

The Banco Popular Group continues firmly to apply its strategy of profitable growth focused on retail commercial banking and mortgage lending, its prime areas of activity in which it has a sound competitive edge. Thanks to this strategy, in the first quarter of 2004 the Group achieved a notable expansion of its customer base and business volume at rates higher than those for the Spanish financial system as a whole, with the consequent gain of domestic market share. This strong performance was achieved while maintaining the Group's position of leadership in terms of balance sheet strength, return on invested capital, and efficiency, an achievement all the more notable considering the adverse environment in which these results were obtained, characterized by fierce competition among banks and interest rates at record lows.

The Group's commercial action continues to pursue two objectives. Firstly, expansion of the customer base: in the first quarter a net number of 106,000 new customers was added, comprising 90,000 individuals and 16,000 companies, bringing the total to 5.4 million. Secondly, strengthening of customer bonding by means of product cross-selling, which now stands at 3.15 products per customer compared with 3.04 in March 2003; the use of different brands - the Group has a total of eleven banks; and the use of multiple distribution channels, including most notably online banking which now has 1.4 million users. Also, bancopopular-e, the alternative Internet subsidiary, has continued to develop positively, with substantial growth in volume of business and profits.

The figures for the first quarter reflect the Group's commercial management orientation, under the 2004-2006 Suma Plan, to boost financing to companies, especially SMEs, and also to private individuals in unsecured and consumer loans, in order to achieve an appropriate mix of growth and profitability in the different business areas.

At March 31, 2004, on-balance sheet assets totaled €56,303 million, an increase of €12,692 million (29.1%) in the last twelve months. With the addition of off-balance sheet customer funds, the volume of assets managed by the Group totaled €69,249 million, an increase of €15,297 million (28.4%) in the last twelve months. The organic growth of the business reveals year-on-year rates of increase of 20.4% and 20.7%, respectively, the remainder having been contributed by the Portuguese Banco Nacional de Crédito (BNC) which joined the Group in June 2003.

Loans and discounts grew by 29.8% year on year (20.2% adjusted for the BNC effect) to €46,661 million. The on-balance sheet customer funds of €40,981 million were 29.5% higher (21.5% excluding BNC) year on year.

The consolidated equity of €3,268 million was €679 million higher than twelve months earlier, a 26.2% increase year on year. The BIS solvency ratio was 10.57%, of which 8.04% related to Tier I capital that measures the core equity.

The attributable income for the parent company amounted to €180.6 million in the first quarter, signifying year-on-year growth of 9.1%. Attributable earnings per share were €0.794 in the quarter, an increase of 4.2% over the same quarter in 2003. The ROE (annualized) was 22.19% for the first three months, compared with 25.63% in the same period of 2003.

The net interest revenue in the first quarter was €478.2 million, 10.7% higher year on year (10.3% excluding dividends). The service fee revenues of €161.8 million in the first quarter were 9.2% higher than in the same period of 2003. The ordinary revenue grew by 10.6% to €647.7 million.

Operating costs in the first quarter amounted to €216.2 million, a year-on-year increase of 8.2% (7.6% in personnel expenses and 11.3% in general expenses). The efficiency ratio, i.e. the portion of ordinary revenue absorbed by operating costs, again improved by 0.7 percentage points in the last twelve months to 33.4%.

The Group's operating income of €402.4 million in the first three months was 11.9% higher year on year (6.6% excluding the contribution of €19.3 million from BNC).

The foregoing figures demonstrate that the adverse effect of low interest rates was amply offset by the growth in business volume and the containment of operating costs.

The quality of assets continued to be satisfactory, as a result of very strict management of the analysis of new transactions and permanent control of risks. The nonperforming loans ratio was 0.80% (0.75% for the Group excluding BNC), with improvements of 9 and 3 basis points over March 2003 and 2003 year end, respectively. The recorded credit loss allowances covered 231.8% of troubled balances and 251.1% disregarding BNC.

## Highlights

(Amounts in € thousand )

	March 31 2004	March 31 2003	Variation	
			Amount	%
<b>Business volume</b>				
Total assets managed	69,248,781	53,951,442	15,297,339	28.4
On-balance sheet total assets	56,302,917	43,611,261	12,691,656	29.1
Total equity	3,267,887	2,588,826	679,061	26.2
Customer funds:	53,927,059	41,988,475	11,938,584	28.4
On-balance sheet funds	40,981,195	31,648,294	9,332,901	29.5
Other intermediated funds	12,945,864	10,340,181	2,605,683	25.2
Loans and discounts	46,661,168	35,937,076	10,724,092	29.8
Off-balance sheet risks	6,664,672	5,359,523	1,305,149	24.4
<b>Solvency</b>				
BIS ratio (%)	10.57	10.91	(0.34)	
Of which: Tier 1 (%)	8.04	8.74	(0.70)	
<b>Risk management</b>				
Total risks	53,323,521	41,295,450	12,028,071	29.1
Nonperforming loans	425,674	367,845	57,829	15.7
Allowances for credit losses	986,614	739,300	247,314	33.5
% nonperforming ratio	0.80	0.89	(0.09)	
% coverage (Credit loss allowance/Nonperforming loans)	231.78	200.98	30.80	
<b>Income statements</b>				
Net interest revenue	478,180	431,769	46,411	10.7
Basic banking revenue	639,990	579,997	59,993	10.3
Ordinary revenue	647,686	585,630	62,056	10.6
Operating income	402,385	359,437	42,948	11.9
Income before taxes	309,206	285,068	24,138	8.5
Net income	199,656	180,179	19,477	10.8
Net income attributable to Banco Popular Shareholders	180,561	165,496	15,065	9.1
<b>Net return and efficiency</b>				
Average total assets	54,337,547	43,760,782	10,576,765	24.2
Average total equity	3,254,459	2,583,121	671,338	26.0
ROA (%)	1.47	1.65	(0.18)	
ROE (%)	22.19	25.63	(3.44)	
Operating efficiency (%)	33.38	34.11	(0.73)	
<b>Per share data</b>				
Shares outstanding (thousands)	227,387	217,154	10,233	4.7
Share closing market price (€)	47.62	39.60	8.02	20.3
Share book value (€)	14.372	11.922	2.450	20.6
Net income per share (€)	0.794	0.762	0.032	4.2
Dividend per share (€)	0.400	0.365	0.035	9.6
Price/Book value	3.31	3.32	(0.01)	
Price/Earnings (annualized)	15.0	13.0	2.0	
<b>Other data</b>				
Shareholders	73,960	72,381	1,579	2.2
Employees	13,193	12,315	878	7.1
Spain	11,927	12,099	(172)	(1.4)
Abroad	1,266	216	1,050	>
Branches	2,284	2,161	123	5.7
Spain	2,138	2,135	3	0.1
Abroad	146	26	120	>
ATMs	3,379	3,336	43	1.3

# QUARTER-END FINANCIAL REPORT\*

## Assets and funds

Table 1 presents the Group's consolidated balance sheets at March 31, 2004, and December 31 and March 31, 2003, with the customary level of detail.

### Total assets

The total on-balance sheet assets amounted to €56,303 million at March 31, 2004, an increase of €12,692 million (29.1%) over the same date in 2003. Disregarding the integration of the Portuguese Banco Nacional de Crédito (BNC) with effect at June 30, 2003, the Group's organic growth rate was 20.4%.

The Group also manages other financial assets through off-balance sheet instruments which at March 31 totaled €12,946 million, up 25.2% year on year, and the Group's total business volume at March end, including the foregoing figure, was therefore €69,249 million, up €15,297 million in the last twelve months, a growth rate of 28.4% year on year and 20.7% excluding BNC.

Figure 1 plots the variation in quarter-end total on- and off-balance sheet assets managed since March 2003.

### Shareholders' equity

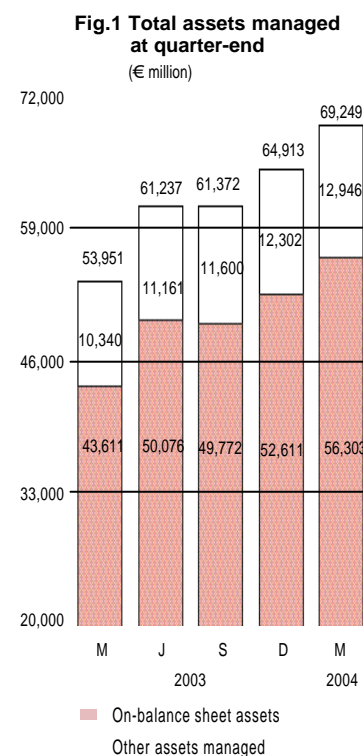
The Group's consolidated equity amounted to €3,268 million at March 31, 2004, comprised of €114 million of capital and €3,154 million of net reserves, including consolidation reserves, an interannual increase of €679 million. This figure includes the capital increase of €413 million in June 2003 to finance the BNC acquisition. The book value per share was €14.37, a year-on-year increase of 20.6%.

The computable capital per Bank of Spain regulations amounted to €4,362 million, and exceeded the minimum Bank of Spain requirement by €343 million (8.5%), with a solvency ratio of 8.68% as compared with the required minimum of 8%. Computable capital includes, in addition to that shown as such in the balance sheet, €1,002 million of minority interests in consolidated subsidiaries and €451 million of subordinated debt; from the foregoing figure should be subtracted €337 million of goodwill in consolidation, substantially all arising from the BNC operation, and €22 million of other items.

Under the BIS solvency rules, which are those used at international level to measure banks' solvency, the Group's computable capital amounted to €5,271 million, with a cushion of €1,282 million, and the BIS solvency ratio was 10.57%, of which 8.04% related to Tier I core capital.

Table 2 details computable capital, minimum requirements and measurements of solvency under the Bank of Spain and BIS regulations. Figure 2 plots the quarterly variation since March 2003.

\* The Group's consolidated financial statements as of March 31, 2004, included in this Report, are unaudited, but were prepared by applying uniform accounting principles and methods consistent with those applied in preparing the audited consolidated financial statements in the Annual Report for 2003.



**Table 1. Consolidated Balance Sheets**

(Amounts in € thousand)

	March 31	December 31	March 31	% variation	
	2004	2003	2003	3 months	12 months
<b>Assets</b>					
Cash and due from central banks	866,125	1,080,289	1,019,116	(19.8)	(15.0)
Government debt securities:	217,100	28,008	459,465	>	(52.7)
<i>Government debt securities, gross</i>	217,100	28,008	459,465	>	(52.7)
<i>Less: Allowance for security price fluctuations</i>	–	–	–	–	–
Due from financial intermediaries:	6,161,530	4,564,212	4,133,588	35.0	49.1
<i>Due from financial intermediaries, gross</i>	6,162,379	4,567,948	4,137,549	34.9	48.9
<i>Less: Allowance for doubtful balances and country risk</i>	(849)	(3,736)	(3,961)	(77.3)	(78.6)
Loans and discounts:	45,769,424	43,466,605	35,270,420	5.3	29.8
<i>Loans and discounts:</i>	46,661,168	44,305,053	35,937,076	5.3	29.8
<i>To public bodies</i>	124,007	61,926	34,612	>	>
<i>To other residents</i>	41,281,239	39,131,313	34,275,239	5.5	20.4
<i>To nonresidents</i>	4,841,356	4,705,409	1,271,322	2.9	>
<i>Nonperforming loans</i>	414,566	406,405	355,903	2.0	16.5
<i>Less: Allowance for credit losses</i>	(891,744)	(838,448)	(666,656)	6.4	33.8
Private fixed-interest securities:	328,357	555,895	556,644	(40.9)	(41.0)
<i>Private fixed-interest securities, gross</i>	331,066	559,710	559,130	(40.9)	(40.8)
<i>Less: Allowance for security price fluctuations</i>	(2,709)	(3,815)	(2,486)	(29.0)	9.0
Equity securities:	279,689	350,309	261,070	(20.2)	7.1
<i>Equity securities, gross</i>	288,367	360,027	273,279	(19.9)	5.5
<i>Less: Allowance for security price fluctuations</i>	(8,678)	(9,718)	(12,209)	(10.7)	(28.9)
Participating interests	9,793	9,908	27,743	(1.2)	(64.7)
Shares of group companies	23,550	27,741	19,744	(15.1)	19.3
Intangible assets	19,345	20,666	16,382	(6.4)	18.1
Goodwill in consolidation	337,310	342,374	6,458	(1.5)	>
Tangible assets:	690,664	679,588	570,084	1.6	21.2
<i>Premises and equipment</i>	722,561	711,738	593,664	1.5	21.7
<i>Less: Allowance for potential losses on foreclosed assets and other</i>	(31,897)	(32,150)	(23,580)	(0.8)	35.3
Prepayments and accrued income	348,477	303,507	300,141	14.8	16.1
Other asset accounts	1,171,280	1,110,363	898,752	5.5	30.3
Losses at consolidated companies	80,273	71,686	71,654	12.0	12.0
<b>Total</b>	<b>56,302,917</b>	<b>52,611,151</b>	<b>43,611,261</b>	<b>7.0</b>	<b>29.1</b>
<b>Liabilities and Capital</b>					
Due to financial intermediaries	8,745,542	8,532,526	6,692,291	2.5	30.7
Customer deposits:	31,687,173	28,894,517	24,633,511	9.7	28.6
<i>From public bodies</i>	499,428	639,136	410,083	(21.9)	21.8
<i>From other residents</i>	25,983,268	23,062,554	21,333,705	12.7	21.8
<i>From nonresidents</i>	5,204,477	5,192,827	2,889,723	0.2	80.1
Bonds and other marketable debt securities	8,837,252	8,115,381	6,772,998	8.9	30.5
Subordinated financing	456,770	454,141	241,785	0.6	88.9
Other liability accounts	1,340,988	1,175,389	1,169,956	14.1	14.6
Accruals and deferred income	412,280	290,100	394,769	42.1	4.4
Special allowances:	272,123	410,444	181,408	(33.7)	50.0
<i>For pensions</i>	62,695	60,776	–	3.2	–
<i>Other allowances</i>	209,428	349,668	181,408	(40.1)	15.4
Negative difference in consolidation	418	418	418	–	–
Common stock	113,693	113,693	108,577	–	4.7
Reserves	1,910,041	1,756,792	1,411,069	8.7	35.4
Consolidation reserves	1,324,426	1,111,364	1,140,834	19.2	16.1
Minority interests:	1,002,555	978,589	683,466	2.4	46.7
<i>Common shares</i>	264,555	240,589	245,466	10.0	7.8
<i>Preferred shares</i>	738,000	738,000	438,000	–	68.5
Year-to-date net income	199,656	777,797	180,179	(74.3)	10.8
<b>Total</b>	<b>56,302,917</b>	<b>52,611,151</b>	<b>43,611,261</b>	<b>7.0</b>	<b>29.1</b>
<b>Pro memoria</b>					
Off-balance sheet risks:	6,664,672	6,405,437	5,359,523	4.0	24.4
<i>Guarantees and other sureties</i>	6,174,794	5,937,151	5,000,701	4.0	23.5
<i>Documentary credits</i>	410,764	383,140	276,319	7.2	48.7
<i>Other contingent liabilities</i>	79,114	85,146	82,503	(7.1)	(4.1)
Allowance for doubtful off-balance sheet risks	96,696	90,486	72,204	6.9	33.9
Commitments:	11,533,347	9,261,521	7,863,885	24.5	46.7
<i>Unused portion of credit lines</i>	10,520,182	8,382,087	7,316,903	25.5	43.8
<i>Other commitments</i>	1,013,165	879,434	546,982	15.2	85.2
Other intermediated customer funds	12,945,864	12,302,019	10,340,181	5.2	25.2

**Table 2. Consolidated equity**

(Amounts in € thousand )	March 31	December 31	March 31	Variation	
	2004	2003*	2003	3 months	12 months
Common stock	113,693	113,693	108,577	—	5,116
Reserves	1,910,041	1,895,837	1,411,069	14,204	498,972
Consolidation reserves	1,324,426	1,320,498	1,140,834	3,928	183,592
Less:					
Treasury stock	—	—	—	—	—
Losses at consolidated companies	80,273	71,686	71,654	8,587	8,619
<b>On-balance sheet equity</b>	<b>3,267,887</b>	<b>3,258,342</b>	<b>2,588,826</b>	<b>9,545</b>	<b>679,061</b>
Minority interests	1,002,555	1,001,829	683,466	726	319,089
Preferred stock	738,000	738,000	438,000	—	300,000
Other	264,555	263,829	245,466	726	19,089
Subordinated financing	450,784	448,155	241,785	2,629	208,999
Less:					
Intangible assets	(19,345)	(20,666)	(16,382)	1,321	(2,963)
Goodwill	(337,310)	(342,374)	(6,458)	5,064	(330,852)
Other	(2,578)	(94)	(73)	(2,484)	(2,505)
<b>Bank of Spain computable capital</b>	<b>4,361,993</b>	<b>4,345,192</b>	<b>3,491,164</b>	<b>16,801</b>	<b>870,829</b>
Minimum requirement	4,018,766	3,709,242	3,038,797	309,524	979,969
Capital cushion	343,227	635,950	452,367	(292,723)	(109,140)
<b>Bank of Spain solvency ratio (%)</b>	<b>8.68</b>	<b>9.37</b>	<b>9.19</b>		
<b>BIS computable capital</b>	<b>5,270,865</b>	<b>5,105,308</b>	<b>4,161,716</b>	<b>165,557</b>	<b>1,109,149</b>
Of which: Tier 1 capital	4,007,486	3,896,852	3,335,154	110,634	672,332
Minimum requirement	3,989,178	3,726,974	3,051,109	262,204	938,069
Capital cushion	1,281,687	1,378,334	1,110,607	(96,647)	171,080
<b>BIS ratio (%)</b>	<b>10.57</b>	<b>10.96</b>	<b>10.91</b>		
Of which: Tier 1 (%)	8.04	8.36	8.74		

\* After distribution of 2003 income.

## Agency ratings

The three major international credit rating agencies have assigned the Banco Popular Group the highest solvency ratings of all Spanish financial institutions (banks and savings banks) and also of all Spanish non-finance companies, a position that the Group has held since 1998. These ratings are based mainly on its balance sheet strength, high profitability and efficiency, and the recurring nature of its earnings.

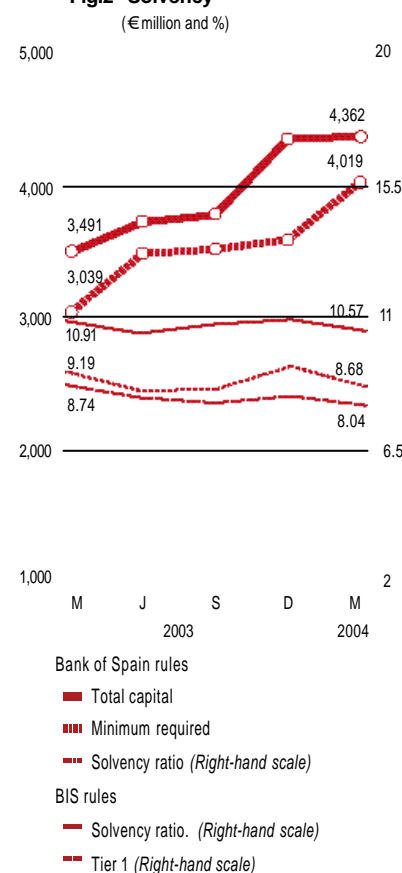
The current ratings of Banco Popular are as follows:

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

On April 7, 2004, Fitch Ratings updated its assessment of Banco Popular, and confirmed its ratings and its outlook as "stable". Highlighted was the fact that the Bank's ratings "reflect its powerful domestic retail franchise, remarkable track record of strong profitability backed by a high level of revenue generation, dynamic and sound management approach, consistent healthy asset quality, stable retail funding and adequate capital". The agency described as "exceptional" the Bank's financial performance in 2003 and underlined that "it had outperformed most of its domestic and European peers, primarily based on wide lending spreads and continued robust retail business growth, reinforced by the acquisition of a 100% stake in Banco Nacional de Crédito (BNC)".

Moody's and Standard & Poor's stood by their ratings of Banco Popular in their latest (June and November 2003, respectively) updates.

**Fig.2 Solvency**



## Customer funds

The on-balance sheet customer funds at March 31, 2004, i.e. customer deposits, marketable debt securities and subordinated financing, amounted to €40,981 million, up 29.5% year on year, and 24.0% on average balances. Disregarding the integration of BNC the growth was 21.5% year on year. Customer funds were financing 73% of the balance sheet total.

Table 3 provides a breakdown of on-balance sheet customer funds and the variation in the last twelve months, which is also plotted in Figure 3.

Customer deposits (demand and time deposits plus asset repos) at March 31, 2004, amounted to €31,687 million, up 28.6% year on year and 18.7% excluding the integration of BNC.

In February 2004, several of the Group's banking subsidiaries launched a €2,000 million issue of long-term mortgage-backed securities ("cédulas"), all of which were taken up by a securitization fund outside the Group, which in turn issued and placed in the market the same amount of securitization bonds backed by these "cédulas". The issue was assigned top credit ratings (Aaa/AAA/AAA) by Moody's, Standard & Poor's and Fitch Ratings.

The Group subscribed €300 million of these bonds for potential use as collateral for funding facilities at the Bank of Spain and the European Central Bank. As a result, the consolidated balance sheet includes an amount of €1,700 million under the Resident sector deposits (time deposits) caption.

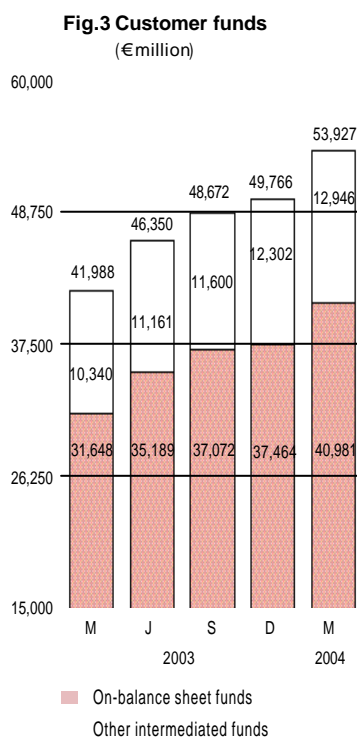
The deposits of private-sector residents amounted to €25,983 million, up 21.8% year on year; adjusted for the issue of "cédulas" described above, the growth rate was 13.8%. By type, there was year-on-year growth of 12.8% in demand deposits (current and savings accounts) and of 29.5% in time deposits (10.4% adjusted for the transaction mentioned above). Asset repos were 45.5% higher.

The Group's deposits of private-sector residents grew faster than those of the Spanish financial system as a whole in the twelve months to February 2004 (per the latest data published), with an average differential of 1 percentage point, and a notably higher growth rate than banks as a whole (+3.9 points), although lower (-1.2 points) than savings banks. The Group thus again increased its market share of deposits in the domestic sector with respect to banks, but not with respect to savings banks. Figure 4 plots the growth rate at Banco Popular (adjusted for the effect of the "cédulas" issue), compared with both these types of institution.

The Group's deposits from nonresidents, amounting to €5,204 million, were spectacularly 80.1% higher year on year, due mainly to the inclusion of BNC in June 2003, which contributed €2,338 million under this heading.

Customer funds raised by short-term commercial paper (up to 18 months) amounted to €3,811 million at March end, a year-on-year increase of 107.3%; substantially all (€3,771 million) of this amount was subscribed by domestic customers as an alternative to traditional savings products. In aggregate, the funds obtained by the Group from private-sector resident customers (deposits plus commercial paper) grew year on year by 28.4% to €29,754 million; excluding the effect of the "cédulas" issue referred to above, the growth rate was 21.1%.

Bonds and debentures outstanding, i.e. medium- and long-term debt securities issued, amounted to €5,027 million, a slight year-on-year increase of 1.9%, whereas subordinated debt, also at long term, totaled €457 million, up 88.9% following the €200 million issue carried out in August 2003.



**Table 3. Customer funds**

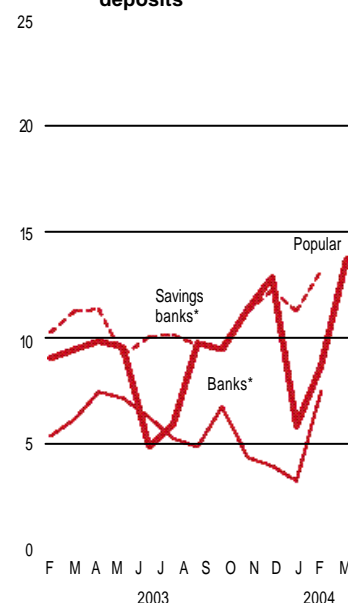
(Amounts in € thousand )	March 31	December 31	March 31	% variation	
	2004	2003	2003	3 months	12 months
Customer deposits:	31,687,173	28,894,517	24,633,511	9.7	28.6
<i>From public bodies:</i>	499,428	639,136	410,083	(21.9)	21.8
Demand deposits	319,794	377,074	339,784	(15.2)	(5.9)
Savings deposits	7,922	9,649	8,529	(17.9)	(7.1)
Time deposits	50,603	150,599	44,820	(66.4)	12.9
Assets sold under repurchase agreements	56	52	16,950	7.7	(99.7)
Other accounts	121,053	101,762	—	19.0	—
<i>From other residents:</i>	25,983,268	23,062,554	21,333,705	12.7	21.8
Deposits of private-sector residents:	24,055,409	21,069,463	20,008,688	14.2	20.2
Demand deposits	8,430,146	8,005,497	7,421,188	5.3	13.6
Savings deposits	4,075,924	4,096,719	3,669,256	(0.5)	11.1
Time deposits	11,549,339	8,967,247	8,918,244	28.8	29.5
Assets sold under repurchase agreements	1,927,859	1,993,091	1,325,017	(3.3)	45.5
Other accounts	—	—	—	—	—
<i>From nonresidents:</i>	5,204,477	5,192,827	2,889,723	0.2	80.1
Demand deposits	1,118,979	1,109,488	534,355	0.9	>
Savings deposits	1,015,984	1,002,358	797,499	1.4	27.4
Time deposits	3,018,233	3,063,719	1,554,235	(1.5)	94.2
Assets sold under repurchase agreements	708	125	847	>	(16.4)
Other accounts	50,573	17,137	2,787	>	>
Bonds and other marketable debt securities	8,837,252	8,115,381	6,772,998	8.9	30.5
Bonds and debentures outstanding	5,026,751	5,356,512	4,934,900	(6.2)	1.9
Promissory notes and other securities	3,810,501	2,758,869	1,838,098	38.1	>
Subordinated financing	456,770	454,141	241,785	0.6	88.9
Total (a)	40,981,195	37,464,039	31,648,294	9.4	29.5
<i>Pro memoria: Total private-sector residents</i>	29,754,616	25,786,536	23,171,803	15.4	28.4
Other intermediated customer funds:					
Financial assets sold outright					
to customers (outstanding balances)	568,288	572,115	672,927	(0.7)	(15.5)
Mutual funds	7,925,316	7,420,939	6,162,523	6.8	28.6
Asset portfolio management	925,875	860,997	627,295	7.5	47.6
Pension funds	2,890,792	2,840,375	2,400,141	1.8	20.4
Life insurance technical reserves	635,593	607,593	477,295	4.6	33.2
Total (b)	12,945,864	12,302,019	10,340,181	5.2	25.2
Total (a+b)	53,927,059	49,766,058	41,988,475	8.4	28.4

The balance of off-balance sheet customer funds managed at March end, consisting mainly of mutual funds, portfolios and assets managed, pension plans and other funds instrumented in insurance policies, was €12,946 million, a significant increase of 25.2% year on year, which was reflected in all the component items. Disregarding BNC, the growth rate was very similar (22.3%) due to the scant current activity of BNC in these business lines.

The lower part of Table 3 is a breakdown of the off-balance sheet funds managed and the variation since March 2003.

Mutual funds continued to perform brilliantly, following the change of trend in the first half of 2003. The assets of the 81 funds managed by the Group increased by €1,763 million (28.6%) year on year to €7,925 million at March end. The growth of €504 million (6.8%) in the first quarter was the result of a substantial net inflow of funds (subscriptions minus redemptions) of €386 million, plus €118 million resulting from appreciation of the portfolios. The growth of fund assets accelerated appreciably in recent quarters (the year-on-year growth rates were 18.2% in June 2003, 22.1% in September of that year and 24.9% in December). The number of fund customers increased by 21.1% year on year and by 6.6% since the beginning of 2004.

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



\* Source: Bank of Spain

In the last twelve months, the growth in assets managed was particularly notable in equity funds, mixed equity/ fixed-income funds and guaranteed funds with growth of €440 million (88.2%), €553 million (78.1%), and €411 million (23.9%), respectively. Conversely, short-term money market asset funds fell by €117 million (6.1%). At the same time, there was a significant switch between funds, facilitated by the new tax regulations. The figures disclose an appreciable shift by savers towards higher risk types, driven by the better performance of the securities markets in the period considered and the low level of short-term interest rates.

In the first quarter of 2004, the Group again gained market share in mutual funds, as it has been doing since the beginning of 2002. In the period January-March, the assets managed by the Group grew by 28.6%, a rate much higher than that of the sector as a whole (19.2% per the latest available data), raising its market share to 3.71%, compared with 3.68% in December 2003.

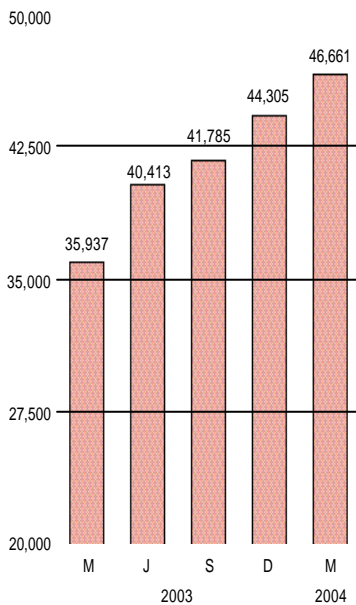
The portfolios and assets discretionally managed by the Group also advanced strongly and totaled €926 million at March end, a growth of 47.6% year on year and 7.5% since the beginning of the year.

Pension plans also performed very positively. The assets of the 17 plans managed by the Group stood at €2,891 million at March end, an increase of €491 million (20.4%) year on year. Excluding the occupational pension plan for Group bank employees, the total was €2,353 million, up 21.1% year on year.

Customer funds instrumented in insurance policies amounted to €636 million, up 33.2% year on year.

To summarize, total on- and off-balance sheet customer funds managed by the Group at March 31, 2004, amounted to €53,927 million, up 28.4% year on year (21.7% adjusted for the integration of BNC).

**Fig.5 Loans and discounts**  
(€million)



### Loans and discounts

The Group's loans and discounts - financing provided to customers in the form of loans, credits, discounts, leasing transactions, overdrafts and other instruments - totaled €46,661 million at March 31, 2004, substantially up by 29.8% year on year and 29.6% on average balances; the increase was 20.2% disregarding the integration of BNC. Loans and discounts represented 83% of total assets and 114% of the on-balance sheet customer funds.

The breakdown of loans and discounts by sector and type and the variation since March 2003 are shown in Table 4 and summarized in Figure 5.

Credit to private-sector residents, amounting to €41,281 million, represented 88% of total loans and discounts, with growth of 20.4% year on year. Mortgage loans, mainly for home purchase, accounted for 53% of the total and grew strongly by 26.1% year on year, which was similar to the growth the two preceding quarters, albeit with a moderate slowdown compared to March 2003 as a result of the application of more selective criteria in this business segment.

Trade discounts (draft discounting, computerized advances, factoring and other transactions) progressed substantially, with year-on-year growth of 14.8%, while unsecured credits and loans (other term loans) were up by 13.6%, leasing transactions by 15.5% and overdrafts by 13.0%.

The foregoing figures reflect the Group's orientation, under the 2004-2006 Suma Plan, to boost financing to companies, especially SMEs, and also to private individuals in unsecured and consumer loans, in order to achieve an appropriate mix of growth and profitability in the different business areas.

**Table 4. Loans and discounts**

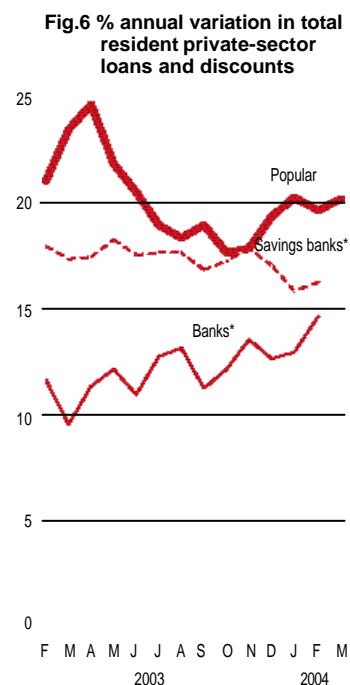
(Amounts in € thousand )

	March 31	December 31	March 31	% variation	
	2004	2003	2003	3 months	12 months
<i>To public bodies:</i>	124,007	61,926	34,612	>	>
Secured loans	–	–	–	–	–
Other term loans	123,777	61,855	34,422	>	>
Overdrafts and other	230	71	190	>	21.1
<i>To other residents:</i>	41,281,239	39,131,313	34,275,239	5.5	20.4
Trade loans and discounts	5,233,018	5,278,548	4,557,514	(0.9)	14.8
Secured loans	21,858,921	20,466,207	17,308,392	6.8	26.3
Mortgage loans	21,763,710	20,358,714	17,259,271	6.9	26.1
Other	95,211	107,493	49,121	(11.4)	93.8
Other term loans:	10,444,671	9,768,862	9,143,150	6.9	14.2
Loans and credits	10,294,643	9,518,599	9,064,429	8.2	13.6
Repos	150,028	250,263	78,721	(40.1)	90.6
Overdrafts and other	1,266,758	1,287,190	1,120,742	(1.6)	13.0
Leasing	2,477,871	2,330,506	2,145,441	6.3	15.5
<i>To nonresidents:</i>	4,841,356	4,705,409	1,271,322	2.9	>
Trade loans and discounts	335,184	366,952	240,621	(8.7)	39.3
Secured loans	2,112,951	2,002,658	461,258	5.5	>
Mortgage loans	2,094,670	1,979,649	446,770	5.8	>
Other	18,281	23,009	14,488	(20.5)	26.2
Other term loans	2,289,277	2,230,294	527,911	2.6	>
Overdrafts and other	103,944	105,505	41,532	(1.5)	>
<i>Nonperforming loans:</i>	414,566	406,405	355,903	2.0	16.5
To public bodies	30	30	637	-	(95.3)
To other residents	347,758	346,461	345,001	0.4	0.8
To nonresidents	66,778	59,914	10,265	11.5	>
Total	46,661,168	44,305,053	35,937,076	5.3	29.8

The Group continues to increase its share of the resident borrowers credit market, as it has been doing since 1999, since its growth rate in this segment amply exceeds that of the Spanish financial system as a whole. In the twelve months to February 2004, the last period for which data are available, the growth rate of Banco Popular's loans and discounts was 7.9 percentage points higher than that of Spanish banks as a whole, 3.5 percentage points higher than that of Spanish savings banks, and 5.5 percentage points than that of banks and savings banks together.

Figure 6 shows the credit growth rates of the Banco Popular Group and all Spanish banks and savings banks in the period considered.

Credit to nonresidents amounted to €4,841 million, which was nearly four times higher than the March 2003 figure because of the inclusion of BNC, which contributed €3,482 million of loans and discounts to this caption in the Group's balance sheet. Of this latter figure, 53% related to unsecured credits and loans, 41% to mortgage loans and the remainder to trade discounts and other items. Excluding BNC, the growth rate of credit to nonresidents was 7.0%.



## Risk management

The Group's troubled (nonperforming) risk balances at March 31 amounted to €425.7 million, an increase of €57.8 million (15.7%) in the last twelve months. Since the beginning of the year, the balance has increased by €6.3 million (1.5%).

This variation in the first three months arose from the following movements: an increase of €117.6 million of risks that were newly classified as nonperforming loans, a decrease of €66.7 million for risks that were favorably settled, and writeoffs of €44.6 million of other assets, of which €37.5 million were canceled against credit loss allowances and the remainder with a charge to income.

The nonperforming loans ratio, i.e. nonperforming loans as a percentage of total risks (loans and discounts plus off-balance sheet risks), was 0.80% at March 31, 2004, a reduction of 9 basis points in the last twelve months and of 3 basis points since the beginning of the year. The ratio disregarding the integration of BNC was 0.75%, with improvements of 14 and 3 basis points, respectively, in the two periods mentioned above.

Net provisions to credit loss allowances in the first three months of 2004 amounted to €100.0 million, 13.0% more than in the same period of the preceding year. €40.4 million of the foregoing amount were specific provisions for troubled risks, €28.2 million were general provisions, €24.1 million were booked to the anti-cyclical statistical credit loss allowance, €7.1 million were to write off unprovisioned risks, and €0.2 million were booked to the country risk allowance. €12.7 million of loan balances previously written off as bad debts were recovered in the first three months.

**Table 5. Risk management performance**

(Amounts in € thousand )	March 31	March 31	Variation	
	2004	2003	Amount	%
<i>Nonperforming loans*:</i>				
Balance at January 1	419,380	353,277	66,103	18.7
<i>Additions</i>	117,640	102,489	15,151	14.8
<i>Balances recovered</i>	(66,730)	(57,784)	(8,946)	15.5
Net variation for the year	50,910	44,705	6,205	13.9
% increase	12.1	12.7	(0.6)	
Writeoffs	(44,616)	(30,137)	(14,479)	48.0
Balance at March 31	425,674	367,845	57,829	15.7
<i>Allowance for credit losses:</i>				
Balance at January 1	931,354	681,748	249,606	36.6
Annual provision:				
<i>Gross</i>	111,164	104,410	6,754	6.5
<i>Recoveries</i>	(18,456)	(17,898)	(558)	3.1
Net	92,708	86,512	6,196	7.2
Other variations	29	(669)	698	
Writeoffs	(37,477)	(28,291)	(9,186)	32.5
Balance at March 31	986,614	739,300	247,314	33.5
Foreclosed real estate assets	86,283	58,947	27,336	46.4
Allowance for potential losses on foreclosed assets	30,246	22,870	7,376	32.3
<i>Pro memoria:</i>				
Total risks	53,323,521	41,295,450	12,028,071	29.1
Loans transferred to suspense accounts	910,886	771,652	139,234	18.0
Nonperforming mortgage loans	38,164	14,764	23,400	>
<i>Risk quality measures (%):</i>				
Nonperformance (Nonperforming loans/Total risks)	0.80	0.89	(0.09)	
Insolvency (Writeoffs/Total risks)	0.08	0.07	0.01	
Coverage: (Credit loss allowance/Nonperforming loans)				
Coverage: (Allowance for potential losses on foreclosed assets/total foreclosed assets)	231.78	200.98	30.80	
	35.05	38.80	(3.75)	

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

The recorded credit loss allowances at March 31, 2004, totaled €986.6 million, 33.5% higher than in March 2003. Since the beginning of the year the credit loss allowances have increased by €55.3 million (5.9%) and their amount exceeds the regulatorily required amount by €94.7 million.

The amount of the credit loss allowances compared with the balance of troubled loans at March 31 signified a coverage ratio of 231.8%, a significant improvement of 30.8 and 9.7 percentage points compared with March and December 2003, respectively. Excluding the effect of BNC, the coverage ratio was 251.1%.

The ratio of nonperforming loans net of credit loss provisions is -1.05% of total risks, an improvement of 15 basis points in the last twelve months and 4 basis points with respect to the end of 2003.

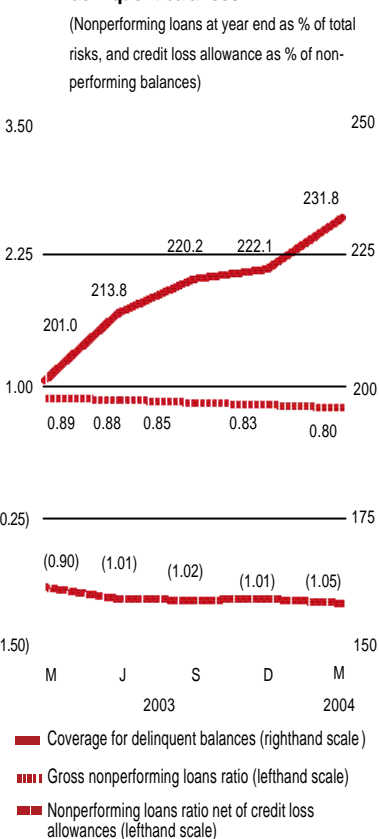
The balances subject to country risk regulations, which are not included in the foregoing figures, amounted to €47.1 million, less than 0.1% of the Group's total risks. Of the aforementioned amount, only €8.6 million relate to countries requiring coverage under the current regulations, for which there is an allowance of €3.9 million. The net provision to this allowance in the first quarter amounted to €0.2 million.

Foreclosed assets, all buildings, amounted to €86.3 million, an increase of €5.3 million (6.5%) in the quarter, comprising €5.7 million of BNC transactions and a recovery of €0.4 million elsewhere in the Group. To cover possible losses on disposals, there was an allowance of €30.2 million at March 31, representing coverage of 35.1% of their book value.

Tables 5 and 6 detail the evolution of nonperforming loans and credit loss allowances since March 2003, together with the main risk quality indicators. 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.

The foregoing figures confirm the good quality of the Group's risks as the outcome of strict management of the analysis of new transactions and of classifying and provisioning of troubled risks, which goes beyond the regulatory requirements in order to maintain utmost asset soundness.

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



**Table 6. Allowance for nonperforming loans**

(Amounts in € thousand)

	March 31, 2004		March 31, 2003	
	Balance	Total Provisioning	Balance	Total Provisioning
Doubtful balances with specific allowances:	382,845	173,616	339,824	154,002
Ordinary	365,074	164,705	327,742	149,587
Secured by prime collateral	5,163	1,396	2,717	887
Off-balance sheet risks	12,608	7,515	9,365	3,528
Doubtful balances with generic allowances	39,286	227	24,855	189
Doubtful balances for which allowances are not required	3,543		3,166	
Total nonperforming loans	425,674	173,843	367,845	154,191
Other specific provisioning	16,842	683	15,365	794
Allowances for ordinary risks	51,148,184	463,094	40,302,666	364,177
General provisioning (1%)	41,450,238	414,603	32,533,204	325,330
Reduced provisioning (0.5%)	9,697,946	48,491	7,769,462	38,847
Statistical allowance		254,307		174,253
Total required provisions		891,927		693,415
Balance of credit loss allowances		986,614		739,300
Surplus		94,687		45,885

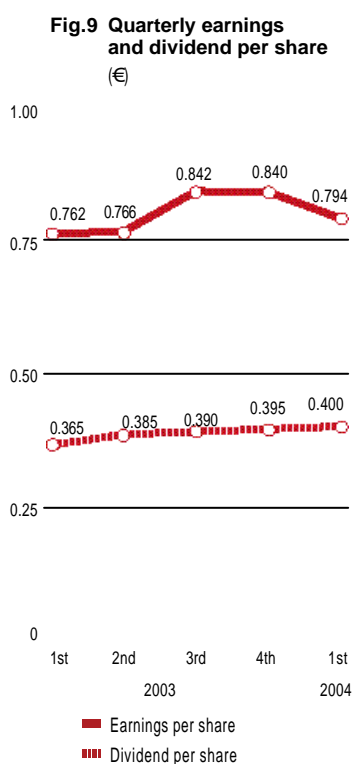
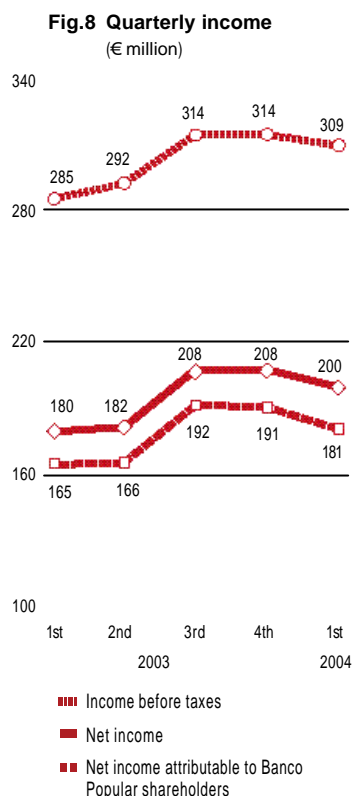
## Earnings and profitability

### Income statement

Table 7 is the consolidated income statement of the Banco Popular Group at March 31, 2004, compared with that at the same date in 2003.

The pretax income of €309.2 million in the first three months was 8.5% higher year on year and, after deduction of corporate income tax of €109.5 million, the net income of €199.7 million was 10.8% higher.

The net income attributable to Banco Popular shareholders was €180.6 million in the first three months of 2004, up 9.1% year on year.



**Table 7. Consolidated statements of income**

(Amounts in € thousand )	March 31 2004	March 31 2003	% increase (decrease)
Interest and similar revenues	650,794	614,279	5.9
- Interest and similar charges	186,559	193,250	(3.5)
+ Revenues from equity securities	13,945	10,740	29.8
<b>= Net interest revenue</b>	<b>478,180</b>	<b>431,769</b>	<b>10.7</b>
+ Fees for services, net:	161,810	148,228	9.2
<i>Loan-related fees</i>	18,512	18,056	2.5
<i>Fees for guarantees, other sureties and documentary credits</i>	18,850	15,157	24.4
<i>Fees for other banking services</i>	124,448	115,015	8.2
<b>= Basic banking revenue</b>	<b>639,990</b>	<b>579,997</b>	<b>10.3</b>
+ Asset trading and exchange profits, net:	7,696	5,633	36.6
<i>Financial asset trading income</i>	(25)	(1,237)	(98.0)
<i>Writedowns of securities portfolio and derivatives</i>	805	(1,280)	
<i>Exchange, translation and dealing gains</i>	6,916	8,150	(15.1)
<b>= Ordinary revenue</b>	<b>647,686</b>	<b>585,630</b>	<b>10.6</b>
- Operating costs:	216,172	199,735	8.2
<i>Personnel expenses</i>	152,135	141,397	7.6
<i>General expenses</i>	55,148	49,533	11.3
<i>Taxes other than income tax</i>	8,889	8,805	1.0
- Depreciation	19,939	17,739	12.4
+ Other operating income	679	568	19.5
- Other operating expenses:	9,869	9,287	6.3
<i>Contribution to guarantee funds</i>	3,645	3,343	9.0
<i>Directors' fees and other mandated appropriations</i>	5,703	5,718	(0.3)
<i>Other</i>	521	226	>
<b>= Operating income</b>	<b>402,385</b>	<b>359,437</b>	<b>11.9</b>
+ Share in equity method investees' income, net	(2,303)	(1,979)	16.4
- Amortization of goodwill in consolidation	5,064	795	>
+ Gains (Losses) on group transactions, net	104	117	(11.1)
- Writeoffs and provisions for credit losses:	87,338	79,385	10.0
<i>Provision to allowance for credit losses</i>	100,042	88,553	13.0
<i>Recovery of bad debts written off</i>	(12,704)	(9,168)	38.6
- Provision to general banking risk allowance	-	-	-
± Extraordinary gains (losses), net:	1,422	7,673	(81.5)
<i>Gain on disposal of fixed assets</i>	3,830	14,055	(72.7)
<i>Extraordinary provision to allowance for pensions</i>	(2,023)	(1,402)	44.3
<i>Provision to allowances for other purposes</i>	(896)	(4,119)	(78.2)
<i>Other</i>	511	(861)	
<b>= Income before taxes</b>	<b>309,206</b>	<b>285,068</b>	<b>8.5</b>
- Corporate income tax provision	109,550	104,889	4.4
<b>= Net income</b>	<b>199,656</b>	<b>180,179</b>	<b>10.8</b>
- Minority interests:	19,095	14,683	30.0
<i>Ordinary shares</i>	12,114	10,780	12.4
<i>Preference shares</i>	6,981	3,903	78.9
<b>= Net income attributable to Popular shareholders</b>	<b>180,561</b>	<b>165,496</b>	<b>9.1</b>

The quarterly earnings per share of €0.794 were 4.2% higher year on year. Adjusted for the integration of BNC and the capital increase in June 2003 to finance that acquisition, the figure was €0.807, signifying a dilution of €0.013 (-1.6%) in earnings per share.

Figure 8 plots the growth of pretax income, net income and attributable income in the last five quarters, and Figure 9 shows the attributable income and dividend per share in the same period.

The performance of the main items in the income statement for the first quarter and the year-on-year comparison are analyzed in the following paragraphs.

The interest revenues of €664.7 million, which included €13.9 million of dividends, were 6.4% higher than in the same quarter of 2003, and the interest charges of €186.5 million were 3.5% lower year on year. The net interest revenue of €478.2 million in the first quarter was 10.7% higher year on year (10.3% higher excluding dividends). Disregarding the inclusion of BNC, the year-on-year growth rate was 4.0%.

The advance of net interest revenue was the outcome, on the one hand, of the strong growth of business volume, especially loans and discounts and, on the other, of prudent management of asset and liability pricing, both these facts being particularly noteworthy because they occurred in a scenario of fierce competition among banks and sharp falls in interest rates. In the last twelve months the European Central Bank's reference rate was cut by another 50 basis points (from 2.50% to 2%) dragging down money market rates to record lows. Average rates in the first quarter of 2004 showed cuts in the 3 and 12 month Euribor rates of 68 and 43 basis points, respectively, compared with those prevailing in the same period of 2003.

In the first quarter of 2004, net interest revenue increased by €12.9 million over the figure for the preceding quarter, as a result of two effects of opposite sign: an increase of €29.5 million due to the higher volume in the balance sheet period on period, assuming stable interest rates, and a reduction of €16.6 million due to the fall in interest rates, which neutralized 56% of the aforementioned effect. These figures were similar to those for preceding quarters and confirm the close correlation between net interest revenue and growth of the business.

Table 8. Service revenues			
(Amounts in €thousand)	March 31 2004	March 31 2003	% variation
Loan-related fees:	18,512	18,056	2.5
<i>Bill discounting</i>	8,889	9,573	(7.1)
<i>Other</i>	9,623	8,483	13.4
Provision of guarantees and other sureties	18,850	15,157	24.4
Operating services:	124,448	115,015	8.2
Collection and payment handling :	60,149	58,677	2.5
<i>Note collection</i>	14,829	15,051	(1.5)
<i>Checks</i>	5,845	5,758	1.5
<i>Direct debit transactions</i>	4,666	4,616	1.1
<i>Payment systems</i>	23,635	22,366	5.7
<i>Fund transfers</i>	11,174	10,886	2.6
Foreign currency purchase and sale transactions	415	432	(3.9)
Customer financial asset management::	47,911	43,204	10.9
<i>Securities portfolio</i>	6,828	9,107	(25.0)
<i>Mutual funds</i>	27,152	22,150	22.6
<i>Pension plans</i>	13,931	11,947	16.6
Administration of demand deposits	13,858	11,882	16.6
Other	2,115	820	>
Total	161,810	148,228	9.2

Fig.10 Service revenues  
(€million)

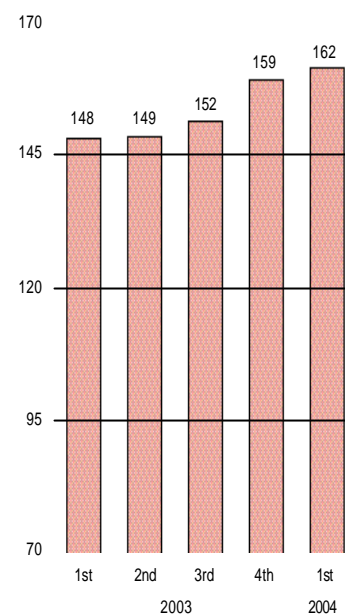
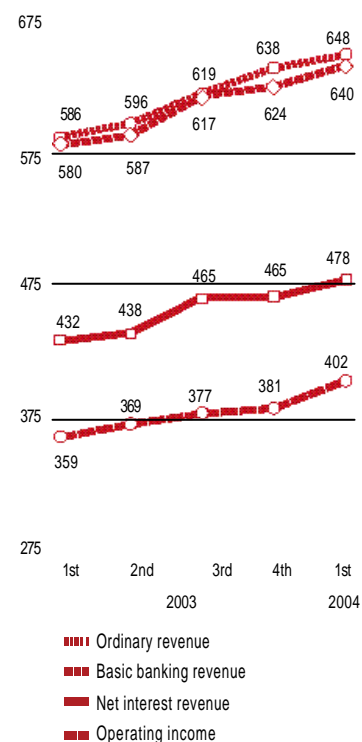
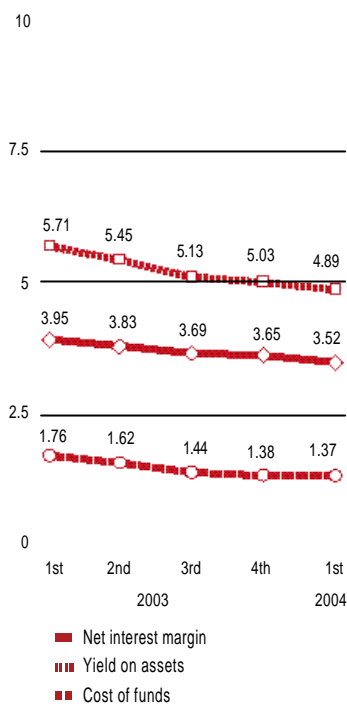


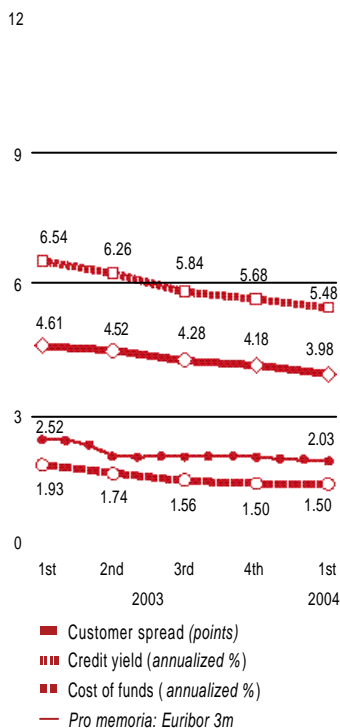
Fig.11 Quarterly revenues  
(€ million)



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



**Fig.13 Quarterly customer spread**



Service fee revenues at €161.8 million in the first quarter were up by 9.2% year on year (5.1% adjusted for the integration of BNC). Fees for guarantees progressed strongly (up 24.4%) as did fees for customer securities management, driven by the upturn in mutual funds and pension plans, the fees for which were up by 22.6% and 16.6%, respectively. Fees for the management of demand accounts were 16.6% higher year on year.

Table 8 and Figure 10 show the breakdown of service fee revenues in the quarter and the variation over time.

The financial asset trading income of €7.7 million in the first quarter was 36.6% higher year on year.

Ordinary revenue, i.e. the total revenues of the banking business, amounted to €647.7 million in the first quarter, up 10.6% year on year; disregarding the integration of BNC, the growth was 4.5%.

Operating costs in the first quarter amounted to €216.2 million, an increase of 8.2% year on year (7.6% in personnel costs and 11.3% in general expenses). This increase was due entirely to the integration of BNC - which involved the incorporation of 128 branch offices and a staff of 1,092 employees - since operating costs of the rest of the Group were practically stable (variation of 0.8%, including 1.1% in personnel costs and 0.1% in general expenses).

The efficiency ratio, i.e. the portion of total revenues absorbed by operating costs, was 33.4% in the first quarter, an improvement of 0.7 percentage points from the 34.1% in the first quarter of 2003, despite the impact of BNC, which is currently less efficient than the rest of the Group. The ratio excluding BNC was 32.9%.

Depreciation of tangible assets and amortization of intangible assets amounted to €19.9 million in the first quarter, up 12.4% year on year.

Other revenues (€0.7 million) and other operating costs (€9.9 million) gave rise to a net charge of €9.2 million in the first quarter, an increase of 5.4%.

Operating income in the first quarter amounted to €402.4 million, up 11.9% year on year (6.6% disregarding BNC), and up 5.6% over the preceding quarter.

The foregoing figures evidence the strength of the Group's operating account and earnings generation capability in an adverse market environment, and at the same time demonstrate that the inclusion of BNC, which is currently less profitable and efficient, did not significantly impair the strong performance of the Group as a whole.

Figure 11 plots the performance of the foregoing levels of revenues in the last five quarters.

The Group allocated net provisions of €100.0 million to the credit loss allowance in the first quarter, 13.0% more than in the same period of 2003; the breakdown by type of allowance is discussed in the Risk management section of this Report. The Group also recovered €12.7 million of loans classified as bad debts and previously written off.

€8.0 million were also allocated to other provisions and writeoffs, including €5.1 million of amortization of goodwill in consolidation, substantially all arising from the acquisition of BNC.

**Table 9. Quaterly income and profitability**

(Amounts in € thousand )	2003				2004
	1st	2nd	3rd	4th	1st
Interest and similar revenues	625,019	623,396	645,280	641,324	664,739
- Interest and similar charges	193,250	185,348	180,437	176,086	186,559
<b>= Net interest revenue</b>	<b>431,769</b>	<b>438,048</b>	<b>464,843</b>	<b>465,238</b>	<b>478,180</b>
+ Fees for services, net	148,228	148,675	151,674	159,261	161,810
+ Asset trading & exchange profits, net	5,633	9,286	2,889	13,907	7,696
<b>= Ordinary revenue</b>	<b>585,630</b>	<b>596,009</b>	<b>619,406</b>	<b>638,406</b>	<b>647,686</b>
- Operating costs:	199,735	200,634	213,615	228,013	216,172
<i>Personnel expenses</i>	141,397	142,089	153,203	160,159	152,135
<i>Other expenses</i>	58,338	58,545	60,412	67,854	64,037
- Depreciation	17,739	18,056	19,760	20,398	19,939
± Other operating income/expenses, net	(8,719)	(8,674)	(8,836)	(9,028)	(9,190)
<b>= Operating income</b>	<b>359,437</b>	<b>368,645</b>	<b>377,195</b>	<b>380,967</b>	<b>402,385</b>
± Other items, net	11,332	28,258	5,552	22,366	2,142
- Provisions and writedowns	85,701	104,460	69,243	89,166	95,321
<b>= Income before taxes</b>	<b>285,068</b>	<b>292,443</b>	<b>313,504</b>	<b>314,167</b>	<b>309,206</b>
- Corporate income tax provision	104,889	110,751	105,896	105,849	109,550
<b>= Net income</b>	<b>180,179</b>	<b>181,692</b>	<b>207,608</b>	<b>208,318</b>	<b>199,656</b>
- Minority interests	14,683	15,404	16,038	17,401	19,095
<b>= Net income attributable</b>	<b>165,496</b>	<b>166,288</b>	<b>191,570</b>	<b>190,917</b>	<b>180,561</b>

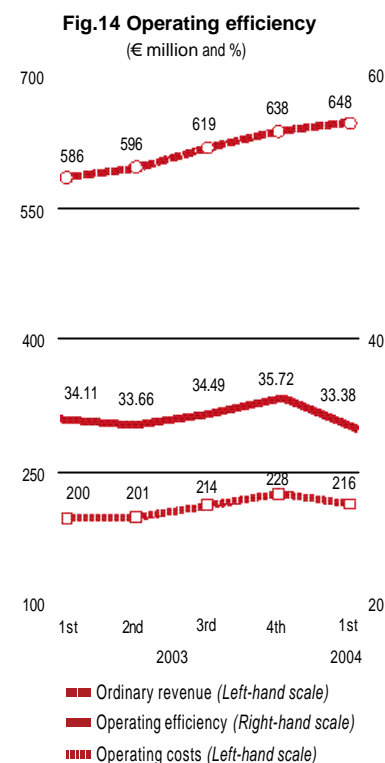
(€ million):	2003	2004
Average total assets	43,761	54,338
Average total risk-weighted assets (RWA)	37,437	47,949
Average total equity	2,583	3,254

(As annualized % of average total assets)

	2003				2004
	1st	2nd	3rd	4th	1st
Yield on assets	5.71	5.45	5.13	5.03	4.89
- Cost of funds	1.76	1.62	1.44	1.38	1.37
<b>= Net interest margin</b>	<b>3.95</b>	<b>3.83</b>	<b>3.69</b>	<b>3.65</b>	<b>3.52</b>
+ Yield on services, net	1.35	1.30	1.21	1.25	1.19
+ Yield on fin. assets trading & exch. profits	0.05	0.08	0.02	0.11	0.06
<b>= Ordinary margin</b>	<b>5.35</b>	<b>5.21</b>	<b>4.92</b>	<b>5.01</b>	<b>4.77</b>
- Operating costs:	1.82	1.75	1.70	1.79	1.59
<i>Personnel costs</i>	1.29	1.24	1.22	1.26	1.12
<i>Other expenses</i>	0.53	0.51	0.48	0.53	0.47
- Depreciation	0.16	0.16	0.15	0.16	0.15
± Other operating income/expenses, net	(0.08)	(0.08)	(0.07)	(0.07)	(0.07)
<b>= Operating profitability</b>	<b>3.29</b>	<b>3.22</b>	<b>3.00</b>	<b>2.99</b>	<b>2.96</b>
± Other items, net	0.10	0.25	0.04	0.18	0.02
- Provisions and writedowns	0.78	0.91	0.55	0.70	0.70
<b>= Pre-tax income return</b>	<b>2.61</b>	<b>2.56</b>	<b>2.49</b>	<b>2.47</b>	<b>2.28</b>
- Corporate income tax	0.96	0.97	0.84	0.83	0.81
<b>= Net income return (ROA)</b>	<b>1.65</b>	<b>1.59</b>	<b>1.65</b>	<b>1.64</b>	<b>1.47</b>
Net return on average risk-weighted assets (RORWA) (%)	1.93	1.84	1.88	1.84	1.67
Net return on average equity (ROE) (%)	25.63	25.72	25.60	25.48	22.19
Leverage	15.5 x	16.2 x	15.5 x	15.5 x	15.1 x
Operating efficiency (%)	34.11	33.66	34.49	35.72	33.38

Overall, provisions and writeoffs, net of recoveries, charged to income in the first quarter totaled €95.3 million, 11.2% higher year on year.

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



## Yields and costs

Table 10 shows the average balances of assets and funds in the first quarter of 2004 and 2003 and the related interest revenues and expenses, and the resulting annualized average rates of yield and cost for each asset and liability. Similar quarterly data are presented in Table 11.

Average total assets in the first quarter of 2004 amounted to €54,338 million, an increase of 24.2% year on year.

As the framework of reference for analysis of margins and profitability in the first quarter, a brief comment on the evolution of the financial markets in the euro area in the last twelve months is called for. The European Central Bank, which in March 2003 had cut its main financing rate by 25 basis points, decided at the beginning of June to further lower this rate by 50 basis points, from 2.50% to its current level of 2%, with the consequent fall of all money market interest rates. Between March 2003 and March 2004, the 3-month Euribor declined by 49 basis points (from 2.52% to 2.03%), and the 12-month Euribor rate fell by 40 basis points (from 2.43% to 2.03%). Considering the average interest rates in the first quarters of 2003 and 2004, the cuts were even sharper: 68 basis points in 3-month Euribor and 43 basis points in 12-month Euribor.

The average yield on loans and discounts was 5.48% in the first quarter of 2004, 106 basis points less than in the same period of 2003, whereas the

**Table 10. Yields and costs**

(Amounts in € thousand and rates annualized)

	March 31, 2004				March 31, 2003			
	Average balance	Distribution (%)	Revenue or expense	Average rate (%)	Average balance	Distribution (%)	Revenue or expense	Average rate (%)
Treasury bills and Bank of Spain certificates of deposit ..	105,270	0.19	563	2.14	38,390	0.09	275	2.87
Financial system:	5,101,495	9.39	23,722	1.86	5,678,425	12.98	34,602	2.44
In euros .....	4,255,814	7.83	20,581	1.93	3,909,574	8.93	26,901	2.75
In foreign currencies .....	845,681	1.56	3,141	1.49	1,768,851	4.05	7,701	1.74
Loans and discounts (a):	45,455,454	83.65	622,484	5.48	35,076,647	80.16	573,426	6.54
In euros .....	45,114,126	83.03	621,002	5.51	34,726,573	79.36	571,500	6.58
In foreign currencies .....	341,328	0.62	1,482	1.74	350,074	0.80	1,926	2.20
Securities portfolio:	1,163,992	2.14	17,970	6.18	1,064,021	2.43	16,716	6.28
Government debt securities .....	34,593	0.06	296	3.42	118,612	0.27	1,229	4.14
Other fixed-interest securities .....	509,920	0.94	3,729	2.93	556,268	1.27	4,747	3.41
Equity securities .....	619,479	1.14	13,945	9.00	389,141	0.89	10,740	11.04
<i>Total earning assets (b)</i> .....	<i>51,826,211</i>	<i>95.37</i>	<i>664,739</i>	<i>5.13</i>	<i>41,857,483</i>	<i>95.66</i>	<i>625,019</i>	<i>5.97</i>
Other assets .....	2,511,336	4.63	–	–	1,903,299	4.34	–	–
<b>Total assets</b> .....	<b>54,337,547</b>	<b>100.00</b>	<b>664,739</b>	<b>4.89</b>	<b>43,760,782</b>	<b>100.00</b>	<b>625,019</b>	<b>5.71</b>
Financial system:	8,282,439	15.24	41,192	1.99	6,861,885	15.68	42,601	2.48
In euros .....	5,950,641	10.95	39,657	2.67	5,081,553	11.61	36,805	2.90
In foreign currencies .....	2,331,798	4.29	1,535	0.26	1,780,332	4.07	5,796	1.30
Customer funds (c):	38,776,371	71.36	145,368	1.50	31,264,541	71.44	150,649	1.93
Customer accounts:	29,547,278	54.38	94,694	1.28	24,428,863	55.82	99,959	1.64
In euros:	28,786,399	52.98	92,961	1.29	23,672,126	54.09	97,852	1.65
Demand and savings deposits .....	14,257,570	26.24	14,005	0.39	12,271,523	28.04	17,950	0.59
Time deposits .....	12,824,701	23.61	70,267	2.19	9,797,549	22.38	69,361	2.83
Assets sold under repurchase agreements .....	1,674,416	3.08	8,390	2.00	1,600,736	3.66	10,541	2.63
Other .....	29,712	0.05	299	4.03	2,318	0.01	–	–
In foreign currencies .....	760,879	1.40	1,733	0.91	756,737	1.73	2,107	1.11
Bonds and other marketable debt securities ...	9,229,093	16.98	50,674	2.20	6,835,678	15.62	50,690	2.97
<i>Total interest-bearing liabilities (d)</i> .....	<i>47,058,810</i>	<i>86.60</i>	<i>186,560</i>	<i>1.59</i>	<i>38,126,426</i>	<i>87.12</i>	<i>193,250</i>	<i>2.03</i>
Other non-interest-bearing liabilities .....	4,024,278	7.41	–	–	3,051,235	6.98	–	–
Capital accounts .....	3,254,459	5.99	–	–	2,583,121	5.90	–	–
<b>Total liabilities and capital</b> .....	<b>54,337,547</b>	<b>100.00</b>	<b>186,560</b>	<b>1.37</b>	<b>43,760,782</b>	<b>100.00</b>	<b>193,250</b>	<b>1.76</b>
<i>Customer spread (a-c)</i> .....				3.98				4.61
<i>Spread (b-d)</i> .....				3.54				3.94

**Table 11. Quarterly yields and costs**

(Data in % and rates annualized)

	2003										2004	
	1st		2nd		3rd		4th		1st			
	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate		
Treasury bills and Bank of Spain certificates of deposit	0.09	2.87	0.57	2.85	0.29	2.29	0.03	2.01	0.19	2.14		
Financial system	12.98	2.44	11.86	2.35	9.87	2.01	8.85	2.41	9.39	1.86		
Loans and discounts (a)	80.16	6.54	80.63	6.26	81.93	5.84	84.24	5.68	83.65	5.48		
Securities portfolio	2.43	6.28	2.55	4.04	2.93	4.80	1.71	2.07	2.14	6.18		
<i>Total earning assets (b)</i>	95.66	5.97	95.61	5.70	95.02	5.40	94.83	5.31	95.37	5.13		
Other assets	4.34	–	4.39	–	4.98	–	5.17	–	4.63	–		
<b>Total assets</b>	<b>100.00</b>	<b>5.71</b>	<b>100.00</b>	<b>5.45</b>	<b>100.00</b>	<b>5.13</b>	<b>100.00</b>	<b>5.03</b>	<b>100.00</b>	<b>4.89</b>		
Financial system	15.68	2.48	16.87	2.36	14.95	2.08	13.12	2.19	15.24	1.99		
Customer funds (c)	71.44	1.93	70.31	1.74	71.98	1.56	73.18	1.50	71.36	1.50		
<i>Total interest-bearing liabilities (d)</i>	87.12	2.03	87.18	1.86	86.93	1.65	86.30	1.60	86.60	1.59		
Other non-interest-bearing liabilities	6.98	–	7.17	–	7.12	–	7.82	–	7.41	–		
Capital accounts	5.90	–	5.65	–	5.95	–	5.88	–	5.99	–		
<b>Total liabilities and capital</b>	<b>100.00</b>	<b>1.76</b>	<b>100.00</b>	<b>1.62</b>	<b>100.00</b>	<b>1.44</b>	<b>100.00</b>	<b>1.38</b>	<b>100.00</b>	<b>1.37</b>		
<i>Customer spread (a-c)</i>		4.61		4.52		4.28		4.18		3.98		
<i>Spread (b-d)</i>		3.94		3.84		3.75		3.71		3.54		

average cost of customer funds was 1.50%, a decrease of 43 basis points, and the customer spread (i.e. the difference between these two rates) decreased by 63 basis points from 4.61% to 3.98%. Disregarding the integration of BNC, this margin was 4.02%, a fall of 59 basis points from that in the first quarter of 2003.

The spread, the differential between the rate of yield on earning assets and the cost of interest-bearing liabilities, decreased in the first quarter of 2004 compared with the same period in 2003 by 40 basis points from 3.94% in the first quarter of 2003 to 3.54%.

The net interest margin on average total assets in the first quarter fell by 43 basis points from 3.95% to 3.52% because the decline of 82 basis points in the yield on assets was higher than the decline of 39 basis points in the cost of funds. Excluding BNC, the margin was 3.58%, 37 basis points lower than in the first quarter of 2003.

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

### Profitability

The annualized ROE for the first quarter of 2004 was 22.19% (24.73% excluding the effect of integration of BNC), compared with 25.63% in the same period of 2003, and 25.48% in the preceding quarter.

The annualized ROA for the first quarter of 2004 was 1.47% (1.55% excluding BNC), which was 18 and 17 basis points lower, respectively, than in the first quarter of 2003 (1.65%) and in the fourth quarter of 2003 (1.64%).

The annualized return on average risk-weighted total assets (RORWA) for the first quarter was 1.67%, compared with 1.93% and 1.84% in the first and fourth quarters of 2003.

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

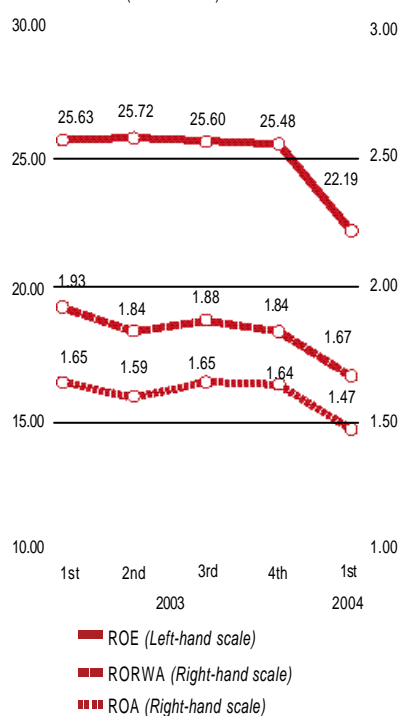
Table 12 shows the detail of the income statement for the first quarter of 2004 in absolute amounts and in annualized percentages of average total assets. The variation in the last five quarters is shown in Table 9.

**Table 12. Profitability**

	March 31 2004	March 31 2003	Variation
(As annualized % of average total assets)			
Yield on assets .....	4.89	5.71	(0.82)
- Cost of funds .....	1.37	1.76	(0.39)
<b>= Net interest margin .....</b>	<b>3.52</b>	<b>3.95</b>	<b>(0.43)</b>
+ Yield on services, net .....	1.19	1.35	(0.16)
+ Yield on fin. assets trading & exch. profits .....	0.06	0.05	0.01
<b>= Ordinary margin .....</b>	<b>4.77</b>	<b>5.35</b>	<b>(0.58)</b>
- Operating costs:	1.59	1.82	(0.23)
<i>Personnel costs</i> .....	1.12	1.29	(0.17)
<i>Other expenses</i> .....	0.47	0.53	(0.06)
- Depreciation .....	0.15	0.16	(0.01)
± Other operating income/expenses, net .....	(0.07)	(0.08)	0.01
<b>= Operating profitability .....</b>	<b>2.96</b>	<b>3.29</b>	<b>(0.33)</b>
± Other items, net .....	0.02	0.10	(0.08)
- Provisions and writedowns .....	0.70	0.78	(0.08)
<b>= Pre-tax income return .....</b>	<b>2.28</b>	<b>2.61</b>	<b>(0.33)</b>
- Corporate income tax .....	0.81	0.96	(0.15)
<b>= Net income return (ROA) .....</b>	<b>1.47</b>	<b>1.65</b>	<b>(0.18)</b>
Net return on average risk-weighted assets (RORWA) (%) .....	1.67	1.93	(0.26)
Net return on average equity (ROE) (%) .....	22.19	25.63	(3.44)
Leverage .....	15.1 x	15.5 x	(0.4)
Operating efficiency (%) .....	33.38	34.11	(0.73)
<i>€ million:</i>			
Average total assets .....	54,338	43,761	10,577
Average total risk-weighted assets (RWA) .....	47,949	37,437	10,512
Average total equity .....	3,254	2,583	671

**Fig.15 ROA, RORWA and ROE**

(Annualized %)



The operating profitability of 2.96% on average total assets in the first quarter was 33 basis points lower than in the same period of 2003. The factors explaining this variation were the falls of 43 basis points in the net interest margin and of 16 basis points in service fee revenues, which were partially offset by the significant improvement of 23 basis points in operating costs and of 3 basis points in other operating items.

The same analysis for the first quarter of 2004 compared with the preceding quarter discloses a slight decline of 3 basis points in operating profitability, since the reduction of 24 basis points in the captions comprising the ordinary margin was almost fully absorbed by the improvement of 20 basis points in operating costs and of 1 basis point in other costs.

The operating efficiency ratio, i.e. the portion of total revenues absorbed by operating costs, continued to evolve positively and stood at 33.4% in the first quarter, compared with 34.1% in the first three months of 2003 and 35.7% in the fourth quarter of 2003.

The balance sheet leverage, i.e. the ratio of total funds to total equity, was 15.1 times at the end of March 2004, slightly lower than the 15.5 times twelve months earlier.

## Market performance of Banco Popular shares

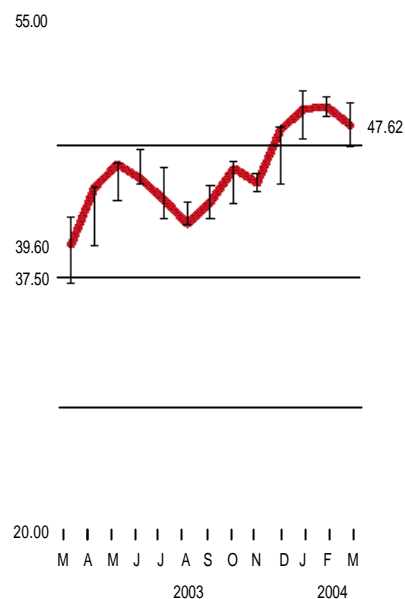
The Bank's share price closed at €47.62 at the end of the first quarter, a notable appreciation of 20.3% in the last twelve months and slightly higher than the 2003 closing price of €47.30.

In the first quarter of 2004, the share price climbed strikingly to peak at the record figure of €50.25 at the end of January, whereafter it fluctuated between €48 and €49, fell to €46.00 after the terrorist attack of March 11, and recovered moderately afterwards.

In the first quarter, Banco Popular shares performed slightly worse than the market as a whole - the Madrid Stock Exchange general share index was up 4.1% and the Ibex-35 was up 3.6%, although they did perform better than the banking sector index (the financial Ibex fell by 2.9%).

Considering the last twelve months, the appreciation has also been lower than that of these indexes, which rose by 37.0%, 36.6% and 41.8%, respectively. However, considering the last two years, the share performance has been much better: Banco Popular shares have gained 10.1%, compared with 1.5% for the market as a whole, whereas neither the Ibex-35 nor the financial sector Ibex have managed to return to their March 2002 level, with falls of 2.8% and 10.4%, respectively, in the two-year period.

**Fig.16 Banco Popular share price (€)**  
(Month-end high, low and closing prices)



**Table 13. Quarterly bank share performance**

Quarters	Share liquidity (Number in thousands)			Share market price (€)			Dividend paid (€)	Market return*	
	Average shares outstanding	Shares traded	%	High	Low	Closing			
2003	1st	217,154	82,875	38.16	41.95	36.05	39.60	0.365	2.6
	2nd	217,154	93,033	42.84	46.40	38.55	44.00	0.385	12.1
	3rd	227,072	116,611	51.35	44.86	40.86	42.47	0.390	(2.6)
	4th	227,387	121,264	53.33	48.07	42.13	47.30	0.395	12.3
<b>Year total</b>	<b>222,229</b>	<b>413,783</b>	<b>186.20</b>	<b>48.07</b>	<b>36.05</b>	<b>47.30</b>	<b>1.540</b>	<b>25.3</b>	
2004	1st	227,387	110,722	48.69	50.25	46.00	47.62	0.400	1.5

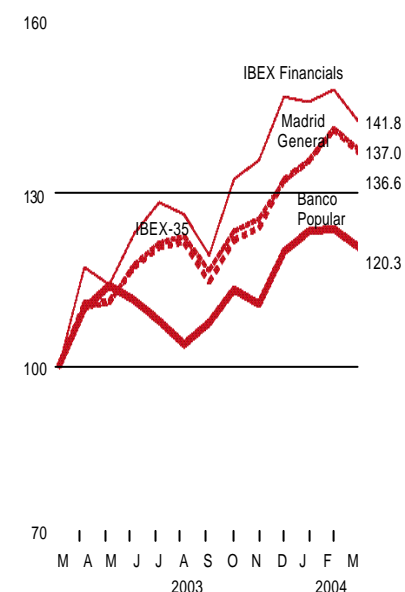
\* Appreciation (depreciation) and dividend as % of initial price in each period.

The market return on Banco Popular shares - the rise in the share price plus dividend payments - was 24.2% in the last twelve months and 1.5% in the first quarter of 2004.

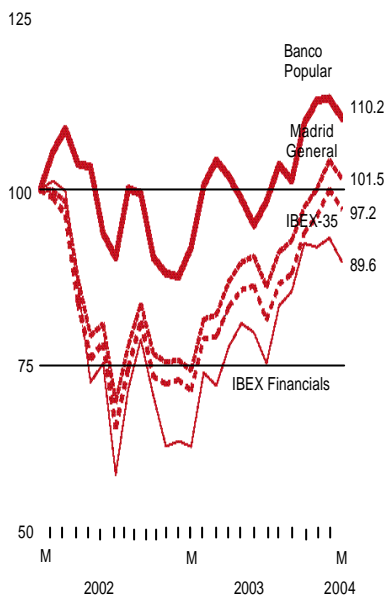
The P/E ratio of Banco Popular shares at the end of the first quarter of 2004 was 15.0 times the annualized income for the period.

110.7 million shares representing 49% of the number of shares outstanding were traded in the first quarter of 2004, at an average price of €47.98 per share, evidencing the high liquidity of the stock in the market.

**Fig.17 Banco Popular vs. the market  
March 2003-March 2004 indexes**  
(Month-end figures)



**Fig.18 Banco Popular vs. the market**  
**March 2002-March 2004 indexes**  
 (Month-end figures)



On March 31, 2004, the Bank did not own, either directly or indirectly through any subsidiary company, whether consolidable or not, any of its own shares. In the first quarter the Group intervened as a buyer in transactions involving 352,375 shares (0.15% of the capital stock), and as a seller in the same number. The maximum treasury stock held in the first quarter was 239,355 shares, 0.11% of the capital stock, the minimum was zero and the average was 114,423 shares (0.05%).

For details of the variations in market price, dividends, liquidity and market return since the beginning of 2003, see Table 13.

Figure 16 plots the evolution of the Banco Popular share price from March 2003 showing the high, low and closing prices for each month.

Figures 17 and 18 present, on an index basis with March 31, 2003 and 2002 = 100, the movement in the market price of the shares, compared with the three stock market indexes mentioned above.

Madrid, April 2004



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