

PART I
/2006 CORPORATE GOVERNANCE REPORT

The corporate culture of Banco Popular Español, the fruit of a tradition firmly based on years of experience, has progressively shaped an in-house model of corporate governance documented year by year in the related annual reporting documents. Since 1998, an Annual Corporate Governance Report has been prepared to enable shareholders, investors and analysts to have a more direct and transparent knowledge of the Bank's corporate policy.

As the 2005 Report did, the 2006 Corporate Governance Report conforms in format and content to the model approved by Circular 1/2004 of the Spanish Securities & Exchange Commission (CNMV), and to the recommendations in the Olivencia and Aldama reports, in conformity with the transition period envisaged in the Unified Good Governance Code adopted by the Board of CNMV on May 22, 2006, for the monitoring of its recommendations.

However, in view of the upcoming inclusion in corporate practice of the provisions contained in the Unified Code, the final section of this Report includes the foreseeable line of the changes in internal regulations which the Bank plans to address during 2007.

BANCO POPULAR ESPAÑOL, S.A.

CORPORATE GOVERNANCE REPORT FORT 2006

A STRUCTURE OF OWNERSHIP

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

Date of last change	<u>Capital stock (€)</u>	<u>Number of shares</u>
06-21-2005	121.543.254	1.215.432.540

If there are different classes of shares, show them in the following table:

<u>Class</u>	<u>Number of shares</u>	<u>Unit par value</u>
-	-	-

All the shares of the Bank outstanding are of the same class and series.

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

Shareholder's name or corporate style	Number of directly owned shares	Number of indirectly owned shares (*)	Total % of capital stock
Allianz Aktiengesellschaft Holding		107.009.240	8.80
Topbreach Holding, B.V.	81.035.872		6.67
Unión Europea de Inversiones, S.A.	65.829.905	2.249.000	5,60

(*) Through:

Shareholder's name or corporate style

ALLIANZ AKTIENGESELLSCHAFT HOLDING

Name or corporate style of the direct owner of the holding	Number of directly owned shares	% of capital stock
Dresdner Holding B.V.	48.110.000	3.96
Ras Internacional, N.V.	23.980.000	1.97
AGF Vie	23.980.000	1.97
Allianz, Cia de seguros y reaseguros	10.894.240	0.90
Allianz Variable, FIM	45.000	0.00
Total:	107.009.240	8.80

Shareholder's name or corporate style

UNION EUROPEA DE INVERSIONES, S.A.

Name or corporate style of the direct owner of the holding	Number of directly owned shares	% of capital stock
Naarden International	2.249.000	0,19
Total:	2.249.000	0,19

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

Shareholder's name or corporate style	Transaction date	Transaction description
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A.3. Complete the following tables on directors of the company that own shares of the company:

Director's name or corporate style	Date of first appointment	Date of latest appointment	Number of directly owned shares	Number of indirectly owned share (*)	Total % of capital stock (1)
Aparicio, Francisco	12-18-2003	05-25-2005	267.627	0	0.02
Asociación de Directivos de BPE	11-27-1980	05-25-2005	35.000	0	0.00
Fernández, Francisco	10-19-2004	05-25-2005	500	0	0.00
Ferreira de Amorim, Americo	05-27-2003	05-25-2005	500	81.035.872	6.67
Gancedo, Eric	06-20-2002	05-25-2005	229.000	133.420	0.03
Herrando, Luis	06-21-2001	05-25-2005	3.750	4.000	0.00
Molins, Casimiro	11-24-1987	05-25-2005	22.000	460.000	0.04
Montuenga, Luis	12-01-1987	05-25-2005	82.200	0	0.01
Morillo, Manuel	06-23-1999	05-25-2005	50	0	0.00
Nigorra, Miguel	12-19-1974	05-25-2005	217.440	336.205	0.04
Rodríguez, José Ramón	01-12-1987	05-25-2005	27.165	59.231	0,01
Director	03-14-2002,				
Ron, Ángel	Chairman 10-19-2004	05-25-2005	200	0	0,00
Santana, Vicente	05-27-2003	05-25-2005	11.000	1.323.140	0.11
BPE Shareholders Syndicate	06-28-1988	05-25-2005	16.236.760	66.765.310 (2)	6,83
Solís, Miguel Ángel	12-18-1996	05-25-2005	736.685	203.180	0.08
Viñas, Emilio	05-27-2003	05-25-2005	62.555	1.540.000	0,13
Walter, Herbert	04-20-2004	05-25-2005	500	0	0,00

(1) This table does not include the shares habitually represented by Board members amounting to approximately 21.62% of the capital stock; this percentage includes most notably the 8.80% of capital stock corresponding to shares owned by Allianz AG, represented by the director Herbert Walter.

(2) The indirectly owned shares are net of 92,549,035 syndicated shares owned directly or indirectly and represented by other directors and Unión Europea de Inversiones, S.A. (UEI). Without this deduction, the indirect holding of Sindicatura de Accionistas de BPE amounted to 159,314,345 shares (13.11%).

Included most notably in the syndicated shares deducted were the 65,829,905 syndicated shares of Unión Europea de Inversiones, S.A. which, together with the 2,249,000 shares held by UEI indirectly and not syndicated, are included among those represented of the directors that have or represent a holding in UEI, and the remainder among those of its Chairman, Mr. Luis Montuenga Aguayo.

Accordingly, certain directors hold through UEI additional holdings in Banco Popular as follows: Américo Ferreira de Amorim 3,411,640 shares (0.28%); Luis Herrando Prat de la Riba 12,285,090 shares (1.01%); Casimiro Molins Ribot 8,572,682 shares (0.71%); Luis Montuenga Aguayo 35,963,167 shares (2.96%); Miguel Nigorra Oliver 3,481,485 shares (0.29%); and José Ramón Rodríguez García 4,364,841 shares (0.36%).

(*) Through:

Director's name or corporate style

D. Americo Ferreira de Amorim

Name or corporate style of direct owner of the holding	Number of directly owned shares
Topbreach Holding, B.V.	81.035.872
Total:	81.035.872

Director's name or corporate style

D. Eric Gancedo Holmer

Name or corporate style of direct owner of the holding	Number of directly owned shares
Brunoseta, S.L.	100.000
Los Prunos del Seto, S.L.	5.000
Cónyuge e Hijos menores Gancedo	28.420
Total:	133.420

Director's name or corporate style

D. Luis Herrando Prat de la Riba

Name or corporate style of direct owner of the holding	Number of directly owned shares
Carmen Deprit Navea	4,000
Total:	4,000

Director's name or corporate style

D. Casimiro Molins Ribot

Name or corporate style of direct owner of the holding	Number of directly owned shares
Inversora Pedralbes, S.A.	460,000
Total:	460,000

Director's name or corporate style

D. Miguel Nigorra Oliver

Name or corporate style of direct owner of the holding	Number of directly owned shares
MNCC International, S.A.R.L.	278.817
D ^a Corona Cobian Otero	57.388
Total:	336.205

Director's name or corporate style

D. José Ramón Rodríguez García

Name or corporate style of direct owner of the holding	Number of directly owned shares
D ^a M ^a Luisa Igartua Narvaiza	59.231
Total:	59.231

Director's name or corporate style

D. Vicente Santana Aparicio

Name or corporate style of direct owner of the holding	Number of directly owned shares
Complector, S.L.	1.323.140
Total:	1.323.140

Director's name or corporate style

BPE SHAREHOLDERS SYNDICATE

Name or corporate style of direct owner of the holding	Number of directly owned shares
Pluralidad de inversores particulares	66.765.310
Total:	66.765.310

Director's name or corporate style

D. Miguel Ángel de Solís Martínez Campos

Name or corporate style of direct owner of the holding	Number of directly owned shares
Guelmisa, S.L.	97.685
Solcampo, S.L.	100.000
Agrícola Beamontesa, S.L.	5.000
Enrique de Solís Tello	495
Total:	203.180

Director's name or corporate style

D. Emilio Viñas Barba

Name or corporate style of direct owner of the holding	Number of directly owned shares
Amplector, S.L.	1.500.000
Posesor, S.L.	40.000
Total:	1.540.000

Total % of capital stock held by the Board of Directors **13,97% (*)**

(*) This percentage does not include the shares habitually represented by Board members amounting to approximately 21.62% of the capital stock; this percentage includes most notably the 8.80% of capital stock corresponding to shares owned by Allianz, AG and the 5.60% of Unión Europea de Inversión, S.A.

The total capital stock represented by the Board of Directors, taking into account the directly and indirectly owned and habitually represented shares, amounts to 35.58%.

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

Director's name or corporate style	Number of direct option rights	Number of indirect option rights	Equivalent number of shares	Total % of capital stock
-	-	-	-	-

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

Topbreach Holding, B.V. owns a significant holding 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:

Related entities' name or corporate style	Type of relationship	Brief description
Eurocorredores, S.A. (wholly owned by BPE) and Allianz	Contractual	Marketing through Banco Popular Group banks of general insurance products of Allianz.
Banco Popular - Allianz	Contractual	Externalization of pension commitments to serving and retired staff.
Banco Popular Group - Allianz	Contractual	Externalization of pension commitments to serving and retired staff.
Banco Popular - Allianz	Corporate	Eurovida, S.A., Cía. Seguros y Reaseguros, engaged in marketing life insurance, owned 49% and 51%, respectively, and Europensiones, S.A., Entidad Gestora de Fondos de Pensiones, owned 51% and 49%, respectively

A.6. Detail any pacts between shareholders that have been notified to the company:

Parties to the pact	% of capital stock affected	Brief description of the pact
2,629 minority shareholders at 12/31/2006	14,44%	A gentleman's agreement by which the syndicated shareholders are bound for such time as they freely decide

Detail the pacts on shares, if any, between shareholders of the company of which the company is aware:

Parties to the pact	% of capital stock affected	Brief description
-	-	-

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:

None

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

At year end:

Number of directly owned shares	Number of indirectly owned shares (*)	Total % of capital stock
0	115.525	0,0095

(*) Through:

Name or corporate style of direct owner of the holding	Number of directly owned shares
Finespa	19.939
Inmobiliaria Viagracia, S.A.	95.586
Total:	115.525

Detail the significant variations, as defined in Royal Decree 377/1991, during the year:

Date	Number of directly owned shares	Number of indirectly owned shares	Total % of capital stock
-	-	-	-
	Results on treasury stock transactions during the year		(€ 000) 888

The treasury stock transactions, in all cases of small amount, 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 2006.

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 described in section A.8.

The treasury stock transactions in 2006 were made pursuant to the following authorizations of the Shareholders Meeting to the Board of Directors.

1. The Shareholders Meeting on May 25, 2005, adopted the resolution to authorize and empower the Board of Directors of Banco Popular Español and the governing bodies of the companies of which Banco Popular Español is deemed to be the controlling company to acquire, in the manners permitted by law, shares of Banco Popular Español 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 acquiror 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, 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.

2. The Shareholders Meeting on May 31, 2006, adopted the resolution to authorize and empower the Board of Directors of Banco Popular Español and the governing bodies of the companies of which Banco Popular Español is deemed to be the controlling company to acquire, in the manners permitted by law, shares of Banco Popular Español 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 acquiror 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.

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.

This authorization, which is granted for the maximum legal period, replaces that granted by the Shareholders Meeting on May 25, 2005.

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..

1.- Legal and bylaw restrictions on the exercise of voting rights.

Article 59 of Law 26/1988 on Discipline and Intervention of Credit Institutions establishes a restriction on the exercise of voting rights in the event of irregularly acquired shareholdings.

Article 14 of the Bylaws states: *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. The foregoing limitation shall not be applicable if, pursuant to current legislation, the Banking Establishments Deposit Guarantee Fund acquires a holding of more than 10% of the capital stock."*

2.- 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.

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 the names of the Board members:

Director's name or corporate style	Representative	Board office	Date first appointed	Date of latest appointment	How elected
Aparicio, Francisco		Secretary	12-18-2003	05-25-2005	Shareholders Meeting
Asociación de Directivos de BPE	Roberto Higuera	Director	11-27-1980	05-25-2005	"
Fernández, Francisco		Chief Executive Officer	10-19-2004	05-25-2005	"
Ferreira de Amorim, Americo		Director	05-27-2003	05-25-2005	"
Gancedo, Eric		Director	06-20-2002	05-25-2005	"
Herrando, Luis		Director	06-21-2001	05-25-2005	"
Molins, Casimiro		Director	11-24-1987	05-25-2005	"
Montuenga, Luis		Director	12-01-1987	05-25-2005	"
Morillo, Manuel		Director	06-23-1999	05-25-2005	"
Nigorra, Miguel		Director	12-19-1974	05-25-2005	"
Rodríguez, José Ramón		Director	01-12-1987	05-25-2005	"
Ron, Ángel		Chairman	Director 03-14-2002, Chairman 10-19-2004	05-25-2005	"
Santana, Vicente		Director	05-27-2003	05-25-2005	"
BPE Shareholders Syndicate	José María Mas	Director	06-28-1988	05-25-2005	"
Solis, Miguel Ángel		Director	12-18-1996	05-25-2005	"
Viñas, Emilio		Director	05-27-2003	05-25-2005	"
Walter, Herbert		Director	04-20-2004	05-25-2005	"

Total number of Directors

17

Directors who left the Board during the year:

Director's name or corporate style	Date of departure
Javier Valls	22-03-2006

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

<u>EXECUTIVE DIRECTORS</u>		
Director's name or corporate style	Appointment proposed by	Office in the company's organization chart and profile
Ron, Ángel	Nomination, 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 and Chairman on October 19, 2004.
Fernández, Francisco	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	CEO Degree in Economics, diploma in commercial management and business administration. At the Bank he was General Manager of Banco de Galicia in 1992, was appointed General Manager of Banco de Andalucía in 1995, was appointed General Manager of the Banco Popular Group commercial network in 2002 and became CEO in 2004
Asociación de Directivos de BPE (representative Roberto Higuera)	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Director Association, membership of which is voluntary for executives of the Bank. 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 Office (his present post).
Aparicio, Francisco	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Lawyer 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.

EXTERNAL DOMANIAL DIRECTORS

Director's name or corporate style	Appointment proposed by	Name or corporate style of the significant shareholder represented or that proposed appointment to the Board	Profile
Ferreira de Amorim, Americo	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Topbreach Holding, B.V.	<p>Businessman</p> <p>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.</p> <p>Including his holding through Unión Europea de Inversiones, S.A., he habitually represents 6.95% of the capital of Banco Popular.</p>
Molins, Casimiro	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee		<p>Businessman</p> <p>In addition to his work at Cementos Molins, SA, and property and construction businesses in Spain and America, he was chairman of Banco Atlántico from 1962 to 1983. Although not a director of Unión Europea de Inversiones, he is honorary chairman of that company and related to it since one of his children is a director of it. Including his holding through UEI, he habitually represents 1.35% of the capital of Banco Popular.</p>
Montuenga, Luis	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Unión Europea de Inversiones, S.A.	<p>Businessman</p> <p>Has held senior executive and corporate posts at chemical and pharmaceutical companies; founder and promoter of Naarden Ibérica, Naarden Internacional and Productos Orgánicos, SA. Active in socio-cultural projects (Youth Foundation, etc.). Including his holding through UEI, he habitually represents 3.62% of the capital of Banco Popular.</p>
Nigorra, Miguel	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee		<p>Businessman and professional</p> <p>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 has a 7.69% stake in Banco de Crédito Balear, S.A. Including his holding through UEI, he habitually represents 0.33% of the capital of Banco Popular.</p>

EXTERNAL DOMANIAL DIRECTORS

Director's name or corporate style	Appointment proposed by	Name or corporate style of the significant shareholder represented or that proposed appointment to the Board	Profile
BPE Shareholders Syndicate	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee		Association of small BPE shareholders to provide them with sufficient representation on the Board. José María Mas was founding partner of MC&Co Asesores Legales. While practicing law he has been a director of several companies such as Banco Zaragozano and Secretary of Telefónica. At present he is a director, among other companies, of SOS Cuétara and Autopistas Aumar. He habitually represents 8.33% of the capital of Banco Popular, including his holding through UEI and discounting the holding of syndicated shares that is attributed to other directors, as detailed in Table A.3
Walter, Herbert	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Grupo Allianz	Doctorate in Business Administration Since 1982 has held executive posts at various companies and at Deutsche Bank AG. Director since March 2003 of Allianz AG in Munich and Chairman of the Board of Dresdner Bank AG. Director of Banco Portugués de Investimento. . He habitually represents 8.80% of the capital of Banco Popular.

EXTERNAL INDEPENDENT DIRECTORS

Director's name or corporate style	Appointment proposed by	Profile
Gancedo, Eric	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	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. He represents the Gancedo Group with a 0.99% holding in Banco Popular.
Herrando, Luis	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Doctorate in industrial engineering and economics degree. Worked first at Babcock & Wilcox; joined Induban (Banco Vizcaya) in 1967. CEO of the Aurora Group (1978-1993), 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. He habitually represents a 1.31% holding in Banco Popular, including that corresponding to him through UEI.
Morillo, Manuel	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Professional Long professional record in the corporate world, particularly in the textile, property and construction sectors. Significantly involved in welfare projects in cooperation with the Catalonia Autonomous Government and the Spanish Government. He habitually represents the holding in Banco Popular's capital stock of 0.31% of the Carmen y M ^a José Godó Foundation, one of the leading welfare institutions in Spain, of which he is Chairman.
Rodríguez, José Ramón	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Engineer and businessman Apart from professional practice as a civil engineer, has been an executive and director of textile, food and construction companies. He habitually represents a 0.39% holding in Banco Popular, basically through UEI.

Director's name or corporate style	Appointment proposed by	Profile
Santana, Vicente	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Businessman Law degree. Stockbroker. Initially in the Barcelona Stock Exchange in 1971. From 1983-1989 continued as a stockbroker in the Madrid Stock Exchange. Director of Sociedad Rectora de la Bolsa de Madrid 1991-1994. . He represents a 0.42% in Banco Popular.
Solis, Miguel A.de	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Businessman Very active business involvement, particularly in the property, agriculture/livestock and tourism industries.. Has a holding of 0.08% in Banco Popular and represents the Solis family group which has a 0.89% shareholding in the Bank.
Viñas, Emilio	Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	Degree in law, MBA at EOI, stockbroker, a profession which he practiced from 1971-1976, also being a member of the Bilbao Stock Exchange governing body and deputy chairman thereof. Continued his professional activity as stockbroker from 1976-1983 and was a member of the Barcelona Stock Exchange governing body. From 1983-1989 continued as a stockbroker in the Madrid Stock Exchange, of whose governing body he is a member. He represents a holding of 0.44% in Banco Popular.

OTHER EXTERNAL DIRECTORS

Director's name or corporate style	Appointment proposed by
-	-

State why they cannot be considered to be domanial or independent directors:

Detail the changes, if any, during the year in the classification of each director:

Director's name or corporate style	Date of change	Previous classification	Present classification
Molins, Casimiro	12-13-2006	Independent	Domanial
Nigorra, Miguel	12-13-2006	Independent	Domanial

B.1.4. State whether the classification of directors in B.1.3 above matches the distribution envisaged in the Board Regulations.

The classification matches the distribution envisaged the Board Regulations stating that:

“The Board of Directors shall consist of the following categories:

A) Internal or Executive Directors: those with executive powers and senior management functions at the Bank or at any of its investees. The number of directors with executive functions shall not exceed one third of the members of the Board.

B) External Directors, of two types:

b1) Domianial directors: those proposed by owners of significant stable holdings in the capital of the Bank. Having regard to the shareholder structure of the Bank, the category of domianial directors shall include directors that directly or indirectly have holdings of more than 1% in the capital stock of the Bank or that have been designated to represent shareholders holding such percentage of the capital stock.

b2) Independent directors: persons of recognized professional prestige who can contribute their experience and knowledge to corporate governance and who, not being included in either of the two preceding categories, meet the conditions established in these Regulations (Article 15).”

B.1.5. State the powers, if any, delegated to the managing director(s):

Director's name or corporate style	Description
Ron Güimil, Ángel	Chairman of Executive Committee
Fernández Dopico, Francisco	CEO

Without prejudice to the differing competential 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.1.16.

Powers delegated:

The powers delegated include all the faculties of the Board of Directors except those which cannot legally be delegated and those stated below, which under Article 4.3 of the Board Regulations cannot be delegated:

- a) The approval of the general strategies, plans and policies of the Bank.
- b) The appointment, remuneration and, as appropriate, removal of the Bank's senior executives.
- c) The control of management activities and the evaluation of the Bank's senior executives.
- d) The identification of the Bank's main risks and, in particular, the implementation and monitoring of the appropriate internal control and information systems.
- e) The definition of policies relating to reporting to and communication with the shareholders, the markets and public opinion.
- f) The approval of the policy as regards treasury stock.
- g) In general, transactions involving the disposition of substantial assets of the Bank and major corporate operations, and all those specifically envisaged in the Board Regulations.

B.1.6. List the Board members, if any, that are directors or executives of other companies included in the group of the listed company:

Director's name or corporate style	Name of Group company	Office
Aparicio, Francisco Fernández, Francisco	Banco de Vasconia	Representative of the Director BPE
	Banco Popular Hipotecario	Director
	Banco Popular France	Director
	Popular Banca Privada	Director
Gancedo, Eric	Banco de Castilla	Director
	Banco de Crédito Balear	Representative of the Director BPE
	Bancopopular-e	Chairman
	Banco Popular France	Chairman
Herrando, Luis	Banco de Galicia	Representative of the Director BPE
	Popular Banca Privada	Chairman
Montuenga, Luis	Banco de Andalucía	Representative of the Director BPE
	Banco de Galicia	Director
	Banco de Vasconia	Director
	Banco de Crédito Balear	Chairman
Nigorra, Miguel Rodríguez, José Ramón	Banco de Vasconia	Chairman
	Banco de Castilla	Representative of the Director BPE
	Banco Popular Hipotecario	Chairman
	Popular Banca Privada	Director
Santana, Vicente Solís, Miguel Ángel	Banco de Andalucía	Chairman
	Banco de Crédito Balear	Director
	Banco de Vasconia	Director

B.1.7. List the directors of the company, if any, that are directors of other non-Group companies listed on official securities markets in Spain, if and as notified to the Bank.

Director's name or corporate style	Lested company	Office
Molins, Casimiro	Cementos Molins, S.A.	Chairman
Montuenga, Luis	Unión Europea de Inversiones, S.A.	Chairman
Ferreira de Amorim, Américo	Unión Europea de Inversiones, S.A.	Director
José M ^a Mas Millet (representative BPE Shareholders Syndicate)	Autopistas Aumar, S.A.	Director
	SOS Cuétara, S.A.	Director

B.1.8. Show in the following tables the aggregate compensation of the directors earned during the year.

The aggregate information in this section includes that corresponding to Board members at December 31, 2006, and, therefore, does not include that of Javier Valls, who was Chairman of the Bank until March 2006. For itemized information and the categories of remuneration to Board members, see Note 10 to the 2006 Consolidated Financial Statements (page 134), which also includes separate information of that corresponding to Javier Valls.

a) At the reporting company:

Remuneration category	€000
Fixed remuneration	1.396
Variable remuneration	1.287
Per diems	0
Directors' fees	0
Stock options and/or other financial instruments	0
Other	21
TOTAL:	2.704
Other benefits	€000
Advances	0
Loans granted	2.195
Pension plans and funds:	
Contributions	1.316
Pension plans and funds:	
Commitments incurred	8.750
Life insurance premiums	24
Guarantees provided by the company to directors	0

The amount of €1,316,000 includes that corresponding to the present directors. For a breakdown of the contributions to pension funds and plans of the present directors, together with that of Javier Valls, see Note 10 to the Consolidated Financial Statements, the total figure being €5,407,000. The coverage of the pension commitments to Javier Valls amounted to €4,091,000 which, together with the previously vested rights, makes a total of €12,917,000, permitting the coverage of a lifelong annual pension of €1,008,000.

The figure of €8,750,000 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 €33,528,000.

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

Remuneration category	€000
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Directors' fees	56
Stock options and/or other financial instruments	0
Other	0
TOTAL:	56
Other benefits	€000
Advances	0
Loans granted	25
Pension plans and funds:	
Contributions	0
Pension plans and funds:	
Commitments incurred	0
Life insurance premiums	0
Guarantees provided by the company to directors	102

c) Total remuneration by type of director:

Type of director	By company	By group (€000)
Executive	2.704	0
External domanial	0	0
External independent	0	56
Other external	0	0
Total	2.704	56

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

Total remuneration of directors (€000)	2.760
Total remuneration of directors as % of parent company attributed profit	0,27%

Note 10 to the Consolidated Financial Statements fixes the total remuneration figure at €2,793,000 and includes €45,000 as "life, health and other insurance premiums". This Report breaks this €45,000 down into €24,000 of "life insurance" and €21,000 of "other benefits", which correspond to health insurance and other items. In this Report, the amount of €21,000 is included in the total amount of remuneration (B.1.8.d) which therefore reaches the figure of €2,760,000.

B.1.9. List the members of senior management who are not executive directors and show the total remuneration earned by them during the year:

Name	Position
Jesús Arellano Escobar	Retail Banking
Santiago Berrocal Enriquez	Specialized Financing
Juan Echanojáuregui Soloaga	Investor Relations
Roberto Higuera Montejo	Chief Financial Officer
Julio Hortigüela Ayuso	Asset Management
José María Lucía Aguirre	Credit & Risk
Rafael de Mena Arenas	Technical Secretary
Eutimio Morales López	Control & Audit
Tomás Pereira Pena	Legal Counsel
Ernesto Rey Rey	Treasury
Ángel Rivera Congosto	Human & Technical Resources
Rafael Roca García	Controller
Francisco J. Safont Marco	Territorial Manager Catalonia, Aragón, Navarre and Rioja
Fernando de Soto López-Doriga	Corporate Affairs
Total remuneration of members of senior management (€000)	5.424

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

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

B.1.10. 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	-	
	Board of Directors		Shareholders Meeting
Authorized by	-	-	
		<u>YES</u>	<u>NO</u>
Is the Shareholders Meeting informed of the arrangements?	-	-	

B.1.11. Describe the process for setting Board members' remuneration and the relevant Bylaw articles:

Article 16 of the Bylaws states as follows:

Article 16

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 shall be compatible with receipt of such fees or salaries as may correspond to Board members that render professional or employment services, for any 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 collective and third party liability insurance for their actions as directors.

Article 21 of the Board Regulations copies the above paragraphs and adds the following:

Article 21 Remuneration

- "
4. *At the proposal of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, 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.*
 5. *The remuneration of Directors shall be transparent. As required by current legislation, the Board of Directors shall state in the annual report and in the annual corporate governance report the remuneration collected by the directors. The annual report, as an integral part of the accounts for the year, shall contain such information as is considered appropriate about the remuneration received by Board members. In any case, the annual corporate governance report shall disclose the overall remuneration of the Board of Director. For these purposes, the remuneration shall be deemed to include the amount of the salaries, per diems and compensation of any kind earned during the year by the Board members for any reason, and the obligations for pensions or life insurance premiums for the former and present members of the Board."*

B.1.12. 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:

Director's name or corporate style	Corporate style of significant shareholder	Office
Herbert Walter Américo Ferreira de Amorim Luis Montuenga Aguayo	Allianz, A.G. Unión Europea de Inversiones, S.A. Unión Europea de Inversiones, S.A.	Director Director Chairman

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

Related Director's name or corporate style	Corporate style of significant shareholder	Description
Américo Ferreira de Amorim Casimiro Molins	Topbreach Holding, B.V. Unión Europea de Inversiones, S.A.	Controlling shareholder Family relationship with a director

B.1.13. State the amendments, if any, during the year to the Board Regulations.

On April 25, 2006, the Board of Directors approved the amendment of Article 5 (Competences of the Board of Directors) to include the definition of the policies on remuneration and corporate social responsibility; Article 7 (Chairman's office) as a result of the single chairmanship; Article 8 (Deputy Chairmanship) regulating the post of deputy chairman of the Board; Article 16 (Term of office of directors) extending the term of office to six years; and Article 25 (Competences of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee) to assign to this Committee the faculty of proposing and verifying compliance with the corporate social responsibility policy.

B.1.14. Describe the procedures for appointment, re-election, evaluation and removal of directors, detailing the competent bodies, the steps to be taken and the criteria to be applied in each such procedure.

These procedures are regulated basically in the Bylaws and in the Board Regulations.

Appointment

There shall be a minimum of twelve and a maximum of twenty directors, who must be shareholders. The appointment of directors and the determination of their number, within the stipulated limits, shall lie with the Shareholders Meeting.

In the event of directors not serving out their term of office, the Board may co-opt, from among the shareholders, the persons to occupy the vacancies until the following Shareholders Meeting and in all other appropriate cases the Board shall proceed in accordance with the law, the Bylaws and the Board Regulations.

Requirements for appointment

The proposals for appointment and re-election of directors submitted by the Board to the Shareholders Meeting and the decisions to appoint adopted by the former pursuant to its legally assigned powers of co-option must refer to persons who, in addition to meeting the legal and Bylaw requirements for the office of director, are of recognized prestige and have the appropriate knowledge and professional experience for discharge of their functions as such.

Specifically, the directors must be persons of recognized commercial and professional honorability with the appropriate knowledge and experience for the discharge of their functions.

Procedure for appointment and re-election

The appointment and re-election of directors shall follow a formal and transparent procedure, requiring a prior report from the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee.

The proposals for appointment of directors submitted by the Board to the Shareholders Meeting and the decisions to appoint adopted by the former pursuant to its powers of co-option must be previously reported on by the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee which, if it deems it appropriate, shall present a proposal to the Board of Directors. If the Board rejects the recommendations of this Committee, it must state the reasons for doing so and duly minute them.

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

For classification of a director as independent, the Board regulations specify, inter alia, the following conditions:

i) That they do not have and have not recently had any material direct or indirect employment, commercial or contractual relationship with the Bank, its executives, its domanial directors or the Group companies whose shareholding interests the latter represent.

For these purposes, the following cannot be proposed or appointed as independent directors: if they have occupied in the last year positions of senior management at the Bank or at the entities mentioned in this section; if they have directly or indirectly made to or received from the Bank payments which might compromise their independence; and, in general, if they have any relationship with the ordinary management of the Bank or are materially linked, for professional or commercial reasons, with the executive directors or with other senior executives of the Bank.

ii) That they are not directors of any other company which has domanial directors at the Bank.

iii) That they are not close family relatives of the executive directors, the domanial directors or the members of the Bank's top management team. Close family relatives are defined as the spouse or spousal equivalent, ascendants, descendants, and brothers and sisters of the director or the director's spouse and the spouses of the director's ascendants, descendants, and brothers and sisters.

If any of the foregoing relationships exists, it must be made known to and evaluated by the Board after receipt of a report from the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee and must be disclosed in the Annual Report.

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 in the Board. Also, the Board shall endeavor to insure 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 Nomination, 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.

B.1.15. 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.
- d) In the case of a domanial director, when the shareholders whose shareholdings they represent on the Board dispose of their stake in the Bank.

B.1.16. 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

Since March 22, 2006, the Bank has had a single Chairman, Ángel Ron Güimil.

The Bylaws attribute a different scope of competences. On the one hand, the day-to-day management of the Bank is entrusted to the General Management, a body headed by the CEO. On the other, the governance of the Bank corresponds to the Board of Directors, chaired by Ángel Ron.

There is a clear distribution of competences between the Chairman and the CEO, Francisco Fernández Dopico. In the split of functions between the Chairman of the Bank 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 directly related support units report to the CEO, and the areas whose strategic, institutional or external presence nature so demands are the responsibility of the Chairman. The CEO is also the reporter of the Executive Committee for matters proper to him.

The Board Regulations stipulate that in the event of absence, illness, resignation or impossibility, the Deputy Chairman, or one of them if there are several, shall stand in for the Chairman in the exercise of the powers proper to him and as Chairman of the Board Committees attributed to him. If no deputy 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 Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee and the Chairman of the Audit and Control Committee, who are independent directors.

B.1.17. 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 16 of the Bylaws states that: *"The Board of Directors shall be validly convened when those present or represented at the meeting constitute half plus one of its members."*

Article 12 of the Board Regulations states that: *"For the Board of Directors to be validly convened there must be present or represented at the meeting half plus one of the Board members, 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 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.”*

Article 21 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 10 of the Board Regulations states that: *“Permanent delegation of any power of the Board of Directors and the appointment of a director or directors to hold the office of CEO shall require, for it to be valid, the yea vote of two thirds of the members of the Board.”*

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 Corporations Law and the Mercantile Register Regulations are complied with.”*

B.1.18. State whether there are specific requirements, other than those relating to directors, for appointment as Chairman.

Yes No

Description of requirements

Article 16 of the Bylaws states: *“The Chairman of the Board must be a director definitively ratified or elected as such by the Shareholders Meeting.”*

B.1.19. State whether the Chairman has a casting vote:

Yes No

Matters for which there is a casting vote

-

B.1.20. 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.1.21. 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 -

B.1.22. State whether there are formal processes for the delegation of votes in the Board of Directors and, if so, describe them briefly.

Article 16 of the Bylaws envisages the possibility for directors to appoint another director to represent them at Board meetings.

Article 12 of the Board Regulations states: *"Directors must make every effort to attend Board meetings and, when they cannot do so personally, shall endeavor to appoint another Board member to represent them, with the appropriate instructions. Notification of representation of absent directors may be given in writing by any means, including telegram, fax or e-mail, to the Chairman or Secretary of the Board."*

B.1.23. State how many times the Board met during the year, and also, if appropriate, how often the Board met without the attendance of its Chairman:

Number of Board meetings	8
Number of Board meetings in the absence of the Chairman	0

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

Meetings of the Executive Committee	36
Meetings of the Audit Committee	7
Meetings of the Nomination and Remuneration Committee	11
Meetings of the Strategy & Investments Committee	
Meetings of the Credit Committee	48

B.1.24. State whether the individual and consolidated financial statements submitted to the Board for approval are previously certified:

Yes No

Under current legislation the financial statements are formulated by the Board of Directors and signed by all the Directors.

The Bank's general management, as its technical and executive governance body, pursuant to Article 22 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 in supervising the financial statements and the internal control systems of the Bank and its finance group.

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>Post</u>
-	-

B.1.25. Describe the mechanisms, if any, established by the Board of Directors to avoid the individual and consolidated financial statements formulated by it and submitted to the Shareholders Meeting containing qualifications in the auditors' report.

These mechanisms include the following:

a) That the internal services of the Bank prepare the financial statements with special concern to rigorously apply generally accepted accounting principles, endeavoring specifically to insure:

- 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.

- that the financial statements and management report disclose clearly and simply the economic, financial and legal risks that may be incurred
- that the financial statements are prepared in conformity with generally accepted accounting principles and standards which are consistent with those applied in the preceding year, so as to avoid a qualified opinion thereon by the external auditors.

b) That the relations of the Board with the external auditors are routed through the Audit and Control Committee.

c) That this Committee, as its principal task, assists the Board of Directors in its functions of vigilance and control of 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.

d) That at the joint meetings with the external auditors an exhaustive review is requested of sundry sectors of the accounts in order to evaluate the quality of the effort made therein.

For this purpose, Sections 1 and 4 of Article 30 of the Board Regulations state:

"Article 30. Relations with Auditors

1. The relations of the Board with the Bank's external auditors shall be routed through the Audit and Control Committee.

.....

4. The Board of Directors shall endeavor to definitively formulate the financial statements in such a way as not to give rise to qualifications by the auditors. However, if the Board considers that it should stand by its judgment, it must publicly explain the content and scope of the discrepancy."

Also, Article 24 of the Board Regulations sets out the rules for organization and functioning of the Audit and Control Committee, which are detailed in Section B.2.3.

B.1.26. Describe the measures taken to insure that the information furnished to the securities markets is conveyed equitatively and symmetrically.

The Board Regulations establish the measures to insure that the information furnished to the markets is conveyed equitatively and symmetrically. The Board of Directors must adopt the necessary measures to guarantee the transmission to the financial markets of all the information about the Bank required under current legislation and all the information considered relevant for investors.

In accordance with this principle of transparency, the information furnished must be:

- a) Correct and truthful
- b) Conveyed symmetrically and equitatively
- c) Conveyed in useful time

Also, the Board of Directors must supervise that all the information currently required by law from listed companies be provided and specifically the following:

1. Periodic financial public reporting.
2. All material information (events or decisions) by submission to the CNMV of the related notification of material events.
3. The annual corporate governance report, including the legally and regulatorily required content, which shall be notified as a material event and published on the Bank's corporate website.

Also, the internal rules of conduct for Banco Popular Group entities in the sphere of securities markets imposes the following obligations for dissemination of material information:

"9. Relevant information.

9.1 Definition of material information: For these purposes, material information is defined as any event, decision or agreement relating to the Group, knowledge of which may reasonably affect an investor for buying or selling securities issued by the Group or financial instruments whose underlying element is securities issued by the Group and which, therefore, may appreciably influence the price in a secondary market.

9.2 Notification: Material information, either extraordinary or periodic, must be immediately disseminated to the market by notification to the CNMV. Notification to the CNMV must be made prior to dissemination by any other means and as soon as the event becomes known, the decision has been adopted, or the agreement or contract with third parties has been signed. The content of the notification must be truthful, clear, complete and, when so required by the nature of the information, quantified, so as not to give rise to confusion or deceit. In any case, material information must be published for at least one year on the Banco Popular website.

If the issuer considers that the information should not be publicly disclosed because it affects its legitimate interests, it must immediately so inform the CNMV which may dispense it from compliance with this obligation.

9.3 Form of the communication: The communication of material information to the supervisory bodies shall consist of a heading clearly indicating the type of communication: "Material event", "Periodic material event", "Material decision", or "Other notifications", clarifying in the body of the document whether an event or a decision is involved. Notification shall be made in a format that sufficiently guarantees the authenticity and integrity of the notification, and must include the written or electronic signature of one of the Bank's qualified interlocutors.

9.4 Addressees of the material information: The information shall be delivered to the persons designated by the related body as qualified recipients thereof, and sufficient documentary evidence of its presentation is required in all cases.

In the case of reserved information that the supervisory body must keep confidential, special attention must be paid to verifying that delivery is made personally to the officer specifically authorized to receive information of this kind.

9.5 For the purposes of making the regulated notifications described in this Section, the qualified interlocutors with the supervisory bodies shall be the Secretariats of the Boards of Directors of the Group entities. However, these offices may permanently or occasionally empower other executives of the Banco Popular Español, S.A., or of the Group entities to transmit information included in the category of "Other communications".

B.1.27. Is the Secretary of the Board a Director?:

Yes

No

B.1.28 Describe the mechanisms, if any, established by the Bank to safeguard the independence of auditors, financial analysts, investment banks and rating agencies:

Article 30 of the Board Regulations establishes measures to safeguard the independence of the external auditors, and states that the relations of the Board with the Bank's external auditors shall be routed through the Audit and Control Committee.

The Board and this Committee shall vigilantly monitor any situations which may signify a risk for the independence of the Bank's external auditors.

Under the Board Regulations, the Board publicly reports each year the overall amount of the fees paid by the Bank to the audit firm for services other than audit services.

Also, the Board of Directors shall endeavor to definitively formulate the financial statements in such a way as not to give rise to qualifications by the auditors. However, if the Board considers that it should stand by its judgment, it must publicly explain the content and scope of the discrepancy.

As regards rating agencies, the Bank has engaged the services of the three leading international rating agencies, relations with which are handled by the CFO's Department.

- B.1.29. 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>Bank</u>	<u>Group</u>	<u>Bank</u>	<u>Group</u>
Amount (€000) of work other than audit work	385	129	514	
Amount of non-audit work as % of total amount billed by the audit firm	58,5%	16,7%	35,9%	

- B.1.30. State the number of years for which the present audit firm has uninterruptedly audited the financial statements of the Bank and/or its group, and the number of years audited by the present audit firm as a percentage of the total years for which the financial statements have been audited:**

	<u>Bank</u>	<u>Group</u>
Number of uninterrupted years	25	25
Number of years audited by the present audit firm as a % of the years for which audits have been made	92,3%	92,3%

- B.1.31. Detail 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 notified to the Bank; and any office or function which they may perform thereat:**

Director's name or corporate style	Investee's corporate style	% of ownership	Office or functions
Aparicio, Francisco	Banco de Andalucía	0	-
	Banco de Castilla	0	-
	Banco de Crédito Balear	0	-
	Banco de Galicia	0	-
	Banco de Vasconia	0	Representing BPE
Asociación de Dir. BPE	-	-	-
Fernández, Francisco	Banco de Andalucía	0	-
	Banco Popular Hipotecario	-	Director
	Popular Banca Privada	-	Director
	Banco Popular France	-	Director
	Sistemas 4B	-	Chairman
F. de Amorim, Américo	Millenium bcp	0.03	-
	Banco BIC	25	-

Director's name or corporate style	Investee's corporate style	% of ownership	Office or functions
Gancedo, Eric	Banco de Castilla	-	Director
	Banco de Crédito Balear	-	Representing BPE
	Bancopopular-e	-	Chairman
	Banco Popular France	-	Chairman
Herrando, Luis	Banco de Galicia	0	Representing BPE
	Popular Banca Privada	-	Chairman
Molins, Casimiro	-	-	-
Montuenga, Luis	Banco de Andalucía	-	Representing BPE
	Banco de Castilla	0	-
	Banco de Crédito Balear	0	-
	Banco de Galicia	0	Director
Morillo, Manuel	Banco de Vasconia	-	Director
	-	-	-
Nigorra, Miguel	Banco de Andalucía	0.01	-
	Banco de Crédito Balear	7.69	Chairman
Rodríguez, José Ramón	Banco de Castilla	-	Representing BPE
	Banco de Crédito Balear	0.03	-
	Banco de Vasconia	0.01	Chairman
	BancoPopular Hipotecario	-	Chairman
Ron, Ángel	-	-	-
Santana, Vicente	Popular Banca Privada	-	Director
BPE Shareholders Syndicate	-	-	-
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
Viñas, Emilio	-	-	-
Walter, Herbert	Dresdner Bank	-	Chairman
	Allianz AG	-	Director
	Deutsche Börse	-	Director
	B. Portugués do Investimento	-	Director

B.1.32. State and, if appropriate, detail 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 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.1.33. 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 have at their disposal information specifically compiled and orientated for preparation with sufficient time of the Board meetings, with no limitations other than those currently legally and regulatorily imposed with regard to privileged information. The information is provided to Directors a variable time in advance, depending on the specific topic. On ordinary subjects, such as results, the information is constantly updated. On extraordinary topics, it is provided sufficiently in advance to permit study or request for clarification or expansion.

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.

2. 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.

3. 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.1.34. State whether there is third party liability insurance for the Directors.

Yes No

B.2. Committees of the Board of Directors

B.2.1. List the committees:

<u>Name</u>	<u>Number of members</u>	<u>Functions</u>
Executive Committee	8	Delegated to substitute for and assist the Board. See Section B.2.3
Audit and Control Committee	3	To assist the Board in its functions of oversight and control of the company. See Section B.2.3
Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee	4	To assist the Board in its appointment and remuneration functions and to oversee observance of the rules of governance of the Bank. See Section B.2.3
Risk Committee	7	Wide powers for control and analysis of lending and credit transactions. See Section B.2.3

B.2.2. Detail all the committees of the Board of Directors and the members thereof:

EXECUTIVE COMMITTEE

<u>Name</u>	<u>Office</u>
Ron, Ángel	Chairman
Fernández, Francisco	Member
Gancedo, Eric	Member
Herrando, Luis	Member
Montuenga, Luis	Member
Rodríguez, José Ramón	Member
Asociación Profesional de Directivos de BPE (Higuera, Roberto)	Member
Aparicio, Francisco	Secretary

AUDIT & CONTROL COMMITTEE

<u>Name</u>	<u>Office</u>
Rodríguez, José Ramón	Chairman
De Solís, Miguel Ángel	Member
Gancedo, Eric	Secretary

NOMINATION, REMUNERATION, CORPORATE GOVERNANCE AND CONFLICTS OF INTEREST COMMITTEE

<u>Name</u>	<u>Office</u>
Herrando, Luis	Chairman
Gancedo, Eric	Member
Montuenga, Luis	Member
Aparicio, Francisco	Secretary

STRATEGY & INVESTMENTS COMMITTEE

<u>Name</u>	<u>Office</u>
-	-

RISK COMMITTEE

<u>Name</u>	<u>Office</u>
Gancedo, Eric	Chairman
Fernández, Francisco	Member
Herrando, Luis	Member
Montuenga, Luis	Member
Rodríguez, José Ramón	Member
Lucía, José María	Reporter
Aparicio, Francisco	Secretary

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

Executive Committee

The Board of Directors decides the composition of the Executive Committee at any given time and appoints and removes its members. 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 members of the Committee shall vacate office when they cease to be directors.

Ordinary meetings of the Executive Committee are, in principle, held weekly. 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 without any need for subsequent ratification at a full meeting of the Board, although the Committee reports to the Board, at its next meeting, the matters discussed and the decisions adopted at its meetings.

The Board of Directors has currently delegated to the Executive Committee all its powers except those which pursuant to the law and to Article 4.3 of the Board Regulations cannot be delegated.

Audit and Control Committee

The Audit and Control Committee consists of a minimum of three (3) and a maximum of five (5) directors, and its members are appointed by the Board of Directors, taking into account their knowledge and professional experience, or at the proposal of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee. Members of the Committee must in any case resign when they cease to be directors of the Bank.

The Chairman of the Committee and a majority of its members must be non-executive directors. The Board of Directors appoints the Chairman of the Committee from among its members and also appoints its Secretary, who need not be a member of the Committee; in this latter case the Secretary of the Committee may be the Secretary or Deputy Secretary of the Board of Directors.

The term of office of the Committee members is four years and they can be re-elected for successive 4-year periods, except for the Chairman, who can be re-elected after one year has elapsed since he ceased to be Chairman.

The main task of the Audit and Control Committee is to assist the Board of Directors in its functions of vigilance and control of the company by evaluating its system of accounting verification, by verifying the independence of the external auditors and by reviewing the internal control system. The Committee keep the Board of Directors permanently informed about the performance of the functions for which it is responsible.

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 Audit and Control Committee may request the presence at its meetings of the company's auditors, and any members of the management team or of the staff called upon to do so must attend and cooperate thereat. 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.

Approval of the proposals made by the Audit and Control Committee requires the yea votes of a majority of the members present at the meeting, without prejudice to its obligation to inform the Board of Directors of any nay votes.

Without prejudice to other remits that may be assigned to it by the Board, the Audit and Control Committee has the following responsibilities, including those legally incumbent on it:

- a) Informing the Shareholders Meeting about issues raised by shareholders thereat in matters within its sphere of competence.
- b) 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. 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) Supervising the internal audit services.
- d) Serving as a conduit for communication between the Board of Directors and the auditors, evaluating the results of each audit and the responses of the management team to the auditors' recommendations, and mediating in cases of disagreements between the auditors and the management team regarding the principles and criteria applicable in the preparation of the financial statements.
- e) Liaising 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.
- f) Endeavoring to achieve that the financial statements submitted by the Board of Directors to the Shareholders Meeting do not contain any reservations or exceptions in the auditors' report; if this is not possible, the auditors must publicly explain and in particular to the shareholders the content and scope of the disagreements.
- g) Being cognizant of the company's financial reporting process and internal control systems.
- h) Reviewing the company's financial statements keeping a close watch on compliance with the legal requirements and the correct application of generally accepted accounting principles. Monitoring the functioning of the internal financial control procedures and manuals adopted by the company, checking compliance therewith and reviewing the appointment and replacement of those responsible.
- i) Verifying that all the periodic information offered to the markets is prepared in conformity with the professional principles and practices applicable to the annual financial statements, supervising this information before its public dissemination.
- j) Considering 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 reporting and submitting proposals to the Board of Directors about measures which the Committee considers appropriate.

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee consists of a minimum of three (3) and a maximum of five (5) directors, and its members are appointed by the Board of Directors, taking into account their knowledge and professional experience, and are removed by the Board at the proposal of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee. Members of the Committee must resign when they cease to be directors of the Bank.

The Chairman of the Committee and a majority of its members must be non-executive directors. The Board of Directors appoints the Chairman of the Committee from among its members and also appoints its Secretary, who need not be a member of the Committee; in this latter case the Secretary of the Committee may be the Secretary or the Deputy Secretary of the Board of Directors.

The term of office of the Committee members is four years and they can be re-elected for successive 4-year periods, except for the Chairman, who can be re-elected after one year has elapsed since he ceased to be Chairman.

The main task of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee is to assist the Board of Directors in its functions of appointing, re-electing, dismissing and remunerating the directors and the executive management of the company, of endeavoring to insure that the directors receive all the necessary information for the proper performance of their functions, and keeping a close watch on observance of the company's rules of governance and periodically reviewing the results.

The Committee must keep the Board of Directors permanently informed about the performance of the functions for which it is responsible.

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee meets as often as is 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 holds at least two meetings a year and in any case meets whenever the Board requests the issuance of reports, the presentation of proposals or the adoption of resolutions within the sphere of its functions.

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee may request the presence at its meetings of any members of the management team or of the staff called upon to do so, who must attend, cooperating and providing access to information that may be available to them. 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.

Approval of the proposals made by the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee requires the yeas of a majority of the members present at the meeting, without prejudice to its obligation to inform the Board of Directors of any nay votes.

Without prejudice to other remits that may be assigned to it by the Board, the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee has the following responsibilities:

- a) Keeping a close watch on the integrity of the process of selection of directors and senior executives of the Bank, endeavoring to insure 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.
- c) Submitting to the Board of Directors the proposals for appointment, re-election and termination of directors so that the Board may either directly appoint them by co-option or may accept the proposals for submission to the decision of the Shareholders Meeting.
- d) 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.
- e) 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.
- f) 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.
- g) Reviewing the policy of remuneration of directors and of the Bank's executive management, its senior line managers, regional managers and general managers, and proposing to the Board of Directors the measures which the Committee considers most appropriate for the maintenance, correction or improvement of that policy and, in particular, for adjusting it to the principles of moderation and linkage with the earnings of the Bank.
- h) Providing guidance to the new directors, warning them of their legal obligations, informing them of the company's rules of governance, and familiarizing them with the characteristics, situation and environment of the company.

- i) Taking care to insure that the directors receive information of sufficient quantity and quality to enable them to adequately perform their functions.
- j) Endeavoring to detect cases in which the relation of a director to the Bank may negatively affect its functioning or its standing and reputation.
- k) Detecting likewise possible conflicts of interest between the directors or senior executives and the company, monitoring compliance with the obligations of discretion and passivity as well as the duties of confidentiality, diligence and loyalty of the directors and senior executives and, where appropriate, of the significant shareholders.
- l) Taking suitable measures to insure that the Board of Directors approves a soundly based annual report on the rules of corporate governance of the Bank.
- m) Checking compliance with the company's rules of governance and formulating the necessary proposals for improving them.
- n) Setting the policy, control measures and information procedures as regards corporate social responsibility.

Risk Committee

The Risk Committee is chaired, by delegation by the Chairman, by the director Eric Gancedo Holmer, and its members include the members of the Board's Executive Committee. The Group's Risk General Manager participates as reporter. It meets weekly, but may meet more frequently if necessary. In view of this Committee's nature as an open forum for discussion, it occasionally co-opts other directors and executives when the topics for discussion make it advisable to do so.

This Committee analyzes and decides on all risk requests beyond the delegated powers of the organization. In addition to deciding on transactions of special amount proposed by the network, it will permanently evaluate the overall risk assumed by the Group, its sectorial and geographical diversification, and the advisable degree of coverage to safeguard the level of solvency considered, proposing at all times the most appropriate policies for achieving these objectives.

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

<u>Committee</u>	<u>Description</u>
Executive Committee	See Section B.2.3
Audit and Control Committee	See Section B.2.3
Nomination, 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, where 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.

The functions of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee (Article 25 of the Board Regulations) include examining compliance with the Bank's rules of governance and the formulation of the necessary proposals for the improvement thereof.

Based on a prior report from the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, the Board evaluates each year the quality and efficiency of the work of the Committees and discloses the result of its analysis in the corporate governance report.

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

- B.2.6. If there is an Executive Committee describe its degree of delegation and autonomy in the exercise of its functions for the adoption of resolutions about the administration and management of the Bank.**

The Executive Committee presently has delegated to it all the powers of the Board of Directors except those which cannot be delegated by law or by Article 4.3 of the Board Regulations.

- B.2.7. State whether the composition of the Executive Committee reflects the participation in the Board of the various directors depending on their category:**

Yes

No

The composition of the Executive Committee endeavors to reflect the balance existing in the Board of Directors, avoiding inclusion in it of directors who may have business with the Group that could give rise to conflicts of interest.

The Board of Directors currently has seventeen members, of whom four are executive directors, six are domanial directors and seven are independent directors. The Executive Committee has eight members, of whom four are executive directors, one is a domanial director and the remaining three are independent directors. Thus the percentage of independent directors in the Board of Directors is 41% and the percentage in the Executive Committee is 37.5%.

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.

- B.2.8. If there is a Nomination Committee, state whether all its members are external directors:**

Yes

No

The presence of an executive director in the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee is due to the classification as such of the Director and Secretary of the Board who is, together with three other external directors, a member thereof.

C RELATED PARTY TRANSACTIONS

C.1. List the material transactions involving a transfer of resources or obligations between the Bank or its group entities and the Bank's significant shareholders:

Name or corporate style of the significant shareholder	Name or corporate style of the company or entity in its group	Nature of the relationship	Type of transaction	Amount (€000)
-	-	-	-	-

With respect to significant shareholders, the transactions of this kind of Banco Popular during 2006 were confined to those with Allianz which, in any case, were performed on an arm's length basis.

C.2. 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:

Name or corporate style of the director or executive	Name or corporate style of the company or entity in its group	Nature of the relationship	Type of transaction	Amount (€000)
-	-	-	-	-

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, 2006, was €329,453,000, of which €308,842,000 related to credits and loans, €177,000 to finance lease transactions, €4,551,000 to trade discounts, €15,781,000 to guarantees, and €102,000 to credit card balances. The interest rates on the credits and loans ranged from 2.55% to 6.00%, those on finance leases from 3.95% to 5.50%, those on trade discounts from 4.30% to 5.35%, and the quarterly guarantee fees from 0.00% to 2%.

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 2006 Consolidated Financial Statements.

At December 31, 2006, the amount of the direct and indirect risks with the executives listed in Section B.1.9 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.3. 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:

Corporate style of Group entity	Description of transaction	Amount (€000)
-	-	-

None in 2006.

C.4. State the situation of conflicts of interest, if any, involving directors of the Bank, pursuant to Article 127 ter of the Corporations Law.

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.5. 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.

Regarding directors, the Board Regulations state:

“Conflicts of interest: the Directors must notify the Board of any situation of direct or indirect conflict which 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 employees with respect to conflicts of interest.

“5.1 Declaration of links of persons subject hereto.- In order to control and, as far as possible, prevent possible conflicts of interest, the persons subject hereto must permanently have on file with their entity, and keep updated, a declaration on Form OV-2, identifying their economic, family or other links with customers of the entity for services related to the securities market or listed companies.

.....

5.1.3 This declaration must include, in addition to the aforementioned economic and family links, any other links which, in the judgment of an external fair-minded observer, might compromise the impartial behavior of the persons subject hereto. If there is reasonable doubt in this respect, the persons subject hereto should consult the oversight body.

5.2 Avoidance of conflicts of interest.- The persons subject hereto 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.

5.3 Additional information about links of the persons subject hereto. 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.

With regard to the mechanisms in place for possible conflicts of interest with significant shareholders, Article 28 of the Board Regulations states:

“1. 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 equality of treatment of the shareholders and market conditions.

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

With respect to the competences of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, Article 25 of the Board Regulations states:

“m) Detecting also possible conflicts of interest between directors or senior executives and the Bank, insuring fulfillment of the obligations of discretion and passivity and of the duties of confidentiality, diligence and loyalty of the directors and, if appropriate, of the significant shareholders.”

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 financial group, which are conducive to maximization of the risk/profitability concept inherent to credit and market risk and to minimizing the remaining risks (operational, liquidity, interest rate, concentration and other).

The in-house policies, which are known to and applied by all the Group's business areas to achieve integral risk management and control, are set forth in a Policies Manual, approved by the General Management, which vigilantly verifies effective compliance with them.

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 in place risk control systems 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 amount 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.

D.2. State the control systems in place to evaluate, mitigate or reduce the main risks of the company and its group.

The analysis and control systems currently in place are described in the following paragraphs.

Credit risk analysis

Credit risk arises from the 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.

Credit risk analysis

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 is delegated a specific limit of powers for the assumption of 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.

Transactions above the attributions assigned to the CEO are ultimately submitted to the Risk Committee.

Risks with related parties such as transactions with significant shareholders, members of the Board or executive management 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 Risk Committee or the Executive Committee, regardless of the amount involved, for subsequent reporting to the Board of Directors unless they are performed under standardized contracts or with generally stipulated conditions or are of scant amount.

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, loans for businesses, discounts, guarantees and 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 the 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 detail 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 borrower level and for all risks classified by different attributes. This makes it possible to establish mechanisms of special watchfulness about the evolution of 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 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 in 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 and 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 insure 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 regulatorily required. 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.

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.

The Default Analysis and Claim Center is responsible 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.

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. 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.

Determination of market risk limits for the Group is the responsibility of the Risk Committee, at the proposal of the CFO.

In order to adequately manage market risk, the Group has in place a set of instruments: analysis of the interest rate repricing gap with dynamic simulations of the balance sheet; 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; and others.

Liquidity risk monitoring

The Assets and Liabilities Committee (ALCO), as described above, is also responsible for controlling this risk, and for this purpose it has available formal procedures for analyzing and monitoring the Group's overall liquidity, including contingency plans for possible deviations in liquidity due to internal causes or to 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 sublimits by transaction term. It also monitors the Euromarket note program (EMTN) issues and all other transactions in the capital market.

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.

Also, the Group has qualitative tools – risk maps, which are updated annually – to measure the frequency and impact of operational risk and to improve the controls and coverage in the areas of greatest exposure, and is also studying the necessary contingency plans to insure 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 2006 Management Report describes at length the structure and composition of the risks assumed by the Group, the coverage therefor, and the resulting risk quality measures.

D.3. If any of the risks affecting the company and/or its group had materialized, describe the circumstances which caused them and state whether the established control systems have worked.

The risks affecting the Group, which have been extensively described in the preceding paragraphs are assumed as the risks proper to the activities carried out by the Group entities, and the established control systems have functioned adequately during the year.

D.4. State whether there is any committee or other governance body responsible for establishing and supervising these control mechanisms and detail the functions thereof.

Sections D.1 and D.2 describe the collegiate bodies responsible for supervising the Group's risk control systems for all the activities carried out and detail the functions assigned to each of them.

The Audit and Control Committee assists the Board of Directors in its functions of vigilance and control of the Bank by reviewing the internal control and risk management systems for adequate identification, management and reporting of the main risks.

D.5. 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 which conform fully to all current legislation and to the ethical and corporate governance standards applicable in its environment.

E SHAREHOLDERS MEETING

E.1. State the quorums stipulated by the Bylaws for the Shareholders Meeting and describe how they vary from the system of minimum quorums in the Corporations Law.

Article 13 of the Bylaws sets the following quorums for the Shareholders Meeting:

"Article 13

The Shareholders Meeting shall be validly convened at first call if the shareholders present or represented by proxy own at least 25% of the subscribed voting capital stock. At second call the Meeting shall be validly convened regardless of the percentage of capital in attendance.

.....

For a General or Extraordinary Shareholders Meeting to validly adopt a resolution for the issuance of debentures, the increase or reduction of capital, the transformation, merger or spin-off of the company and, in general, any amendment to the Bylaws, there must be present at first call shareholders or proxies owning at least 50% of the subscribed voting capital. At second call, the presence of 25% of said capital shall be sufficient."

The quorums indicated do not diverge in any way from the system of minimum quorums per the Corporations Law.

E.2. Explain how corporate resolutions are adopted, and describe any difference from the system per the Corporations Law.

As regards the majorities needed for the adoption of resolutions by Ordinary and Extraordinary Shareholders Meetings, the Bylaws states that the provisions of the Law shall apply. Accordingly, resolutions shall be adopted by majority of the votes cast.

As an exception, Article 13 of the Bylaws states: *"For an Ordinary and Extraordinary Shareholders Meeting to validly resolve the issuance of debentures, the increase or reduction of capital, the transformation, merger or spin-off of the Bank and, in general, any amendment to the Bylaws when there are present at second call shareholders representing less than 50% of the subscribed voting capital stock, such resolutions can only be validly adopted with the yea vote of two thirds of the capital stock present or represented at the Meeting."*

Article 13 of the Bylaws also states: *"As regards the majorities needed for the adoption of resolutions by Ordinary and Extraordinary Shareholders Meetings,..... if the Meeting has been called at the request of shareholders representing at least 5% of the capital stock, the yea vote of two thirds of the capital stock present or represented by proxy shall be required."*

Except as mentioned in the preceding paragraph, the Bylaws do not include any quorum different from those envisaged in the Corporations Law.

Article 28 of the Shareholders Meeting Regulations establishes the system of voting on resolutions proposed at Shareholders Meetings.

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

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

Following are the main rights of shareholders in respect of Shareholders Meetings:

Right to information. From the date of publication of the notice of the Shareholders Meeting until the seventh day prior to the date set for it, shareholders may request from the Board of Directors such information or clarifications as they consider necessary about the items on the agenda, or may submit in writing such questions as they consider pertinent.

During the course of the Shareholders Meeting, shareholders may orally request whatever information or clarification they consider appropriate about the items on the agenda.

The Board of Directors will provide the information unless, in the opinion of the Chairman, public disclosure of the information requested would prejudice the interests of the Bank. This exception will not apply if the request is supported by shareholders representing at least one fourth of the capital stock.

If the shareholders' right to be informed during the Shareholders Meeting cannot be satisfied, the Board of Directors will furnish the information in writing within seven days from conclusion of the meeting.

Right of attendance. Shareholders Meetings may be attended by shareholders owning at least 0.1% of the capital stock. Shareholders owning less than that percentage may group together in order to reach the stipulated minimum or may arrange to be represented by another shareholder that is entitled to attend.

However, the customary practice is to invite shareholders who express their interest in attending the Shareholders Meeting.

Right to be represented. Shareholders entitled to attend may arrange to be represented at the Shareholders Meeting by another shareholder or by their spouse, ascendants or descendants, or by a person holding a general power of attorney executed in a public instrument who is empowered to administer all the assets of the represented shareholder in Spanish territory.

The representation may be granted by means of remote communication that meet the legally stipulated requirements, pursuant to Article 15 of the Bylaws.

Right to vote and adoption of resolutions. Shareholders present or represented at the meeting may exercise their right to vote on the resolutions proposed to it.

Resolutions at Shareholders Meetings will be adopted by the legally stipulated majorities, on the basis of one vote per share.

Universal participation. Remote voting. The vote on the proposals included on the agenda of any type of Shareholders Meeting may be delegated or cast by the shareholder by mail, electronically, or by any other means of remote communication stipulated by the Bank, provided that the identity of the person exercising his right to vote is duly guaranteed, in the terms set forth in the Shareholders Meeting Regulations and implementing rules approved by the Board of Directors.

The Ordinary Shareholders Meeting on June 24, 2004, empowered the Board of Directors to develop and supplement the regulations on the delegation and exercise of the right to vote by systems of remote communication established in the Shareholders Meeting Regulations, having regard to the technical and legal conditions making it possible, and also to determine, depending on the state and security of the communications, the time from which shareholders might cast their vote by these systems.

In conformity with this empowerment by the Shareholders Meeting, the Board implemented the regulations for delegation of vote and exercise of the remote voting right and, as a result, since then shareholders have been able to exercise their voting right by means of remote communication systems (letter or e-mail) at the Shareholders Meetings that have been held.

The proxy form, containing sufficient information about the matters proposed for adoption by the Shareholders Meeting, is intended to insure the participation of the shareholders, including institutional 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. The completed proxy forms may be handed in at the nearest branch of the Bank or can be sent by post to the Shareholders Office at José Ortega y Gasset 29, 28006 Madrid.

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

Firstly, pursuant to Article 27 of the Board Regulations, it falls to the Board of Directors to determine the appropriate channels for ascertaining the proposals which shareholders may make in connection with management of the Bank. In this respect:

- 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 thereafter.
- 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 some of the principal measures aimed at encouraging the participation of shareholders at Shareholders Meetings:

Approval of Shareholders Meeting Regulations. The Shareholders Meeting Regulations contain rules 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 safeguard 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.

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.

Finally, as indicated in Article 15 of the Shareholders Meeting Regulations, in order to facilitate the most active participation possible of institutional investors and significant direct or indirect shareholders in the formation of the corporate will, the Bank will offer 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.

The questions posed by shareholders were published in a leaflet which, in addition to being widely distributed at the 2006 Shareholders Meeting, as in 2005, is publicly available on the corporate website.

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 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 contains the applicable legally and regulatorily 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) Economic and financial information, including the periodic public information, namely annual, semiannual and quarterly reports, and the presentations to different market players.
- 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.

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 complete contents of all the resolutions proposed to the Shareholders Meeting
- c) all the documentation relating to the proposed resolutions (financial statements, directors' reports, reports of independent experts, etc.)

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.

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 insure 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.

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.

Remote voting. Since the Shareholders Meeting on May 25, 2005, the votes of shareholders on the proposals included on the agenda of any kind of Shareholders Meeting may be delegated or cast by mail or e-mail, provided that the identity of the voter is duly guaranteed, as stipulated in the regulations approved by the Board of Directors, as stated in the notice of the meeting and on the Bank's website.

Information about corporate governance criteria and observance thereof. The Board has drafted since 1998 an annual corporate governance report which 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. The annual reporting documents also include the corporate social responsibility report 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 the Chairman of the Shareholders Meeting is also Chairman of the Board of Directors and, if appropriate, detail the measures to guarantee the independence and sound functioning of the Shareholders 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.

E.6. Describe the changes, if any, in the Shareholders Meeting Regulations in 2005.

At the ordinary Shareholders Meeting on May 31, 2006, the Shareholders Meeting Regulations were amended to adapt them to the changes introduced in the Corporations Law by Law 19/2005 on the European corporation domiciled in Spain, extending to one month the period of publication of the notice of a shareholders meeting and recognizing the right of shareholders to request a supplement to the notice in order to include topics on the agenda, and also with regard to the validity of an ordinary shareholders meeting even if called or held out of time.

The Shareholders Meeting Regulations were also amended to make remote attendance at Shareholders Meeting possible.

E.7. Detail the figures of attendance at the Shareholders Meetings held during the reporting year:

Date of Meeting	% of physically present	<u>Attendance</u>			Total
		% of proxy	% of remote voting		
05-31-2006	6,200%	46,560%	3,595%		56,354%

E.8. Summarize the resolutions adopted at the Shareholders Meetings during the reporting year and the percentage of yea and nay votes and abstentions.

Shareholders Meeting on May 31, 2006:

<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 2005.	98,437%	0,20%	1,35%
Amendment of certain articles of the Bylaws and the Shareholders Meeting Regulations.			
2.1. Amendment of Article 13 of the Bylaws and Article 12 of the Shareholders Meeting Regulations regarding the extension to one month of the period for publication of the notice of the Shareholders Meeting and the right of shareholders to request a supplement to the notice including topics on the agenda.	99,998%	0,001%	0,001%
2.2. Amendment of Article 13 of the Bylaws and Article 11 of the Shareholders Meeting Regulations with regard to the validity of an ordinary Shareholders Meeting even if called or held out of time.	99,287%	0,711%	0,001%
2.3. Amendment of Article 16 of the Bylaws regarding extension of the term of office of directors to six years.	86,625%	13,141%	0,034%
2.4. Amendment of Article 16 of the Bylaws regarding the deputy chairmanship of the Board of Directors.	99,985%	0,004%	0%

<u>RESOLUTIONS ADOPTED</u>	<u>Yea votes</u>	<u>Nay votes</u>	<u>Abstentions</u>
2.5. Inclusion of a new Article 15 bis in the Bylaws and amendment of Articles 12, 13, 14, 18 bis, 24, 26 and 27 of the Shareholders Meeting Regulations, regarding remote attendance at Shareholders Meetings.	99,998%	0,001%	0%
2.6. Amendment of the First Transitory Provision of the Bylaws relating to the chairmanship of Shareholders Meetings and the composition of the presiding panel.	97,808%	1,482%	0,709%
2.7. Repeal of the Second Transitory Provision of the Bylaws relating to the chairmanship of the Bank.	99,287%	0,003%	0,709%
Re-election of auditors for review and legal audit of the financial statements of the Bank and consolidated financial statements.	99,981%	0,19%	0%
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.	99,289%	0,711%	0%
Authorization to the Board of Directors to request the listing or delisting in Spanish or foreign organized secondary markets of the shares, debentures and other securities issued or which may be issued, and to adopt the resolutions required for the trading, continuance and delisting of said securities.	99,997%	0,002%	0%
Report on the policy of remuneration of the Board members, for a vote of a consultative nature.	99,937%	0,061%	0,001%
Information to the Shareholders Meeting about the changes in the Board Regulations.	-	-	-
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.	99,999%	0,001%	0%

E.9. State the number, if any, of shares required for attendance at the Shareholders Meeting and if there is any bylaw restriction.

Per Article 14 of the Bylaws, Shareholders Meetings may be attended by shareholders owning at least 0.1% of the capital stock. 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. This limitation is mitigated by the practice of inviting shareholders that have expressed 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.

Proxy forms include not only the agenda of the Shareholders Meeting but also a specific section for the shareholder to give instructions about his intention of vote.

Finally, the proxy form states that if no voting instructions are given, it will be understood that the vote will be in favor of the proposals submitted by the Board of Directors, and if the shareholder granted the proxy is not expressly stated, it will be understood that the proxy is granted to the Chairman of the Shareholders Meeting or to the presiding officer designated by him.

As regards remote voting, starting with the Shareholders Meeting held on May 25, 2005, the Board of Directors established the possibility of delegating or casting a vote by remote communication systems in accordance with the procedures established by the Bank which were notified to the shareholders in the notice of 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

Per Article 15 of the Shareholders Meeting Regulations, 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 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

IState the level of compliance by the company with current corporate governance recommendations or, if appropriate, those that have not been followed.

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

Until the single document referred to in Order ECO/3722/2003 is prepared, the recommendations in the Olivencia and Aldama reports should be taken as a reference for completing this Section.

In recent years, Banco Popular has endeavored to merge the recommendations of the Aldama and Olivencia Reports so as to inform as accurately as possible about the compliance with these recommendations.

As regards the Unified Good Governance Code published on May 22, 2006, which established a transition period for adoption of its recommendations, this section includes the foreseeable direction of the changes to internal regulations which the Bank plans to address during 2007. In particular, in examining the following recommendations, mention is made of the revision of a series of rules contained in the Board of Directors Regulations.

Recommendation 1. Functions of the Board of Directors

"The Board of Directors should expressly assume as its core mission the general function of supervision, should discharge without delegation the responsibilities that that mission involves and should establish a formal catalog of matters reserved to its cognizance." (Olivencia Code)

The Board of Directors performs its functions with unity of purpose and independence of judgment, extends the same treatment to all the shareholders and is guided by the interest of the company, in the sense of maximizing, in a sustained manner, the economic value of the company, and is vigilant to insure that its relations with stakeholders respect current legislation, that obligations are fulfilled, that customs and good practices are respected, and that generally accepted principles of social responsibility are observed.

As stated in the Board Regulations, the Board of Directors expressly assumes as its core mission the general function of supervision, discharges without delegation the responsibilities that that mission involves and considers that, without interfering in management of the company, the matters which are non-delegable and reserved to its cognizance are as follows:

- approval and supervision of the company's general strategies;
- appointment, remuneration and, if appropriate, dismissal of the company's top executives,
- control of the management activity, evaluation and development of the company's top executives;
- identification of the company's main risks and particularly implementation and monitoring of adequate internal control and reporting systems;
- determination of the policies of information and communication with shareholders, markets and public opinion;
- approval of the policy as regards treasury stock;
- in general, transactions involving the disposition of substantial assets of the company, major corporate transactions and all those specifically stated in the Board Regulations.

During 2007, it is planned to amend Article 5 of the Board Regulations to expressly include the competences of the Board contained in Recommendation 8 of the Unified Code, which have already been adopted in full by the Board as part of its core mission.

Recommendation 2. Independence of the Board of Directors

"The Board of Directors should include a reasonable number of independent directors who are persons of professional prestige not linked to the executive team or to the significant shareholders." (Olivencia Code)

The Bank's Board of Directors, currently consisting of seventeen members, includes four executive directors and thirteen external directors, of whom six are domanial and seven are independent directors, representing more than one third of the total number of directors, specifically 41% of the Board.

Recommendation 3. Composition of the Board of Directors

"The Board of Directors, through the directors, should represent the highest possible percentage of capital stock."

"In the composition of the Board of Directors, the external (domanial and independent) directors should represent an ample majority over the executive directors, and the external directors should include a very significant number of independent directors, having regard to the structure of the company's shareholders and the capital represented on the Board." (Olivencia Code)

In Banco Popular's Board of Directors, the directors not linked to the Bank's executive line constitute an ample majority over the directors who may be considered to be so linked.

In the majority of external directors on the Board there is a very significant share of independent directors, which is responsive to the structure of the company's shareholders and the capital represented on the Board.

In this regard, of the seventeen members of the present Board of Directors, thirteen are external directors, representing 76% of the Board, compared with the executive directors, who represent the remaining 24%. Of the external directors, seven are classified as independent, representing 41% of the Board and 54% of the external directors.

Taking into account the number of shares directly and indirectly held by the directors and of the shares habitually represented by them, the Board of Directors represents 35.59% of the capital stock.

The classification of each director is examined by the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, which submits to the Board of Directors the related proposal for appointment, ratification or re-election by the Shareholders Meeting, and the classification is confirmed or revised annually in the Corporate Governance Report, following verification by this Committee.

Recommendation 4. Size of the Board of Directors

"The Board of Directors should have a reasonable number of members to insure its operativity and the work of each director, and should have at its disposal all the necessary means for optimum and most efficient exercise of its functions, including communication with those responsible for the various business and service areas and, if appropriate, the assistance of external professional practitioners and experts." (Aldama Code)

In a listed company with such a broad shareholder base, the size of the Board should be such as to enable all shareholder sensitivities to be represented on it.

With its present number of seventeen directors, the Bank's Board is of a suitable size for effective and participative functioning so that a significant portion of its shareholders have the possibility of being represented on the Board.

All the directors devote to their function the time and effort necessary to perform it efficiently and, to this end, the Bank is fully aware of their other professional obligations, which in all cases conform to the current legal rules applicable to banks as regards the maximum number of boards of which they may be members, as will be expressly stated in the upcoming reform of the Board Regulations.

Recommendation 5. Deconcentration of power

"If the Board opts to add the office of chairman to that of the CEO of the company, it should adopt the necessary precautions to reduce the risks of the concentration of power in a single person." (Olivencia Code)

The principle of separation of powers has been applied for nearly five decades, underpinning the Bank's structure in its different stages.

Since March 22, 2006, the Bank has had a single Chairman, Ángel Ron Güimil.

As regards executive functions, there is a clear distribution of competences 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 CEO is responsible for commercial banking and the directly related support units, while the Chairman is responsible for the areas whose strategic, institutional or external presence nature so demands. The CEO is also the reporter of the Executive Committee for matters proper to him.

The Board Regulations stipulate that in the event of absence, illness, resignation or impossibility, the Deputy Chairman, or one of them if there are several, shall stand in for the Chairman in the exercise of the powers proper to him and as Chairman of the Board Committees attributed to him. If no deputy chairman has been appointed, or in the event of absence or impossibility of those appointed, the Chairman shall successively be replaced by the Chairman of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee and the Chairman of the Audit and Control Committee, who are independent directors.

The Shareholders Meeting on May 31, 2006, approved the inclusion of an identical provision in Article 16 of the Bylaws.

Recommendation 6. Regulatory guarantee

"The post of Secretary of the Board should be made more prominent, strengthening his independence and stability and highlighting his function of insuring the formal and material legality of the Board's actions." (Olivencia Code)

The Secretary of the Board, as a specialized professional guaranteeing the formal and material legality of the Board's actions, enjoys the full support of the Board in discharging those functions with full independence and stability and is also entrusted with the task of insuring that the Bank's principles and criteria of corporate governance are complied with, that the directors are correctly briefed about matters of their competence and facilitating the proper conduct of Board meetings.

Accordingly, these functions have been performed by a professional lawyer since June 1998 and throughout 2006.

In order to strengthen the proper performance of the functions of the Secretary's department, in 2004 the Board appointed two Deputy Secretaries who may stand in for the Secretary and to whom he may delegate his functions.

The Secretary of the Board is also the secretary of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, which is responsible for overseeing compliance with the Bank's rules of governance and submitting the necessary proposals for improvement thereof.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and termination must be reported on by the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee and approved by a plenary meeting of the Board, in accordance with its regulations.

Recommendation 7. Composition of the Executive Committee

"The composition of the Executive Committee, if there is such a committee, should reflect the same equilibrium as exists in the Board between the different classes of directors, and the relations between the Executive Committee and the Board should be governed by the principle of transparency whereby the Board has full and complete knowledge of the matters dealt with and of the decisions adopted by the Executive Committee." (Olivencia Code)

"The Board of Directors will decide on the composition of the Executive Committee, and it is recommended that, when this committee fully or significantly takes on the faculties of the Board, its composition should be similar to that of the Board as regards the membership in the Committee of the different classes of directors." (Aldama Code)

The Executive Committee endeavors to reflect the equilibrium existing in the Board of Directors. The Board of Directors currently has seventeen members, of whom four are executive directors, six are domanial directors and seven are independent directors. The Executive Committee has eight members, of whom four are executive directors, one is a domanial director and the remaining three are independent directors. Thus the percentage of independent directors in the Board of Directors is 41% and the percentage in the Executive Committee is 37.5%.

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

Recommendation 8. Committees of the Board of Directors

"The Board of Directors should set up standing control committees, consisting exclusively of external directors, to deal with accounting information and control (Audit Committee); selection of directors and senior executives (Nomination Committee); determination and review of the remuneration policy (Remuneration Committee); and evaluation of the system of governance (Compliance Committee)." (Olivencia Code)

The Board of Directors of Banco Popular has the following specialized committees:

1. Executive Committee
2. Risk Committee
3. Special Committees:
 - a) Audit and Control Committee
 - b) Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee

Chapter VI of the Board Regulations sets forth the rules of composition and functioning of the above-mentioned committees. In all cases it falls to the Board to set the number of their members and the appointment thereof, and for

this purpose it should have regard to their knowledge and professional experience in the field of their respective competences. When appointing the chairman of the Audit and Control Committee special regard must be had to his knowledge and experience in accounting, audit and risk management.

Except for the Executive Committee, which is chaired by the Chairman of the Board, the other three committees are chaired by independent directors, although the Chairman of the Risk Committee is appointed by delegation of the Chairman of the Board.

The Audit and Control Committee consists exclusively of independent directors, and the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee is composed of two independent and one external domanial director and, exceptionally, of an executive director because of the inclusion of the Secretary, initially an independent director, in the executive management of the Bank.

The rules of functioning of both committees include the possibility of calling to report to them members of the Group's senior management, other managers and staff, and other advisers or consultants, as appropriate.

Audit and Control Committee

The Audit and Control Committee in performing its supervisory functions uses the services of the Group's internal audit unit, which is responsible for overseeing the operation of the information and internal control systems; the head of internal audit submits a report to the Committee annually on the organization and activities performed and the related work plans.

The competences of the Audit and Control Committee, as set forth in Article 24 of the Board Regulations, include having knowledge of the financial reporting process and internal control systems of the Bank in which the risks faced by the company are identified, and monitoring the internal financial control procedures adopted by the Bank, checking compliance therewith and reviewing the appointment and replacement of those responsible for them, and verifying that all the periodic information furnished to the markets is prepared in conformity with the principles and professional practices applied in the financial statements, supervising such information before its public dissemination.

As regards the Committee's relations with the external auditors, Article 24 of the Board Regulations also includes the competence of the Audit and Control Committee to propose to the Board the appointment, the conditions of engagement, the scope of the professional mandate and, if appropriate, the revocation or non-renewal thereof; to supervise fulfillment of the audit contract, endeavoring to insure that the financial statements do not contain any reservations or qualifications in the auditors' report and, if there were, that the Chairman of the Committee and the auditors should explain to the shareholders the content and scope of such reservations or qualifications; and to receive information about issues potentially jeopardizing the auditors' independence.

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee

Article 25 of the Board Regulations details the competences assigned to the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, which include expressly those of formulating and reviewing the criteria to be followed for the composition of the Board and the selection of candidates, and examining appointments suggested to it by the Chairman or other Board members, evaluating them and reporting on them with objectivity and impartiality so that the Board may act in full knowledge of all the relevant information; and proposing to the Board the policy of remuneration of directors and of the Bank's executive management, and overseeing observance thereof.

It is planned to amend Article 25 of the Board Regulations so as to expressly include the competences relating to succession of the Chairman and the issues of gender diversity.

Recommendation 9. Information to directors

"The necessary measures should be taken to insure that adequate information, specifically prepared and focused on preparing for Board meetings, is available to the directors sufficiently in advance; except in exceptional circumstances, the importance or confidential nature of the information cannot be asserted as a cause of exemption from these measures." (Olivencia Code)

The directors receive specifically prepared and focused information in good time to enable them to prepare on a timely basis for Board meetings, with no limitations other than those imposed by the current legal and regulatory framework covering privileged information. The information is furnished in advance to the directors in a variable period of time depending on the specific matter to be discussed. As regards ordinary matters, such as earnings, the information is continuously updated; as regards extraordinary matters, the information is provided sufficiently in advance to permit its study or to request more data.

Recommendation 10. Frequency of Board meetings

"To insure adequate functioning of the Board, it should meet as often as is necessary to fulfill its mission; the Chairman should encourage the participation of and the untrammelled adoption of positions by all the directors; special care should be taken in drafting the minutes; and the quality and efficiency of the Board's work should be evaluated at least once a year." (Olivencia Code)

The Board meets as frequently as is necessary to effectively perform its functions, following the program of dates and subjects established at the beginning of the year. The Board ordinarily meets at least once each quarter.

The Board met eight times in 2006.

The Chairman assumes the duty of promoting the most active participation by all the directors in the deliberations of the Board and of insuring the free adoption of positions by them, and for this purpose insures that the directors receive in good time before each meeting sufficient information about the matters to be dealt with thereat. It is the responsibility of the Secretary of the Board to draft the minutes in conformity with criteria of clarity, accuracy and completeness.

The Board of Directors evaluates each year the quality and efficiency of its work, and those of the Audit and Control Committee, of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, of the CEO and of the Chairman himself.

Absences of directors are confined to indispensable cases, and representation is customarily conferred with instructions about the topics to be addressed. There were only six absences of directors from Board meetings in 2006.

Recommendation 11. Appointments policy

"The intervention of the Board in the selection and re-election of its members should follow a formal and transparent procedure, starting from a justified proposal submitted by the Nomination Committee" (Olivencia Code)

When the need arises to select a new director or re-elect an existing director, the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee submits a duly justified proposal to the Board so that the latter may either directly co-opt the candidate or accept the proposal for submission to the Shareholders Meeting, in a procedure of complete transparency.

The Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee examined and reported on all the appointments of senior executives in 2006.

Recommendation 12. Protection of external directors against dismissal

"After the domanial or independent directors have been elected by the Shareholders Meeting, the Board should not propose their termination before the end of the bylaw period for which they were appointed, unless there are exceptional and duly justified reasons approved by the Board, with a prior report from the Nomination Committee." (Aldama Code)

Except in absolutely exceptional cases, the Board should not propose to the Shareholders Meeting the termination of the external directors before the end of the bylaw period for which they were appointed.

It is planned to amend the Board Regulations to expressly provide that the Board should not propose the termination of any independent director before the end of his bylaw term of office, unless there is just cause detected by the Board after receipt of a report from the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee.

Recommendation 13. Obligation to resign

"Companies should include in their regulations the obligation for their directors to resign if they may negatively affect the functioning of the Board or the standing or reputation of the company." (Olivencia Code)

Members of Banco Popular's Board of Directors undertake to offer their resignation to the Shareholders Meeting when their continuance in office could adversely affect the running of the Board or the standing and reputation of the Bank or of any of its Group entities.

The domanial directors must also offer their resignation to the Board and, if considered appropriate, submit their formal resignation if and when the shareholder whose interests they represent disposes of its holding in the company.

These two obligations are expressly included in Article 16 of the Board Regulations, the wording of which it is planned to amend with inclusion of the obligation to inform of criminal cases in which the directors face charges, and of the subsequent legal proceedings, in the terms set forth in the Unified Code of Good Governance.

Recommendation 14. Age limit

"Companies that adopt an age limit policy for their directors must set it forth clearly in their internal regulations." (Aldama Code)

Members of Banco Popular's Board of Directors undertake to continue in office for so long as they remain fully in possession of the faculties, capabilities and availability which brought about their election to the Board, or otherwise to resign.

Recommendation 15. Adequate information and advice

"Formal recognition should be given to the right of all directors to request and receive the necessary information and advice for fulfillment of their supervisory functions, and the necessary channels should be established for the exercise of this right, including recourse to external experts in special circumstances." (Olivencia Code)

Each director has the right and the duty to seek and obtain appropriate information and advice for the fulfillment of his duties of supervision, in the broadest terms, and to channel any requests to this effect through the Chairman or the Secretary of the Board, who will directly provide the necessary information, propose appropriate interlocutors or take such measures as may be required for the director to examine the information in situ.

These rights are expressly enshrined in Articles 19 and 20 of the Board Regulations.

As regards training programs for directors, in 2006 monographic sessions of the Board Committees plus senior executives were held dealing with the planning, objectives and achievements of the various internal departments and on corporate issues of interest. Also, the Audit and Control Committee held joint meetings with the Audit Committees of the Group's banking subsidiaries with the presence of the Group's external auditors, to analyze jointly matters within the competence of the directors and of special relevance in the performance of the functions proper to them, such as the impact of the new international accounting standards.

Article 25.4 h) of the Board Regulations assigns to the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee the responsibility for providing guidance to new directors, warning them of their legal obligations, informing them of the company's rules of governance, and familiarizing them with the characteristics, situation and environment of the company.

Recommendation 16. Directors' remuneration

"The policy for directors' remuneration, the proposal, evaluation and review of which should be assigned to the Remuneration Committee, should conform to the criteria of moderation, linkage to the company's earnings and detailed individual disclosure." (Olivencia Code)

The policy on the remuneration of directors conforms to the Bank's traditional criterion of not remunerating the discharge of the office of director.

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.

The annual reporting documents detail the individual remuneration received by the executive directors in 2006, broken down into fixed and variable remuneration, contributions to pension plans and any other allowances received, and the remuneration received by a director as member of the board of another Group company.

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

At the proposal of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, the Board of Directors will review the policy of remuneration of directors, and take whatever measures it considers most appropriate for the maintenance, correction or improvement of that policy and, in particular, for adjusting it, where appropriate, to the principles of moderation and linkage with the earnings of the Bank.

The remuneration of directors, the proposal, evaluation and review of which are performed by the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, is detailed in full for each individual director in the Bank's annual reporting documents and in the annual corporate governance report.

The Group does not have in place any system of remuneration involving the delivery of shares of Group companies, stock options, or any other kind of remuneration linked to the shares.

In conformity with the Recommendation of the European Commission dated December 14, 2004, on the adequate system of remuneration of directors of listed companies, a report on the policy of directors' remuneration was submitted to the shareholders meeting on May 31, 2006, for voting on with a consultative character.

It is planned to amend the Board and Shareholders Meeting Regulations to expressly include the rule that the Board submit for vote at the Shareholders Meeting, as a separate item on the agenda and with a consultative character, a report on the remuneration of directors.

This report must focus on the remuneration policy approved for the year concerned and that for coming years, and include information about the different items of fixed and variable remuneration and pension and insurance arrangements.

It will also be stated that the possible remuneration of external directors be that required to remunerate them for their dedication; that the possible remuneration linked to the company's earnings should take into account possible qualifications in the report of the external auditors; and that the variable remuneration should be linked to the professional performance of the possible beneficiaries.

Recommendation 17. Loyalty of directors

"The internal regulations of the company should detail the obligations arising from the general duties of diligence and loyalty of the directors, with particular emphasis on situations of conflicts of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets." (Olivencia Code)

The annual Corporate Governance Report, the Board Regulations (Articles 17 and 18) and the Internal Regulations of Conduct of the Banco Popular Group in the sphere of the securities markets give details of the obligations arising from the general duties of diligence and loyalty incumbent upon directors and address, in particular, situations of conflicts of interest, the duty to maintain confidentiality, the non-exploitation of business opportunities and the use of company assets.

Recommendation 18. Extension of the duty of loyalty to significant shareholders and senior management

"The Board of Directors should promote the adoption of appropriate measures to extend the duty of loyalty to significant shareholders, establishing in particular precautions for any transactions between them and the company." (Olivencia Code)

The Board of Directors fosters the adoption of appropriate measures to extend to the significant shareholders, whether or not they are on the Board, and to senior management personnel of the Bank the same duty of loyalty, applying maximum transparency and strict control to any transactions between them and the Bank.

In this respect, and pursuant to Article 28 of the Board Regulations, the Board formally reserves to itself cognizance of any direct or indirect transaction between the Bank and a significant shareholder, assuring the equality of treatment of the shareholders and the market conditions.

Recommendation 19. Shareholders Meeting

"When Shareholders Meetings take place, and from the date of notice thereof, the company should communicate the complete contents of all the proposed resolutions to be submitted to the meeting, using for this purpose its own website, regardless of any other legal or voluntary procedure which the company may have." (Aldama Code)

From the date of publication of the notice of a Shareholders Meeting, the following information is disseminated through the corporate website:

- a) the notice
- b) the complete contents of all the resolutions proposed to the Shareholders Meeting
- c) all the documentation relating to the draft resolutions (financial statements, directors' reports, reports of independent experts, etc.)
- d) the procedures in place for voting by remote communication systems.

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, indicating in each case the majorities achieved.

As regards the conduct of the Shareholders Meeting, at that held in May 2006, separate votes were taken on each group of substantially independent articles amending the Bylaws and the Shareholders Meeting Regulations included in the agenda, enabling shareholders to express their opinions separately.

It is planned to propose to the 2007 Shareholders Meeting the amendment of the Shareholders Meeting Regulations to expressly include the following:

- a) Separate votes on matters referring both to the appointment or ratification of directors and to Bylaw amendments.
- b) 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. This rule has been habitually applied at the Bank's Shareholders Meetings.
- c) The inclusion among the competences of the Shareholders Meeting of approval of operations involving a structural modification of the company.

Recommendation 20. Board and Shareholders Meeting regulations

"All companies should have a set of corporate governance rules or criteria, including at least the Shareholders Meeting regulations and the Board of Directors regulations." (Aldama Code)

In 2004, the Shareholders Meeting Regulations were approved stipulating, inter alia, the rules for organization, call, preparation, information, attendance and conduct of such meetings, in order to facilitate exercise by the shareholders of their rights. In that same year, the Board of Directors approved its regulations containing the rules of internal governance and functioning of the Board and its committees.

These Regulations are frequently examined and updated in order to incorporate the most appropriate standards, practices and recommendations with regard to good corporate governance.

Recommendation 21. Transparency of information

"Measures should be adopted to enhance the transparency of the mechanism for proxy voting and to strengthen communications between the company and its shareholders, particularly with institutional investors." (Olivencia Code)

The Bank maintains its habitual policy of transparency of the mechanism for proxy voting and of the Bank's communications with all its shareholders. Shareholders can also obtain extensive information about the progress of the Bank at all times through the Shareholders Office or the Banco Popular website.

The 2004 Ordinary Shareholders Meeting resolved to include in the Bylaws the rules regarding the possibility for shareholders to be represented at Shareholders Meetings by means of remote communication systems and to delegate or exercise their right to vote on proposals included in the agenda by mail, electronically, or by any other means of communication, and their right to information.

At the Shareholders Meeting on May 31, 2006, the shareholders were able to vote by remote communication systems in accordance with the procedures implemented by the Bank which were notified to the shareholders in the notice of the Meeting and on the Bank's website.

As regards communication between the Bank and its shareholders, the Board and Shareholders Meeting Regulations exhaustively detail the mechanisms in place to strengthen such communication.

The shareholders, market players and the general public have had at their disposal since 2004 the leaflet stating the questions most frequently posed by the shareholders and the replies thereto by the Bank.

Numerous briefings were organized in 2006 for institutional investors that are shareholders of the Bank.

Recommendation 22. Full disclosure

"Going beyond the requirements of current legislation, the Board of Directors should take responsibility for providing the markets with swift, precise and reliable information, especially regarding the shareholder structure, substantial changes to the rules of governance, especially relevant transactions with related parties or treasury stock." (Olivencia Code)

Article 29 of the Board Regulations states that the Board of Directors must adopt the necessary measures to guarantee transmission to the financial markets of all the information about the Bank required by current legislation and that deemed to be relevant for investors. In accordance with this principle of transparency, the information furnished must be:

- a) Correct and truthful
- b) Conveyed symmetrically and equitatively
- c) Conveyed in useful time

Also, the Board of Directors supervises that all the information currently required by law from listed companies is provided and specifically the following:

- a) Periodic financial public reporting
- b) All relevant information (events or decisions) by submission to the CNMV of the related notification of material events.
- c) The annual corporate governance report, including the content required by law and by Bylaw, which shall be notified as a material event and published on the Bank's corporate website.

In strict compliance with the requirements of current regulations, in 2006 the Board continued to provide the markets with swift, precise and reliable information regarding the Bank's shareholder structure and modifications to the rules of governance, as well as operations of special significance.

Similarly, and going beyond the requirements of current regulations, the Board provides the markets with detailed information about its policies on social action and sustainability in the Bank's annual corporate social responsibility report.

Recommendation 23. Information on corporate governance matters

"The duties of information about each company's corporate governance structures and practices should be extended and, in general, measures should be adopted to insure the higher quality of the information, consolidating them in a single text published for the general knowledge of shareholders and investors." (Aldama Code)

In addition to the quantitative information (financial and accounting) and that of most immediate impact (significant events), the Bank has published since 1998 an annual Corporate Governance Report and since 2003 an annual Corporate Social Responsibility Report detailing the Group's performance in this sphere.

Recommendation 24. Periodic financial reporting

"All the periodic financial information which, in addition to the annual information, is presented to the markets should be prepared in conformity with the same principles and professional practices as those applied to the annual financial statements and should, before dissemination, be checked by the Audit Committee." (Olivencia Code)

The periodic financial information which, in addition to the annual information, is presented to the markets continues to be prepared in conformity with the same principles and professional practices as those applied to the annual financial statements and, before dissemination, is checked by the Audit and Control Committee.

Recommendation 25. Information through the Internet

"Companies should have a website through which information can be provided to shareholders, investors and the market in general about financial matters and all other significant facts concerning the company, so as to facilitate the participation of shareholders in exercising their right to be informed and, if appropriate, their other corporate rights." (Aldama Code)

The Bank has a corporate website, www.bancopopular.es, which provides information of a financial nature and about all matters relating to corporate governance.

On the website interested parties can access the annual corporate governance and corporate social responsibility reports, the bylaws of the Bank, the names of shareholders with significant shareholdings and their representation on the Board of Directors, the composition of the Board of Directors and of its Committees, and the shareholdings of Board members.

They can also consult the quarterly reports during the year and the annual reports for recent years, and the information contained in the presentations made to market operators and the significant events notified to the markets in recent years.

Finally, they can consult the notices and agendas of Shareholders Meetings, the resolutions proposed to the meetings and the resolutions finally adopted, and the questions raised and proposals made by the shareholders.

The website also includes documents and reports forming part of the Bank's corporate culture, such as the Style Guide, the report on incidents of the year, and the document containing the questions raised by shareholders at the Shareholders Meetings.

Recommendation 26. Independence of external auditors

"The Board of Directors and the Audit Committee should pay close attention to situations which may signify risk for the independence of the company's external auditors and, specifically, they should check the percentage that the fees paid under all headings represent in the total revenues of the audit firm and publicly disclose the fees relating to professional services other than audit services." (Olivencia Code)

Article 30 of the Board Regulations states that the relations of the Board with the external auditors shall be routed through the Audit and Control Committee, and the Board and this Committee should give careful attention to situations potentially involving a risk for the independence of the Bank's external auditors.

The Board of Directors and the Audit and Control Committee used a series of channels in 2006 to maintain the independence of the external auditors.

The Committee thus requested the attendance at several of its meetings of the practitioners responsible for auditing the Group entities and it was confirmed that the fees paid to the external auditors by the Bank and Group entities under all headings did not represent a significant percentage - in any case considerably below 10% - of the total revenues of the

audit firm, which is one of the biggest in the world. Fees relating to periodic or habitual professional services other than auditing, paid to practitioners or companies directly or indirectly related to the audit firm, were also verified not to have reached a significant level, nor to have affected at any time either the Bank's strategy or general planning.

The Board of Directors publicly discloses each year the total fees paid by the Bank to the audit firm for non-audit services.

Recommendation 27. Accounting quality

"The Board of Directors should endeavor to avoid the inclusion in the financial statements prepared by it and submitted to the Shareholders Meeting of reservations and qualifications in the auditors' report and, if this is not possible, both the Board and the auditors should clearly explain to the shareholders and the markets the content and scope of the disagreements." (Olivencia Code)

The Board of Directors endeavors, by itself and through the Audit and Control Committee, to insure that the accounts it prepares are not presented to the Shareholders Meeting with reservations and qualifications in the auditors' report. During the meetings with the external auditors an exhaustive review was requested of various areas in the accounts in order to evaluate the quality of the effort applied in examining them.

Recommendation 28. Continuity

"The Board of Directors should include in its public annual report information about its rules of governance, justifying any which do not conform to the recommendations of this Code." (Olivencia Code)

The Board of Directors complies with this recommendation in the annual corporate governance report.

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 section may also include any other information, clarification or nuance relating to previous sections of the report, provided that they are relevant and non-reiterative.

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.

This Annual Corporate Governance Report was approved by the Board of Directors of the Bank at its meeting on February 21, 2007.

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