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Quarterly report

april | may | june

Highlights

(Amounts in € thousand) 6.30.06 6.30.05 Var. %

Business volume

Total assets managed	100,123,725	85,365,467	17.3
On-balance sheet total assets	83,528,007	71,462,180	16.9
Total equity	5,279,471	4,761,742	10.9
Funds managed:	78,996,159	66,719,240	18.4
On-balance sheet funds	62,400,441	52,815,953	18.1
Other intermediated funds	16,595,718	13,903,287	19.4
Lending to customers (gross)	71,838,777	60,593,185	18.6
Contingent risks	11,422,403	8,411,684	35.8

Solvency

BIS ratio (%)	9.71	10.23	
Of which: Tier 1 (%)	7.81	8.42	

Risk management

Total risks	83,261,180	69,004,869	20.7
Nonperforming loans	619,048	554,310	11.7
Allowances for credit losses	1,577,401	1,341,394	17.6
% nonperforming ratio	0.74	0.80	
% coverage (Credit loss allowance/Nonperforming loans)	254.8	242.0	

Income statements

Net interest revenue	1,012,556	920,526	10.0
Ordinary revenue	1,487,330	1,336,257	11.3
Operating income	953,214	846,621	12.6
Income before taxes	825,366	691,315	19.4
Consolidated income for the period	552,111	454,112	21.6
Income attributed to the Group	517,872	426,500	21.4

Net return and efficiency

Average total assets	81,059,258	67,789,626	19.6
Average total equity	4,763,544	4,252,795	12.0
ROA (%)	1.36	1.34	
ROE (%)	21.74	20.06	
Operating efficiency (%)*	31.94	32.39	

Per share data**

Final number of shares (thousands)	1,215,433	1,215,433	-
Average number of shares (thousands)	1,215,251	1,183,918	2.6
Share closing market price (€)	11.65	9.99	16.6
Market capitalization	14,159,789	12,142,171	16.6
Share book value (€)	4.34	3.92	10.9
Net income per share (€)	0.426	0.360	18.3
Dividend per share paid in the period (€)	0.181	0.176	3.0
Price/Book value	2.68	2.55	
Price/Earnings (annualized)	13.7	13.9	

Other data

Shareholders	109,853	83,920	30.9
Employees	14,056	13,803	1.8
Spain	12,667	12,397	2.2
Abroad	1,389	1,406	(1.2)
Branches	2,409	2,360	2.1
Spain	2,217	2,186	1.4
Abroad	192	174	10.3
ATMs	3,381	3,420	(1.1)

* Cost income = operating costs (w/o depreciation) divided by ordinary revenue + non-financial service fee revenues

** Figures adjusted for the 5x1 split in June 21, 2005

The financial information as of June 30, 2006 was not audited, although it was prepared in accordance with EU International Financial Reporting Standards, and was consistent with the 2005 audited financial statements.

Salient aspects

The progression in earnings of the Banco Popular Group intensified in the second quarter of 2006 as a result of the measures taken at the beginning of this year. The effort to improve margins, careful selection and planning of costs, priority attention to credit quality and the change in the composition of the risk portfolio were the guiding lines of the Group's management in the quarter, as they will be in coming quarters. The outcome was growth of nearly 22% in consolidated income, with strong improvements in ROE, efficiency and the nonperforming loans ratio, together with a sharp slowdown in capital requirements. The reorientation of the Group's strategy, reaffirming its principles of growth with profitability and security, has evidenced the flexibility and high professionalism of the Group's staff, who were able to "change pace in mid-race", bucking the trend in the industry.

Ordinary revenue spurted with an 11.3% year-on-year rise in the six months to June 30; the increase in the second quarter by itself was 12.3%, i.e. 2% faster than in the first quarter. This acceleration in revenues was driven mainly by the 4 basis points improvement in the customer spread, a strong performance from net fees, which were up 9.9%, and the sharp increase in asset trading and exchange transactions. The latter involved occasionally high funding needs which also occasionally led to higher financial costs, resulting in growth of 10% in the net interest revenue.

General expenses followed a trend of clear slowdown year on year, with growth of 12.8% in the second quarter compared with the same quarter in 2005, as against 17% in the first quarter of 2006 and 30.3% in the fourth quarter of 2005. This decline in the growth rate of expenses was achieved without any let-up in the drive for expansion of the business in the future, since thirty new branch offices were opened, 250,000 new customers were added, and a new line of consumer credit was launched.

Operating income grew by 12.6% year on year, compared with 10.9% at March end, illustrating the combined effect of the strength of revenues with the moderation in expenses.

The recomposition of the expansion of the credit portfolio, with fewer low-margin mortgage loans and a bigger component of other more profitable transactions, made it possible to strengthen earnings with less need for balance sheet growth and, therefore, with lower capital requirements. The loan portfolio grew by 18.6% year on year, due to the strength of credits and loans which, with a growth rate of 20%, nearly matched the dynamic progress of mortgage lending, which was up 20.2%. This latter figure evidences the success of the strategy announced several months ago by Banco Popular of giving priority to profitability and anticipating the change of cycle in the property sector.

The nonperforming ratio fell by 8 basis points in the second quarter to 0.74%. The lower provisions to allowances for asset impairment losses, as a result of credit quality and the growth model chosen, were a key factor in raising consolidated income by 21.6% and the income attributed to the Group by 21.4%.

The most obvious support for the strategy chosen is undoubtedly to be seen in the excellent performance of the efficiency ratio, which at the end of the second quarter stood at 31.9%, and in the rise of ROE to 21.7%, with an improvement of 129 basis points in the quarter and of 168 basis points year on year.

Balance Sheet

(Amounts in € thousand)

	6.30.06	12.31.05	6.30.05	% variation	
				6 months	12 months
Assets					
Cash and due from central banks	776,827	959,545	642,886	(19.0)	20.8
Trading portfolio	2,026,174	1,385,503	1,410,132	46.2	43.7
Other financial assets at fair value with changes in P&L	321,982	311,467	50,082	3.4	>
Available-for-sale financial assets	560,504	890,521	670,631	(37.1)	(16.4)
Loans and discounts:	77,300,380	71,425,197	65,804,574	8.2	17.5
Lending to customers	71,838,777	66,323,318	60,593,185	8.3	18.6
Other loans and discounts	6,848,505	6,413,835	6,416,396	6.8	6.7
Valuation adjustments (+/-)	(1,386,902)	(1,311,956)	(1,205,007)	5.7	15.1
Held-to-maturity investment portfolio	436	455	-	(4.2)	
Asset hedging derivatives	111,372	442,221	384,457	(74.8)	(71.0)
Non-current assets for sale	114,612	98,646	76,204	16.2	50.4
Participating interests	15,617	22,007	25,804	(29.0)	(39.5)
Pension-linked insurance contracts	231,972	240,556	239,085	(3.6)	(3.0)
Reinsurance assets	4,863	4,010	2,695	21.3	80.4
Tangible assets	710,582	724,616	724,201	(1.9)	(1.9)
Intangible assets	367,905	362,548	354,389	1.5	3.8
Tax assets	747,790	660,596	798,547	13.2	(6.4)
Accrual accounts	62,579	45,515	62,383	37.5	0.3
Other asset accounts	174,412	124,345	216,110	40.3	(19.3)
Total assets	83,528,007	77,697,748	71,462,180	7.5	16.9
Liabilities					
Trading portfolio	429,221	340,869	390,887	25.9	9.8
Financial liabilities at amortized cost:	74,083,824	69,224,559	63,193,895	7.0	17.2
Deposits of credit institutions	11,331,789	11,184,095	10,205,771	1.3	11.0
Customer deposits	34,098,325	34,726,306	33,626,290	(1.8)	1.4
Bonds and other marketable debt securities	26,651,506	21,406,891	17,543,506	24.5	51.9
Subordinated liabilities	574,964	574,950	374,946	-	53.3
Other financial liabilities	1,238,079	871,986	1,098,010	42.0	12.8
Valuation adjustments (+/-)	189,161	460,331	345,372	(58.9)	(45.2)
Hedging derivatives	348,191	166,561	252,545	>	37.9
Insurance contract liabilities	646,731	618,364	318,593	4.6	>
Allowances	507,366	501,435	534,859	1.2	(5.1)
Tax liabilities	439,225	175,436	66,243	>	>
Accrual accounts	328,771	271,020	527,778	21.3	(37.7)
Other liabilities accounts	86,061	71,286	98,730	20.7	(12.8)
Financial liabilities classified as capital	996,247	981,199	980,881	1.5	1.6
Total liabilities	77,865,637	72,350,729	66,364,411	7.6	17.3
Net worth					
Minority interests	356,047	342,455	322,452	4.0	10.4
Valuation adjustments	26,852	14,785	13,575	81.6	97.8
Equity	5,279,471	4,989,779	4,761,742	5.8	10.9
Capital, reserves and retained earnings	4,761,599	4,331,537	4,335,242	9.9	9.8
Income for the period	517,872	877,749	426,500		21.4
Dividends paid and declared	-	(219,507)	-		
Total net worth	5,662,370	5,347,019	5,097,769	5.9	11.1
Total net worth and liabilities	83,528,007	77,697,748	71,462,180	7.5	16.9
<i>Pro-memoria:</i>					
Contingent risks	11,422,403	9,611,758	8,411,684	18.8	35.8
Contingent commitments	20,804,739	18,659,159	17,237,999	11.5	20.7

Business Performance

At June 30, 2006, the Group's total on-balance sheet assets amounted to €83,528 million, an increase of €12,066 million in the last twelve months, a year-on-year growth rate of 16.9%.

The off-balance sheet assets managed increased by 19.4% driven by mutual funds (up 21.5%), asset management (up 25.8%), and pension plans (up 11.0%).

Accordingly, the Group's total business volume at June 30 was therefore €100,124 million, up 17.3% year on year.

Lending to the Group's customers totaled €71,839 million, an increase of 18.6% in the last twelve months. This lending to customers represented 86.0% of total assets at the end of the quarter. The credit to private sector borrowers of €71,731 million was 18.6% higher year on year. By type of lending, mortgage loans, mostly for home purchase, were up by 20.2%, personal loans and credits (other term loans) by 19.9%, and leasing transactions by 11.2%.

The contingent risks were 35.8% higher at €11,422 million, with collateral and other guarantees provided up by 33.8%.

Total on-balance sheet funds (customer deposits, marketable debt securities, subordinated debt and capital classified as financial liabilities) amounted to €62,400 million at June 30, 2006, a year-on-year increase of 18.1%.

Retail liabilities – demand deposits, time deposits and commercial paper – were up 6.3% year on year and were the main source of balance sheet funding with an approximate contribution thereto of 59%. This caption included most notably the private sector resident demand deposits (up 14.5%) and commercial paper (up 23.8%). Wholesale funding – bonds, commercial paper, covered bonds ("cédulas") and interbank borrowing – provided 39% of borrowed funds and is managed with criteria of maximum prudence that seek to balance the objective of minimizing costs with that of maximizing diversification both in terms and in sources of funding. The remaining 2% of borrowed funds consisted of preferred shares and subordinated debt.

At June 30, 2006, the balance of doubtful receivables was €619 million. This was €65 million (11.7%) more than in the same period of 2005, but much lower than the 20.7% increase recorded in total risks.

As a result, the nonperforming ratio, i.e. doubtful assets as a percentage of total risks (loans and discounts plus contingent risks), stood at 0.74%, a reduction of 6 basis points in the last twelve months.

In addition to the low level of nonperforming loans, the Group had allowances covering 254.8% of the doubtful assets balance, which was 13 percentage points more than in June 2005.

By business area, retail banking accounted for 86.2% of the total assets and contributed 91.3% of the balance sheet growth, with a year-on-year increase of 18.1%.

By geographical area, 92.0% of the assets were from the business in Spain, with the business in Portugal contributing the remaining 8%. The growth in assets in Spain was 16.1% and in Portugal was 26.1%.

Funds Managed

(Amounts in € thousand)

	6.30.06	12.31.05	6.30.05	% variation	
				6 months	12 months
Customer deposits:	34,098,325	34,726,306	33,626,290	(1.8)	1.4
<i>From public authorities:</i>	1,030,021	1,548,108	1,060,271	(33.5)	(2.9)
Demand deposits	664,252	755,873	793,650	(12.1)	(16.3)
Savings deposits	764	1,271	1,287	(39.9)	(40.6)
Time deposits	38,410	59,128	39,684	(35.0)	(3.2)
Assets sold under repurchase agreements	52	546,052	52	(100.0)	-
Nonresidents public authorities	326,543	185,784	225,598	75.8	44.7
<i>Other private sector depositors:</i>	33,068,304	33,178,198	32,566,019	(0.3)	1.5
Residents:	27,929,983	27,839,095	27,146,026	0.3	2.9
Demand deposits	11,243,232	10,370,910	9,494,876	8.4	18.4
Savings deposits	5,115,382	4,946,348	4,793,928	3.4	6.7
Time deposits	9,732,016	10,695,882	10,525,843	(9.0)	(7.5)
Assets sold under repurchase agreements	1,577,593	1,565,060	2,066,942	0.8	(23.7)
Other accounts	261,760	260,895	264,437	0.3	(1.0)
Nonresidents:	5,138,321	5,339,103	5,419,993	(3.8)	(5.2)
Demand deposits	1,326,515	1,344,126	1,384,887	(1.3)	(4.2)
Savings deposits	898,515	940,920	1,000,062	(4.5)	(10.2)
Time deposits	2,882,245	3,016,606	2,994,165	(4.5)	(3.7)
Assets sold under repurchase agreements	2,590	19,038	14,598	(86.4)	(82.3)
Other accounts	28,456	18,413	26,281	54.5	8.3
Bonds and other marketable debt securities:	26,651,506	21,406,891	17,543,506	24.5	51.9
Bonds and other debt securities outstanding	19,696,480	15,287,658	12,365,968	28.8	59.3
Promissory notes	6,955,026	6,119,233	5,177,538	13.7	34.3
Subordinated liabilities	574,964	574,950	374,946	-	53.3
Financial liabilities classified as capital	988,000	988,000	988,000	-	-
Valuation adjustments (+/-)	87,646	368,826	283,211	(76.2)	(69.1)
Total on-balance sheet funds (a)	62,400,441	58,064,973	52,815,953	7.5	18.1
Mutual funds	11,445,895	10,531,263	9,420,978	8.7	21.5
Asset portfolio management	1,484,940	1,247,357	1,180,720	19.0	25.8
Pension funds	3,664,883	3,562,113	3,301,589	2.9	11.0
Total other intermediated funds (b)	16,595,718	15,340,733	13,903,287	8.2	19.4
Total (a+b)	78,996,159	73,405,706	66,719,240	7.6	18.4

Lending to customers

(Amounts in € thousand)

	6.30.06	12.31.05	6.30.05	% variation	
				6 months	12 months
<i>Lending to Public Authorities:</i>	107,801	114,645	116,157	(6.0)	(7.2)
Normal status loans	107,797	114,641	116,153	(6.0)	(7.2)
Doubtful assets	4	4	4	-	-
<i>Other private sector borrowers:</i>	71,730,976	66,208,673	60,477,028	8.3	18.6
Residents:	64,465,731	59,702,812	54,252,523	8.0	18.8
Trade loans and discounts	6,420,594	6,315,867	5,785,403	1.7	11.0
Secured loans	36,153,609	33,185,542	29,810,156	8.9	21.3
Mortgage loans	35,951,533	33,002,833	29,695,322	8.9	21.1
Other	202,076	182,709	114,834	10.6	76.0
Asset repos	3	121	1	(97.5)	>
Other term loans	15,970,952	14,708,235	13,368,246	8.6	19.5
Leasing	3,493,764	3,324,127	3,184,199	5.1	9.7
Overdrafts and other	1,945,895	1,701,217	1,663,669	14.4	17.0
Nonperforming loans	480,914	467,703	440,849	2.8	9.1
Nonresidents:	7,265,245	6,505,861	6,224,505	11.7	16.7
Trade loans and discounts	351,640	349,693	358,271	0.6	(1.9)
Secured loans	3,391,877	3,191,907	3,034,812	6.3	11.8
Mortgage loans	3,376,133	3,173,620	3,015,040	6.4	12.0
Other	15,744	18,287	19,772	(13.9)	(20.4)
Repos	-	-	-	-	-
Other term loans	3,099,532	2,594,900	2,541,394	19.4	22.0
Leasing	121,788	89,439	67,406	36.2	80.7
Overdrafts and other	181,873	167,037	119,329	8.9	52.4
Nonperforming loans	118,535	112,885	103,293	5.0	14.8
Total lending to customers	71,838,777	66,323,318	60,593,185	8.3	18.6
Valuation adjustments (+/-)	(1,398,749)	(1,322,449)	(1,214,798)	5.8	15.1
Total	70,440,028	65,000,869	59,378,387	8.4	18.6

Risk Management Performance*

(Amounts in € thousand)

	6.30.06	6.30.05	Variation	
			Amount	%
Nonperforming loans:				
Balance at January 1	591,043	612,549	(21,506)	(3.5)
Net variation for the year	100,368	(9,428)	109,796	
% increase	17.0	(1.5)		
Writeoffs	(72,363)	(48,811)	(23,552)	48.3
Balance at June 30	619,048	554,310	64,738	11.7
Allowance for credit losses:				
Balance at January 1	1,469,927	1,218,802	251,125	20.6
Annual provision:				
Gross	226,094	253,673	(27,579)	(10.9)
Recoveries	(54,201)	(77,372)	23,171	(29.9)
Net	171,893	176,301	(4,408)	(2.5)
Other variations	6,233	(10,945)	17,178	
Writeoffs	(70,652)	(42,764)	(27,888)	65.2
Balance at June 30	1,577,401	1,341,394	236,007	17.6
<i>Pro memoria:</i>				
Total risks	83,261,180	69,004,869	14,256,311	20.7
Loans transferred to suspense accounts	1,081,229	1,031,249	49,980	4.8
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	0.74	0.80	(0.06)	
Insolvency (Writeoffs/Total risks)	0.09	0.07	0.02	
Coverage (Credit loss allowance/Nonperforming loans)	254.81	241.99	12.82	

* Including doubtful off-balance sheet risks and country risk and the related country risk allowance.

Credit loss allowances	Specific	General	Country risk	Total
Balance at January 1	218,675	1,244,529	6,723	1,469,927
Net provisions	86,989	86,205	(1,301)	171,893
Amount used	(70,652)	-	-	(70,652)
Other variations and transfers	2,976	3,257	-	6,233
Balance at June 30	237,988	1,333,991	5,422	1,577,401

Solvency

(Amounts in € thousand)	6.30.06	6.30.05	% variation
Common stock	121,543	121,543	-
Reserves	4,640,230	4,220,230	10.0
Minority interests	320,837	292,711	9.6
Retained earnings in the period	276,021	219,699	25.6
Deductions	(398,068)	(361,160)	10.2
Total core capital	4,960,563	4,493,023	10.4
<i>Core capital (%)</i>	<i>6.52</i>	<i>6.90</i>	
Preferred stock	988,000	988,000	-
Total Tier 1 Capital	5,948,563	5,481,023	8.5
<i>Tier 1 ratio (%)</i>	<i>7.81</i>	<i>8.42</i>	
Total Tier 2 Capital	1,444,707	1,178,797	22.6
BIS computable capital	7,393,270	6,659,820	11.0
Capital cushion	1,303,592	1,453,895	(10.3)
<i>BIS ratio (%)</i>	<i>9.71</i>	<i>10.23</i>	
<i>Pro memoria:</i>			
Total BIS risk-weighted assets	76,120,977	65,074,062	17.0

Equity

(Amounts in € thousand)	Capital & reserves	Valuation adjustments	Minority interests	Net worth
Adjusted balance at 12.31.2004	3,757,744	8,873	309,973	4,076,590
Capital increase (BPE)	792,850	-	-	792,850
Treasury stock	4,599	-	-	4,599
Consolidation adjustments (net)	(4,649)	-	(1,941)	(6,590)
Valuation adjustments	-	5,912	151	6,063
2005 net income	877,749	-	59,856	937,605
Dividends	(437,070)	-	(25,584)	(462,654)
Others	(1,444)	-	-	(1,444)
Balance at 12.31.2005	4,989,779	14,785	342,455	5,347,019
Treasury stock	(2,771)	-	-	(2,771)
Consolidation adjustments (net)	(3,228)	-	2,080	(1,148)
Valuation adjustments	-	12,067	(160)	11,907
Income 1st half 2006	517,872	-	34,239	552,111
Dividends	(222,181)	-	(22,567)	(244,748)
Balance at 6.30.2006	5,279,471	26,852	356,047	5,662,370

Consolidated Income

The net interest revenue of €1,013 million at June 30 was 10.0% higher than in the same period of 2005.

The net fee revenues amounted to €418 million, a year-on-year growth of 9.9%. Noteworthy were mutual fund fees (up 21.0%), despite the poor performance of the markets in the second quarter of 2006. Also striking were the 15.9% rise in collection and payment mediation fees, and the 14.4% increase in fees for the provision of collateral and other guarantees.

Ordinary revenue, encompassing the Group's financial activity (banking business and insurance), amounted to €1,487 million at June 30, 2006, a rise of 11.3% year on year. Ordinary revenue in the second quarter amounted to €756 million, 12.3% more than in the same quarter of 2005 and 3.3% higher than in the first quarter of 2006.

Operating costs relating to personnel and administrative expenses were up 9.3% over the same period in 2005, as a result of rises of 6.8% in personnel expenses and of 14.8% in general expenses.

The efficiency ratio, i.e. the portion of ordinary revenue and income from nonfinancial services absorbed by operating costs (net of compensating fees), was 31.94%, an improvement of 45 basis points over the figure for June 2005.

The operating income of €953 million at the June 30 half-year end was 12.6% higher than in the same January-June period of 2005.

The losses of €133 million for impairment of assets related mostly to credit risks. At June 30, 2006, the general allowance of €1,334 million had practically reached the maximum limit envisaged under the new regulations.

The "Other income (net)" caption had a positive balance of €36 million, substantially all of which related to the disposal of tangible assets.

The pre-tax income of €825 million in the first half of 2006 was 19.4% higher year on year. The income attributed to the Banco Popular Group amounted to €518 million at June 30, 2006, up 21.4% on the same period in 2005.

The earnings per share of €0.426 in the first six months of 2006 were 18.3% higher year on year and lower than the growth in attributed income as a result of the capital increase carried out in March 2005.

The ROE stood at 21.74% at June 30, 2006, up on the 20.06% at the end of the first half in 2005. The ROA was 1.36% (1.34% the year before).

By business area, retail banking, which contributed 92.1% of consolidated income for the first half, recorded year-on-year growth of 21.8%.

By geographical area, the business in Spain contributed 94.9% of the income attributed to the Group, while the remaining 5.1% came from the business outside Spain. In terms of growth, however, Portugal showed greater dynamism at all the levels of the income statement. At the level of income attributed to the Group, the contribution of the business in Portugal was up by 41.7%, compared with the growth of 20.5% in that from the business in Spain.

Consolidated income and profitability

	(Amounts in € thousand)			(Annualized % of ATA)		
	6.30.06	6.30.05	% variation	6.30.06	6.30.05	Variation
Interest and similar revenues	1,727,329	1,418,121	21.8	4.26	4.18	0.08
- Interest and similar charges	730,698	506,740	44.2	1.80	1.49	0.31
+ Revenues from capital instruments.	15,925	9,145	74.1	0.04	0.03	0.01
=Net interest revenue	1,012,556	920,526	10.0	2.50	2.72	(0.22)
+ Revenues from equity method entities	10	1,780	(99.4)	-	0.01	(0.01)
+ Net fees	418,499	380,850	9.9	1.03	1.12	(0.09)
+ Insurance business.	18,887	9,252	>	0.05	0.03	0.02
± Asset trading and exchange profits (net)	13,776	5,225	>	0.03	0.01	0.02
± Exchange gains (net)	23,602	18,624	26.7	0.06	0.05	0.01
=Ordinary revenue	1,487,330	1,336,257	11.3	3.67	3.94	(0.27)
+ Non-financial service fee revenues (net)	18,151	15,877	14.3	0.04	0.05	(0.01)
- Operating costs:	479,814	436,757	9.9	1.18	1.29	(0.11)
Personnel expenses	342,468	320,733	6.8	0.84	0.94	(0.10)
Other general administrative expenses.	165,853	144,458	14.8	0.41	0.43	(0.02)
Other revenues (compensating fees).	(28,507)	(28,434)	0.3	(0.07)	(0.08)	0.01
- Depreciation.	50,942	47,985	6.2	0.13	0.14	(0.01)
- Other operating expenses	21,511	20,771	3.6	0.05	0.06	(0.01)
=Operating income	953,214	846,621	12.6	2.35	2.50	(0.15)
- Losses from impairment of assets and provisions to allowances (net)	163,589	167,754	(2.5)	0.40	0.49	(0.09)
± Other income (net)	35,741	12,448	>	0.09	0.03	0.06
=Income before taxes	825,366	691,315	19.4	2.04	2.04	-
- Corporate income tax provision	273,255	237,203	15.2	0.68	0.70	(0.02)
=Consolidated income for the period	552,111	454,112	21.6	1.36	1.34	0.02
- Income attributed to minority interests	34,239	27,612	24.0	0.08	0.08	-
=Income attributed to the Group	517,872	426,500	21.4	1.28	1.26	0.02
Net return on average risk-weighted assets (RORWA) (%)				1.50	1.47	0.03
Net return on average equity (ROE) (%)				21.74	20.06	1.68
Leverage				15.96	14.97	0.99
Operating efficiency (%)				31.94	32.39	(0.45)
<i>€ million:</i>						
Average total assets				81,059	67,790	13,269
Risk-weighted average total assets (RWA)				73,640	61,675	11,965
Average total equity.				4,764	4,253	511

Quarterly Consolidated Income

(Amounts in € thousand)

	2005				2006	
	1st	2nd	3rd	4th	1st	2nd
Interest and similar revenues	693,442	724,679	756,251	785,175	831,460	895,869
- Interest and similar charges	244,498	262,242	279,275	303,666	336,296	394,402
+ Revenues from capital instruments	3,159	5,986	4,796	4,620	5,718	10,207
=Net interest revenue	452,103	468,423	481,772	486,129	500,882	511,674
+ Revenues from equity method entities	699	1,081	680	(1,002)	(25)	35
+ Net fees	186,361	194,489	199,180	209,963	207,925	210,574
+ Insurance business	4,638	4,614	6,362	10,469	8,914	9,973
± Asset trading and exchange profits (net)	11,036	(5,811)	11,812	(747)	2,732	11,044
± Exchange gains (net)	8,413	10,211	9,938	13,633	11,213	12,389
=Ordinary revenue	663,250	673,007	709,744	718,445	731,641	755,689
+ Non-financial service fee revenues (net)	7,737	8,140	6,668	7,396	8,257	9,894
- Operating costs:	216,061	220,696	239,192	250,651	237,984	241,830
Personnel expenses	160,201	160,532	168,986	174,802	171,103	171,365
Other general administrative expenses	69,877	74,581	82,065	89,959	81,725	84,128
Other revenues (compensating fees)	(14,017)	(14,417)	(11,859)	(14,110)	(14,844)	(13,663)
- Depreciation	24,006	23,979	24,124	28,099	24,888	26,054
- Other operating expenses	10,452	10,319	10,546	10,473	10,824	10,687
=Operating income	420,468	426,153	442,550	436,618	466,202	487,012
- Losses from impairment of assets and provisions to allowances (net)	88,671	79,083	93,488	87,932	100,340	63,249
± Other income (net)	8,442	4,006	15,991	9,429	22,256	13,485
=Income before taxes	340,239	351,076	365,053	358,115	388,118	437,248
- Corporate income tax provision	115,191	122,012	122,362	117,313	128,423	144,832
=Consolidated income for the period	225,048	229,064	242,691	240,802	259,695	292,416
- Income attributed to minority interests	13,349	14,263	15,926	16,318	16,153	18,086
=Income attributed to the Group	211,699	214,801	226,765	224,484	243,542	274,330

Quarterly Profitability

(Annualized % of ATA)

	2005				2006	
	1st	2nd	3rd	4th	1st	2nd
Interest and similar revenues	4.14	4.23	4.19	4.13	4.20	4.32
- Interest and similar charges	1.46	1.53	1.55	1.60	1.70	1.90
+ Revenues from capital instruments	0.02	0.03	0.03	0.02	0.03	0.05
=Net interest revenue	2.70	2.73	2.67	2.55	2.53	2.47
+ Revenues from equity method entities	-	0.01	-	(0.01)	-	-
+ Net fees	1.11	1.14	1.10	1.10	1.05	1.02
+ Insurance business	0.03	0.03	0.03	0.06	0.05	0.04
± Asset trading and exchange profits (net)	0.07	(0.03)	0.07	-	0.01	0.05
± Exchange gains (net)	0.05	0.05	0.06	0.07	0.06	0.06
=Ordinary revenue	3.96	3.93	3.93	3.77	3.70	3.64
+ Non-financial service fee revenues (net)	0.04	0.05	0.04	0.04	0.04	0.05
- Operating costs:	1.29	1.31	1.31	1.32	1.20	1.17
Personnel expenses	0.95	0.94	0.94	0.92	0.87	0.83
Other general administrative expenses	0.42	0.44	0.45	0.47	0.41	0.41
Other revenues (compensating fees)	(0.08)	(0.07)	(0.08)	(0.07)	(0.08)	(0.07)
- Depreciation	0.14	0.14	0.13	0.15	0.13	0.12
- Other operating expenses	0.06	0.06	0.06	0.05	0.05	0.05
=Operating income	2.51	2.49	2.45	2.29	2.36	2.35
- Losses from impairment of assets and provisions to allowances (net)	0.53	0.46	0.52	0.46	0.51	0.31
± Other income (net)	0.05	0.02	0.09	0.05	0.11	0.07
=Income before taxes	2.03	2.05	2.02	1.88	1.96	2.11
- Corporate income tax provision	0.69	0.71	0.68	0.61	0.65	0.70
=Consolidated income for the period	1.34	1.34	1.34	1.27	1.31	1.41
- Income attributed to minority interests	0.08	0.09	0.08	0.09	0.08	0.09
=Income attributed to the Group	1.26	1.25	1.26	1.18	1.23	1.32
Net return on average risk-weighted assets (RORWA) (%)	1.51	1.44	1.47	1.40	1.44	1.56
Net return on average equity (ROE) (%)	20.31	19.81	20.92	20.73	20.45	23.03
Leverage	15.13	14.82	15.57	16.38	15.58	16.34
Operating efficiency (%)	32.29	32.49	33.44	34.60	32.24	31.65
<i>€ million:</i>						
Average total assets	67,055	68,524	72,259	76,127	79,132	82,987
Risk-weighted average total assets (RWA)	59,709	63,641	66,238	68,897	72,208	75,072
Average total equity	4,169	4,337	4,336	4,331	4,764	4,764

Yields and Costs

(Amounts in € thousand and rates annualized)

	6.30.06				6.30.05			
	Average balance	Distribution (%)	Revenue or expense	Average rate (%)	Average balance	Distribution (%)	Revenue or expense	Average rate (%)
Financial system	7,019,890	8.66	88,688	2.53	5,475,189	8.08	56,375	2.06
Lending to customers (a)	68,045,926	83.95	1,627,215	4.78	56,709,640	83.66	1,349,867	4.76
Securities portfolio	604,051	0.75	22,906	7.58	741,386	1.09	16,919	4.56
Other earning assets	347,815	0.43	4,445	2.56	323,117	0.48	4,105	2.54
<i>Total earning assets(b)</i>	<i>76,017,682</i>	<i>93.79</i>	<i>1,743,254</i>	<i>4.59</i>	<i>63,249,332</i>	<i>93.31</i>	<i>1,427,266</i>	<i>4.51</i>
Other assets	5,041,576	6.21	-	-	4,540,294	6.69	-	-
Total assets (c)	81,059,258	100.00	1,743,254	4.30	67,789,626	100.00	1,427,266	4.21
Financial system	12,584,310	15.52	153,548	2.44	10,968,813	16.18	110,570	2.02
Customer funds (d)	34,157,774	42.14	242,435	1.42	32,113,861	47.37	208,911	1.30
Demand accounts	12,511,062	15.43	39,837	0.64	11,184,942	16.50	24,263	0.43
Savings and time deposits	21,646,712	26.71	202,598	1.87	20,928,919	30.87	184,648	1.76
Marketable debt securities & other	25,321,313	31.24	330,460	2.61	16,705,002	24.64	183,204	2.19
Other interest-bearing liabilities	362,079	0.45	4,255	2.35	388,506	0.57	4,055	2.09
<i>Total interest-bearing liabilities (e)</i>	<i>72,425,476</i>	<i>89.35</i>	<i>730,698</i>	<i>2.02</i>	<i>60,176,182</i>	<i>88.76</i>	<i>506,740</i>	<i>1.68</i>
Other non-interest-bearing liabilities	3,870,238	4.77	-	-	3,360,649	4.97	-	-
Equity	4,763,544	5.88	-	-	4,252,795	6.27	-	-
Total liabilities and capital (f)	81,059,258	100.00	730,698	1.80	67,789,626	100.00	506,740	1.49
<i>Customer spread (a-d)</i>				3.36				3.46
<i>Spread (b-e)</i>				2.57				2.83
<i>Net interest margin (c-f)</i>				2.50				2.72

Quarterly Yields and Costs

(Data in % and rates annualized)

	2nd		2005 3rd		4th		2006 1st		2nd	
	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate
Financial system	7.45	2.20	7.60	2.25	8.84	2.46	8.20	2.47	9.09	2.57
Loans and discounts (a)	84.28	4.78	83.99	4.74	82.92	4.71	84.23	4.71	83.68	4.85
Securities portfolio	0.98	5.26	1.04	4.66	0.88	2.36	0.81	6.11	0.69	9.24
Other earning assets	0.48	4.00	0.49	1.99	0.47	2.17	0.44	2.30	0.42	2.81
<i>Total earning assets(b)</i>	<i>93.19</i>	<i>4.58</i>	<i>93.12</i>	<i>4.52</i>	<i>93.11</i>	<i>4.46</i>	<i>93.68</i>	<i>4.52</i>	<i>93.88</i>	<i>4.65</i>
Other assets	6.81	-	6.88	-	6.89	-	6.32	-	6.12	-
Total assets (c)	100.00	4.26	100.00	4.22	100.00	4.15	100.00	4.23	100.00	4.37
Financial system	16.13	2.03	15.71	2.03	14.84	2.20	15.46	2.30	15.59	2.57
Customer funds (d)	47.07	1.38	45.76	1.30	44.35	1.27	43.04	1.37	41.28	1.47
Demand accounts	16.22	0.45	16.07	0.51	16.09	0.58	15.62	0.61	15.26	0.66
Savings and time deposits	30.85	1.87	29.69	1.73	28.26	1.67	27.42	1.80	26.02	1.94
Marketable debt securities & other	24.94	2.13	26.86	2.30	29.47	2.36	30.34	2.45	32.09	2.75
Other interest-bearing liabilities	0.57	3.65	0.54	2.26	0.50	2.15	0.46	2.17	0.43	2.54
<i>Total interest-bearing liabilities (e)</i>	<i>88.71</i>	<i>1.73</i>	<i>88.87</i>	<i>1.74</i>	<i>89.16</i>	<i>1.79</i>	<i>89.30</i>	<i>1.90</i>	<i>89.39</i>	<i>2.13</i>
Other non-interest-bearing liabilities	4.96	-	5.13	-	5.15	-	4.68	-	4.87	-
Equity	6.33	-	6.00	-	5.69	-	6.02	-	5.74	-
Total liabilities and capital (f)	100.00	1.53	100.00	1.55	100.00	1.60	100.00	1.70	100.00	1.90
<i>Customer spread (a-d)</i>	<i>3.40</i>		<i>3.44</i>		<i>3.44</i>		<i>3.34</i>		<i>3.38</i>	
<i>Spread (b-e)</i>	<i>2.85</i>		<i>2.78</i>		<i>2.67</i>		<i>2.62</i>		<i>2.52</i>	
<i>Net interest margin (c-f)</i>	<i>2.73</i>		<i>2.67</i>		<i>2.55</i>		<i>2.53</i>		<i>2.47</i>	

Net Fee Revenues

(Amounts in € thousand)

	6.30.06	6.30.05	% variation
Asset transaction service fees:	48,778	54,535	(10.6)
Bill discounting	22,379	25,747	(13.1)
Other	26,399	28,788	(8.3)
Provision of guarantees and other sureties	55,660	48,655	14.4
Operating services:	314,061	277,660	13.1
Collection and payment handling	118,688	102,376	15.9
Securities and foreign currency purchase and sale transactions	10,497	9,242	13.6
Customer financial asset management:	114,068	96,820	17.8
Securities portfolio	14,382	12,760	12.7
Mutual funds	75,455	62,375	21.0
Pension plans	24,231	21,685	11.7
Administration of demand deposits and other	70,808	69,222	2.3
Total	418,499	380,850	9.9

Personnel and general expenses

(Amounts in € thousand)

	6.30.06	6.30.05	% variation
Personnel expenses:	342,468	320,733	6.8
Wages and salaries	258,420	240,623	7.4
Social security charges	63,874	60,089	6.3
Other personnel expenses	8,501	7,785	9.2
Pensions	11,673	12,236	(4.6)
General expenses:	165,853	144,458	14.8
Rents and common services	25,459	24,045	5.9
Communications	15,979	15,087	5.9
Maintenance of premises and equipment	11,852	11,061	7.2
IT and other technical expenses	33,303	26,096	27.6
Stationery and office supplies	3,461	3,656	(5.3)
Technical reports and legal expenses	5,182	5,587	(7.2)
Advertising	22,381	14,838	50.8
Insurance	2,611	1,910	36.7
Security and fund transport services	9,362	8,764	6.8
Travel	6,073	5,491	10.6
Property taxes, VAT and other	21,500	19,602	9.7
Other general expenses	8,690	8,321	4.4

Information by segment

As indicated in the 2005 consolidated financial statements, the Banco Popular Group is managed and directed at entity level. As stated in the Annual Report, for segment information purposes, the geographical distribution is considered to be the principal segment and the distribution by activity to be the secondary segment.

The information for the geographical segment is as follows:

	6.30.06		6.30.05		% variation	
	Spain	Portugal	Spain	Portugal	Spain	Portugal
Net interest revenue	933,293	79,263	858,847	61,679	8.7	28.5
Ordinary revenue	1,387,265	100,065	1,252,091	84,166	10.8	18.9
Operating income	898,798	54,416	803,395	43,226	11.9	25.9
Income before taxes	789,896	35,470	663,785	27,530	19.0	28.8
Consolidated income for the period	525,219	26,892	434,977	19,135	20.7	40.5
Income attributed to the Group . . .	491,432	26,440	407,844	18,656	20.5	41.7
<hr/>						
Total assets	76,830,174	6,697,833	66,152,676	5,309,504	16.1	26.1
Total liabilities and net worth.	79,975,832	3,552,175	68,405,719	3,056,461	16.9	16.2
Intragroup financing.	3,145,658	(3,145,658)	2,253,043	(2,253,043)	39.6	39.6
Number of employees	12,860	1,196	12,532	1,271	2.6	(5.9)
Number of branches	2,231	178	2,202	158	1.3	12.7

The split by area of activity is as follows:

	6.30.06		6.30.05		% variation	
	Areas		Areas		Areas	
	Commercial Banking	Institutional & Market	Commercial Banking	Institutional & Market	Commercial Banking	Institutional & Market
Consolidated income for the period	508,606	43,505	417,548	36,564	21.8	19.0
Total assets	72,029,004	11,499,003	61,015,225	10,446,955	18.1	10.1

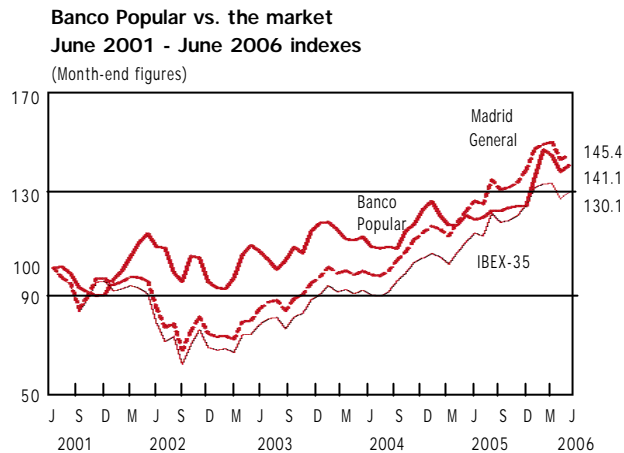
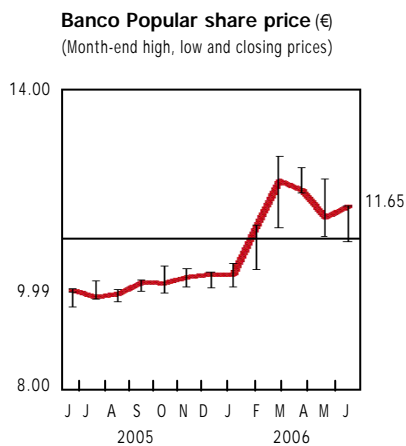
Market Performance of the Bank's Shares

Market information*

Quarters	Share liquidity (Number in thousands)			Share market price (€)			Dividend paid (€)	Market return**
	Average shares outstanding	Shares traded	%	High	Low	Closing		
2005 1st	1,150,888	637,506	55.39	10.75	9.40	9.98	0.0870	3.8
2nd	1,215,433	552,205	45.43	10.32	9.61	9.99	0.0890	1.0
3rd	1,215,433	406,433	33.44	10.25	9.76	10.14	0.0900	2.4
4th	1,215,433	505,034	41.55	10.55	9.91	10.30	0.0902	2.5
Year total	1,199,517	2,101,178	172.87	10.75	9.40	10.30	0.3562	9.9
2006 1st	1,215,433	550,495	45.29	13.25	9.99	12.16	0.0904	18.9
2nd	1,215,433	446,645	36.75	12.50	10.91	11.65	0.0909	(3.4)

* Figures adjusted for the 5x1 split in June 21, 2005

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



Market ratios	6.30.06	6.30.05
Price / Book value	2.68	2.55
Price / Earnings (PE ratio)	13.7	13.9
Dividend return*	3.12	3.56

* Calculated with the dividend paid in the second quarter, annualized

Treasury Stock*

(Thousands of shares)	Number				Total outstanding (a)	Total traded (b)	Treasury Stock**	
	Average	Maximum	Minimum	Closing			As % of (a)	As % of (b)
2005								
First quarter	140	474	-	-	1,150,888	637,506	0.01	0.02
Second quarter	434	509	-	509	1,215,433	552,205	0.04	0.08
Third quarter	432	509	-	507	1,215,433	406,433	0.04	0.11
Fourth quarter	357	507	-	-	1,215,433	505,034	0.03	0.07
2006								
First quarter	60	150	-	71	1,215,433	550,495	-	0.01
Second quarter	301	740	-	647	1,215,433	446,645	0.02	0.07

* Figures adjusted for the 5x1 split in June 21, 2005

** Calculated on average treasury stock held in the quarter

Basis of presentation and accounting principles and standards

Pursuant to Regulation 1606/2002 of the European Parliament and Council, dated July 19, 2002, the obligation for companies whose securities were listed on a regulated market in a Member State of the European Union at the date of their balance sheets to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) came into force on January 1, 2005.

The Bank of Spain, as the accounting regulator of the Spanish banking industry, implemented and adapted the accounting standards for credit institutions in its Circular 4/2004, as published in the Official State Gazette on December 30, 2004..

Basis of presentation

The accompanying interim financial information was prepared in accordance with the new regulations and reflects all the economic activities of the Banco Popular Group, both financial and insurance and non-financial, and accordingly provides a true and fair view of the consolidated net worth, financial position, risks and results of operations.

In the process of ongoing review of the adaptation of financial reporting to the accounting regulations, certain items included under the fees caption, previously classified as interest and similar revenues, have been reclassified, without any effect on net income. In order to present comparable information, the information for the first quarter of 2006 and that for the year 2005 have accordingly been adjusted to conform to the new standards.

Accounting principles and policies and valuation standards

The Group's accounting policy is based on the accounting principles set forth in Note 17 to the 2005 consolidated financial statements, which included most notably the following:

A) Impairment of the value of assets: The treatment of financial assets differs from that of all other assets, as discussed below.

Coverage is envisaged for the losses on financial assets, provided that they are based on objective evidence. Specific and general allowances are booked for customer-attributable credit-loss risk, and specific allowances for country risk.

The specific allowance reflects the deterioration of assets individually identified as impaired, and the general allowance reflects the inherent loss incurred based on the nature of each risk and estimated by statistical procedures pending allocation to specific transactions.

The Bank of Spain has stipulated models and methodology conforming to IFRS for the calculation of the foregoing allowances.

The regulations require strict treatment in the classification of doubtful balances in customer transactions, since default in the payment of one installment triggers the classification as nonperforming of the entire transaction.

For all other assets, including goodwill, impairment is deemed to exist if and when the book value of the assets exceeds their recoverable amount. In the case of goodwill, an impairment test must be performed at least once a year, since goodwill is not systematically amortized, and the appropriate writedown is booked if there is evidence of impairment.

B) Revenues:

B1) Fees: Under IFRS the treatment of fees collected or paid differs depending on whether they are compensation for a service rendered or a cost incurred, or are remuneration additional to the interest rate on the transaction. The former are recognized as revenues when the service is rendered or the cost is incurred, and the latter are accrued over the term of the transaction.

B2) Interest and dividends: Interest is recognized on an accrual basis by the effective interest rate method, and dividends are recorded when declared.

C) Financial instruments are classified for valuation purposes and recorded as follows:

- Instruments classified in the trading portfolio, including financial derivatives, are recorded at fair value, with changes taken to the income statement.
- Loans and discounts and held-to-maturity investments are recorded at their amortized cost.
- Available-for-sale financial assets are valued at fair value, and changes in value are recorded in net worth until realized, at which time they are recognized in the income statement.
- Substantially all financial liabilities are valued at amortized cost.

D) Non-financial and intangible assets and inventories. These are valued at cost. For the valuation of tangible assets, the Banco Popular Group has not, on a general basis, taken the option provided in IFRS to revalue them, and accordingly they are presented in the balance sheet at cost restated, where appropriate, pursuant to the applicable enabling legislation, net of accumulated depreciation.

E) Non-current assets for sale. This heading is used to record foreclosed assets.

F) Financial liabilities classified as capital. Issues of preferred shares launched by the Banco Popular Group qualify as liabilities and the remuneration on them therefore forms part of the financial cost.

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