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Quarterly report

july | august | september

Highlights

(Amounts in € thousand) 9.30.06 9.30.05 Var. %

Business volume

Total assets managed	104,617,637	87,867,971	19.1
On-balance sheet total assets	87,441,609	73,281,744	19.3
Total equity	5,443,396	4,872,979	11.7
Funds managed:	84,051,407	68,332,616	23.0
On-balance sheet funds	66,875,379	53,746,389	24.4
Other intermediated funds	17,176,028	14,586,227	17.8
Lending to customers (gross)	73,964,403	62,753,927	17.9
Contingent risks	10,468,426	9,055,592	15.6

Solvency

BIS ratio (%)	9.93	10.09	
Of which: Tier 1 (%)	8.07	8.29	

Risk management

Total risks	84,432,829	71,809,519	17.6
Nonperforming loans	628,242	596,813	5.3
Allowances for credit losses	1,596,699	1,410,187	13.2
% nonperforming ratio	0.74	0.83	
% coverage (Credit loss allowance/Nonperforming loans)	254.15	236.29	

Income statements

Net interest revenue	1,542,221	1,402,298	10.0
Ordinary revenue	2,297,140	2,046,001	12.3
Operating income	1,484,888	1,289,171	15.2
Income before taxes	1,286,958	1,056,368	21.8
Consolidated income for the period	859,163	696,803	23.3
Income attributed to the Group	807,699	653,265	23.6

Net return and efficiency

Average total assets	82,106,734	69,279,480	18.5
Average total equity	4,762,237	4,280,394	11.3
ROA (%)	1.40	1.34	
ROE (%)	22.61	20.35	
Operating efficiency (%)*	31.44	32.75	

Per share data**

Final number of shares (thousands)	1,215,433	1,215,433	-
Average number of shares (thousands)	1,215,057	1,194,393	1.7
Share closing market price (€)	12.93	10.14	27.5
Market capitalization	15,715,543	12,324,486	27.5
Share book value (€)	4.48	4.01	11.7
Net income per share (€)	0.665	0.547	21.5
Dividend per share paid in the period (€)	0.273	0.266	2.6
Price/Book value	2.89	2.53	
Price/Earnings (annualized)	14.6	13.9	

Other data

Shareholders	107,162	92,404	16.0
Employees	14,053	13,711	2.5
Spain	12,661	12,329	2.7
Abroad	1,392	1,382	0.7
Branches	2,419	2,370	2.1
Spain	2,224	2,192	1.5
Abroad	195	178	9.6
ATMs	3,381	3,430	(1.4)

* 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 September 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 September-end data are without doubt the best of a year which had already displayed excellent results in the first two quarters. The very strong growth of 23.6% in attributed income was the outcome of the acceleration of all revenues and the deceleration of expenses and, for the first time for several years, growth in the quarter, not only of the customer margin but also of the spread and of the net interest margin on average assets, resulting in an improvement of solvency levels. The future for the Group's earnings is thus even more promising.

This constant progression in earnings was the consequence of the recomposition of the type of growth, seeking in each quarter an approximation to the balance between rates of growth, improvement of margins and capital requirements, all pursuing the objectives of increasing profitability and optimum credit quality. The assets managed were up by over 19% and the funds managed by 23%, in both cases in year-on-year terms. The driver of the balance sheet and of the income statement was lending to customers, which was up by practically 18%, led by non-mortgage credits and loans – other term receivables – which grew by nearly 21%, faster than mortgage lending.

The 10% growth in the revenues comprising the net interest revenue was due not only to the greater number of transactions but also to the sharper improvement in the yield on assets as compared with the cost of funds, as a result of the consolidation of the margins on assets and the driving effect of the first interest rate rises. The result was that the net interest margin on average assets rose from 2.47% in the second quarter to 2.52% in the third. The successive interest rate rises during the year should have an increasing impact on the improvement in margins during the upcoming quarters.

The acceleration of revenues was even sharper in ordinary revenue, which grew by 12.3% year on year. This difference of speed of growth between the Group's two major revenue lines was due to several items: firstly, the excellent performance of service fee revenues, which were up by 10.8%, driven by the sharp growth of 18.9% in fees for collateral and other guarantees; of 13.9% in mediation of collections and payments; and of 14.3% in asset management fees. In this last-mentioned activity, the Group again stood out from the rest of the banking sector because of its commercial ambition, as evidenced by the fact that the assets of the Group's mutual funds grew by 16.9% compared with the 5.6% growth for the sector in Spain as a whole. Other items, of lower weight but which contributed to boost the ordinary revenue, were the 92% rise in insurance revenues and the revenues from financial asset and trading transactions, which were 2.6 times higher than in the preceding year.

Operating income grew even faster than ordinary revenue, at 15.2%, essentially due to the progressive moderation of operating costs, which were 7.8% higher, compared with 10.1% in the first quarter. The growth rate of general expenses was 50% lower than that in the first quarter, year on year, thus heralding a very energetic deceleration at year end.

The moderation in costs was compatible with the aggressive addition of more than 350,000 net new customers, including 26,000 businesses, and the opening of 41 branch offices in Spain and Portugal.

There was record growth of 23.6% in attributed income, which amounted to €807.7 million, signifying an ROE of 22.6%. This high profitability evidences a return to the levels achieved prior to the 2005 capital increase. Also noteworthy was the ongoing improvement in the efficiency ratio, which reached a new record level of 31.4%, consolidating the Banco Popular Group as one of the most efficient banking groups in Europe. The expansive nature of the Bank's strategy has been no bar to increasingly rigorous analysis of risks, with the result that credit quality was again very high, with a nonperforming ratio of 0.74%, 9 basis points lower than at the same date in 2005, and with the substantial booking of provisions, constituting coverage of 254%.

It is noteworthy the improvements attained in the capital base in all its components: the BIS ratio increases 22 basis points from the preceding quarter, the Tier 1 capital is 26 bpts higher, and the core capital rises 24 bpts to 6.76%.

Balance Sheet

(Amounts in € thousand)

	9.30.06	12.31.05	9.30.05	% variation	
				9 months	12 months
Assets					
Cash and due from central banks	958,226	959,545	964,462	(0.1)	(0.6)
Trading portfolio	1,014,644	1,385,503	1,506,884	(26.8)	(32.7)
Other financial assets at fair value with changes in P&L	330,775	311,467	47,647	6.2	>
Available-for-sale financial assets	873,461	890,521	643,753	(1.9)	35.7
Loans and discounts:	81,685,030	71,425,197	67,265,727	14.4	21.4
Lending to customers	73,964,403	66,323,318	62,753,927	11.5	17.9
Other loans and discounts	9,093,765	6,413,835	5,769,007	41.8	57.6
Valuation adjustments (+/-)	(1,373,138)	(1,311,956)	(1,257,207)	4.7	9.2
Held-to-maturity investment portfolio	439	455	-	(3.5)	
Asset hedging derivatives	236,706	442,221	468,387	(46.5)	(49.5)
Non-current assets for sale	116,459	98,646	87,467	18.1	33.1
Participating interests	15,683	22,007	25,707	(28.7)	(39.0)
Pension-linked insurance contracts	227,367	240,556	238,173	(5.5)	(4.5)
Reinsurance assets	4,354	4,010	2,159	8.6	>
Tangible assets	720,935	724,616	723,615	(0.5)	(0.4)
Intangible assets	371,323	362,548	356,004	2.4	4.3
Tax assets	744,458	660,596	746,557	12.7	(0.3)
Accrual accounts	46,017	45,515	44,571	1.1	3.2
Other asset accounts	95,732	124,345	160,631	(23.0)	(40.4)
Total assets	87,441,609	77,697,748	73,281,744	12.5	19.3
Liabilities					
Trading portfolio	434,657	340,869	370,030	27.5	17.5
Financial liabilities at amortized cost:	77,820,471	69,224,559	64,849,649	12.4	20.0
Deposits of credit institutions	10,780,403	11,184,095	11,228,114	(3.6)	(4.0)
Customer deposits	35,370,948	34,726,306	33,552,782	1.9	5.4
Bonds and other marketable debt securities	29,697,077	21,406,891	18,412,747	38.7	61.3
Subordinated liabilities	524,964	574,950	374,948	(8.7)	40.0
Other financial liabilities	1,049,869	871,986	775,008	20.4	35.5
Valuation adjustments (+/-)	397,210	460,331	506,050	(13.7)	(21.5)
Hedging derivatives	199,612	166,561	224,637	19.8	(11.1)
Insurance contract liabilities	796,166	618,364	319,367	28.8	>
Allowances	490,694	501,435	536,340	(2.1)	(8.5)
Tax liabilities	466,310	175,436	368,800	>	26.4
Accrual accounts	332,486	271,020	297,952	22.7	11.6
Other liabilities accounts	78,985	71,286	109,854	10.8	(28.1)
Financial liabilities classified as capital	996,917	981,199	980,976	1.6	1.6
Total liabilities	81,616,298	72,350,729	68,057,605	12.8	19.9
Net worth					
Minority interests	368,955	342,455	335,205	7.7	10.1
Valuation adjustments	12,960	14,785	15,955	(12.3)	(18.8)
Equity	5,443,396	4,989,779	4,872,979	9.1	11.7
Capital, reserves and retained earnings	4,760,400	4,331,537	4,329,346	9.9	10.0
Income for the period	807,699	877,749	653,265		23.6
Dividends paid and declared	(124,703)	(219,507)	(109,632)		13.7
Total net worth	5,825,311	5,347,019	5,224,139	8.9	11.5
Total net worth and liabilities	87,441,609	77,697,748	73,281,744	12.5	19.3
<i>Pro-memoria:</i>					
Contingent risks	10,468,426	9,611,758	9,055,592	8.9	15.6
Contingent commitments	20,341,304	18,659,159	18,852,703	9.0	7.9

Business Performance

At September 30, 2006, the Group's total on-balance sheet assets amounted to €87,442 million, an increase of €14,160 million in the last twelve months, a year-on-year growth rate of 19.3%.

The off-balance sheet assets managed increased by 17.8% driven by portfolio management (up 39.3%), mutual funds (up 17.4%), and pension plans (up 11.8%).

Accordingly, the Group's total business volume at September 30 was therefore €104,618 million, up 19.1% year on year.

Lending to the Group's customers, which represented 84.6% of total assets, totaled €73,964 million, an increase of 17.9% in the last twelve months. The drivers of this growth were: personal loans and credits (other term loans), which were up 20.6%; mortgage loans, mostly for home purchase, which were up 18.6%; and commercial paper discounting, which was 16.9% up.

The contingent risks were 15.6% higher at €10,468 million, with collateral and other guarantees provided up by 15.8%.

Total on-balance sheet funds (customer deposits, marketable debt securities, subordinated debt and financial liabilities classified as capital) amounted to €66,875 million at September 30, 2006, a year-on-year increase of 24.4%.

Retail liabilities – demand deposits, time deposits and commercial paper – were up 9.9% year on year and were the main source of balance sheet funding with an approximate contribution thereto of 60%. This caption included most notably the private sector resident demand deposits (up 13.3%) and commercial paper (up 42.1%). Wholesale funding – interbank borrowing, commercial paper, bonds, securitization and covered bonds ("cédulas") – provided 38% 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 September 30, 2006, the balance of doubtful receivables was €628 million. This was €31 million (5.3%) more than in the same period of 2005, but much lower than the 17.6% 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 substantial reduction of 9 basis points in the last twelve months.

In addition to the low level of nonperforming loans, the Group had allowances covering 254.2% of the doubtful assets balance, which was 18 percentage points more than at the end of September 2005.

The Group's solvency was firmly based not only on its BIS ratio of 9.93% at September end, but also on the composition thereof, with 68.1% being core capital and 81.3% being Tier I capital.

By business area, retail banking accounted for 84.8% of the total assets and contributed 78.0% of the balance sheet growth, with a year-on-year increase of 17.5%.

By geographical area, 91.6% of the assets were from the business in Spain, with the business in Portugal contributing the remaining 8.4%. The growth in assets in Spain was 18.5% and in Portugal was 29.6%.

Funds Managed

(Amounts in € thousand)

	9.30.06	12.31.05	9.30.05	% variation	
				9 months	12 months
Customer deposits:	35,370,948	34,726,306	33,552,782	1.9	5.4
<i>From public authorities:</i>	2,280,580	1,548,108	1,936,360	47.3	17.8
Demand deposits	917,667	755,873	688,168	21.4	33.3
Savings deposits	1,033	1,271	387	(18.7)	>
Time deposits	52,358	59,128	82,634	(11.4)	(36.6)
Assets sold under repurchase agreements	892,951	546,052	816,801	63.5	9.3
Nonresidents public authorities	416,571	185,784	348,370	>	19.6
<i>Other private sector depositors:</i>	33,090,368	33,178,198	31,616,422	(0.3)	4.7
Residents:	27,953,362	27,839,095	26,414,830	0.4	5.8
Demand deposits	11,319,065	10,370,910	9,678,619	9.1	16.9
Savings deposits	5,110,439	4,946,348	4,821,878	3.3	6.0
Time deposits	9,489,239	10,695,882	10,116,999	(11.3)	(6.2)
Assets sold under repurchase agreements	1,807,379	1,565,060	1,568,429	15.5	15.2
Other accounts	227,240	260,895	228,905	(12.9)	(0.7)
Nonresidents:	5,137,006	5,339,103	5,201,592	(3.8)	(1.2)
Demand deposits	1,273,841	1,344,126	1,345,957	(5.2)	(5.4)
Savings deposits	887,282	940,920	958,874	(5.7)	(7.5)
Time deposits	2,957,984	3,016,606	2,870,556	(1.9)	3.0
Assets sold under repurchase agreements	2,875	19,038	3,136	(84.9)	(8.3)
Other accounts	15,024	18,413	23,069	(18.4)	(34.9)
Bonds and other marketable debt securities:	29,697,077	21,406,891	18,412,747	38.7	61.3
Bonds and other debt securities outstanding	20,984,756	15,287,658	13,164,746	37.3	59.4
Promissory notes	8,712,321	6,119,233	5,248,001	42.4	66.0
Subordinated liabilities	524,964	574,950	374,948	(8.7)	40.0
Financial liabilities classified as capital	988,000	988,000	988,000	-	-
Valuation adjustments (+/-)	294,390	368,826	417,912	(20.2)	(29.6)
Total on-balance sheet funds (a)	66,875,379	58,064,973	53,746,389	15.2	24.4
Mutual funds	11,862,500	10,531,263	10,103,579	12.6	17.4
Asset portfolio management	1,530,671	1,247,357	1,098,564	22.7	39.3
Pension funds	3,782,857	3,562,113	3,384,084	6.2	11.8
Total other intermediated funds (b)	17,176,028	15,340,733	14,586,227	12.0	17.8
Total (a+b)	84,051,407	73,405,706	68,332,616	14.5	23.0

Lending to customers

(Amounts in € thousand)

	9.30.06	12.31.05	9.30.05	% variation	
				9 months	12 months
<i>Lending to Public Authorities:</i>	109,982	114,645	121,046	(4.1)	(9.1)
Normal status loans	109,978	114,641	121,042	(4.1)	(9.1)
Doubtful assets	4	4	4	-	-
<i>Other private sector borrowers:</i>	73,854,421	66,208,673	62,632,881	11.5	17.9
Residents:	66,602,019	59,702,812	56,227,585	11.6	18.5
Trade loans and discounts	6,639,668	6,315,867	5,660,562	5.1	17.3
Secured loans	37,333,863	33,185,542	31,136,482	12.5	19.9
Mortgage loans	37,131,014	33,002,833	30,971,695	12.5	19.9
Other	202,849	182,709	164,787	11.0	23.1
Asset repos	95	121	8	(21.5)	>
Other term loans	16,979,427	14,708,235	14,057,810	15.4	20.8
Leasing	3,500,733	3,324,127	3,256,158	5.3	7.5
Overdrafts and other	1,661,692	1,701,217	1,638,825	(2.3)	1.4
Nonperforming loans	486,541	467,703	477,740	4.0	1.8
Nonresidents:	7,252,402	6,505,861	6,405,296	11.5	13.2
Trade loans and discounts	332,076	349,693	303,693	(5.0)	9.3
Secured loans	3,375,790	3,191,907	3,179,049	5.8	6.2
Mortgage loans	3,360,820	3,173,620	3,160,039	5.9	6.4
Other	14,970	18,287	19,010	(18.1)	(21.3)
Repos	-	-	-	-	-
Other term loans	3,133,768	2,594,900	2,622,997	20.8	19.5
Leasing	116,133	89,439	72,643	29.8	59.9
Overdrafts and other	173,007	167,037	120,761	3.6	43.3
Nonperforming loans	121,628	112,885	106,153	7.7	14.6
Total lending to customers	73,964,403	66,323,318	62,753,927	11.5	17.9
Valuation adjustments (+/-)	(1,390,244)	(1,322,449)	(1,265,256)	5.1	9.9
Total	72,574,159	65,000,869	61,488,671	11.7	18.0

Risk Management Performance*

(Amounts in € thousand)

	9.30.06	9.30.05	Variation	
			Amount	%
Nonperforming loans:				
Balance at January 1	591,043	612,549	(21,506)	(3.5)
Net variation for the year	164,700	64,232	100,468	>
% increase	27.9	10.5		
Writeoffs	(127,501)	(79,968)	(47,533)	59.4
Balance at September 30	628,242	596,813	31,429	5.3
Allowance for credit losses:				
Balance at January 1	1,469,927	1,218,802	251,125	20.6
Annual provision:				
Gross	316,469	363,651	(47,182)	(13.0)
Recoveries	(68,621)	(85,322)	16,701	(19.6)
Net	247,848	278,329	(30,481)	(11.0)
Other variations	4,138	(13,215)	17,353	
Writeoffs	(125,214)	(73,729)	(51,485)	69.8
Balance at September 30	1,596,699	1,410,187	186,512	13.2
Pro memoria:				
Total risks	84,432,829	71,809,519	12,623,310	17.6
Loans transferred to suspense accounts	1,126,868	1,051,196	75,672	7.2
Risk quality measures (%):				
Nonperformance (Nonperforming loans/Total risks)	0.74	0.83	(0.09)	
Insolvency (Writeoffs/Total risks)	0.15	0.11	0.04	
Coverage (Credit loss allowance/Nonperforming loans)	254.15	236.29	17.86	

* 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	129,397	118,709	(258)	247,848
Amount used	(125,214)	-	-	(125,214)
Other variations and transfers	1,018	3,117	3	4,138
Balance at September 30	223,876	1,366,355	6,468	1,596,699

Solvency

(Amounts in € thousand)	9.30.06	9.30.05	% variation
Common stock	121,543	121,543	-
Reserves	4,639,360	4,215,295	10.1
Minority interests	320,867	292,051	9.9
Retained earnings in the period	427,436	334,943	27.6
Deductions	(409,272)	(362,779)	12.8
Total core capital	5,099,934	4,601,053	10.8
<i>Core capital (%)</i>	<i>6.76</i>	<i>6.83</i>	
Preferred stock	988,000	988,000	-
Total Tier 1 Capital	6,087,934	5,589,053	8.9
<i>Tier 1 ratio (%)</i>	<i>8.07</i>	<i>8.29</i>	
Total Tier 2 Capital	1,400,414	1,208,765	15.9
BIS computable capital	7,488,348	6,797,818	10.2
Capital cushion	1,453,562	1,405,713	3.4
<i>BIS ratio (%)</i>	<i>9.93</i>	<i>10.09</i>	
<i>Pro memoria:</i>			
Total BIS risk-weighted assets	75,434,824	67,401,316	11.9

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	(3,100)	-	-	(3,100)
Consolidation adjustments (net)	(4,098)	-	2,110	(1,988)
Valuation adjustments	-	(1,825)	(150)	(1,975)
Income nine months 2006	807,699	-	51,464	859,163
Dividends	(346,884)	-	(26,924)	(373,808)
Balance at 9.30.2006	5,443,396	12,960	368,955	5,825,311

Consolidated Income

The net interest revenue of €1,542 million at September 30 was 10.0% higher than in the same period of 2005. In the third quarter, net interest revenue amounted to €530 million, an acceleration in the growth rate compared with the preceding quarter (3.5%).

The net fee revenues performed well in the first nine months of 2006 and amounted to €642 million, a year-on-year growth of 10.8%. Noteworthy was the advance in fees for the provision of collateral and other guarantees (up 18.9%), much higher than the average growth in contingent risks and commitments. Other strong performers were mutual fund fees (up 17.4%) and fees for collection and payment mediation services (up 13.9%).

The insurance activity also evolved very positively, with an increase of 92.2% in the year, supported by the growth in the business and by the purchase by the Banco Popular Group in October 2005 of the remaining 50% of the Portuguese Eurovida company.

Ordinary revenue, encompassing all the Group's financial activity (banking business and insurance), amounted to €2,297 million at September 30, 2006, a notable rise of 12.3% year on year.

Operating costs relating to personnel and administrative expenses were up 7.4% over the same period in 2005, as a result of rises of 6.9% in personnel expenses and of 8.5% in non-payroll expenses which was much lower than the accumulated rate at March end (up 17.0%) and at June end (up 14.8%). This moderation was achieved despite the increase of 21.8% in technical resources, the major item in non-payroll expenses, accounting for 20.1% thereof.

The efficiency ratio, i.e. the portion of ordinary revenue and income from nonfinancial services absorbed by operating costs (net of compensating fees), was 31.4%, an outstanding improvement of 131 basis points over the figure for September 2005.

The operating income of €1,485 million at September 30 was 15.2% higher than in the same January-September period of 2005.

The losses of €210 million for impairment of assets related mostly to credit risks. At September 30, 2006, the general allowance of €1,366 million had practically reached the maximum limit envisaged under current regulations.

The "Other income (net)" caption reflects a contribution to gross income of €39 million, substantially all of which related to the disposal of tangible assets during the first six months of the year.

The pre-tax income of €1,287 million in the first nine months of 2006 was 21.8% higher year on year. The income attributed to the Banco Popular Group amounted to €808 million at September 30, 2006, up 23.6% on the same period in 2005.

The earnings per share of €0.665 in the first nine months of 2006 were 21.5% higher year on year.

The ROE stood at 22.61% at September 30, 2006, up on the 20.35% at the end of the first nine months in 2005. The ROA was 1.40% (1.34% the year before).

By business area, retail banking, which contributed 92.2% of consolidated income for the first nine months, recorded year-on-year growth of 23.2%.

By geographical area, the business in Spain contributed 95.4% of the income attributed to the Group, while the remaining 4.6% came from Portugal. 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 69.2%, compared with the growth of 22.0% in that from the business in Spain.

Consolidated income and profitability

	(Amounts in € thousand)			(Annualized % of ATA)		
	9.30.06	9.30.05	% variation	9.30.06	9.30.05	Variation
Interest and similar revenues	2,680,006	2,174,372	23.3	4.35	4.18	0.17
- Interest and similar charges	1,169,309	786,015	48.8	1.90	1.51	0.39
+ Revenues from capital instruments.	31,524	13,941	>	0.05	0.03	0.02
=Net interest revenue	1,542,221	1,402,298	10.0	2.50	2.70	(0.20)
+ Revenues from equity method entities	205	2,460	(91.7)	-	-	-
+ Net fees	642,489	580,030	10.8	1.05	1.12	(0.07)
+ Insurance business.	30,015	15,614	92.2	0.05	0.03	0.02
± Asset trading and exchange profits (net)	45,056	17,037	>	0.07	0.03	0.04
± Exchange gains (net)	37,154	28,562	30.1	0.06	0.06	-
=Ordinary revenue	2,297,140	2,046,001	12.3	3.73	3.94	(0.21)
+ Non-financial service fee revenues (net)	26,108	22,545	15.8	0.04	0.04	-
- Operating costs:	728,890	675,949	7.8	1.18	1.30	(0.12)
Personnel expenses	523,351	489,719	6.9	0.85	0.94	(0.09)
Other general administrative expenses.	245,820	226,523	8.5	0.40	0.44	(0.04)
Other revenues (compensating fees).	(40,281)	(40,293)	-	(0.07)	(0.08)	0.01
- Depreciation.	77,169	72,109	7.0	0.13	0.14	(0.01)
- Other operating expenses	32,301	31,317	3.1	0.05	0.06	(0.01)
=Operating income	1,484,888	1,289,171	15.2	2.41	2.48	(0.07)
- Losses from impairment of assets and provisions to allowances (net)	236,590	261,242	(9.4)	0.38	0.50	(0.12)
± Other income (net)	38,660	28,439	35.9	0.06	0.05	0.01
=Income before taxes	1,286,958	1,056,368	21.8	2.09	2.03	0.06
- Corporate income tax provision	427,795	359,565	19.0	0.69	0.69	-
=Consolidated income for the period	859,163	696,803	23.3	1.40	1.34	0.06
- Income attributed to minority interests	51,464	43,538	18.2	0.09	0.08	0.01
=Income attributed to the Group	807,699	653,265	23.6	1.31	1.26	0.05
Net return on average risk-weighted assets (RORWA) (%)				1.54	1.47	0.07
Net return on average equity (ROE) (%)				22.61	20.35	2.26
Leverage				16.21	15.18	1.03
Operating efficiency (%)				31.44	32.75	(1.31)
<i>€ million:</i>						
Average total assets				82,107	69,279	12,828
Risk-weighted average total assets (RWA)				74,353	61,675	12,678
Average total equity.				4,762	4,280	482

Quarterly Consolidated Income

(Amounts in € thousand)

	2005		1st	2006	
	3rd	4th		2nd	3rd
Interest and similar revenues	756,251	785,175	831,460	895,869	952,677
- Interest and similar charges	279,275	303,666	336,296	394,402	438,611
+ Revenues from capital instruments	4,796	4,620	5,718	10,207	15,599
=Net interest revenue	481,772	486,129	500,882	511,674	529,665
+ Revenues from equity method entities	680	(1,002)	(25)	35	195
+ Net fees	199,180	209,963	207,925	210,574	223,990
+ Insurance business	6,362	10,469	8,914	9,973	11,128
± Asset trading and exchange profits (net)	11,812	(747)	2,732	11,044	31,280
± Exchange gains (net)	9,938	13,633	11,213	12,389	13,552
=Ordinary revenue	709,744	718,445	731,641	755,689	809,810
+ Non-financial service fee revenues (net)	6,668	7,396	8,257	9,894	7,957
- Operating costs:	239,192	250,651	237,984	241,830	249,076
Personnel expenses	168,986	174,802	171,103	171,365	180,883
Other general administrative expenses	82,065	89,959	81,725	84,128	79,967
Other revenues (compensating fees)	(11,859)	(14,110)	(14,844)	(13,663)	(11,774)
- Depreciation	24,124	28,099	24,888	26,054	26,227
- Other operating expenses	10,546	10,473	10,824	10,687	10,790
=Operating income	442,550	436,618	466,202	487,012	531,674
- Losses from impairment of assets and provisions to allowances (net)	93,488	87,932	100,340	63,249	73,001
± Other income (net)	15,991	9,429	22,256	13,485	2,919
=Income before taxes	365,053	358,115	388,118	437,248	461,592
- Corporate income tax provision	122,362	117,313	128,423	144,832	154,540
=Consolidated income for the period	242,691	240,802	259,695	292,416	307,052
- Income attributed to minority interests	15,926	16,318	16,153	18,086	17,225
=Income attributed to the Group	226,765	224,484	243,542	274,330	289,827

Quarterly Profitability

(Annualized % of ATA)

	2005		2006		
	3rd	4th	1st	2nd	3rd
Interest and similar revenues	4.19	4.13	4.20	4.32	4.53
- Interest and similar charges	1.55	1.60	1.70	1.90	2.08
+ Revenues from capital instruments	0.03	0.02	0.03	0.05	0.07
=Net interest revenue	2.67	2.55	2.53	2.47	2.52
+ Revenues from equity method entities	-	(0.01)	-	-	-
+ Net fees	1.10	1.10	1.05	1.02	1.06
+ Insurance business	0.03	0.06	0.05	0.04	0.05
± Asset trading and exchange profits (net)	0.07	-	0.01	0.05	0.15
± Exchange gains (net)	0.06	0.07	0.06	0.06	0.07
=Ordinary revenue	3.93	3.77	3.70	3.64	3.85
+ Non-financial service fee revenues (net)	0.04	0.04	0.04	0.05	0.04
- Operating costs:	1.33	1.32	1.20	1.17	1.18
Personnel expenses	0.94	0.92	0.87	0.83	0.86
Other general administrative expenses	0.45	0.47	0.41	0.41	0.38
Other revenues (compensating fees)	(0.06)	(0.07)	(0.08)	(0.07)	(0.06)
- Depreciation	0.13	0.15	0.13	0.12	0.13
- Other operating expenses	0.06	0.05	0.05	0.05	0.05
=Operating income	2.45	2.29	2.36	2.35	2.53
- Losses from impairment of assets and provisions to allowances (net)	0.52	0.46	0.51	0.31	0.35
± Other income (net)	0.09	0.05	0.11	0.07	0.01
=Income before taxes	2.02	1.88	1.96	2.11	2.19
- Corporate income tax provision	0.68	0.61	0.65	0.70	0.73
=Consolidated income for the period	1.34	1.27	1.31	1.41	1.46
- Income attributed to minority interests	0.08	0.09	0.08	0.09	0.08
=Income attributed to the Group	1.26	1.18	1.23	1.32	1.38
Net return on average risk-weighted assets (RORWA) (%)	1.47	1.40	1.44	1.56	1.62
Net return on average equity (ROE) (%)	20.92	20.73	20.45	23.03	24.36
Leverage	15.57	16.38	15.58	16.34	16.70
Operating efficiency (%)	33.44	34.60	32.24	31.65	30.52
<i>€ million:</i>					
Average total assets	72,259	76,127	79,132	82,987	84,202
Risk-weighted average total assets (RWA)	66,238	68,897	72,208	75,072	75,778
Average total equity	4,336	4,331	4,764	4,764	4,759

Yields and Costs

(Amounts in € thousand and rates annualized)

	9.30.06				9.30.05			
	Average balance	Distribution (%)	Revenue or expense	Average rate (%)	Average balance	Distribution (%)	Revenue or expense	Average rate (%)
Financial system	7,054,775	8.59	146,357	2.77	5,479,813	7.91	87,236	2.12
Lending to customers (a)	69,123,264	84.19	2,516,777	4.85	58,035,471	83.77	2,069,520	4.75
Securities portfolio	680,091	0.83	41,817	8.20	745,530	1.08	25,700	4.60
Other earning assets	353,339	0.43	6,579	2.48	333,088	0.48	5,857	2.34
<i>Total earning assets(b)</i>	<i>77,211,469</i>	<i>94.04</i>	<i>2,711,530</i>	<i>4.68</i>	<i>64,593,902</i>	<i>93.24</i>	<i>2,188,313</i>	<i>4.52</i>
Other assets	4,895,265	5.96	-	-	4,685,578	6.76	-	-
Total assets (c)	82,106,734	100.00	2,711,530	4.40	69,279,480	100.00	2,188,313	4.21
Financial system	11,944,054	14.55	231,636	2.59	11,095,635	16.02	168,219	2.02
Customer funds (d)	34,105,888	41.54	376,300	1.47	32,430,227	46.81	316,474	1.30
Demand accounts	12,744,548	15.52	66,431	0.70	11,326,038	16.35	39,172	0.46
Savings and time deposits	21,361,340	26.02	309,869	1.93	21,104,189	30.46	277,302	1.75
Marketable debt securities & other	26,843,786	32.69	555,365	2.76	17,607,432	25.42	295,060	2.23
Other interest-bearing liabilities	359,401	0.44	6,008	2.23	388,258	0.56	6,262	2.15
<i>Total interest-bearing liabilities (e)</i>	<i>73,253,129</i>	<i>89.22</i>	<i>1,169,309</i>	<i>2.13</i>	<i>61,521,552</i>	<i>88.81</i>	<i>786,015</i>	<i>1.70</i>
Other non-interest-bearing liabilities	4,091,368	4.98	-	-	3,477,534	5.01	-	-
Equity	4,762,237	5.80	-	-	4,280,394	6.18	-	-
Total liabilities and capital (f)	82,106,734	100.00	1,169,309	1.90	69,279,480	100.00	786,015	1.51
<i>Customer spread (a-d)</i>				3.38				3.45
<i>Spread (b-e)</i>				2.55				2.82
<i>Net interest margin (c-f)</i>				2.50				2.70

Quarterly Yields and Costs

(Data in % and rates annualized)

	2005				2006					
	3rd		4th		1st		2nd		3rd	
	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate	Distri- bution	Rate
Financial system	7.60	2.25	8.84	2.46	8.20	2.47	9.09	2.57	8.46	3.24
Loans and discounts (a)	83.99	4.74	82.92	4.71	84.23	4.71	83.68	4.85	84.65	4.99
Securities portfolio	1.04	4.66	0.88	2.36	0.81	6.11	0.69	9.24	0.99	9.09
Other earning assets	0.49	1.99	0.47	2.17	0.44	2.30	0.42	2.81	0.43	2.34
<i>Total earning assets(b)</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>	<i>94.53</i>	<i>4.87</i>
Other assets	6.88	-	6.89	-	6.32	-	6.12	-	5.47	-
Total assets (c)	100.00	4.22	100.00	4.15	100.00	4.23	100.00	4.37	100.00	4.60
Financial system	15.71	2.03	14.84	2.20	15.46	2.30	15.59	2.57	12.66	2.93
Customer funds (d)	45.76	1.30	44.35	1.27	43.04	1.37	41.28	1.47	40.38	1.57
Demand accounts	16.07	0.51	16.09	0.58	15.62	0.61	15.26	0.66	15.69	0.81
Savings and time deposits	29.69	1.73	28.26	1.67	27.42	1.80	26.02	1.94	24.69	2.06
Marketable debt securities & other	26.86	2.30	29.47	2.36	30.34	2.45	32.09	2.75	35.50	3.01
Other interest-bearing liabilities	0.54	2.28	0.50	2.15	0.46	2.17	0.43	2.54	0.42	1.98
<i>Total interest-bearing liabilities (e)</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>	<i>88.96</i>	<i>2.34</i>
Other non-interest-bearing liabilities	5.13	-	5.15	-	4.68	-	4.87	-	5.39	-
Equity	6.00	-	5.69	-	6.02	-	5.74	-	5.65	-
Total liabilities and capital (f)	100.00	1.55	100.00	1.60	100.00	1.70	100.00	1.90	100.00	2.08
<i>Customer spread (a-d)</i>	<i>3.44</i>		<i>3.44</i>		<i>3.34</i>		<i>3.38</i>		<i>3.42</i>	
<i>Spread (b-e)</i>	<i>2.78</i>		<i>2.67</i>		<i>2.62</i>		<i>2.52</i>		<i>2.53</i>	
<i>Net interest margin (c-f)</i>	<i>2.67</i>		<i>2.55</i>		<i>2.53</i>		<i>2.47</i>		<i>2.52</i>	

Net Fee Revenues

(Amounts in € thousand)

	9.30.06	9.30.05	% variation
Asset transaction service fees:	73,215	80,685	(9.3)
Bill discounting	34,009	38,773	(12.3)
Other	39,206	41,912	(6.5)
Provision of guarantees and other sureties	87,522	73,596	18.9
Operating services:	481,752	425,749	13.2
Collection and payment handling	181,325	159,229	13.9
Securities and foreign currency purchase and sale transactions	14,912	14,313	4.2
Customer financial asset management:	173,819	152,105	14.3
Securities portfolio	22,044	20,661	6.7
Mutual funds	114,982	97,902	17.4
Pension plans	36,793	33,542	9.7
Administration of demand deposits and other	111,696	100,102	11.6
Total	642,489	580,030	10.8

Personnel and general expenses

(Amounts in € thousand)

	9.30.06	9.30.05	% variation
Personnel expenses:	523,351	489,719	6.9
Wages and salaries	395,193	365,048	8.3
Social security charges	96,188	90,927	5.8
Other personnel expenses	13,201	11,286	17.0
Pensions	18,769	22,458	(16.4)
General expenses:	245,820	226,523	8.5
Rents and common services	38,829	35,951	8.0
Communications	23,183	22,257	4.2
Maintenance of premises and equipment	17,024	16,261	4.7
IT and other technical expenses	49,320	40,505	21.8
Stationery and office supplies	5,066	5,401	(6.2)
Technical reports and legal expenses	8,054	8,670	(7.1)
Advertising	31,379	30,597	2.6
Insurance	3,597	2,677	34.4
Security and fund transport services	14,830	13,914	6.6
Travel	8,400	7,990	5.1
Property taxes, VAT and other	32,908	29,656	11.0
Other general expenses	13,230	12,644	4.6
Total	769,171	716,242	7.4

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:

	9.30.06		9.30.05		% variation	
	Spain	Portugal	Spain	Portugal	Spain	Portugal
Net interest revenue	1,425,116	117,105	1,301,303	100,995	9.5	16.0
Ordinary revenue	2,145,475	151,665	1,916,943	129,058	11.9	17.5
Operating income	1,399,957	84,931	1,222,589	66,582	14.5	27.6
Income before taxes	1,234,671	52,287	1,022,039	34,329	20.8	52.3
Consolidated income for the period	820,960	38,203	673,647	23,156	21.9	65.0
Income attributed to the Group . . .	770,333	37,366	631,180	22,085	22.0	69.2
<hr/>						
Total assets	80,131,524	7,310,085	67,642,737	5,639,007	18.5	29.6
Total liabilities and net worth.	83,462,306	3,979,303	70,189,315	3,092,429	18.9	28.7
Intragroup financing.	3,330,782	(3,330,782)	2,546,578	(2,546,578)	30.8	30.8
Number of employees	12,797	1,256	12,475	1,236	2.6	1.6
Number of branches	2,240	179	2,208	162	1.4	10.5

The split by area of activity is as follows:

	9.30.06		9.30.05		% variation	
	Areas		Areas		Areas	
	Commercial Banking	Institutional & Market	Commercial Banking	Institutional & Market	Commercial Banking	Institutional & Market
Consolidated income for the period	791,937	67,226	642,799	54,004	23.2	24.5
Total assets	74,181,107	13,260,502	63,135,220	10,146,524	17.5	30.7

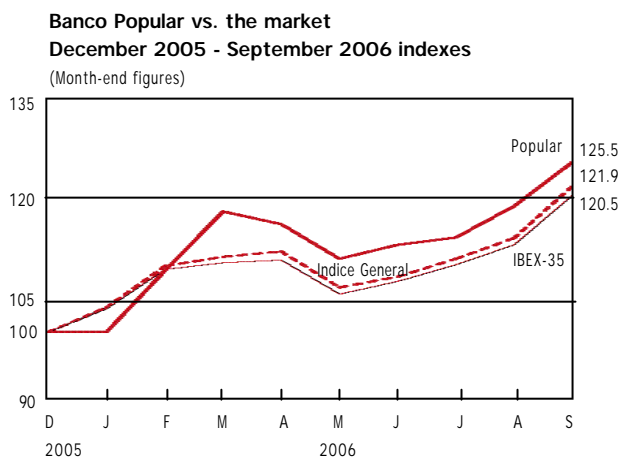
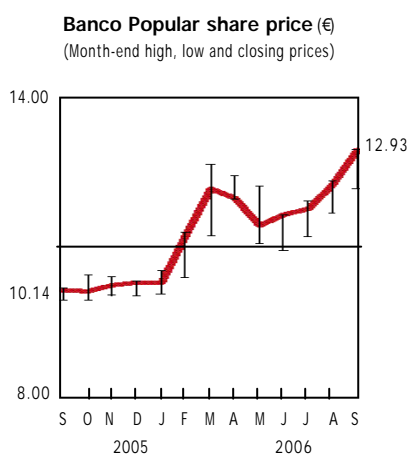
Market Performance of the Bank's Shares

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)
3rd	1,215,433	396,338	32.61	13.00	11.17	12.93	0.0919	11.8

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

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



Market ratios

	9.30.06	9.30.05
Price / Book value	2.89	2.53
Price / Earnings (PE ratio)	14.6	13.9
Dividend return*	2.84	3.55

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

Treasury Stock*

(Thousands of shares)	Number				Total		Treasury Stock**	
	Average	Maximum	Minimum	Closing	outstanding (a)	traded (b)	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
Third quarter	757	906	602	671	1,215,433	396,338	0.06	0.19

* 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.

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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