

**PART I**  
**/2007 CORPORATE GOVERNANCE REPORT**





## BANCO POPULAR ESPAÑOL, S.A.

### CORPORATE GOVERNANCE REPORT FOR 2007

#### A STRUCTURE OF OWNERSHIP

A.1. Complete the following table on the capital stock of the company:

<u>Date of last change</u>	<u>Capital stock (€)</u>	<u>Number of shares</u>	<u>Number of voting rights</u>
21-06-2005	121,543,254,- €	1,215,432,540	1,215,432,540

Indicate whether or not there are various classes of stock with different associated rights:

<u>Class</u>	<u>Number of shares</u>	<u>Unit par value</u>	<u>Yes</u>	<u>No</u>	<u>Different rights</u>
			<u>Unit number of voting rights</u>		
-	-	-	-	-	-

A.2. Detail the direct and indirect owners of significant shareholdings in the company at year end, excluding the directors:

<u>Name of shareholder</u>	<u>Number of direct voting rights</u>	<u>Number of indirect voting rights (*)</u>	<u>% of total voting rights</u>
Allianz Aktiengesellschaft Holding		113,927,050	9.37
Topbreach Holding, B.V.	94,097,632		7.74
Unión Europea de Inversiones, S.A.	65,830,000	638,417	5.47
Invernima, S.L.	47,441,020		3.90

(\*) Through:

<u>Name of shareholder</u>		
ALLIANZ AKTIENGESELLSCHAFT HOLDING		
<u>Name of direct shareholder</u>	<u>Number of direct voting rights</u>	<u>% of total voting rights</u>
Dresdner Holding B.V. Amsterdam	72,090,000	5.93
Otros	41,837,050	3.44
Total:	113,927,050	9.37

Detail the most significant changes in the shareholder structure during the year:

<u>Name of the shareholder</u>	<u>Transaction date</u>	<u>Transaction description</u>
Invernima, S.L.	30-05-2007	More than 3% of voting rights are held

## A.3. Complete the following tables on directors of the company that hold voting shares in the company:

<u>Name of the director</u>	<u>Number of direct voting shares</u>	<u>Number of indirect voting shares (*)</u>	<u>% of total voting</u>
Aparicio, Francisco	302,490	0	0.02
Asociación de Directivos de BPE	35,000	0	0.00
Lucia, José María	10,000	0	0.00
Ferreira de Amorim, Americo	500	94,097,632	7.74
Gancedo, Eric	229,000	134,043	0.03
Herrando, Luis	3,750	4,000	0.00
Molins, Casimiro	22,000	580,000	0.05
Montuenga, Luis	82,200	0	0.01
Morillo, Manuel	50	0	0.00
Nigorra, Miguel	217,440	391,247	0.05
Osuna, Nicolás	0	47,467,470	3.91
Revoredo, Helena	0	5,671,840	0.47
Rodríguez, José Ramón	28,334	122,582	0.01
Ron, Ángel	4,017	0	0.00
Santana, Vicente	11,000	1,403,140	0.12
Sindicatura de Accionistas de BPE	16,236,760	158,766,504 (1)	14.39
Solís, Miguel Ángel	736,685	279,030	0.08
Tardío, Vicente	10,000	0	0.00
Walter, Herbert	500	0	0.00
Total (direct and indirect)	17,929,726	308,917,488	26.89
Voting rights habitually represented (2)			14.27
<b>Total rights</b>			<b>41.16</b>

(1) **Indirect shareholding held by Sindicatura de Accionistas de BPE:** Includes the shareholding owned by Unión Europea de Inversiones, S.A., consisting of 66,468,417 shares representing 5.47% of capital stock. Direct or indirect shareholdings (361,385 shares) held by other directors have been deducted. Without this deduction Sindicatura's indirect shareholding amounts to 159,127,889 shares and its total shareholding is 175,364,649 shares (14.43%).

(2) **Shares represented:** This table does not include the shares habitually represented by board members, amounting to approximately 14.27% of capital stock. This percentage most notably includes the following shareholdings: 9.37% owned by Allianz AG, and represented by the directors Herbert Walter and Vicente Tardío; 1.17% owned by the Gancedo family and represented by Eric Gancedo; 0.82% owned by the Solís family and represented by Miguel Ángel de Solís; 0.75% represented by Vicente Santana; and 0.27% represented by Luis Montuenga.

(\*) Through:

**Director's name:**

D. Americo Ferreira de Amorim

<u>Name of the direct owner of the shareholding</u>	<u>Number of direct voting rights</u>	<u>% of total voting rights</u>
Topbreach Holding, B.V.	94,097,632	7.74
Total:	94,097,632	7.74

**Director's name:**

D. Nicolás Osuna García

<u>Name of the direct owner of the shareholding</u>	<u>Number of direct voting rights</u>	<u>% of total voting rights</u>
Invernima, S.L.	47,441,020	3.90
Otros	26,450	0.01
Total:	47,467,470	3.91

**Director's name:**

SINDICATURA DE ACCIONISTAS DE BPE

<u>Name of the direct owner of the shareholding</u>	<u>Number of direct voting rights</u>	<u>% of total voting rights</u>
Pluralidad de inversores particulares	92,298,087	7.59
Unión Europea de Inversiones, S.A.	66,468,417	5.47
Total:	158,766,504	13.06

**% Total voting rights held by the Board of directors 26.89% (\*\*)**

(\*\*) This percentage does not include the shares habitually represented by Board members, amounting to approximately 14.27% of the capital stock.

The total capital stock represented by the Board of Directors, taking into account the directly and indirectly owned and habitually represented shares, amounts to **41.16%**.

Complete the following tables about Board members holding rights on company shares:

<u>Director's name</u>	<u>Number of direct option rights</u>	<u>Number of indirect option rights</u>	<u>Equivalent number of shares</u>	<u>% of total voting rights</u>
-	-	-	-	-

A.4. If there are family, commercial, contractual or corporate relationships between owners of significant shareholdings, to the extent that the company has knowledge of them, detail them below unless they are scantily relevant or arise from ordinary commercial transactions:

<u>Related entity's name</u>	<u>Type of relationship</u>	<u>Brief description</u>
Topbreach Holding, B.V. y Unión Europea de Inversiones, S.A.	Corporate	Topbreach Holding, B.V. owns a significant stake in Unión Europea de Inversiones, S.A.

A.5. If there are commercial, contractual or corporate relationships between the owners of significant shareholdings and the company, detail them below unless they are scantily relevant or arise from ordinary commercial transactions:

<u>Related entity's name</u>	<u>Type of relationship</u>	<u>Brief description</u>
Popular de Mediación, S.A. (wholly owned by BPE) and Allianz	Contractual	Marketing of Allianz's general insurance policies through the banks pertaining to Banco Popular Group.
Banco Popular - Allianz	Contractual	Contractual Externalization of pension commitments to serving and retired staff.
Grupo Banco Popular - Allianz	Contractual	Contractual Externalization of pension commitments to serving and retired staff.
Banco Popular - Allianz	Corporate	Eurovida, S.A., Cía Seguros y Reaseguros, a life insurance company in which the stake held is 49%-51% and Europensiones, S.A., a pension fund, in which the stake is 51%-49%.

A.6. Indicate whether any pact between shareholders affecting the company have been reported in accordance with the provisions of Article 112 of the Stock Market Act. If any, provide a brief description and list the shareholders bound by the pact:

<u>Yes</u>	No	
<u>Parties to the pact</u>	<u>% of capital stock affected</u>	<u>Brief description of the pact</u>
Multiple minority shareholders (2,508 a 31-12-2007)	14.43	A gentleman's agreement by which the syndicated shareholders are bound for such time as they freely decide

Indicate whether or not there are any pacts regarding shares between shareholders of the company of which the company is aware:

Yes	<u>No</u>	
<u>Parties to the pact</u>	<u>% of capital stock affected</u>	<u>Brief description of the pact</u>
-	-	-

State below any change in or termination of such pacts or agreements or share pacts during the year:

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A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company in the terms of Article 4 of the Securities Market Law. If so, indicate them:

Yes	<u>No</u>	
<u>Name</u>	<u>Observations</u>	
-	-	

A.8. Complete the following tables about the company's treasury stock:

At year end:

<u>Number of directly owned shares</u>	<u>Number of indirectly owned shares (*)</u>	<u>% of total capital stock</u>
0	719,473	0.06

(\*) Through:

<u>Name of the direct owner of the holding</u>	<u>Number of directly owned</u>
Finespa, S.A.	150,521
Inmobiliaria Viagracia, S.A.	586,952
Total:	719,473

Detail the significant variations, as defined in Royal Decree 1362/2007, during the year:

<u>Date reported</u>	<u>Total direct shares acquired</u>	<u>Total indirect shares acquired</u>	<u>% total of capital stock</u>
23-02-2007	7,390,464	2,187,013	1.15%

Capital gain/(Loss) on treasury stock sold during the period	(105,807.72 €)
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The treasury stock transactions, in all cases of small amounts, were in the ordinary operations of the Bank's Treasury area, and also to provide a counterparty for positions in Euronext Lisbon, without any significant variation in the treasury stock position having occurred during 2007.

**A.9. Detail the conditions and the period(s) of the authorization(s) granted by the Shareholders' Meeting to the Board of Directors for the purchases or sales of treasury stock.**

The Shareholders' Meeting held on May 30, 2007 adopted a resolution to authorize and empower the Board of Directors of the Bank to acquire treasury stock, in the manners permitted by law, up to the limits and subject to the requirements stated below:

- \* That the face value of the shares acquired, when added to that of those already owned by the Bank and its subsidiaries, does not at any time exceed 5% of the capital stock.
- \* That the Bank and, where appropriate, the acquiring subsidiary, have the capacity to record the restricted reserve prescribed by law for such cases without reducing the capital or the legal reserve or the reserves which are restricted pursuant to the bylaws.
- \* That the shares acquired have been fully paid.
- \* That the acquisition price is not lower than the face value or 20% higher than the market price at the Stock Exchange session on the day of purchase.

This authorization, which is granted for the maximum legal period of 18 months, is without prejudice to the application of the cases addressed in the law as of free acquisition.

The Board of Directors is further authorized to dispose of the treasury stock acquired or that may be acquired in the future and to cancel the shares of treasury stock against equity and to make the consequent capital reduction and bylaw amendment, for such amount as may at any time be desirable or necessary, up to the maximum of the treasury stock held at any time, on one or several occasions and always within a maximum period of 18 months from the date of the Shareholders' Meeting.

A.10. Indicate the legal and bylaw restrictions, if any, on the exercise of voting rights and the legal restrictions on the purchase or sale of ownership interests in the capital stock.

Indicate the legal and bylaw restrictions, if any, on the exercising of voting rights:

Yes

No

Maximum percentage of voting rights that may be exercised by a shareholder due to legal restrictions

Indicate whether or not there are legal and bylaw restrictions on the exercising of voting rights:

Yes

No

Maximum percentage of voting rights that may be exercised by a shareholder due to bylaw restrictions 10%

Describe any legal and bylaw restrictions on the exercising of voting rights

The Bylaws state that the maximum number of votes that may be cast by any one shareholder or companies belonging to any one group is 10% of the votes to be cast at the Shareholders' Meeting concerned.

Indicate whether or not there are legal restrictions on the purchase or sale of ownership interests in capital stock:

Yes

No

Describe the legal restrictions on the purchase or sale of ownership interests in capital stock

**Legal restrictions on the purchase or sale of ownership interests in capital stock.**

Articles 57, 58 and 60 of Law 26/1988 on Discipline and Intervention of Credit Institutions establishes a procedure for prior reporting to the Bank of Spain of the acquisition or sale of a significant holding in a Spanish credit institution or the increase or decrease thereof in excess of the percentages of capital stated in Article 57.2. The Bank of Spain will have a maximum period of three months from the date of its being notified to oppose, if appropriate, the intended acquisition.

A.11. Indicate whether or not the Shareholders' Meeting has adopted any measures to neutralize any public acquisition offer in accordance with the provisions of Law 6/2007:

Yes

No

Explain any measures approved and the terms under which the restrictions would become inefficient:

## B STRUCTURE OF GOVERNANCE OF THE BANK

### B.1 Board of Directors

#### B.1.1. Maximum and minimum number of directors per the bylaws:

Maximum number of directors	20
Minimum number of directors	12

#### B.1.2. Complete the following table with information regarding members of the Board:

<u>Name</u>	<u>Representative</u>	<u>Title</u>	<u>First appointed</u>	<u>Last appointed</u>	<u>Election procedure</u>
Aparicio, Francisco		Secretary	18-12-2003	30-05-2007	Shareholders Meeting
Asociación de Directivos de BPE	Roberto Higuera	Director	27-11-1980	25-05-2005	"
Lucía Aguirre, José María		CEO	18-07-2007	18-07-2007	Board
Ferreira de Amorim, Americo		Director	27-05-2003	25-05-2005	Shareholders Meeting
Gancedo, Eric		Director	20-06-2002	25-05-2005	"
Herrando, Luis		Director	21-06-2001	30-05-2007	"
Molins, Casimiro		Director	24-11-1987	25-05-2005	"
Montuenga, Luis		Director	01-12-1987	25-05-2005	"
Morillo, Manuel		Director	23-06-1999	25-05-2005	"
Nigorra, Miguel		Director	19-12-1974	25-05-2005	"
Osuna, Nicolás		Director	30-05-2007	30-05-2007	"
Revoredo, Helena		Director	30-05-2007	30-05-2007	"
Rodríguez, José Ramón		Director	01-12-1987	25-05-2005	"
Ron, Ángel		Chairman	Director 14-03-2002 Chairman 19-10-2004	25-05-2005	"
Santana, Vicente		Director	27-05-2003	25-05-2005	"
Sindicatura de Accionistas de BPE	José María Mas	Director	28-06-1988	30-05-2007	"
Solís, Miguel Ángel		Director	18-12-1996	25-05-2005	"
Tardío, Vicente		Director	19-12-2007	19-12-2007	Board
Walter, Herbert		Director	20-04-2004	25-05-2005	Shareholders Meeting

Total number of directors

19

#### Directors who left the Board during the year:

<u>Name</u>	<u>Board position at the time</u>	<u>Date of departure</u>
Emilio Viñas	Independent	17-04-2007
Francisco Fernández Dopico	Executive	18-07-2007

## B.1.3. Complete the following tables about Board members and their classification:

EXECUTIVE DIRECTORS

<u>Name</u>	<u>Commission proposing Appointment</u>	<u>Profile</u>
Ron, Ángel	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Chairman Degree in Law. Has held various posts in the Bank and at Spanish financial entities since 1984; appointed General Manager of the Bank in 1998, CEO in March 2002. On October 19, 2004 he was appointed Chairman.
Lucía, José María	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	CEO Degree in Economics, Co-coordinator of "Risk Analysis" at the CUNEF masters Program. He joined Banco Popular in Madrid in 1965 and after holding positions at several offices in 1977 he was appointed Investment Director for Banco de Andalucía; in 1979 Investment Director for Subsidiary Banks; in 1986, Deputy General Manager of Banco de Andalucía, responsible for the Risk Area. Between 1987 and 1991 he was the Deputy General Manager of Eurobanco; between 1992 and 1995 he was responsible for the Treasury Department at Banco Popular; between 1995 and 1998, Risk Prevention Director; between 1998 and 2007, Risk Manager for the Group, a member of Management at Banco Popular Group and the Risk Committee on the Board of Directors of Banco Popular. In July 2007 he was appointed CEO of the Group.
Asociación de Directivos de BPE (representative Roberto Higuera)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Director Associate. Membership of executives is voluntary. Roberto Higuera's professional activity has been mainly at Banco Popular, where he has been, among other things, Manager of International Activities, General Manager of Banco Popular Hipotecario and Chief Financial Officer (his present post).
Aparicio, Francisco	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Secretary In practice since 1979. On joining the Bank he ceased to be a partner of an international law firm, of which he is still "off counsel" but unpaid.
<b>Total number of Executive Directors % of the total Board</b>		<b>4 21%</b>

EXTERNAL DOMANIAL DIRECTORS

<u>Name</u>	<u>Commission proposing Appointment</u>	<u>Name of significant shareholder or proposed appointment</u>	<u>Profile</u>
Ferreira de Amorim, Americo	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Topbreach Holding, B.V.	Businessman. Chairman of the Amorim Group, founded in 1870, world leader in the cork industry, with substantial investments in the property, tourism and financial areas. The Amorim Group operates in 32 countries.
Montuenga, Luis	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Unión Europea de Inversiones, S.A.	Businessman. He has held executive and corporate posts at chemical and pharmaceutical companies Ibérica, Naarden Internacional y Productos Orgánicos, S.A. He plays and active role in social-cultural projects such as the Youth Foundation.
Nigorra, Miguel	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		Businessman and professional Qualified Property Registrar; apart from posts in the Group, has been active in public bodies (Palma de Mallorca Harbor Works Board) and in companies (Mare Nostrum and Inmobiliaria Urbis). He holds a 7.69% stake in Banco de Crédito Balear, S.A.
Osuna, Nicolás	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Invernima, S.L.	Businessman. He is the Chairman of Noga Group, which is active in the real estate, hotel, agriculture and forestry sectors. It is one of the top three real estate development companies in Spain and through its subsidiary Hoteles Center; it has built and directly manages a hotel chain.

CONSEJEROS EXTERNOS DOMINICALES

<u>Name</u>	<u>Commission proposing Appointment</u>	<u>Name of significant shareholder or proposed appointment</u>	<u>Profile</u>
Sindicatura de Accionistas de BPE (representative José M <sup>a</sup> Mas)	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee		Association. Groups together small Bank shareholders, which allows them to be represented on the Board of Directors. José María Mas is the founding partner of MC&Co Asesores Legales, and has formed part of the Board of Directors of several companies such as, Banco Zaragozano and the Secretary to the Board of Telefónica. Among other companies, he is currently a Director of SOS Cuétara, Autopistas Aumar and Realia.
Tardío, Vicente	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Grupo Allianz	Degree in Economics and Actuary, received from the University of Barcelona. He is the Chairman and CEO of Allianz Seguros and a member of the International Executive Committee of Allianz Group. Previously he held the position of CEO at Allianz Ras (1995-1998) and Vice Chairman and CEO of Allianz Seguros (1999-2005).
Walter, Herbert	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Grupo Allianz	Doctorate in Business Administration. Since 1982 he has held several executive posts at various companies and at Deutsche Bank AG. Since March 2003 he is a member of the Board of Directors of Allianz AG, in Munich and Chairman of the Board of Directors of Dresdner Bank AG. He is also a Director of Banco Portugués de Investimento.

<b>Total number of Independent Directors</b>	<b>7</b>
<b>% of total Board</b>	<b>37%</b>

**CONSEJEROS EXTERNOS INDEPENDIENTES**

<u>Name</u>	<u>Profile</u>
Gancedo, Eric	Degree in Law. Businessman. Active in the fields of trade, wine-making and property. He is a member of the Bank's founding family which has always been represented on the Board.
Herrando, Luis	Doctorate in industrial engineering and economics degree. He commenced his professional career at Babcock & Wilcox, and in 1967 he joined Induban (Banco Vizcaya). He was CEO at Aurora Group (78-93), now AXA. Director of companies in the insurance, property and venture capital fields. Honorary President of the Asociación para el Progreso de la Dirección (APD) in northern Spain. Chairman of the Fundación del Instituto de Educación e Investigación and of the Fundación de la Escuela de Ingenieros de Bilbao.
Morillo, Manuel	Professional With long business experience, particularly in the textile, real estate and construction sectors, he has played a relevant role to develop assistance projects in co-operation with the Generalitat de Catalunya and the national government. He habitually represents the holding in Banco Popular's capital stock of 0.31% of the Carmen y M <sup>a</sup> José Godó Foundation, of which he is Chairman.
Revoredo, Helena	She holds a degree in Business Administration from Universidad Católica de Buenos Aires and a PADE masters from IESE in Madrid. From 2004 she is the Chairwoman of the Security Company Prosegur and Euroforum, and since 2006 she is a member of the International Consultation Committee at IESE. She is also the Chairwoman of the Prosegur Foundation since it was founded in 1997. Between 1997 and 2004, she was the Vice Chair of Prosegur and a member of the Executive Board at the Family Business Institute, and between 2002 and 2005 she was the Chair of Adefam (Family Business Development Association in Madrid).
Rodríguez, José Ramón	Engineer and Businessman. In addition to his professional activity as a Civil Engineer, he has held several executive posts and directorships at companies in the textile, food and construction sectors.
Santana, Vicente	Businessman. Degree in Law. Stockbroker. He commenced his career in 1971 as a stockbroker at the Barcelona Stock Exchange and between 1983-1989 continued as a stockbroker at the Madrid Stock Exchange. Director of Sociedad Rectora de la Bolsa de Madrid 1991-1994.
Solís, Miguel A. de	Businessman. Very active business involvement, particularly in the real estate, agriculture/livestock and tourism industries.
<b>Total number of Independent Directors</b>	
<b>% of total Board</b>	
	7 37%

**OTROS CONSEJEROS EXTERNOS**

<u>Name</u>	<u>Commission proposing Appointment</u>	<u>Profile</u>
Molins, Casimiro	Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	Businessman. In addition to his activity at Cementos Molins, S.A. and at various real estate and construction companies in Spain and America, between 1962 and 1983 he was the Chairman of Banco Atlántico.
Total number of other External Directors		1
% of total Board		5%

**State the reasons why they may not be regarded as domanial or independent directors and their relations with the company, its directors or its shareholders:**

<u>Name</u>	<u>Reasons</u>	<u>Associated company, executive or shareholder</u>
Molins, Casimiro	His stake in the Bank's capital stock is not sufficient to justify his classification as Domanial. He cannot be considered independent due to his family relationship with a Director of Unión Europea de Inversiones, S.A., a significant shareholder in the Bank	Unión Europea de Inversiones, S.A.

**State any changes that have taken place during the period in status of each director:**

<u>Name</u>	<u>Date of change</u>	<u>Prior status</u>	<u>Current status</u>
Osuna, Nicolás	12-19-2007	Independent	Domanial
Molins, Casimiro	12-19-2007	Domanial	Other External

**B.1.4. State any reasons for which domanial directors have been appointed at the request of shareholders with less than a 5% stake in capital stock.**

<u>Name</u>	<u>Justification</u>
Invernima, S.L.	Mr. Nicolás Osuna, the indirect owner of the shareholding held by Invernima, S.L. (3.90%) was appointed to the Bank's Board at the General Meeting held on 30 May 2007. At the time of appointment he was classified, at the proposal of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee as an Independent Director, in accordance with the recommendations and definitions of the Unified Code of Good Governance and the Bank's internal regulations. Subsequently, after a report was issued by that Committee, at a meeting held on 19 December 2007, the Board of Directors agree to change his classification to Domanial Director, as his shareholding exceeded 3%, which was set as the new minimum limit for considering a shareholding to be significant by current legislation, which was reported as a relevant event on 19 December 2007.

State whether or not there have been formal requests for positions on the Board from shareholders whose interest is equal to or exceeds that of others who have been designated Domanial Directors. If appropriate, explain why such requests were denied.

Yes

NoName of the shareholderReason

None

B.1.5. State whether or not any Director has left the position before the end of the term, if the Director provided an explanation, and how, to the Board and, in the event this was done in writing to the entire Board, explained at least the reasons provided:

NameReason

Emilio Viñas Barba  
Francisco Fernández Dopico

Death  
Retirement

B.1.6. State the powers, if any, delegated to the CEO:

NameBrief description

Ron Güimil, Angel  
Lucía Aguirre, José María

President  
CEO

Without prejudice to the differing scope of action corresponding to them in the Board, each of them exercises his powers jointly and severally. For details of the attributional scope of the Chairman of the Executive Committee and of the CEO, see point B.10.21.

The powers delegated include all the faculties of the Board of Directors, except those which cannot legally be delegated and those that cannot be delegated in accordance with Article 5.2 of the Board Regulations.

**B.1.7. List the Board members, if any, that are directors or executives of other companies included in the group of the listed company:**

<u>Name</u>	<u>Name of the Group company</u>	<u>Title</u>
Aparicio, Francisco	Banco de Andalucía	Director
Gancedo, Eric	Banco de Vasconia	Representative of the BPE Director
	Banco de Castilla	Director
Herrando, Luis	Banco de Crédito Balear	Representative of the BPE Director
	Bancopopular-e	President
	Banco Popular France	President
	Banco de Galicia	Representative of the BPE Director
Higuera, Roberto (Rep. Asociación Directivos BPE)	Popular Banca Privada	President
	Banco Popular Hipotecario	Director
	Europensiones	President
	Eurovida	Vice-president
	Popular de Mediación	President
	Popular de Factoring	President
	Totalbank	Director
Lucía, José María	Popular Banca Privada	Director
Montuenga, Luis	Banco de Andalucía	Representative of the BPE Director
	Banco de Galicia	Director
Nigorra, Miguel	Banco de Vasconia	Director
	Banco de Crédito Balear	President
Rodríguez, José Ramón	Banco de Vasconia	President
	Banco de Castilla	Representative of the BPE Director
	Banco Popular Hipotecario	President
Santana, Vicente	Popular Banca Privada	Director
	Banco de Andalucía	President
Solís, Miguel Ángel	Banco de Crédito Balear	Director
	Banco de Vasconia	Director
	Eurovida	President
Tardío, Vicente	Eurovida	President
	Europensiones	Vice-president

**B.1.8. Indicate whether or not any Directors at your company are members of the Board of Directors at other non-group companies listed on the official stock exchanges in Spain, as reported to the Company:**

<u>Name</u>	<u>Name of the Group company</u>	<u>Title</u>
Ferreira de Amorim, Américo	Unión Europea de Inversiones, S.A.	Director
Mas Millet, José M <sup>a</sup> (representative of Sindicatura de Accionistas de BPE)	SOS Cuétara, S.A.	Director
	Realia, S.A.	Director
Molins, Casimiro	Cementos Molins, S.A.	President
Montuenga, Luis	Unión Europea de Inversiones, S.A.	President
Osuna, Nicolás	Iberdrola, S.A.	Director
Revoredo, Helena	Prosegur, S.A.	President

**B.1.9. State and, if appropriate, explained that whether or not the Company has established rules regarding the number of Boards to which its Directors may pertain:**

Yes

No

Explanation of the rules

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee, in accordance with Article 25.4 of the Board Regulations, verifies compliance with internal rules that have been established regarding the number of Boards to which Directors may form part, which are those established by Law 31/1968 (27 July) on the incompatibilities and limitations of senior management at private banks.

In addition, as it is stipulated by Article 18.2 of the Board Regulations, during the time the post is held a rector may accept any appointment as Director or Executive of another bank, Investment Services Company, insurance Company or any other financial entity without the express and prior authorization of the Full Board of Directors, when such an entity carries out its activities, in full or in part, within the area in which Banco Popular or its subsidiaries operate.

**B.1.10. With regard to Recommendation 8 of the Unified Code, indicate the general policies and strategies at the Company which must be approved by the full Board:**

	Yes	No
The policy of investments and financing	Yes	
The definition of the structure for the group of companies	Yes	
The corporate governance policies	Yes	
The corporate responsibility policy	Yes	
The strategic or business plan, as well as management and annual budget targets	Yes	
The policy for evaluating senior management performance and compensation	Yes	
The risk management and control policy, as well as regular monitoring of internal information and control systems	Yes	
The policy for dividends, as well as treasury stock and, in particular, their limits	Yes	

**B.1.11. Show in the following tables the aggregate compensation of the directors earned during the year.**

The aggregate information contained in this section includes that relating to the members of the Board of Directors at 31 December 2007 and, therefore, excludes Mr. Francisco Fernández Dopico, who was the CEO until July 2007.

The individual information, covering all compensation paid to the members of the Board of Directors, is set out in Note 10 of the Notes to the Annual Accounts (page 147), and separate information is provided with respect to Mr. Francisco Fernández Dopico.

**a) At the Company covered by this report:**

<u>Compensation category</u>	<u>Thousand euros</u>
Fixed remuneration	1,572
Variable remuneration	1,300
Per diems	0
Directors' fees	0
Stock options and/or other financial instruments	0
Other	9.5
TOTAL:	2,881.5

<u>Other benefits</u>	<u>Thousand euros</u>
Advances	0
Loans granted	1,525
Pension plans and funds: Contributions	3,135
Pension plans and funds: Obligations	10.097
Life insurance premiums	8.5
Guarantees secured by the Company in favor of Directors	0

The amount of €1,135k includes that corresponding to the present directors. The breakdown of contributions to Pension funds and plans for current Directors, together with those relating to Mr. Francisco Fernández Dopico, is set out in Note 10 of the Annual Report and totals €4,491k. The contributions relating to pension commitments for Mr. Francisco Fernández Dopico totaled €1,356k which, together with the rights that had previously consolidated, made for a total of €7,033, which allows for a lifetime annual pension of €478,000. He is the beneficiary of life insurance premiums totaling €5.5k. The figure of €10,097k corresponds to the vested rights and mathematical reserves linked to the pensionable rights of the current directors. The total amount corresponding to the present and previous directors reaches the figure of €41,384k.

**b) For membership by Board members of other boards of directors and/or of senior management of Group companies:**

<u>Compensation category</u>	<u>Thousand euros</u>
Fixed Remuneration	0
Variable remuneration	0
Per diems	0
Directors' fees	56
Stock options and/or other financial instruments	0
Other	0
TOTAL:	56

<u>Other benefits</u>	<u>Thousand euros</u>
Advances	0
Loans granted	8
Pension plans and funds: Contributions	0
Pension plans and funds: Obligations	0
Life insurance premiums	0
Guarantees secured by the Company in favor of Directors	102

**c) Total remuneration by type of director:**

<u>Type of director</u>	<u>By company</u>	<u>By group (€000)</u>
Executive	2,881.5	0
External domanial	0	56
External independent	0	0
Other external	0	0
Total	2,881.5	56

**d) With respect to the attributed income of the parent company:**

Total Director Compensation (thousand euros)	2,937.5
Total Director Compensation Profit attributed to the Parent Company (expressed in %)	0.23%

Note 10 to the Consolidated Financial Statements fixes the total remuneration figure at €2,928k and includes €18k as "life, health and other insurance premiums". This Report breaks this €18k down into €8,500 for "life insurance" and €9,500 for "other benefits", which relates to health insurance. In this Report, the amount of €9,500 is included in the total amount of remuneration (B.1.11.d) which therefore reaches the figure of €2,937.5k.

**B.1.12. List the members of senior management who are not executive directors and show the total remuneration earned by them during the year:**

<u>Name</u>	<u>Title</u>
Jesús Arellano Escobar	Resource Management
Juan Echanojáuregui Soloaga	Investor Relations
Antonio Férrez Pérez	Southern Management Office
Francisco Gómez Martín	Risk Management
Roberto Higuera Montejo	Financial Management
Rafael de Mena Arenas	Technical Secretariat
Eutimio Morales López	Comptroller
Tomás Pereira Pena	Central Legal Office
José Manuel Piñeiro Becerra	Asset Management
Antonio Pujol González	Central Management Office
Ernesto Rey Rey	Financial Management
Ángel Rivera Congosto	Sales Network Management
Jorge Rossell Granados	Totalbank
Francisco J.Safont Marco	Director for Cataluña, Aragón, Navarra and Rioja
Francisco Sancha Bermejo	Sales Management
Fernando de Soto López-Doriga	Institutional Relations
Carlos Velázquez Gaban	Director for Mediterranean Area (Levante)

**Total remuneration of members of senior management (€K)** 6.570

This amount includes the cost of life and health insurance premiums, as disclosed in Note 10 to the 2006 Consoli-dated Financial Statements.

Roberto Higuera is also the representative of the Asociación Profesional de Directivos de BPE, an office for which he receives no remuneration.

- B.1.13. State, on an aggregate basis, whether there are guarantee or protective measures in the event of dismissal or changes of control for members of the senior management, including executive directors, of the company or of its group. State whether these contracts have to be notified to and/or approved by the governing bodies of the company or of its group:

Number of beneficiaries	-	-
	<u>Board of Directors</u>	<u>Shareholders Meeting</u>
Body that approves the clauses	-	-
	<u>YES</u>	<u>NO</u>
Is the general Meeting informed of clauses?	-	-

- B.1.14. Describe the process for setting Board members' remuneration and the relevant Bylaw articles:

Process for establishing remuneration for the Members of the Board of Directors and the bylaws

Article 17 of the bylaws stipulates that the policy for remuneration of directors shall conform to the Bank's traditional criterion of not remunerating discharge of the office of Board Member.

The foregoing rule is compatible with receipt of such fees or salaries as may correspond to Board members that render professional or employment services, for other executive, advisory or representation functions, if any, which they perform other than those of supervision, deliberation, and adoption of resolutions that are proper to their status as directors.

Directors with no professional or employment relationship with the Bank shall have no remuneration except for group and third-party liability insurance for their actions as Directors.

Article 21 of the Board Regulations establishes that the Board of Directors shall review the policy of directors' remuneration, adopting such measures as it deems appropriate for the maintenance, correction or improvement thereof and, in particular, to conform it to the principles of moderation and relation to the earnings of the Bank. When establishing this policy, the Board will follow the recommendation of the Unified Code of Good Governance.

Remuneration and consultation policy for the Board of Directors

At the proposal of the Appointment, Remuneration, Corporate Governance and Conflict of Interest Commission, the Board of Directors shall approve the remuneration policy for Directors, which must cover at least the following matters: the amount of fixed components, broken down if appropriate, regarding the per diems paid for participation on the Board and its Commissions, and an estimate of the fixed annual remuneration they represent; variable remuneration, including in particular the main characteristics of the applicable retirement plans and the conditions that the agreements with those exercising these senior management duties of Executive Directors must meet.

The report approved by the Board of Directors regarding Director's remuneration policy is submitted by the Board to a vote by the General Meeting as a separate point of the agenda and on a consultation basis. This report is made available to shareholders, either separately or in any other manner that the Company considers advisable.

This report particularly focuses on the remuneration policy approved by the Board for the year already in progress, as well as any expected to be in force in future years. It covers all matters regarding the compensation policy, except for any that could involve the revelation of sensitive business information. It emphasizes the most significant changes in these policies compared with the policy applied last year to which the General Meeting refers. It also includes an overall summary of how the compensation policy was applied last year. The Board will also provide information of the role played by the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission when preparing the compensation policy and, if any external advisory services were used, the identity of the external consultants will be revealed.

#### Information regarding Compensation.

This report particularly focuses on the remuneration policy approved by the Board for the year already in progress, as well as any expected to be in force in future years. It covers all matters regarding the compensation policy, except for any that could involve the revelation of sensitive business information. It emphasizes the most significant changes in these policies compared with the policy applied last year to which the General Meeting refers. It also includes an overall summary of how the compensation policy was applied last year. The Board will also provide information of the role played by the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission when preparing the compensation policy and, if any external advisory services were used, the identity of the external consultants will be revealed.

#### Application of the Code of Good Governance

The rules regarding compensation set out in the Board Regulations and the General Meeting Regulations are applied and interpreted in accordance with the recommendations established in the chapter regarding compensation in the Unified Code of Good Governance dated May 22, 2006.

#### **Indicate whether the Full Board approves the following decisions:**

	Yes	No
At the proposal of the Chief Executive Officer, the appointment and dismissal of senior executives, as well as their indemnities.	Yes	
Compensation for Directors, as well as additional compensation for executive duties, in the case of Executive Directors, and any other conditions that their contracts must respect.	Yes	

#### **B.1.15. Indicate whether or not the Board of Directors approves a detailed compensation policy and specify the matters it covers:**

	<u>Yes</u>	No
A breakdown of any fixed components of the per diems paid for participation on the Board and its Commissions and an estimate of the fixed annual compensation they represent.	Yes	
Any variable compensation	Yes	
Main characteristics of retirement plans, including an estimate of their amount or equivalent annual cost.	Yes	
The conditions that must be respected by the contracts for members of senior management such as executive Directors, including the term, advance notice requirements and any other clause relating to contract bonuses such as indemnities or "golden parachutes" invoked upon early completion or termination of the contractual relationship.	Yes	

**B.1.16. Indicate whether or not the Board submits a report regarding the compensation policy for Directors to a vote by the General Meeting. If so, explain the content of the report regarding the compensation policy approved by the Board for future years, the most significant changes in these policies compared with the policy applied during the year and an overall summary of how the compensation policy was applied during the year. Provide details of the role played by the Compensation Commission and whether or not external advisory services were used and if so, reveal the identity of the external consultants that rendered these services:**

Yes

No

Matters covered by the compensation policy report

In line with the corporate culture at the Bank, the compensation policy for the year followed these principles:

1. No compensation is paid for the position of Director, but rather for the performance of other duties and services rendered to the bank that are performed by Executive Directors.
2. Transparency regarding compensation paid to Board Members.
3. Application of the principles of moderation and alignment with the performance of the Bank when establishing compensation for Executive Directors, which are reflected in the Bank's compensation policy for Senior Management.
4. Variable compensation must maintain a relationship with the professional performance of its beneficiaries and not be derived merely from the general development of markets or the sector, or other similar circumstances.
5. No compensation plan will be established that includes the delivery of shares in the Company or its Group of Companies, nor options or any other instruments indexed to the value of shares to Directors or the members of Senior Management.
6. No per diems will be established for participating in the Board of Directors and its Commissions.

No relevant changes in the compensation policy are expected to take place in future years.

Role played by the Compensation Commission

The Appointments, Compensation, Corporate Governance and Conflict of Interests Commission prepares the Report on the Compensation Policy for Directors and presents it to the Board of Directors so that it may be submitted to the General Meeting, as a separate point on the Agenda so that a consultation vote may be taken.

	<u>Yes</u>	<u>No</u>
Were external advisory	-	No
Identity of the external consultants	-	-

**B.1.17. State the names of Board members, if any, that are also Board members or executives of companies with significant shareholdings in the listed company and/or in its Group companies:**

<u>Director's name</u>	<u>Name of the significant shareholder</u>	<u>Title</u>
Ferreira de Amorim, Américo	Unión Europea de Inversiones, S.A.	Director
Montuenga, Luis	Unión Europea de Inversiones, S.A.	Chairman
Nigorra, Miguel	MNCC International	Administrator
Osuna, Nicolás	Invernima, S.L.	Chairman-CEO
Tardío, Vicente	Allianz, S.A., Cía.Seguros yReaseguros Allianz Group	Chairman-CEO Member of International Executive Committee
Walter, Herbert	Allianz, A.G.	Director

State the relevant relationships, if any, other than those addressed above, of Board members linking them with the significant shareholders and/or Group entities:

<u>Name of the Associated Director</u>	<u>Name of the relevant associated share of holder</u>	<u>Relationship</u>
Ferreira de Amorim, Américo	Topbreach Holding, B.V.	Controlling shareholder
Molins, Casimiro	Unión Europea de Inversiones, S.A.	Related to a Director
Nigorra, Miguel	Unión Europea de Inversiones, S.A.	Related to a Director
Osuna, Nicolás	Invernima, S.L.	Controlling shareholder
Solis, Miguel Ángel	Peguerillas, S.L.	Related to a Director

**B.1.18. Indicate whether or not there has been any modification made to the Board Regulations during the year.**

Yes

No

Description of modifications

At the meeting held on April 19, 2007 the Board of Directors approved a modification to the Regulations relating to the composition of the Board of Directors and the Secretary to the Audit and Control and Appointments Commissions.

At the meeting held on December 19, 2007 the Board of Directors approved a general modification to the Regulations in order to adapt them to the Unified Code of Good Governance.

**B.1.19. Indicate the procedures for appointing, reelecting, evaluating and removing Directors. List the competent bodies, the procedures to be followed and the criteria to be employed within the each procedure.**

The appointment, reelection, evaluation and removal procedures concerning Directors are regulated in the Bylaws and in the Board Regulations, which have been adapted to meet the recommendations made by the Unified Code.

Appointment

The Appointment of Directors and the determination of their number, between twelve and twenty in accordance with the bylaws, is the responsibility of the General Meeting, such that due representation and efficient operations are guaranteed.

If, during the term for which Directors were appointed any vacancy arises, the Board may designate from among shareholders the person that will occupy this post until the next General Meeting is held by Shareholders.

Furthermore, the full Board of Directors retains the authority to approve the Appointment of the Bank's CEO.

Requirements for appointment

Directors must necessarily be shareholders.

Director nomination and reelection proposals submitted by the Board of Directors for the consideration of the General Meeting and Directors appointed through designation must involve individuals that not only meet legal and statutory requirements for the position concerned, but they also must be of recognized prestige and have professional and commercial honor as well as possess the knowledge and professional experience that is adequate to fulfilling their duties.

#### Procedure for appointment and re-election

The nomination and reelection of Directors is done through a formal and transparent procedure. Proposals to nominate or reelect Directors made by the Board of Directors to the General Meeting, as well as the appointment of Directors through designation, must be covered by a prior proposal from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission, in the case of independent Directors, or a report from that Commission in the case of all other Directors.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission ensures that new vacancies are filled:

- a) By ensuring that selection procedures do not have any implicit bias that could raise obstacles to the selection of women Directors;
- b) By ensuring that the Company deliberately seeks, and includes among potential candidates, women that have the target professional profile.

Consideration shall be had in the appointment of directors to the conditions, experience and skills and, accordingly, the executive or external, independent or domanian nature of the Director appointed.

The Board of Directors shall exercise its powers of proposing appointments to the Shareholders' Meeting and of appointment by co-option in such a way that the external directors constitute an ample majority over the Executive Directors on the Board. The number of directors with executive functions shall not exceed one third of the members of the Board.

Also, the Board shall endeavor to ensure that the directors as a whole represent a relevant percentage of the capital stock.

#### Term of office, re-election and evaluation

The term of office of the directors is five years. At the end of this term, the directors may be re-elected for one or more periods of the same maximum duration, at the proposal of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee, evaluating the work done by the director and his effective commitment to the office during the latest period.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission is the competent body for revising the criteria that must be applied with respect to the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that is necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.

At the time the Corporate Governance report is approved and before the report from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission is received, the Board evaluates the quality and efficiency of the operations carried out by the Board, it's Commissions as well as the fulfillment of the duties of the Chairman of the Board and the Bank's CEO.

The Board may contract external consultants to carry out this evaluation process.

#### Removal

The Board of Directors is the competent body to determine the cause of termination of Directors and to accept resignations.

The Board of Directors will not propose the removal of any independent Director prior to the end of the statutory period for which they were appointed, unless there is just cause appreciated by the Board after having received a report from the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission, or as a result of public share offerings, mergers or other similar corporate transactions.

#### **B.1.20. Indicate cases in which Directors are obliged to resign.**

Directors shall resign when the term of office for which they were appointed has elapsed or when the Shareholders' Meeting so decides, and in all such other cases as may be applicable by law or under the Bylaws.

Article 16 of the Board Regulations states that Directors must offer to resign and, if the Board considers it advisable, must formally submit their resignation in the following cases:

- a) In the case of executive directors, when they cease to occupy the posts to which their appointment as directors was connected.
- b) When they are affected by any of the legally envisaged situations of incompatibility or prohibition.
- c) If their continuation as Board members may negatively affect the functioning of the Board or the standing and reputation of the Bank in the marketplace, or may jeopardize its interests.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 1 to four of the Spanish Companies Act, the Board will examine the case as soon as possible, and in the light of the specific circumstances at hand must reach a decision as to whether or not the Director will remain on the Board. Any such action will be explained by the Board in the Annual Corporate Governance Report.

- d) In the case of a domanial Director, when the shareholder whose interests are being represented on the Board disposes of its stake in the Company or significantly reduces that shareholding or reduces it below the percentage that the Board determines at any given moment, or to the point at which a reduction in the number of its domanial Directors is required, notwithstanding their possible reelection as Executive Director, independent Director or domanial Director representing another shareholder.

When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons must be explained in a letter sent to all of the members of the Board of Directors.

In all cases in which a Director resigns or leads before the end of his/her term for any other reason, the Bank will report this decision under Relevant Events in the Annual Corporate Governance Report.

**B.1.21. State whether the Bank's chief executive is also Chairman of the Board of Directors. If so, describe the measures taken to limit the accumulation of powers in a single person:**

Yes No

Measures to limit risks

Mr. Ángel Ron Güimil, Chairman of the Board of Directors, is the Bank's CEO.

The bylaws attribute different authorities to the Entity's governing bodies. On the one hand, the day-to-day management of the Bank is entrusted to the General Management, a body headed by the CEO. The governance of the Bank is the responsibility of the Board of Directors.

There is a clear distribution of authority between the Chairman and the CEO, Francisco Fernández Dopico. In the split of functions between the Chairman and the CEO, regard was had to the nature of Banco Popular's business and the increasing complexity and specialization demanded by the Group's financial activity and international presence. The commercial business and the directly related support units report to the CEO, who is also a member of the Executive Commission. All strategic, institutional and external representation areas are the responsibility of the Chairman.

The bylaws stipulate that in the event of the absence, illness, resignation or force majeure the Vice-Chairman, or one of them if there are more than one, will stand in for the Chairman. If no Vice-chairman has been appointed, or in the event of absence or impossibility of that or those appointed, the Chairman shall successively be replaced by the Chairman of the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee and the Chairman of the Audit and Control Committee, who are independent directors.

**Indicate and explain, if appropriate, whether or not rules have been established to facilitate the calling of a Board meeting or adding new points to the agenda by and Independent Director in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of Directors**

Yes No

Explanation of the rules

Article 7 of the Board Regulations stipulates that when the Chairman of the Board is also the Bank's CEO, the Board of Directors will authorize one of the independent Directors to call a meeting of the Board and include new points in the agenda in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of its Chairman. In the event that an independent Director has not been expressly authorized to exercise these powers, they will fall to the Vice-Chairman of the Board or, successively, the Chairman of the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission and the Chairman of the Audit and Control Commission, in the case of an absence of the first party.

**B.1.22. Is a reinforced majority, other than those legally stipulated, required for any kind of decision?:**

Yes No

**State how the Board adopts resolutions, indicating at least the minimum quorum and types of majority for adoption of resolutions:**

Quorum of attendance

Article 17 of the Bylaws states that: The Board of Directors will be validly called to order when half plus one of its members are present or represented at the meeting.

In addition, Article 12 of the Board Regulations states that: "For the Board of Directors to be validly convened, half plus one of the Board members must be present or represented at the meeting, unless the meeting has not been formally called, in which case the attendance of all Board members is required. If the number of directors attending is uneven, a sufficient quorum will be deemed to exist if those present are more than half of the Directors."

Quorum for adoption of resolutions:

Article 16 of the Bylaws states that: "Resolutions shall be adopted by absolute majority of the Directors present.

Article 22 of the Bylaws states that: "Permanent delegation of any power of the Board of Directors to the Chairman, to the Executive Committee or to the CEO, and the appointment of directors to hold these offices shall require, for it to be valid, the yea vote of two thirds of the members of the Board. The same number of votes shall be required for the appointment of local directors, deputy chairmen, managers and general attorneys-in-fact.

Article 12 of the Board Regulations states that: "Resolutions shall be adopted with the yea vote of an absolute majority of the Directors present or represented at the meeting, save in those cases in which a higher quorum is required by law or by the Bylaws."

Finally, Article 12 of the Board Regulations states that: "A ballot without a meeting, whether in writing, by video-conference or by any other electronic means of remote communication, shall only be permitted if no Director rejects this procedure and the requirements of the Spanish Companies Act and the Mercantile Registry Regulations are met.

**B.1.23. State whether there are specific requirements, other than those relating to directors, for appointment as Chairman.**

Yes No

Description of requirements

In accordance with Article 17, the Chairman of the Board must be a Director definitively ratified or elected as such by the General Meeting.

**B.1.24. State whether the Chairman has a casting vote:**

Yes No

Matters for which there is a casting vote

-

**B.1.25. State whether the Bylaws or the Board Regulations set any age limit for Directors:**

Yes No

Age limit for Chairman -

Age limit for CEO - Age limit for director -

**B.1.26. State whether the Bylaws or the Board Regulations set a limited term of office for independent directors:**

Yes

No

Maximum years of term of office

Article 15 of the Board Regulations stipulates that in the event a Director holds his/her position for 12 or more years the Board of Directors, based on a Report from the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission will decide, at the time the Annual Corporate Governance Report is issued for the period in which this deadline is reached, whether or not circumstances are in place that make it advisable to change the category of that Director or whether it is appropriate for that Director to maintain his/her classification as Independent. When evaluating independence the Director's dedication and performance in the post without receiving any compensation whatsoever, maintaining a continuous and considerable stake in capital stock as compared with all of his/her financial investments and precise compliance with all other independence conditions mentioned in this Article will all be taken into consideration.

**B.1.27. In the event that there are few or no women Directors, explain the reasons and the initiatives taken to correct this situation:**

Explanation of the reasons and the initiatives

During the year, four new members were appointed to the Board of Directors, among which is Mrs. Helena Revoredo Delvecchio.

Mrs. Helena Revoredo Delvecchio is an independent Director appointed by the General Meeting held on May 30, 2007 at the proposal of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission to the Board of Directors.

Article 14.5 of the Board Regulations stipulates that the Appointments, Compensation, Corporate Governance and Conflicts of Interests Commission will ensure that selection procedures to fill vacancies will not be biased in such a way that raises obstacles for the selection of women which the Company deliberately seeks to include, and does include among potential candidates women that meet the target professional profile.

**In particular, indicate whether or not the Appointments, Compensation, Corporate Governance, and Conflicts of Interest Commission has established procedures to prevent selection processes from being implicitly biased and raising obstacles for the selection of women Directors and that it deliberately seeks candidates that meet the required profile:**

Yes

No

Indicate the main procedures

In accordance with Articles 14 and 25 of the Board Regulations, the Appointments, Compensation, Corporate Governance and Conflicts of Interest Commission assists the Board with its duties to nominate and reelect Directors and therefore it must ensure the integrity of the process for selecting Directors, and ensure that candidacies are offered to persons that meet the profile of the vacancy.

The directors must be persons of recognized commercial and professional honorability with the appropriate knowledge and experience for the discharge of their duties.

This Commission evaluates the knowledge and experience of Directors and defines the duties and aptitudes that are necessary for candidates, evaluates the time and dedication necessary for the tasks to be successfully discharged and ensures that the procedures established for the selection process do not have any implicit biases that could raise obstacles against the selection of women Directors and that the Bank deliberately seek and include women that meet the desired professional profile among the potential candidates.

**B.1.28. State whether or not there are formal processes for delegating votes within the Board of Directors. Briefly explain any that exist.**

Article 17 of the Bylaws envisages the possibility for Directors to appoint another Director to represent them at Board meetings.

Article 12 of the Board Regulations stipulates that: Directors will make all efforts to attend Board meetings and ensure that any absences are absolutely essential, and that all such absences be reported in the Annual Corporate Governance Report. If a meeting cannot be attended, another member of the Board may be appointed representative and communicate all relevant instructions. Notification of representation may be given in writing by any means, including telegram, fax or e-mail, to the Chairman or Secretary of the Board.

**B.1.29. Indicate the number of meetings that have been held by the Board of Directors during the year. Also indicate any meetings that were held in the absence of the Chairman:**

Number of Board meetings	7
Number of meetings held in the absence of the Chairman	0

**State how often the various Board committees met during the year:**

Meetings of the Executive Committee	33
Number of meetings of the Audit Committee	9
Number of meetings of the Appointment, Remuneration, Corporate Governance and Conflicts of Interest Committee	15

**B.1.30. Indicate the number of meetings held by the Board of Directors during the year that were not attended by all members. The calculation will take into consideration all representation without specific instructions as absences:**

Number of absences of Directors during the year	7
% of absences compared with total votes during the year	5,8

**B.1.31. State whether the individual and consolidated financial statements submitted to the Board for approval are previously certified:**

<u>Yes</u>	No
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The Bank's general management, as its technical and executive governance body, pursuant to Article 25 of the bylaws, is responsible for the preparation and submission of all the financial documentation included in the financial statements. Also, the Chief Financial Officer, as the person with maximum responsibility for financial reporting, signs and certifies the accuracy of the financial statements.

The Audit and Control Committee assists the Board of Directors with supervising the financial statements and the Bank's internal control systems in place within its Financial Group and the Board of Directors prepare the financial statements that are signed by all Directors.

**State, if appropriate, the person(s) that certified the company's individual and consolidated financial statements for formulation by the Board:**

<u>Name</u>	<u>Title</u>
Roberto Higuera	Finance Director

**B.1.32. Describe the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared and submitted to the Shareholders' Meeting from containing qualifications in the auditors' report.**

The Board of Directors tries to ensure that the individual and consolidated financial statements that it prepares and submits to the General Meeting do not contain any reservations or qualifications in the Audit Report, and when it must be so both the Chairman of the Audit and Control Committee and the external auditor will clearly explain to shareholders the content and scope of the discrepancies and these reservations or qualifications.

The mechanisms established by the Board of Directors are, among others, the following:

**1. With respect to the Bank's Internal Services.**

The Bank's Internal Services will prepare the individual and consolidated financial statements with rigor and in accordance with generally accepted accounting principles and standards, ensuring:

- a) That the financial statements give a true and fair view of the net worth, financial position and results of operations and contain the necessary information sufficient for understanding thereof.
- b) An adequate definition of the scope of consolidation and the proper application of accounting standards.
- c) That they clearly and simply explain economic, financial and legal risks that may be incurred.
- d) That the principles and standards applied are in line with those applied in the previous year.

**2. With respect to the Audit and Control Committee.**

That the Audit and Control Committee assist the Board of Directors with its duties to supervise and control the Bank through:

- a) The review of the individual and consolidated financial statements prepared by the Bank's Internal Services and the monitoring of the operation of procedures and internal financial control manuals adopted by the Bank.
- b) Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.
- c) Hold meetings with the external auditor to receive any information relating to the audit process that is necessary, as well as to analyze and review any matters that are considered to be of special importance.

**B.1.33. Is the Secretary of the Board a Director?:**

Yes

No

**B.1.34. Explain the procedures for appointing and removing the Secretary to the Board, indicating whether or not the appointment and removal have been reported by the Appointments Committee and approved by the full Board of Directors.**

Procedure for appointment and removal

The position of Secretary is regulated by Article 9 of the Board Regulations, which establishes the authorities granted and procedure for the appointment of a Secretary.

To safeguard the independence, impartiality and professionalism of the Secretary, the appointment to and removal from this position must be the subject of a prior report from the Appointments, Compensation, Corporate Governance and the Conflicts of Interest Committee. When the Board does not follow the recommendations of this Committee, reasons for justifying this action must exist and be formally stated in the minutes to the meeting concerned.

Proposals for nominations or reelections must involve candidates holding a Degree in Law and they must also comply with the legal and statutory requirements for the position, be of recognized prestige and possess the knowledge and professional experience that are adequate to discharging the duties of Secretary.

	Yes	No
Does the Appointments Committee report nominations?	Yes	
Does the Appointments Committee report removals?	Yes	
Does the full Board approve nominations?	Yes	
Does the full Board approve removals?	Yes	

**Is the Secretary to the Board entrusted with the duty, in particular, to follow good governance recommendations?**

Yes

No

Observations

**B.1.35. Describe the mechanisms, if any, established by the Bank to safeguard the independence of auditors, financial analysts, investment banks and rating agencies:**

Articles 24 and 30 of the Board Regulations identify the mechanisms established to preserve the independence of the external auditor.

The relationship between the Board of Directors and the external auditor are channeled through the Audit and Control Committee, which is the competent body for:

- a) Proposing to the Board of Directors for submission to the Shareholders' Meeting the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor.
- b) Supervising fulfillment of the audit contract, endeavoring that the auditors' opinion on the financial statements and the main contents of the auditors' report are drafted clearly and accurately.
- c) Receive regular information from the external auditor regarding the audit plan and the results of management, evaluate the results of each audit and verify that senior management takes into account the auditor's recommendations, as well as mediate in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.
- d) Liaise with the external auditors to receive information about any issues potentially jeopardizing the auditors' independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.
- e) Ensure that the financial statements that the Board of Directors submits to the General Meeting do not contain any reservations or qualifications in the Audit Report and, when this must be the case, ensure that both the Chairman of the Committee and the auditors provide clearer explanations to the public and, in

particular, to shareholders, including the content and scope of the discrepancies and any reservations or qualifications.

Furthermore, to ensure the independence of the external auditor:

- a) Any change in the auditor will be reported as a Relevant Event to the Spanish Securities and Exchange Commission and indicate any disagreements with the exiting auditor and any discrepancies with the content of the Report.
- b) The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;
- c) Should the external auditor resign, the Audit and Control Committee will examine the reasons for doing so.

Finally, in accordance with the provisions of Board Regulations, under the heading B.1.37 below information is provided of the overall fees paid during the year to the audit firm for services other than audit.

The Bank has contracted the services of the three main international rating agencies. The Group's Financial Management is the competent body for maintaining contacts with the auditors.

**B.1.36. State whether or not the Company changed its external auditor during the year. If so, identify the exiting and entering auditor:**

Yes	<u>No</u>
<u>Exiting auditor</u>	<u>Entering auditor</u>

**If there were any disagreements with the exiting auditor, explain:**

Yes	<u>No</u>
<u>Explanation of disagreements</u>	

**B.1.37. State whether the audit firm has done work for the Bank and/or its group other than audit work and, if so, state the fees received by it for such work and the amount of such fees as a percentage of the fees billed to the Bank and/or its group.**

	<u>Yes</u>	No		
		<u>Company</u>	<u>Group</u>	<u>Total</u>
Amount (€k) of work other than audit work		3,126	1,766	4,892
Amount of non-audit work / Total amount invoiced by audit firm (%)		90.9%	70.5%	82.3%

B.1.38. State whether the audit report for the financial statements for the preceding year contain any reservations or qualifications. If appropriate, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of any such reservations or qualifications.

Yes No

Explanation of the reasons

B.1.39. State the number of years that the current audit firm has performed the audit of the company's and/or its group's financial statements without interruption. In addition, state the percentage that the number of years audited by the current audit firm represents with respect to the total number of years that the financial statements have been audited:

	<u>Company</u>	<u>Group</u>
Number of uninterrupted years	26	26

	<u>Company</u>	<u>Group</u>
Number of years audited by the present audit firm as a % of the years for which audits have been performed	92.8%	92.8%

B.1.40. Indicate the holdings by members of the Bank's Board of Directors in the capital of companies engaging in activities identical, similar or supplementary to those of the corporate purpose of the Bank or of its group which have been reported to the Bank. Furthermore, indicate the positions or duties that are fulfilled at these companies:

<u>Name of the Director</u>	<u>Name of the Company</u>	<u>% interest</u>	<u>Position or functions</u>
Aparicio, Francisco	Banco de Andalucía	0	Director
	Banco de Castilla	0	-
	Banco de Crédito Balear	0	-
	Banco de Galicia	0	-
	Banco de Vasconia	0	BPE Representative
Asociación de Dir. BPE Lucía, José María	-	-	-
	Popular Banca Privada	-	Director
	Banco de Andalucía	0	-
	Banco de Galicia	0	-
F. de Amorim, Américo	BBVA	0	-
	Millenium bcp	0.52	-
	Banco BIC	25	-
	BBVA	0.06	-
	UBS	0.02	-
Gancedo, Eric	Barclays Bank	0.01	-
	Banco de Castilla	-	Director
	Banco de Crédito Balear	-	BPE Representative
	Bancopopular-e	-	Chairman
	Banco Popular France	-	Chairman
Herrando, Luis	Banco de Galicia	0	BPE Representative
	Popular Banca Privada	-	Chairman
Molins, Casimiro	-	-	-
Montuenga, Luis	Banco de Andalucía	0	BPE Representative
	Banco de Castilla	0	-
	Banco de Crédito Balear	0	-
	Banco de Galicia	0	Director
	Banco de Vasconia	-	Director

<u>Name of the Director</u>	<u>Name of the Company</u>	<u>% interest</u>	<u>Position or functions</u>
Morillo, Manuel	-	-	-
Nigorra, Miguel	Banco de Andalucía	0.01	-
	Banco de Crédito Balear	7.69	Director
Osuna, Nicolás	Banco Santander	0.03	-
	Banco Sabadell	0.48	-
	Sovereign Bancorp	2.09	-
Revoredo, Helena	Banco de Santander	0	-
	Royal Bank of Scotland	0	-
Rodríguez, José Ramón	Banco de Castilla	-	BPE Representative
	Banco de Crédito Balear	0.03	-
	Banco de Vasconia	0.01	Chairman
	Banco Popular Hipotecario	-	Chairman
	BBVA	0	-
Ron, Ángel	-	-	-
Santana, Vicente	Popular Banca Privada	-	Director
Sindicatura de Accs. BPE	-	-	-
Solís, Miguel Ángel de	Banco de Andalucía	0.04	Chairman
	Banco de Crédito Balear	0.02	Director
	Banco de Galicia	0.02	-
	Banco de Vasconia	0.01	Director
Tardío, Vicente	Banco de Santander	0	-
	BBVA	0	-
	Unicredito Italiano	0	-
Walter, Herbert	Dresdner Bank	-	Chairman
	Deutsche Börse	-	Director
	B. Portugués do Investimento	-	Director

**B.1.41. State and, if appropriate, indicate if there is a procedure enabling directors to obtain external advice:**

Yes

No

Description of the procedure

All the directors have the right and the duty to request and obtain information and advice appropriate for discharge of their functions of supervision, in the broadest terms, routing their requests in this respect through the office of the Secretary of the Board, which will act by either directly furnishing the information, or by naming the appropriate interlocutors or arranging the measures enabling them to conduct examination in situ.

Article 20 of the Board Regulations defines the right to obtain assistance from experts by stating that:

1. In order to facilitate the work of the directors, the Board of Directors shall guarantee access by them to the services of the Bank's in-house experts.
2. The directors shall be empowered to propose to the Board of Directors the engagement, at the expense of the Bank, of such external advisers as they may consider necessary to advise them on such problems as may arise in the discharge of their office, in the case of specific problems of certain relevance and complexity.
3. The proposal must be conveyed to the Chairman through the Secretary of the Board. The Board may veto by majority vote its approval if it considers the proposal unnecessary, if its cost were disproportionate with respect to the importance of the problem and the assets and revenues of the Bank, and if there is a possibility of such technical assistance being adequately rendered by experts and technicians of the Bank itself.

**B.1.42. State and, if appropriate, detail if there is a procedure enabling directors to obtain the necessary information to prepare with sufficient time for meetings of the governing bodies:**Yes

No

Description of the procedure

The directors receive specifically prepared and focused information in good time to enable them to prepare on a timely basis for Board meetings, provided that the urgency and nature of the matter make this possible, with no limitations other than those imposed by the current legal and regulatory framework covering privileged information.

Since April 2007 the members of the Board of Directors have had an Internet portal through which they have exclusive access to documentation and information reserved for the Board, such as the Agenda for meetings, presentations and other documentation prepared for meetings, as well as the minutes to meetings once they have been held.

Furthermore, the Secretary's Office has established a permanent channel of communication with Directors through a text-messaging system, through which they are informed of the public dissemination of information regarding the Bank, the posting of information and documentation of their interest to the aforementioned portal, etc.

Article 19 of the Board Regulations specifies the Directors' right to information by stating:

*"1. The Directors have very broad powers to demand information on any aspect of the Bank, to examine its books, records and documents, to contact those in charge of the various departments, and to visit the installations and facilities of the Bank, provided that this is necessary for the discharge of their functions.*

*The right to information shall be routed through the Chairman or the Secretary of the Board, who will deal with the requests from Directors either by directly furnishing the information or by identifying the appropriate interlocutors or arranging the measures necessary for conducting such examination.*

*The Board may reject the request for information if, in its judgment, the request might prejudice corporate interests, without prejudice to any provisions of the Corporations Law."*

**B.1.43. State and, if appropriate, indicate whether the Company has established rules that require Directors to report and, if appropriate, resign, cases in which the credit and reputation of the Bank may be damaged:**Yes

No

Explain these rules

Article 16.3.c) of the Board Regulations establishes the requirement that Directors make their post available to the Board of Directors and to prepare, if deemed advisable by the Board, their resignation in cases in which their remaining on the Board may negatively affect its operation or the credit and reputation of the Bank in the market or may endanger the interests of the Bank.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 124 of the Spanish Companies Act, the Board will examine the case as soon as possible and in the light of the specific circumstances at hand, must reach a decision as to whether or not the Director will remain on the Board.

In all cases in which a Director leaves his/her post before the end of the relevant term, whether through resignation or for any other reason, the reasons behind in this action must be explained in a letter that will be sent to all members of the Board of Directors, and the Bank will report this decision through the communication of a Relevant Event, indicating the aforementioned reasons in the Annual Corporate Governance Report.

**B.1.44. State whether or not any member of the Board of Directors informed the Company of any prosecution or the start of any oral proceedings with respect to any of the crimes indicated under Article 124 of the Spanish Companies Act:**

Yes

NoName of the DirectorCriminal ProceedingObservations

**State whether or not the Board of Directors has analyzed the case. If yes, explain the decision taken as to whether or not the Director will remain on the Board.**

Yes

No

Decision takenReasoned explanation

Remain/Not remain

## B.2. Board of Directors Committees

B.2.1. State all the committees of the Board of Directors and the members thereof:

**EXECUTIVE COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Type</u>
Ron, Ángel	President	Executive
Lucía, José María	Spokesman	Executive
Gancedo, Eric	Vocal	Independent
Herrando, Luis	Vocal	Independent
Asociación Profesional de Directivos de BPE (Higuera, Roberto)	Vocal	Executive
Montuenga, Luis	Vocal	Domanial
Rodríguez, José Ramón	Vocal	Independent
Aparicio, Francisco	Secretary	Executive

**AUDIT & CONTROL COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Type</u>
Santana, Vicente	President	Independent
Gancedo, Eric	Member	Independent
Rodríguez, José Ramón	Member	Independent
Solís, Miguel Ángel	Member	Independent

**APPOINTMENTS, COMPENSATION, CORPORATE GOVERNANCE AND CONFLICTS OF INTEREST COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Type</u>
Herrando, Luis	President	Independent
Gancedo, Eric	Member	Independent
Montuenga, Luis	Member	Domanial

**RISK COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Type</u>
Gancedo, Eric	President	Independent
Lucía, José María	Member	Executive
Herrando, Luis	Member	Independent
Montuenga, Luis	Member	Domanial
Rodríguez, José Ramón	Member	Independent
Santana, Vicente	Member	Independent
Gómez, Francisco	Spokesman	-
Aparicio, Francisco	Secretary	Executive

**B.2.2. State whether or not the following duties fall to the Audit Committee:**

	Yes	No
Supervise the preparation and the integrity of financial information relating to the Company and, if appropriate, to the Group, reviewing compliance with legislative requirements, adequate definition of the scope of consolidation and the proper application of accounting standards.	Yes	
Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.	Yes	
Ensure the independence and efficiency of the internal audit function; proposed new selection, nomination, reelection and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations and its reports.	Yes	
Establish and supervise a mechanism that allows employees to confidentially, and if considered appropriate, anonymously, report any potentially significant irregularities, particularly those of a financial or accounting nature, observed within the company.	Yes	
Bring to the Board proposals for selecting, nominating, re-electing and replacing the external auditor and establish the conditions of the auditor's contract.	Yes	
Regularly receive information from the external auditor regarding the audit plan and the results of execution, and verify that senior management takes the recommendations made into account.	Yes	
Ensure the independence of the external auditor.	Yes	
In the case groups, ensure the group's auditor takes responsibility for the audit of group companies.	Yes	

**B.2.3. Describe the rules of organization and operation and the responsibilities of each of the Board committees.****Executive Committee**

The Executive Committee is formed by the number of Directors designated by the Board of Directors at any given moment. The Chairman of the Bank and the CEO are standing members of this Committee.

The Board of Directors decides the composition of the Executive Committee and the appointment and removal of its members. The Members of the Committee cease to hold this position when they cease to be Directors of the Bank, or when so decided by the Board of Directors. The resolutions appointing members of the Executive Committee require the votes in favor of at least two thirds of the members of the Board of Directors.

The Chairman of the Board of Directors presides over the Committee, the CEO is the spokesman and the Secretary is the Secretary to the Board. The Secretary may be replaced by the Committee member chosen at the start of any meeting, or by one of the Vice-Secretaries to the Board of Directors.

The Executive Committee holds ordinary meetings regularly on a bimonthly basis and the meetings are considered to be validly convoked when half plus one of its members are present or represented. Its resolutions are adopted by absolute majority of the directors present or represented at the relevant meeting.

The resolutions adopted by the Executive Committee are valid and binding without any need for subsequent ratification by the full Board, although the Board must be informed of the issues discussed and the decisions taken at its meetings, and the minutes to those meetings must be made available to the Board.

The Board of Directors has currently delegated to the Executive Committee all its powers except those that pursuant to the law and to Article 5.2 of the Board Regulations cannot be delegated.

#### **Audit and Control Committee**

The Audit and Control Committee must consist of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, bearing in mind their knowledge, aptitudes and experience in the areas of accounting, audit and risk management, as well as the other tasks assigned to the Committee.

The Committee is composed of four independent Directors.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. When the appointment of a Secretary is not necessary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent the meeting is presided by the Director designated by the Committee and in the absence of the Secretary, these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

Notwithstanding the above, the Chairman must be replaced every four years and may be reelected once one year has passed since leaving the office, and may remain as a member of the Committee if so agreed by the Board of Directors.

The Audit and Control Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members; it must hold at least two meetings a year and in any case whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

As a result of the need to maintain centralized control of the Group's activity and fluid and congruent relationships between the Group and its auditor, the Audits and Control Committee at Banco Popular coordinates with the Audit Committees at listed Banks pertaining to the Group and holds joint meetings with them, normally two meetings per year, in order to discuss matters of interest to the entire Group and, in particular, those that relate to the auditor, who is the same for Banco Popular and four listed banks, as well as for monitoring and evaluating control systems and internal audit activities, which involve the offices and units throughout the Group. The Audit and Control Committee at Banco Popular insures that its activity does not give rise to any conflicts of interest between Group entities and, if any do arise, they are adequately managed.

The Committee may request the Group's external auditors to attend its meetings when the report on the financial statements and Directors' Report for the Bank and its consolidated group are examined. Furthermore, this Committee may require the Group's senior management, Directors and personnel to provide reports, as well as other advisors or any consultants involved in this area. Any of the persons mentioned in this paragraph that are requested to attend are obliged to attend the meetings, offer all collaboration and make all information held available. The Committee may call for the cooperation of these same persons to carry out work which it considers necessary for the exercise of its functions, and may seek advice from external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors during the performance of its duties.

The principal task of the Committee is to assist the Board of Directors with its duty to supervise and control the Bank by evaluating the system of accounting verification of the Group, by verifying the independence of the external auditors and by reviewing the internal control system. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Notwithstanding other duties assigned by the Board of Directors, the Committee will have the following competencies:

- a) Supervise the process of preparing financial information, verify its integrity and that all periodic information offered to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervise this information and report to the Board of Directors prior to the Board adopting any relevant decisions and before being published for public use.
- b) Inform the Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.
- c) Propose to the Board of Directors, for submission to the Shareholders Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfillment of the audit contract, endeavoring that the auditors' opinion on the financial statements and the main contents of the auditors' report are drafted clearly and accurately.
- d) Supervise internal audit services and, in this respect, ensure its independence and efficiency; propose the selection, nomination, reelection and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management takes into consideration the conclusions and recommendations set out in its reports.
- e) Serve as a channel of communication between the Board of Directors and the auditor and receive regular information from the external auditor regarding the audit plan and the results of management, evaluate the results of each audit and verify that senior management takes into account the auditor's recommendations, as well as mediate in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.
- f) Liaise with the external auditors to receive information about any issues potentially jeopardizing the auditors' independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.

To ensure independence:

1. Any change in the auditor will be reported as a Relevant Event to the Spanish Securities and Exchange Commission and indication will be made of any disagreements with the exiting auditor and any discrepancies with the content of the Report;

2. The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;
  3. In the event that the external auditor withdraws from the mandate, it will examine the circumstances giving rise to this situation.
- g) Endeavor that the financial statements submitted by the Board of Directors to the Shareholders' Meeting do not contain any reservations or qualifications in the auditors' report; if this is not possible, the auditors must clearly explain to the public, and to shareholders in particular, the content and scope any such reservations or qualifications.
  - h) Perform regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.
  - i) Review the accounts for the Bank, supervise compliance with legal requirements and the proper application of generally accepted accounting principles and the adequate definition of the scope of consolidation. Monitor the operation of internal financial control procedures and the use of manuals adopted by the company, check compliance therewith and review the appointment and replacement of those responsible.
  - j) Consider the suggestions that may be made to the Committee by the Chairman or other members of the Board, senior executives or shareholders of the company, as well as report and submit proposals to the Board of Directors about measures that the Committee considers appropriate.
  - k) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Company.
  - l) Detect and manage conflicts of interest that may arise between Group entities.
  - m) Inform the Board of Directors, prior to the adoption of the relevant decisions, of the creation or acquisition of shares in special-purpose vehicles or any domiciled in countries or territories classified as tax havens, as well as of any other transactions or operations of a similar nature that could harm the transparency of the Group due to their complexity.
  - n) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.
  - ñ) All others established by Law or in Board Regulations.

#### **The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee**

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee must consist of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, bearing in mind the knowledge, aptitudes and experience of the Directors and the tasks assigned to the Committee.

The Committee must be made up exclusively of External Directors, mainly independent, and chaired by an independent Director. The Committee is currently formed by three Directors, two of which are Independent, including its Chairman, and one domanial Director.

The Board of Directors designates the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. When the appointment of a Secretary is not necessary, the Secretary to the Board of Directors will assume this position.

If the Chairman is absent, the meeting is presided by the independent Director designated by the Committee, and in the absence of the Secretary these duties will be performed by the Committee member so designated, or the Vice Secretary or one of the Vice Secretaries to the Board of Directors.

The Members of the Committee cease to hold this position when they cease to be Directors of the Bank or when so decided by the Board of Directors.

The Committee must meet as often as may be necessary for the proper performance of its functions and whenever called to meet by its chairman or requested to do so by any of its members and, in any case, whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The proposals made by the Committee must be approved by the vote of a majority of the Members attending the meeting.

This Committee may require the Group's senior management, Directors and personnel to provide reports, as well as other advisors or any consultants rendering services to the Group. Any of the persons mentioned in this paragraph that are requested to attend are obliged to attend the meetings, offer all collaboration and make all information held available. The Committee may call for the cooperation of these same persons to carry out work which it considers necessary for the exercise of its functions, and may seek advice from external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, during the performance of its duties.

The main task of the Committee is to assist the Board of Directors in its functions of appointing, re-electing, dismissing and compensating Directors and senior management, endeavoring to ensure that the Directors receive all the necessary information for the proper performance of their duties, and keeping a close watch on compliance with the company's rules of governance and periodically reviewing the results. The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Notwithstanding other duties assigned by the Board of Directors, the Committee will have the following competencies:

- a) Keeping a close watch on the integrity of the process of selection of directors and senior executives of the Bank, endeavoring to ensure that candidates are persons who conform to the profile of the vacancy.
- b) Formulating and reviewing the criteria to be followed as regards the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that is necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.
- c) Examine or organize, in the manner deemed most adequate, the succession of the Chairman and the CEO and, if appropriate, make proposals to the Board so that said succession takes place in an ordered and well-planned fashion.
- d) Make proposals to the Board of Directors regarding the nomination, reelection and removal of Independent Directors or issue a Committee Report in the case of other Directors, so that the Board may proceed directly to the appointment of these directors or submit their nominations to be General Meeting, providing information regarding the Directors in all cases.

- e) Submitting to the Board of Directors the proposals for appointment, re-election and termination of the members who should form part of each of the Board Committees.
- f) Report proposals to appoint or remove the Secretary or Vice Secretaries to the Board of Directors.
- g) Submitting to the Board of Directors proposals for the appointment and re-election of members of the senior management and of the supervisory body stipulated in the internal regulations of conduct in the sphere of securities markets.
- h) Examining any suggestions for appointments sent to it by the Chairman, the members of the Board, executives or shareholders of the Bank, evaluating them and reporting on them with criteria of objectivity and impartiality so that the Board may act in full knowledge of all the relevant information.
- i) Report to the Board of Directors regarding any gender diversity matters indicated in its Regulations.
- j) Review, on an annual basis, the classification of each Director when preparing the Corporate Governance Report.
- k) Propose a compensation policy for Directors and senior management to the Board of Directors, the individual compensation for Executive Directors and other contractual conditions and the basic conditions for contracts extended to senior executives.
- l) Ensure compliance with the compensation policy established for the Board of Directors and make proposals to the Board of Directors regarding the measures deemed most advisable to maintain, correct or improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.
- m) Provide guidance to the new directors, warn them of their legal obligations, inform them of the company's rules of governance, and familiarize them with the characteristics, situation and environment of the company.
- n) Examine the information sent by Directors regarding their other professional obligations and evaluate whether or not they could interfere with the dedication required to properly carry out their duties, as well as to verify compliance with the rules established regarding the number of Directors that form part of the Board.
- o) Taking care to ensure that the directors receive information of sufficient quantity and quality to enable them to adequately perform their functions.
- p) Endeavoring to detect cases in which the relation of a director to the Bank may negatively affect its functioning or its standing and reputation.
- q) Detect and manage possible conflicts of interest between Directors or senior executives and the Bank, ensuring fulfillment of the obligations of discretion and passivity and of the duties of confidentiality, diligence and loyalty of the directors and, if appropriate, any such issues that arise between significant shareholders and the Bank.
- r) Inform the Board of Directors of associated transactions, prior to its taking any decisions in this respect.
- s) Propose the Annual Corporate Governance Report to the Board of Directors.
- t) Propose and verify compliance with the Group's Corporate Responsibility Policy and the preparation of the Annual Report on Corporate Responsibility.
- u) Supervise compliance with the Bank's Regulations and, in general, internal codes of conduct and the rules of Company governance, and make all necessary proposals for improvement.

- v) Evaluate the Board of Directors on an annual basis, as well as the Chairman and the Bank's CEO.
- w) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.
- x) All others established by Law or in Board Regulations.

#### **Risk Committee**

The Board of Directors is responsible for establishing the number of members, which will include the CEO, appointing and removing members and to determine, ask the proposal of the Chairman, the presiding Director. The Director General for Risk is the spokesman and, if appropriate, other members of senior management designated by the Board of Directors. The Chairman and other members of the Board of Directors may also attend. In the event that the Chairman of the Board of Directors attends, he may preside at a meeting. The Secretary to the Board of Directors will serve as the Secretary to the Committee, or this position may be taken by the member elected by the Committee or, if none of the above are available, the Vice-Secretary or one of the Vice-Secretaries to the Board of Directors. The Committee meets once per week.

The Committee supervises the market and operational credit risks affecting the Group's activity and permanently evaluates overall risk assumed, its industry and geographic diversification and the hedges that are deemed advisable to preserve the solvency level considered necessary, proposing the most adequate policies to obtain these objectives at any given moment.

The Committee proposes the Group's risk control and management policy to the Board of Directors, which must identify at least:

- a) The various types of risk (operational, technological, financial, legal, reputational and others) faced by the Company, including financial or economic risks, contingent liabilities and other off-balance-sheet risks;
- b) The establishment of the risk level that the Company considers acceptable;
- c) The measures established to mitigate the impact of identified risks should they materialize;
- d) The information and internal control systems that will be used to control and manage these risks.

The Committee analyzes and reaches a decision regarding requests for credit and guarantees that exceed the risk authority delegated to other units within the Group that have signature or a group of signature authority. A list of the competencies delegated to the Risk Committee is set out under the chapter on Risk Management in the Directors' Report. At its meetings policies regarding risk, general business and industry issues are also discussed.

#### **B.2.4. Indicate, where appropriate, the faculties of advice, consultation and delegation, if any, of each of the Committees:**

<u>Committee</u>	<u>Brief description</u>
Executive Committee	See section B.2.3.
Audit and Control Committee	See sections B.2.2. and B.2.3.
Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee	See section B.2.3.
Risk Committee	See section B.2.3.

- B.2.5. State whether there are regulations, if any, for the Board Committees, wherein the regulations can be consulted, and any amendments thereto during the year. Indicate whether any annual report has voluntarily been prepared on the activities of each Committee.**

The Board Regulations contain the rules of internal procedure and functioning of the Board committees. The regulations can be consulted at the Bank's headquarters and on its website [www.bancopopular.es](http://www.bancopopular.es).

At the meeting held on 19 December 2007, the Board of Directors amended the regulations of the Board Committees set out in the Board Regulations so that they could be adapted to comply with the Unified Code of Good Governance.

Finally, the Audit and Control Committee and the Appointments, Remuneration, Corporate Governance and Conflicts of Interest Committee reported on functions and activities carried out during the year.

- B.2.6. State whether the composition of the Executive Committee reflects the participation in the Board of the various directors depending on their category:**

Yes

No

If this is not the case, explain the composition of the Executive Committee

The Board of Directors ensures that the composition of the Executive Committee, together with the Executive Directors, reflects a number of independent Directors that is congruent with the structure of the participation of external Directors in the Board of Directors.

The Board of Directors currently has nineteen members, four of whom are Executive Directors, seven are Domanial Directors, seven are Independent Directors and one is an External Director. The Executive Committee comprises eight members, four Executive Directors, three Independent Directors and one Domanial Director.

Given that the Board of Directors has delegated decision authority to this body, the four Executive Directors form part of the Committee. In addition, the adequate exercise of its duties requires that non-executive Directors who form part of this Committee be always designated from among Independent Directors. As an exception, a Domanial Director currently forms part of the Executive Committee and at the time of his appointment he could have been classified as an independent in accordance with the Good Governance criteria.

Therefore, the percentage of Independent Directors on the Board of Directors (37%) and the Executive Committee (37.5%) is practically identical.

The relations between the Board and the Committee are governed by the principle of transparency. At each of its meetings, the Board has full knowledge of all the matters discussed and the decisions adopted by the Executive Committee.

## C ASSOCIATED TRANSACTIONS

- C.1. State whether or not the full Board has reserved approval, until a report from the Audit Committee or any other Committee to which this responsibility has been delegated has been received, the transactions that the Company carries out with Directors, significant shareholders or parties represented on the board, or associated persons:

Yes No

- C.2. List the material transactions involving a transfer of resources or obligations between the Bank or its group entities and the Bank's significant shareholders:

<u>Name of the Company or entity in its group</u>	<u>Name of the Company or entity in its group</u>	<u>Nature of the relationship</u>	<u>Type of operation</u>	<u>Amount (€k)</u>
-	-	-	-	-

With respect to significant shareholders, the transactions of this kind by Banco Popular during 2007 were confined to those with Allianz that, in any case, were performed on an arm's length basis.

- C.3. List the material transactions involving a transfer of resources or obligations between the Bank or its group entities and the Bank's directors or executives:

<u>Name of administrators or executives</u>	<u>Name of the Company or entity in its group</u>	<u>Naturaleza de la operación</u>	<u>Type of operation</u>	<u>Amount (€k)</u>
-	-	-	-	-

The transactions with members of the Board of Directors and the senior management of the Bank were performed in the ordinary course of its business and at arm's length.

The overall amount of the direct risks and those with related parties granted by the Group to the directors as a whole as of December 31, 2007 was €207,187,000, of which €200,124,000 related to credits and loans, €276,000 to finance lease transactions, €354,000 to trade discounts, €6,247,000 to guarantees, and €186,000 to credit card balances. The interest rates range from 2.75% to 7% on the loans and credits, from 4.25% to 6.25% on the finance leases, 6.40% on trade discounts, and the quarterly fees for guarantees range from 0.00% to 1%.

The overall amount of the risks granted by the Group to each of the members of the Board of Directors is disclosed in Note 10 to the 2007 Consolidated Financial Statements.

The amount of the direct and indirect risks with the executives listed in Section B.1.12 was within the general criteria for assumption of risks with Group employees, and were performed in the ordinary course of the Bank's business and on an arm's length basis.

- C.4. List the material transactions by the Bank with other companies in its group which are not eliminated in the process of preparation of the consolidated financial statements and were not performed in the ordinary course of the Bank's business as regards their purpose and conditions:

<u>Name of the Group company</u>	<u>Brief description of the transaction</u>	<u>Amount (€k)</u>
-	-	-

No such transactions have taken place.

**C.5. State whether or not the members of the Board of Directors came under any of the conflict of interest situations during the year, in accordance with Article 127 ter of the Spanish Companies Act.**

Yes

NoName of the DirectorDescription of the conflict of interest

On a general basis, no situations of conflict were observed involving directors of the Bank that might affect the discharge of their office. However, in cases in which transitory conflict of interest situations arose (appointments, re-elections, loans to directors, etc.) the directors concerned refrained from intervening in the deliberations and from participating in the voting by the Board of Directors or its Committees.

**C.6. Detail the mechanisms in place for detecting, determining and solving possible conflicts of interest between the company and/or its group and its directors, executives or significant shareholders.**

Among the competencies of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee listed under Article 25 of the Board Regulations is the authority to detect and manage any possible conflicts of interest between Directors or Senior Management and the Bank, ensuring compliance with their obligations of discretion and passivity, as well as their duties of confidentiality, diligence and loyalty, as well as any that may arise between significant shareholders and the Bank.

In accordance with the provisions of Article 24 of the Board Regulations, the Audit and Control Committee has the authority to detect and manage any conflicts of interest that may arise between the Company and its Group.

**1. Conflicts of interest between the Company and/or its Group:**

In accordance with Recommendation two of the Unified Code, and in line with the corporate Governance principles established by the Basel Bank Regulatory Committee, Banco Popular and listed banks pertaining to its financial Group, Banco de Andalucía, Banco de Castilla, Banco de Crédito Balear, Banco de Galicia and Banco de Vasconia, have agreed to a protocol under which they define their respective areas of activity and business relationships that establishes a framework for resolving potential conflicts of interest. For more information, see Heading C.6.

**2. Conflicts of interest affecting Directors and Executives:**

In accordance with the Board Regulations, the Directors must notify the Board of any situation of direct or indirect conflict that they might have with the interests of the Bank. In the case of a conflict, the Director concerned must refrain from intervening in the transaction to which the conflict refers.

In any case, situations of conflict of interest involving Directors of the Bank must be disclosed in the annual corporate governance report.

In turn, the Internal Regulations of Conduct for Banco Popular Group entities in the sphere of securities markets details the information that must be provided by the Directors and Executives to the IRC Supervisory Body with respect to conflicts of interest:

- a) In order to control possible conflicts of interest and, to the extent possible, prevent them, Directors and Executives will present and update statements of their ties—financial, family or of any other type—with customers of the Bank with respect to services relating to the stock market or with companies listed on the stock exchange.
- b) The statement will also include any other ties that, in the opinion of an external unbiased observer, could compromise the impartiality of the Director or Executive.
- c) Directors and Executives must endeavor to avoid conflicts of interest and, if they are personally affected thereby, must refrain from deciding or, if appropriate, casting their vote in such situations as may arise.
- d) The oversight body may at any time, either occasionally or periodically, call for any information it considers necessary about the links of the persons subject hereto in order to make it possible for it to comply with its reporting or other obligations pursuant to the Securities Market Law and implementing regulations.

### 3. Conflicts of interest with significant shareholders:

In accordance with the provisions of Article 28 of the Board Regulations, the Board of Directors formally reserves to itself cognizance of any direct or indirect transaction between the Bank and a significant shareholder, giving due value to the equal treatment of the shareholders and market conditions.

The Board of Directors must adopt the necessary measures to avoid significant shareholders making use of their privileged position to obtain special advantages.

#### C.7. Is more than one Group company listed on a stock exchange in Spain?

Yes

No

Identify the subsidiaries that are listed on a stock exchange in Spain:

##### Listed subsidiaries

Banco de Andalucía, S.A., Banco de Castilla, S.A., Banco de Crédito Balear, S.A., Banco de Galicia, S.A. y Banco de Vasconia, S.A.

State whether or not the respective areas of activity and any business relationships between them have been precisely and publicly defined, as well as those of the listed subsidiary with other group companies:

Yes

No

Define any business relationships between the parent company and the listed subsidiary, and between the latter and other group companies.

Banco Popular and listed banks pertaining to its financial Group freely compete in the banking and financial area. The framework of activity for Banco Popular and listed banks is the same. The expansion of their respective commercial networks is normally based on geographic criteria, although there may be offices of the various Group Banks within the same territorial area. Banco Popular and listed banks market the same range of products under the same or different brand names and use the same marketing channels, with all necessary local adaptation.

Identify the mechanisms in place to resolve any conflicts of interest between the listed subsidiary and other group companies:

##### Mechanisms to resolve conflicts of interest

On December 19, 2007, Banco Popular Español, S.A. and Banco de Andalucía, S.A., Banco de Castilla, S.A., Banco de Crédito Balear, S.A., Banco de Galicia, S.A. and Banco de Vasconia, S.A. agreed to a protocol under which a framework was established to resolve any conflicts of interest.

In their respective areas, the Audit and Control Committee at Banco Popular and the Audit Committees at listed subsidiary banks are the bodies responsible for resolving any conflicts of interest that may arise between Banco Popular and the listed subsidiary Banks, or among the latter.

This protocol states that the Ombudsman Department at Banco Popular will keep a log of common services existing between Banco Popular and listed group banks, as well as of mutual business that is formally engaged between them and which could give rise to conflicts of interest. In any event, these services and business will be rendered or performed in strict compliance with internal regulations in force at any given moment, particularly those established by the Internal Code of Conduct for the Group Companies involved with the stock market, when they are applicable. The monitoring and evaluation of transactions will take place when preparing the Annual Report, the Annual Corporate Governance Report and any other financial reports that must include this information, in accordance with applicable legislation. This log will include information relating to the type of service rendered or business carried out, the identity of the group companies involved, the identity of the persons or group companies that may be affected by a conflict of interest, as well as the reason for the appearance of a conflict and a detailed description of how it was resolved.

## D RISK CONTROL SYSTEMS

### D.1. General description of the risks policy of the company and/or its group, detailing and evaluating the risks covered by the system and justifying the adequacy of the systems for the profile of each type of risk.

The risks implicit in the banking activities conducted by the Group are managed with criteria of prudence, permanently safeguarding the basic objectives of solvency, profitability, efficiency and adequate liquidity.

The risk policy is a synthesis of strictly professional criteria for the study, assessment, assumption and monitoring of risks by all the entities comprising the finance group, which are conducive to the maximization of the risk/profitability concept inherent to credit and market risk, and minimization of all other risks (operational, liquidity, interest rate, concentration, reputational and other).

Internal policies, which are known and applied by all of the Group's business areas to achieve integral management and control of risks, are set out in a Policy Manual.

Noteworthy in Risk Management, as signs of identity and management criteria, are those relating to:

- a) Maximum asset soundness.
- b) Sustained growth of the business and profitability with optimization criteria.
- c) Reasonable balance between loans and receivables and funds raised.
- d) Permanent monitoring of risk.
- e) Adequate diversification.
- f) Nimble response in deciding on proposed transactions, as a basic competitive instrument, without detriment to efficiency.
- g) Professionalism of staff and in decision processes, systemization and maximum possible automation.
- h) Objective-oriented flexibility in the organizational structure

The Group has risk control systems in place covering the entire range of its activities, which basically consist of the commercial banking business. These systems address credit or counterparty risk, market risk, liquidity risk, interest rate risk, operational risk and reputational risk, and embody formal procedures for analysis, authorization, monitoring and control, which are applied in a way consistent with the nature and number of the risks and under the supervision, as appropriate, of collegiate decision-making bodies, specifically the Risk Committee, the General Management and the Assets and Liabilities Committee.

Adaptation to the new capital adequacy standards (Basel II), integral risk management of the various different risks and their coverage in terms of regulatory and financial capital are performed by the General Management Risks Department on the premises defined by the Board of Directors through its Risk Committee.

For the purposes of the following analysis, six major categories of risk are addressed: credit risk, cross-border risk, market risk, liquidity risk, operational risk and reputational risk.

#### Credit risk analysis

Credit risk arises from possible loss triggered by the breach of contractual obligations of the Bank's counterparties. In the case of refundable financing granted to third parties (in the form of credits, loans, deposits, securities and other), credit risk arises as a consequence of non-recovery of principal, interest and other items in the terms regarding amount, period and other conditions stipulated in the contracts. In the case of off-balance sheet risks, it arises from the failure by counterparties to fulfill their obligations to third parties, thus forcing the Bank to assume them by virtue of the commitment undertaken.

For the correct management of credit risk, the Group has established a methodology whose main elements are described in the following paragraphs.

The Group has established a formal system of attributions for the extension of credit, under which the various hierarchical levels in the organization have been assigned delegated powers for the authorization of transactions, which vary depending on the nature and amount of the risk assumed.

For these purposes, the steps in the organization in the commercial banking area, which accounts for substantially all the Group's business, are as follows: first the branch office, followed by the management of the region or area to which the branch belongs or by General Management in the case of the banking and other subsidiaries, then the Group's Retail Banking Office, followed by the General Management Risk Department and, finally, the CEO. To each of these levels a specific limit of powers is delegated for assuming risks.

The initiative to undertake a new transaction always starts at a branch office: for decision there if within its attributions, or for reporting and passing to the next higher step, if it exceeds those attributions. The same rule applies at the following levels, and thus the biggest transactions will have been evaluated throughout the chain of attributions. No other office or area in the Group, regardless of the hierarchical level of its management personnel, is empowered to make, nor even to propose, risk transactions outside the established circuit. Transactions originated by the network of commercial agents also commence through a branch office and are subject to the control of attributions as described above.

In the other business areas, the procedure is similar: risk assumption proposals originate in the relevant operating office, which likewise has decision-making powers delegated to it. Above this office, the transaction travels with its preliminary reports to the General Management Risk Department and, if beyond its powers, to the CEO.

Risks with related parties, such as transactions with significant shareholders, members of the Board or Executive Directors or with companies related to them, and with Group companies, are expressly excluded from the foregoing delegated powers, and can only be authorized by the Board of Directors or the Executive Committee, after receiving a report from the Risk Committee, unless they are performed under standardized contracts or with generally-stipulated conditions or involve low amounts, and other exceptions established by the Regulations.

For the admission of risks and the rating of customers based on their credit profile, and as support for decision-making, the Group has internal credit risk rating and scoring models.

For the businesses segment, the internal rating is calculated on the basis of analysis of variables representative of their economic and financial position and their activity sector, with separate models for big companies and SMEs. For the private individuals and small companies segment, the credit-scoring models used are tailored to each kind of product: mortgage loans, consumer loans, self-employed business loans, leasing and credit cards.

The Group's standard analysis process also includes evaluation of the customer's profitability, and for this purpose it has tools for application of RAROC (risk adjusted return on capital) methodologies.

The Group has decided to apply the advanced internal credit risk management method proposed by the Basel Committee, and the models mentioned above therefore comply with the requisites of this Accord on capital requirements for financial companies.

To increase permanent internal transparency, in line with the standards of Pillar III of the New Capital Accord, the Group's network has received numerous training actions on the philosophy and objectives of Basel II for adaptation to its requirements, and to new concepts, tools and management models.

The Group has also published a specific Lending Manual containing the following sections:

- a) Introduction to Basel II and all matters relating to the concept, control and management of balance sheet risks.
- b) Documentation: this refers to the standards regulating the identification of persons in contracts, listing the basic documentation required for the study of transactions and the controls over them.
- c) Computer applications and attributions: this describes the Group's IT system, the control of attributions, and the computer tools that provide information and support for analyses.
- d) Balance sheet analysis: this describes the composition of the financial statements of a company, with conceptual detailing of the several classifications and valuations.
- e) Fundamentals: this sets out the most basic criteria that conceptually must be taken into account in the development of the fundamentals of a proposal.
- f) Products: this section describes the products, the needs met by them, the target customers, and the functioning and steps to be followed for studying them and formulating a proposal for decision thereon at the appropriate attributions level.

#### **Credit risk monitoring and control**

The Group has had in place for many years a reliable and effective permanent credit risk monitoring system, which enables it to evaluate risk quality at the borrower level and for all risks classified by different attributes. It also studies and analyzes business sectors and groups and evaluates credit quality. This makes it possible to establish mechanisms of special supervision about the evolution of overall risks affecting certain customers and their operations and to take preventive measures for current risks. As a result of this system, the quality of the Group's risk assets is high, and the level of nonperforming balances has traditionally been low both absolutely and comparatively.

The monitoring methodology is based fundamentally on the analysis of a set of variables relating to transactions and to customers, in order to detect possible anomalous deviations in their behavior.

For this purpose, the Group has a Risk Prevention Office in each of its territorial management units and banking subsidiaries, and a similarly-named unit with the same remit at headquarters, engaged exclusively in systematically and periodically carrying out monitoring tasks, thereby assuring appropriate efficiency of the procedure.

The first level of monitoring starts with a quantitative report called an "Incident Report", which is sent daily to the territorial offices. This report records all the defaults and incidents, detailing the amount and nature (past-due credit accounts, overruns, overdrafts, nonpayment of trade discounts, loan repayments not made at due date, etc.).

In parallel, the Control and Audit Area performs monthly analyses of customers with incidents, based on the behavior of a set of pre-determined risk parameters. Based on this "technical alert" information, plus additional financial or other documentation relating to the customer, Risk Prevention and Analysis classifies the borrowers.

The classification system is two-fold: on the one hand, it assesses the overall quality of the risk of the customer; on the other, it proposes the policy to be followed as regards the contractual risks.

This two-fold classification based on the circumstances of each case analyzed is inserted graphically into the borrower's electronic file, a teleprocessing application that includes all the customer information with all the positions, for consideration in risk-related decisions.

The system based on technical alerts is supplemented by the analyst's report, also included in the customer's electronic file which, by means of the technique of responding to a series of questions about the evolution of the customer, of the customer's risks and incidents, the balance sheet situation, guarantees, etc., summarizes the policy to be followed and identifies the necessary actions for the satisfactory outcome of the risks. These reports constitute a preventive action plan (PAP) and are produced at all decision-making levels, as often as may be necessary in the light of the incidents, alerts, new risk proposals, etc.

As a supplement to the monitoring systems referred to above, the central Risk Prevention Office exhaustively monitors certain customers and economic groups with a high volume of risks assumed, with certain assigned classifications or that present certain incidents. This control gives rise to the course of action required to endeavor to ensure the satisfactory outcome of the risks. This monitoring is divided, based on its intensity, into three groups: intensive, i.e. weekly review of the status of risks, incidents, information, advanced accounting data, or any other aspect; periodical, i.e. monthly review; and circumstantial, i.e. quarterly review.

In addition to the individual evaluation of each customer and transaction, the structure of loans and receivables is analyzed on an ongoing basis, having regard to their distribution by amount, term, activity sector, type of transaction, geographical area and any other attributes considered relevant. The Group keeps its risks satisfactorily diversified with regard to a large number of attributes, and this diversification goes beyond that required by regulations. Particularly noteworthy is the fact that no customer or set of customers constituting an economic group reaches any of the concentration limits stipulated by the Bank of Spain.

#### **Management of nonperforming balances**

Units to perform this function in the Group exist at each of the territorial headquarters and banking subsidiaries, and also at headquarters level. The fundamental objective of these units is to recover the balances classified as nonperforming as quickly as possible and in the best possible conditions.

The Default Analysis and Claim Center is responsible, in the first instance, for handling defaults; it analyzes the risks in an irregular situation and establishes, based on individual analysis of the particular circumstances of each customer or transaction, the most effective claim strategies. It also coordinates with the Group branch offices in carrying out the appropriate measures for balance regularization.

Initially, use is made of the out-of-court route by means of direct negotiation with the debtors or by engaging the services of prestigious collection entities. If this amicable course of action is not sufficient, recourse is had to the courts, and for this purpose the Group has in-house specialist lawyers, supplemented by an extensive network of external legal practitioners throughout Spain, if and as necessary.

For adequate management of nonperforming balances, the Group has an internal computer application, integrated in the teleprocessing system, which permits punctual and precise monitoring of the evolution of all delinquent risks and, in particular, of the legal proceedings initiated to reclaim its receivables.

#### **Market risk monitoring and control**

The Group has had since 1997 an Assets and Liabilities Committee (ALCO), the functions of which include analysis and control of market risk Group. This Committee is composed of the CEO and four other Group

executives. The Committee sets short- and medium-term policies for managing the aggregates of assets and funds, examines financing transactions in the money and capital markets (issues, asset securitizations and other), and analyzes the impact on the balance sheet and the net interest income of differing scenarios of interest rate movements.

In order to adequately manage this risk, the Group has in place a set of instruments: dynamic simulations of the balance sheet and the income statement under different scenarios, an analysis of the interest rate re-appreciation gap and a calculation of durations and sensitivities affecting the various figures contained in the balance sheet.

In addition, the calculation of market risk limits for the Group's trading portfolio is the responsibility of the Risk Committee, at the proposal of Financial Management.

In order to adequately manage this risk, the Group has advanced models that allow for the daily calculation of the VaR for all markets area activities with a 99% level of confidence; back-testing to check the validity of the models used; stress tests to evaluate the impact of a possible adverse evolution of the markets (stress-testing) and others.

### **Liquidity risk monitoring**

The body responsible for controlling this risk is also the Assets and Liabilities Committee (ALCO), the composition of which is indicated above. To fulfill these duties, it has formal procedures for analyzing and monitoring the Group's overall liquidity, including contingency plans covering possible deviations due to internal causes or external events.

The ALCO drafts proposals for the limits on recourse to the money markets and for transactions in the capital market—issues of debt and of preferential participating interests, and other long-term instruments such as asset securitizations. These proposals are laid before the Executive Committee for decision.

The ALCO supervises compliance with the foregoing limits of financing in the money market and with the sub-limits by transaction term. Similarly, it monitors the various issue programs in progress such as the Euromarket notes (EMTN) and the Spanish market promissory notes and the Euromarket (ECP), and other operations in the capital markets.

In the same way as explained for interest rate risk, the ALCO has balance sheet analysis instruments to determine the liquidity gap at different terms, to make dynamic simulations of its behavior under different scenarios and to adequately control the Group's liquidity.

### **Operational risk monitoring**

The Banco Popular Group has adopted the definition of operational risk in the new Basel Accord: "the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events". The Group's overall management of this risk includes the design of procedures to identify, monitor and control it, in order to mitigate its impact on the organization.

Initially, the Group has opted for the standard method envisaged in Basel II for calculating the capital for operational risk, although it is planned to apply the advanced method in the near future. In this respect, a historical event database is being created and the necessary steps have been taken to join the Operational Riskdata Exchange Association (ORX) database of events of this kind in which leading financial entities from around the world participate.

The Group also has qualitative tools—Risk Maps that are updated annually—to measure the frequency and impact of this type of risk and to improve controls and hedges in areas of higher exposure, as well as when analyzing the necessary contingency plans to assure operational continuity.

### Reputational risk monitoring

The Regulatory Compliance Office, which reports functionally to the Audit and Control Committee, keeps a close watch on the Group entities' permanent conformity with current legislation, and for this purpose identifies, evaluates and prevents possible risks of material breach from the economic or reputational standpoint which might arise in connection with laws and regulations, codes of conduct and standards of good practice, especially as regards business activities, prevention of money laundering and financing of terrorism, conduct in the securities markets, and data privacy and protection. It also analyzes and promotes the development of the systems in place for staff training in these areas.

The Risk Management section of the 2007 Management Report describes at length the structure and composition of the risks assumed by the Group, the coverage thereof, and the resulting risk quality measures.

**D.2. State whether or not any of the various types of risk has materialized (operational, technological, financial, legal, reputational, tax, etc.), affecting the company and/or its group.**

Yes

No

If yes, indicate the causing circumstances and whether or not the established control systems worked.

<u>Risk arising during the year</u>	<u>Causing circumstances</u>	<u>Operation of control systems</u>
The risks that affect the Group that are broadly described in the preceding section are those inherent of the activities carried out by Group companies and remained within normal parameters during the year.	-	Established control systems worked adequately throughout the year

**D.3. State whether there is any committee or other governance body responsible for establishing and supervising these control mechanisms.**

Yes

No

If yes, provide details of their functions.

Name of the Committee or Body	Description of duties
Board of Directors	See Section B.1.10
Executive Committee	See Section B.2.3
Audits and Control Committee	See Section B.2.3
Risk Committee	See Section B.2.3
Assets and Liabilities Committee – ALCO	See section D.1

**D.4. Identification and description of the processes for compliance with the regulations affecting the company and/or its group.**

The Bank has in place a set of internal standards and procedures of action in all its fields of activity that conform fully to all current legislation and to the ethical and corporate governance standards applicable in its environment.

## E SHAREHOLDERS' MEETING

E.1. State and, if appropriate, provide details about differences arising with respect to the minimum quorums established by the Spanish Companies Act (SCA) for calling a General Meeting to order

	Yes	<u>No</u>
	% quorum different than that established under Article 102 SCA <u>for general cases</u>	% quorum different than that established under Article 103 SCA <u>for special cases 103</u>
Quorum required for 1st calling	-	-
Quorum required for 2nd calling	-	-
Description of the differences		

E.2. State and, if appropriate, provide details of differences with the system established by the Spanish Companies Act (SCA) for adopting resolutions.

	<u>Yes</u>	No
Describe the differences compared with the system established in the SCA.		
	Reinforced majority different than that established under Article 103.2 SCA <u>for cases covered by Article 103.1</u>	Other cases of reinforced majorities
% established by the Company to adopt resolutions	66	66
Description of the differences		

At meetings called at the request of a number of shareholders representing at least 5% of capital stock, a favorable vote of at least two thirds of capital stock that is present or represented must be obtained to approve resolutions.

**E.3. List the rights of shareholders in regard to Shareholders' Meetings that differ from those per the Corporations Law.**

The rights of shareholders in regard to Shareholders' Meetings are those established in the Corporations Law.

**E.4. Describe the measures, if any, adopted to encourage participation of shareholders at Shareholders' Meetings.**

The operations of the General Shareholders' Meeting held by the Company has been modified throughout the years, as part of a business culture whose ultimate aim is to be proximate to shareholders, to offer adequate channels and more information and participation in the most relevant decisions taken by the Bank.

The Board of Directors is responsible for arbitrating the channels adequate for hearing the proposals that may be made by shareholders with respect to the Company's management. In this respect:

- a) a) The Board will deal, with the greatest diligence and in any case within the legally stipulated periods, with the requests for information and enquiries from shareholders either before the Shareholders' Meeting or thereat.
- b) The Board will establish the necessary mechanisms for proxy voting or voting by mail, electronically or any other means of remote communication, provided that the identity of the shareholder is duly guaranteed.
- c) The Board will implement appropriate procedures to ascertain the proposals of shareholders about the management of the Bank.
- d) The Board may organize briefings about the progress of the Bank and its Group for shareholders resident in the most important financial centers in Spain and abroad.

The following paragraphs describe the principal measures aimed at encouraging the participation of shareholders at Shareholders' Meetings:

Approval of Shareholders' Meeting Regulations. The regular update of the Shareholders' Meeting Regulations is intended to encourage the participation of the shareholders in the life of the Bank, to facilitate their access to corporate information, and to strengthen the safeguarding of shareholders' interests in the governance of the Bank.

Open Meeting. The principles that have shaped the modus operandi of the Shareholders' Meetings, and particularly Ordinary Meetings, include most notably their nature as an open meeting, with a policy of transparency, promptness, objectivity and depth of the information to shareholders whereby the annual information to the shareholders customarily starts to be disseminated at the end of January of each year and formally ends with the holding of the Shareholders Meeting. Shareholders thus have a long period of time in which to request clarification, to make inquiries and to submit proposals.

Notice of Shareholders' Meetings. To give shareholders sufficient time to request and obtain supplementary information on the items on the agenda, or to issue their voting instructions, the Board of Directors will endeavor to announce the Shareholders' Meeting sooner than legally required and to ensure that the announcement is published in a greater number of news media than the legally imposed minimum, unless this is not possible for reasons of urgency or other circumstances beyond the control of the Board.

Right to information. The shareholders may at any time submit enquiries, suggestions and comments of interest for the Bank or in connection with their status as shareholders. Whenever possible, the Bank will reply directly in writing to shareholders, either individually or collectively, as soon as possible and not later than seven working days, unless the data required for the response cannot be obtained within that period,

and will publish on the corporate website the replies, either globally or on an individualized basis, whose general interest makes it appropriate to do so, with the intention that any response furnished should be generally known and made available to all shareholders without giving privileged treatment to the shareholder that requested the information. With this same intention, and if considered appropriate, the Bank may deal with these issues, either globally or on an individualized basis, at the Shareholders Meeting, even if they were not included on the agenda.

Similarly, the shareholders may pose such questions as they consider appropriate, particularly with respect to all the information made public by the Bank and from the date of publication, and such questions shall be answered and the replies disseminated in accordance with the rules described in the preceding paragraph. In this respect, the Bank will endeavor to maintain its traditional practice of publishing the relevant financial information of the year during the first month of the following year.

Publication of the questions put forth by Shareholders. For the third consecutive year a Brochure has been published containing the questions put forth by shareholders at the General Meeting and is made available to the public at the corporate website.

Institutional investors and domanian shareholders. In order to facilitate the most active contribution possible of institutional investors and significant direct or indirect shareholders in the formation of the corporate will, the Bank offers them the possibility of publicizing on its corporate website their policy of participation or not in the Shareholders' Meeting and how they would vote on each of the items on the agenda thereof.

Use of the various channels of information to shareholders. Pursuant to Article 7 of the Shareholders' Meeting Regulations the Board of Directors will establish the channels necessary to facilitate communication between the shareholders and the Bank.

In any case, the Bank will make available to the shareholders at least the following channels of information:

- The Shareholders Office, where the available information may be consulted.
- A telephone number for direct contact with the Shareholders Office and an e-mail address that will be notified in the notice calling the Shareholders Meeting, for shareholders to request the related information.
- The Bank's website.

The corporate website. The corporate website [www.bancopopular.es](http://www.bancopopular.es) contains the applicable legally and regulatory required information, including most notably:

- a) General information about the Bank, including its Bylaws, significant events, channels of communication with it, its capital and number of shares, dates of interest for shareholders, dividends and public offerings of shares.
- b) The attached financial information. Includes periodic public information: annual, half yearly and quarterly reports, as well as the presentations made to the various market operators.
- c) Information about corporate governance of the Bank, including the Shareholders' Meeting Regulations, information about the Shareholders' Meeting and the Board of Directors and its committees, the Board Regulations, the Annual Corporate Governance Report, the Annual Corporate Social Responsibility Report and the Internal Rules of Conduct in the sphere of securities markets.
- d) Information regarding the members of the Board of Directors, including a professional profile and biography; other Boards of Directors to which they pertain; their category within the Board of Directors, reflecting in the case of domanian directors the shareholder that they represent or with which they are associated; the date of first appointment and any subsequent re-appointments; the shares in the Company and any stock options they own.

The website also includes the leaflet of shareholder questions and answers, and any statements made to the Bank by its institutional and domanial shareholders, pursuant to Article 15 of the Shareholders' Meeting Regulations.

As regards the conduct of Shareholders' Meetings, after the publication of the notice of a Shareholders Meeting, the corporate website announces:

- a) the notice
- b) the full content of the proposed resolutions that the Board of Directors submits for the consideration of the General Meeting with respect to the points on the Agenda, including information regarding the Directors referred to under Recommendation 28 of the Unified Code of Good Governance.
- c) all the documentation relating to the proposed resolutions (financial statements, directors' reports, reports of independent experts, etc.)
- d) The procedures implemented to vote through remote communications systems. e) Any other information or documentation that is considered relevant for shareholders.
- e) Any other information or documentation that is relevant to shareholders.

After the Shareholders' Meeting has been held, the markets are informed by publication of a significant event notice and the corporate website reports the resolutions adopted at the last Shareholders Meeting, showing the results of the voting. The content of the speeches made during the Meeting is also reported.

Addition of new topics to the agenda. Shareholders representing at least 5% of the capital stock may request the publication of a supplement to the notice of the Shareholders' Meeting containing one or more topics for inclusion in the agenda.

Right of attendance. At the General Meeting held on 30 May 2007 the limitation established in the bylaws regarding attending the Meeting, consisting of holding .001% of capital stock, was eliminated in order to facilitate attendance and participation by shareholders at General Meetings.

Voting on independent issues separately. This was a habitual practice carried out by the Bank prior to the publication of the Unified Code of Good Governance. In order to ensure that shareholders may exercise their voting preferences separately, at the General Meeting held on May 30, 2007 a resolution was adopted whereby issues that are substantially independent and, in particular, the appointment of Directors are voted on separately and individually as are bylaw amendments which are voted on separately by independent articles and the annual report on the compensation policy for Directors.

Division of votes. This was a habitual practice carried out by the Bank prior to the publication of the Unified Code of Good Governance. In accordance with the Resolution adopted by the General Meeting held on May 30, 2007, a Resolution was adopted to amend the Board Regulations to allow the division of votes so that financial intermediaries who are legitimate shareholders but act on behalf of different customers may issue their votes in accordance with the latter's instructions.

Remote voting. As from the General Meeting held on May 25, 2005, votes on proposals regarding any point of the Agenda at any General Meeting may be delegated or exercised by a shareholder through postal or electronic correspondence.

In order to encourage the participation of shareholders, at the General Meeting held on May 30, 2007, a resolution was adopted to allow voting via mobile telephone.

Information about corporate governance criteria and observance thereof. The Board has drafted since 1998 an annual corporate governance report that sets forth in an orderly manner the principles guiding the Bank's actions in this respect.

Information about corporate social responsibility criteria and the observance thereof. A corporate social responsibility report is also prepared dealing with the Group's policy in this field. The first such report was for the year 2003.

Starting in 2004, the Corporate Social Responsibility Reports have been prepared in accordance with the GRI indicators and, from 2005, have been reviewed by PriceWaterhouseCoopers to obtain an independent opinion about the quantitative and qualitative information contained therein.

**E.5. State whether or not the position of Chairman of the General Meeting coincides with the position of Chairman of the Board of Directors. Indicate any measures taken to guarantee the independence and proper operation of the General Meeting:**

Yes

No

Measures adopted

Without prejudice to the relevant Bylaw provisions, the Shareholders' Meeting Regulations contain adequate measures to guarantee the sound functioning thereof.

Among other things, the creation of a Meeting Desk to attend to the duties of the Chairman is notable. Its composition is different than that of the Board of Directors, in accordance with the rules established in this respect by the bylaws. Among other duties, the Desk is the body responsible for declaring the Meeting called to order, directing speakers and debates, reporting the approval of resolutions and adjourning the meeting.

**E.6. the changes, if any, in the Shareholders' Meeting Regulations during the year.**

At the General Meeting held on May 30, 2007 the following Articles of the General Meeting Regulations were amended to adapt to the Unified Code:

- a) Article 8, relating to information regarding the Board of Directors to be included on the corporate website.
- b) Article 9, to include the approval of reports regarding Directors' compensation policy among the responsibilities of the General Meeting, as well as transactions that give rise to a structural modification of the Company.
- c) Article 28, relating to separate votes for issues that are substantially independent.
- d) Article 28, relating to the division of votes at the General Meeting.

**E.7. State the attendance figures for the Shareholders' Meetings held during the reporting year:**

General Meeting Date	Attendance		% of remote voting		Total
	<u>% present in person</u>	<u>% represented</u>	electronic vote	Others	
30-05-2007	6,414%	50,292%	0,009	1,594	58,309%

**E.8. Summarize the resolutions adopted at the Shareholders' Meetings during the reporting year and the percentage of votes with which each was adopted.**

Shareholders' Meeting on Wednesday, May 30, 2007 adopted the following resolutions:

<u>RESOLUTIONS ADOPTED</u>	<u>Yea votes</u>	<u>Nay votes</u>	<u>Abstentions</u>
Approval of financial statements (balance sheet, income statement and notes to the financial statements) and management report of Banco Popular Español, S.A., and its consolidated group, of the proposed allocation of income and of management of the business for 2006.	98,907%	0,980%	0,113%
Modification of certain Articles of the bylaws:			
2.1 Amendment of Article 14 relating to the restriction on attending General Meetings.	99,979%	0,008%	0,012%
2.2 Amendment of Article 16 relating to the Vice Chairman of the Board of Directors	99,981%	0,004%	0,015%
2.3 Amendment of Article 18 relating to the duties of the Secretary to the Board of Directors.	99,978%	0,004%	0,018%
2.4 Amendment of Article 21 relating to the regulation of Board Committees in the newly created an independent Articles.	99,977%	0,004%	0,019%
2.5 Amendment of Articles 22 and 23 and elimination of Article 24, relating to the composition and authority of Senior Management.	99,977%	0,004%	0,019%
2.6 Elimination of Article 25 relating to the General Secretary.	99,972%	0,008%	0,020%
Amendment of certain articles of the General Meeting Regulations:			
3.1 Amendment of Article 8 relating to the information to be included on the corporate website.	99,985%	0,004%	0,011%
3.2 Amendment of Article 9 to include new authorities for the General Meeting.	99,980%	0,004%	0,016%
3.3 Amendment of Articles 12 (notice of calling of a meeting) and 28 (voting on proposals) with respect to voting separately for issues that are substantially independent.	99,979%	0,004%	0,017%
3.4 Amendment of Article 28 relating to the division of votes at General Meetings.	99,975%	0,005%	0,020%
Appointment and re-election of Directors.			
4.1 Appointment of Mr. Nicolás Osuna García as an Independent Director	92,774%	6,746%	0,480%
4.2 Appointment of Mrs. Helena Revoredo Delveccio as an Independent Director	92,774%	6,746%	0,480%
4.3 Reelection of Mr. Luis Herrando Prat de la Riba as an Independent Director.	92,714%	6,805%	0,480%
4.4 Reelection of Mr. Francisco Aparicio Valls as an Executive Director	92,695%	6,825%	0,480%
4.5 Reelection of Sindicatura de Accionistas de BPE as a Domanial Director	92,735%	6,785%	0,480%

<u>RESOLUTIONS ADOPTED</u>	<u>Yea votes</u>	<u>Nay votes</u>	<u>Abstentions</u>
Re-election of auditors for review and legal audit of the financial statements of the Bank and consolidated financial statements.	99,828%	0,127%	0,045%
Authorization to acquire shares of treasury stock in accordance with legal conditions, and to cancel them against equity and therefore reduce capital stock, up to a limit of 5% of capital.	99,938%	0,034%	0,028%
Authorize the Board of Directors to issue ordinary or subordinated promissory notes, bonds and debentures, with or without guarantees, not convertible into shares, preferred stock, bonds or mortgage shares, mortgage certificates, territorial paper or any other fixed income securities denominated in euros or any other foreign currency within five years.	99,934%	0,035%	0,031%
Report on the policy of remuneration of the Board members, for a vote of a consultative nature.	99,864	0,102%	0,034%
Information to the Shareholders Meeting about the changes in the Board Regulations.	-	-	-
Application of the tax consolidation system established by Title VII, Chapter VII of the Spanish Corporate Income Tax Act, enacted by Legislative Royal Decree 4/2004 (5 March)	99,936%	0,034%	0,030%
Delegation of powers in the Board of Directors, with authorization for substitution, for the formalization, interpretation, correction and fullest possible execution of the resolutions adopted by the Shareholders Meeting.	99,990%	0%	0,010%

**E.9. State whether or not there is any bylaw restriction establishing a minimum number of shares required to attend the General Meeting.**

Yes

No

Number of shares necessary to attend the General Meeting

The owners of shares that represent at least a nominal value of €100 (currently 1000 shares) may attend the General Meeting. Shareholders owning less than that percentage may be represented by another shareholder entitled to attend or by any of those grouped together in order to reach the stipulated minimum. Standard practice is to invite shareholders that have stated an interest in attending the Meeting.

**E.10. Describe and justify the Bank's policies on proxy voting at Shareholders' Meetings.**

Proxy forms are intended to facilitate the participation of shareholders by enabling all of them to exercise their right to vote by signifying their intention of vote on each of the resolutions submitted to the meeting in the agenda.

These proxies include a specific section for the shareholder to express voting instructions with respect to each of the points on the Agenda.

If no voting instructions are provided, the understanding is that the vote is favorable to the proposals made by the Board of Directors and, if a representing shareholder is not expressly indicated, or if representation is delegated to an ineligible person, it is understood that the delegation of this authority is conferred to the Chairman of the Meeting or the member of the Meeting Desk designated by the Chairman, who will take responsibility for the vote delegated by the shareholder being taken into consideration during the voting on resolutions.

Votes may be delegated via postal or electronic correspondence, or via mobile telephone, in accordance with the procedures established and published in the call to the Meeting and on the Bank's website.

**E.11. State whether the Bank is cognizant of the policy of the institutional investors about whether or not to participate in the decisions of the Bank:**

Yes

No

Description of the policy

In order to facilitate the most active contribution possible of institutional investors and significant direct or indirect shareholders in the formation of the corporate will, the Bank offers them the possibility of publicizing on its corporate website their policy of participation or not in the Shareholders' Meeting and how they would vote on each of the items on the agenda thereof.

**E.12. State where the corporate governance material is included on the website and how it can be accessed.**

The Bank's corporate website is [www.bancopopular.es](http://www.bancopopular.es) and on the home page there is a section called "Legal information for shareholders and investors" which contains all the information about the corporate governance of the Bank.

**F COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

State the degree to which the Company follows the recommendations of the Unified Code of Good Governance.

In the event of any non-compliance, describe the recommendations, rules, practices or criteria applied by the company.

**Recommendation 1. Bylaw restrictions.**

The bylaws of listed companies should not restrict the maximum number of votes that can be cast by a single shareholder, nor contain other restrictions that make it difficult to take control of the Company through the acquisition of its shares in the market.

See headings: A10, B.1.22, B.1.23, E.1 and E.2

Comply **Explain**

The bylaws do not contain any restrictions relating to the acquisition or transfer of the Bank's shares in the market. Article 14 does restrict a single shareholder or companies pertaining to the same group from casting more than 10% of the votes at a General Meeting.

The restriction on voting rights is expressly established under the Spanish Companies Act and is also set forth in the internal regulations at a large number of listed companies in Spain and in Europe.

Maintaining the restriction on voting rights is due to the aim of providing stability to shareholders and preventing speculative stakes in capital stock from interfering with a management model based on efficiency, profitability and long-term benefits. The intention is to ensure that any movements to take control are in line with the management model that has characterized the Bank since it was founded.

**Recommendation 2. Listings of companies forming groups.**

When the parent company and a subsidiary are both listed they should both be publicly defined with precision:

- a) The respective areas of activity and any business relationships between them have been precisely and publicly defined, as well as those of the listed subsidiary with other group companies:
- b) The mechanisms established to resolve any conflicts of interest that may arise.

See headings: C.4 y C.7

**Comply** Partially comply Explain Not applicable

**Recomendación 3. Competencias de la Junta.**

Even though not expressly required by commercial law, operations that involve a structural modification to the Company and, in particular the following, are submitted to the General Meeting for approval:

- a) The transformation of listed companies into holding companies, by "creating subsidiaries" or transferring essential activities previously carried out by the company to subsidiaries, even if the former maintains complete control;

b) The acquisition or disposal of essential operating assets, when they involve an effective modification to the corporate purpose;

c) Operations that have an effect equivalent to the liquidation of the Company.

Comply                      Partially comply                      Explain

**Recommendation 4. Prior information regarding proposed resolutions.**

Detailed proposals for resolutions to be adopted by the General Meeting, including the information referred to by Recommendation 28, should be made public at the time the notice for the Meeting is published.

Comply                      Explain

**Recommendation 5. Separation of issues for voting purposes.**

During the General Meeting, separate votes should be cast for issues that are substantially independent so that shareholders may separately exercise their voting preferences. This rule should be applied, in particular, to:

a) The appointment or ratification of Directors, who should be subject to separate votes;

b) In the case of amendments to the Bylaws, each article or group of articles that is substantially independent.

See heading: E.8

Comply                      Partially comply                      Explain

**Recommendation 6. Division of votes.**

The fractioning of votes so that financial intermediaries legitimately participating as shareholders but acting on behalf of different customers may vote in accordance with the instructions of the latter.

See heading: E.4

Comply                      Explain

**Recommendation 7. Business interest.**

The Board of Directors should carry out its duties with a common purpose and under independent criteria, treat all shareholders equally and be guided by the Company's interests, understood to be the sustained maximization of the company's financial value.

The board must also ensure that in its relationships with stakeholders the Company respects laws and regulations; complies with its obligations and contracts on a good-faith basis; respects common uses and good practices in the sectors and territorial areas in which it carries out its activities; and observes those additional principles of corporate responsibility that it has voluntarily accepted.

Comply                      Partially comply                      Explain

**Recommendation 8. Authority of the Board of Directors.**

The Board of Directors should assume its core mission of improving the Company's strategy and the organization necessary to put it into practice, as well as to supervise and ensure that Management complies with the established objectives and respects the Company's purpose and business interests. Therefore, for this purpose, the full Board reserves the authority to approve:

- a) The Company's general policies and strategies and, in particular:
  - i) The strategic or business plan, as well as management and annual budget targets;
  - ii) The policy of investments and financing;
  - iii) The definition of the structure for the group of companies;
  - iv) The corporate governance policies;
  - v) The corporate responsibility policy;
  - vi) The policy for evaluating senior management performance and compensation;
  - vii) The risk management and control policy, as well as regular monitoring of internal information and control systems;
  - viii) The policy for dividends, as well as treasury stock and, in particular, their limits.

See headings: B.1.10, B.1.13, B.1.14 y D.3

- b) The following decisions :

- i) At the proposal of the Chief Executive Officer, the appointment and dismissal of senior executives, as well as their indemnities;

See heading: B.1.14

- ii) Compensation for Directors, as well as additional compensation for executive duties, in the case of Executive Directors, and any other conditions that their contracts must respect;

See heading: B.1.14

- iii) The financial information that the Company must make public on a regular basis due to the fact that it is listed on a stock exchange;
- iv) All investments or transactions that, due to the large amount concerned or their special characteristics, are strategic in nature except for those that must be approved by the General Meeting;
- v) The creation or acquisition of shares in special-purpose vehicles or domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations that, due to their complexity, could harm the transparency of the Group.

- c) The transactions that the Company carries out with Directors, significant shareholders or parties represented on the Board, or with persons to which they are associated ("associated transactions").

However, this authorization from the Board will not be understood to be necessary in those associated transactions that also comply with the three following conditions:

- 1<sup>a</sup>. They are carried out by in accordance with standardized contracts that are applied to many customers;
- 2<sup>a</sup>. They are carried out at prices or rates that are established in general by the party acting as the supplier of the asset or service concerned;
- 3<sup>a</sup>. The amount does not exceed 1% of the Company's annual revenues.

The Board should approve associated transactions after having received a favorable report from the On that Committee or, if appropriate, from any other Committee charged with this duty; and affected Directors, in addition to not exercising or delegating their right to vote, should leave the meeting room while the Board deliberates and votes on this issue.

The authority attributed here to the Board should not be eligible for delegation, except those mentioned under letters b) and c), which may be adopted due to reasons of urgency by the Committee and subsequently ratified by the full Board.

See headings: C.1 y C.6

Comply      Partially comply      Explain

#### **Recommendation 9. Size of the Board of Directors.**

The Board should have the size necessary to achieve effective and collaborative operations, which makes it advisable for it to have not less than five and not more than fifteen members.

See heading: B.1.1

Comply      Explain

The bylaws exceed this recommendation, as they establish that the Board of Directors will be formed by a minimum of twelve and a maximum of twenty Directors.

The Board is currently formed by 19 members, which is considered to be a reasonable number bearing in mind the Entity's shareholder composition, the intention for all positions, the highest percentage of capital stock possible to be represented on the Board, and that it have an adequate size to guarantee effective and collaborative operations.

#### **Recommendation 10. Functional structure of the Board of Directors.**

External Domanial and Independent Directors should constitute a wide majority on the Board and the number of Executive Directors be as few as possible, bearing in mind the complexity of the corporate Group and the percentage of participation of the Executive Directors in the Company's capital stock.

See headings: A.2, A.3, B.1.3 y B.1.14

Comply      Partially comply      Explain

#### **Recommendation 11. Other Directors.**

If there is any External Director that cannot be considered to be Domanial or Independent, the Companies should explain this circumstance and the Director's associations, whether they be with the Company, its Executives or shareholders.

See heading: B.1.3

Comply      Explain      Not applicable

#### **Recommendation 12. Proportion between Domanial and Independent Directors.**

Among External Directors, the ratio between the number of Domanial Directors and Independent Directors should reflect the proportion between the Company's capital stock represented by the Domanial Directors and the rest of the capital stock.

This strict proportionality criteria may be moderated, such that the weight of the Domanial Directors exceeds that which would be the case based on the total percentage of capital stock that they represent:

1° At highly capitalized companies in which there are few or no shareholdings that are legally considered to be significant, but in which there are shareholding packages with high absolute values;

2° When concerning companies at which there are multiple shareholders represented on the Board that are not associated among themselves.

See heading: B.1.3, A.2, A.3

Comply

Explain

**Recommendation 13. Sufficient number of Independent Directors.**

The number of independent Directors represents at least one third of all Directors.  
See heading: B.1.3

Comply

Explain

**Recommendation 14. Explanation of the classification of Directors.**

The classification of each Director should be explained by the Board to the General Meeting that must make or ratify their Nomination and this classification should be confirmed or, if appropriate, revised on an annual basis in the Corporate Governance Report, after having received verification from the Appointments Committee. This report should also explain the reasons for which Domanial Directors have been nominated at the request of shareholders whose stake is less than 5% of capital stock; and the reasons for which, if any, formal requests were denied for a seat on the Board from shareholders whose interest is equal or higher than that of others whose request resulted in the designation of Domanial Directors.

See headings: B.1.3, B.1.4

Comply

Partially comply

Explain

**Recommendation 15. Gender diversification.**

When there are few or no women Directors, the Board should explain the reasons and the initiatives taken to correct this situation; and, in particular, the Appointments Committee should ensure that this is taken into account when filling new vacancies:

a) By ensuring that selection procedures do not have any implicit bias that could raise obstacles to the selection of women Directors;

b) By ensuring that the Company deliberately seeks, and includes among potential candidates, women that have the target professional profile.

See headings: B.1.2, B.1.27 y B.2.3

Comply

Partially comply

Explain

Not applicable

**Recommendation 16. Chairman of the Board of Directors**

The Chairman, as the party responsible for the effective operations of the Board, should ensure that the Directors receive sufficient information before hand; stimulate debate and the active participation of Directors during Board meetings, safeguarding the right to freely take a position and express opinions; and organize and coordinate regular evaluations of the Board with the Chairman of relevant Committees, as well as an evaluation of the CEO or lead executive.

See heading: B.1.42

Comply                      Partially comply                      Explain

**Recommendation 17. Authority of an Independent Director in the event of an accumulation of powers by the Chairman.**

When the Chairman of the Board is also the Bank's CEO, the Board of Directors will authorize one of the independent Directors to call a meeting of the Board and include new points in the agenda in order to coordinate and express the concerns of external Directors and to direct evaluations by the Board of its Chairman.

See heading: B.1.21

Comply                      Partially comply                      Explain                      Not applicable

**Recommendation 18. Secretary to the Board of Directors.**

The Secretary to the Board of Directors should particularly ensure that the Board's actions:

- a) Meet the letter and the spirit of Laws and regulations, including those approved by regulatory bodies;
- b) Are in line with the Company's bylaws and with the Regulations governing the General Meeting, the Board and any others in force at the Company;
- c) Take into account the recommendations regarding good governance established in this Unified Code that the Company has accepted.

In order to safeguard the independence, impartiality and professionalism of the Secretary, the appointment and removal from this position must be reported by the Appointments Committee and approved by the full Board, and the procedure for appointing and removing the Secretary should be established in the Board's Regulations.

See heading: B.1.34

Comply                      Partially comply                      Explain

**Recommendation 19. Board Meetings.**

The board should meet with the frequency necessary to efficiently perform its duties, following the schedule and agenda established at the start of the year and each Director may propose other points to be added to the Agenda.

See heading: B.1.29

Comply                      Partially comply                      Explain

**Recommendation 20. Directors' Attendance.**

Director absences should be reduced to unavoidable cases and should be indicated in the Annual Corporate Governance Report. If the delegation of representative authority is unavoidable, instructions should be given.

See headings: B.1.28 y B.1.30

Comply                      Partially comply                      Explain

**Recommendation 21. Content of the minutes to Board Meetings.**

When the Directors or the Secretary express any concern regarding any proposal or, in the case of Directors, regarding the Company's progress and these concerns are not resolved during the Board Meeting, the party expressing the concerns may request that they be recorded in the minutes to the Meeting.

Comply                      Partially comply                      Explain                      Not applicable

**Recommendation 22. Regular evaluation of the Board of Directors.**

Once per year the Board should evaluate:

- a) The quality and efficiency of the Board's operations;
- b) Based on the report presented by the Appointments Committee, the performance of the Chairman and the Company's CEO;
- c) The operation of its Committees, based on the reports that they issue.

See heading: B.1.19

Comply                      Partially comply                      Explain

**Recommendation 23. Information to Directors.**

All Directors should be able to exercise the right to obtain all additional information that they deem necessary regarding the matters over which the Board has authority. Unless the bylaws or the Board Regulations establish otherwise, these requests should be directed to the Chairman or the Secretary to the Board.

See heading: B.1.42

Comply                      Explain

**Recommendation 24. Advisory services for Directors.**

All Directors should have the right to obtain all necessary advisory services from the Company in order to comply with their duties. The Company should create adequate channels for exercising this right, which under special circumstances may include external advisory services paid for by the Company.

See heading: B.1.41

Comply                      Explain

**Recommendation 25. Orientation program for Directors.**

Companies should establish an orientation program providing new Directors with quick and sufficient knowledge of the Company, as well as its Corporate Governance rules. It should also offer Directors programs for updating knowledge when the circumstances make this advisable.

Comply                      Partially comply                      Explain

**Recommendation 26. Directors' dedication.**

Company should require that Directors dedicate the time and effort that is necessary to perform their duties efficiently and, as a result:

- a) Directors should inform the Appointments Committee of all other professional obligations to determine whether or not they could interfere with the dedication required;
- b) Company should establish rules regarding the number of Boards to which its Directors may pertain.

See headings: B.1.8, B.1.9 y B.1.17

Comply                      Partially comply                      Explain

**Recommendation 27. Selection, appointment and reelection of Directors.**

Proposals to appoint or reelect Directors made at the General Meeting, as well as provisional appointments through designation, should be approved by the Board:

- a) At the proposal of the Appointments Committee, in the case of Independent Directors;
- b) After receiving a report from the Appointments Committee, in the case of all other Directors.

See heading: B.1.2

Comply                      Partially comply                      Explain

**Recommendation 28. Public information regarding Directors.**

Companies should make the following information regarding Directors public on its website and maintain it up-to-date:

- a) Professional profile and biography;
- b) Other Boards of Directors to which the individual pertains, whether or not involving listed companies;
- c) An indication of the classification of the Director as appropriate, stating, in the case of Domanial Directors, the shareholder represented or with which the individual is associated;
- d) Date of first appointment as a Director of the Company, as well as all subsequent appointments and;
- e) Shares and share options in the Company which are held by the Director.

Comply                      Partially comply                      Explain

**Recommendation 29. Rotation of Independent Directors.**

Independent Directors should not remain as such for a continuous period exceeding 12 years.

See heading: B.1.2

Comply

**Explain**

Mr. José Ramón Rodríguez García, one of the seven members of the Board of Directors classified as an Independent, has been a Director for an uninterrupted period exceeding 12 years.

At the proposal of the Appointments, Compensation, Corporate Governance and Conflict of Interest Committee, the Board of Directors has agreed to maintain him in his position as an Independent Director, in accordance with the criteria established by the Board Regulations.

When evaluating his independence, his continuous and special dedication to the Board of Directors and its Committees, the performance of his duties without any compensation, the constant interest held in the Bank's capital stock and exquisite compliance with all other Independence conditions have all been taken into account.

**Recommendation 30. Removal and resignation of Domanial Directors.**

Domanial Directors should present their resignations when the shareholder they represent fully sells its stake in the Bank. This should also take place, by the relevant number, when that shareholder reduces its stake to a level that requires a reduction in the number of its Domanial Directors.

See headings: A.2, A.3, B.1.2

**Comply**

Partially comply

Explain

**Recommendation 31. Removal of Independent Directors.**

The Board of Directors should not propose the removal of any Independent Director before the end of the term to which the individual was appointed, unless there is just cause appreciated by the Board after having received a report from the Appointments Committee. In particular, just cause will be understood to exist when the Director has failed to comply with the duties inherent to his/her position or is subject to any of the circumstances described in Section III.5 on definitions in this Code.

A proposal to remove Independent Directors may also be made as a result of Public Stock Offers, mergers or other similar corporate transactions that give rise to a change in the Company's capital stock structure, when such changes in the Board's structure are the result of the proportional criteria indicated in Recommendation 12.

See headings: B.1.2, B.1.5 y B.1.26

**Comply**

Explain

**Recommendation 32. Obligation of Directors to inform and resign.**

Companies should establish rules to require Directors to report and, if appropriate, resign in those cases in which they may harm the credit and reputation of the Company and, in particular, they should be required to inform the Board of any criminal proceedings in which they are involved, as well as all subsequent procedural issues.

If a Director is prosecuted or if the opening of oral proceedings takes place with respect to any of the crimes indicated under Article 124 of the Spanish Companies Act, the Board will examine the case as soon as possible and in the light of the specific circumstances at hand, must reach a decision as to whether or not the Director will remain on the Board. Any such action should be explained by the Board in the Annual Corporate Governance Report.

See headings: B.1.43 y B.1.44

**Comply**

Partially comply

Explain

**Recommendation 33. Opposition to proposals by Directors.**

Directors should clearly express their opposition when they consider that any proposal for a decision submitted to the Board may go against its business interests. Directors, particularly Independents and other Directors not affected by the potential conflict of interest, should also do this when decisions arise that may harm the shareholders not represented on the Board.

When the Board adopts significant or repeated resolutions on which the Director has stated serious reservations, the Director concerned should reach the appropriate conclusions and, if he/she chooses to resign, the reasons for doing so should be explained in a letter referring to the following recommendation.

This recommendation also covers the Secretary to the Board of Directors, even if the Secretary is not a Director.

Comply

Partially comply

Explain

**Not applicable**

**Recommendation 34. Explanatory letter in the case of resignation/removal from the Board of Directors.**

When a Director leaves the Board before the end of his/her term, whether due to resignation or any other reason, the reasons should be explained in a letter sent to all of the members of the Board of Directors. Notwithstanding the fact that this should be reported as a relevant event, the reason for the action taken should be reported in the Annual Corporate Governance Report.

See heading: B.1.5

Comply

Partially comply

Explain

**Not applicable**

**Recommendation 35. Compensation policy.**

The Compensation policy approved by the Board should mention at least the following:

- a) A breakdown of any fixed components of the per diems paid for participation on the Board and its Commissions and an estimate of the fixed annual compensation they represent.
- b) Variable compensation, including in particular:
  - i) The classification of Directors to which it is applied, as well as an explanation of the relative importance of variable compensation compared with fixed compensation;
  - ii) Criteria for evaluating results on which any rights to shares, share options, or any other variable component, are based;
  - iii) Essential parameters and basis for any annual bonus or any other benefits not paid in cash; and

- iv) An overall estimate of the absolute amount of variable compensation that could derive from the proposed compensation plan, based on the extent of compliance with assumptions or objectives used as a reference.
  
- c) Main characteristics of retirement systems (for example, supplementary pensions, life insurance and similar items), with an estimate of the annual equivalent amount or cost.
  
- d) Conditions that must be respected by contracts concluded with those exercising Executive Director duties, among which the following are included:
  - i) Term;
  - ii) Notice periods; and
  - iii) Any other clauses relating to contract bonuses, indemnities or “golden parachutes” deriving from early termination of the contractual relationship between the Company and the Executive Director.

See heading: B.1.15

Comply                      Partially comply                      Explain

**Recommendation 36. Limitation of certain compensation for Executive Directors.**

Executive Directors should be restricted to compensation consisting of shares in the Company or Group Companies, share options or instruments indexed to the share value, a variable compensation linked to the performance of the Company or retirement systems.

This recommendation will not cover the delivery of shares, when subject to the condition that the Directors hold them until they ceased to be Directors.

See headings: A.3, B.1.3

Comply    Explain

**Recommendation 37. Compensation for External Directors.**

Remuneration paid to External Directors should be that which is necessary to compensate their dedication, qualifications and responsibilities in the position, but not so high as to compromise their independence.

Comply    Explain

**Recommendation 38. Compensation based on the results obtained by the Company.**

The compensation relating to the results obtained by the Companies should take into account any qualifications that are included in the external auditor's report and reduce those results.

Comply                                      Explain                                      Not applicable

**Recommendation 39. Relationship of variable compensation with professional performance.**

In the case of variable compensation, the compensation policies include the technical precautions necessary to ensure that such compensation is in line with the professional performance of its beneficiaries and does not derive merely from the general evolution of markets or the sector in which the Company operates or other similar circumstances.

Comply

Explain

Not applicable

**Recommendation 40. Consultation vote regarding the compensation policy by the General Meeting.**

The Board should submit a report regarding the compensation policy for Directors to a consultation vote by the General Meeting, as a separate point on the Agenda. This report should be made available to shareholders, either separately or in any other manner that the Company considers advisable.

This report will particularly focus on the compensation policy approved by the Board for the year in progress and, if appropriate, the plan projected for future years. It will cover all matters referred to by Recommendation 35, except for any that could involve the revelation of sensitive business information. It will emphasize the most significant changes in these policies compared with the policy applied last year, to which the General Meeting refers. It will also include an overall summary of how the compensation policy was applied last year.

The Board will also provide information on the role played by the Compensation Committee when preparing the compensation policy and, if any external advisory services were used, the identity of the external consultants will be revealed.

See heading: B.1.16

Comply

Partially comply

Explain

**Recommendation 41. Transparency of variable compensation.**

The Notes to the financial statements should provide details of individual compensation paid to Directors during the year and should include:

- a) An individual breakdown of the compensation paid to each Director which will include, if appropriate:
- i) Per diems for attendance and other fixed compensation paid to the Director;
  - ii) Additional compensation paid for holding the position of Chairman or member of any Board Committee;
  - iii) Any compensation paid as profit-sharing or bonuses, and the reason for paying such amounts;
  - iv) Contributions made on behalf of the Director to defined contribution pension plan; or the increase of consolidated rights held by the Director, when involving contributions to defined benefit plans;
  - v) Any indemnities agreed or paid in the event of termination;
  - vi) Compensation received for holding the position of Director at other Group companies;
  - vii) Compensation paid for carrying out the senior management duties falling to Executive Directors;
  - viii) Any other compensation other than the items listed above, regardless of its nature or the group company making payment, particularly when it is considered to be an associated transaction or when omitting this item could distort the true and fair view of the total compensation received by the Director.
- b) An individual breakdown of any shares, options or any other instrument indexed to the value of the share granted to Directors, indicating:

- i) The number of shares or options granted during the year and the conditions for exercising these rights;
  - ii) The number of options exercised during the year, indicating the number of shares involved and the exercise price;
  - iii) The number of options pending at the end of the year, indicating their price, dates and other relevant information;
  - iv) Any modification made during the year to the conditions for exercising options already granted.
- c) Information regarding the relationship, last year, between the compensation obtained by Executive Directors and the results or other performance measurements recorded by the Company.

Comply                      Partially comply                      Explain

**Recommendation 42. Structure of the Executive Committee.**

When there is an Executive Committee, the structure for the different categories of Directors should be similar to that of the Board and its Secretary should be the Secretary to the Board.

See headings: B.2.1, B.2.6

Comply                      Partially comply                      Explain                      Not applicable

The Board of Directors is composed of 15 External Directors (79%), of which 7 are classified as Domanial (37%), 7 as Independent (37%) and 1 other External (5%), and by 4 Executive Directors (21%).

The Executive Committee is composed of 4 External Directors (50%), of which 1 is classified as a Domanial Director (12.5%) and 3 are classified as Independent Directors (37.5%) and 4 are classified as Executive Directors (50%).

The proportion that represents Independent Directors in both bodies is practically identical, although this is not the case with Domanial Directors.

The Board of Directors ensures that the composition of the Executive Committee, together with the Executive Directors, reflect a number of independent Directors that is congruent with the structure of the participation of external Directors in the Board of Directors.

The adequate exercise of its duties requires that non-executive Directors that form part of this Committee be always designated from among Independent Directors. As an exception, a Director forms part of the Executive committee who is a Domanial director, due to the fact that at the time of his appointment he complied with the requirements of independence in accordance with the Unified Code of Good Governance.

The Secretary of the Board of Directors is also the Secretary to the Executive Committee.

**Recommendation 43. Relationships between the Board and the Executive Committee.**

The Board should always be aware of the issues being discussed and the Resolutions being adopted by the Executive Committee and all of the Members of the Board should receive a copy of the minutes to the meetings held by the Executive Committee.

Comply                      Explain                      Not applicable

**Recommendation 44. Audit and Control Committee and Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee.**

The Board of Directors must form, in addition to the Audit Committee required by the Securities and Exchange Act, a Committee or two separate Committees, covering Nominations and Compensation. The rules governing the composition and operation of the Audit Committee and the Committee or Committees for Nominations and Compensation must be covered by the Board Regulations and include the following items:

- a) The Board should designate the Members of these Committees, bearing in mind the knowledge, aptitudes and experience of the Directors and the duties of each Committee; it should deliberate with respect to its proposals and reports; and Reports must be given, at the first Board Meeting held after their meetings, regarding their activity and work performed;
- b) These Committees should be formed exclusively of a minimum of three Directors. The above is understood to be notwithstanding the attendance of Executive Directors or senior executives, if expressly requested by the Members of the Committee;
- c) The Chairmen should be Independent Directors;
- d) External advisory services should be available when considered necessary to fulfill their duties;
- e) Minutes should be kept of all meetings held and a copy should be sent to all members of the Board.

See headings: B.2.1, B.2.3

Comply                      Partially comply                      Explain

**Recommendation 45. Supervision of the Internal Code of Conduct and the Rules for Corporate Governance.**

The supervision of compliance with internal codes of conduct and corporate governance rules is the responsibility of the Audit Committee, the Nominations Committee or, if existing separately, the Compliance Committee or the Corporate Governance Committee.

Comply                      Explain

**Recommendation 46. Knowledge and experience of the Members of the Audit and Control Committee.**

The Members of the Audit Committee, and particularly its Chairman, should be appointed bearing in mind their knowledge and experience with respect to accounting, audit and risk management.

Comply                      Explain

**Recommendation 47. Internal Audit.**

Listed companies should have an internal audit area which, under the supervision of the Audit Committee, ensures the proper operation of the internal control and information systems.

Comply                      Explain

**Recommendation 48. Reporting obligations relating to the person responsible for the Internal Audit Area.**

The person responsible for the Internal Audit Area should present an annual plan to the Audit Committee; it should directly report any incidents that arise during the fulfillment of this plan; and at the end of the year a report on activities should be presented.

Comply                      Partially comply                      Explain

**Recommendation 49. Risk management and control policy.**

The risk management and control policy should identify at least:

- a) The various types of risk (operational, technological, financial, legal, reputational and others) faced by the Company, including financial or economic risks, contingent liabilities and other off-balance sheet risks.
- b) The establishment of the risk level that the Company considers acceptable;
- c) The measures established to mitigate the impact of identified risks should they materialize;
- d) The Internal control and information systems that are used to control and manage these risks, including contingent liabilities or off-balance sheet risks.

See heading: D

Comply                      Partially comply                      Explain

**Recommendation 50. Authority of the Audit and Control Committee.**

With respect to the Audit Committee:

1º Internal Control and Information Systems:

- a) Supervise the preparation and the integrity of financial information relating to the Company and, if appropriate, to the Group, reviewing compliance with legislative requirements, adequate definition of the scope of consolidation and the proper application of accounting standards.
- b) Regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported.
- c) Ensure the independence and efficiency of the internal audit function; proposed new selection, nomination, reelection and removal of the person responsible for internal audit; propose the budget for this service; receive regular information regarding its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- d) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Company.

2º The external auditor:

- a) Present before the Board proposals for selecting, nominating, reelecting and replacing the external auditor, as well as the contract conditions;

b) Regularly receive from the external auditor information regarding the audit plan and the results of execution, and verify that Senior Management bears in mind the recommendations made.

c) Ensure the independence of the external auditor and, in this respect:

- i) The Company reports any change in Auditor to the Spanish Securities and Exchange Commission and it provide a statement regarding the existence of any disagreements with the exiting auditor;
- ii) The Committee should ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;
- iii) In the event that the external auditor withdraws from the mandate, it will examine the circumstances giving rise to this situation.

d) In the case of Groups, ensure that the Auditor of the Group assumes the responsibility of auditing the Group companies.

See headings: B.1.35, B.2.2, B.2.3 y D.3

Comply

Partially comply

Explain

**Recommendation 51. Appearance of employees or executives before the Audit and Control Committee.**

The Audit Committee should be able to call any employee or executive at the Company, even without the presence of any other executive.

Comply

Explain

**Recommendation 52. Information provided to the Board of Directors.**

The Audit Committee should inform the Board prior to adopting any of the relevant decisions, of the following matters indicated in Recommendation 8:

- a) The financial information that the Company must make public on a regular basis due to the fact that it is listed on a stock exchange; The Committee should ensure that the interim accounts are prepared using the same accounting criteria as are used for the Annual accounts and, in this respect, consider the appropriateness of a limited review performed by the external auditor;
- b) The creation or acquisition of shares in special-purpose vehicles or domiciled in countries or territories that are considered to be tax havens, as well as any other similar transactions or operations that, due to their complexity, could harm the transparency of the Group.
- c) Associated operations, unless this reporting duty has been delegated to a Committee other than the supervisory and control committees.

See headings: B.2.2, B.2.3

Comply

Partially comply

Explain

**Recommendation 53. Financial Statements.**

The Board of Directors should endeavor to present the financial statements to the General Meeting without reservations or qualifications in the Audit Report, and should any exceptional situations exist, both the Chairman of the Audit Committee and the Auditors will clearly explain the contents and the scope of any such reservations or qualifications to shareholders.

See heading: B.1.38

**Comply**                      Partially comply                      Explain

**Recommendation 54. Composition of the Appointments, Compensation, Corporate Governance and Conflicts of Interest Committee.**

The majority of the Members of the Appointments Committee –or the Appointments and Compensation Committee, if consisting of only one body–should be Independent Directors.

See heading: B.2.1

**Comply**                      Explain                      Not applicable

**Recommendation 55. Authority regarding Appointments.**

In addition to the duties indicated in the preceding Recommendations, the Appointments Committee is responsible for the following:

- a) Evaluating the competencies, knowledge and experience that is necessary on the Board and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position.
- b) Examining or organizing, in the manner deemed most adequate, the succession of the Chairman and the CEO and, if appropriate, making proposals to the Board so that said succession takes place in an ordered and well-planned fashion..
- c) Reporting nominations and removals of senior executives as proposed by the CEO to the Board;
- d) Informing the Board of matters regarding gender diversity, as indicated in Recommendation 14 of this Code.

See heading: B.2.3

**Comply**                      Partially comply                      Explain                      Not applicable

**Recommendation 56. Consultations by the Appointments Committee.**

The Appointments Committee should consult the Chairman and the CEO of the Company, especially when involving areas relating to Executive Directors.

Any Director should be able to request that the Appointments Committee take into consideration, should it deem it appropriate, potential candidates to cover vacancies on the Board.

**Comply**                      Partially comply                      Explain                      Not applicable

**Recommendation 57. Authority regarding Compensation.**

In addition to the duties indicated in the preceding Recommendations, the Compensation Committee is responsible for the following:

a) Making proposals to the Board of Directors:

- i) Regarding the compensation policy for Directors and senior management;
- ii) Regarding the individual compensation for Executive Directors and other conditions regarding their contracts;
- iii) The basic conditions regarding the contracts for senior management.

b) Ensure the observance of the compensation policy established by the Company.

See headings: B.1.14 y B.2.3

**Comply**

Partially comply

Explain

Not applicable

**Recommendation 58. Consultations by the Compensation Committee.**

The Compensation Committee should consult the Chairman and the CEO of the Company, especially when involving areas relating to the Executive Directors and senior management.

**Comply**

Explain

Not applicable

**G OTHER INFORMATION OF INTEREST**

If it is considered that any principles or significant aspects relating to corporate governance practices applied by the company have not been addressed in this report, describe and explain them below.

This heading may include any other information, clarification or nuance relating to the receding sections of the Report.

Specifically, state whether the company is subject to legislation other than Spanish law as regards corporate governance, and if so include such information as it is obliged to provide that differs from that contained in this report.

**Binding definition of Independent Director:**

State whether or not any of the Independent Directors had is, or has had, any relationship with the Company, it's a significant shareholders or Directors which, if sufficiently significant, could have led the Director to not being considered as Independent in accordance with the definition established by Section 5 of the Unified Code of Good Governance:

Yes	<u>No</u>	
<u>Name of the Director</u>	<u>Type of relationship</u>	<u>Explanation</u>
-	-	-

This Annual Corporate Governance Report was approved by the Board of Directors of the Bank at its meeting on Wednesday, March 05, 2008.

State whether any directors voted against or abstained from approval of this report.

Yes	<u>No</u>	
Name of the Director that did not vote in favor of approving this report	Reasons (opposition, Abstention, absence)	Explain the reasons