



Corporate Governance
Report 2004

The corporate culture of Banco Popular Español, the fruit of a tradition firmly based on years of experience and on a set of customs, knowledge and ways of acting 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, customers and analysts to have an even more direct and transparent knowledge of the corporate policy. From the outset, this report has been drafted in line with the systematic structure of the Olivencia Report, to which was added in 2003 the structure derived from the Aldama Report.

The 2004 Corporate Governance Report conforms in format and content to the model approved by Circular 1/2004 of the Spanish Securities and Exchange Commission.

BANCO POPULAR ESPAÑOL, S.A.

CORPORATE GOVERNANCE REPORT FOR 2004

A STRUCTURE OF OWNERSHIP

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

| <u>Date of last change</u> | <u>Capital (€)</u> | <u>Number of shares</u> |
|----------------------------|--------------------|-------------------------|
| 05-27-2003 | 113,693,254 | 227,386,508 |

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:

| <u>Shareholder's name or corporate style</u> | <u>Number of directly-owned shares</u> | <u>Number of indirectly owned shares (*)</u> | <u>Total % of capital stock</u> |
|--|--|--|---------------------------------|
| Allianz Aktiengesellschaft Holding | | 20,651,132 | 9.08 |
| Topbreach Holding, B.V. | 12,227,277 | | 5.38 |

(*) Through:

| <u>Shareholder's name or corporate style</u> | | |
|---|--|---------------------------|
| ALLIANZ AKTIENGESELLSCHAFT HOLDING | | |
| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> | <u>% of capital stock</u> |
| AGF International, S.A. | 4,796,000 | 2.11 |
| Ras Internacional, N.V. | 4,796,000 | 2.11 |
| Dresdner Bank, A.G. - Frankfurt | 9,000,000 | 3.96 |
| Allianz, Cia de seguros y reaseguros | 2,038,132 | 0.89 |
| Allianz Variable, FIM | 21,000 | 0.01 |
| Total: | 20,651,132 | 9.08 |

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

| <u>Shareholder's name or corporate style</u> | <u>Transaction date</u> | <u>Transaction description</u> |
|--|-------------------------|------------------------------------|
| - | - | - |

A.3. Complete the following tables on directors of the company that own shares of the company :

| <u>Director's name or corporate style</u> | <u>Date of first appointment</u> | <u>Date of latest appointment</u> | <u>Number of directly owned shares</u> | <u>Number of indirectly owned shares (*)</u> | <u>Total % of capital stock (1)</u> |
|---|--------------------------------------|---------------------------------------|--|--|---|
| Aparicio, Francisco | 12-18-2003 | 6-24-2004 | 3,450 | 0 | 0.00 |
| Asociación de Directivos de BPE | 11-27-1980 | 6-24-2004 | 6,000 | 0 | 0.00 |
| Fernández, Francisco | 10-19-2004 | 10-19-2004 | 100 | 0 | 0.00 |
| Ferreira de Amorim, Americo | 5-27-2003 | 6-24-2004 | 100 | 12,227,277 | 5.38 |
| Gancedo, Eric | 6-20-2002 | 6-24-2004 | 45,800 | 27,240 | 0.03 |
| Herrando, Luis | 6-21-2001 | 6-24-2004 | 750 | 800 | 0.00 |
| Molins, Casimiro | 11-24-1987 | 6-24-2004 | 4,400 | 92,000 | 0.04 |
| Montuenga, Luis | 12-1-1987 | 6-24-2004 | 16,440 | 0 | 0.01 |
| Morillo, Manuel | 6-23-1999 | 6-24-2004 | 10 | 0 | 0.00 |
| Nigorra, Miguel | 12-19-1974 | 6-24-2004 | 43,488 | 44,800 | 0.04 |
| Rodríguez, José Ramón | 12-1-1987 | 6-24-2004 | 5,000 | 613,650 | 0.27 |
| | Director | | | | |
| | 3-14-2002, | | | | |
| Ron, Ángel | Chairman | 10-19-2004 | 40 | 0 | 0.00 |
| | 10-19-2004 | | | | |
| Santana, Vicente | 5-27-2003 | 6-24-2004 | 2,200 | 264,628 | 0.12 |
| Sindicatura de Accionistas de BPE | 6-28-1988 | 6-24-2004 | 1,564,184 | 17,593,431 (2) | 8.43 |
| Solís, Miguel Ángel | 12-18-1996 | 6-24-2004 | 147,337 | 19,622 | 0.07 |
| Termes, Rafael | 6-30-1964 | 6-24-2004 | 4,000 | 161,733 | 0.07 |
| | Director | | | | |
| | 7-14-1966, | | | | |
| Valls, Javier | Chairman | 6-24-2004 | 62,750 | 21,310 | 0.04 |
| | 4-25-1989 | | | | |
| Viñas, Emilio | 5-27-2003 | 6-24-2004 | 12,511 | 297,000 | 0.14 |
| Walter, Herbert | 4-20-2004 | 6-24-2004 | 100 | 0 | 0.00 |

(1) This table does not include the shares habitually represented by Board members amounting to approximately 19.56% of the capital stock; this percentage includes most notably the 9.08% of capital stock, corresponding to shares owned by Allianz, AG, represented by the Director Herbert Walter.

(2) The indirectly owned shares are net of 5,324,400 syndicated shares which are direct, indirect and represented holdings of other directors.

(*) Through:

Director's name or corporate style

Americo Ferreira de Amorim

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Topbreach Holding, B.V. | 12,227,277 |
| Total: | 12,227,277 |

Director's name or corporate style

Eric Gancedo Holmer

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Brunoseta, S.L. | 20,000 |
| Los Prunos del Seto, S.L. | 1,000 |
| Familia Gancedo | 6,240 |
| Total: | 27,240 |

Director's name or corporate style

Luis Herrando Prat de la Riba

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Carmen Deprit Navea | 800 |
| Total: | 800 |

Director's name or corporate style

Casimiro Molins Ribot

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Inversora Pedralbes, S.A. | 92,000 |
| Total: | 92,000 |

Director's name or corporate style

Miguel Nigorra Oliver

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| MNCC International, S.A.R.L. | 36,000 |
| Corona Cobian Otero | 8,800 |
| Total: | 44,800 |

Director's name or corporate style

José Ramón Rodríguez García

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Bairsa, S.A. | 610,000 |
| M ^a Luisa Igartua Narvaiza | 3,650 |
| Total: | 613,650 |

Director's name or corporate style

Vicente Santana Aparicio

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Complector, S.L. | 264,628 |
| Total: | 264,628 |

Director's name or corporate style

SINDICATURA DE ACCIONISTAS DE BPE

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Numerous individual investors | 17,593,431 |
| Total: | 17,593,431 |

Director's name or corporate style

Miguel Ángel de Solís Martínez Campos

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Guelmisa, S.L. | 19,537 |
| Enrique de Solís Tello | 85 |
| Total: | 19,622 |

Director's name or corporate style

Rafael Termes Carrero

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Fomento de Fundaciones | 161,733 |
| Total: | 161,733 |

Director's name or corporate style

Javier Valls Taberner

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Luis Javier Valls Taberner Muls | 2,436 |
| Cristina Valls Taberner Muls | 10,674 |
| Cristina Muls Delassue | 8,200 |
| Total: | 21,310 |

Director's name or corporate style

Emilio Viñas Barba

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| Amplector, S.L. | 289,000 |
| Posesor, S.L. | 8,000 |
| Total: | 297,000 |

Total % of capital stock held by the Board of Directors
14.63%(*)

(*) This percentage does not include the shares habitually represented by Board members amounting to approximately 19.56% of the capital stock; this percentage includes most notably the 9.08% of capital stock corresponding to shares owned by Allianz, AG. The total capital stock represented by the Board of Directors, taking into account the direct, indirect and habitually represented shares, would amount to 34.20%.

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

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

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.

None.

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

| <u>Related entity's name or corporate style</u> | <u>Type of relationship</u> | <u>Brief description</u> |
|--|-----------------------------|---|
| 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:

| <u>Parties to the pact</u> | <u>% of capital stock affected</u> | <u>Brief description of the pact</u> |
|----------------------------|------------------------------------|--------------------------------------|
| - | - | - |

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

| <u>Parties to the pact</u> | <u>% of capital stock affected</u> | <u>Brief description</u> |
|----------------------------|------------------------------------|--------------------------|
| - | - | - |

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

Not applicable

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:

| <u>Number of directly owned shares</u> | <u>Number of indirectly owned shares (*)</u> | <u>Total % of capital stock</u> |
|--|--|---------------------------------|
| 94,818 | 0 | 0.0417 |

(*) Through:

| <u>Name or corporate style of direct owner of the holding</u> | <u>Number of directly owned shares</u> |
|---|--|
| - | - |
| Total: | - |

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

| <u>Date</u> | <u>Number of directly owned shares</u> | <u>Number of indirectly owned shares</u> | <u>Total % of capital stock</u> |
|-------------|--|--|---------------------------------|
| - | - | - | - |

Results on treasury stock transactions during the year:

(€ thousand)
417

A.9. Detail the conditions and the period(s) of the authorizations 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 2004 described in the preceding section were made pursuant to the following authorizations of the Shareholders Meeting to the Board of Directors.

1.- The Ordinary and Extraordinary Shareholders Meeting on June 26, 2003, adopted the following resolution included in the agenda:

"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 restrictive 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 minimum and maximum acquisition prices do not exceed a 20% reduction or increase in the market price at the Stock Exchange session on the day of purchase.

This authorization, which is granted for the maximum legal period, is understood to be without prejudice to 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.

This authorization includes and supersedes that granted by the Ordinary and Extraordinary Shareholders Meeting on June 20, 2002."

2.- The Ordinary and Extraordinary Shareholders Meeting on June 24, 2004, adopted the following resolution included in the agenda:

"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 restrictive 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 minimum and maximum acquisition prices do not exceed a 20% reduction or increase in the market price at the Stock Exchange session on the day of purchase.

This authorization, which is granted for the maximum legal period, is understood to be without prejudice to 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.

This authorization includes and supersedes that granted by the Ordinary and Extraordinary Shareholders Meeting on June 26, 2003."

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 14 of the Bylaws states:

"Article 14.- 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."

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.

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:

| <u>Director's name or corporate style</u> | <u>Representative</u> | <u>Board office</u> | <u>Date first appointed</u> | <u>Date of latest appointment</u> | <u>How elected</u> |
|---|--------------------------|-------------------------|--|-----------------------------------|----------------------|
| Aparicio, Francisco | | Secretary | 12-18-2003 | 6-24-2004 | Shareholders Meeting |
| Asociación de Directivos de BPE | José M ^a Sanz | Director | 11-27-1980 | 6-24-2004 | " |
| Fernández, Francisco | | Chief Executive Officer | 10-19-2004 | 10-19-2004 | Board of Directors |
| Ferreira de Amorim, Americo | | Director | 5-27-2003 | 6-24-2004 | Shareholders Meeting |
| Gancedo, Eric | | Director | 6-20-2002 | 6-24-2004 | " |
| Herrando, Luis | | Director | 6-21-2001 | 6-24-2004 | " |
| Molins, Casimiro | | Director | 11-24-1987 | 6-24-2004 | " |
| Montuenga, Luis | | Director | 12-1-1987 | 6-24-2004 | " |
| Morillo, Manuel | | Director | 6-23-1999 | 6-24-2004 | " |
| Nigorra, Miguel | | Director | 12-19-1974 | 6-24-2004 | " |
| Rodríguez, José Ramón | | Director | 12-1-1987 | 6-24-2004 | " |
| Ron, Ángel | | Chairman | Director 3-14-2002, Chairman 10-19-2004 | 10-19-2004 | " |
| Santana, Vicente | | Director | 5-27-2003 | 6-24-2004 | " |
| Sindicatura de Accionistas de BPE | José María Mas | Director | 6-28-1988 | 6-24-2004 | " |
| Solís, Miguel Ángel | | Director | 12-18-1996 | 6-24-2004 | " |
| Termes, Rafael | | Director | 6-30-1964 | 6-24-2004 | " |
| Valls, Javier | | Chairman | Director 7-14-1966, Chairman 4-25-1989 | 6-24-2004 | " |
| Viñas, Emilio | | Director | 5-27-2003 | 6-24-2004 | " |
| Walter, Herbert | | Director | 4-20-2004 | 6-24-2004 | " |

Total number of directors **19**

Directors who left the Board during the year:

| <u>Director's name or corporate style</u> | <u>Date of departure</u> |
|---|--------------------------|
| Breipohl, Diethart | 04-20-2004 |
| Valls, Luis (*) | 10-19-2004 |

(*) At the Board Meeting of Banco Popular on October 19, 2004, Luis Valls submitted his resignation as a director and Chairman of the Board of Directors. He had been a director of the Bank since 1957 and had occupied the offices of Executive Deputy Chairman (1957-1972), Chairman (1972-1989) and Co-Chairman (1989-2004). He remains as Chairman of the Shareholders Meeting.

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

INTERNAL DIRECTORS

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> | <u>Office in the company's organization chart</u> |
|---|--|---|
| Valls, Javier | Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee | Chairman of the Supervisory Board |
| Ron, Ángel | " | Chairman |
| Fernández, Francisco | " | CEO |
| Asociación de Directivos de BPE | " | Director |

EXTERNAL DOMANIAL DIRECTORS

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> | <u>Name or corporate style of the significant shareholder represented or that proposed appointment to the Board</u> |
|---|--|---|
| Ferreira de Amorim, Americo | Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee | Topbreach Holding, B.V. |
| Gancedo, Eric | " | |
| Molins, Casimiro | " | |
| Montuenga, Luis | " | |
| Sindicatura de Accionistas de BPE | " | |
| Walter, Herbert | " | Allianz Group |

EXTERNAL INDEPENDENT DIRECTORS

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> | <u>Profile</u> |
|---|--|--|
| Aparicio, Francisco | Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee | Lawyer In practice since 1979, currently partner in the international law firm Pinsent Masons, at which he manages the mercantile law department. |
| Herrando, Luis | " | Doctorate in industrial engineering and economics degree. Worked first at Babcock & Wilcox; joined Induban (Banco Vizcaya) in 1967. 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, which has a 0.73% shareholding in the Bank and of the Fundación de la Escuela de Ingenieros de Bilbao. Chairman of Popular Banca Privada and director of Banco de Galicia representing Banco Popular. |

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> | <u>Profile</u> |
|---|--|---|
| 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; currently chairman of the Carmen y M ^a José Godó Foundation, one of the leading welfare institutions in Spain (which has a 0.33% holding in the Bank). Significantly involved in welfare projects in cooperation with the Catalunya Autonomous Government and the Spanish Government. |
| Nigorra, Miguel | “ | Businessman and professional Qualified Property Registrar; apart from posts in the Group, has been active in public bodies (Palma de Mallorca Harbor Works Board) and in companies (Mare Nostrum and Inmobiliaria Urbis); chairman of Banco de Crédito Balear and of Habitat Golf Santa Ponsa, S.L., since 1970. |
| Rodríguez, José Ramón | “ | Engineer and businessman Apart from professional practice as a civil engineer, has been an executive and director of textile, food and construction companies; chairman of the Board of Directors of Banco de Vasconia and Banco Popular Hipotecario, and representative of Banco Alcalá on the Board of Banco de Crédito Balear. |
| Santana, Vicente | “ | 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. Director of Popular Banca Privada. |
| Solís, Miguel A.de | “ | Businessman Very active business involvement, particularly in the property, agriculture/livestock and tourism industries; chairman of Banco de Andalucía and director of Banco de Crédito Balear and Banco de Vasconia; represents the Solís family group which has a 0.91% shareholding in the Bank. |

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> | <u>Profile</u> |
|---|--|--|
| Termes, Rafael | Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee | Academician; doctorate in industrial engineering from Barcelona university and honorary doctorate from Universidad Francisco Marroquín, Guatemala. Full member of the Royal Academy of Moral and Political Sciences and of the Royal Academy of Economic and Financial Sciences; honorary chairman of the Spanish Institute of Financial Analysts; faculty member at IESE since 1958 and director of its Madrid Center from 1991, and subsequently Honorary Chairman. A Board member since 1964 and managing director from 1966 to 1977; chairman of the Spanish Private Banking Association from 1977 to 1990. |
| Viñas, Emilio | " | 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. |

OTHER EXTERNAL DIRECTORS

| <u>Director's name or corporate style</u> | <u>Appointment proposed by</u> |
|---|--------------------------------|
| - | - |

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.

| <u>Director's name or corporate style</u> | <u>Date of change</u> | <u>Previous classification</u> | <u>Present classification</u> |
|---|-----------------------|--------------------------------|-------------------------------|
| - | - | - | - |

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 in Article 6 of the Board Regulations which states:

"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) Domanial 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 domanial 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 <u>corporate style</u> | <u>Description</u> |
|--|--------------------|
| Ron Güimil, Ángel | Chairman |
| Fernández Dopico, Francisco | CEO |

Without prejudice to the higher hierarchical status of the Chairman and of the differing competential scope of action, each of the above may exercise their powers jointly and severally.

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 establishment 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:

| <u>Director's name or corporate style</u> | <u>Name of Group company</u> | <u>Office</u> |
|---|------------------------------|--|
| Fernández, Francisco | Banco Popular France | Director |
| | Banco Popular Hipotecario | Director |
| Gancedo, Eric | Banco de Castilla | Representative of the Director BPE |
| | 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 |
| Nigorra, Miguel | Banco de Vasconia | Representative of the Director BPE |
| | Banco de Crédito Balear | Chairman |
| Rodríguez, José Ramón | Banco de Vasconia | Chairman |
| | Banco de Crédito Balear | Representative of the Director Banco Alcalá |
| Ron, Ángel | Banco Popular Hipotecario | Chairman |
| | Popular Banca Privada | Director |
| Santana, Vicente | Popular Banca Privada | Director |
| | Banco de Andalucía | Chairman |
| Solís, Miguel Ángel | 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.

| <u>Director's name or corporate style</u> | <u>Listed company</u> | <u>Office</u> |
|---|------------------------------------|---------------|
| Molins, Casimiro | Cementos Molins, S.A. | Chairman |
| | Popularinsa, S.A. | Director |
| Montuenga, Luis | Popularinsa, S.A. | Chairman |
| | Unión Europea de Inversiones, S.A. | Chairman |

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

a) At the reporting company:

| <u>Heading</u> | <u>Thousands of euros</u> |
|--|---------------------------|
| Fixed remuneration | 2,016 |
| Variable remuneration | 550 |
| Per diems | 0 |
| Directors' fees | 0 |
| Stock options and/or other financial instruments | 0 |
| Other | 0 |
| TOTAL: | 2,566 |

| <u>Other benefits</u> | <u>Thousands of euros</u> |
|--|---------------------------|
| Advances | 0 |
| Loans granted | 15,860 |
| Pension plans and funds: Contributions | 2,760 |
| Pension plans and funds: Commitments incurred | 0 |
| Life insurance premiums | 5.20 |
| Guarantees provided by the company to directors | 0 |

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

| <u>Heading</u> | <u>Thousands of euros</u> |
|--|---------------------------|
| Fixed remuneration | 0 |
| Variable remuneration | 0 |
| Per diems | 0 |
| Directors' fees | 56 |
| Stock options and/or other financial instruments | 0 |
| Other | 0 |
| TOTAL: | 56 |

| <u>Other benefits</u> | <u>Thousands of euros</u> |
|--|---------------------------|
| Advances | 0 |
| Loans granted | 792 |
| Pension plans and funds: Contributions | 0 |
| Pension plans and funds: Commitments incurred | 0 |
| Life insurance premiums | 0 |
| Guarantees provided by the company to directors | 832 |

c) Total remuneration by type of director:

| <u>Type of director</u> | <u>By company</u> | <u>By group (€ thousand)</u> |
|-------------------------|-------------------|------------------------------|
| Executive | 2,566 | 0 |
| External domanial | 0 | 0 |
| External independent | 0 | 56 |
| Other external | 0 | 0 |
| Total | 2,566 | 56 |

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

| | |
|--|-------|
| Total remuneration of directors (€ thousand) | 2,622 |
| Total remuneration of directors as % of parent company attributed income | 0.33% |

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:

| <u>Name</u> | <u>Position</u> |
|-------------------------------------|-----------------------------|
| Jesús Arellano Escobar | Commercial & Retail Banking |
| Santiago Berrocal Enriquez | Specialized Financing |
| Juan Echanojáuregui Soloaga | Investor Relations |
| Amadeu Font Jorba | International Business Unit |
| Roberto Higuera Montejo | Chief Financial Officer |
| Julio Hortigüela Ayuso | Asset Management |
| José María Lucía Aguirre | Credit & Risk |
| José Luis Manso Zorzo | Human Resources |
| Luis Felipe Marcos García | Regulatory Compliance |
| Rafael de Mena Arenas | Technical Secretary |
| Eutimio Morales López | Control & Audit |
| Tomás Pereira Pena | Legal Counsel |
| Antonio Ramírez Parrondo | Corporate Development |
| Ernesto Rey Rey | Treasury |
| Ángel Rivera Congosto | Human & Technical Resources |
| Rafael Roca García | Controller |
| Pablo Romero Moreno-Manzanaro | Commercial Mortgage Unit |
| Francisco Sancha Bermejo | Sales & Marketing |
| José Sartorius Álvarez de Bohorques | International Activities |
| Fernando de Soto López-Doriga | Corporate Affairs |
| Francisco Javier Zapata Cirugeda | Corporate Counsel |

Total remuneration of members of senior management (€000) 4,493.57

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 | - | | |
| | <u>Board of Directors</u> | <u>Shareholders Meeting</u> | |
| 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, amended at the Shareholders Meeting on June 24, 2004, states:

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

"At the proposal of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee, the Board of Directors shall review the aforementioned policy of directors' remuneration, adopting such measures as it deems appropriate for the maintenance, correction or improvement thereof and, in particular, to conform it, in cases where it may be appropriate to do so, as stated in the preceding paragraphs, to the principles of moderation and relation to the earnings of the Bank.

The remuneration in such appropriate cases 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 concerned. The annual report, as an integral part of the accounts for the year, shall contain such information as is considered appropriate. In any case, the annual corporate governance report shall disclose the overall remuneration of the Board of Directors under the headings stated in the first paragraph. 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.

| <u>Director's name or corporate style</u> | <u>Corporate style of significant shareholder</u> | <u>Office</u> |
|---|---|---------------|
| Herbert Walter | Allianz, A.G. | Director |

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

| <u>Director's name or corporate style</u> | <u>Corporate style of significant shareholder</u> | <u>Description</u> |
|---|---|-------------------------|
| Américo Ferreira de Amorim | Topbreach Holding, B.V. | Controlling shareholder |

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

None in 2004

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

These procedures are regulated basically in Article 16 of the Bylaws and Articles 14, 15 and 16 of 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

In any case, 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.

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) Domanial 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 domanial 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 insuring their impartiality and objectivity of judgment.

These conditions include the following:

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, without prejudice to the requirement for them to offer their resignations each year at the Shareholders Meeting. 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

The flexibility of the structure and the fluidity of information, together with nimbleness in decision making, are characteristics of Banco Popular.

The principle of strict separation of powers has been applied for nearly five decades, inspiring the structure of the Bank in its successive stages.

At present, following the changes in 2004, the Bank has two chairmen: Javier Valls Taberner, Chairman of the Supervisory Board, who has no executive functions, and Ángel Ron Güimil, Chairman of the Executive Committee. They replace each other in the event of absence or illness.

Despite the aforementioned situation, Javier Valls is classified as an internal director in Section B.1.3 since he receives a salary and acts professionally exclusively for the Bank.

As regards executive functions, a broad range of faculties is assigned to the Chairman of the Executive Committee and to the CEO, Francisco Fernández Dopico.

The Chairman of the Bank chairs the Executive Committee and the Credit Committee. The CEO is the reporter of the Executive Committee, of which he is a member, for matters proper to him.

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 of the Bank.

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:

| Type of resolution | Adoption of resolutions Quorum | Type of majority |
|---|-----------------------------------|------------------|
| <u>Quorum of attendance</u> | | |
| Article 16 of the Bylaws states: | | |
| <i>"The Board of Directors shall be validly convened when those present or represented at the meeting constitute half plus one of its members."</i> | | |
| Article 12 of the Board Regulations states: | | |
| <i>"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."</i> | | |
| <u>Quorum for adoption of resolutions</u> | | |
| Article 16 of the Bylaws states: | | |
| <i>"Resolutions shall be adopted by absolute majority of the Directors present."</i> | | |
| Article 12 of the Board Regulations states: | | |
| <i>"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."</i> | | |
| Article 21 of the Bylaws states: | | |
| <i>"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."</i> | | |
| Article 10 of the Board Regulations states: | | |
| <i>"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."</i> | | |

Finally, Article 12 of the Board Regulations states:

"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 directors -

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 has met during the year, and also, if appropriate, how often the Board met without the attendance of its Chairman:

| | |
|---|---|
| Number of Board meetings | 5 |
| Number of Board meetings in the absence of the Chairman | 0 |

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

| | |
|---|----|
| Meetings of the Executive Committee | 46 |
| Meetings of the Audit Committee | 4 |
| Meetings of the Nomination and Remuneration Committee | 15 |
| Meetings of the Strategy & Investments Committee | |
| Meetings of the Credit Committee | 47 |

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

Yes No

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 and 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 states:

"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.

Article 29 of the Board Regulations establishes the measures to insure that the information furnished to the markets is conveyed equitatively and symmetrically.

In this respect, 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 Spanish Securities and Exchange Commission of the related notification of material events.
3. 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.

Also, Section 9 of 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. Material 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. *Material information, either extraordinary or periodic, must be immediately disseminated to the market by notification to the Spanish Securities & Exchange Commission. Notification to the Spanish Securities & Exchange Commission 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 of 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 so immediately inform the Spanish Securities & Exchange Commission 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.

This article 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.

One of the mechanisms included in Article 30 of the Board Regulations makes it obligatory for the Board to publicly report each year the overall amount of the fees paid by the Bank to the audit firm for services other than audit.

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 Financial Management 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 | 73 | 108 | | |
| Amount of non-audit work as % of total amount billed by the audit firm | 6.9% | 10.4% | | |

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 | 23 | 23 |
| Number of years audited by the present audit firm as a % of the years for which audits have been made | 91.5% | 91.5% |

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.

| <u>Director's name or corporate style</u> | <u>Investee's corporate style</u> | <u>% of ownership</u> | <u>Office or functions</u> |
|---|-----------------------------------|-----------------------|----------------------------|
| Aparicio, Francisco | Banco de Andalucía | 0 | - |
| | Banco de Castilla | 0 | - |
| | Banco de Crédito Balear | 0 | - |
| | Banco de Galicia | 0 | - |
| | Banco de Vasconia | 0 | - |
| Asociación de Dir. BPE | - | - | - |
| Fernández, Francisco | Banco de Andalucía | 0 | - |
| | Banco Popular Hipotecario | - | Director |
| | Banco Popular France | - | Director |
| | Sistemas 4B | - | Chairman |
| | Mobipay | - | Director |
| F. de Amorim, Américo | Millenium bcp | 0.07 | - |
| Gancedo, Eric | Banco de Castilla | - | Representing BPE |
| | 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 Galicia | - | Director |
| | Banco de Vasconia | - | Representing BPE |
| Morillo, Manuel | - | - | - |
| Nigorra, Miguel | Banco de Andalucía | 0.01 | - |
| | Banco de Crédito Balear | 7.69 | Chairman |
| Rodríguez, José Ramón | Banco de Crédito Balear | 0.03 | Representing B.Alcalá |
| | Banco de Vasconia | 0.01 | Chairman |
| | Banco Popular Hipotecario | - | Chairman |
| | Popular Banca Privada | - | Director |
| Ron, Ángel | Popular Banca Privada | - | Director |
| Santana, Vicente | Popular Banca Privada | - | Director |
| | Bancoval | 3.21 | - |
| Sindicatura de Accs. BPE | - | - | - |
| Solís, Miguel Ángel de | Banco de Andalucía | 0.03 | Chairman |
| | Banco de Crédito Balear | 0.02 | Director |
| | Banco de Galicia | 0.02 | - |
| | Banco de Vasconia | 0.01 | Director |
| Termes, Rafael | - | - | - |
| Valls, Javier | - | - | - |
| Viñas, Emilio | Bancoval | 3.21 | - |
| Walter, Herbert | Dresdner Bank | - | Chairman |
| | Allianz AG | - | Director |
| | Deutsche Börse | - | 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 either by directly furnishing the information, 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:

"Article 20. Right to obtain the assistance of experts

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 further information.

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

"Article 19. Directors' right to information

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 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 | 3 | 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 |
| Credit Committee | 8 | 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 |
| Valls, Javier | Chairman |
| Fernández, Francisco | Member |
| Gancedo, Eric | Member |
| Herrando, Luis | Member |
| Montuenga, Luis | Member |
| Rodríguez, José Ramón | 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 |
| Montuenga, Luis | Member |
| Aparicio, Francisco | Secretary |

STRATEGY & INVESTMENTS COMMITTEE

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

CREDIT 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 |
| 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 regulations of the Executive Committee are included in Article 21 of the Bylaws and Article 23 of the Board Regulations.

The Board of Directors decides the composition of the Executive Committee at any given time and appoints and removes its members, who are in any case obliged to resign when they cease to be directors.

The resolutions appointing members of the Executive Committee require the votes in favor of at least two thirds of the members of the Board of Directors.

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 and binding without any need for subsequent ratification at a full meeting of the Board, although the Committee reports to the Board 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 the Article 4.3 of the Board Regulations cannot be delegated.

Audit and Control Committee

The regulations of the Audit and Control Committee are included in Article 21 of the Bylaws and Article 24 of the Board Regulations.

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, 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 in any case resign when they cease to be directors.

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

The Audit and Control Committee should 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, 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 Audit and Control 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 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 regulations of the Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee are included in Article 25 of the Board Regulations.

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 in any case resign when they cease to be directors.

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 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 compliance therewith.

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.

Credit Committee

The regulations of the Credit Committee are included in Article 26 of the Board Regulations.

The Credit Committee is chaired by the Chairman of the Bank and its members include the members of the Board's Executive Committee. The Group's Credit & Risk Manager participates as a 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. Its authorization is required for all transactions, including market area transactions, that signify for the Group as a whole a risk in excess of €15 million, including in the computation of this figure the aggregate limits of monetary risk and off-balance sheet risks with any one company or economic group. This limit is reduced to €7.5 million in the case of off-balance sheet risks in which the Group's risk represents more than 50% of its debt in the system.

The Committee also establishes general guidelines of risk policy relating to types of transactions, sectors, geographical areas, term and other.

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 |
| Credit 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 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.

There were no amendments to the Board Regulations in 2004.

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.

Finally, the Audit and Control Committee prepared a report 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 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 nineteen members, of whom four are executive directors, six are domanial directors and nine are independent directors.

The Executive Committee has eight members, of whom three are executive directors, two are domanial directors and the remaining three are independent directors. Thus the percentage of independent directors in the Board of Directors is 47% and the percentage in the Executive Committee is 38%.

The relations between the Board and the Committee are governed by the principle of transparency and 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

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.

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

With respect to significant shareholders, the transactions of this kind of Banco Popular during 2004 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:

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

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

The overall amount of the direct and indirect risks granted by the Bank to the directors as a whole as of December 31, 2004, was €62,593 thousand of which €61,042 thousand related to credits and loans, €174 thousand to trade discounts, €198 thousand to financial lease transactions and €1,1790 thousand to guarantees. The interest rates on the trade discounts ranged from 3.84% to 6.58%, on the credits and loans from 2.00% to 6.49% and the quarterly guarantee fees from 0.25% to 1.00%.

At December 31, 2004, 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.

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:

| <u>Name or corporate style of the company or entity in its group</u> | <u>Description of transaction</u> | <u>Amount (€000)</u> |
|--|-----------------------------------|----------------------|
| - | - | - |

None in 2004

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 interests 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 interests between the company and/or its group and its directors, executives or significant shareholders:

As regards the directors, Article 18.2.3 of the Board Regulations states:

"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 interests involving Directors of the Bank must be disclosed in the annual corporate governance report."

In turn, Section 5 of the Internal Regulations of Conduct for Banco Popular Group entities in the sphere of securities markets states that the following information 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:

"Article 28. Relations with significant shareholders

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 Group pays strict attention to maintaining at all times a prudent and balanced risk profile appropriate to the organization's experience and capacity, conserving the basic objectives of solvency, profitability and adequate liquidity.

The risk policy is a synthesis of strictly professional criteria for the study, assessment and assumption of risks by all the entities comprising the financial group, which are conducive to maximization of the risk/profitability concept inherent to assets, with recognition of doubtful items and writeoff of bad debts when they arise, and the booking of provisions for the necessary amount.

The Group's signs of identity match the permanent policies of management and commercial activity.

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

- a) Maximum asset soundness.
- b) Growth with profitability.
- c) Nimble response in deciding on proposed transactions, as a basis competitive instrument.
- d) Professionalism of staff and in decision processes.
- e) Objective-orientated flexibility in the organizational structure.
- f) Preference for the domestic retail and SME market

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 and reputational risk, and embody formal procedures for 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 Credit Committee for credit or counterparty risk, and the General Management and the Assets and Liabilities Committee for market and liquidity risk.

These systems are adequate for the nature of its activity and for the structure and amount of the risks assumed, and conform to the Group's risk profile.

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

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 Retail Banking Office, then the Group's Credit Office 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 process 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.

In the other areas of business, 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 Credit Office and, if beyond its powers, to the CEO.

Transactions above the attributions assigned to the CEO are ultimately submitted to the Credit Committee, the membership and functioning of which have been described earlier in this report.

Risks with related parties such as transactions with 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 Executive Committee or the Credit Committee, regardless of the amount involved.

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 early preventive measures for current risks in the event of potential situations of difficulty. As a result of this system, the quality of the Group's risk assets is high, and the level of nonperforming balances is traditionally lower than the average for the industry.

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 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 maturity, etc.).

In parallel, the Control and Audit Area performs monthly analyses of customers with incidents, based on the performance 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.

The combination of this two-fold classification depending on the circumstances of each case analyzed is inserted graphically in the borrower's file by a teleprocessing application that includes all the positions with the customer, thus simply and clearly transmitting the customer's classifications for consideration in risk-related decisions.

This system based on technical alerts is supplemented by the analyst's report. This is a system included in the file mentioned above which, by means 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., makes it possible to summarize the policy to be followed and to take the necessary actions for the satisfactory outcome of the risks. These reports 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.

In addition to individual evaluation by customer and transaction, the structure of the loans and discounts is continuously analyzed, having regard to their distribution by amount, term, sector of activity, type of transaction, geographical area and other attributes as considered relevant. The Group maintains a satisfactory diversification of its risks on the basis of a large number of attributes, in excess of that required under current regulations. In particular, it is important to highlight that no single 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.

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 chaired by the Chairman of the Bank and its members are 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 margin of differing scenarios of interest rate movements. Determination of market risk limits for the Group is the responsibility of the General Management, at the proposal of the Financial Management Unit.

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. For this purpose, qualitative and quantitative tools are being developed to measure the frequency and impact of operational risk events and improve the controls and coverage in the areas of greatest exposure, and the necessary contingency plans are being drafted to insure continuity in operations.

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.

In this respect, it identifies and assesses risks of non-compliance associated with the Bank's business activities, even with regard to the development of new products and business practices, insuring respect for the regulations on transparency and customer protection.

The Risk Management section of the 2004 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 Sections are assumed as the risks proper to the activities carried out by the Group entities, and the established control systems have in all case functioned adequately.

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 systems.

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 to it.

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 Meeting, Article 13 of the Bylaws states that the provisions of the Law shall apply in all cases.

Accordingly, resolutions shall be adopted by majority of the votes cast, since the provisions of Article 93.1 of the Corporations Law shall be applicable; this article states:

"Article 93. Shareholders Meeting

1. The shareholders, duly convened as the Shareholders Meeting, shall decide by majority on the matters proper to the competence of the Meeting."

As an exception, Article 13 of the Bylaws states:

"Article 13. 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 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."

Finally, Article 13 of the Bylaws also states:

"Article 13. 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."

The quorums indicated do not diverge in any way from the system of minimum quorums per the Corporations Law, except for the last one which is not addressed in current legislation.

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.

The Ordinary Shareholders Meeting on June 24, 2004, resolved to regulate by bylaw the delegation and exercise of voting rights at Shareholders Meetings by systems of remote communication, in conformity with the new wording of Article 105.4 of the Corporations Law, and the shareholders' right to information in conformity with the new wording of Article 112 of that 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.

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, 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.

For this purpose, 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 may cast their vote by these systems.

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:

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 thereat.
- b) The Board will establish the necessary mechanisms for proxy voting or voting by mail, electronically or any other means of remote communication, provided that the identity of the shareholder is duly guaranteed.
- c) The Board will implement appropriate procedures to ascertain the proposals of shareholders about the management of the Bank.
- d) The Board may organize briefings about the progress of the Bank and its Group for shareholders resident in the most important financial centers in Spain and abroad.

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

Approval of Shareholders Meeting Regulations. The Shareholders Meeting Regulations, adopted by the Shareholders Meeting on June 24, 2004, 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. Without prejudice to the shareholders' right to information pursuant to Article 112 of the Corporations Law and Article 14 of the Shareholders Meeting Regulations, under Article 6 of the latter Regulations the shareholders may make inquiries, suggestions and comments of interest for the Bank.

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 section. In this respect, the Bank will endeavor to maintain its tradition 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 contribution 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 publicly distributed, 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, relevant facts, 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.
- 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, and the Internal Rules of Conduct in the sphere of securities markets.

The website also includes the Bank's replies to the questions and requests for information from shareholders, pursuant to Article 6 of the Shareholders Meeting Regulations and, if appropriate, the statements made to the Bank by its institutional and domanial shareholders, pursuant to Article 15.

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.

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.

Information about the criteria of corporate governance 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.

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 on June 24, 2004, approved specific regulations for the Shareholders Meeting which contain adequate measures to guarantee the sound functioning thereof.

E.6. Describe the changes, if any, in the Shareholders Meeting Regulations in 2004:

None in 2004

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

| <u>Date of Meeting</u> | <u>% of physically present</u> | <u>Attendance</u> | | | <u>Total</u> |
|------------------------|--------------------------------|-------------------|---------------------------|--|--------------|
| | | <u>% of proxy</u> | <u>% of remote voting</u> | | |
| 6-24-2004 | 0.94% | 45.94% | - | | 46.88% |

Of the 45.94% of the capital stock of the Bank represented at the Shareholders Meeting, 19.56% corresponded to capital which is habitually represented by members of the Board of Directors.

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 6-24-2004:

| <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 2003. | 99.79% | 0.08% | 0.14% |
| Appointment, ratification and re-election of directors. | 99.02% | 0.14% | 0.85% |
| Re-election of auditors for review and legal audit of the financial statements of the Bank and consolidated. | 99.95% | 0.01% | 0.05% |

| <u>RESOLUTIONS ADOPTED</u> | <u>Yea votes</u> | <u>Nay votes</u> | <u>Abstentions</u> |
|--|------------------|------------------|--------------------|
| Amendment of Articles 14 and 15 of the Bylaws to conform to Law 26/2003 on Transparency of Listed Corporations, regarding the delegation or exercise of voting rights at Shareholders Meetings by remote communication systems and the right to information, and of Article 15 on the composition of the presiding officers at the Shareholders Meeting; of Article 16 on the number and remuneration of directors; of Articles 16 and 18 to introduce the post of Deputy Secretary of the Board; of Article 21 to conform to Law 44/2002 regarding the Bylaw regulation of the Audit and Control Committee, and of the First Transitory Provision regarding the composition of the presiding officers at Shareholders Meetings. | 99.08% | 0.01% | 0.91% |
| Approval of the Shareholders Meeting Regulations; information to the Shareholders Meeting about the Board Regulations. | 98.86% | 0.68% | 0.47% |
| 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. | 99.23% | 0.66% | 0.12% |
| Transfer from unrestricted reserves to a special allowance for the financial requirements arising from possible extraordinary early retirement plans, for the amount and on the conditions as may be authorized by the Bank of Spain. | 92.33% | 7.16% | 0.51% |
| 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. | 99.92% | 0.02% | 0.06% |

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.

E.10. Indicate and justify the policies applied by the company regarding proxies for 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, when this system is implemented the Board of Directors will issue the procedures adopted by the Bank for the exercise of the voting rights by electronic and other remote means of communication.

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

State 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.

If the single document referred to in Order ECO/3722/2003 is not prepared, the recommendations in the Olivencia and Aldama reports should be taken as a reference for completing this Section.

This information on the level of compliance with good corporate governance recommendations is based on those contained in the Olivencia Report, duly updated to include those in the Aldama Report. Banco Popular has thus aimed to merge the recommendations of both these reports so as to inform as accurately as possible about the compliance with these recommendations.

In line with its own tradition of corporate governance, the governance of Banco Popular Español and its group entities is based on the following principles, which conform to the good governance recommendations as discussed below.

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)

As stated in Article 4 of 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 executives;
- identification of the company's main risks and particularly implementation and monitoring of the internal control and reporting systems for adequacy;
- determination of the policies of information and communication with shareholders, markets and public opinion;
- approval of the policy as regards treasury stock; and
- in general, transactions involving the disposition of substantial assets of the company, major corporate transactions and all those specifically stated in the Board Regulations.

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 nineteen members, includes four executive directors and fifteen external directors, of whom six are domanian and nine are independent directors.

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 (domanian 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.

The Board contains a very ample majority of external directors, of whom a very significant number are independent directors, having regard to the structure of the company's shareholders and the capital represented on the Board.

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 34.20% of the capital stock.

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 nineteen directors, the Bank's Board is of a suitable size for effective and participative functioning, combining numerical moderation with the exigency, essential in a large listed financial entity, that its shareholders and their diverse sensitivities have the possibility of being adequately represented on the Board.

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)

There is no such accumulation of offices.

In the Bank's governance structure there are two chairmen: Javier Valls Taberner, Chairman of the Supervisory Board, and Ángel Ron Güimil, Chairman of the Executive Committee; each may replace the other in the event of absence or sickness.

As regards executive functions, a wide range of competences is assigned to the Chairman of the Executive Committee and to the CEO, Francisco Fernández Dopico.

The Chairman of the Bank chairs the Executive Committee and the Credit Committee. The CEO reports to the Chairman of the Bank and is the reporter of the Executive Committee, of which he is a member, for matters proper to him.

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 CEO is responsible for commercial banking, in general terms, and the directly related support units, and the Chief Financial Officer, the Corporate Affairs Manager and the Corporate Development Department, inter alia, report to the Chairman of the Bank. In short, the commercial business and the 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 of the Bank.

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 2004.

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.

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, avoiding the inclusion among its members of directors who may have business dealings with the Bank that could give rise to conflicts of interest.

The Board of Directors currently has nineteen members, of whom four are executive directors, six are domanial directors and nine are independent directors. The Executive Committee has eight members, of whom three are executive directors, two are domanial directors and the remaining three are independent directors. Thus the percentage of independent directors in the Board of Directors is 47% and the percentage in the Executive Committee is 38%.

The relations between the Board and the Committee are governed by the principle of transparency and 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. Credit Committee
3. Special Committees:
 - a) Audit and Control Committee
 - b) Nomination, Remuneration, Corporate Governance and Conflicts of Interest Committee

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 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 ordinarily meets at least once each quarter, and holds extraordinary meetings as and when necessary for the better fulfillment of its mission.

The Executive Committee, as a standing body of the Board, meets weekly, without prejudice to extraordinary meetings taking place if the circumstances so require.

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; 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 the findings of this analysis are set forth in the Corporate Governance Report.

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 the following appointments in 2004: the appointment of the new director Herbert Walter by the

Board of Directors on April 20, 2004, which, together with that of all the other members of the Board was ratified by the Shareholders Meeting on June 24, 2004, after verification of effective fulfillment by them of the functions and responsibilities for which they were appointed; the appointment of Ángel Ron as Chairman and of Francisco Fernández Dopico as CEO by the Board on October 19, 2004; and all the appointments of senior executives of the Bank during 2004.

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)

The term of office of the directors is five years, without prejudice to the requirement for them to offer their resignations each year at the Shareholders Meeting. Except in absolutely exceptional cases, the Board does not propose to the Shareholders Meeting the termination of the external directors before the end of the bylaw period for which they were appointed.

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.

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 if and when their personal circumstances hinder full performance of their duties. This precaution is reinforced by the established practice of all the offices on the Board being renewable by the entity every year.

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.

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 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.

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, as stated in the preceding paragraphs, 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 are 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.

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 in the securities markets field of the Banco Popular Group 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, assessing 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 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.

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)

The corporate governance criteria and principles guiding the actions of the Bank have been progressively shaped in the course of many years and are exhaustively disclosed year after year in the annual reporting documents and in the annual corporate governance reports; the latter have been published without interruption since 1998.

The modus operandi of the Shareholders Meeting has been shaped progressively over time, as part of a corporate culture whose final purpose is to get closer to shareholders by offering them adequate and increasing conduits of information and participation in the Bank's most important decisions.

The Shareholders Meeting on June 24, 2004, approved specific Shareholders Meeting Regulations 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.

Also, at its meeting on January 29, 2004, the Board of Directors approved regulations containing the rules of internal governance and functioning of the Board and its committees, the contents of which were notified to the above-mentioned Shareholders Meeting.

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 Board maintains the transparency of the mechanism for proxy voting and of the Bank's communications with all its shareholders which has always been an identifying feature of the Group. Shareholders can also obtain in real time extensive information about the progress of the Bank through the Shareholders Office or the Banco Popular website.

The Ordinary Shareholders Meeting on June 24, 2004, resolved to amend Articles 14 and 15 of the Bank's Bylaws to conform them to Articles 105.4, 106.2 and 112 of the Corporations Law with the new wording contained in Law 26/2003 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.

As regards communication between the Bank and its shareholders, Article 27 of the Board Regulations and Chapters II and IV of the Shareholders Meeting Regulations exhaustively detail the mechanisms in place to strengthen such communication.

Numerous briefings were organized in 2004 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 equitably
- 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:

- a) Periodic financial public reporting
- b) All material information (events or decisions) by submission to the Spanish Securities and Exchange Commission 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.

Following its tradition of going beyond the requirements imposed by current legislation, in 2004 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.

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 with full information on corporate governance matters and on the degree of compliance with the corporate governance recommendations, in accordance with principle of "comply or explain".

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, and 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 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 for 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 agenda of Shareholders Meetings, the resolutions proposed to the meetings and the resolutions finally adopted.

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 2004 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. In this way 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 joint 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 undertakes to issue a corporate governance report each year.

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.

The following principles have progressively marked, with constant updates, the personality of Banco Popular for nearly five decades and are the profile of the Bank's corporate governance identity.

THE BOARD OF DIRECTORS

The role of the Board is defined in terms of the following missions:

1. Keep its finger on the pulse of banking.
2. Manage the Bank by remote control.
3. Merge into the collective background of the Bank.
4. Refrain from interfering individually in issues relating to personnel, loans, purchases, or in subsidiaries.
5. Receive no remuneration.
6. Refrain from speculating.
7. Exercise the directors' right to express themselves freely and with critical judgment before other directors, and to have regard to their duty to avoid leaks of information and fissures, both outside the Bank and internally downwards.
8. Defend the long-term viability of the Bank and protect its general interests.

Strict separation of Board and management.

The Board's policy is to delegate the ordinary management of the Bank to the executive bodies and management team, concentrating its activity on the general function of supervision.

This is perhaps the most long-standing principle applied at Banco Popular, as is borne out by the fact that it has been applied without interruption for almost five decades. It was at the beginning of this period that fortunately the criterion of separating directors from management was implemented, and the Bank began to note its positive effects.

The separation between the Board and management thus becomes the ideal arrangement for each to fulfill its role with maximum efficiency, whereby the directors are responsible for monitoring and insuring that the company is being managed efficiently, and the managers are professional executives whose performance is not hindered by interference.

The various competences incumbent upon the Board are divided into areas, whose monitoring and control are the responsibility of the director or the committee best fitted by their personal characteristics and qualities to perform the task of supervision with which they are entrusted. Accordingly, the separation of management from governance or the Board can in no case lead to neglect of duties, nor to the adoption of decisions or the taking of measures of importance by the Bank's management bodies without the knowledge or control of the Board.

Thus, the ordinary management of the Bank is delegated to the General Management, a technical and executive governance body now headed by the Chairman of the Bank, which currently consists of five members appointed by the Board of Directors from among the executives comprising the Bank's top management.

Composition of the Board

The composition of the Board has regard to the structure of the Bank's capital stock, endeavoring to open it up to the various sensitivities of the shareholders, in order to insure representation on the Board of a relevant percentage of the capital stock and protect the general interests of the entity.

Some of the directors and groups of directors act, year after year, as "permanent" representatives of different groups of shareholders, such as families, companies, foundations, etc.

The composition of the Board reflects an appropriate equilibrium between the executive directors and the external directors, the latter being a broad majority; this equilibrium has been progressively structured over time until it has reached the present situation.

Board Committees

Among the clearest examples of the immediate practical application of the recommendations in the Olivencia Report published in February 1998, the Bank decided in April of that year to set up two "Board Committees", of an informative and consultative nature, one responsible for Audit, Control and Remuneration and the other for Nominations, Governance and Conflicts of Interest, as additions to the already existing Credit Committee.

These Board Committees cooperate, as specialized bodies, in the effective discharge of the functions of the Board of Directors, insuring the control of management and the safeguarding of the interests of shareholders and investors.

No speculation by directors

Instead of feeling that "he owned the place", the Banco Popular director came to realize that in order to feel "at home" he had to "keep the Bank and his private, family and social life completely separate" and observe the longstanding rule forbidding speculation.

The directors are subject to the Group entities' internal rules of conduct as regards the securities markets, a set of in-house regulations on acting in matters relating to the securities markets, based on respect for current legislation and on ethical and professional responsibility criteria.

Non-remuneration of directors

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 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.

In any case, the policy of remuneration of directors must be transparent and must conform to the principles of moderation and linkage to the earnings of the Bank.

Transparency of information

A shareholder with a sufficient shareholding may be a member of the Board or not. The same information is available in both cases, and is as full as the shareholder wishes. The only limitations are those established personally, legally or in the bylaws.

The aim is to insure optimum quality in the information conveyed to the markets, not only of a financial and

accounting nature but also with respect to corporate governance. The channels used are: Annual Corporate Governance Report, publication of significant events, periodic financial reporting, a corporate website and presentations to the markets, all intended to guarantee equality of treatment and to overcome asymmetries in the information.

Delegation to the Executive Committee

The Executive Committee, which originally consisted of six directors, now has eight members who meet frequently, attend meetings of the Credit Committee, and are responsible for monitoring, supervision and strategy.

This standing body substitutes for and aids the Board of Directors in the performance of its duties, with special emphasis on the transparency and fluidity of information from it to the Board of Directors.

Internal Control

The Audit and Control Committee is responsible for keeping a close watch on the suitability and integrity of the internal control systems, for supervising that all the periodic information furnished to the markets is prepared in conformity with the same principles and professional practices as applied in preparing the annual financial statements, and for keeping a vigilant watch on situations which may involve a risk for the independence of the Bank's external auditors.

SHAREHOLDERS MEETING

The Bank has traditionally endeavored to provide its information in advance of the Shareholders Meeting and does so by communicating it to analysts, investors, journalists and shareholders before the end of January, with the result that the actual holding of the ordinary Shareholders Meeting becomes merely a formal act for the adoption of resolutions.

From January to the date of the formal Shareholders Meeting, the Bank makes available to all shareholders all the financial information of the Group, the annual reports and the "Incidents of the Year" publication, and responds personally to the questions, suggestions and issues raised, either formally or informally, by the shareholders.

Communications between the Bank and its shareholders are conducted through the Shareholders Office (c/ José Ortega y Gasset 29, 28006 MADRID; telephone +34 91 5207265; fax +34915779209; e-mail accionista@bancopopular.es) at two different but inter-related levels: that of information and that of participation in the life of the Bank. Shareholders may also visit the Bank's website www.bancopopular.es.

The information provided, which goes beyond that legally required, is contained in the following documents:

- Report, including the financial statements, management report and proposed distribution of income, as well as the consolidated financial statements and management report.
- Annual Corporate Governance Report, setting forth the rules of governance and giving reasons for those not conforming to the recommendations in the successive codes of good corporate governance.
- Corporate Social Responsibility Report.
- Information Leaflet, containing the organization chart, functional structure and administrative offices.
- Incidents of the Year, which as a counterpoint to the Annual Report and Notes to the Financial Statements that describe in detail the economic results obtained during the year, sets out with frankness and complete transparency the minor happenings that also form part of the Bank's activities. Shareholders are entitled to know all about what happens in the Bank, including misfortunes, errors and failures.

- Style Guide, a glossary of terms defined in order to explain the Bank's own principles and standards as set up over the years, commonly comprising what is known as its "corporate culture".

Shareholders may at any time exercise their legally recognized right to examine all documentation at the Bank's registered office or request that it be sent to them free of charge; may make such enquiries or observations as they consider desirable, either in person or in writing, by telephone or e-mail; may formally express their assent to or dissent from any proposals; may discriminately or selectively exercise their right to vote, or not to vote if they so wish, or to follow the decision of others.

STAFF AND ETHICAL COMMITMENT

The Group entities' internal rules of conduct as regards the securities markets are a set of in-house regulations on how employees to which they are applicable should act in matters relating to the securities markets, based on respect for current legislation and on ethical and professional responsibility criteria.

In this respect, the internal rules of conduct prohibit the practice, encouragement or support of conduct which, because it involves the improper use or transmission of inside information or market manipulation, may constitute abuse of the market.

The rules further prohibit persons possessing inside information from performing any transactions involving securities or financial instruments in which the underlying elements are securities issued by the Bank or by any company in its Group during the periods specifically designated by the Board of Directors.

This Annual Corporate Governance Report was approved by the Board of Directors at its meeting on January 26, 2005.

List any directors that voted against, or abstained from voting on, the approval of this report.

No director voted against or abstained.