POPULAR

Financial Report
Second Quarter 2002

The evolution of the Banco Popular Group in the first half of 2002 confirms the success of its growth strategy, focused basically on the retail commercial banking business in which it enjoys a proven comparative advantage. At the same time the Group has maintained its unchanging criteria of solvency - all the more important in a period of economic instability and lower growth -, its high level of profitability and its operating efficiency, which is the best of all Spanish banks.

In the first half of this year Banco Popular pressed forward with its commercial policy based on expanding the customer base and product cross-selling. At June 30, 2002, the Group had 4.5 million customers, a net increase of 249,000 in the first six months of the year. It also continued to strengthen its Internet distribution channel (bank on line), with growth of 65.4% year on year and a total of 763,000 customers.

At June 30, 2002, the Group's consolidated balance sheet totaled €39,706 million, up by €4,630 million (13.2% year on year). Growth in loans and discounts in the period was 17.5% and total on-balance sheet customer funds increased by 17.1%.

The consolidated equity of €2,311 million was 13.0% higher year on year and the BIS solvency ratio was 10.75%, compared with the minimum requirement of 8%, of which 8.62% was Tier 1 capital.

Consolidated net income for the first half amounted to €332 million and the income attributable to the parent company was €304 million, with interannual increases of 11.6% and 11.4%, respectively. The earnings per share in the first six months of €1.40 were 11.4% up on the same period of 2001; the figure for the second quarter was €0.70, a year-on-year increase of 11.5%. The ROE (annualized) for the first six months of 2002 was 26.29% compared with 26.66% for the same period of 2001.

The net interest revenue in the first half of €796 million was a substantial 17.9% higher year on year. The service fee revenues of €282 million were 1.4% lower year on year, The total banking business revenues (ordinary revenue) amounted to €1,095 million in the first half, up 11.0% year on year.

Operating costs in the first half amounted to €386 million, a moderate increase of 4.7%, of which 2.5% was in personnel costs and 10.7% in general expenses. The efficiency ratio, i.e. the portion of ordinary revenue absorbed by operating costs, improved by 2.1 percentage points year on year to 35.3% in the first half.

The operating income from the Group's business amounted to €658 million, an increase of 16.7% over the first half of 2001, driven mainly by the good performance of the financial margin and the containment of operating costs. This growth rate, which was similar to that of the main balance sheet aggregates, confirms the validity of the strategy of growth with profitability.

The Group's risk management continued to be inspired by criteria of the utmost prudence in granting and monitoring its loans and discounts, further strengthened in view of the economic slowdown. The nonperforming loans ratio (nonperforming loans as a percentage of total risk) was 13 basis points higher than in June 2001 at 0.87% and 7 basis points higher than at the beginning of the year.

The Group allocated €127 million of net provisions to the credit loss allowance in the first half, a year-on-year increase of 16.2%, and also booked €24 million of other precautionary provisions, in line with management criteria not demanded by the applicable regulations.

The recorded credit loss allowances totaled €602 million which, compared with the €310 million of troubled risks, signified a coverage ratio of 194.1%, compared with 204.9% in June 2001 and 197.7% at the end of 2001. The Group also has other prudence-based allowances not assigned to specific risks which, in conjunction with those mentioned above, provide real coverage of nearly 250%, thus strengthening even more its balance sheet soundness.

Highlights

(Amounts in € thousand)

	June 30 2002	June 30 2001	Variation Amount	Variation %
Business volume				
Total assets managed	49,175,718	44,352,777	4,822,941	10.9
On-balance sheet total assets	39,705,736	35,075,412	4,630,324	13.2
Total equity	2,310,934	2,044,995	265,939	13.0
Customer funds:	38,068,561	33,706,485	4,362,076	12.9
On-balance sheet funds	28,598,579	24,429,120	4,169,459	17.1
Other intermediated funds	9,469,982	9,277,365	192,617	2.1
Loans and discounts	30,935,737	26,317,517	4,618,220	17.5
Off-balance sheet risks	4,584,755	3,592,082	992,673	27.6
Solvency				
BIS *ratio* (%)	10.75	10.73	0.02	
Of which: Tier 1 (%)	8.62	8.76	(0.14)	
Risk management				
Total risks	35,519,234	29,909,040	5,610,194	18.8
Nonperforming loans	310,235	221,477	88,758	40.1
Allowances for credit losses	602,103	453,686	148,417	32.7
% nonperforming ratio	0.87	0.74	0.13	
% coverage (Credit loss allowance/Nonperforming loans)	194.08	204.85	(10.77)	
Income statements				
Net interest revenue	796,421	675,560	120,861	17.9
Basic banking revenue	1,078,425	961,579	116,846	12.2
Ordinary revenue	1,094,915	986,659	108,256	11.0
Operating income	657,989	563,880	94,109	16.7
Income before taxes	518,139	420,223	97,916	23.3
Net income	331,503	297,170	34,333	11.6
Net income attributable to Banco Popular Shareholders	303,771	272,604	31,167	11.4
Net return and efficiency ratios (%)				
Net income:				
Over average total assets (€38,699,172 thousand): ROA	1.71	1.79	(0.08)	
Over average risk-weighted total assets (€31,841,021 thousand): RORWA	2.08	2.22	(0.14)	
Net income attributable:				
Over average equity (€2,310,934 thousand): ROE	26.29	26.66	(0.37)	
Operating efficiency	35.27	37.37	(2.10)	
Shares				
Shares outstanding (thousands)	217,154	217,154	-	-
Share closing market price (€)	44.77	41.29	3.48	8.4
Share book value (€)	10.642	9.417	1.225	13.0
Net income per share (€)	1.399	1.255	0.144	11.4
Dividend per share (€)	0.679	0.597	0.082	13.7
Price/Book value	4.21	4.38	(0.17)	
Price/Earnings (annualized)	16.0	16.4	(0.4)	
Other data				
Shareholders	69,513	74,788	(5,275)	(7.1)
Employees	12,371	12,199	172	1.4
Spain	12,180	12,021	159	1.3
Abroad	191	178	13	7.3
Branches	2,164	2,120	44	2.1
Spain	2,137	2,096	41	2.0
Abroad	27	24	3	12.5
ATMs	3,369	3,076	293	9.5

QUARTER-END FINANCIAL REPORT*

Assets and funds

Table 1 presents the consolidated balance sheets at June 30, 2002, December 31, 2001, and June 30, 2001, with the customary level of detail.

Total assets

The total on-balance sheet assets amounted to €39,706 million at June 30, 2002, an increase of 13.2% over the same date in 2001, and of 6.2% since the beginning of the year.

In May 2002, the Group acquired the 50% stake in Banco Popular Hipotecario (BPH) which was owned by third parties, thus converting this entity into a wholly-owned subsidiary which has been consolidated by the global integration method since that date. This acquisition led to the addition of assets of €752 million, substantially all mortgage loans and property leasing balances, to the Group's balance sheet.

The Group also manages other financial assets through off-balance sheet instruments which at June 30 totaled €9,470 million which, when aggregated to the above-mentioned figure, signified a total business volume for the Group of €49,176 million at quarter-end, an increase of 10.9% year on year and of 4.4% in the first half.

Figure 1 plots the variation in quarter-end total on- and off-balance sheet assets managed since June 2001.

Shareholders' equity

Consolidated equity amounted to €2,311 million at June 30, 2002, an interannual increase of 13.0%, signifying a book value per share of €10.64, also up 13.0% in the last twelve months.

The computable capital per Bank of Spain regulations amounted to €3,032 million, and exceeded the minimum requirement by €309 million (10.2%), with a solvency ratio of 8.91% as compared with the required minimum of 8%.

Under the BIS solvency rules, which are those used at international level, the Group's computable capital amounted to €3,662 million, with a cushion of €936 million, and the BIS solvency ratio was 10.75%, of which 8.62% related to Tier 1 core capital.

Table 2 and Figure 2 show the variation in the computable capital since June 2001, the required minimum amounts and the solvency measurements under both sets of rules.

Agency ratings

The three major international rating agencies have assigned Banco Popular the highest ratings in the Spanish financial system, based on its balance sheet strength, high level of efficiency and profitability, and the recurring nature of its earnings. The ratings currently assigned are as follows:

Agency	*Individual*	*Short term*	*Long term*
Fitch Ratings	A	F1+	AA
Moody´s	A-	P1	Aa1
Standard & Poor´s		A1+	AA

* *The financial statements supporting this report are unaudited, but were prepared by applying uniform accounting principles and methods consistent with those applied in preparing the audited financial statements in the last Annual Report.*

Fig.1 Total assets managed at quarter-end

(€ million)

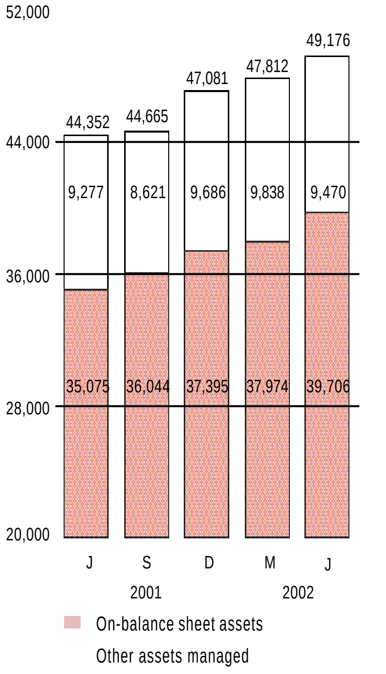


Fig.2 Solvency

(€ million and %)

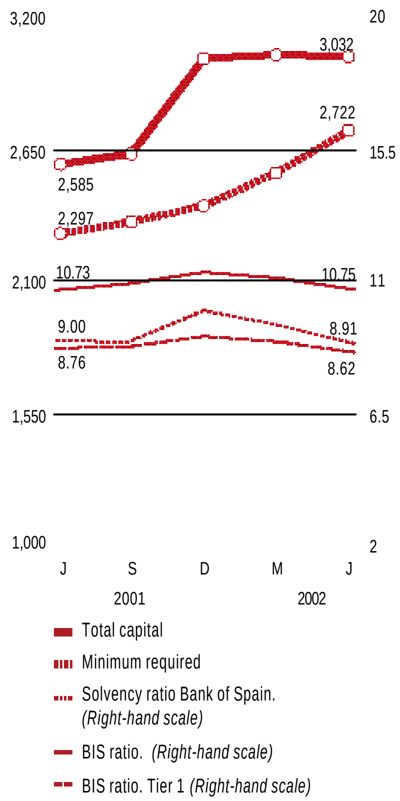


Table 1. Consolidated Balance Sheets

(Amounts in € thousand)

	June30 2002	December 31 2001	June 30 2001	% variation 6 months	% variation 12 months
Assets					
Cash and due from central banks	937,866	1,887,105	549,100	(50.3)	70.8
Government debt securities:	327,328	623,813	559,736	(47.5)	(41.5)
Government debt securities, gross	*327,450*	*623,854*	*559,802*	*(47.5)*	*(41.5)*
Less: Allowance for security price fluctuations	*(122)*	*(41)*	*(66)*	>	84.8
Due from financial intermediaries:	4,970,251	4,968,925	5,472,004	–	(9.2)
Due from financial intermediaries, gross	*4,971,270*	*4,969,166*	*5,472,320*	–	*(9.2)*
Less: Allowance for doubtful balances and country risk	*(1,019)*	*(241)*	*(316)*	>	>
Loans and discounts:	30,396,100	27,368,371	25,907,419	11.1	17.3
Loans and discounts:	*30,935,737*	*27,820,010*	*26,317,517*	*11.2*	*17.5*
To public bodies	*30,301*	*30,429*	*37,729*	*(0.4)*	*(19.7)*
To other residents	*29,566,942*	*26,652,900*	*25,334,913*	*10.9*	*16.7*
To nonresidents	*1,036,902*	*888,822*	*730,182*	*16.7*	*42.0*
Nonperforming loans	*301,592*	*247,859*	*214,693*	*21.7*	*40.5*
Less: Allowance for credit losses	*(539,637)*	*(451,639)*	*(410,098)*	*19.5*	*31.6*
Private fixed-interest securities:	570,789	495,348	623,822	15.2	(8.5)
Private fixed-interest securities, gross	*574,154*	*497,702*	*627,006*	*15.4*	*(8.4)*
Less: Allowance for security price fluctuations	*(3,365)*	*(2,354)*	*(3,184)*	*42.9*	*5.7*
Equity securities:	499,386	122,590	110,535	>	>
Equity securities, gross	*507,904*	*129,629*	*117,627*	>	>
Less: Allowance for security price fluctuations	*(8,518)*	*(7,039)*	*(7,092)*	*21.0*	*20.1*
Participating interests	27,304	23,241	21,880	17.5	24.8
Shares of group companies	29,824	33,282	30,545	(10.4)	(2.4)
Intangible assets	18,874	20,791	19,981	(9.2)	(5.5)
Goodwill in consolidation	28,799	33,613	38,179	(14.3)	(24.6)
Tangible assets:	570,275	580,594	573,216	(1.8)	(0.5)
Premises and equipment	*596,277*	*606,842*	*600,634*	*(1.7)*	*(0.7)*
Less: Allowance for potential losses on foreclosed assets and other	*(26,002)*	*(26,248)*	*(27,418)*	*(0.9)*	*(5.2)*
Prepayments and accrued income	311,859	299,970	372,220	4.0	(16.2)
Other asset accounts	1,007,694	934,273	793,101	7.9	27.1
Losses at consolidated companies	9,387	3,643	3,674	>	>
Total	**39,705,736**	**37,395,559**	**35,075,412**	**6.2**	**13.2**
Liabilities and Capital					
Due to financial intermediaries	6,028,111	6,925,077	5,993,183	(13.0)	0.6
Customer deposits:	23,566,615	22,615,236	21,757,266	4.2	8.3
From public bodies	*609,535*	*311,132*	*613,432*	*95.9*	*(0.6)*
From other residents	*20,066,235*	*19,458,265*	*18,367,835*	*3.1*	*9.2*
From nonresidents	*2,890,845*	*2,845,839*	*2,775,999*	*1.6*	*4.1*
Bonds and other marketable debt securities	4,781,713	2,986,466	2,453,929	60.1	94.9
Subordinated financing	250,251	263,469	217,925	(5.0)	14.8
Other liability accounts	1,161,722	878,951	879,880	32.2	32.0
Accruals and deferred income	510,032	301,009	462,253	69.4	10.3
Special allowances:	236,798	282,380	583,285	(16.1)	(59.4)
For pensions	–	–	*426,173*		*(100.0)*
Other allowances	*236,798*	*282,380*	*157,112*	*(16.1)*	*50.7*
Negative difference in consolidation	444	444	570	–	(22.1)
Shareholders' equity:	2,320,321	2,030,016	2,048,669	14.3	13.3
Common stock	*108,577*	*108,577*	*108,577*	–	–
Reserves	*1,207,482*	*1,057,359*	*1,065,147*	*14.2*	*13.4*
Consolidation reserves.	*1,004,262*	*864,080*	*874,945*	*16.2*	*14.8*
Minority interests	518,226	498,347	381,282	4.0	35.9
Year-to-date net income	331,503	614,164	297,170		11.6
Total	**39,705,736**	**37,395,559**	**35,075,412**	**6.2**	**13.2**
Pro memoria					
Off-balance sheet risks:	4,584,755	4,279,024	3,592,082	7.1	27.6
Guarantees and other sureties	*4,248,352*	*3,941,196*	*3,282,109*	*7.8*	*29.4*
Documentary credits	*310,088*	*310,717*	*309,395*	*(0.2)*	*0.2*
Other contingent liabilities	*26,315*	*27,111*	*578*	*(2.9)*	>
Allowance for doubtful off-balance sheet risks	61,033	54,691	43,063	11.6	41.7
Commitments:	5,815,791	5,015,418	4,800,167	16.0	21.2
Unused portion of credit lines	*5,070,937*	*4,256,861*	*4,037,365*	*19.1*	*25.6*
Other commitments	*744,854*	*758,557*	*762,802*	*(1.8)*	*(2.4)*
Other intermediated customer funds	9,469,982	9,685,704	9,277,365	(2.2)	2.1

Table 2. Consolidated equity

(Amounts in € thousand)	June 30 2002	December 31 2001*	June 30 2001	% variation 6 months	% variation 12 months
Common stock	108,577	108,577	108,577	–	–
Reserves	1,207,482	1,208,633	1,065,147	(1,151)	142,335
Consolidation reserves	994,875	979,115	871,271	15,760	123,604
Less:					
Treasury stock	–	–	–	–	–
On-balance sheet equity	**2,310,934**	**2,296,325**	**2,044,995**	**14,609**	**265,939**
Minority interests	518,226	518,177	381,282	49	136,944
Preferred stock	300,000	300,000	180,000	–	120,000
Other	218,226	218,177	201,282	49	16,944
Subordinated financing	250,251	263,469	217,925	(13,218)	32,326
Less:					
Intangible assets	(18,874)	(20,791)	(19,981)	1,917	1,107
Goodwill	(28,799)	(33,613)	(38,179)	4,814	9,380
Other	(110)	(742)	(1,278)	632	1,168
Bank of Spain computable capital	**3,031,628**	**3,022,825**	**2,584,764**	**8,803**	**446,864**
Minimum requirement	2,722,222	2,411,253	2,297,470	310,969	424,752
Capital cushion	309,406	611,572	287,294	(302,166)	22,112
Bank of Spain solvency ratio (%)	**8.91**	**10.03**	**9.00**		
BIS computable capital	**3,661,986**	**3,418,438**	**3,069,417**	**243,548**	**592,569**
Of which: Tier 1 capital	*2,937,611*	*2,759,819*	*2,507,003*	*177,792*	*430,608*
Minimum requirement	2,726,095	2,413,388	2,287,871	312,707	438,224
Capital cushion	935,891	1,005,050	781,546	(69,159)	154,345
BIS ratio (%)	**10.75**	**11.33**	**10.73**		
Of which: Tier 1(%)	*8.62*	*9.15*	*8.76*		

(*) After distribution of 2001 income.

Customer funds

The on-balance sheet customer funds at June 30, 2002, i.e. typical demand and time deposits plus the proceeds of temporary sales of assets (repos), debt issues and subordinated financing, totaled €28,599 million, up 17.1% year on year and 10.6% since the beginning of the year. On the basis of average balances the growth rate was 15.4% year on year.

Deposits at June 30, 2002, amounted to €23,567 million, up 8.3% year on year and 4.2% since December 2001. The deposits of private-sector residents, accounting for 85% of the total, rose by 9.2% year on year and 3.1% since the beginning of the year. Demand deposits (current and savings accounts) year on year were 9.1% higher and time deposits increased by 12.4%; the growth rates in the first half were 4.8% and 5.7%.

Figure 4 shows the growth of private sector deposits of residents in the entire Spanish financial system through the end of May 2002 (the latest date for which Bank of Spain figures have been published), compared with the figures for Banco Popular. In the period May 2001-May 2002 the Group gained market share with respect to other banks but not with respect to savings banks, with average differentials of 2.1 and -1.9 percentage points, respectively.

Customer funds obtained through the sale of short-term marketable securities (commercial paper) amounted to €1,372 million at June end, a 52.8% increase year on year and of 34.7% in the first half. The instruments were notes placed with domestic customers as an alternative to deposits and these funds should therefore be aggregated to deposits, raising the year-on-year growth in total funds taken from private sector residents to 11.3%.

Fig.3 Customer funds
(€ million)

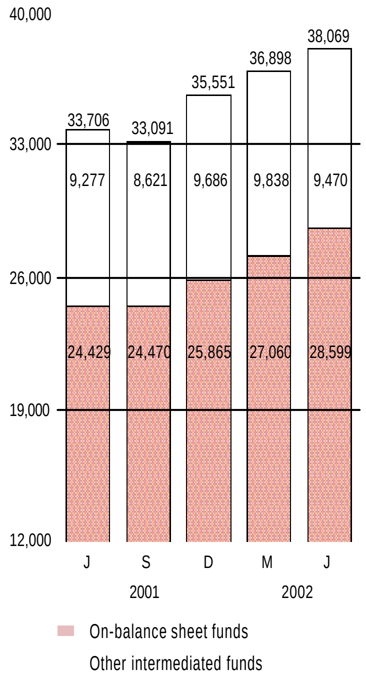
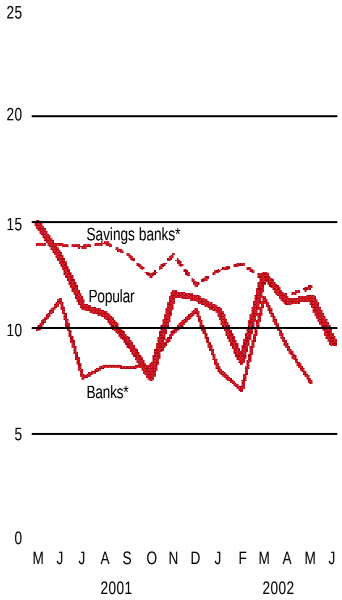


Fig.4 % annual variation in total resident private-sector deposits



* Source: Bank of Spain

The medium- and long-term notes amounted to €3,410 million, a year-on-year increase of 119.1%, and subordinated debt issued totaled €250 million, an interannual increase of 14.8%. In both these cases the funds were raised in the Euromarket through instrumental subsidiaries, and were applied by the Group, in line with its domestic customer orientation, to expand its capacity to finance the resident sector.

The balance of off-balance sheet funds managed at June end was €9,470 million, an increase of 2.1% year on year but a decrease of 2.2% in the first half of 2002. The evolution of the main component items is analyzed below.

Mutual funds have fallen by 3.7% since June 2001, and by 3.3% since the beginning of 2002, because the modest upturn in the first quarter of this year reversed in the second quarter as a result of the negative performance of the markets. Causal analysis of the variations in mutual fund assets in the first six months of this year reveals an appreciable transfer of balances between funds, although the net inflow of contributions has been very weak, in conjunction with the ongoing depreciation of fund assets. By type of fund, fixed-income and monetary asset funds were perceptibly higher, whereas equity funds have been sharply affected by the fall in market prices.

Per advance data for the sector as a whole at the end of June 2002, the total assets of mutual funds in Spain had decreased by 1.4% with respect to June 2001 and by 1.7% in the last six months.

Table 3. Customer funds

(Amounts in € thousand)	June 30 2002	December 31 2001	June 30 2001	% variation 6 months	12 months
Customer deposits:	23,566,615	22,615,236	21,757,266	4.2	8.3
From public bodies:	*609,535*	*311,132*	*613,432*	*95.9*	*(0.6)*
Demand deposits	300,380	247,083	203,763	21.6	47.4
Savings deposits	7,143	12,054	7,292	(40.7)	(2.0)
Time deposits	23,674	51,927	42,197	(54.4)	(43.9)
Assets sold under repurchase agreements . . .	278,338	68	360,180	>	(22.7)
Other accounts	–	–	–	–	–
From other residents:	*20,066,235*	*19,458,265*	*18,367,835*	*3.1*	*9.2*
Deposits of private-sector residents:	19,132,427	18,192,152	*17,318,324*	5.2	10.5
Demand deposits	7,440,557	7,025,173	6,841,704	5.9	8.8
Savings deposits	3,536,369	3,453,534	3,223,813	2.4	9.7
Time deposits	8,155,501	7,713,445	7,252,807	5.7	12.4
Assets sold under repurchase agreements . . .	933,808	1,266,113	1,049,511	(26.2)	(11.0)
Other accounts	–	–	–	–	–
From nonresidents:	*2,890,845*	*2,845,839*	*2,775,999*	*1.6*	*4.1*
Demand deposits	517,085	479,390	418,395	7.9	23.6
Savings deposits	723,732	645,476	610,137	12.1	18.6
Time deposits	1,648,158	1,716,511	1,736,174	(4.0)	(5.1)
Assets sold under repurchase agreements . . .	1,165	2,568	9,142	(54.6)	(87.3)
Other accounts	705	1,894	2,151	(62.8)	(67.2)
Bonds and other marketable debt securities	4,781,713	2,986,466	2,453,929	60.1	94.9
Bonds and debentures outstanding.	3,410,101	1,968,146	1,556,236	73.3	>
Promissory notes and other securities	1,371,612	1,018,320	897,693	34.7	52.8
Subordinated financing	250,251	263,469	217,925	(5.0)	14.8
Total (a)	28,598,579	25,865,171	24,429,120	10.6	17.1
Other intermediated customer funds:					
Financial assets sold outright to customers (outstanding balances)	608,261	655,584	707,303	(7.2)	(14.0)
Mutual funds	5,625,197	5,815,695	5,843,662	(3.3)	(3.7)
Asset portfolio management	442,885	406,336	433,633	9.0	2.1
Pension funds	2,325,973	2,350,675	1,822,525	(1.1)	27.6
Life insurance technical reserves	467,666	457,414	470,242	2.2	(0.5)
Total (b)	9,469,982	9,685,704	9,277,365	(2.2)	2.1
Total (a+b)	38,068,561	35,550,875	33,706,485	7.1	12.9

The balance of pension plans managed by the Group totaled €2,326 million, a year-on-year increase of 27.6%. Excluding from the foregoing figure the pension funds for employees of the Group banks which were externalized in the fourth quarter of 2001, the adjusted interannual growth rate was 3.7%.

To summarize, total on- and off-balance sheet customer funds held by the Group at June 30, 2002, amounted to €38,069 million, up 12.9% year on year and 7.1% since the beginning of this year.

Loans and discounts

The Group's loans and discounts totaled €30,936 million at June 30, 2002, up by 17.5% year on year and by 11.2% in the first six months. Adjusted for the effect of acquisition of total ownership of Banco Popular Hipotecario (BPH) mentioned earlier, the rates were 14.7% and 8.5%, respectively.

This figure represented 78% of total assets and 108% of on-balance sheet customer funds, virtually unchanged from the previous year. The average balance in the first six months was 18.1% higher than in the same period of 2001.

The breakdown of loans and discounts by sector and type and the variation over time are shown in Table 4 and summarized in Figure 5.

Credit to private-sector residents, amounting to €29,567 million, represented 96% of total loans and discounts, with growth of 16.7% year on year and of 10.9% in the six first six months. Mortgage loans, mostly for home-buying, continued to advance strongly, with an interannual growth rate of 38.7% (31.7% adjusted for the effect at the BPH subsidiary), and are an effective instrument for

Fig.5 Loans and discounts
(€ million)

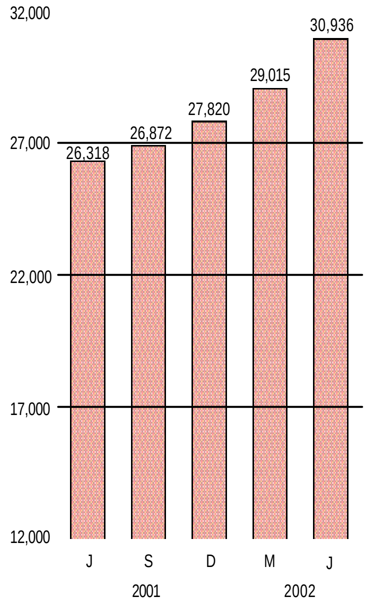
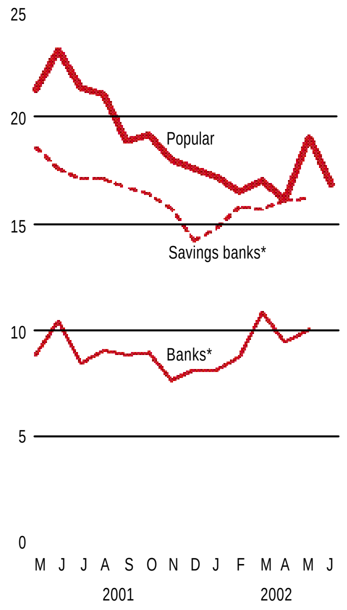


Table 4. Loans and discounts

(Amounts in € thousand)	June 30 2002	December 31 2001	June 30 2001	% variation 6 months	% variation 12 months
To public bodies:	*30,301*	*30,429*	*37,729*	*(0.4)*	*(19.7)*
Secured loans	–	–	–	–	–
Other term loans	29,897	30,383	37,458	(1.6)	(20.2)
Overdrafts and other	404	46	271	>	49.1
To other residents:	*29,566,942*	*26,652,900*	*25,334,913*	*10.9*	*16.7*
Trade loans and discounts	4,291,687	4,201,563	4,474,700	2.1	(4.1)
Secured loans	13,790,152	11,262,796	9,944,149	22.4	38.7
Mortgage loans	13,771,989	11,223,590	9,927,842	22.7	38.7
Other	18,163	39,206	16,307	(53.7)	11.4
Other term loans:	8,464,689	8,325,869	8,136,375	1.7	4.0
Loans and credits	8,464,553	8,226,529	8,009,838	2.9	5.7
Repos	136	99,340	126,537	(99.9)	(99.9)
Overdrafts and other	1,025,325	1,009,182	1,020,980	1.6	0.4
Leasing	1,995,089	1,853,490	1,758,709	7.6	13.4
To nonresidents:	*1,036,902*	*888,822*	*730,182*	*16.7*	*42.0*
Trade loans and discounts	228,156	191,090	177,929	19.4	28.2
Secured loans	362,107	302,389	273,351	19.7	32.5
Mortgage loans	354,868	296,019	260,411	19.9	36.3
Other	7,239	6,370	12,940	13.6	(44.1)
Other term loans	403,015	348,422	231,207	15.7	74.3
Overdrafts and other	43,624	46,921	47,695	(7.0)	(8.5)
Nonperforming loans:	*301,592*	*247,859*	*214,693*	*21.7*	*40.5*
To public bodies	639	698	644	(8.5)	(0.8)
To other residents	292,783	238,497	205,459	22.8	42.5
To nonresidents	8,170	8,664	8,590	(5.7)	(4.9)
Total	30,935,737	27,820,010	26,317,517	11.2	17.5

Fig.6 % annual variation in total resident private-sector loans and discounts



* Source: Bank of Spain

winning and bonding individual customers. Unsecured credits and loans (other term loans) were up by 5.7% and leasing transactions by 13.4%, whereas trade discounts were down by 4.1%.

Figure 6, showing the growth rates of credit to private-sector residents in the Spanish financial system as a whole per the latest published (May 2002) data of the Bank of Spain, compared with the Banco Popular Group, reveals that Banco Popular has grown significantly more than banks as a whole and also, to a lesser degree, with respect to savings banks, with average differentials of 9.9 and 2.5 percentage points, respectively (6.5 percentage points compared with the system as a whole), signifying a substantial gain in credit market share.

Risk management

The Group's troubled (nonperforming) risk balances at June 30 amounted to €310.2 million, an increase of €88.8 million (40.1%) in the last twelve months and of €54.2 million (21.2%) since the beginning of the year. During the first six months of 2002 €191.2 million of assets were transferred to this category, €86.7 million of transactions were favorably settled, and others of €50.3 million were written off.

The nonperforming loans ratio, i.e. nonperforming loans as a percentage of total risks (loans and discounts plus off-balance sheet risks), was 0.87% at June 30, 2002, as compared with 0.80% in December 2001 and 0.74% at June 2001, the record low nonperforming loans ratio of the Group.

Table 5. Risk management performance

(Amounts in € thousand)	June 30 2002	June 30 2001	Variation Amount	Variation %
Nonperforming loans:*				
Balance at January 1	256,035	208,603	47,432	22.7
Additions	*191,207*	*110,280*	*80,927*	*73.4*
Balances recovered	*(86,727)*	*(55,936)*	*(30,791)*	*55.0*
Net variation for the year	104,480	54,344	50,136	92.3
% increase	40.8	26.1	14.7	
Writeoffs	(50,280)	(41,470)	(8,810)	21.2
Balance at June 30	310,235	221,477	88,758	40.1
Allowance for credit losses:				
Balance at January 1	506,129	383,891	122,238	31.8
Annual provision:				
Gross	*156,571*	*125,096*	*31,475*	*25.2*
Recoveries	*(30,266)*	*(15,193)*	*(15,073)*	*99.2*
Net	126,305	109,903	16,402	14.9
Other variations	19,077	1,362	17,715	>
Writeoffs	(49,408)	(41,470)	(7,938)	19.1
Balance at June 30	602,103	453,686	148,417	32.7
Foreclosed real estate assets	61,708	66,819	(5,111)	(7.6)
Allowance for potential losses on foreclosed assets	25,622	27,125	(1,503)	(5.5)
Pro memoria:				
Total risks	35,519,234	29,909,040	5,610,194	18.8
Loans transferred to suspense accounts	710,186	632,092	78,094	12.4
Nonperforming mortgage loans	11,838	11,071	767	6.9
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	0.87	0.74	0.13	
Insolvency (Writeoffs/Total risks)	0.14	0.14	–	
Coverage: (Credit loss allowance/Nonperforming loans)	194.08	204.85	(10.77)	
Coverage: (Allowance for potential losses on foreclosed assets/total foreclosed assets)	41.52	40.59	0.93	

* Including doubtful off-balance sheet risks, but excluding country risk and the related country risk allowance

Net provisions to credit loss allowances in the first six months of 2002 amounted to €127.4 million, 16.2% more than in the same period of the preceding year. €66.5 million of the foregoing amount were specific provisions, €32.7 million were general provisions, €27.1 million were booked to the statistical credit loss allowance (SCLA), €0.9 million were to write off unprovisioned risks and €0.2 million were for the country-risk allowance. €15.0 million of loan balances previously written off as bad debts were also recovered.

The recorded credit loss allowances currently total €602.1 million (€604.9 million if the country risk allowance is included), 32.7% higher than in June 2001, and 19.0% higher than at the beginning of the year, and signified a coverage ratio of the nonperforming loans balance at June end of 194.1%, as compared with 204.9% in June 2001 and 197.7% at December 31, 2001.

Considering the recorded allowances, the nonperforming loans ratio net of credit loss provisions is -0.82%, an improvement of 4 basis points compared with June and December 2001, respectively, reflecting the Group's criterion of greater prudence in the context of lower economic growth.

Precautionary provisions, i.e. those not regulatorily required, booked in the first half amounted to €39.2 million, of which €15.3 million were additional provision for credit losses, €9.4 million were assigned to the general banking risk allowance (which qualifies as equity) and the remainder were allocated to other allowances.

Foreclosed assets, substantially all buildings, amounted to €61.7 million, 7.6% lower than in June 2001, as a result of divestment of these assets. To cover possible losses on disposals, there was a specific allowance of €25.6 million at June 30, representing coverage of 41.5% of their book value.

Tables 5 and 6 detail the evolution of nonperforming loans and credit loss allowances since June 2001, together with other risk quality measures. Figure 7 plots the variation in the nonperforming loans ratio and allowance coverage, and of the latter net of provisions, in the same period of time.

As a summary of risk management, the foregoing figures evidence that the Group closely controls the quality of its assets, with highly prudent classification and provision criteria that go beyond legal requirements, particularly in an environment of an ongoing slowdown in the economy - which has triggered the consequent upturn of nonperforming balances - the end of which does not seem to be near.

Fig.7 Variation in the nonperforming loans ratio and coverage for delinquent balances

(Nonperforming loans at year end as % of total risks, and credit loss allowance as % of non-performing balances)

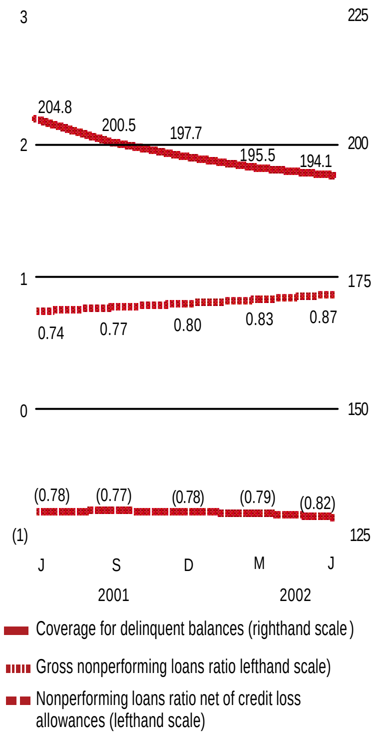


Table 6. Allowance for nonperforming loans

(Amounts in € thousand)

	June 30, 2002		June 30, 2001	
	Balance	Total Provisioning	Balance	Total Provisioning
Doubtful balances with specific allowances:	291,023	127,007	197,292	107,788
Ordinary	278,512	120,987	185,473	101,379
Secured by prime collateral	4,006	1,344	5,154	2,380
Off-balance sheet risks	8,505	4,676	6,665	4,029
Doubtful balances with generic allowances	16,909	130	22,370	195
Doubtful balances for which allowances are not required	2,303		1,815	
Total nonperforming loans	310,235	127,137	221,477	107,983
Other specific provisioning	15,762	1,081	16,514	1,512
Allowances for ordinary risks	34,834,438	317,124	29,134,855	266,963
General provisioning (1%)	28,599,431	285,949	24,271,782	242,647
Reduced provisioning (0.5%)	6,235,007	31,175	4,863,073	24,316
Statistical allowance		131,490		69,118
Total required provisions		576,831		445,576
Balance of credit loss allowances		602,103		453,686
Surplus		25,272		8,110

Fig.8 **Quarterly income**
(€ million)

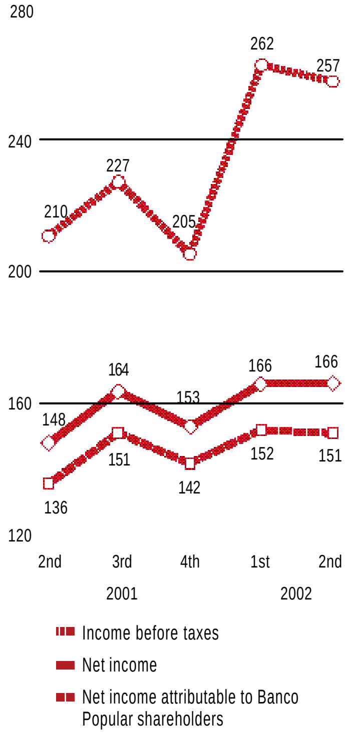
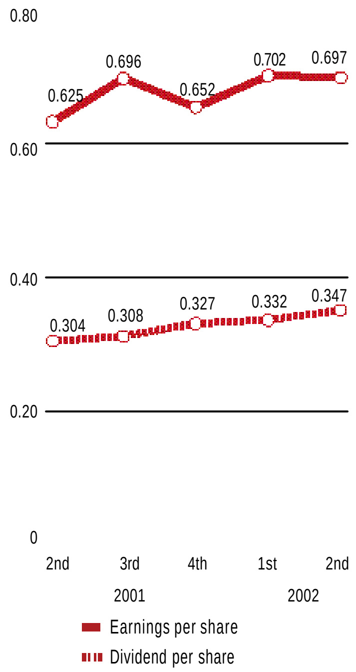


Fig.9 **Quarterly earnings and dividend per share**
(€)



Earnings and profitability

Income statement

Table 7 is the consolidated income statement at June 30, 2002, compared with that at the same date in 2001.

The pretax income of €518.1 million in the first half was 23.3% higher year on year. The corporate income tax charge of €187 million was significantly (51.7%) higher than in the same period of 2001 due to the tax effect in 2001 of the externalization of the Group banks' pension funds, which attracted a tax rate of 29.3% compared with the current rate of 36.0%.

The net income for the first half of 2002 amounted to €331.5 million, 11.6% higher than in the first half of 2001; after deduction of minority interests, the

Table 7. Consolidated statements of income

(Amounts in € thousand)	June 30 2002	June 30 2001	% increase (decrease)
Interest and similar revenues	1,154,018	1,129,217	2.2
– Interest and similar charges:	379,046	461,567	(17.9)
On liabilities	*379,046*	*450,597*	*(15.9)*
Allocable to pension allowance	–	*10,970*	*(100.0)*
+ Revenues from equity securities	21,449	7,910	>
= Net interest revenue	**796,421**	**675,560**	**17.9**
+ Fees for services, net:	282,004	286,019	(1.4)
Loan-related fees	*36,722*	*37,852*	*(3.0)*
Fees for guarantees, other sureties and documentary credits	*27,254*	*23,452*	*16.2*
Fees for other banking services	*218,028*	*224,715*	*(3.0)*
= Basic banking revenue	**1,078,425**	**961,579**	**12.2**
+ Asset trading and exchange profits, net:	16,490	25,080	(34.3)
Financial asset trading income	*1,301*	*5,577*	*(76.7)*
Writedowns of securities portfolio and derivatives	*(4,472)*	*994*	
Exchange, translation and dealing gains	*19,661*	*18,509*	*6.2*
= Ordinary revenue	**1,094,915**	**986,659**	**11.0**
– Operating costs:	386,206	368,745	4.7
Personnel expenses	*272,783*	*266,179*	*2.5*
General expenses	*96,907*	*87,562*	*10.7*
Taxes other than income tax	*16,516*	*15,004*	*10.1*
– Depreciation	33,578	33,872	(0.9)
+ Other operating income	935	612	52.8
– Other operating expenses:	18,077	20,774	(13.0)
Contribution to guarantee funds	*6,202*	*8,689*	*(28.6)*
Directors' fees and other mandated appropriations	*11,499*	*11,482*	*0.1*
Other	*376*	*603*	*(37.6)*
= Operating income	**657,989**	**563,880**	**16.7**
+ Share in equity method investees' income, net	(1,643)	(956)	71.9
– Amortization of goodwill in consolidation	4,358	3,652	19.3
+ Gains (Losses) on group transactions, net	743	2,918	(74.5)
– Writeoffs and provisions for credit losses:	112,379	96,665	16.3
Provision to allowance for credit losses	*127,406*	*109,599*	*16.2*
Recovery of bad debts written off	*(15,027)*	*(12,934)*	*16.2*
– Provision to general banking risk allowance	9,402	–	
± Extraordinary gains (losses), net:	(12,811)	(45,302)	(71.7)
Gain on disposal of fixed assets	*13,682*	*6,675*	>
Recovery of pension allowance	–	–	
Extraordinary provision to allowance for pensions	*(3,827)*	*(10,579)*	*(63.8)*
Provision to allowances for other purposes	*(22,067)*	*(39,569)*	*(44.2)*
Other	*(599)*	*(1,829)*	*(67.2)*
= Income before taxes	**518,139**	**420,223**	**23.3**
– Corporate income tax provision	186,636	123,053	51.7
= Net income	**331,503**	**297,170**	**11.6**
– Minority interests	27,732	24,566	12.9
= Net income attributable to Popular shareholders	**303,771**	**272,604**	**11.4**

income attributable to Banco Popular shareholders was €303.8 million, 11.4 % up on the same period of 2001, and represented €1.40 per share, an interannual growth rate also of 11.4%.

Figure 8 plots the growth of these three levels of income in the last five quarters and Figure 9 shows the quarterly earnings and dividend per share in the same period.

The performance of the main items in the income statement is analyzed in the following paragraphs.

The net interest revenue of €796.4 million in the first six months was 17.9% higher than in the same period of 2001; after the deduction of dividends the growth rate was 16.1%. The reasons underlying this good performance were the growth of assets and funds and prudent pricing management, in an interest rate environment of a 125 basis points decline (in the European Central Bank reference rate) in the last twelve months. Causal analysis of the variations in net interest revenue discloses that substantially all the increase was the result of the volume effect, thus confirming the close correlation between balance sheet growth and profitability.

Service fee revenues at €282 million in the first six months were down by 1.4% compared with the same period of 2001. Interannual analysis of this item indicates that there was a 1.2% recovery in the second quarter compared with a fall of 3.9% in the first quarter. By caption, guarantees, mediation and means of payment evolved favorably, whereas customer financial asset management fees (mutual funds and customer portfolios) again had negative growth rates due to the depreciation of the assets managed. The detail of service fee revenues since June 2001 is shown in Table 8 and Figure 10.

Table 8. Service revenues

(Amounts in € thousand)	June 30 2002	June 30 2001	% variation
Loan-related fees:	36,722	37,852	(3.0)
Bill discounting	*20,791*	*23,333*	*(10.9)*
Other	*15,931*	*14,519*	*9.7*
Provision of guarantees and other sureties	27,254	23,452	16.2
Operating services:	218,028	224,715	(3.0)
Collection and payment handling :	116,991	108,835	7.5
Note collection	*30,806*	*28,829*	*6.9*
Checks	*11,318*	*11,233*	*0.8*
Direct debit transactions	*8,164*	*7,259*	*12.5*
Payment systems	*45,827*	*42,423*	*8.0*
Fund transfers	*20,876*	*19,091*	*9.3*
Foreign currency purchase and sale transactions	1,519	3,623	(58.1)
Customer financial asset management:	77,236	85,358	(9.5)
Securities portfolio	*8,139*	*13,426*	*(39.4)*
Mutual funds	*44,695*	*48,733*	*(8.3)*
Pension plans	*24,402*	*23,199*	*5.2*
Administration of demand deposits	22,464	19,501	15.2
Other	(182)	7,398	
Total	282,004	286,019	(1.4)

The financial asset trading income of €16.5 million was 34.3% lower year on year, due to the negative performance of the markets, with the combined adverse effect of lower trading income and greater need to write down the portfolios.

Ordinary revenue, the aggregate of the three foregoing captions, amounted to €1,094.9 million in the first six months, up 11.0% on the same period of the previous year.

Operating costs in the first six months amounted to €386.2 million, a moderate increase of 4.7% year on year. By caption, personnel costs were up by 2.5% and

Fig.10 Service revenues
(€ million)

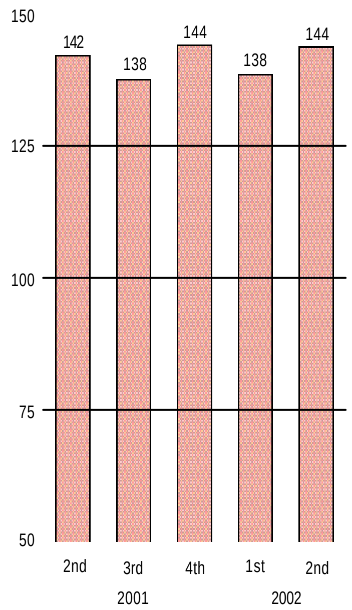


Fig.11 Quarterly revenues
(€ million)

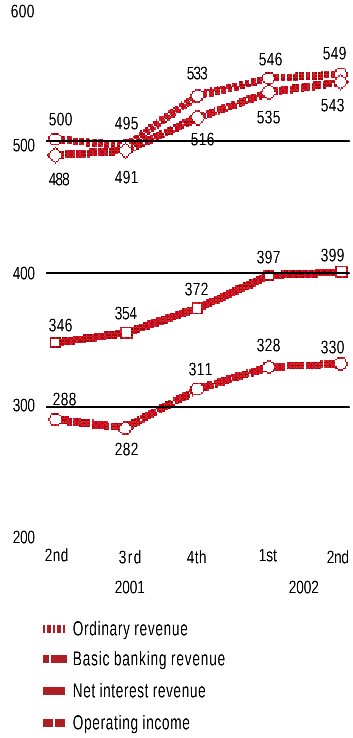


Fig.12 Net interest margin
(As % of average total assets)

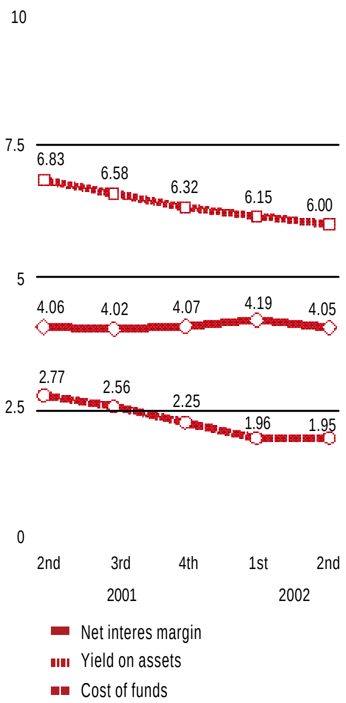
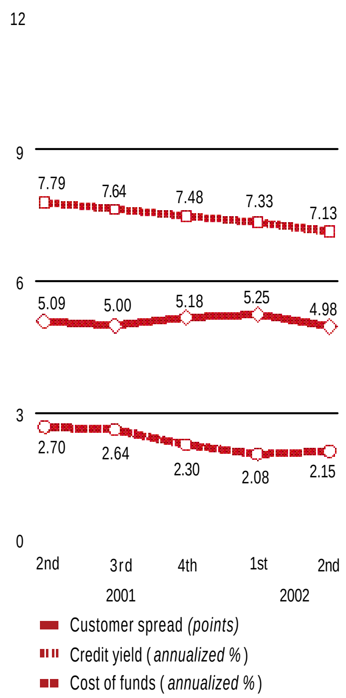


Fig.13 Quarterly customer spread



general expenses by 10.7%, revealing in both cases an appreciable deceleration in interannual terms.

Operating income amounted to €658.0 million in the first six months, up 16.7% year on year. Considering that the balance sheet increased by 13.2% in the last twelve months these figures synthesize the success of the Group's strategy of profitable growth.

Figure 11 plots the variation in the margins in the last five quarters.

Table 9. Quaterly income and profitability

	2001			2002	
(Amounts in € thousand)	2nd	3rd	4th	1st	2nd
Interest and similar revenues	581,919	578,885	578,107	582,888	592,579
– Interest and similar charges	235,611	225,300	205,711	185,887	193,159
= **Net interest revenue**	**346,308**	**353,585**	**372,396**	**397,001**	**399,420**
+ Fees for services, net	141,926	137,569	143,759	138,430	143,574
+ Asset trading & exchange profits, net . .	12,004	3,450	16,454	10,403	6,087
= **Ordinary revenue**	**500,238**	**494,604**	**532,609**	**545,834**	**549,081**
– Operating costs:	185,545	186,081	194,382	192,754	193,452
Personnel expenses	*133,360*	*135,501*	*136,986*	*136,584*	*136,199*
Other expenses	*52,185*	*50,580*	*57,396*	*56,170*	*57,253*
– Depreciation	17,021	16,974	17,357	16,893	16,685
± Other operating income/expenses, net .	(10,070)	(9,810)	(9,906)	(8,444)	(8,698)
= **Operating income**	**287,602**	**281,739**	**310,964**	**327,743**	**330,246**
± Other items, net	6,021	2,426	4,344	8,816	3,367
– Provisions and writedowns	83,251	57,376	110,126	74,974	77,059
= **Income before taxes**	**210,372**	**226,789**	**205,182**	**261,585**	**256,554**
– Corporate income tax provision	62,435	63,013	51,964	95,593	91,043
= **Net income**	**147,937**	**163,776**	**153,218**	**165,992**	**165,511**
– Minority interests	12,211	12,638	11,678	13,593	14,139
= **Net income attributable**	**135,726**	**151,138**	**141,540**	**152,399**	**151,372**
Pro memoria (€ million):					
Average total assets	34,060	35,167	36,626	37,910	39,489
Average total risk-weighted assets (RWA)	27,650	28,860	29,747	30,794	32,888

(As annualized % of average total assets)	2001			2002	
	2nd	3rd	4th	1st	2nd
Yield on assets	6.83	6.58	6.32	6.15	6.00
– Cost of funds	2.77	2.56	2.25	1.96	1.95
= **Net interest margin**	**4.06**	**4.02**	**4.07**	**4.19**	**4.05**
+ Yield on services, net	1.67	1.56	1.57	1.46	1.45
+ Yield on fin. assets trading & exch. profits	0.14	0.04	0.18	0.11	0.06
= **Ordinary margin**	**5.87**	**5.62**	**5.82**	**5.76**	**5.56**
– Operating costs:	2.18	2.12	2.12	2.03	1.96
Personnel costs	*1.57*	*1.54*	*1.49*	*1.44*	*1.38*
Other expenses	*0.61*	*0.58*	*0.63*	*0.59*	*0.58*
– Depreciation	0.20	0.19	0.19	0.18	0.17
± Other operating income/expenses, net	(0.11)	(0.11)	(0.11)	(0.09)	(0.08)
= **Operating profitability**	**3.38**	**3.20**	**3.40**	**3.46**	**3.35**
± Other items, net	0.07	0.03	0.05	0.09	0.03
– Provisions and writedowns	0.98	0.65	1.21	0.79	0.78
= **Pre-tax income return**	**2.47**	**2.58**	**2.24**	**2.76**	**2.60**
– Corporate income tax	0.73	0.72	0.57	1.01	0.92
= **Net income return (ROA)**	**1.74**	**1.86**	**1.67**	**1.75**	**1.68**
Pro memoria:					
Net return on average risk-weighted assets (RORWA).	2.14	2.27	2.06	2.16	2.01
Net return on average equity (ROE) . .	26.55	29.56	27.70	26.56	26.02
Leverage	15.3 x	15.9 x	16.6 x	15.2 x	15.5 x
Operating efficiency	37.09	37.62	36.50	35.31	35.23

Net provisions to credit loss allowances in the first half amounted to €127.4 million, 16.2% higher year on year; the detail is provided in the risk management section of this Report. €15.0 million of risks written off as bad debts against credit loss allowances were also recovered.

The Group also booked €31.5 million of other provisions, substantially all of a precautionary nature and not required by banking regulations.

The other captions in the lower part of the income statement are of scant amount, except for the earnings of €13.7 million from asset disposals, which include a gain of €12.7 million on the sale in February 2002 of property not used in the business.

Table 9 shows the detail of the income statement for the last five quarters in absolute amounts and in percentages of average total assets for each period and the measures of return and operating efficiency.

Yields and costs

Table 10 shows the average balances and percentage breakdown of assets and funds in the first six months of 2002 and 2001 and the related interest revenues and expenses, and the resulting annualized average rates of yield and cost for each asset and liability. Similar data for the last six quarters are presented in Table 11.

Fig.14 Operating efficiency

(€ million and %)

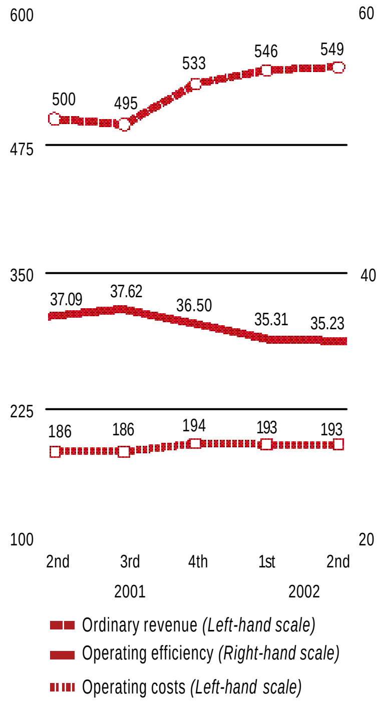


Table 10. Yields and costs

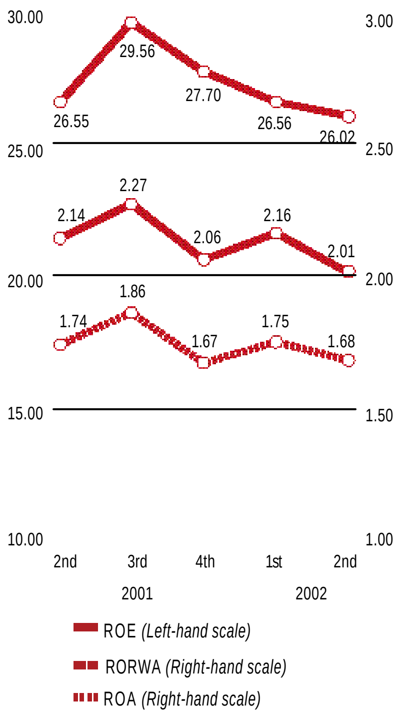
(Amounts in € thousand and rates annualized)	June 30, 2002				June 30, 2001			
	Average balance	Distri-bution (%)	Revenue or expense	Average rate (%)	Average balance	Distri-bution (%)	Revenue or expense	Average rate (%)
Treasury bills and Bank of Spain certificates of deposit	266,970	0.69	5,343	4.00	274,696	0.83	6,262	4.56
Financial system:	5,955,519	15.39	85,679	2.88	5,909,328	17.78	145,814	4.94
In euros	3,716,765	9.60	60,567	3.26	3,829,217	11.52	86,600	4.52
In foreign currencies	2,238,754	5.79	25,112	2.24	2,080,111	6.26	59,214	5.69
Loans and discounts (a):	29,109,899	75.22	1,051,667	7.23	24,638,597	74.12	958,777	7.78
In euros	28,675,028	74.10	1,045,768	7.29	24,342,857	73.23	950,019	7.81
In foreign currencies	434,871	1.12	5,899	2.71	295,740	0.89	8,758	5.92
Securities portfolio:	1,239,937	3.20	32,778	5.29	854,910	2.57	26,274	6.15
Government debt securities	108,052	0.28	2,724	5.04	84,765	0.25	2,531	5.97
Other fixed-interest securities	506,045	1.30	8,605	3.40	628,756	1.89	15,833	5.04
Equity securities	625,840	1.62	21,449	6.85	141,389	0.43	7,910	11.19
Total earning assets (b)	*36,572,325*	*94.50*	*1,175,467*	*6.43*	*31,677,531*	*95.30*	*1,137,127*	*7.18*
Other assets	2,126,847	5.50	–	–	1,565,906	4.70	–	–
Total assets	**38,699,172**	**100.00**	**1,175,467**	**6.08**	**33,243,437**	**100.00**	**1,137,127**	**6.84**
Financial system:	6,824,708	17.64	96,982	2.84	5,458,117	16.42	133,884	4.91
In euros	4,736,889	12.24	78,008	3.29	3,762,786	11.32	89,987	4.78
In foreign currencies	2,087,819	5.40	18,974	1.82	1,695,331	5.10	43,897	5.18
Customer funds (c):	26,867,818	69.43	282,064	2.10	23,277,076	70.02	316,713	2.72
Customer accounts:	22,863,042	59.08	215,929	1.89	20,846,028	62.71	262,000	2.51
In euros:	21,970,577	56.77	209,287	1.91	19,961,025	60.05	242,890	2.43
Demand and savings deposits	11,499,427	29.71	40,693	0.71	10,424,604	31.36	47,528	0.91
Time deposits	9,020,457	23.31	141,910	3.15	7,862,080	23.65	155,710	3.96
Assets sold under repurchase agreements	1,448,711	3.74	26,684	3.68	1,672,510	5.03	39,652	4.74
Other	1,982	0.01	–	–	1,831	0.01	–	–
In foreign currencies	892,465	2.31	6,642	1.49	885,003	2.66	19,110	4.32
Bonds and other marketable debt securities	4,004,776	10.35	66,135	3.30	2,431,048	7.31	54,713	4.50
Pension allowance	–	–	–	–	409,750	1.23	10,970	5.35
Total interest-bearing liabilities (d)	*33,692,526*	*87.07*	*379,046*	*2.25*	*29,144,943*	*87.67*	*461,567*	*3.17*
Other non-interest-bearing liabilities	2,695,712	6.96	–	–	2,053,499	6.18	–	–
Capital accounts	2,310,934	5.97	–	–	2,044,995	6.15	–	–
Total liabilities and capital	**38,699,172**	**100.00**	**379,046**	**1.96**	**33,243,437**	**100.00**	**461,567**	**2.78**
Customer spread (a-c).				*5.13*				*5.06*
Spread (b-d)				*4.18*				*4.01*

Table 11. Quarterly yields and costs												
(Data in % and rates annualized)	2001								2002			
	1st		2nd		3rd		4th		1st		2nd	
	Distri-bution	*Rate*	Distri-bution	*Rate*	Distri-bution	*Rate*	Distri-bution	*Rate*	Distri-bution	*Rate*	Distri-bution	*Rate*
Treasury bills and Bank of Spain certificates of deposit	0.70	*4.22*	0.94	*4.80*	1.16	*4.59*	1.15	*4.23*	0.92	*4.19*	0.47	*3.65*
Financial system	18.41	*4.89*	17.17	*4.98*	15.61	*4.09*	16.47	*3.57*	15.31	*3.02*	15.46	*2.74*
Loans and discounts (a)	73.72	*7.77*	74.49	*7.79*	75.60	*7.64*	74.63	*7.48*	74.53	*7.33*	75.88	*7.13*
Securities portfolio	2.69	*7.07*	2.46	*5.19*	2.75	*4.20*	2.57	*3.74*	3.23	*5.83*	3.18	*4.76*
Total earning assets (b)	*95.52*	*7.17*	*95.06*	*7.19*	*95.12*	*6.92*	*94.82*	*6.66*	*93.99*	*6.54*	*94.99*	*6.32*
Other assets	4.48	–	4.94	–	4.88	–	5.18	–	6.01	–	5.01	–
Total assets	**100.00**	***6.85***	**100.00**	***6.83***	**100.00**	***6.58***	**100.00**	***6.32***	**100.00**	***6.15***	**100.00**	***6.00***
Financial system	15.54	*5.09*	17.26	*4.75*	17.32	*4.00*	19.16	*3.49*	18.08	*3.00*	17.21	*2.69*
Customer funds (c)	70.25	*2.75*	69.80	*2.70*	68.31	*2.64*	67.33	*2.30*	68.16	*2.08*	69.42	*2.15*
Pension allowance	1.24	*5.33*	1.22	*5.38*	1.23	*5.45*	0.50	*5.43*	–	–	–	–
Total interest-bearing liabilities (d)	*87.03*	*3.20*	*88.28*	*3.13*	*86.86*	*2.95*	*86.99*	*2.58*	*86.24*	*2.27*	*86.63*	*2.26*
Other non-interest-bearing liabilities	6.66	–	5.72	–	7.32	–	7.43	–	7.70	–	7.52	–
Capital accounts	6.31	–	6.00	–	5.82	–	5.58	–	6.06	–	5.85	–
Total liabilities and capital	**100.00**	***2.79***	**100.00**	***2.77***	**100.00**	***2.56***	**100.00**	***2.25***	**100.00**	***1.96***	**100.00**	***1.95***
Customer spread (a-c)		*5.02*		*5.09*		*5.00*		*5.18*		*5.25*		*4.98*
Spread (b-d)		*3.97*		*4.06*		*3.97*		*4.08*		*4.27*		*4.06*

Average total assets in the first half amounted to €38,699 million, up 16.4% year on year and 11.9% since the beginning of 2002.

During the first half interest rates, which had fallen sharply throughout 2001, initiated a modest upturn, and the outlook for the second half of the year is of a slight rise. With 3-month Euribor as a benchmark, the present level of 3.46% is 12 basis points higher than in December 2001 but still 99 basis points lower than in June 2001. These considerations should be borne in mind for the following analysis.

Fig.15 ROA, RORWA and ROE
(Annualized %)



The yield on loans and discounts was 7.23% in the first half, 55 basis points less than in the same period of 2001, whereas the average cost of customer funds was 2.10%, a decrease of 62 basis points between the two periods, and the customer spread (i.e. the difference between these two rates) therefore improved by 7 basis points, from 5.06% to 5.13%.

The spread, the differential between the rate of yield on earning assets and the cost of interest-bearing liabilities, also improved in the first half to 4.18%, 17 basis points higher than in the first half of 2001.

The net interest margin on average total assets improved by 6 basis points year on year to 4.12%, due to the fact that the cost of funds fell more (-82 basis points) than the yield on assets (-76 basis points).

Considering the second quarter in isolation, the customer spread, the spread and the financial margin were 27 basis points, 21 basis points and 14 basis points, respectively, lower than in the first quarter, which was consistent with the change in the profile of interest rates between the two quarters, since at very short term the increase flows more quickly to costs than to yields.

Table 11 and Figures 12 and 13 show the variations in the last six quarters in the rates of yield and cost and of the foregoing margins.

Profitability

The annualized ROE was 26.29% in the first six months of 2002, similar to the 26.66% for the same period of the previous year. The ROE in the second quarter was 26.02%, compared to 26.56% in the first quarter and 26.55% in the second quarter of 2001.

The annualized ROA was 1.71% in the first six months, 8 basis points lower than in the same period of 2001. The return on average risk-weighted total assets (RORWA) was 2.08%, a year-on-year decrease of 14 basis points.

The ROA and RORWA for the second quarter were 1.68% and 2.01%, respectively, a decrease of 6 basis points and 13 basis points compared with the second quarter of 2001 and of 7 basis points and 15 basis points compared with the first quarter of 2002.

Figure 15 plots the variation in ROA, RORWA and ROE in the last five quarters.

The income statement for the first half, annualized and expressed in percentages of average total assets, discloses an increase of 1 basis point in operating profitability, due mainly to the improvement in the net interest margin (discussed earlier) and operating costs of 6 basis points and 22 basis points, respectively, whereas service fees had a negative impact of 26 basis points and financial asset trading margin of 8 basis points.

Table 12 shows profitability in the first half compared with that in the same period of 2001.

Table 12. Profitability at half year

(As annualized % of average total assets)	June 30, 2002	June 30, 2001	Variation
Yield on assets	6.08	6.84	(0.76)
– Cost of funds	1.96	2.78	(0.82)
= Net interest margin	**4.12**	**4.06**	**0.06**
+ Yield on services, net	1.46	1.72	(0.26)
+ Yield on fin. assets trading & exch. profits	0.08	0.16	(0.08)
= Ordinary margin	**5.66**	**5.94**	**(0.28)**
– Operating costs:	2.00	2.22	(0.22)
Personnel costs	*1.41*	*1.60*	*(0.19)*
Other expenses	*0.59*	*0.62*	*(0.03)*
– Depreciation	0.17	0.21	(0.04)
± Other operating income/expenses, net	(0.09)	(0.12)	0.03
= Operating profitability	**3.40**	**3.39**	**0.01**
± Other items, net	0.06	0.04	0.02
– Provisions and writedowns	0.78	0.90	(0.12)
= Pre-tax income return	**2.68**	**2.53**	**0.15**
– Corporate income tax	0.97	0.74	0.23
= Net income return (ROA)	**1.71**	**1.79**	**(0.08)**
Pro memoria:			
Net return on average risk-weighted assets (RORWA)	2.08	2.22	(0.14)
Net return on average equity (ROE)	26.29	26.66	(0.37)
Leverage	15.4 x	14.9 x	0.5
Operating efficiency	35.27	37.37	(2.10)

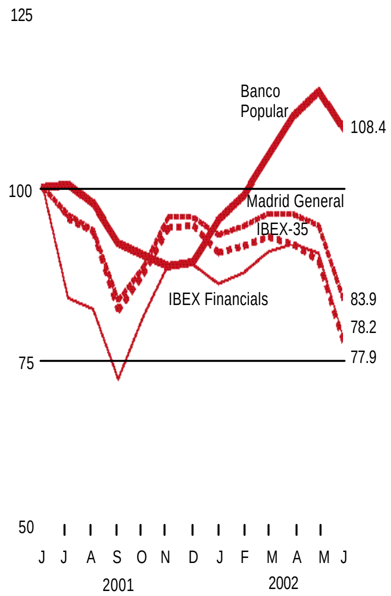
The same analysis for the second quarter of 2002 appears in the lower part of Table 9, together with that for the four preceding quarters. Compared with the first quarter, there was a fall of 11 basis points in operating profitability, mainly as a result of the adverse effect of 14 basis points in the net interest margin and of 5 basis points in the financial asset trading margin, whereas the containment of operating costs, particularly personnel expenses, made a positive contribution of 7 basis points to earnings.

The operating efficiency ratio, i.e. the portion of total revenues absorbed by operating costs, again evolved favorably and was 35.3% in the first half (as compared with 37.4% in the same period of 2001), and 35.2% in the second quarter alone. Figure 14 plots the variation in this indicator in the last five quarters.

The balance sheet leverage, i.e. the ratio of total funds to total equity, was 15.4 times in the first half, compared with 14.9 times in the first half of 2001.

Fig.16 Stock market indexes

(Month-end figures)



Market performance of Banco Popular shares

The Bank's share price closed at €44.77 at the end of the first half, 8.4% higher than the matching figure of €41.29 twelve months earlier. This performance can be described as very favorable, particularly during the first six months of this year with a rise of 21.4%. The Madrid Stock Exchange general index was down by 16.1% in the last twelve months, the IBEX-35 by 22.1% and the financial sector IBEX (including Banco Popular) by 21.8%.

The market return on Banco Popular shares - the rise (or fall) in the share price plus dividend payments - in the last twelve months was 11.6% and in the first six months was 23.2%.

The P/E ratio of Banco Popular shares at the end of the first six months of 2002 was 16.0 times the annualized income for the period.

149 million shares representing 68.6% of the total stock outstanding were traded in the first six months of 2002, at an average price of €41.80 per share.

On June 30, 2002, the Bank did not own, either directly or indirectly through any subsidiary, whether consolidable or not, any of its own shares. In the first six months of the year it intervened as a buyer in transactions involving 611,961 shares (0.28% of the capital stock), and as a seller in the same number. The maximum treasury stock held in the first six months was 199,616 shares, 0.09% of the capital stock.

Table 13. Quarterly bank share performance

		Share liquidity (Number in thousands)			**Share market price** (€)			**Dividend paid** (€)	**Market return***
	Quarters	Average shares outstanding	Shares traded	%	High	Low	Closing		
2001	1st	217,154	50,309	23.17	39.30	34.50	37.35	0.293	1.5
	2nd	217,154	40,545	18.67	42.10	36.31	41.29	0.304	11.4
	3rd	217,154	43,486	20.02	42.50	30.65	38.00	0.308	(7.2)
	4th	217,154	73,824	34.00	40.47	35.50	36.88	0.327	(2.1)
	Year total	***217,154***	***208,163***	***95.86***	***42.50***	***30.65***	***36.88***	***1.232***	***2.7***
2002	1st	217,154	70,946	32.67	43.20	36.01	43.20	0.332	18.0
	2nd	217,154	78,069	35.95	47.95	41.03	44.77	0.347	4.4

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

For details of variations in price, dividends, market return and liquidity in the last six quarters, see Table 13. On an index basis with June 30, 2001 = 100, Figure 16 shows the movement in the price of Banco Popular shares in the last twelve months, compared with the stock market indexes mentioned above.

Madrid, July 2002

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