

Mid-way through 2004, the Banco Popular Group continues firmly to apply its strategy of profitable growth focused on retail commercial banking in which it has a recognized competitive edge in two prime areas: corporate banking, with special emphasis on SMEs, and the segment of banking for individuals.

The customer base has continued to expand strongly: at June 30, 2004, the Group had 5.5 million customers, a net increase of 206,000 in the first half. The Group's commercial action continues to be based on relationship banking rather than product banking, strengthening customer bonding by cross-selling - there are now 3.20 products per customer compared with 3.08 a year ago - and using all distribution channels in an integrated and complementary manner, most notably the online banking channel which now has 1.5 million users.

Business volume continues its double-digit advance, exceeding that of the Spanish financial system as a whole, especially in credit, with an appreciable gain of market share in the main aggregates. In line with the goals of the 2004-2006 Suma Plan, growth has been boosted in corporate banking and in unsecured and consumer lending to individuals, while maintaining progress in mortgage lending, thus achieving a more harmonious business mix in terms of margins, service fee revenues and balance sheet structure.

This important development of the business has been achieved while maintaining intact the Group's long-standing criteria of balance sheet strength, earnings generation capability, return on capital and operating efficiency, its permanent signs of identity that make Banco Popular an entity of reference in the Spanish financial system.

One year after the inclusion of the Portuguese Banco Nacional de Crédito (BNC) group, the outcome has been very positive: the short-term dilution effect has been minimal - whether measured in terms of earnings per share, return on capital, efficiency or asset quality - and has not hindered the good performance of the Banco Popular Group as a whole. The measures taken are reaching their objectives, although full implementation of the "Banco Popular model" is a complex process which will fully attain its objectives at medium term.

The Group's consolidated balance sheet at June 30, 2004, amounted to €58,934 million, an increase of nearly €9,000 million (17.7%) in the last twelve months, and loans and discounts have grown by 22.3% and customer funds by 19.3%. The total business volume, the sum of on- and off-balance sheet assets, stood at €72,073 million at June end, a year-on-year increase of 17.7%.

The attributable net income of €369 million for the first six months of 2004 was 11.2% higher than in the same period of 2003, with a 6.2% year-on-year increase in earnings per share to €1.62. The matching figures for the second quarter were €188 million and €0.83 per share, with significant 4.2% growth over the first quarter. The ROE (annualized) was 22.62% for the first half, and 23.05% for the second quarter.

The total ordinary revenues of the business increased by 10.4% in the first half to €1,305 million. The net interest revenue was up 10.3% year on year (3.6% excluding BNC), since the adverse effect of record low interest rates of nearly 2% was mitigated by the growth of the balance sheet and prudent asset and fund pricing management. Net service fee revenues increased by 11.2% in the January-June period (7.2% excluding BNC), with an upward trend over time (13.3% in the second quarter, compared to 9.2% in the first quarter).

Operating costs in the first half amounted to €441 million, a year-on-year increase of 10.1% due mainly to the integration of BNC with its 129 branch offices and 1,126 employees (excluding BNC the increase was 2.5%). Despite this impact, the efficiency ratio, i.e. the portion of revenues absorbed by operating costs, improved slightly compared with the first half of 2003 and stood at 33.8% (33.3% excluding BNC).

The operating income for the first half amounted to €805 million, an increase of 10.6% (5.4% adjusted for the inclusion of BNC) over the same period in 2003. The second quarter operating income was €403 million, the same as in the first quarter and 0.3% higher if adjusted for the BNC effect.

The quality of assets improved significantly in the first half of 2004: the balance of nonperforming loans increased by 4.1%, whereas the credit loss allowances booked to cover them were 19.8% higher. The nonperforming loans ratio, i.e. nonperforming loans as a percentage of total risks, stands at 0.76%, a record low for the Group (0.70% excluding BNC), compared with 0.83% at the beginning of the year. The credit loss allowances signify 246% coverage of the troubled risks, an improvement of 24 percentage points over the 2003 year-end figure.

Highlights

(Amounts in € thousand)

			Variation	
	June 30 2004	June 30 2003	Amount	%
Business volume				
Total assets managed	72,073,243	61,236,943	10,836,300	17.7
On-balance sheet total assets	58,934,377	50,076,323	8,858,054	17.7
Total equity	3,267,491	2,997,642	269,849	9.0
Customer funds:	55,122,257	46,350,199	8,772,058	18.9
On-balance sheet funds	41,983,391	35,189,579	6,793,812	19.3
Other intermediated funds	13,138,866	11,160,620	1,978,246	17.7
Loans and discounts	49,407,823	40,412,503	8,995,320	22.3
Off-balance sheet risks	6,879,557	6,187,390	692,167	11.2
Solvency				
BIS ratio (%)	10.82	10.49	0.33	
Of which: Tier 1 (%)	8.15	8.31	(0.16)	
Risk management				
Total risks	56,283,721	46,602,739	9,680,982	20.8
Nonperforming loans	428,944	411,881	17,063	4.1
Allowances for credit losses	1,054,392	880,463	173,929	19.8
% nonperforming ratio	0.76	0.88	(0.12)	
% coverage (Credit loss allowance/Nonperforming loans)	245.81	213.77	32.04	
Income statements				
Net interest revenue	959,839	869,817	90,022	10.3
Basic banking revenue	1,290,106	1,166,720	123,386	10.6
Ordinary revenue	1,304,689	1,181,639	123,050	10.4
Operating income	805,235	728,082	77,153	10.6
Income before taxes	630,933	577,511	53,422	9.3
Net income	407,382	361,871	45,511	12.6
Net income attributable to Banco Popular Shareholders	368,792	331,784	37,008	11.2
Net return and efficiency				
Average total assets	56,174,938	44,771,972	11,402,966	25.5
Average total equity	3,260,529	2,584,785	675,744	26.1
ROA (%)	1.45	1.62	(0.17)	
ROE (%)	22.62	25.67	(3.05)	
Operating efficiency (%)	33.78	33.88	(0.10)	
Per share data				
Shares outstanding (thousands)	227,387	227,387	-	-
Average number of shares (thousands)	227,387	217,154	10,233	4.7
Share closing market price (€)	46.42	44.00	2.42	5.5
Share book value (€)	14.37	13.18	1.19	9.0
Net income per share (€)	1.622	1.528	0.094	6.2
Dividend per share (€)	0.805	0.750	0.055	7.3
Price/Book value	3.23	3.34	(0.11)	
Price/Earnings (annualized)	14.3	14.4	(0.1)	
Other data				
Shareholders	77,260	69,693	7,567	10.9
Employees	13,556	13,591	(35)	(0.3)
Spain	12,257	12,327	(70)	(0.6)
Abroad	1,299	1,264	35	2.8
Branches	2,297	2,274	23	1.0
Spain	2,150	2,133	17	0.8
Abroad	147	141	6	4.3
ATMs	3,455	3,385	70	2.1

QUARTER-END FINANCIAL REPORT*

Assets and funds

Table 1 presents the Group's consolidated balance sheets at June 30, 2004, and December 31 and June 30, 2003, with the customary level of detail. Since the Portuguese bank BNC and its subsidiaries were integrated in the Banco Popular Group effective June 30, 2003, the three balance sheets presented are uniformly comparable.

Total assets

The Group's total on-balance sheet assets amounted to €58,934 million at June 30, 2004, an increase of €8,858 million (17.7%) over the same date in 2003. The increase in the first half of 2004 was €6,323 million (12.0%).

The Group also manages other financial assets through off-balance sheet instruments which at June 30 totaled €13,139 million, up 17.7% year on year and 6.8% from the beginning of the year. The Group's total business volume at June end was therefore €72,073 million, a growth of 17.7% year on year and 11.0% in the first half.

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

Shareholders' equity

The Group's consolidated equity amounted to €3,267 million at June 30, 2004, comprised of €114 million of capital and €3,153 million of net reserves, including consolidation reserves, an interannual increase of €270 million.

The book value per share was €14.37, a year-on-year increase of 9.0%.

As part of its policy of maintaining a high level of solvency in consonance with the growth of its balance sheet, in June 2004 the Group launched two securities issues computable as equity for an aggregate amount of €350 million, the features of which were as follows:

- A €250 million issue of preferred stock jointly and severally guaranteed by Banco Popular, which was launched by an instrumental subsidiary of the Group domiciled in Spain. This issue was fully subscribed by nonresident investors and was designated as computable Tier 1 capital by the Bank of Spain.
- A €100 million issue of subordinated 10-year debt securities, launched by another Spanish subsidiary of the Group and guaranteed by Banco Popular; these securities, which are computable as Tier 2 capital, were also placed in full in the international market.

Computable capital includes, in addition to that shown as such in the balance sheet, €1,253 million of minority interests in consolidated subsidiaries (€265 million of common stock and €988 million of preferred stock) plus €551 million of subordinated debt; from the foregoing figure of computable capital should be subtracted €332 million of goodwill in consolidation, substantially all arising from the BNC operation, and €20 million of other items.

* The Group's consolidated financial statements as of June 30, 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.

Fig.1 Total assets managed at quarter-end
(€ million)

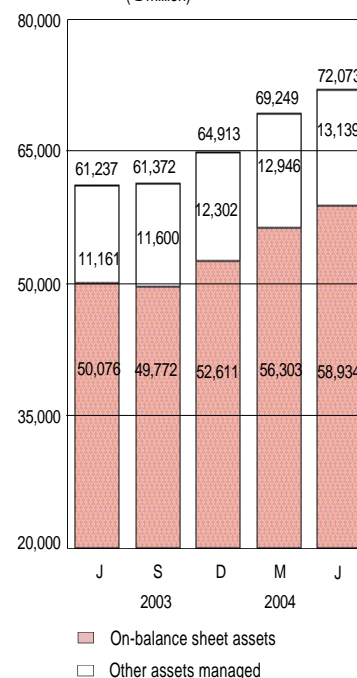


Table 1. Consolidated Balance Sheets

(Amounts in € thousand)

	June 30	December 31	June 30	% variation	
	2004	2003	2003	6 months	12 months
Assets					
Cash and due from central banks	966,178	1,080,289	1,115,301	(10.6)	(13.4)
Government debt securities:	98,951	28,008	296,449	>	(66.6)
<i>Government debt securities, gross</i>	98,951	28,008	296,449	>	(66.6)
<i>Less: Allowance for security price fluctuations</i>	–	–	–	–	–
Due from financial intermediaries:	4,395,356	4,564,212	5,018,149	(3.7)	(12.4)
<i>Due from financial intermediaries, gross</i>	4,396,133	4,567,948	5,022,456	(3.8)	(12.5)
<i>Less: Allowance for doubtful balances and country risk</i>	(777)	(3,736)	(4,307)	(79.2)	(82.0)
Loans and discounts:	48,453,433	43,466,605	39,615,879	11.5	22.3
<i>Loans and discounts:</i>	49,407,823	44,305,053	40,412,503	11.5	22.3
<i>To public bodies</i>	131,172	61,926	85,819	>	52.8
<i>To other residents</i>	43,771,023	39,131,313	35,663,733	11.9	22.7
<i>To nonresidents</i>	5,084,697	4,705,409	4,263,807	8.1	19.3
<i>Nonperforming loans</i>	420,931	406,405	399,144	3.6	5.5
<i>Less: Allowance for credit losses</i>	(954,390)	(838,448)	(796,624)	13.8	19.8
Private fixed-interest securities:	342,478	555,895	554,367	(38.4)	(38.2)
<i>Private fixed-interest securities, gross</i>	345,336	559,710	561,080	(38.3)	(38.5)
<i>Less: Allowance for security price fluctuations</i>	(2,858)	(3,815)	(6,713)	(25.1)	(57.4)
Equity securities:	1,674,803	350,309	969,087	>	72.8
<i>Equity securities, gross</i>	1,683,052	360,027	981,330	>	71.5
<i>Less: Allowance for security price fluctuations</i>	(8,249)	(9,718)	(12,243)	(15.1)	(32.6)
Participating interests	10,228	9,908	28,403	3.2	(64.0)
Shares of group companies	25,817	27,741	25,391	(6.9)	1.7
Intangible assets	18,006	20,666	22,127	(12.9)	(18.6)
Goodwill in consolidation	332,247	342,374	267,095	(3.0)	24.4
Tangible assets:	699,808	679,588	664,582	3.0	5.3
<i>Premises and equipment</i>	731,457	711,738	694,889	2.8	5.3
<i>Less: Allowance for potential losses on foreclosed assets and other</i>	(31,649)	(32,150)	(30,307)	(1.6)	4.4
Prepayments and accrued income	379,815	303,507	316,167	25.1	20.1
Other asset accounts	1,456,985	1,110,363	1,111,656	31.2	31.1
Losses at consolidated companies	80,272	71,686	71,670	12.0	12.0
Total	58,934,377	52,611,151	50,076,323	12.0	17.7
Liabilities and Capital					
Due to financial intermediaries	9,704,120	8,532,526	8,200,172	13.7	18.3
Customer deposits:	32,917,571	28,894,517	27,890,755	13.9	18.0
<i>From public bodies</i>	1,386,975	639,136	329,446	>	>
<i>From other residents</i>	26,377,911	23,062,554	21,990,946	14.4	19.9
<i>From nonresidents</i>	5,152,685	5,192,827	5,570,363	(0.8)	(7.5)
Bonds and other marketable debt securities	8,508,585	8,115,381	7,036,348	4.8	20.9
Subordinated financing	557,235	454,141	262,476	22.7	>
Other liability accounts	1,376,801	1,175,389	1,728,216	17.1	(20.3)
Accruals and deferred income	581,924	290,100	543,898	>	7.0
Special allowances:	280,049	410,444	234,105	(31.8)	19.6
<i>For pensions</i>	63,782	60,776	42,706	4.9	49.4
<i>Other allowances</i>	216,267	349,668	191,399	(38.2)	13.0
Negative difference in consolidation	418	418	418	–	–
Common stock	113,693	113,693	113,693	–	–
Reserves	1,909,822	1,756,792	1,815,229	8.7	5.2
Consolidation reserves	1,324,248	1,111,364	1,140,390	19.2	16.1
Minority interests:	1,252,529	978,589	748,752	28.0	67.3
<i>Common shares</i>	264,529	240,589	310,752	10.0	(14.9)
<i>Preferred shares</i>	988,000	738,000	438,000	33.9	>
Year-to-date net income	407,382	777,797	361,871	(47.6)	12.6
Total	58,934,377	52,611,151	50,076,323	12.0	17.7
Pro memoria					
Off-balance sheet risks:	6,879,557	6,405,437	6,187,390	7.4	11.2
<i>Guarantees and other sureties</i>	6,343,161	5,937,151	5,624,843	6.8	12.8
<i>Documentary credits</i>	456,332	383,140	328,153	19.1	39.1
<i>Other contingent liabilities</i>	80,064	85,146	234,394	(6.0)	(65.8)
Allowance for doubtful off-balance sheet risks	102,654	90,486	79,229	13.4	29.6
Commitments:	12,697,091	9,261,521	10,047,322	37.1	26.4
<i>Unused portion of credit lines</i>	11,367,302	8,382,087	8,972,313	35.6	26.7
<i>Other commitments</i>	1,329,789	879,434	1,075,009	51.2	23.7
Other intermediated customer funds	13,138,866	12,302,019	11,160,620	6.8	17.7

Table 2. Consolidated equity

(Amounts in € thousand)	June 30	December 31	June 30	Variation	
	2004	2003*	2003	6 months	12 months
Common stock	113,693	113,693	113,693	–	–
Reserves	1,909,822	1,895,837	1,815,229	13,985	94,593
Consolidation reserves	1,324,248	1,320,498	1,140,390	3,750	183,858
Less:					
Treasury stock	–	–	–	–	–
Losses at consolidated companies	80,272	71,686	71,670	8,586	8,602
On-balance sheet equity	3,267,491	3,258,342	2,997,642	9,149	269,849
Minority interests	1,252,529	1,001,829	748,752	250,700	503,777
Preferred stock	988,000	738,000	438,000	250,000	550,000
Other	264,529	263,829	310,752	700	(46,223)
Subordinated financing	551,249	448,155	259,483	103,094	291,766
Less:					
Intangible assets	(18,006)	(20,666)	(22,127)	2,660	4,121
Goodwill	(332,247)	(342,374)	(267,095)	10,127	(65,152)
Other	(2,418)	(94)	(107)	(2,324)	(2,311)
Bank of Spain computable capital	4,718,598	4,345,192	3,716,548	373,406	1,002,050
Minimum requirement	4,127,254	3,709,242	3,479,231	418,012	648,023
Capital cushion	591,344	635,950	237,317	(44,606)	354,027
Bank of Spain solvency ratio (%)	9.15	9.37	8.55		
BIS computable capital	5,790,795	5,105,308	4,578,413	685,487	1,212,382
Of which: Tier 1 capital	4,361,243	3,896,852	3,629,578	464,391	731,665
Minimum requirement	4,279,827	3,726,974	3,493,300	552,853	786,527
Capital cushion	1,510,968	1,378,334	1,085,113	132,634	425,855
BIS ratio (%)	10.82	10.96	10.49		
Of which: Tier 1(%)	8.15	8.36	8.31		

* After distribution of 2003 income.

The computable capital per Bank of Spain regulations at June 30, 2004, amounted to €4,719 million, and exceeded the Bank of Spain requirement by €591 million (14.3%), with a solvency ratio of 9.15% as compared with the required minimum of 8%.

Under the BIS solvency rules, which are those used at international level to measure banks' solvency, the Group's computable capital amounted to €5,791 million, with a cushion of €1,511 million, and the BIS solvency ratio was 10.82%, of which 8.15% related to Tier 1 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 June 2003.

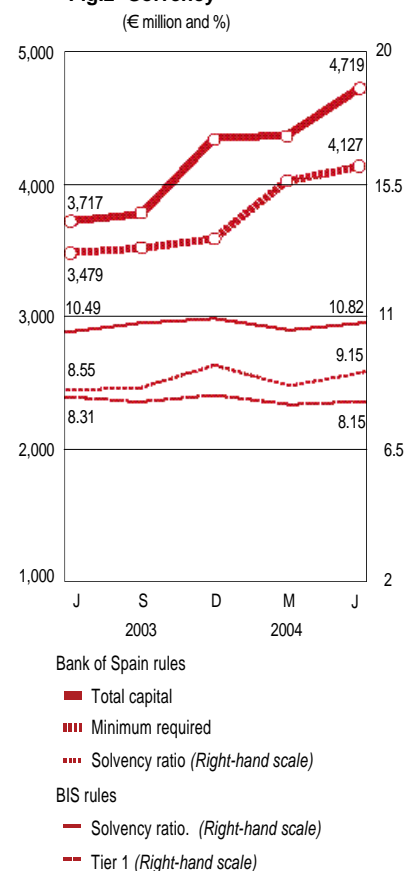
Agency ratings

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

Fig.2 Solvency



In April 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 and maintained their outlook of "stable" for the Bank.

Customer funds

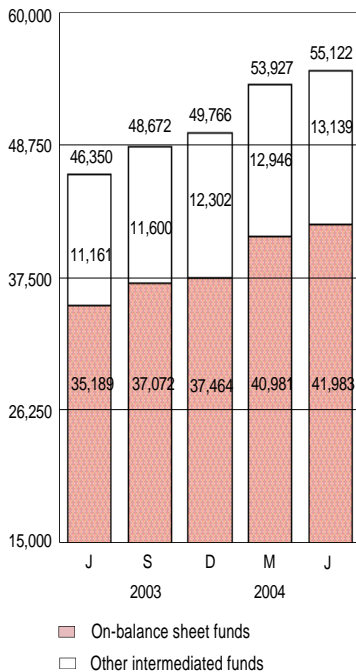
The on-balance sheet customer funds at June 30, 2004, i.e. customer deposits, marketable debt securities and subordinated financing, amounted to €41,983 million, up 19.3% year on year, and 12.1% since January 1. The average balance in the first half was €40,146 million. Customer funds were financing 71% of the balance sheet total.

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

Customer deposits (demand and time deposits plus asset repos) at June 30, 2004, amounted to €32,918 million, up 18.0% year on year and 13.9% in the first half of 2004.

In February 2004, several of the Group's banking subsidiaries launched an issue of long-term mortgage-backed securities ("cédulas") for a net amount of €1,700 million, which is included under the time deposits heading of the customer deposits caption. All of these "cédulas" were taken up by a securitization fund in Spain outside the Group, which in turn issued and placed in the market the same amount of securitization bonds backed by these "cédulas". (This operation was described in detail in the financial report for the first quarter of 2004.)

Fig.3 Customer funds
(€ million)



The deposits of private-sector residents amounted to €26,378 million, up 19.9% year on year; adjusted for the issue of "cédulas" described above, the growth rate was 12.2%. By type, there was year-on-year growth of 13.3% in demand deposits (current and savings accounts) and of 30.0% in time deposits (11.1% adjusted for the transaction mentioned above). Asset repos were 10.6% 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 May 2004 (the latest data published by the Bank of Spain), with a differential of 3.3 percentage points overall, and a notably higher growth rate than banks (+6.6 percentage points) and, to a lower degree (+0.8 percentage points), than savings banks. Even excluding from the Group's growth the effect of the "cédulas" issue mentioned above, there was an appreciable advantage over banks (+4.1 percentage points) and over the system as a whole (+0.7 percentage points), but not in comparison with savings banks (-1.9 percentage points). In short, the Group thus continues to gain market share of deposits in the domestic market, as it has been doing for at least three years. Figure 4 plots the growth rate at Banco Popular (adjusted for the effect of the "cédulas" issue), compared with both the system and banks and savings banks.

The Group's deposits from nonresidents, amounting to €5,153 million, were 7.5% lower year on year, due above all to the application at BNC of more selective remuneration criteria for customer funds, in line with those applied in the Group as a whole.

Table 3. Customer funds

(Amounts in € thousand)	June 30	December 31	June 30	% variation	
	2004	2003	2003	6 months	12 months
Customer deposits:	32,917,571	28,894,517	27,890,755	13.9	18.0
<i>From public bodies:</i>	1,386,975	639,136	329,446	>	>
Demand deposits	470,774	377,074	282,447	24.8	66.7
Savings deposits	7,574	9,649	8,473	(21.5)	(10.6)
Time deposits	161,250	150,599	38,470	7.1	>
Assets sold under repurchase agreements	619,215	52	56	>	>
Other accounts	128,162	101,762	—	25.9	—
<i>From other residents:</i>	26,377,911	23,062,554	21,990,946	14.4	19.9
Deposits of private-sector residents:	24,873,410	21,069,463	20,630,562	18.1	20.6
Demand deposits	8,980,840	8,005,497	7,814,324	12.2	14.9
Savings deposits	4,209,860	4,096,719	3,832,210	2.8	9.9
Time deposits	11,682,710	8,967,247	8,984,028	30.3	30.0
Assets sold under repurchase agreements	1,504,501	1,993,091	1,360,384	(24.5)	10.6
Other accounts	—	—	—	—	—
<i>From nonresidents:</i>	5,152,685	5,192,827	5,570,363	(0.8)	(7.5)
Demand deposits	1,197,330	1,109,488	1,069,113	7.9	12.0
Savings deposits	1,029,383	1,002,358	940,035	2.7	9.5
Time deposits	2,859,244	3,063,719	3,514,224	(6.7)	(18.6)
Assets sold under repurchase agreements	423	125	671	>	(37.0)
Other accounts	66,305	17,137	46,320	>	43.1
Bonds and other marketable debt securities	8,508,585	8,115,381	7,036,348	4.8	20.9
Bonds and debentures outstanding	4,199,758	5,356,512	4,907,857	(21.6)	(14.4)
Promissory notes and other securities	4,308,827	2,758,869	2,128,491	56.2	>
Subordinated financing	557,235	454,141	262,476	22.7	>
Total on-balance sheet customer funds (a)	41,983,391	37,464,039	35,189,579	12.1	19.3
<i>Pro memoria: Total private-sector residents</i>	30,648,993	25,786,536	24,069,214	18.9	27.3
Other intermediated customer funds:					
Financial assets sold outright					
to customers (outstanding balances)	610,777	572,115	571,734	6.8	6.8
Mutual funds	8,003,891	7,420,939	6,648,086	7.9	20.4
Asset portfolio management	966,378	860,997	750,069	12.2	28.8
Pension funds	2,916,882	2,840,375	2,614,893	2.7	11.6
Life insurance technical reserves	640,938	607,593	575,838	5.5	11.3
Total (b)	13,138,866	12,302,019	11,160,620	6.8	17.7
Total (a+b)	55,122,257	49,766,058	46,350,199	10.8	18.9

Customer funds raised by short-term (up to 18 months) commercial paper and other securities more than doubled (+102.4%) the June 2003 figure and amounted to €4,309 million at the end of the first half of 2004; substantially all (€4,271 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 27.3% to €30,649 million; excluding the effect of the "cédulas" issue referred to above, the growth rate was 12.3%.

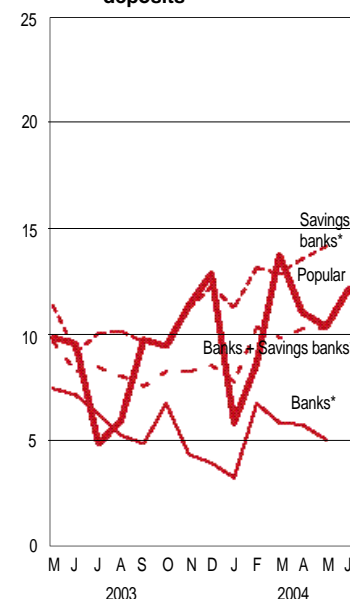
Bonds and debentures outstanding, i.e. medium- and long-term debt securities issued, amounted to €4,200 million at June 30, 2004, a decrease of 14.4% year on year.

Subordinated debt totaled €557 million, up 112.3%; this amount includes the €100 million issue in June 2004 computable as capital, as described earlier in this report.

The balance at June end of off-balance sheet customer funds intermediated, consisting mainly of mutual funds, portfolios and assets managed, pension plans and other financial assets instrumented in insurance policies, was €13,139 million, an increase of 17.7% year on year and of 6.8% since January 1.

The lower part of Table 3 is a breakdown, by type of instrument, of the off-balance sheet funds and the variation since June 2003, which is analyzed in the following paragraphs.

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



* Source: Bank of Spain

At June 30, 2004, the assets of the 82 mutual funds administered by the Group amounted to €8,004 million, an increase of €1,356 million (20.4%) year on year and of €583 million (7.9%) in the first half. The number of fund customers increased by 51,000 year on year and by 26,000 since the beginning of 2004.

The growth of fund assets in the first half was the result of net inflows of funds (subscriptions minus redemptions) of €399 million (68% of the total) and €184 million arising from appreciation of the portfolios.

By type of investment, the biggest growth in assets in the first half of 2004 was in equity funds (+56.0%) and mixed equity/bond funds (67.5%), followed by fixed-income funds (31.2%). Guaranteed funds were up 12.3%, whereas monetary asset funds declined by 9.3%. At the same time, there was a significant switch between funds, facilitated by the new tax regulations. In general terms, these figures disclose an appreciable shift by savers towards higher risk funds, on the one hand driven by the better prospects of performance in the securities markets and, on the other, due to the low level of short-term interest rates.

The foregoing figures, compared with the June figures for the sector, show that in the first half of 2004 the Banco Popular Group achieved a slight gain of market share in resident-customer mutual funds: the total assets managed by the Group grew by 7.6%, compared with 7.2% in the sector as whole. By fund type, there were noteworthy market-share improvements in equity and bond funds.

The portfolios and assets discretionally managed by the Group advanced strongly and totaled €966 million at June end, a growth of €216 million (28.8%) year on year and of €105 million (12.2%) since the beginning of the year, reflecting the Group's dynamic commercial thrust in the high-wealth individuals segment by the private and personal banking areas.

The pension plans administered by the Group stood at €2,917 million at June end, an increase of 11.6% year on year; excluding the €569 million of the occupational pension plans for Group bank employees, the increase was 13.2%. The plans increased in the first half by €77 million (2.7%), of which €60 million were net inflows of funds.

Finally, customer funds instrumented in insurance policies amounted to €641 million, up 11.3% year on year and 5.5% since January 1.

To summarize, total on- and off-balance sheet customer funds (€41,983 million and €13,139 million, respectively) managed by the Group at June 30, 2004, amounted to €55,122 million, up 18.9% year on year and 10.8% since January 1.

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 €49,408 million at June 30, 2004, up 22.3% year on year and 11.5% since January 1.

Loans and discounts represented 84% of total assets and 118% of the on-balance sheet customer funds.

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

Fig.5 Loans and discounts
(€ million)

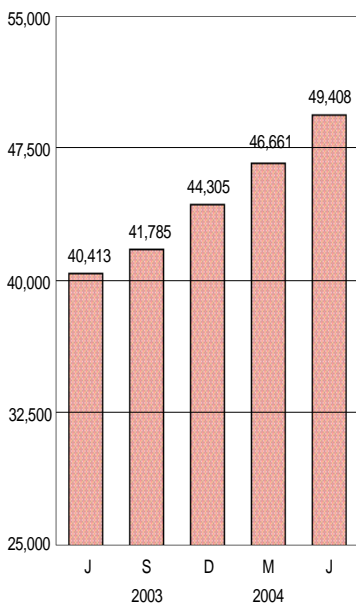


Table 4. Loans and discounts

(Amounts in € thousand)	June 30	December 31	June 30	% variation	
	2004	2003	2003	6 months	12 months
<i>To public bodies:</i>	131,172	61,926	85,819	>	52.8
Secured loans	—	—	—	—	—
Other term loans	131,096	61,855	85,618	>	53.1
Overdrafts and other	76	71	201	7.0	(62.2)
<i>To other residents:</i>	43,771,023	39,131,313	35,663,733	11.9	22.7
Trade loans and discounts	5,392,912	5,278,548	4,568,377	2.2	18.0
Secured loans	23,224,495	20,466,207	18,320,439	13.5	26.8
Mortgage loans	23,128,470	20,358,714	18,259,984	13.6	26.7
Other	96,025	107,493	60,455	(10.7)	58.8
Other term loans:	10,928,101	9,768,862	9,172,577	11.9	19.1
Loans and credits	10,677,493	9,518,599	9,078,644	12.2	17.6
Repos	250,608	250,263	93,933	0.1	>
Overdrafts and other	1,483,752	1,287,190	1,344,392	15.3	10.4
Leasing	2,741,763	2,330,506	2,257,948	17.6	21.4
<i>To nonresidents:</i>	5,084,697	4,705,409	4,263,807	8.1	19.3
Trade loans and discounts	365,706	366,952	354,098	(0.3)	3.3
Secured loans	2,339,759	2,002,658	1,774,958	16.8	31.8
Mortgage loans	2,319,857	1,979,649	1,753,606	17.2	32.3
Other	19,902	23,009	21,352	(13.5)	(6.8)
Other term loans	2,282,466	2,230,294	2,033,846	2.3	12.2
Overdrafts and other	96,766	105,505	100,905	(8.3)	(4.1)
<i>Nonperforming loans:</i>	420,931	406,405	399,144	3.6	5.5
To public bodies	28	30	19	(6.7)	47.4
To other residents	342,631	346,461	335,375	(1.1)	2.2
To nonresidents	78,272	59,914	63,750	30.6	22.8
Total	49,407,823	44,305,053	40,412,503	11.5	22.3

Credit to private-sector residents, amounting to €43,771 million, represented 89% of total loans and discounts, with growth of 22.7% year on year. Mortgage loans, mainly for home purchase, grew by 26.7% year on year, compared with 32.6% in June 2003, which was similar to the growth rate in the last four quarters. On the contrary, the main types of non-mortgage lending accelerated significantly in the same period: trade discounts (draft discounting, factoring and other transactions) were up 18.0%, unsecured credits and loans (other term loans) were up 17.6%, and leasing transactions were up 21.4%.

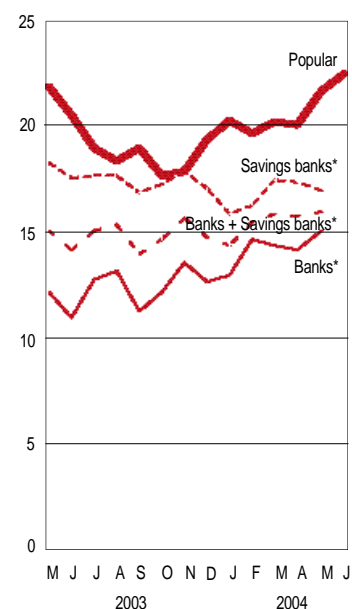
The foregoing figures show that the expansion of the Group's loans and discounts is proceeding in accordance with the criteria of the 2004-2006 Suma Plan: on the one hand, maintaining the growth rate of the mortgage business at levels more in line with the incipient change in the real estate cycle; on the other, boosting the financing to companies, especially SMEs (credits, discounts, leasing, etc.), and to private individuals in unsecured and consumer loans.

The Group continues to increase its share of the resident borrowers credit market, as it has been doing for the last five years. In the twelve months to May 2004, the last period for which data are available, Banco Popular's loans and discounts grew at a much faster rate than that of the Spanish financial system as a whole, with an average differential of 4.4 percentage points, comprised of 6.3 percentage points over banks and of 2.3 percentage points over savings banks.

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

Credit to nonresidents increased by 19.3% year on year to €5,085 million; 71% of this figure related to the loans and discounts of BNC, which were up 20.8% year on year.

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



* Source: Bank of Spain

Risk management

The Group's troubled (nonperforming) risk balances at June 30, 2004, amounted to €428.9 million, an increase of €17.1 million (4.1%) in the last twelve months. Since the beginning of the year, the balance has increased by €9.6 million (2.3%).

This variation in the first six months arose from the following movements: an increase of €217.0 million of risks that were newly classified as nonperforming loans, a decrease of €131.5 million for risks that were favorably settled, and writeoffs of €75.9 million of other risks, of which €66.3 million were written off against credit loss allowances and the remainder with a direct 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 0.76% at June 30, 2004, a significant reduction of 12 basis points in the last twelve months and of 7 basis points since the beginning of the year.

Analysis of the variations by entity discloses that the increase of €9.6 million in nonperforming loans in the first half was the net result of a rise of €13.4 million at BNC (in harmonized figures) and a fall of €3.8 million in the rest of the Group. The adjusted nonperforming loans ratio, excluding BNC, was 0.70%, compared with 0.78% in December 2003 and 0.83% in June 2003.

Net provisions to credit loss allowances in the first six months of 2004 amounted to €201.2 million, an increase of 0.9% year on year. €72.6 million of the foregoing amount were specific provisions for troubled risks, €53.0 million were general provisions, €65.0 million were booked to the anti-cyclical statistical credit loss allowance, €9.6 million were to write off unprovisioned risks, and €1.0 million were

Table 5. Risk management performance

(Amounts in € thousand)			Variation	
	June 30 2004	June 30 2003	Amount	%
<i>Nonperforming loans*:</i>				
Balance at January 1	419,380	353,277	66,103	18.7
<i>Additions</i>	217,002	233,807	(16,805)	(7.2)
<i>Balances recovered</i>	(131,531)	(116,451)	(15,080)	12.9
Net variation for the year	85,471	117,356	(31,885)	(27.2)
% increase	20.4	33.2	(12.8)	
Writeoffs	(75,907)	(58,752)	(17,155)	29.2
Balance at June 30	428,944	411,881	17,063	4.1
<i>Allowance for credit losses:</i>				
Balance at January 1	931,354	681,748	249,606	36.6
Annual provision:				
Gross	224,440	231,940	(7,500)	(3.2)
Recoveries	(33,886)	(31,848)	(2,038)	6.4
Net	190,554	200,092	(9,538)	(4.8)
Other variations	(1,242)	54,470	(55,712)	
Writeoffs	(66,274)	(55,847)	(10,427)	18.7
Balance at June 30	1,054,392	880,463	173,929	19.8
Foreclosed real estate assets	88,977	78,658	10,319	13.1
Allowance for potential losses on foreclosed assets	30,479	29,295	1,184	4.0
<i>Pro memoria:</i>				
Total risks	56,283,721	46,602,739	9,680,982	20.8
Loans transferred to suspense accounts	928,753	785,552	143,201	18.2
Nonperforming mortgage loans	40,467	20,347	20,120	98.9
<i>Risk quality measures (%):</i>				
Nonperformance (Nonperforming loans/Total risks)	0.76	0.88	(0.12)	
Insolvency (Writeoffs/Total risks)	0.13	0.13	-	
Coverage: (Credit loss allowance/Nonperforming loans)				
Coverage: (Allowance for potential losses on foreclosed assets/total foreclosed assets)	245.81	213.77	32.04	
	34.25	37.24	(2.99)	

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

booked to the country risk allowance. €27.6 million of loan balances previously written off as bad debts were recovered in the first half of the year.

The recorded credit loss allowances at June 30, 2004, totaled €1,054.4 million, 19.8% higher than in June 2003. Since the beginning of the year the credit loss allowances have increased by €123.0 million and their amount exceeds the regulatorily required amount by €95.3 million (10%).

The amount of the credit loss allowances compared with the balance of troubled loans at June 30 signified a coverage ratio of 245.8%, a significant improvement over the coverage of 222.1% at 2003 year end and 213.8% at the end of June 2003. Excluding the effect of BNC, the coverage ratio was 271.6%, compared with 238.9% in December 2003 and 230.0% in June 2003.

The ratio of nonperforming loans net of credit loss provisions is -1.11% of total risks, compared with -1.01% in December and June 2003. These figures confirm the sound coverage of the Group's risk exposure.

The risks with financially troubled countries (country risk), which are not included in the foregoing figures, amounted to €47.4 million and represent only 0.08% of the Group's total risks. Of the aforementioned amount, €8.3 million require regulatorily-stipulated coverage, based on the classification of the country of residence of the debtor, and for them there is a loss allowance of €4.7 million (56% of the balance). The net provision to this allowance in the first half amounted to €1.0 million.

Foreclosed assets, all buildings, amounted to €89.0 million, an increase of €8.0 million (9.9%) in the first half, of which €5.6 million related to BNC transactions. To cover possible losses on disposals, there was an allowance of €30.5 million at June 30, signifying coverage of 34% of their book value.

Tables 5 and 6 detail the evolution of nonperforming loans and credit loss allowances since June 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.

To summarize, the foregoing figures evidence the good quality of the Group's risks: the level of nonperforming balances continues to fall and is at a record low, while the coverage allowances booked, which amply exceed those regulatorily required, represent around two and a half times the amount of the troubled risks. This is the outcome of strict management of the assumption and monitoring of risks, together with a very prudent provisioning policy.

Fig.7 Nonperforming loans ratio and coverage for delinquent balances

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

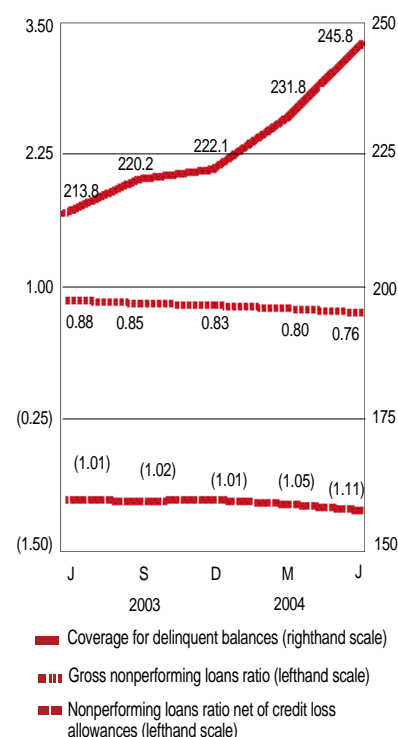


Table 6. Allowance for nonperforming loans

(Amounts in € thousand)

	June 30, 2004		June 30, 2003	
	Balance	Total Provisioning	Balance	Total Provisioning
Doubtful balances with specific allowances:	388,424	175,747	387,390	190,540
Ordinary	370,951	167,381	369,999	184,266
Secured by prime collateral	6,238	1,755	8,228	2,760
Off-balance sheet risks	11,235	6,611	9,163	3,514
Doubtful balances with generic allowances	38,553	212	21,677	156
Doubtful balances for which allowances are not required	1,967		2,814	
Total nonperforming loans	428,944	175,959	411,881	190,696
Other specific provisioning	16,783	619	17,000	848
Allowances for ordinary risks	54,548,301	487,345	44,638,486	405,397
General provisioning (1%)	43,880,386	434,005	36,417,481	364,293
Reduced provisioning (0.5%)	10,667,915	53,340	8,221,005	41,104
Statistical allowance		295,196		192,307
Total required provisions		959,119		789,248
Balance of credit loss allowances		1,054,392		880,463
Surplus		95,273		91,215

Earnings and profitability

Income statement

Table 7 is the consolidated income statement of the Banco Popular Group at June 30, 2004, compared with that at the same date in 2003. As stated earlier, the Portuguese bank BNC and its subsidiaries joined the Group effective June 30, 2003, and therefore the income statement for the first half of 2003 did not include these entities. The following analysis presents the main rates of variation adjusted for this effect, so as to permit uniform year-on-year comparison.

The pretax income of €630.9 million in the first half was 9.3% higher year on year and the net income of €407.4 million was 12.6% higher than in the same period of 2003. Disregarding the integration of BNC, the growth rates were 6.5% and 9.1%, respectively.

The net income attributable to Banco Popular shareholders was €368.8 million in the first six months of 2004, up 11.2% year on year (7.3% adjusted for the BNC effect).

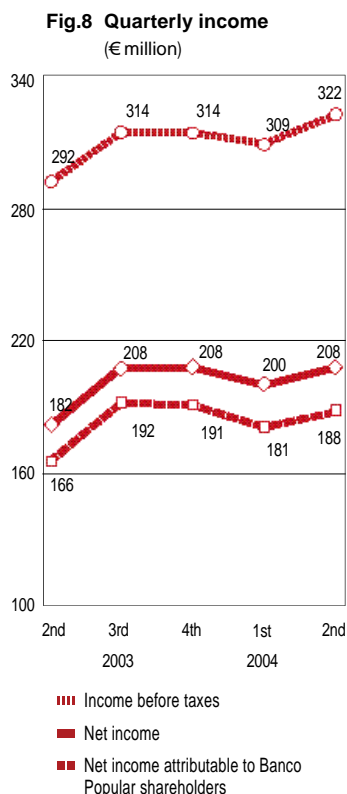


Fig.9 Quarterly earnings and dividend per share
(€)

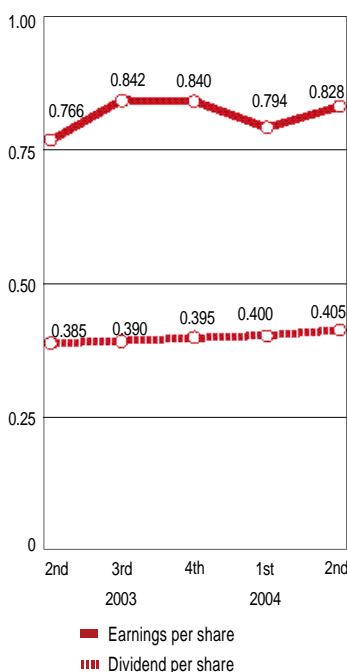


Table 7. Consolidated statements of income

(Amounts in € thousand)	June 30 2004	June 30 2003	% increase (decrease)
Interest and similar revenues	1,319,266	1,230,078	7.3
- Interest and similar charges	385,920	378,598	1.9
+ Revenues from equity securities	26,493	18,337	44.5
= Net interest revenue	959,839	869,817	10.3
+ Fees for services, net:	330,267	296,903	11.2
<i>Loan-related fees</i>	40,311	35,715	12.9
<i>Fees for guarantees, other sureties and documentary credits</i>	38,116	31,431	21.3
<i>Fees for other banking services</i>	251,840	229,757	9.6
= Basic banking revenue	1,290,106	1,166,720	10.6
+ Asset trading and exchange profits, net:	14,583	14,919	(2.3)
<i>Financial asset trading income</i>	(2,379)	(611)	>
<i>Writedowns of securities portfolio and derivatives</i>	980	(641)	>
<i>Exchange, translation and dealing gains</i>	15,982	16,171	(1.2)
= Ordinary revenue	1,304,689	1,181,639	10.4
- Operating costs:	440,742	400,369	10.1
<i>Personnel expenses</i>	307,550	283,486	8.5
<i>General expenses</i>	114,189	99,323	15.0
<i>Taxes other than income tax</i>	19,003	17,560	8.2
- Depreciation	40,248	35,795	12.4
+ Other operating income	1,301	1,090	19.4
- Other operating expenses	19,765	18,483	6.9
= Operating income	805,235	728,082	10.6
+ Share in equity method investees' income, net	2,048	2,254	(9.1)
- Amortization of goodwill in consolidation	10,127	1,588	>
+ Gains (Losses) on group transactions, net	1,526	486	>
- Writeoffs and provisions for credit losses:	173,623	179,355	(3.2)
<i>Provision to allowance for credit losses</i>	201,186	199,369	0.9
<i>Recovery of bad debts written off</i>	(27,563)	(20,014)	37.7
- Provision to general banking risk allowance	-	-	-
± Extraordinary gains (losses), net:	5,874	27,632	(78.7)
<i>Gain on disposal of fixed assets</i>	7,991	37,387	(78.6)
<i>Extraordinary provision to allowance for pensions</i>	(5,143)	(2,646)	94.4
<i>Provision to allowances for other purposes</i>	(8,088)	(6,572)	23.1
<i>Other</i>	11,114	(537)	>
= Income before taxes	630,933	577,511	9.3
- Corporate income tax provision	223,551	215,640	3.7
= Net income	407,382	361,871	12.6
- Minority interests:	38,590	30,087	28.3
<i>Ordinary shares</i>	24,693	22,481	9.8
<i>Preference shares</i>	13,897	7,606	82.7
= Net income attributable to Popular shareholders	368,792	331,784	11.2

For the second quarter of 2004 by itself, the attributable income of €188.2 million was 13.2% higher year on year and 4.2% higher than in the preceding quarter. The rates excluding BNC were 8.7% and 3.1%, respectively.

The earnings per share of €1.622 in the first half and of €0.828 in the second quarter were 6.2% and 8.1% higher, respectively. Adjusted for the capital increase in June 2003 to finance the acquisition of BNC, the figures were €1.640 in the first six months and €0.833 in the second quarter, signifying a dilution of €0.018 (1.1%) and €0.005 (0.6%), respectively, 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 is analyzed in the following paragraphs.

The asset (interest and dividend) revenues of €1,345.7 million in the first half of 2004, which included €26.5 million of dividends, were 7.8% higher than in the same period of 2003, and the interest charges of €385.9 million were 1.9% higher year on year. The net interest revenue in the first half of €959.8 million, and of €933.3 million excluding dividends, was 10.3% and 9.6%, respectively, higher year on year. Adjusted for the inclusion of BNC, the year-on-year growth rates were 3.6% and 2.7%, respectively.

The growth in the net interest revenue of €481.7 million in the second quarter was very similar, with interannual rises of 10.0% (3.1% excluding BNC) and 0.7%, respectively, over the first quarter.

The growth of €90.0 million in net interest revenue between the first half of 2004 and that of 2003 was the result of two effects of opposite sign: an increase of €246.3 million due to the higher volume of the balance sheet and a reduction of €156.3 million (63% of the foregoing figure) imputable to the lower interest rates. Based on the averages for the two half years, 3-month Euribor fell by 46 basis points and 12-month Euribor by 19 basis points. It will be seen once again that low interest rates have an appreciable effect on the net interest margin.

Service fee revenues at €330.3 million in the first six months performed very favorably and were up by 11.2% year on year (7.2% adjusted for the integration

Fig.10 Service revenues
(€ million)

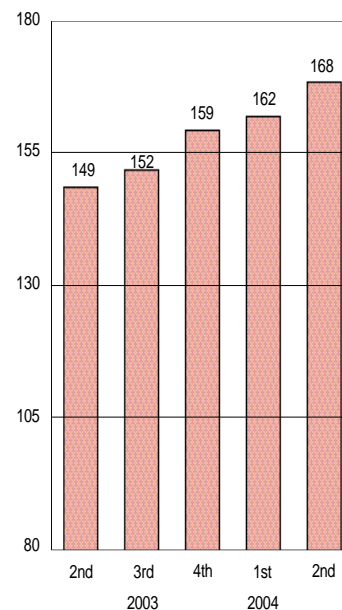


Fig.11 Quarterly revenues
(€ million)

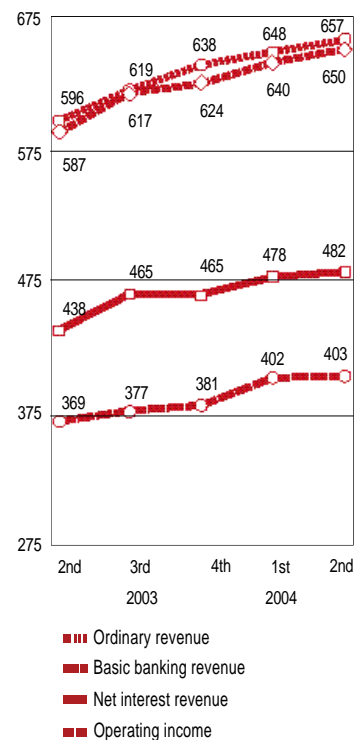
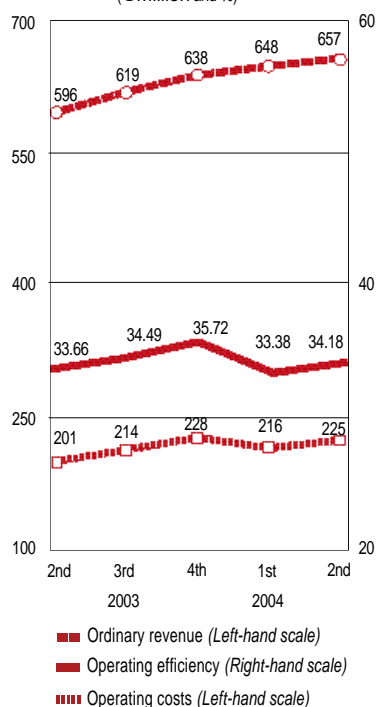


Table 8. Service revenues

(Amounts in € thousand)	June 30 2004	June 30 2003	% variation
Loan-related fees:	40,311	35,715	12.9
<i>Bill discounting</i>	20,474	19,074	7.3
<i>Other</i>	19,837	16,641	19.2
Provision of guarantees and other sureties	38,116	31,431	21.3
Operating services:	251,840	229,757	9.6
Collection and payment handling :	120,839	119,909	0.8
<i>Note collection</i>	29,390	29,125	0.9
<i>Checks</i>	12,096	11,845	2.1
<i>Direct debit transactions</i>	9,177	8,967	2.3
<i>Payment systems</i>	47,914	48,445	(1.1)
<i>Fund transfers</i>	22,262	21,527	3.4
Foreign currency purchase and sale transactions	916	940	(2.6)
Customer financial asset management::	96,580	86,121	12.1
<i>Securities portfolio</i>	13,293	16,464	(19.3)
<i>Mutual funds</i>	55,305	45,190	22.4
<i>Pension plans</i>	27,982	24,467	14.4
Administration of demand deposits	31,711	23,708	33.8
Other	1,794	(921)	>
Total	330,267	296,903	11.2

Fig.12 Operating efficiency
(€ million and %)



of BNC), and have been on an upward trend since the beginning of the year (9.2% in the first quarter and 13.3% in the second quarter). By caption, there was strong progress in fees for guarantees (up 21.3%), fees for the management of demand accounts (up 33.8%), and for other asset-related transactions (up 19.2%), fees for the management of mutual funds (up 22.4%) and pension plans (up 14.4%). Also noteworthy was the change of trend in trade discount fees, which rose at a year-on-year rate of 7.3% compared with the negative rates of the last two years, reflecting the strong surge in corporate banking, especially for SMEs, in line with the goals of the 3-year Suma Plan.

Table 8 shows the breakdown of service fee revenues and their variation over time. Figure 10 plots the variation in the last five quarters.

The basic banking revenue (net interest revenue plus service fee revenues) amounted to €1,290.1 million in the first half, up 10.6% year on year. The figure for the second quarter was €650.1 million, up 10.8% year on year.

The financial asset trading income of €14.6 million in the first half was slightly (2.3%) lower than in the same period of 2003.

The ordinary revenue, i.e. the total revenues of the banking business, amounted to €1,304.7 million in the first half, up 10.4% year on year. In the second quarter it was €657.0 million, 10.2% higher than in the same quarter of 2003, and 1.4% higher than in the first quarter of 2004.

Operating costs in the first half amounted to €440.7 million, an increase of 10.1% year on year. This amount included €307.5 million of personnel costs (up 8.5% year on year) and €114.2 million of general expenses (up 15.0%). The growth rates year on year for the second quarter were 11.9%, 9.4% and 18.6%, respectively.

Most of the increases arose from the inclusion of BNC - which involved the incorporation of 129 branch offices and a staff of 1,126 employees - since operating costs of the rest of the Group increased by 2.5% in the first half (1.8% in personnel costs and 3.7% in general expenses). These were very moderate rates of increase, especially in view of the strong expansion of the Group's balance sheet, the development of new lines of business and the consequent greater deployment of resources.

The efficiency ratio, i.e. the portion of total revenues absorbed by operating costs, was 33.8% in the first half, a slight improvement compared with the figure of 33.9% in the first half of 2003, despite the integration of BNC, signifying that cost containment in the rest of the Group successfully neutralized the adverse impact of the inclusion of this new subsidiary (excluding BNC the ratio was 33.3%). The ratio in the second quarter was 34.2% (33.6% excluding BNC).

Figure 12 plots the variation in operating efficiency in the last five quarters.

Depreciation of tangible assets and amortization of intangible assets amounted to €40.2 million in the first half, up 12.4% year on year.

Other revenues (€1.3 million) and other operating costs (€19.8 million) gave rise to a net charge of €18.5 million in the first half, an increase of 6.2% year on year.

Operating income in the first half amounted to €805.2 million, up 10.6% year on year. In the second quarter operating income amounted to €402.9 million, up 9.3% year on year and was practically the same as in the first quarter €402.4 million. Disregarding BNC the growth rates were 5.4% in the first six months and 4.2% in the second quarter, respectively.

Table 9. Quaterly income and profitability

(Amounts in € thousand)	2003			2004	
	2nd	3rd	4th	1st	2nd
Interest and similar revenues	623,396	645,280	641,324	664,739	681,020
- Interest and similar charges	185,348	180,437	176,086	186,559	199,361
= Net interest revenue	438,048	464,843	465,238	478,180	481,659
+ Fees for services, net	148,675	151,674	159,261	161,810	168,457
+ Asset trading & exchange profits, net	9,286	2,889	13,907	7,696	6,887
= Ordinary revenue	596,009	619,406	638,406	647,686	657,003
- Operating costs:	200,634	213,615	228,013	216,172	224,570
<i>Personnel expenses</i>	142,089	153,203	160,159	152,135	155,415
<i>Other expenses</i>	58,545	60,412	67,854	64,037	69,155
- Depreciation	18,056	19,760	20,398	19,939	20,309
± Other operating income/expenses, net	(8,674)	(8,836)	(9,028)	(9,190)	(9,274)
= Operating income	368,645	377,195	380,967	402,385	402,850
± Other items, net	28,258	5,552	22,366	2,142	20,537
- Provisions and writedowns	104,460	69,243	89,166	95,321	101,660
= Income before taxes	292,443	313,504	314,167	309,206	321,727
- Corporate income tax provision	110,751	105,896	105,849	109,550	114,001
= Net income	181,692	207,608	208,318	199,656	207,726
- Minority interests	15,404	16,038	17,401	19,095	19,495
= Net income attributable	166,288	191,570	190,917	180,561	188,231
(€ million):					
Average total assets	45,783	50,327	50,965	54,338	58,012
Average total risk-weighted assets (RWA)	39,451	44,204	45,276	47,949	51,710
Average total equity	2,586	2,993	2,997	3,254	3,267

(As annualized % of average total assets)

	2003			2004	
	2nd	3rd	4th	1st	2nd
Yield on assets	5.45	5.13	5.03	4.89	4.70
- Cost of funds	1.62	1.44	1.38	1.37	1.38
= Net interest margin	3.83	3.69	3.65	3.52	3.32
+ Yield on services, net	1.30	1.21	1.25	1.19	1.16
+ Yield on fin. assets trading & exch. profits	0.08	0.02	0.11	0.06	0.05
= Ordinary margin	5.21	4.92	5.01	4.77	4.53
- Operating costs:	1.75	1.70	1.79	1.59	1.55
<i>Personnel costs</i>	1.24	1.22	1.26	1.12	1.07
<i>Other expenses</i>	0.51	0.48	0.53	0.47	0.48
- Depreciation	0.16	0.15	0.16	0.15	0.14
± Other operating income/expenses, net	(0.08)	(0.07)	(0.07)	(0.07)	(0.06)
= Operating profitability	3.22	3.00	2.99	2.96	2.78
± Other items, net	0.25	0.04	0.18	0.02	0.14
- Provisions and writedowns	0.91	0.55	0.70	0.70	0.70
= Pre-tax income return	2.56	2.49	2.47	2.28	2.22
- Corporate income tax	0.97	0.84	0.83	0.81	0.79
= Net income return (ROA)	1.59	1.65	1.64	1.47	1.43
Net return on average risk-weighted assets (RORWA) (%)	1.84	1.88	1.84	1.67	1.61
Net return on average equity (ROE) (%)	25.72	25.60	25.48	22.19	23.05
Leverage	16.2 x	15.5 x	15.5 x	15.1 x	16.1 x
Operating efficiency (%)	33.66	34.49	35.72	33.38	34.18

Fig.13 Net interest margin
(As % of average total assets)

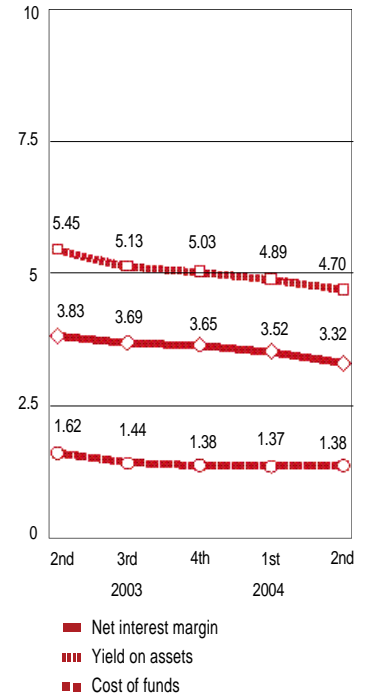


Figure 11 plots the performance of net interest revenue, basic banking revenue, ordinary revenue and operating income in the last five quarters.

The Group allocated net provisions of €201.2 million to the credit loss allowance in the first half, 0.9% 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 €27.6 million of loans previously classified as bad debts and written off from the balance sheet, an increase of 37.7% year on year.

Total net provisions and writeoffs charged to income in the first half amounted to €197.0 million; this figure included the €173.6 million of provisions for credit losses net of bad debt recoveries, the €10.1 million of amortization of goodwill and the €13.3 million of other items (extraordinary provisions for pensions and to other contingency allowances).

The remaining items in the lower portion of the income statement comprise €11.1 of sundry results, mostly allocable to prior years, and a gain of €8.0 million on disposal of assets.

Table 9 shows the income statements for the last five quarters expressed in absolute amounts and as 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 half of 2004 and 2003 with their percentage distribution, the related interest revenues and expenses, and the resulting annualized average half-yearly rates of yield and cost for each asset and liability. Similar data for the last six quarters are summarized in Table 11.

Table 10. Yields and costs

(Amounts in € thousand and rates annualized)

	June 30, 2004				June 30, 2003			
	Average balance	Distribution (%)	Revenue or expense	Average rate (%)	Average balance	Distribution (%)	Revenue or expense	Average rate (%)
Monetary assets	98,113	0.17	1,045	2.13	150,473	0.34	2,145	2.85
Financial system:	5,292,926	9.42	50,931	1.92	5,554,265	12.41	66,462	2.39
In euros	4,445,360	7.91	44,524	2.00	3,936,464	8.79	52,822	2.68
In foreign currencies	847,566	1.51	6,407	1.51	1,617,801	3.62	13,640	1.69
Loans and discounts (a):	48,830,520	83.37	1,259,885	5.38	35,996,658	80.40	1,151,295	6.40
In euros	46,470,643	82.72	1,256,588	5.41	35,650,342	79.63	1,147,593	6.44
In foreign currencies	359,877	0.65	3,297	1.83	346,316	0.77	3,702	2.14
Securities portfolio:	1,310,249	2.33	33,898	5.17	1,115,757	2.49	28,513	5.11
Government debt securities	49,345	0.09	835	3.38	97,225	0.22	1,943	4.00
Other fixed-interest securities	429,546	0.76	6,570	3.06	542,685	1.21	8,233	3.03
Equity securities	831,358	1.48	26,493	6.37	475,847	1.06	18,337	7.71
<i>Total earning assets (b)</i>	<i>53,531,808</i>	<i>95.29</i>	<i>1,345,759</i>	<i>5.03</i>	<i>42,817,153</i>	<i>95.64</i>	<i>1,248,415</i>	<i>5.83</i>
Other assets	2,643,130	4.71	–	–	1,954,819	4.36	–	–
Total assets	56,174,938	100.00	1,345,759	4.79	44,771,972	100.00	1,248,415	5.58
Financial system:	8,737,676	15.55	85,538	1.96	7,293,060	16.29	88,127	2.42
In euros	6,329,930	11.27	82,655	2.61	5,396,460	12.05	78,273	2.90
In foreign currencies	2,407,746	4.28	2,883	0.24	1,896,600	4.24	9,854	1.04
Customer funds (c):	40,146,022	71.46	300,382	1.50	31,720,737	70.85	290,471	1.83
Customer accounts:	30,824,119	54.87	199,090	1.29	24,736,960	55.25	192,791	1.56
In euros:	30,045,123	53.48	195,557	1.30	23,989,723	53.58	188,871	1.57
Demand and savings deposits	14,506,414	25.82	28,434	0.39	12,505,487	27.93	33,634	0.54
Time deposits	13,544,466	24.11	146,228	2.16	9,855,091	22.01	134,033	2.72
Assets sold under repurchase agreements	1,949,126	3.47	19,977	2.05	1,621,470	3.62	21,033	2.59
Other	45,117	0.08	918	4.07	7,675	0.02	171	4.46
In foreign currencies	778,996	1.39	3,533	0.91	747,237	1.67	3,920	1.50
Bonds and other marketable debt securities	9,321,903	16.59	101,292	2.17	6,983,777	15.60	97,680	2.80
<i>Total interest-bearing liabilities (d)</i>	<i>48,883,698</i>	<i>87.01</i>	<i>385,920</i>	<i>1.58</i>	<i>39,013,797</i>	<i>87.14</i>	<i>378,598</i>	<i>1.94</i>
Other non-interest-bearing liabilities	4,030,711	7.19	–	–	3,173,391	7.09	–	–
Capital accounts	3,260,529	5.80	–	–	2,584,785	5.77	–	–
Total liabilities and capital	56,174,938	100.00	385,920	1.37	44,771,972	100.00	378,598	1.69
<i>Customer spread (a-c)</i>				3.88				4.57
<i>Spread (b-d)</i>				3.45				3.89

Table 11. Quarterly yields and costs

(Data in % and rates annualized)

	2003								2004			
	1st		2nd		3rd		4th		1st		2nd	
	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate	Distribution	Rate
Monetary assets	0.09	2.87	0.57	2.85	0.29	2.29	0.03	2.01	0.19	2.14	0.16	2.12
Financial system	12.98	2.44	11.86	2.35	9.87	2.01	8.85	2.41	9.39	1.86	9.45	1.98
Loans and discounts (a)	80.16	6.54	80.63	6.26	81.93	5.84	84.24	5.68	83.65	5.48	83.10	5.29
Securities portfolio	2.43	6.28	2.55	4.04	2.93	4.80	1.71	2.07	2.14	6.18	2.51	4.37
<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	95.22	4.93
Other assets	4.34	–	4.39	–	4.98	–	5.17	–	4.63	–	4.78	–
Total assets	100.00	5.71	100.00	5.45	100.00	5.13	100.00	5.03	100.00	4.89	100.00	4.70
Financial system	15.68	2.48	16.87	2.36	14.95	2.08	13.12	2.19	15.24	1.99	15.85	1.93
Customer funds (c)	71.44	1.93	70.31	1.74	71.98	1.56	73.18	1.50	71.36	1.50	71.58	1.49
<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	87.43	1.57
Other non-interest-bearing liabilities	6.98	–	7.17	–	7.12	–	7.82	–	7.41	–	6.94	–
Capital accounts	5.90	–	5.65	–	5.95	–	5.88	–	5.99	–	5.63	–
Total liabilities and capital	100.00	1.76	100.00	1.62	100.00	1.44	100.00	1.38	100.00	1.37	100.00	1.38
<i>Customer spread (a-c)</i>	4.61		4.52		4.28		4.18		3.98		3.80	
<i>Spread (b-d)</i>	3.94		3.84		3.75		3.71		3.54		3.36	

As stated earlier, BNC was integrated in the Group effective June 30, 2003, and the aggregates for the first half of 2003 in Table 10 do not include this subsidiary. For uniform comparison between the first half of 2003 and the first half of 2004, the appropriate adjustments were made in calculating the main yield and cost rates and margins.

The behavior of the euro area financial markets in the last twelve months has been marked by the low level of interest rates following the European Central Bank's 50 basis points reduction of its main financing rate in June 2003 to its current level of 2%. Money market rates have been virtually flat at around 2.10% for the 3-month Euribor, while the 12-month Euribor has fluctuated in a band of between 2.10% and 2.40%.

The average interest rates in the first half of 2004 have been 2.06% and 2.22% for 3- and 12-month Euribor, respectively, with declines of 46 and 19 basis points from the average rates in the same period of 2003. This scenario of record low interest rates, after three years of continuous falls, is the framework of reference for the analysis of margins and profitability in the following paragraphs.

Average total assets in the first half of 2004 amounted to €56,175 million, an increase of 25.5% year on year. Average risk-weighted total assets (RWA) amounted to €49,830 million and the year-on-year growth rate was 29.6%.

The average yield on loans and discounts was 5.38% in the first half of 2004, 102 basis points less than in the same period of 2003, whereas the average cost of customer funds was 1.50%, a decrease of 33 basis points, and the customer spread (i.e. the difference between these two rates) decreased by 69 basis points to 3.88%.

The spread, the differential between the rate of yield on all earning assets and the cost of all interest-bearing liabilities, decreased in the first half of 2004 compared with the same period in 2003 by 44 basis points to 3.45%.

The net interest margin on average total assets in the first half fell by 47 basis points from 3.89% to 3.42% because the decline of 79 basis points in the yield on assets was greater than the decline of 32 basis points in the cost of funds.

Analysis of the second quarter compared with the first quarter shows a fall of 18 basis points in the customer spread (from 3.98% to 3.80%) and in the spread (from 3.54% to 3.36%), and the net interest margin fell by 20 basis points to 3.32%.

Fig.14 Quarterly customer spread

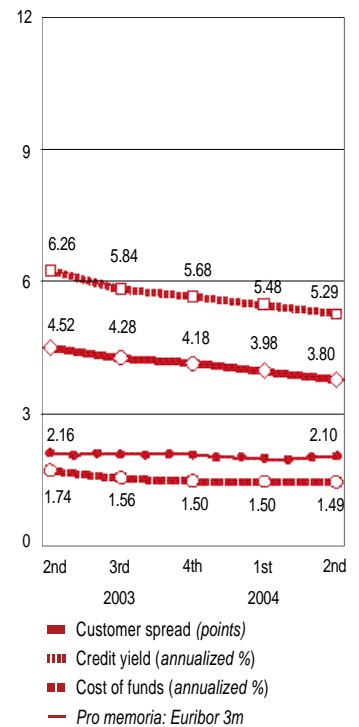


Table 12. Profitability

	June 30 2004	June 30 2003	Variation
(As annualized % of average total assets)			
Yield on assets	4.79	5.58	(0.79)
- Cost of funds	1.37	1.69	(0.32)
= Net interest margin	3.42	3.89	(0.47)
+ Yield on services, net	1.18	1.32	(0.14)
+ Yield on fin. assets trading & exch. profits	0.05	0.07	(0.02)
= Ordinary margin	4.65	5.28	(0.63)
- Operating costs:	1.57	1.79	(0.22)
<i>Personnel costs</i>	1.10	1.27	(0.17)
<i>Other expenses</i>	0.47	0.52	(0.05)
- Depreciation	0.14	0.16	(0.02)
± Other operating income/expenses, net	(0.07)	(0.08)	0.01
= Operating profitability	2.87	3.25	(0.38)
± Other items, net	0.08	0.18	(0.10)
- Provisions and writedowns	0.70	0.85	(0.15)
= Pre-tax income return	2.25	2.58	(0.33)
- Corporate income tax	0.80	0.96	(0.16)
= Net income return (ROA)	1.45	1.62	(0.17)
Net return on average risk-weighted assets (RORWA) (%)	1.64	1.88	(0.24)
Net return on average equity (ROE) (%)	22.62	25.67	(3.05)
Leverage	15.6 x	15.8 x	(0.2)
Operating efficiency (%)	33.78	33.88	(0.10)
<i>€ million:</i>			
Average total assets	56,175	44,772	11,403
Average total risk-weighted assets (RWA)	49,830	38,444	11,386
Average total equity	3,261	2,585	676

The effect of the integration of BNC was a slight cut of 5 basis points in the foregoing differentials for the first half and of virtually the same size considering the second quarter by itself. The adjusted customer spread (excluding BNC) was 3.93% in the first half, the spread was 3.50%, and the net interest margin was 3.47%.

Table 11 and Figures 13 and 14 show the variations in recent quarters in the rates of yield and cost and of the foregoing margins.

Profitability

Average equity in the first half amounted to €3,261 million, up 26.1% over the same period of 2003; the increase arose from the allocation to reserves out of 2003 income and the capital increase for the BNC operation, which took place at the end of June 2003.

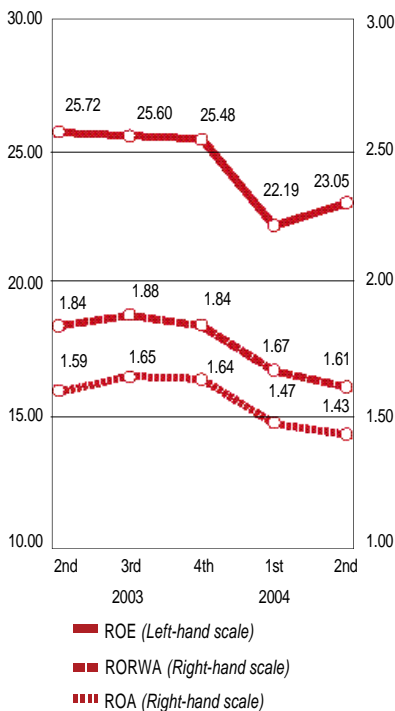
The annualized ROE for the first half of 2004 was 22.62%. Adjusted for the BNC effect, the ROE was 25.06%, practically the same as in the first half of 2003 (25.67%) before the integration of BNC.

The ROE in the second quarter of 2004 was 23.05%, appreciably better than the 22.19% in the preceding quarter. The Group ROE excluding BNC was 25.39%, higher than the 24.73% in the first quarter.

The foregoing figures evidence that the Group has maintained its high return on capital.

The annualized ROA for the first half of 2004 was 1.45%, 17 basis points lower than in the same period of 2003, and excluding BNC was 1.52%. The annualized return on average risk-weighted total assets (RORWA) for the first six months was 1.64%, a reduction of 24 basis points compared with the same period in 2003.

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



The ROA and the RORWA in the second quarter were 1.43% and 1.61%, respectively, a decline of 4 basis points and 6 basis points compared with the preceding quarter.

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

The operating profitability of 2.87% on average total assets in the first half was 38 basis points lower than the figure of 3.25% in the same period of 2003. The main cause of this variation was the fall of 47 basis points in the net interest margin, as discussed earlier. Other operating revenues fell by 16 basis points, whereas operating costs contributed 22 basis points and other items contributed 3 basis points.

Analysis of the second quarter discloses annualized operating profitability of 2.78% on average total assets, which was 18 basis points lower than in the preceding quarter, for reasons similar to those already mentioned: the net interest margin and other revenues fell by 20 basis points and 4 basis points, respectively, whereas the improvement in operating costs contributed 4 basis points and other items 2 basis points.

Table 12 shows the detail of the income statement for the first half of 2004 in annualized percentages of average total assets. The income statement for the second quarter is shown in Table 9.

The balance sheet leverage, i.e. the ratio of total funds to total equity, was 15.6 times at the end of June 2004, compared with 15.8 times in the same period of 2003.

The efficiency ratio, i.e. the portion of total revenues absorbed by operating costs, stood at 33.8% in the first half, a slight improvement on the 33.9% in the same period of 2003, despite the integration of BNC between the two periods (adjusted for this effect, the ratio was 33.3%). The ratio in the second quarter of 2004 was 34.2% (33.6% excluding BNC) compared with 33.4% in the preceding quarter.

The foregoing measures of profitability, leverage and efficiency in the first half and second quarter of 2004 are shown in the lower portion of Tables 12 and 9, respectively.

Market performance of Banco Popular shares

The Bank's share price closed at €46.42 at the end of the second quarter, which was 1.9% lower than at the end of 2003, although it signified an appreciation of 5.5% in the last twelve months.

The share price started the year with a sharp rise to a record high of €50.25 at the end of January, fluctuated between €48 and €49 in February and fell until the beginning of May to a low of €44.81, followed by an appreciable subsequent recovery.

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

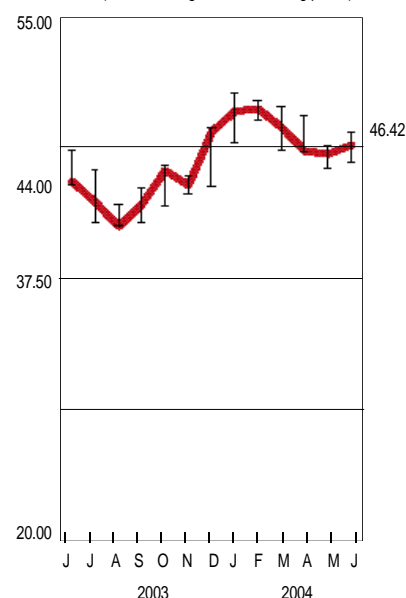


Table 13. Quarterly bank share performance

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
2003 2nd	217,154	93,033	42.84	46.40	38.55	44.00	0.385	12.1
2003 3rd	227,072	116,611	51.35	44.86	40.86	42.47	0.390	(2.6)
2003 4th	227,387	121,264	53.33	48.07	42.13	47.30	0.395	12.3
Year total	222,229	413,783	186.20	48.07	36.05	47.30	1.540	25.3
2004 1st	227,387	110,722	48.69	50.25	46.00	47.62	0.400	1.5
2004 2nd	227,387	101,088	44.46	48.67	44.81	46.42	0.405	(1.7)

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

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

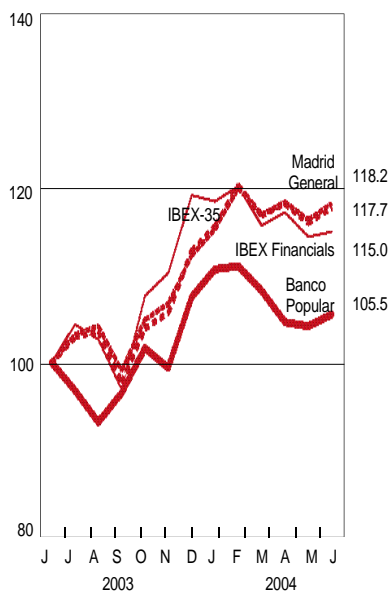
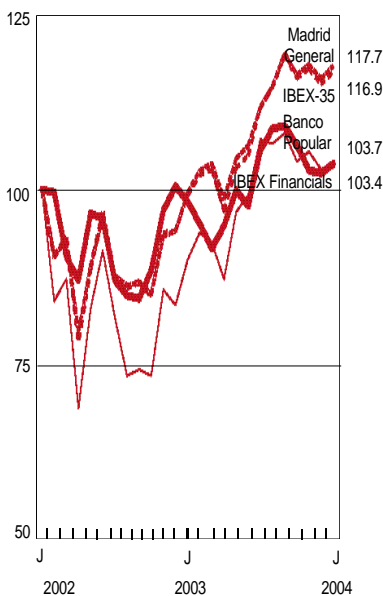


Fig.18 Banco Popular vs. the market
June 2002-June 2004 indexes
(Month-end figures)



In the first half of 2004, Banco Popular shares performed worse than the market as a whole - the Madrid Stock Exchange general share index was up 5.3% and the Ibex-35 was up 4.4%, although the share did perform better than the banking sector index (the financial Ibex fell by 3.5%).

Considering the last twelve months, the appreciation has also been lower than that of these indexes, which rose by 18.2%, 17.7% and 15.0%, respectively. In the last two years, Banco Popular shares have appreciated by 3.7%, similar to the 3.4% of the financial Ibex, but less than the rises of 17.7% in the Madrid Stock Exchange general index and of 16.9% in the Ibex-35.

The market return on Banco Popular shares - the rise in the share price plus dividend payments - was 9.1% in the last twelve months and -0.2% in the first half of 2004.

The P/E ratio of Banco Popular shares at the end of the first half of 2004 was 14.3 times the annualized income for the period.

211.8 million shares representing 93% of the number of shares outstanding were traded in the first half of 2004, at an average price of €47.37 per share, evidencing the high liquidity of the stock in the market.

At June 30, 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 half the Group intervened as a buyer in transactions involving 443,775 shares (0.20% of the capital stock), and as a seller in the same number. The maximum treasury stock held in the first half was 239,355 shares (0.11% of the capital stock), the minimum was zero and the average was 80,445 shares (0.04%).

During the first half the Group also traded 980 share futures contracts on Banco Popular shares. At June 30 there were 859 contracts, which was also the maximum for the period; the minimum was zero.

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 June 2003 showing the high and low (intraday) and closing prices for each month.

Figures 17 and 18 present, on an index basis with June 30, 2003 and 2002 = 100, the movement in the market price of the shares, compared with the three stock market indexes mentioned above, for the last twelve and twenty-four months.

Madrid, July 2004



BANCO POPULAR ESPAÑOL
34 Velázquez. 28001 Madrid
Telephone: (34) 91 520 70 00. Fax: (34) 91 577 92 08
Internet: <http://www.bancopopular.es>