5% in the last twelve months. Noteworthy is the effort being made by the Group to reduce the share of the mortgage business in total growth: in the last year mortgage loans have grown by 12.1%, which is much less than the growth of lending to customers as a whole. As a result, in the last twelve months over 62% of credit growth has arisen from non-mortgage lending; in the first nine months of 2007, this share increased to 66%.

Particularly significant has been the increase in available-for-sale financial assets, which at September end were nearly six times higher than at the beginning of the year. The motive for this growth was the Group's intention to strengthen second-line liquidity with assets qualifying as security for ECB funding operations. As a result, second-line liquidity amounted to €7,811 million at 30 September 2007, compared with €4,914 million in September 2006 and €5,858 million in December 2006. At September end the Group had no amounts discounted at the ECB.

Total on-balance sheet funds (customer deposits, marketable debt securities, subordinated debt and capital having the nature of a financial liability) amounted to €83,001 million, a year-on-year increase of 24.1%.

Retail liabilities – mainly demand deposits, time deposits and domestic commercial paper – evolved soundly with year-on-year growth of 16.0%. A special effort was made in the third quarter to capture retail funding, and as a result 82% of the borrowed funds added arose from this segment. Customer funding – deposits and domestic commercial paper – accounted for 57% of third party funds, and wholesale funding – interbank borrowing, commercial paper, bonds, securitisation and covered bonds ("cédulas") – provided 41%. The remaining 2% of borrowed funds consisted of preferred equity interests ("participaciones") and subordinated debt.

At 30 September 2007, the balance of doubtful receivables was €762 million; this was €133 million more than at the same date in 2006. This rise in doubtful receivables was related to the evolution of the credit activity, although it reflects the lower amounts recovered during the period.

As a result, the nonperforming ratio, i.e. doubtful assets as a percentage of total risks (loans and discounts plus contingent exposures), stood at 0.77%, an increase of 3 basis points in the last twelve months.

The Group's solvency remains at high levels, based both on the BIS capital ratio of 9.94% and on its composition, with core capital accounting for 67% at 30 September 2007. Additionally, the core capital ratio was 7 basis points higher than at 30 June 2007 as a result of the active management of the risk-weighted total assets, which were up 1.9% in the quarter compared with the rise of 3.7% in total risks.

Funds Managed

(Amounts in € thousand)

	9.30.07	12.31.06	9.30.06	% variation	
				9 months	12 months
Unadjusted customer deposits	37,629,476	36,760,932	35,370,948	2.4	6.4
General government	3,492,995	2,929,496	2,280,580	19.2	53.2
Other private sectors	34,136,481	33,831,436	33,090,368	0.9	3.2
Residents	28,896,069	28,553,896	27,953,362	1.2	3.4
Nonresidents	5,240,412	5,277,540	5,137,006	(0.7)	2.0
Valuation adjustments (+/-)	233,016	180,259	296	29.3	>
Total customer deposits	37,862,492	36,941,191	35,371,244	2.5	7.0
Unadjusted debt certificates including bonds:	43,230,036	34,976,930	29,697,077	23.6	45.6
Bonds and other securities outstanding . .	26,392,216	24,878,023	20,984,756	6.1	25.8
Commercial paper	16,837,820	10,098,907	8,712,321	66.7	93.3
Valuation adjustments (+/-)	149,060	119,807	273,994	24.4	(45.6)
Total debt certificates including bonds	43,379,096	35,096,737	29,971,071	23.6	44.7
Subordinated liabilities	1,320,897	1,023,156	1,082,390	29.1	22.0
Capital having the nature of a financial liability	438,513	439,959	450,674	(0.3)	(2.7)
Total on-balance sheet funds (a)	83,000,998	73,501,043	66,875,379	12.9	24.1
Mutual funds	12,082,660	12,130,633	11,862,500	(0.4)	1.9
Asset portfolio management	1,763,122	1,550,041	1,530,671	13.7	15.2
Pension funds	4,143,593	3,975,919	3,782,857	4.2	9.5
Total other intermediated funds (b) . .	17,989,375	17,656,593	17,176,028	1.9	4.7
Total funds managed (a+b)	100,990,373	91,157,636	84,051,407	10.8	20.2

Customer deposits

(Amounts in € thousand)

	9.30.07	12.31.06	9.30.06	% variation	
				9 months	12 months
Demand deposits	13,634,057	14,314,835	13,528,993	(4.8)	0.8
Savings deposits	5,477,609	5,966,747	5,998,754	(8.2)	(8.7)
Time deposits	14,795,912	13,547,320	12,897,732	9.2	14.7
Asset repos	3,468,682	2,609,588	2,703,205	32.9	28.3
Other accounts	253,216	322,442	242,264	(21.5)	4.5
Domestic commercial paper	12,736,214	8,869,242	8,047,857	43.6	58.3
Total	50,365,690	45,630,174	43,418,805	10.4	16.0

Lending to customers

(Amounts in € thousand)

	9.30.07	12.31.06	9.30.06	% variation	
				9 months	12 months
Lending to general government	260,190	114,331	109,982	>	>
Lending to other private sectors	86,738,254	77,213,525	73,854,421	12.3	17.4
Residents	79,186,553	69,977,356	66,602,019	13.2	18.9
Nonresidents	7,551,701	7,236,169	7,252,402	4.4	4.1
Total lending to customers	86,998,444	77,327,856	73,964,403	12.5	17.6
Valuation adjustments (+/-)	(1,419,468)	(1,429,960)	(1,390,244)	(0.7)	2.1
Total	85,578,976	75,897,896	72,574,159	12.8	17.9

Lending to customers by type

(Amounts in € thousand)

	9.30.07	12.31.06	9.30.06	% variation	
				9 months	12 months
Trade loans and discounts	7,841,987	7,497,041	6,971,744	4.6	12.5
Secured loans	45,669,509	42,268,412	40,709,653	8.0	12.2
Mortgage loans	45,380,026	42,046,914	40,491,834	7.9	12.1
Other	289,483	221,498	217,819	30.7	32.9
Asset repos	1,281,678	-	95	>	>
Other term loans	25,664,160	21,327,972	20,223,173	20.3	26.9
Finance leases	3,755,870	3,622,224	3,616,866	3.7	3.8
Overdrafts and other	2,045,647	2,001,351	1,834,699	2.2	11.5
Doubtful assets	739,593	610,851	608,169	21.1	21.6
Total lending to private sectors	86,998,444	77,327,856	73,964,403	12.5	17.6

Risk Management Performance*

(Amounts in € thousand)

	9.30.07	9.30.06	Variation	
			Amount	%
Nonperforming loans:				
Balance at 1 January	635,537	591,043	44,494	7.5
Additions	576,755	485,794	90,961	18.7
Recoveries	296,533	324,685	(28,152)	(8.7)
Other changes	-	3,591	(3,591)	(100.0)
Net variation	280,222	164,700	115,522	70.1
% increase	44,1	27,9		
Writeoffs	(154,134)	(127,501)	(26,633)	20.9
Balance at 30 September	761,625	628,242	133,383	21.2
Allowance for credit losses:				
Balance at 1 January	1,665,060	1,469,927	195,133	13.3
Annual provision:				
Gross	402,801	316,469	86,332	27.3
Recoveries	(134,755)	(68,621)	(66,134)	96.4
Net	268,046	247,848	20,198	8.2
Other variations	(17,299)	4,138	(21,437)	>
Writeoffs	(141,857)	(125,214)	(16,643)	13.3
Balance at 30 September	1,773,950	1,596,699	177,251	11.1
Memorandum items:				
Total risks	98,888,744	84,432,829	14,455,915	17.1
Loans transferred to suspense accounts	1,280,023	1,126,868	153,155	13.6
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	0.77	0.74	0.03	
Insolvency (Writeoffs/Total risks)	0.16	0.15	0.01	
Coverage (Credit loss allowance/Nonperforming loans)	232.92	254.15	(21.23)	

* 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	228,729	1,431,654	4,677	1,665,060
Net provisions	164,328	104,059	(341)	268,046
Amount used	141,857	-	-	141,857
Other variations and transfers	(17,083)	(217)	1	(17,299)
Balance at 30 September	234,117	1,535,496	4,337	1,773,950

Solvency

(Amounts in € thousand)	9.30.07	9.30.06	% variation
Capital	121,543	121,543	-
Reserves	5,147,122	4,639,360	10.9
Minority interests	336,026	320,867	4.7
Retained earnings in the period	502,517	427,436	17.6
Deductions	(425,130)	(409,272)	3.9
Total core capital	5,682,078	5,099,934	11.4
<i>Core capital (%)</i>	<i>6.66</i>	<i>6.76</i>	
Preferred shares and equity interests	1,288,000	988,000	30.4
Total Tier 1 Capital	6,970,078	6,087,934	14.5
<i>Tier 1 ratio (%)</i>	<i>8.17</i>	<i>8.07</i>	
Total Tier 2 Capital	1,512,946	1,400,414	8.0
BIS computable capital	8,483,024	7,488,348	13.3
Capital cushion	1,657,961	1,453,562	14.1
<i>BIS ratio (%)</i>	<i>9.94</i>	<i>9.93</i>	
<i>Memorandum item:</i>			
Total BIS risk-weighted assets	85,313,284	75,434,824	13.1

Equity

(Amounts in € thousand)	Capital & reserves	Valuation adjustments	Minority interests	Net worth
Adjusted balance at 31.12.2005	4,989,779	14,785	342,455	5,347,019
Treasury stock	(1,445)	-	-	(1,445)
Consolidation adjustments (net)	(12,740)	-	(15,291)	(28,031)
Valuation adjustments	-	9,415	105	9,520
2006 net profit	1,026,031	-	65,184	1,091,215
Dividends paid in 2006	(472,422)	-	(31,275)	(503,697)
Balance at 31.12.2006	5,529,203	24,200	361,178	5,914,581
Treasury stock	(8,154)	-	-	(8,154)
Consolidation adjustments (net)	(4,270)	-	(2,905)	(7,175)
Valuation adjustments	-	(8,927)	(321)	(9,248)
Profit 1st half 2007	929,053	-	57,291	986,344
Dividends paid in 2007	(402,795)	-	(26,044)	(428,839)
Balance at 30.09.2007	6,043,037	15,273	389,199	6,447,509

Consolidated Income

The net interest income of €1,730 million at 30 September 2007, which continued its upward trend of double-digit year-on-year growth, was 12.2% higher than in the same period of 2006. This strength was based on the evolution of interest income net of interest expense, up 13.5% in the third quarter alone, as compared with 12.8% in the preceding quarter and 8.3% in the first quarter.

The positive trend of net interest income (as a percentage of average total assets) was transitorily disturbed by the artificial growth of short-term rates and the increase in the investment in financial assets of lower marginal yield, as a result of the increased capture of customer funds in the quarter.

The net fee and commission income amounted to €657 million at September end, with uneven performance in the period. On the one hand, fees for risk transactions evolved satisfactorily, with growth of 7.5% in fees for collateral and other guarantees and of 6.6% in fees for trade discounts and other asset transactions. On the other, management service fees reflected the pressure they were under for several reasons: i) means of payment fees are being prejudiced in 2007 by the end of the positive effect of the reduction of interchange rates which led to a fall in the commissions paid; hopefully, this caption will perform more dynamically in 2008; and ii) financial asset administration fees reduced their growth rate because of financial market volatility in the quarter and greater customer aversion to risk.

The noteworthy 27.4% increase in insurance activity income in 2007 has been the outcome of the increase in the placement of insurance products linked to lending transactions. Gains on financial assets and liabilities performed very positively and the growth of 35.8% arose mainly from the distribution of structured products among the customers. The increase can be perceived better if the gains on the sale of BME shares, mostly relating to 2006, are eliminated; in this case the gains on financial assets and liabilities were nearly 5 times higher than those obtained in 2006.

Gross income, encompassing all the Group's financial activity (banking business and insurance), amounted to €2,530 million at 30 September 2007, a rise of 10.1% year on year, and of 11.5% disregarding the atypical earnings referred to in the preceding paragraph.

Personnel and administrative expenses in the operating costs caption grew by 6.4% as compared with the same period of 2006. Specifically, personnel expenses were up 6.9% and general expenses were 5.4% higher, strongly influenced by those aimed at strengthening the future business such as the spending on technical resources which was 12.8% higher and was the most important item in general expenses, accounting for 21.5% of the total.

The efficiency ratio was 30.48%, with a substantial 96 basis point improvement on that in September 2006. The net operating income of €1,673 million at the end of September 2007 was 12.7% higher than in the first nine months of 2006. Excluding the effect of extraordinary income, the growth of net operating income rose to nearly 15%.

The losses for impairment of assets amounted to €248 million, mostly relating to credit risk. Accordingly the implicit credit risk premium was 0.4% of the average balance of lending to customers. At 30 September 2007, the general allowance of €1,535 million had practically reached the maximum limit envisaged under current regulations.

The pre-tax profit of €1,438 million in the first nine months was 11.8% higher year on year. The profit attributed to the Banco Popular Group amounted to €929 million in the first nine months, a year-on-year increase of 15%, which would be 17.7% disregarding atypical earnings.

The earnings per share of €0.765 in the first nine months of 2007 were 15% higher than for the same period of 2006.

The ROE at 30 September 2007 was 23.53%, i.e. higher than the 22.61% at the same date in 2006, and the ROA was 1.37%, compared with 1.40% one year earlier.

Consolidated income and profitability

(Amounts in € thousand)

	(Annualized % of ATA)					
	9.30.07	9.30.06	% variation	9.30.07	9.30.06	Variation
Interest and similar income	3,734,275	2,680,006	39.3	5.18	4.35	0.83
- Interest expense and similar charges	2,049,089	1,169,309	75.2	2.84	1.90	0.94
+ Return on equity instruments	45,222	31,524	43.5	0.06	0.05	0.01
=Net interest income	1,730,408	1,542,221	12.2	2.40	2.50	(0.1)
+ Share of profit or loss of equity method companies	3,460	205	>	0.01	-	0.01
+ Net fees and commissions	657,094	642,489	2.3	0.91	1.05	(0.14)
+ Insurance business	38,236	30,015	27.4	0.05	0.05	-
± Gains or losses on financial assets and liabilities (net)	61,166	45,056	35.8	0.09	0.07	0.02
± Exchange differences (net)	39,540	37,154	6.4	0.05	0.06	(0.01)
=Gross income	2,529,904	2,297,140	10.1	3.51	3.73	(0.22)
+ Non-financial service fee income (net)	28,570	26,108	9.4	0.04	0.04	-
- Operating costs:	778,718	728,890	6.8	1.08	1.18	(0.1)
Personnel expenses	559,538	523,351	6.9	0.78	0.85	(0.07)
Other general administrative expenses	259,179	245,820	5.4	0.36	0.40	(0.04)
Compensating fees and other income	(39,999)	(40,281)	(0.7)	(0.06)	(0.07)	0.01
- Depreciation	73,996	77,169	(4.1)	0.10	0.13	(0.03)
- Other operating expenses	32,303	32,301	-	0.05	0.05	-
=Net Operating income	1,673,457	1,484,888	12.7	2.32	2.41	(0.09)
- Losses from impairment of assets and other provisions to allowances (net)	260,281	236,590	10.0	0.37	0.38	(0.01)
± Other gains or losses (net)	25,295	38,660	(34.6)	0.04	0.06	(0.02)
== Profit or loss before tax	1,438,471	1,286,958	11.8	1.99	2.09	(0.1)
- Income tax	452,127	427,795	5.7	0.62	0.69	(0.07)
=Consolidated profit or loss for the period	986,344	859,163	14.8	1.37	1.40	(0.03)
- Profit or loss attributed to minority interests.	57,291	51,464	11.3	0.08	0.09	(0.01)
=Profit or loss attributed to the Group	929,053	807,699	15.0	1.29	1.31	(0.02)
Net return on average risk-weighted assets (RORWA) (%)				1.60	1.54	0.06
Net return on average equity (ROE) (%)				23.53	22.61	0.92
Leverage				17.20	16.21	0.99
Operating efficiency (%)				30.48	31.44	(0.96)
<i>€ million:</i>						
Average total assets				96,154	82,107	14,047
Risk-weighted average total assets (RWA)				81,971	74,353	7,618
Average total equity				5,264	4,762	502

Quarterly Consolidated Income

(Amounts in € thousand)

	2006		2007		
	III	IV	I	II	III
Interest and similar revenues	952,677	1,039,553	1,133,972	1,243,220	1,357,083
- Interest and similar charges	438,611	519,725	597,751	677,717	773,621
+ Revenues from capital instruments	15,599	5,481	16,677	18,688	9,857
=Net interest revenue.	529,665	525,309	552,898	584,191	593,319
+ Revenues from equity method entities	195	2,892	666	2,718	76
+ Net fees	223,990	238,090	225,828	217,266	214,000
+ Insurance business	11,128	15,148	13,813	12,941	11,482
± Asset trading and exchange profits (net)	31,280	14,892	19,939	28,610	12,617
± Exchange gains (net)	13,552	14,012	11,937	12,660	14,943
=Gross income	809,810	810,343	825,081	858,386	846,437
+ Non-financial service fee revenues (net)	7,957	8,366	10,215	9,440	8,915
- Operating costs:	249,076	250,364	249,335	256,018	273,365
Personnel expenses	180,883	182,620	182,869	183,108	193,561
Other general administrative expenses	79,967	81,633	81,371	86,510	91,298
Other revenues (compensating fees)	(11,774)	(13,889)	(14,905)	(13,600)	(11,494)
- Depreciation	26,227	25,961	24,577	24,517	24,902
- Other operating expenses	10,790	10,826	10,751	10,760	10,792
=Net Operating income	531,674	531,558	550,633	576,531	546,293
- Losses from impairment of assets and provisions to allowances (net)	73,001	112,336	110,443	80,651	69,187
± Other income (net)	2,919	17,277	6,107	5,690	13,498
=Profit before tax	461,592	436,499	446,297	501,570	490,604
- Corporate income tax provision	154,540	204,447	140,505	157,064	154,558
=Consolidated profit for the year	307,052	232,052	305,792	344,506	336,046
- Income attributed to minority interests	17,225	13,720	18,157	19,221	19,913
=Profit attributed to the Group	289,827	218,332	287,635	325,285	316,133

Quarterly Profitability

(Annualized % of ATA)

	2006			2007	
	III	IV	I	II	III
Interest and similar income	4.53	4.72	4.95	5.17	5.40
- Interest expense and similar charges.	2.08	2.36	2.61	2.82	3.08
+ Return on equity instruments.	0.07	0.02	0.07	0.08	0.04
= Net interest income	2.52	2.38	2.41	2.43	2.36
+ Share of profit or loss of equity method companies	-	0.01	-	0.01	-
+ Net fees and commissions	1.06	1.08	0.99	0.90	0.85
+ Insurance business.	0.05	0.07	0.06	0.05	0.05
± Gains or losses on financial assets and liabilities (net)	0.15	0.08	0.09	0.12	0.05
± Exchange differences (net)	0.07	0.06	0.05	0.05	0.06
= Gross income	3.85	3.68	3.60	3.57	3.37
+Non-financial service fee income (net)	0.04	0.04	0.05	0.04	0.03
- Operating costs:	1.18	1.14	1.09	1.06	1.09
Personnel expenses.	0.86	0.83	0.80	0.76	0.77
Other general administrative expenses	0.38	0.37	0.36	0.36	0.36
Other income (compensating fees).	(0.06)	(0.06)	(0.07)	(0.06)	(0.05)
- Depreciation.	0.13	0.12	0.11	0.10	0.10
- Other operating expenses	0.05	0.05	0.05	0.04	0.04
= Net operating income	2.53	2.41	2.40	2.40	2.17
- Losses from impairment of assets and other provisions to allowances (net).	0.35	0.51	0.48	0.34	0.27
± Other gains or losses (net)	0.01	0.08	0.03	0.02	0.05
= Profit or loss before tax	2.19	1.98	1.95	2.08	1.95
- Income tax	0.73	0.93	0.62	0.65	0.61
= Consolidated profit or loss for the period	1.46	1.05	1.33	1.43	1.34
- Profit or loss attributed to minority interests	0.08	0.06	0.08	0.08	0.08
= Profit or loss attributed to the Group	1.38	0.99	1.25	1.35	1.26
Net return on average risk-weighted assets (RORWA) (%)	1.62	1.22	1.55	1.67	1.59
Net return on average equity (ROE) (%).	24.36	18.35	21.85	24.71	24.05
Leverage	16.70	17.42	16.39	17.26	17.98
Operating efficiency (%).	30.52	30.62	29.90	29.54	32.01
€ million:					
Average total assets	84,202	88,106	91,732	96,250	100,482
Risk-weighted average total assets (RWA)	75,778	76,287	79,056	82,343	84,513
Average total equity.	4,760	4,760	5,267	5,266	5,259

Yields and Costs

(Amounts in € thousand and rates annualized)

	9.30.07				9.30.06			
	Average balance	Distribution (%)	Income or expense	Average rate (%)	Average balance	Distribution (%)	Income or expense	Average rate (%)
Financial system	8,008,250	8.33	231,853	3.86	7,054,775	8.59	146,357	2.77
Lending to customers (a)	80,331,254	83.54	3,441,077	5.71	69,123,264	84.19	2,516,777	4.85
Securities portfolio	2,069,224	2.15	97,265	6.27	680,091	0.83	41,817	8.20
Other earning assets	344,872	0.36	9,302	3.60	353,339	0.43	6,579	2.48
<i>Total earning assets(b)</i>	<i>90,753,600</i>	<i>94.36</i>	<i>3,779,497</i>	<i>5.55</i>	<i>77,211,469</i>	<i>94.04</i>	<i>2,711,530</i>	<i>4.68</i>
Other assets	5,400,732	5.62	-	-	4,895,265	5.96	-	-
Total assets (c)	96,154,332	100.0	3,779,497	5.24	82,106,734	100.00	2,711,530	4.40
Financial system	9,510,507	9.89	256,543	3.60	11,944,054	14.55	231,636	2.59
Customer funds (d)	35,550,564	36.97	549,552	2.06	34,105,888	41.54	376,300	1.47
Demand accounts	13,014,737	13.54	97,985	1.00	12,744,548	15.52	66,431	0.70
Savings and time deposits	22,535,827	23.43	451,567	2.67	21,361,340	26.02	309,869	1.93
Marketable debt securities & other	40,398,752	42.01	1,232,715	4.07	26,843,786	32.69	555,365	2.76
Other interest-bearing liabilities	329,879	0.34	10,279	4.15	359,401	0.44	6,008	2.23
<i>Total interest-bearing liabilities (e)</i>	<i>85,789,702</i>	<i>89.21</i>	<i>2,049,089</i>	<i>3.18</i>	<i>73,253,129</i>	<i>89.22</i>	<i>1,169,309</i>	<i>2.13</i>
Other non-interest-bearing liabilities	5,101,076	5.32	-	-	4,091,368	4.98	-	-
Equity	5,263,554	5.47	-	-	4,762,237	5.80	-	-
Total liabilities and equity (f)	96,154,332	100.0	2,049,089	2.84	82,106,734	100.00	1,169,309	1.90
<i>Customer spread (a-d)</i>				<i>3.65</i>				<i>3.38</i>
<i>Spread (b-e)</i>				<i>2.37</i>				<i>2.55</i>
<i>Net interest margin (c-f)</i>				<i>2.40</i>				<i>2.50</i>

Quarterly Yields and Costs

(Data in % and rates annualized)

	2006				2007					
	3rd		4th		1st		2nd		3rd	
	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate
Financial system	8.46	3.24	9.34	3.31	8.07	3.70	8.60	3.65	8.31	4.21
Loans and discounts (a)	84.65	4.99	83.75	5.24	84.23	5.46	83.55	5.72	82.91	5.94
Securities portfolio	0.99	9.09	1.00	3.63	1.42	7.65	1.88	7.27	3.08	5.10
Other earning assets	0.43	2.34	0.39	1.94	0.39	2.69	0.36	4.54	0.33	3.59
<i>Total earning assets(b)</i>	<i>94.53</i>	<i>4.87</i>	<i>94.48</i>	<i>5.02</i>	<i>94.11</i>	<i>5.33</i>	<i>94.39</i>	<i>5.56</i>	<i>94.63</i>	<i>5.75</i>
Other assets	5.47	-	5.52	-	5.89	-	5.61	-	5.37	-
Total assets (c)	100.00	4.60	100.00	4.74	100.00	5.02	100.00	5.25	100.00	5.44
Financial system	12.66	2.93	11.28	3.02	9.71	3.48	9.90	3.46	10.05	3.83
Customer funds (d)	40.38	1.57	39.20	1.71	38.64	1.89	36.62	2.02	35.79	2.26
Demand accounts	15.69	0.81	14.78	0.60	14.52	0.98	13.32	0.94	12.84	1.10
Savings and time deposits	24.69	2.06	24.43	2.37	24.12	2.45	23.30	2.64	22.95	2.91
Marketable debt securities & other	35.50	3.01	38.44	3.50	40.61	3.76	42.46	4.04	42.87	4.37
Other interest-bearing liabilities	0.42	1.98	0.39	1.35	0.37	2.45	0.34	5.75	0.32	4.31
<i>Total interest-bearing liabilities (e)</i>	<i>88.96</i>	<i>2.34</i>	<i>89.31</i>	<i>2.64</i>	<i>89.33</i>	<i>2.92</i>	<i>89.32</i>	<i>3.15</i>	<i>89.03</i>	<i>3.46</i>
Other non-interest-bearing liabilities	5.39	-	5.29	-	4.93	-	5.21	-	5.74	-
Equity	5.65	-	5.40	-	5.74	-	5.47	-	5.23	-
Total liabilities and equity (f)	100.00	2.08	100.00	2.36	100.00	2.61	100.00	2.82	100.00	3.08
<i>Customer spread (a-d)</i>	<i>3.42</i>		<i>3.53</i>		<i>3.57</i>		<i>3.70</i>		<i>3.68</i>	
<i>Spread (b-e)</i>	<i>2.53</i>		<i>2.38</i>		<i>2.41</i>		<i>2.41</i>		<i>2.29</i>	
<i>Net interest margin (c-f)</i>	<i>2.52</i>		<i>2.38</i>		<i>2.41</i>		<i>2.43</i>		<i>2.36</i>	

Net Fee and Commission Income

(Amounts in € thousand)

	9.30.07	9.30.06	%	Distribution (%)	
				2007	2006
Asset transaction service fees:	78,071	73,215	6.6	11.9	11.4
Bill discounting	35,512	34,009	4.4	5.4	5.3
Other	42,559	39,206	8.6	6.5	6.1
Provision of guarantees and other sureties	94,128	87,522	7.5	14.3	13.6
Operating services:	484,895	481,752	0.7	73.8	75.0
Collection and payment handling	165,744	181,325	(8.6)	25.2	28.2
Securities and foreign currency purchases and sales	20,495	14,912	37.4	3.1	2.3
Customer financial asset management:	182,730	173,819	5.1	27.9	27.1
Securities portfolios and asset management	23,173	22,044	5.1	3.6	3.5
Mutual funds	118,316	114,982	2.9	18.0	17.9
Pension plans	41,241	36,793	12.1	6.3	5.7
Administration of demand deposits	74,416	73,115	1.8	11.3	11.4
Other	41,510	38,581	7.6	6.3	6.0
Total	657,094	642,489	2.3	100.0	100.0

Personnel and general expenses

(Amounts in € thousand)

	9.30.07	9.30.06	% variation	Distribution (%)	
				2007	2006
Personnel expenses:	559,538	523,351	6.9	100.0	100.0
Wages and salaries	422,207	395,193	6.8	75.5	75.5
Social security charges	102,549	96,188	6.6	18.3	18.4
Other personnel expenses	15,059	13,201	14.1	2.7	2.5
Pensions	19,723	18,769	5.1	3.5	3.6
General expenses:	259,179	245,820	5.4	100.0	100.0
Rents and common services	40,980	38,829	5.5	15.8	15.8
Communications	18,891	23,183	(18.5)	7.3	9.4
Maintenance of premises and equipment	17,559	17,024	3.1	6.8	6.9
IT and other technical expenses	55,636	49,320	12.8	21.5	20.0
Stationery and office supplies	5,727	5,066	13.0	2.2	2.1
Technical reports and legal expenses	11,346	8,054	40.9	4.4	3.3
Advertising and publicity	29,592	31,379	(5.7)	11.4	12.8
Insurance	3,376	3,597	(6.1)	1.3	1.5
Security and fund transport services	14,461	14,830	(2.5)	5.6	6.0
Travel	9,101	8,400	(8.3)	3.5	3.4
Property taxes, VAT and other	37,938	32,908	15.3	14.6	13.4
Other general expenses.	14,572	13,230	10.1	5.6	5.4

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:

	9.30.07		9.30.06		% variation	
	Spain	Portugal	Spain	Portugal	Spain	Portugal
Net interest income	1,611,689	118,719	1,425,116	117,105	13.1	1.4
Gross income	2,371,519	158,385	2,145,475	151,665	10.5	4.4
Net operating income	1,589,667	83,790	1,399,957	84,931	13.6	(1.3)
Profit before tax	1,369,153	69,318	1,234,671	52,287	10.9	32.6
Consolidated profit	933,489	52,855	820,960	38,203	13.7	38.4
Profit attributed to the Group	877,888	51,165	770,333	37,366	14.0	36.9
<hr/>						
Total assets	97,716,853	7,386,092	80,131,524	7,310,085	21.9	1.0
Total liabilities and equity	101,331,723	3,771,222	83,462,306	3,979,303	21.4	(5.2)
Intra-group financing	3,614,870	(3,614,870)	3,330,782	(3,330,782)	8.5	8.5
Number of employees	13,276	1,283	12,797	1,256	3.7	2.1
Number of branch offices	2,277	213	2,240	179	1.7	19.0

The breakdown by business activity segment is as follows:

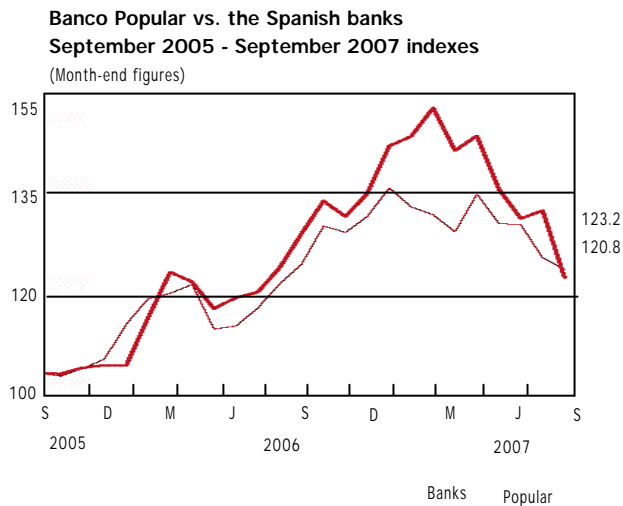
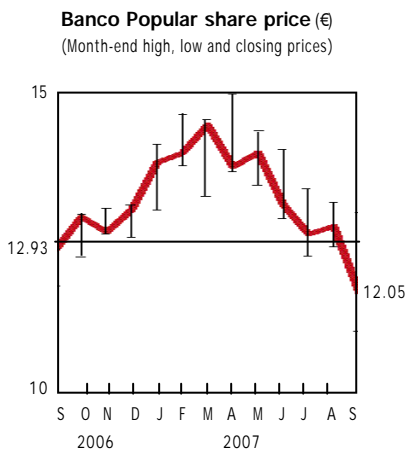
	Consolidated profit			Total assets		
	9.30.07	9.30.06	% variation	9.30.07	9.30.06	% variation
Asset management	43,565	39,533	10.2	1,258,490	1,063,428	18.3
Insurance activity	22,401	16,101	39.1	1,026,225	912,466	12.5
Commercial banking	829,642	716,886	15.7	86,999,659	73,955,328	17.6
Corporate and markets	90,736	86,643	4.7	15,818,571	11,510,387	37.4
Total	986,344	859,163	14.8	105,102,945	87,441,609	20.2

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		
2006 1st	1,215,433	550,495	45.29	13.25	9.99	12.16	0.0904	18.9
2nd	1,215,433	446,645	36.75	12.50	10.91	11.65	0.0909	(3.4)
3rd	1,215,433	396,338	32.61	13.00	11.17	12.93	0.0919	11.8
4th	1,215,433	527,940	43.44	13.83	12.73	13.73	0.1026	7.0
Year total	1,215,433	1,921,418	158.09	13.83	9.99	13.73	0.3758	36.9
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	(12.04)

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



Market ratios

	9.30.07	9.30.06
Price / Book value	2.42	2.89
Price / Earnings (PE ratio)	11.8	14.6
Dividend return*	3.51	2.84

* 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)
2006								
First quarter	60	150	-	71	1,215,433	550,495	-	0.01
Second quarter	301	740	64	647	1,215,433	446,645	0.02	0.07
Third quarter	375	647	202	271	1,215,433	396,338	0.03	0.09
Fourth quarter	143	275	112	116	1,215,433	527,940	0.01	0.03
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

* 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.

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 2006 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.

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