2016
ANNUAL REPORT

Popular

ANNUAL REPORT 2016

Popular

INDEX

Chairman's Letter

Before us, perhaps inadvertently for many, a revolution in the world of financial services is occurring which is forcing us to reinvent banking.

The macroeconomic environment of low interest rates and weak growth will continue putting pressure on banks' income. Likewise, ever demanding regulation on capital requirements will make it difficult to maintain a conventional business model in the absence of significant improvements in income and efficiency. The sector has moved from being under limited competitive pressure to one of ferocious competition from ever more new initiatives outwith the banking sector.

Convinced of the significance the regulators will place on capital as the main instrument to face future crises, in 2016 we decided to carry out a capital increase of 2,506 million euros with the aim of:

- Preparing the bank for commercial banking in an every more complex environment, reducing installed capacity and betting on digitisation.
- Increasing the coverage of non-performing assets.
- Accelerating the clean-up of the business.

A capital increase which, with demand being 135% of the amount, was covered equally successfully, with the strong backing of the Board of Directors as well as institutional investors and the retail branch.

This increase is linked to a business plan which is being diligently executed. In this sense, we have started restructuring branch network, headquarters and employment in an exemplary way, principally through early retirement, without social conflicts and in a very satisfactory manner for the entity's employees.

Additional to this ambitious restructuring plan, I would also like to highlight some of the other measures to prepare the bank for the future:

- Maximise the use of capital and reserve internal improvement tools.
- Sale of wholesale non-performing loans portfolios for 628 million euros.
- Maintain the commercial activity with an improvement in our market share of SMEs and retail credit and deposits.
- Renovation of the management team and the creation of the Real State Business and Asset Transformation Management areas.

These are the decisions of the last year but in Popular we do not start from scratch. For many years we have been responding to challenging regulatory requirements. The most important part of the regulatory path is already covered and, after the measures we have put into practice, profitability will begin to see an immediate improvement.

This has been possible due to the intense work of our staff who I would like to thank for their effort and congratulate for their valuable contribution to the bank.

Ángel Ron Chairman

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

Charles Darwin

General Information

Banco Popular Español, S.A ("Banco Popular", or "Bank") was founded on 14 July 1926, and is registered in the Madrid Companies Register in volume 174, folio 44, page 5,458, 1st entry. The Bank is a member of the Deposit Guarantee Fund for credit institutions. 2016 was its 90th year of existence. The head office is located at Velázquez 34 28001 Madrid.

The financial accounting and statistical data provided herein were prepared with the utmost objectivity, detail, reporting clarity and consistency over time, from the internal accounting data of the Banco Popular Group (hereinafter, also "Popular" or "Group"). As of 01 January 2005, it became compulsory to prepare consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) for entities with shares listed on a regulated market in any EU member state at the financial statement closing date, pursuant to Regulation 1606/2002 of the European Parliament and of the Council dated 19 July 2002.

This financial information was prepared in accordance with the aforementioned standards and reflects the Group's entire economic activity, both financial and insurance and non-financial, and accordingly gives a true and fair view of the net equity, financial position, risks and consolidated earnings.

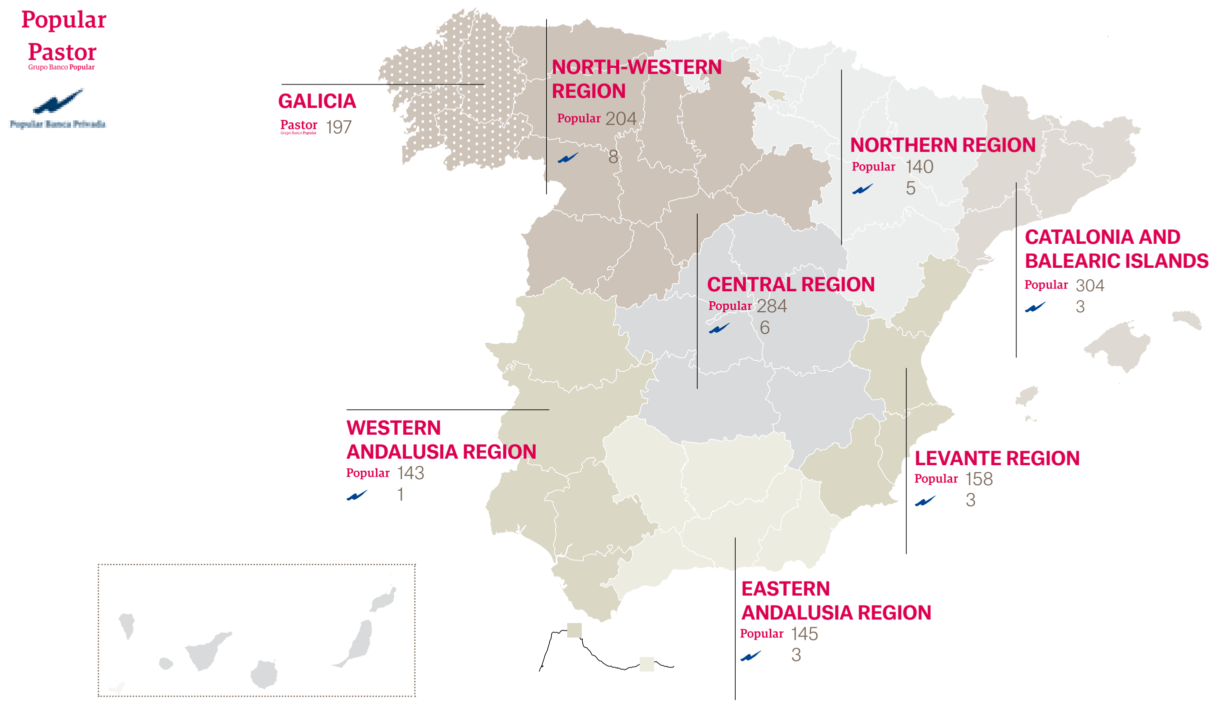
Average balances are calculated on a daily, monthy or quarterly basis, depending on the information available in each case. Figures in brackets indicate that the values are subtracted in the calculation process or are negative amounts or variation rates.

In addition to the Annual Report and its accompanying documents, Banco Popular issues quarterly financial reports on its operations, including a detailed analysis of variations in assets, liabilities, earnings and profitability in each quarter. All the information is available at the Banco Popular Shareholders' Office (José Ortega y Gasset 29 28006 Madrid. Tel: 91-520.72.65. Fax: 91-577.92.09. E-mail: accionista@bancopopular.es). The Banco Popular website may also be consulted: http://www.bancopopular.es.

1 Popular Identity

National and international presence

Banco Popular Group's national presence – 2016



- At the finalisation of this Report, the reorganisation and optimisation of the Branch Network, started at the end of the year, continues. For this reason, the map showing the distribution of branches related to the previous Territorial structure.
- The division of the various Regional Branches applies only to the branches of Banco Popular. This same division has been used for Popular Banca Privada, although their branches do not report to the Territorial Branches under which they are grouped.
- The Canary Islands belong to the Central Region, while Ceuta and Melilla belong to Western and Eastern Andalusia Territory Branches respectively.
- The map shows all the branches of Popular, Banco Pastor and Popular Banca Privada as a whole, which totals 1,599. This figure excludes the Corporate Banking (3) offices and Specialized Branches (2).

1 Parent bank
Banco Popular Español

4 Banks operating in Spain
Banco Pastor, Popular Banca Privada, WiZink (49%)* and Targobank (48.98%)*

(*) Percentage shareholding

2 Overseas banks
Banco Popular Portugal
Totalbank (USA)

1 Financial group
Ve por Más (24.99%)

(*) Percentage shareholding

11,948 employees
10,671 in Spain
1,277 abroad

4.6 million clients in 17 countries:
Europe, Asia, America and Africa

1,739 branches
1,604 in Spain
135 abroad

Banco Popular Group's international presence – 2016

14 representative offices
3 collaboration offices

History

2016 was its 90th year of existence. It was founded in 1926 under the name of “Banco Popular de los Previsores del Porvenir”. The Bank thus opened its doors for the first time on 14 October of that year, in an official ceremony attended by H.M. Alfonso XIII and the Spanish Government in full.

Its purpose, defined at that time was, "to provide anyone who uses its services the greatest facilities in all kinds of economic and banking matters", performing "all transactions, which being typical of credit companies, are set forth in the Commerce Code currently in force."

In February 1947, its name was changed to the present one of Banco Popular Español. At that point, its share capital was raised to 100 million pesetas, thereby making the Bank an important national institution.

The foundations for the Bank’s firm development were laid in the 1950s, while in the 1960s, the Bank’s brands -its subsidiary banks- were created, and would go on to become synonymous with quality: Andalucía, Castilla, Crédito Balear, Galicia and Vasconia.

In 1975, Banco Popular prepared its plan to expand its network, which it started implementing the following year throughout Spain, doubling the number of branches in four years.

In 1988, Popular created three companies called Europensiones, Eurovida and Euroconsulting on a 50/50 basis with Allianz, the German insurance group. These companies specialised in pension fund management, life insurance and advisory services for pension and alternative retirement plans.

In 1997, the Bank created its telephone banking platform and launched Online banking in a bid to take advantage of technological changes and to improve sales actions as well as customer service quality.

At the same time, specific companies were set up to move into new business segments (renting, for example) and to boost the development of other activities under way (private banking and asset management).

1926
Foundation under the name of Banco Popular de los Previsores del Porvenir

1929
Listing on the Madrid Stock Market

1947
Change in name to Banco Popular Español

1950-1960
Strong expansion in Spain.
Development of the branch office network in France

1988
Strategic alliance with Allianz

2000
Development of the asset management business

2003
Acquisition of Banco Nacional de Crédito in Portugal

Throughout the first decade of this century, Popular was engaged in a far-reaching international expansion process to give it a foothold in around twenty countries, with banks in Portugal, Mexico and the United States. In Spain, its merger with Banco Pastor went ahead, confirming Galicia as its most important domestic market.

In January 2015, Popular presented its reinforced brand. A brand that symbolises a cautious and firm evolution, and which reflects the Bank's identity and what it aspires to. A direct, intense brand with a criterion which instils attitudes and spaces, reinforcing its bond with people.

During 2016, Popular faced the challenge of a 2,506 million euro capital increase, covered successfully with an overdemand of 36%.

This capital increase has been a turning point in the bank's management as it has entailed a series of measures which have included an workforce adjustment and an organizational reestructuring.

Also during the year, Popular started a new stage in the renewal and restructuring of its business, for which it has separated out its real estate and associate business management from its main business management. The purpose of this separation is so that one part of the business can focus on generating profitable and recurring business as well as current/present real estate business profitability.

2016 has also been important for Popular Consumer's business. It has witnessed the arrival of WiZink, -the entity specialised in credit cards and simple savings solutions-, with the merger of bancopopular-e and Citibank's Spanish business acquired in 2014, to which the credit cards business in Spain and Portugal acquired from Barclays has been included.

In short, Popular faces the new year deep in a transformation and reconversion process to adapt itself to the new digitization of the banking era; a process in order to answer its customer needs and society demands and always in line with its brand commitment: Progress and move forward.

2007
Acquisition of Totalbank (Florida)

2010
Creation of Targobank

2012
Acquisition of Banco Pastor

2013
Strategic alliance with Bx+

Setting up of JV with Kennedy Wilson & Värde Partners for real estate business management

2014
Acquisition of up to 100% of Popular Banca Privada

Acquisition of the Citibank retail and card business in Spain

Setting up of JV with Värde Partners for the cards business

2015
Reinforcement of the brand, by updating the visual identity and renovating branch offices.

2016
90th Anniversary of Banco Popular

Separation between the main business and the property and associated business

Creation of WiZink

Organisational structure

Banco Popular Board of Directors – 2016

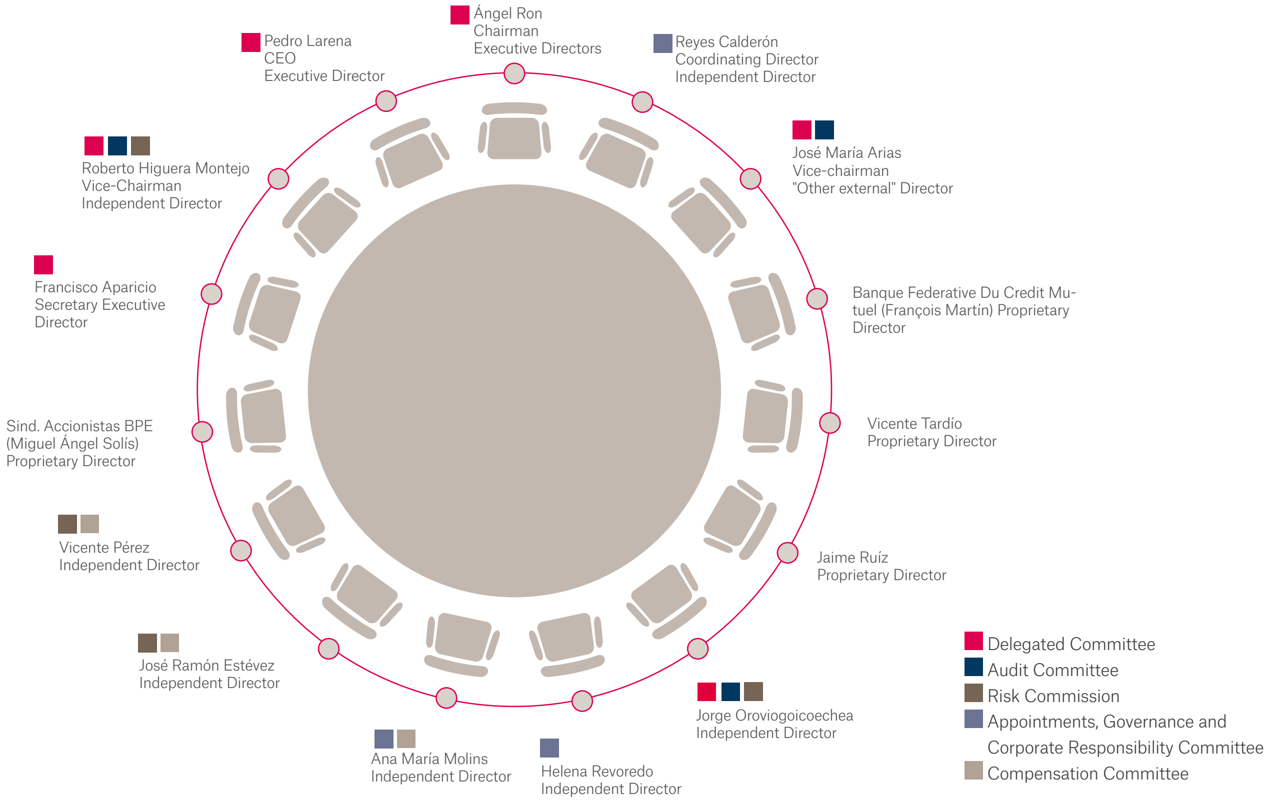


Table 1: Management Committee – 2016

Chief Executive Officer	Pedro Larena
Finance	Javier Moreno
Business	Rafael Muñoz
Specialised Business	Juan Jose Rubio
Media	Alberto Muñoz
Real Estate and Asset Transformation Business	Francisco Sancha
Risk	Carmen Riveras
Technical General Secretary	Miguel Angel Moral
Audit	Jesus Arellano
Communication, Brand and Corporate Relations	Carlos Balado
Digital Transformation	Fernando Rodríguez
Corporate Information and Analysis	Isabel Moreno

Table 2: Commercial Network – 2016

Commercial Network Structure	
T.O. North	**Miguel Ángel Franco**
R.O.Asturias - Leon	Carlos Marino Perez
R.O. Aragon - Navarra - La Rioja	Fco Javier Barra
R.O. Pais Vasco - Cantabria	Joaquín Caamaño
R.O. Salamanca- Avila - Segovia - Zamora	Carlos Durán
R.O. Valladolid - Burgos - Soria - Palencia	Ana Coral Gutiérrez
T.O. Centre	**Manuel Quero**
R.O. Canary Islands	Francisco Javier Lumbreras
R.O. Castilla la Mancha - Extremadura	Francisco Márquez
R.O. Madrid Centre	José Antonio Rego
R.O. Madrid North	Celia Torrebadella
R.O. Madrid South	Armando Martínez
T.O. Catalonia and Balearic Islands	**Alfonso Ruspira**
R.O. Girona	Salvador Guiral
R.O. Lleida - Tarragona	Antonio Latre
R.O. Barcelona North	Berenguer Galín
R.O. Barcelona South	Francisco Javier Subirana
R.O. Balearic Islands	Jesús Manuel Taboada
T.O. Levante Region	**José Baonza**
R.O. Alicante	Nieves María Reina
R.O. Murcia	Juan María Torres
R.O. Valencia - Castellon	José Manuel Martínez
T.O. Andalusia	**Luis Marín**
R.O. Huelva - Cadiz	Nicolás Antonio Suarez
R.O. Seville	Juan Carlos Gil
R.O. Granada - Jaen - Almeria	Javier Beloso
R.O. Malaga - Cordoba	Luis Miguel Pernas
Banco Pastor	**Fernando Merino**
R.O. A Coruña	Antonio Dean
R.O. Santiago	Luis Álvarez
R.O. Vigo	Anibal García
Banco Popular Portugal	**Carlos Alvares**
Tax	
Banks outside Spain	
Totalbank	Jorge Rossell
Banks in Spain	
Wizink	Iñaki Perkins
Popular Banca Privada	Susana de Medrano
Targobank	François Martín
Specialist Companies	
Aliseda SGI	Pedro Berlinches
Popular de Mediación	Ángel Blazquez
Popular Bolsa	Gabriel Moreno
Eurovida Portugal	Francisco Valerio
EAC	José Rincon
PSF	José Carlos Souto
Pastor Vida	Juan Antonio Bouza
Popular Payments	Jaime Domingo
PGP	Jordi Padilla
IST	Francisco Javier Palacios
Other Units	
Chief Executive Officer	**Pedro Larena**
Finance	**Javier Moreno**
Balance Sheet Management	Rafael Galan
Treasury	Fernando Durante
Issues	Santiago Armada
Investors Relations & Rating Agencies	Carlos Berastain
Accounting	José Manuel Saenz
Business	**Rafael Muñoz**
Commercial Intelligence and Segments	Miguel Ángel Luna
Retail Banking	José María Hevia
Multichannel	José Ángel Amor
Specialised Business	**Juan José Rubio**
Corporate Banking	José Carlos Martín
Institutional Banking	Diego Barrón
Private Banking	Susana de Medrano
Popular Consumer	Jorge de Velasco
Insurance	Rosa Bueno
Asset Management	Javier Gefaell
Means of Payment	Joaquín Ariza
Depositary and Securities	Carmen Ortiz
International Banking	Pablo de la Torre
Media	**Alberto Muñoz**
Human Resources	Jaime Lobo
Technology	María Luisa Arjonilla
Transformation	Telesforo Veiga
Organisation	Santiago Martín Juarez
Infrastructure	Jorge Carbajosa
Effeciency, Budget and Purchasing	José Zurita
Real Estate and Asset Transformation Business	**Francisco Sancha**
Divestments	Juan Babio
Real Estate Network and Non-performing Balances	José Manuel Piñeiro
Operations and Processes	Susana Quintás
Risk and Purchases	Antonio Ramírez
Risk	**Carmen Riveras**
Risk Framework and Policies	Eva Renilla
Credit Risk Admission	Carlos Fernández
Treasury Risk Admission	Loreto Canales
Models	José María Arroyo
Monitoring	Margarita Bahillo
Technical General Secretary	**Miguel Ángel Moral**
Control	María Raga
Strategy and New Businesses	Mónica Sanchez
Corporate Development	Samuel Serrano
External and corporate relationships	Juan Echano
International Development	Hugo Pfyffer
Capital and Relations with Supervisors	Francisco de Fernando
Audit	**Jesús Arellano**
Internal Audit	Yolanda García
Technical Office	Horacio Valiño
Remote Audit	José Luis García
Communication, Brand and Corporate Relations	**Carlos Balado**
Digital Transformation	**Fernando Rodríguez**
Corporate Information and Analysis	**Isabel Moreno**
Corporate Information Centre	Serafín Fernández
Group Planning	Daniel Gómez
Information, RDA and Regulatory Quality	Fernando Cores
Secretary to the Board	**Francisco Aparicio**
Legal Services	Tomas Pereira
Institutional Advisory	Heraclio Peña
Compliance and Regulatory	Javier Zapata
Corporate Responsibility	Beatriz Gomez

This chapter provides details of the Group's most significant aspects. Chapter 1 of the Integrated Report for 2016 provides further details of the entity's organisational structure.

Banco Popular Group is a Spanish banking group whose business strategy is focused on SMEs, collectives and families with a customer-centred business model.

The Group is composed by a parent bank (Banco Popular Español) and six banks, four of which operate in Spain (Banco Pastor, Popular Banca Privada, Targobank and WiZink, the last two with stakes of 48.98% and 49% respectively), one in Portugal (Banco Popular Portugal), one in the United States (Totalbank) and a financial group in Mexico (Ve por Más, hereinafter also referred to as "Bx+") in which Popular holds a 24.99% stake. Furthermore, among others, the Group has securitisation vehicles, real-estate companies and two insurance companies (Pastor Vida and Eurovida Portugal). Lastly, the Group has other subsidiaries and maintains interests in other companies that complement the banking business.

At 31 December 2016, Banco Popular has a total of 14 representative and 3 collaboration offices in 14 countries and has concluded agreements with several financial institutions in order to promote foreign trade.

Noteworthy is the birth of WiZink, a bank specialising in credit cards and savings solutions, as the result of the transformation of bancopopular-e and the creation of the joint venture between Banco Popular and Vardë Partners. Subsequently, in the fourth quarter of 2016, the acquisition of BarclayCard Spain and Portugal was merged into WiZink, improving its leadership position in the sector and increasing its credit volume by 66%. Finally, in 2016, the sale of Visa Europa to Visa INC occurred.

Structure of Banco Popular Group by company – 2016

BANKS

- Banco Popular Español
- Banco Pastor
- Totalbank
- Banco Popular Portugal
- Popular Banca Privada

OTHER FINANCIAL INSTITUTIONS

- Popular Gestión Privada
- Popular Bolsa S.V
- Popular Servicios Financieros

Popular

OTHER GROUP COMPANIES (*)

- Eurovida (Portugal)
- Popular Seguros
- Pastor Vida
- Popular de Renting
- Grupo La Toja Hoteles

OTHER ASSOCIATES (*)

- Targobank
- WiZink
- Ve por Más
- Allianz Popular
- Aliseda S.G.I.
- Primestar Servicing
- Iberia Cards
- Euro Automatic Cash

(*) Main companies

Corporate Governance

Banco Popular's corporate culture, which is firmly rooted in a tradition which has developed from years of experience, has created its own Corporate Governance model which seeks to establish the proper structure and performanc of the governing bodies, safeguarding the requirements of all stakeholders and maximising the financial value of the Entity in a sustained manner.

It is a Corporate Governance model which is updated to include the recommendations and best practices in this matter as well as supervisor expectations. This creates a strong management model based on transparency and the ethical business management and accountability through control mechanisms.

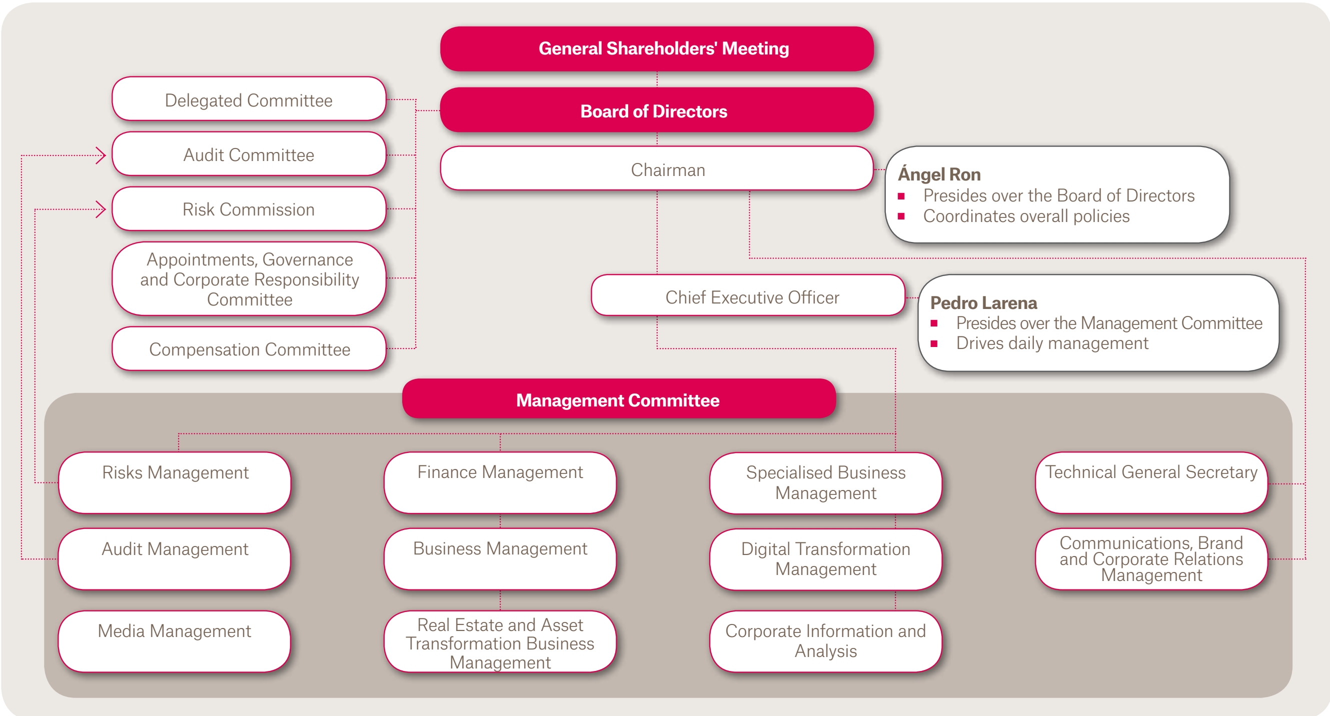
Corporate Governance bodies and structure

The Bank's Corporate Governance is performed by the Board of Directors and its five Committees, in addition to the General Shareholders' Meeting. The Board regulations stipulate that "the criterion that must govern its actions at all times is the maximisation of the bank's long-term value, ensuring its future viability and competitiveness." Both the Board of Directors and its Committees perform their duties with complete transparency, unity of purpose and judgement independence.

Adaptation of the organisational structure to deal a new stage

In September 2016, the mandate was given to Mr Pedro Larena as the entity's CEO. Following his appointment, the Bank's organisational structure has been adapted to created five new General Management areas. Digital Transformation, Media, Specialised Business, Corporate Information and Analysis, and finally, Real Estate Business and Asset Transformation

Governing Bodies at Banco Popular - 2016



With this new structure, the bank seeks to fulfil the objectives set out in the 2016-2018 Business Plan, which is characterised by specialised management, on one hand of the Main Business and the Property and Associated Business on the other. The purpose of this separation is to support the generation of profitable and recurring business, the reduction of non-performing assets and the profitability of the current property business.

General Shareholders' Meeting

The General Shareholders' Meeting is responsible, inter alia, for the approval of the individual and consolidated financial statements, the management of the Board of Directors and proposing the application of the results obtained. In addition, shareholders' approval is necessary for the appointment of Directors, as well as the Compensation Policy for Directors and members of Senior Management. Lastly, the General Shareholders' Meeting also participates in the control of Banco Popular since shareholder support is mandatory for the appointment, re-election and replacement of the external auditors. Finally, the Shareholders' Meeting also participates in the control of Banco Popular since its support is mandatory for the appointment, re-election and replacement of external auditors.

In 2016, a single General Shareholders' Meeting was held at which holders of at least 200 shares could physically attend, with the legal maximum set at 1,000 shares. Shareholders with fewer than the minimum number of shares had the option of appointing a proxy, even if this person was not a shareholder, and of remotely exercising their voting and representation rights.

The Board of Directors

In 2016, the Board of Directors was increased from 14 to 15 members. They include three executive Directors (20%) and a large majority of External Directors (12 members who represent 80%). The External Directors are divided into: Four Proprietary Directors, seven Independent Directors and a Director classed as "other external".

Directors are appointed and re-elected at the proposal of the Appointments, Governance and Corporate Responsibility Committee in accordance with the provisions of the Directors Selection Policy, approved in 2015 by the Board of Directors. These proposals are submitted by the Board of Directors to the General Shareholders' Meeting for consideration. The appointment of Directors involves persons who, in addition to meeting the legal and statutory requirements that the position requires, possess the knowledge and professional experience that are suitable to the performance of their duties and good governance.

The Board of Directors consists of 15 members, 27% of whom are 55 or younger, 67% between the age of 56 and 70 and the remaining 6% older than 71 years old. 80% are men and 20% are women, while 13% are legal entities and 87% individuals. Also, 20% of them are from countries other than Spain.

In order to guarantee compliance with the duties belonging to the Board of Directors, there are five Committees with the responsibility to constantely monitor particularly relevant areas to the good Bank's governance. These committees are as follows:

- Delegated Committee
- Audit Committee
- Risk Commission
- Appointments, Governance and Corporate Responsibility Committee
- Compensation Committee

The provisions of the regulations relating to the operation of the Board of Directors are applied to Board Committees when performing their duties.

Governance Structure of the Board of Directors - 2016

Board of Directors

Delegated Committee

Executive body

Main duties:

- Take decisions regarding the daily management of the Bank through the delegation of duties by the Board of Directors, to which the decisions are reported.

Audit Committee

Consultative body

Main duties:

- Supervision of financial information..
- Propose the appointment of the external auditor.
- Supervise effective Risk Control and Internal Audit.
- Monitor compliance with legal requirements.
- Detect and manage possible conflicts of interests that may arise between the Consolidated Subsidiaries.

Risk Commission

Consultative body

Main duties:

- Advise the Board of Directors on the definition and evaluation of risk policies that involve the Group.
- Confirm that the Group possesses the means, systems, structures and resources benchmarked against best practices to allow it to implement its risk management strategy.
- Oversee the alignment of the Group's compensation policies with its risk management strategy.

Appointments, Governance and Corporate Responsibility Committee

Consultative body

Main duties:

- Ensure integrity in Directors and Senior Executives selecting process, evaluating candidate's suitability., evaluating the suitability of candidates.
- Supervise compliance with good governance rules and make proposals for their improvement.
- Propose the Annual Corporate Governance Report and Integrated Report, ensuring compliance with the Group's Corporate Responsibility strategy

Compensation Committee

Consultative body

Main duties:

- Propose the Remuneration Policy for Directors and senior managers to the Board of Directors.
- Overseeing compliance with the Remuneration Policy set by the Board of Directors.
- Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

Evaluation

The Board of Directors has implemented Self-control guidelines and examines the quality and efficiency of its own operations and those of its Committees annually, as well as the performance of the Chairman of the Board and the CEO.

Upon the approval of the Annual Corporate Governance Report, after receiving a report from the Appointments, Governance and Corporate Responsibility Committee, the Board of Directors examines compliance with good governance recommendations and the application by the Board and its Committees of the rules established in the Articles of Association, its own regulations and the regulations governing the General Meeting. In addition, on an annual basis, the aforementioned Committee evaluates the degree to which the Board Regulations have been applied, together with the operation of the bank's General Meetings, the results of which are reported to the Board of Directors.

In 2016, in line with the continuous assessment of the Board and Senior Management, the Board of Directors, with the involvement of the Appointments, Governance and Corporate Responsibility Committee, continued to apply and oversee the Suitability Assessment Policy for Directors, General Managers and similar positions, the persons responsible for internal control functions and other key posts relating to the daily management of the banking activity. All of this was undertaken in accordance with the provisions of Article 25.1 of the 2014 Law on the Organisation, Supervision and Solvency of Credit Institutions (hereinafter "LOSSEC") and its norms. This Policy is intended to establish the internal procedures and policies at Banco Popular to select and evaluate candidates for positions that are considered to be essential to its activity.

Equally during 2016, pursuant to the 2014 LOSSEC, the incompatibilities of Directors and senior managers of the Bank with regard to the positions held in companies different to Banco Popular Group have been reviewed.

Training

In order to continue furthering the ongoing training of Board Members, training modules on various subjects can be accessed on the Directors' website, such as the Prevention of Money Laundering, the Personal Information Protection Act, Corporate Responsibility and Regulatory Compliance, or modules on general corporate matters for new members of the Board. To this, it should be added that there have been training sessions for Directors in matters such as Regulation of market abuse, financial derivatives, transformation and digital strategy, mortgage portfolio and the new Annex IX of Banco de España Circular 4/2004.

Moreover, the Transversal Corporate Responsibility Training Plan 2014-2016 includes specific training initiatives for Directors aimed at standardising concepts relating to environmental and social performance and good governance of the entity, and also at showing the bank's actions in this field.

Compensation

In 2015, the Board of Directors, upon the proposal of the Compensation Committee, submitted to the proposal to approve a Compensation Policy of Banco Popular to the Ordinary General Shareholders' Meeting held on 13 April 2015.

Banco Popular's Compensation Policy distinguishes between the compensation system that applies to Directors in their capacity as Directors and the system that applies to Executive Directors. Directors' compensation consisted of a fixed amount of 120,000 euros for all members of the Board of Directors.

Pursuant to the Compensation Policy for 2016, approved in 2015, a system of bonuses payable in Banco Popular shares for this year to members of the entity's management team, including Executive Directors and members of Senior Management was approved.

This system of medium- and long-term bonuses provides for payments being made gradually over the course of several years, in order to align them with the creation of long-term value and the risk timeline. When calculating bonuses, the professional performance of the persons concerned, the attainment of previously established objectives and their alignment with prudent risk management, as well as the result of the offices concerned and the entire Group's business, are all taken into account. In 2016, Popular has continued including sustainability indicators based on ESG criteria in the calculation of bonuses payable to Directors and Senior Management.

The weight of the bank's performance when establishing compensation for Executive Directors is particularly reflected in the entity's Compensation Policy, without prejudice to the general compensation criteria for the rest of the personnel of the bank and its subsidiaries. This Policy takes into account habitual criteria in the market and, in particular, those in the financial sector. In the event the entity incurs losses in any year included in the deferral period, the portion of the compensation not deferred will be subject to recovery, retention and return clauses.

Executive Management

There is a clear separation of duties between the Chairman and the CEO; the former is the Chairman of the Board of Directors and is responsible for the bank's overall strategy, while the latter focuses mainly on the daily management of the business. The existence of two positions and their different duties is in line with the best corporate governance standards and the provisions of both Article 88.1 of CRD IV (Capital Requirements Directive) and Article 29.4 of LOSSEC; furthermore, it ensures the smooth functioning of the entity, avoiding the excessive accumulation of duties within the same post.

The CEO is supported by the Management Committee, which he chairs, and which consists of one General Manager, three Deputy General Managers and seven Assistant General Managers. All of the 12 members of the Management Committee are Spanish nationals and the average age is 49.54 years.

Each of the components of the Management Committee has been delegated broad authority within the area of their respective competencies. The Management Committee analyses and decides upon proposals made by the different business areas, giving the General Management a broader and more thorough view of these areas, and undertakes the implementation and practical application of policies established by the Group.

Operating principles

Based on the values of Banco Popular, the Corporate Governance model includes the several types of capital and relationships with stakeholders. The management of these capitals based on corporate culture and values has resulted in a sustainable and environmentally-friendly business model.

Good Corporate Governance practices

In 2016 Banco Popular has continued to consolidate its Corporate Governance practices in accordance with its policy of continually adapting to meet the highest Good Governance standards. In this regard, it is worth noting that the bank complies with 96% of the recommendations set out in the New Code of Good Governance.

During this year, we can highlight the following milestones:

- **Changes in the make-up of the Board of Directors:** in 2016, the Board of Directors underwent intense and profound changes in its make-up, some of which will be finalised in 2017.

  Ordered chronologically, these changes have been:

  Change in proportion of Independent Directors and Proprietary Directors: Pursuant to the recommendations of Good Governance and upon a report from the Appointments, Governance and Corporate Responsibility Committee, the Board of Directors agreed to propose various Director appointment and re-elections to the 2016 Ordinary General Shareholders' Meeting which, together with the exit of certain Directors has led to a significant change in the make-up of the Board of Directors in two ways: the deduction of the proportion of Proprietary Directors and the increase in Independent Directors.

  In regard to the reduction in the number of Proprietary Directors: this reduction was the result of, on one hand, the resignation submitted by Fundación Barrié at the beginning of 2016 and the change in classification of Mr José María Arias who is now classified as "other external" as opposed to a Proprietary Director.

  In terms of the increase in the number of Independent Directors: with the appointment at the Ordinary General Shareholders' Meeting on 11 April 2016 or Ms Reyes Calderón, Mr José Ramón Estévez and Mr Vicente Pérez, the number of Independent Directors in the bank has reached 47%..

  Replacement of the CEO: The Board of Directors, in its July meeting, agreed to accept the resignation of Mr Francisco Gómez as Director and the appointment of Mr Pedro Larena as CEO.

  Succession process of the Chairman of the Board: In the meeting held by the Board of Directors on 1 December, the Board unanimously agreed to open a succession process of the Chairman, Mr Ángel Ron, proposing he be replaced by Mr Emilio Saracho. This substitution has culminated in the Extraordinary General Meeting on 20 February 2017.

  All these changes have demanded an intense activity in terms of the selection and assessment process of the candidate Directors, allowed the Directors' Selection Policy, approved in 2015, to be put into practice and fine-tuned, as well as the Succession Plan for the CEO and Chairman, approved in April 2016. This has meant that the Board has a high degree of knowledge, experience and diversity which ensures that the bank is prepared for future challenges.

- **Approval of the Succession Plan of the Board of Directors:** again following sectoral recommendations and best practices, the Board of Directors, at its meeting on 11 April 2016, approved the Succession Plan of the Board, a document which structures the succession process of the directors in general and for key roles in its organisations such as its chairman, CEO, coordinating independent director and secretary.

Risk Management in the Banco Popular Group

Popular takes a disciplined, diversified and integral approach to risk management by enhancing internal governance which promotes control and prudent risk management and the qualification of the entity's professionals, establishing risk policy criteria aimed at achieving a Medium-low risk profile, ensuring at all times that the Group performs its commercial activity and business expectations within the established risk limits and objectives.

Based on its business model, the main risks to which the Group is exposed are credit and liquidity risk.

Main governance and control bodies - 2016

General Shareholders' Meeting

Governance and Control bodies

Committees of the Board of Directors

- Delegated Committee
- Audit Committee
- Risk Commission
- Appointments, Governance and Corporate Responsibility Committee
- Compensation Committee

Management Body

- Management Committee

Control and Transparency Bodies

- Internal Control Body
- Internal Code of Conduct Surveillance Body in the Securities Markets
- Internal Control Body in the Asset Management Area
- Personal Data Protection Committee
- Code of Conduct Observance Unit
- New Products Committee

Control Offices

- Internal Audit
- Compliance
- Money Laundering Prevention
- Risk Monitoring and Control
- Control
- Operational Risk
- Computer Security
- Risk Control

Regulatory Compliance

Regulatory Compliance performs its role transversally and under the principle of independence in the Entity, assessing the control mechanism on the regulatory risks which together affect the activities and businesses developed by the Group in accordance with ehtical behaviour.

Its main duties include:

- Periodically identifying and assessing possible risks of regulatory non-compliance.
- Advising and assisting the governing bodies on regulatory compliance matters.
- Establishing effective controls in order to ensure the correct implementation of procedures established to mitigate compliance risks.
- Identifying possible deficiencies and reporting them to Senior Management, the Audit Committee and the Board of Directors, proposing corrective measures where applicable.
- Managing relations with regulatory and supervisory bodies (Spanish National Securities Market Commission, Banco de España and SEPBLAC (Executive Money Laundering Prevention Service)) in a timely and appropriate manner.
- Collaborating on the development of training programmes on regulatory compliance matters with a view to raising awareness among the organisation's employees.

In the area of Regulatory Compliance, among others, it is worth noting the compliance risks related to the following issues:

- **Prevention of money laundering.**

  Banco Popular works with the competent authorities, analysing and reporting, if appropriate, any transactions that present indications of being related to such activities to SEPBLAC. In addition, Banco Popular diffuses relevant aspects on the matter. The include the Prevention of Money Laundering and Financing of Terrorism, with the obligations and procedures related to the prevention of money laundering. Given the importance of this matter, a mandatory course has been rolled out to the entire workforce. In 2016, Banco Popular was not subject to any penalty with respect to the prevention of money laundering.

  The Internal Control Body (OCI) is responsible for applying the prevention of money laundering policies and procedures. With the support of the Money Laundering Prevention Office, they oversee and ensure the functioning and updating of the systems, as well as the correct application of procedures for the prevention of money laundering and the financing of terrorism.

- **Conflicts of interest management**

  Banco Popular's Conflicts of Interest Management Policy establishes the pertinent mechanisms and measures which effectively prevent conflicts of interest which may arise between the consolidated subsidiaries, persons belonging to them or those of certain persons linked with it and their customers, as well as between their customers, and which may be detrimental to said customers in the provision of investment services, as well as to effectively manage said conflicts of interest.

  With regard to the communication to interested parties of conflicts of interest in the cases in which the measures established to manage conflicts of interest do not result, in the opinion of the group, of being reasonably sufficient to avoid the risk becoming detrimental to the customer, the consolidated subsidiaries must inform them of the nature of the conflict and of the other circumstances which enable them to make a decision on the contracting of the investment service in the context under which the conflict of interest arises.

- **Data protection.**

  In order to efficiently protect information, the Group has adopted internal action rules framed in the Information Systems Security Policy. As a culmination, the LOPD Committee meets periodically to analyse, ensure and verify that all the guidelines established in the Organic Law on Data Protection (LOPD) are complied with as established.

  Furthermore, employees also have an area on the Intranet with the internal regulations and legislation regulating the treatment of information received from customers when providing services by the Group. This section also contains a circular letter that includes practical criteria to comply with the Data Protection Act. The Group thus ensures that its employees know and apply the necessary measures for properly protecting customers' personal data.

- **Corporate Conduct.**

  Popular rolled out an overall corporate conduct programme to establish an analysis of risks in this area, together with the implementation of measures and controls to validate compliance. This programme, set out in the Code of Conduct and the Action Guidelines for employees, establishes the principles, general rules and action guidelines, as well as their practical application.

  With a view to ensuring compliance with the Code of Conduct and the Action Guidelines for employees, the Observance Unit is tasked with supervising and establishing lines of action regarding Corporate Defence and coordination of the Whistleblower's Channel. In 2016, a Code of Conduct course was given through the conoce+ platform of which taking and passing it was mandatory for the entire Group workforce.

  The Whistleblower's Channel is the system through which all employees may confidentially report, strictly confidentially, to the Supervisory Unit any violations of the Code of Conduct on the part of any employee or entity subject to compliance. In 2016, no complaints of a criminal nature were received through this Channel.

  Furthermore, there are Codes of Conduct for Suppliers and Agents, respectively, whose purpose is to ensure that these two groups exercise their business activity legally respecting ethical principles at all times.

  Since 2005, Banco Popular has maintained its commitment to the principles contained in the United Nations Global Compact, as it has repeatedly stated, and there have been no incidents violating this in 2016.

- **Stock Market.**

  The compliance risks associated with the Bank's trading activities on the stock market are identified and analysed, including those relating to the development of new products and business practices, ensuring that the rules governing transparency and customer protection are observed. The work carried out by the Internal Code of Conduct (ICC) Surveillance Body is of particular importance, as it ensures employees' compliance with the internal rules regarding stock markets.

Internal Audit

The Internal Audit area works based on the principles of independence, objectivity and impartiality. Its responsibility is channelled directly through the Audit Committee, and in carrying out its tasks it complies with the principles established by regulators. It is strategically focused on supervising the control environment, verifying the mitigating efficiency of controls in place in the management processes of the different risks posed by the Group's activities via auditing compliance, operations and management.

Its main objective is to assess the appropriateness of the procedures established in the Group's various units to manage risks, including issuing and monitoring the corresponding recommendations for improvement. It keeps Senior Management and the Board of Directors' Audit Committee permanently informed of the results of its work and of the degree of implementation of the recommended improvement measures by the audited offices. It proposes an Annual Audit Plan to the Audit Committee, for the latter's approval, which it draws up based on a process of risk assessment, regulatory requirements and the concerns of the Board of Directors and Senior Management.

In 2016, 58.19% of the total number of branches and 15.6% of all companies were audited: 1,012 out of a total of 1,739 and 15 out of a total of 96, respectively. In addition, 129 audits were performed on Central Services, 10 on liquidity risk, market risk and interest rate risk, as well as 98 Risks and IT audits. Through the latter, the Bank has supervised aspects such as the internal models on Credit and Operational Risk, Database Security and Prevention of risk of information leakage, ICAAP, ILAAP, Prudential Relevance Report, Risk Appetite Framework (RAF), Internal Control System on Financial Reporting (ICSFR), marketing of the Bank's Capital Increase in 2016, among others.

Supervision and external control

The Group's activity is subject to the supervision of competent institutions, such as, among others, the Single Supervisory Mechanism (made up of the European Central Bank and Banco de España), the National Securities Market Commission and the Directorate General for Insurance and Pension Funds at the Ministry of Finance, as well as the Executive Money Laundering Prevention Service.

The purpose of these organisations is to protect financial service consumers, ensure the stability of the financial system and the transparency and efficiency of markets. The Banco Popular Group permanently cooperates with supervisory authorities to help them comply with their tasks, particularly with regard to its commitment to transparency in market reporting.

In 2016 no sanctions were received deriving from any failure to comply with regulations governing competition and monopoly practices.

2

Banco Popular Group financial highlights

Data in thousands of euros	31.12.2016	31.12.2015	VAR. %
BUSINESS VOLUME			
Total assets managed	168,050,719	179,431,235	(6.3)
Total on-balance sheet assets	147,925,728	158,649,873	(6.8)
Own funds	11,364,901	12,719,992	(10.7)
Customer funds	84,641,529	85,420,921	(0.9)
Loans and advances to customers - gross -	104,296,718	107,085,210	(2.6)
SOLVENCY			
Total capital ratio (%)	12.13	13.14	
Tier 1 ratio (%)	12.13	13.14	
CET 1 ratio (%)	13.15	13.8	
Phase-in Basel III leverage ratio (%)[1]	5.31	6.23	
RISK MANAGEMENT			
Total risks	134,162,738	142,582,977	(5.9)
Non-performing loans	19,601,578	18,339,525	6.9
Credit loss provisions	10,243,088	7,793,422	31.4
Non-performing loans ratio (%)	14.61	12.86	
% Coverage ratio of non-performing and written-off balances	62.26	55.16	
% Coverage ratio of non-performing and non written-off balances	52.26	42.5	
Coverage ratio with guarantees (%)[(2)]	104.36	103.17	
NPL and REO Coverage Ratio (%)[(3)]	45.48	39.06	
NPA Coverage Ratio (%)[(4)]	46.24	39.42	
EARNINGS			
Net Interest Income	2,096,588	2,251,236	(6.9)
Gross income	2,825,752	3,430,911	(17.6)
Net operating income (pre-provision profit)	797,801	1,689,471	(52.8)
Profit/(loss) before tax	(4,888,482)	114,184	>
Consolidated profit for the year	(3,485,361)	105,934	>
Profit/(loss) attributable to the parent company	(3,485,366)	105,432	>

1. Phase-in Basel III Leverage ratio according to CRR
2. Risk Coverage ratio including the maximum amount of guarantees in accordance with FINREP criteria
3. Coverage rate of debts and properties including the provisions for floors. This rate excluding the provisions for floors would have stood at 38.06% in 2015 and 44.12% in 2016.
4. Does not include assets for rent. The NPAs rate excluding the provisions for floors would have stood at 38.38% in 2015 and 44.81% in 2016.

Total on-balance sheet assets	Gross lending to customers (ex repos)	Customer funds
147,925,728	**97,595,078**	**84,641,529**
Thousands of euros	Thousands of euros	Thousands of euros

Net operating income (pre-provision profit)	Coverage ratio of non-performing balances (*)	CET 1 ratio (%)
797,801	**52.26%**	**12.13%**
Thousands of euros	(data in %) (*) without write-offs	(data in %)

Data in thousands of euros	31.12.2016	31.12.2015	VAR. %
PROFITABILITY AND EFFICIENCY			
Average total assets	154,809,076	158,337,221	(2.2)
Average risk-weighted assets (ARWA)	74,096,323	78,880,371	(6.1)
Average shareholders' equity	13,960,799	12,727,360	9.7
ROA (%)	(2.25)	0.07	
RORWA (%)	(4.7)	0.13	
ROTE (%)	(47.33)	1.2	
Operating efficiency (%)	66.79	46.74	
PER SHARE DATA			
Final number of shares diluted (thousands)	4,196,858	2,165,075	93.8
Average number of shares (thousands)	3,186,318	2,152,184	48.1
Closing listed price (euros)(5)	0.92	3.04	(69.7)
Market capitalisation(6)	3,852,716	6,588,323	(41.5)
Share book value (euros)	2.71	5.88	(53.9)
Earnings per share (euros) (7)	(1.094)	0.049	>
Price/Book value	0.34	0.52	
Price/Earnings (annualised)	(0.84)	61.87	
OTHER DATA			
Number of shareholders	303,251	270,114	12.3
Employees	11,948	15,079	(20.8)
Spain	10,671	13,480	(20.8)
Men	6,083	8,318	(26.9)
Women	4,588	5,162	(11.1)
Abroad	1,277	1,599	(20.1)
Men	717	941	(23.8)
Women	560	658	(14.9)
Branches:	1,739	2,124	(18.1)
Spain	1,604	1,936	(17.1)
Abroad	135	188	(28.2)
Number of ATMs	2,368	2,554	(7.3)

5. Listing of previous period adjusted for the effect of the capital increase.
6. Calculated on the shares in circulation
7. Calculated using the average number of diluted shares.
The Group's consolidated financial statements at 31 December 2016, whose audit is finalised, were prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which are the same as those used to prepare the audited financial statements presented in the Annual Report for 2015.

Data in thousands of euros	31.12.2016	31.12.2015	VAR. %
CONSOLIDATED BALANCE SHEET			
ASSETS			
Cash and cash balances at central banks and other demand deposits	3,278,808	5,465,713	(40.0)
Financial assets held for trading	2,103,849	1,285,883	63.6
Financial assets designated at fair value through profit or loss	553,790	535,319	3.5
Available-for-sale financial assets	15,384,097	25,193,155	(38.9)
Loans and receivables	99,104,146	105,076,291	(5.7)
Held-to-maturity investments	4,583,511	-	-
Derivatives – Hedge accounting	295,219	443,068	(33.4)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	265,519	233,228	13.8
Investments in subsidiaries, joint ventures and associates	1,865,142	1,794,009	4.0
Assets under insurance and reinsurance contracts	17,543	17,524	0.1
Tangible assets	2,195,131	1,697,785	29.3
Intangible assets	2,612,566	2,571,879	1.6
Tax assets	5,082,845	3,604,163	41.0
Other assets	1,691,884	1,685,928	0.4
Non-current assets and disposal groups classified as held for sale	8,891,678	9,045,928	(1.7)
Total assets	**147,925,728**	**158,649,873**	**(6.8)**
LIABILITIES			
Financial liabilities held for trading	1,643,755	1,043,063	57.6
Financial liabilities designated at fair value through profit or loss	604,707	599,419	0.9
Financial liabilities measured at amortised cost	131,184,666	140,508,524	(6.6)
Derivatives – Hedge accounting	1,201,865	2,013,974	(40.3)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities under insurance and reinsurance contracts	484,284	486,829	(0.5)
Provisions	534,306	383,359	39.4
Tax liabilities	397,348	513,483	(22.6)
Share capital repayable on demand			
Other liabilities	787,184	586,597	34.2
Liabilities included in disposal groups classified as held for sale	-	-	-
Total liabilities	**136,838,115**	**146,135,248**	**(6.4)**
EQUITY			
Own funds	11,364,901	12,719,992	(10.7)
Accumulated other comprehensive income	(289,278)	(221,743)	30.5
Minority interests [non-controlling interests]	11,990	16,376	(26.8)
Total equity	11,087,613	12,514,625	(11.4)
Total equity and total liabilities	**147,925,728**	**158,649,873**	**(6.8)**
MEMORANDUM ITEMS			
Guarantees granted	10,982,364	11,159,430	(1.6)
Contingent commitments granted	8,286,647	8,568,748	(3.3)

Data in thousands of euros	31.12.2016	31.12.2015	VAR. %
Consolidated Result			
Interest income	2,929,747	3,508,688	(16.5)
(Interest expenses)	833,159	1,257,452	(33.7)
(Expenses on share capital repayable on demand)	-	-	-
NET INTEREST INCOME	**2,096,588**	**2,251,236**	**(6.9)**
Dividend income	10,731	13,138	(18.3)
Share of the profit or (-) loss of entities accounted for using the equity method	59,895	47,422	26.3
Net fees and commissions	538,671	595,322	(9.5)
Net gains (losses) on financial assets and liabilities	200,728	517,260	(61.2)
Exchange differences [gain or (-) loss], net.	41,950	45,564	(7.9)
Other operating income.	138,499	196,221	(29.4)
(Other operating expenses).	260,385	227,374	14.5
Assets under insurance and reinsurance contracts income	33,501	33,241	0.8
(Liabilities under insurance and reinsurance contracts expenses)	34,426	41,119	(16.3)
GROSS INCOME	**2,825,752**	**3,430,911**	**(17.6)**
(Administrative expenses)	1,887,256	1,603,687	17.7
(Staff expenses)	1,237,465	935,833	32.2
(Other administrative expenses)	649,791	667,854	(2.7)
(Amortisation)	140,695	137,753	2.1
NET OPERATING INCOME (PROFIT/(LOSS) BEFORE PROVISIONS)	**797,801**	**1,689,471**	**(52.8)**
(Provisions or (-) reversal of provisions)	193,224	(35,028)	>
(Impairment or (-) reversal of impairment on financial assets not measured at fiar value through profit and loss)	3,863,618	1,425,587	>
NET OPERATING INCOME	**(3,259,041)**	**298,912**	**>**
(Impairment or (-) reversal of impairment on investments in joint ventures and associates)	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	381,404	(21,648)	>
Gains or (-) losses on derecognition of non financial assets and shareholdings, net	70,341	127,875	(45.0)
Negative goodwill recognised in profit or loss	-	-	-
Gains or (losses) on non current assets or disposal groups held for sale not classified as discontinued operations	(1,318,378)	(334,251)	>
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**(4,888,482)**	**114,184**	**>**
(Tax expense or (-) income related to profit or loss from continuing operations)	(1,403,121)	8,250	>
GAINS OR (-) LOSSES AFTER TAX FROM CONTINUING OPERATIONS	**(3,485,361)**	**105,934**	**>**
Gains or (-) losses after tax from discontinued operations	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**(3,485,361)**	**105,934**	**>**
Attributable to minority interests [Non-controlling interests]	5	502	(99.0)
Attributable to owners of the parent	(3,485,366)	105,432	>
Basic earnings per share	(1.094)	0.050	
Diluted earnings per share	(1.094)	0.049	

3 Banco Popular Group in 2016

Key aspects

In an environment in which interest rates remained low and the deleveraging of credit continued, in in 2016 the sector was impacted by the regulatory changes introduced by Bank of Spain Circular 4/2016 and the publication of the judgement on the retroactivity of the mortgage 'floor' clauses.

At Popular, this year was marked by the non-recurring balance sheet **clean-up** exercise and the conclusion of **the operating optimisation plan**, one of the objectives of which was to reduce costs.

These events had an impact on earnings, NPA volumes, and therefore on the resulting capital and coverage levels, which were slightly lower than the expected ones.

The **plan for optimising productive capacity** came to a successful conclusion and will bring annual cost savings of c. €200m. The transformation of the operating model, with the focus on efficiency and centralised operations, will result in greater agility and sales time being freed up.

The real estate business has created a **specialised real estate network** which has begun to see results.

For its part, the **main business** continues showing good performance and a **high recurring profitability**, with volumes and credit take-up rates on the rise.

Profit/(loss) for the year

The year ended with **losses of €3,485m** after the provisions that amounted to €5,692m and included, among others, non-recurring provisions for NPLs and REOs, mortgage floors and Targobank's goodwill impairment.

Excluding these non-recurring items, there would have been a profit of €185m, **with the Core Business recording a profit of €998m,** and the **Real Estate Business recording losses of €813m.**

Net interest income has been adversely affected by the low interest rates which continue to impact negatively on net interest income, due to repricing. This has been partially offset by the lower cost of wholesale and retail funding and greater profitability on new contracts. The evolution of the eligible portfolio for TLTRO-II funding has allowed a saving of 40bp in the fourth quarter.

Fees and commissions have declined despite their improvement in recent months due to the support of other specialised businesses such as Insurance and Asset Management.

Income from the equity method has improved by 26.3% in the year due to the negative impact Targobank's losses had (-71 million euros) as a result of their non-recurring provisions. Income from shareholdings and Joint Ventures with specialised companies shows a good evolution. Allianz (insurance, investment funds and pension plans) and WiZink (revolving credit) are the investee companies with the greatest contribution to profit.

Gains/Losses on Financial Assets and Liabilities in 2016 stand at 201 million euros, mainly due to low contribution and negative valuation on fixed-income portfolio positions sales, which have had a negative impact of -107 million euros. The restatement of these positions to current levels will lead to an improvement in net interest income in upcoming years of 60 million euros a year.

Once the restructuring process has been successfully closed, if we isolate its impact, **general expenses continue to decline** quarter over quarter throughout the year. The restructuring process will lead to annual savings of around 200 million euros in the next years.

High levels of provisions, standing at 5,692 million euros, **largely non-recurring**, and in part as a result of the new Circular 4/2016, the judgment on floor clauses and the 100% impairment of Targobank's goodwill.

Commercial activity

Market shares, according to the latest available data, **have grown** in the year to 7.75% for loans (+7bps) and 6.13% for deposits (+18bps)

Profitable loans, when isolated from non-recurring movements, remained stable in the year, in line with the system.

Profitability continues to be Banco Popular's **focus of commercial activity**, maintaining a differential of +32 b.p. compared to the sector's average contract rate at the end of the year with the differential increasing to +38 b.p. between the contract rate and the portfolio rate.

On the other hand, the **term deposits contract rate** has continued to fall throughout the year, with the rate at 0.18% on new contracts in the last quarter, closing the gap with the sector contract rate and -33 b.p. below the portfolio rate.

Good performance in deposit volume, with retail deposits growing 2% in the year. LTD ratio stands at 103.5% and LCR at 135%; much higher than regulatory demands.

Banco Popular continues to **lead in SMEs** with a market share of 17.7% (+120bp in 2016) and a contract rate in this segment +47bp higher than competitors. SMEs continue to represent more than 63% of annual production.

Popular Consumo, of which WiZink is a part, has increased its leadership position in revolving credit after integrating BarclayCard last November.

Risk management

Popular has carried out a non-recurring reclassification exercise which will allow for the future normalisation of entrances into default. This exercise has caused an increase in NPAs in the year which, along with non-recurring provisions, place the NPA coverage at 46%.

Analysing the ordinary movements, a normalisation of entries into default is seen which, during 2016, had reduced 17%. Recoveries have also had a good performance supported by the specialised management of the real estate business which started to give results with sales in December of 628 million euros of which 535 million euros are non performing assets.

Retail real estate sales continue the positive trend seen in the previous quarter, with increases of 8% in the year.

Solvency

The CET1 phased-in ratio at the close of 2016 stood at 12.13% which leaves a wide gap over the SREP regulatory level. The exceptional nature of the quarter places the Fully Loaded ratio at the end of 2016 at 8.19%.

4 Macroeconomic environment

1. Introduction

The year 2016 was marked by strong growth in Spanish GDP, in addition to a general improvement in the main macroeconomic variables. GDP in Spain posted four consecutive quarters of growth, reaching 3.2% for the year. The -10.9 percentage point reduction in the year-on-year unemployment rate to 18.6% in December 2016 is also worth to mention, thus maintaining the downward trend started in 2013, although current levels are still higher than most other developed countries.

Last October, the International Monetary Fund lowered its outlook on global economy growth for 2016 and 2017, mainly due to the impact of United Kingdom's decision to leave the European Union ("Brexit") and the greater weakening of forecast growth for the United States. These factors have sharpened the downward pressure on global interest rates, and monetary policy is expected to maintain an accommodative stance for longer. However, markets reaction to the Brexit shock has occured in a orderly manner, even if its consequence is yet unclear, since the fate of institutional and commercial agreements between the United Kingdom and the European Union is uncertain. The presidential and legislative elections held in the United States on 8 November were met with the unexpected victory of Donald Trump and with some Republican majorities, both in the House of Representatives and in the Senate. Although initial market reaction was negative, this trend reversed shortly afterwards in the main advanced economies.

Additionally, the short-term outlook for China has alleviated compared to the previous year thanks to the adoption of policies which are encouraging growth. Regarding commodities, on 30 November OPEC countries reached an agreement to restrict global crude oil production, to which the producing countries who are not members of the organisation subsequently added. This decision could have contributed, by boosting expected inflation, to reinforce the upward movement of sovereign debt yields.

The eurozone maintained positive growth, although this has been accentuated in recent months because of the prices of raw materials. Specifically, GDP grew by 0.1% in the second quarter, 0.4% in the third and an estimated 1.1% in the fourth.

In the European context, the European Central Bank's expectations of a low inflation period (decisive in monetary policy decisions) proved accurate, and in December the decision was taken to extend the quantitative easing programme until December 2017 or until inflation reaches the target of 2%, as well as reducing the deposit facility rate to -0.3%.

Spanish sovereign debt rates remained low throughout 2016, mainly due to the accommodative monetary policy applied by the European Central Bank. All these events, as well as improved expectations regarding Spanish economic situation, were reflected in the sovereign risk premium evolution, which ended the year at 118 basis points.

The divergence between the monetary policy applied by the US Federal Reserve and that of the European Central Bank has continued driving the euro down against the dollar, the exchange rate ending the year at 1.05 USD-EUR.

Again the challenges facing the Spanish economy should be noted: unemployment, demographic, fiscal and debt sustainability; factors which require caution.

2. Production

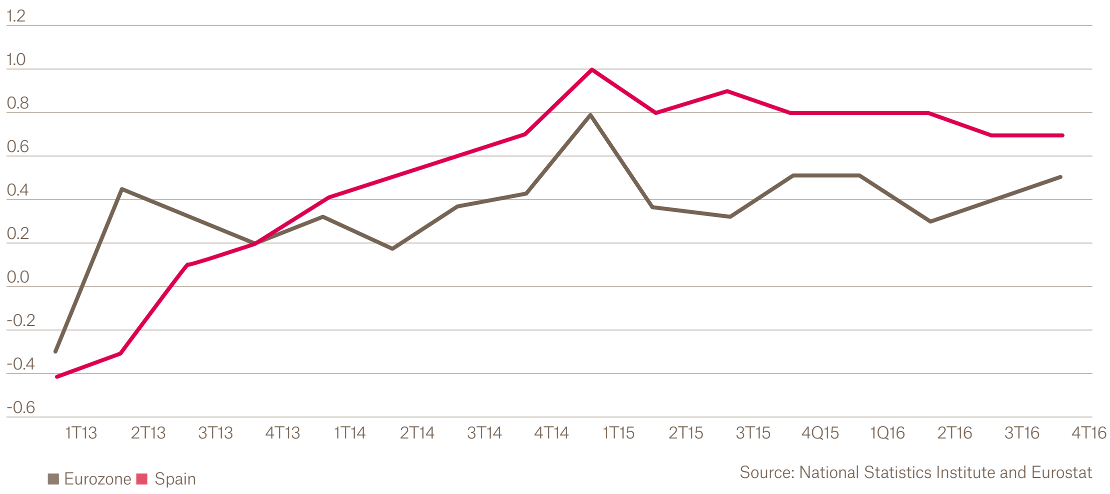
Year-on-year, Gross Domestic Product has shown significant growth in 2016 with a quarterly increase of 0.8% in the first and second quarters and 0.7% in the third and fourth. Altogether, GDP grew 3.2% in 2016, the highest rate since 2017 (3.8%).

The increase in activity is primarily attributable to improved private sector domestic demand, although leading indicators suggest this is now slowing. Furthermore, business investment maintained a positive trend, driven by an increase in available credit and better use of production capacity.

With regard to external demand in Spain, the year was marked by an increasing growth in both exports and imports. In year-on-year terms, the third quarter saw an increase of 2.8% in the export of goods and services, while imports increased by 0.9%. Thus, the contribution of net external demand to annual growth in quarterly GDP was 0.6% in the third quarter, one tenth higher than recorded in the second quarter.

In the Eurozone, growth remained positive, although lower than the historical trend. Specifically, GDP grew by 0.5% in the first quarter, 0.3% in the second, 0.4% in the third and an estimated 0.5% in the fourth quarter; in total, GDP grew by 1.8% in 2016 according to the latest estimates of the European Commission. In addition, foreign trade increased in the first two quarters of the year, but not in the third, which saw a quarter-on-quarter decline of -1.8%. Exports and imports have shown an increase in the third quarter of 0.1% and 0.2% respectively.

Figure 1: Quarterly evolution of real Gross Domestic Product in Spain and the Eurozone



Source: National Statistics Institute and Eurostat

3. Employment, salaries and costs

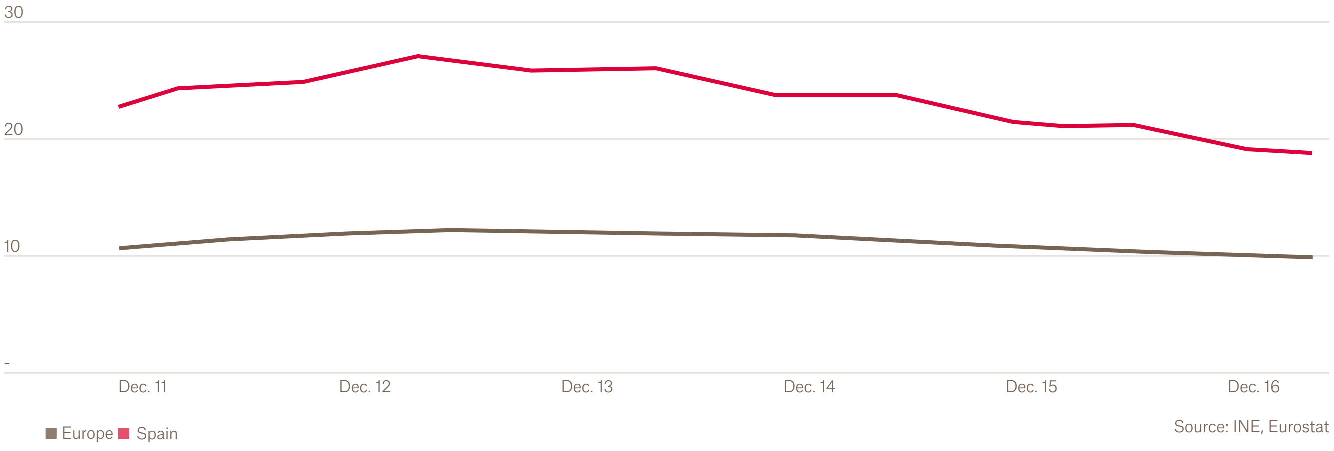
The downward trend in the unemployment rate kept going in 2016. Since peaking in the first quarter of 2013 at 26.9%, the rate had fallen to 18.6% by the fourth quarter of 2016. While the trend is indeed positive, the unemployment rate is still higher than in the great majority of advanced economies.

Remuneration per employee continued to grow, although steadily, during 2016, with zero year-on-year growth in the first quarter, 0.3% in the second and 0.1% in the third quarter (figures corrected for seasonal and calendar effects).

In terms of labour costs, while in 2015 the year-on-year change was zero at the end of the year, 2016 saw a slight decline, with a cumulative decline up until the third quarter of -0.2%.

In the Eurozone, the unemployment rate in the fourth quarter stood at 9.7%, its lowest level for almost four years.

Figure 2: Evolution of the unemployment rate in Spain and the Eurozone - 2011/2016



Source: INE, Eurostat

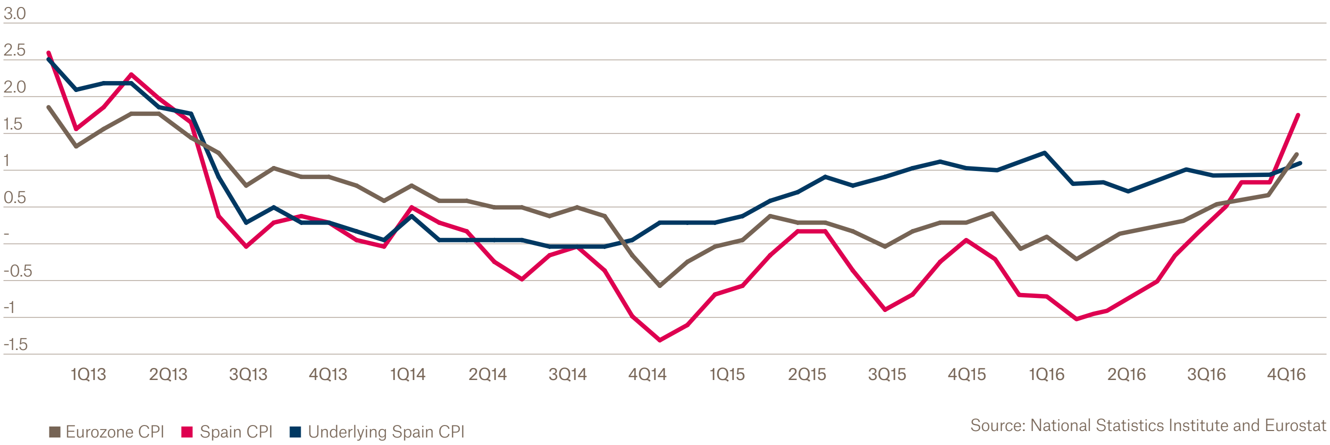
4. Prices

CPI continued its downward trend in 2016, falling every month except September, October, November and December, reaching its lowest level in April, when the year-on-year variation in the general index was -1.1%. In December the year-on-year variation in Spain stood at 1.6% compared to 0.7% in October and November. This strong variation has been due to the increase in the price of oil during the last month of the year, due to the agreement to cut production among the producing countries. The evolution in the eurozone as a whole has also been positive, with year-on-year change at 1.1% in December.

However, the negative evolution in prices over the first eight months of the year was mainly due to the effect of the variation in energy prices. Accordingly, based on the core inflation (which excludes energy prices and unprocessed foodstuffs), prices remained positive at around 0.9% in January to 1.1% in March.

In any case, low price levels led to new measures being taken by the European Central Bank, which decided to extend the quantitative easing programme until December 2017 or until the Governing Council sees a sustainable adjustment in inflation which adjusts to its target, as well as reducing the deposit facility rate -0.4%.

Figure 3: CPI evolution in Spain and in the Eurozone



Source: National Statistics Institute and Eurostat

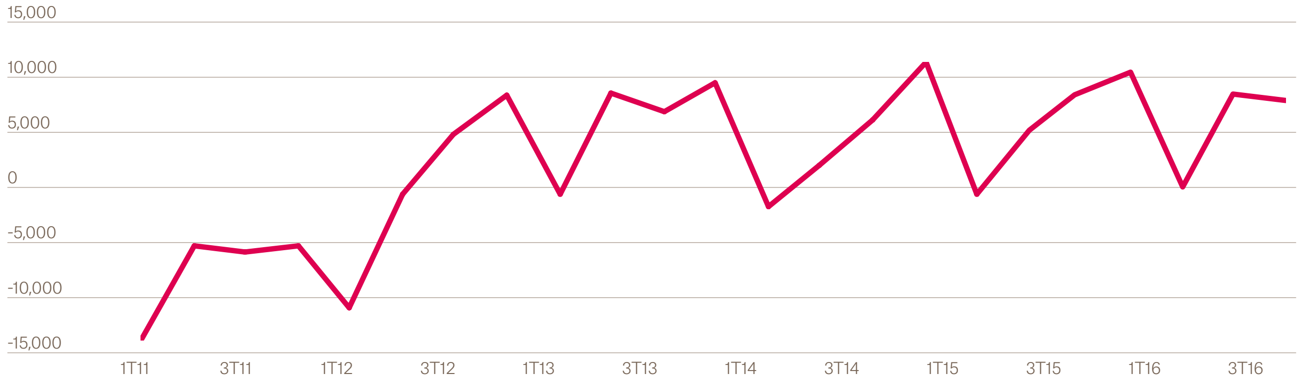
5. Public accounts and net lending of the economy

The deficit targets for Spain agreed with the European Commission stand at 4.6% in 2016 and 3.1% in 2017. According to the latest information available, in November 2016, the deficit was 3.33%.

In terms of financial debt of Public Administrations, the indicator has seen growth in recent years, standing at 98.8% in November 2016, considering year-end GDP.

The net lending of the nation as a whole evolved positively over the course of the year, even though it was lower than in previous years, as shown in the following graph. The economy has recorded a positive financing capacity in the first three quarters of the year (Q1: 69 million euros, Q2: 8,197 million euros and Q3: 7,569 million euros. (Figure 11).

Figure 4: Evolution of the net lending (+) or net borrowing (-) of the nation



Source: National Statistics Institute

6. Financial trends

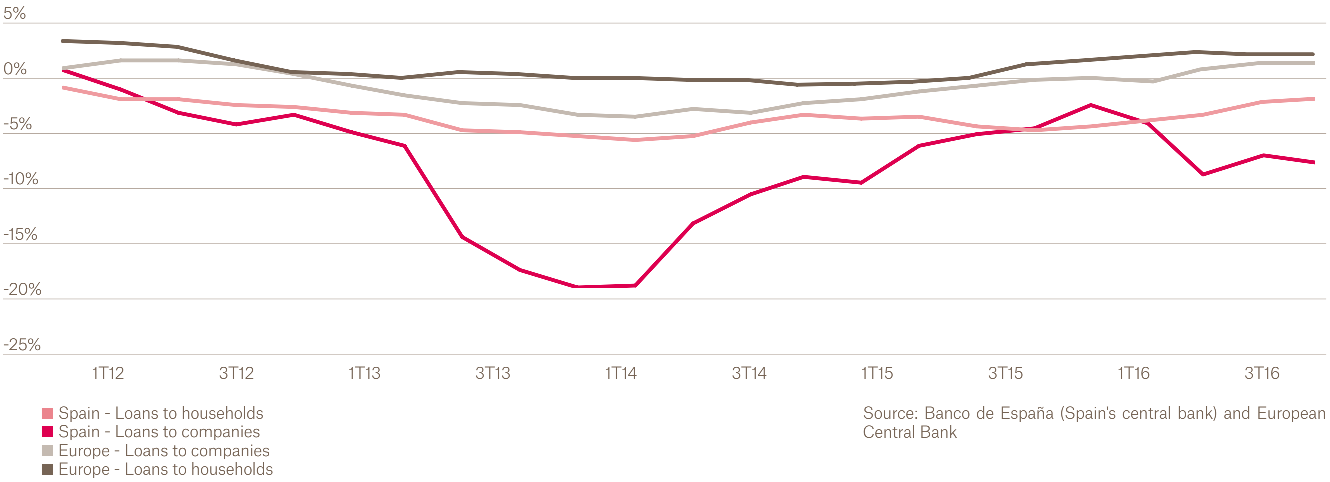
In 2016, deleveraging accentuated, with a year-on-year fall in borrowing of -4.5%[1] in November 2016 (compared with -3.2% in November 2015). Lending to companies has increased its drop in recent quarters; as a result, the year-on-year variation stood at -7.7%[2] in September, while the reduction in lending to households stood at -1.8%[3].

However, cumulative new lending in 2016 (January to November) increased compared to the same period of the previous year. New lending to corporates of less than one million euros increased by 3.2%, housing loans by 7.7% and consumer lending by 29.9%.

Non-performing loans reached their maximum level of 13.6% in December 2013. Since then the non-performing loans ratio has declined progressively to 9.2% in November 2016.

The credit trend in the Eurozone is positive. Lending to corporates and SME increased by 1.8% year-on-year in November while lending to households grew by 2.1%.

Figure 5: Private sector lending evolution



Source: Banco de España (Spain's central bank) and European Central Bank

Spanish sovereign debt rates remained low throughout 2016, mainly due to the accommodative monetary policy applied by the European Central Bank and confidence in the Spanish economy. Volatility in financial markets has been high, with 10-year Spanish bonds standing at 1.83% in January and 0.88% in September. At year-end the bond stood at 1.38%.

This set of events together with improved expectations regarding the Spanish economic situation, have been reflected in the risk premium evolution.. At the end of the year, this indicator stood at 118 basis points. (Figure 13).

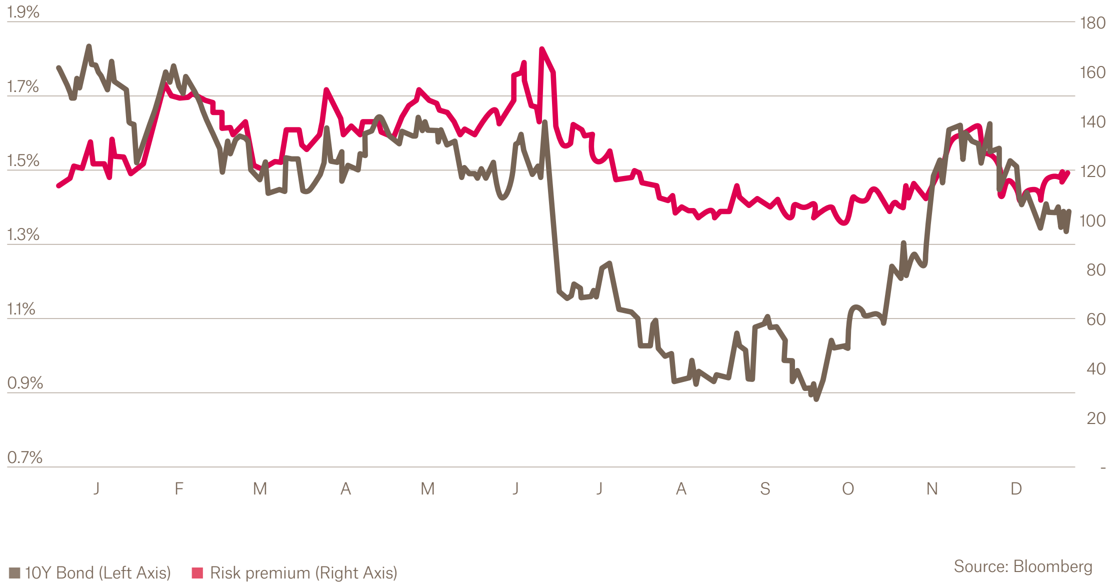
US debt market movements were determined by the increase in interest rates. At the beginning of the year, the yield on ten-year US bonds stood at 2.27%, whereas at year-end it stood at 2.44%; bonds peaked in the middle of December, when the rate stood at 2.60%.

1. Source: BdE, Statistical Bulletin 4.3.1 Lending ORS including repos.

2. Source: BdE, Statistical Bulletin 4.13.2 Lending ORS productive financing activities.

3. Source: BdE, Statistical Bulletin 4.13.3 Lending ORS household financing.

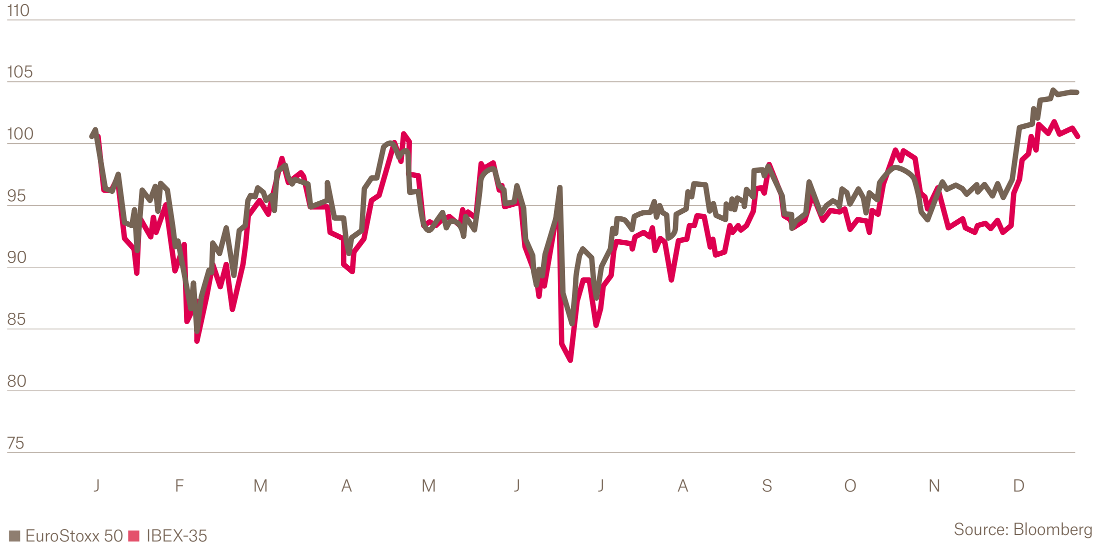
Figure 6: 10-year Spanish bond and risk premium evolution in 2016



Source: Bloomberg

2016 was marked by high levels of volatility in equity markets. At year-end, IBEX-35 index reflects an annual depreciation of -0.4% although in June it reached lows of -21.8% but subsequently recovering. Meanwhile, the Eurostoxx 50 reflects an annual depreciation of -3.82%, after a fall of -18.1% in February from the beginning of the year.

Figure 7: EuroStoxx 50 and IBEX-35 indices evolution in 2016 (base 100 = 1 January 2016)



Source: Bloomberg

Meanwhile the dollar has continued the trend it began in 2015, gaining weight against the euro during the year due to different growth expectations and the divergence of monetary policies. Thus the EUR-USD exchange rate opened the year at 1.09 and closed at 1.05, representing a negative change of 3.12%.

Figure 8: Euro-US dollar exchange rate evolution

Source: Bloomberg

7. Outlook

The major institutions' outlook for 2017 are, in general terms, optimistic for Spain and moderately positive for the Eurozone as a whole.

In Spain, it is expected that growth in 2017 will be slightly down on the levels recorded in 2016. For 2017, the main international institutions forecast growth of around 2.4%: IMF (2.2%); European Commission (2.3%) and the OECD (2.3%). These figures match with the consensus of the main Spanish institutions: Banco de España (2.5%) and the Government (2.5%). The unemployment rate is expected to continue the decline started in 2013. The consensus forecast sees it falling to 18.1% in 2017, which is still much higher than that of most developed countries. As for inflation, the consensus estimate if for average annual CPI in 2017 of 2.2%.

With regard to the 2017 outlook for the Eurozone, the forecasts of the main international institutions are as follows: growth of 1.5% according to the European Commission and the IMF; an unemployment rate of 9.7% with both the European Commission and the IMF saying 9.7% and inflation of 1.3% - European Commission 1.4%, IMF 1.1%-.

5 The Banco Popular Model

Over the years, the Bank has focused its efforts towards developing a differentiating factor with respect to the competition by constantly seeking improvements in the provision of services to customers. The firm defence of its strategy, coupled with the ability to adapt to changes in the environment, has made Popular's business model historically unique and difficult to replicate.

However, the financial system is currently undergoing a transformation and conversion process due to: profitability, pressure on margins, high financial debt and deleveraging, strong competition from new entrants and prices, the regulatory environment, the sector's digitisation and the increase in such risks as geopolitical or financial.

This transformation of the sector has led the Banco Popular Group to evolve its business model towards a commercial bank specialising in businesses, with a focus on profitability. In order to do this, two basic organisational and management pillars have materialised to place the activity into two spheres: I) main business and, ii) real estate and related business.

The new management model specialised in businesses is focused on generating value and at all times seeking to maximise profitability from the resources used. Under this framework, each business has its own measurement and assignment of objectives, together with the requirement of individualised profitability and will be based on micromanagement and specialisation with constant adaptation to its surroundings.

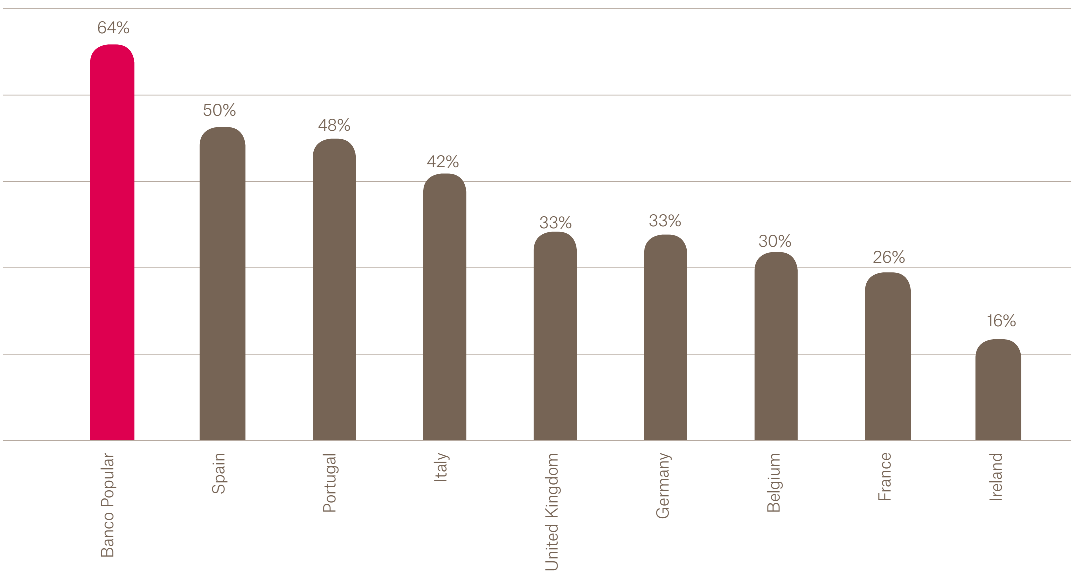
It is this defence of its strategy together with its capacity to adapt which has made Popular one of the four oldest banks in Spain and it has endowed its business model with differentiating characteristics which are based on seven pillars:

- Purely retail
- Specialised in SMEs
- Customer focused entity
- Constantly striving for efficiency
- Disciplined, diverse and integral risk management
- Proclivity to strategic alliances to develop specialised businesses
- Contribution to economic and social growth and development

Popular is a purely retail bank

Popular engages almost exclusively in commercial banking activities. Historically, the Bank has focused its activity on financing, management of savings and financial services for individuals, families and businesses. It is a leading commercial banking institution in Spain, with 64% of its business coming from loans and advances to customers, a level higher than the European average including the Spanish sector (50% on average).

Figure 9: Banco Popular is a purely retail bank (Net loans and advances to customer over total assets).

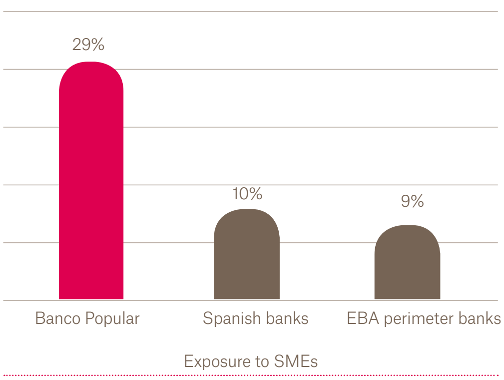


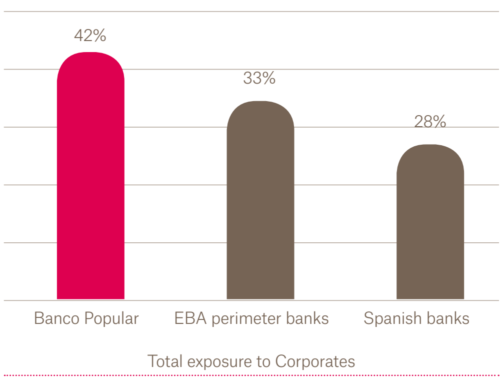
Source: ECB. Data as at October 2016, except Banco Popular as at December 2016.

Popular is the Spanish specialist SME bank

Traditionally, the entity been committed to developing the productive systems of the economies in which it is present by financing their SMEs and corporates. The entity is convinced that economic growth in Spain depends largely on the financing of self-employed persons and small and medium-sized Spanish businesses. Accordingly, growth in loans to SMEs and self-employed persons was one of the priorities in 2016 and it will continue to be so in the future.

Figure 10: Banco Popular´s specialisation in SMEs and corporates (% of Exposure to SMEs or total companies over total Exposure)





Source: European Banking Authority. Transparency exercise as at June 2016

Banco Popular's management model for self-employed persons and SMEs is based on six fundamental pillars:

i. **A strategy of specialisation, proximity and knowledge** based on current and potential customers through a highly independent commercial branch managing all operations of SMEs and self-employed persons and offers a comprehensive range of products and services to meet their financial requirements.

ii. **Customer relations based on a commercial system** and a differentiated management approach enabling it to maintain all-round visibility of SMEs, their needs and the best financial solutions for them. The Bank thus builds lasting relationships and generates greater profitability and customer loyalty.

iii. **Management of customer oriented products.** Popular's products are designed to cover 100% of the needs of SMEs and self-employed persons, and they are always geared towards completely satisfying their financial requirements. Popular provides "tailor-made" solutions for its customers, which is one of the outstanding features of its business model. This customization of the products offered and when setting prices is always oriented towards maximizing satisfaction and overall profitability of the customer. These efforts are made after analysing customer financial needs in detail, together with the risk and the specific characteristics of the sector in which the customer operates.

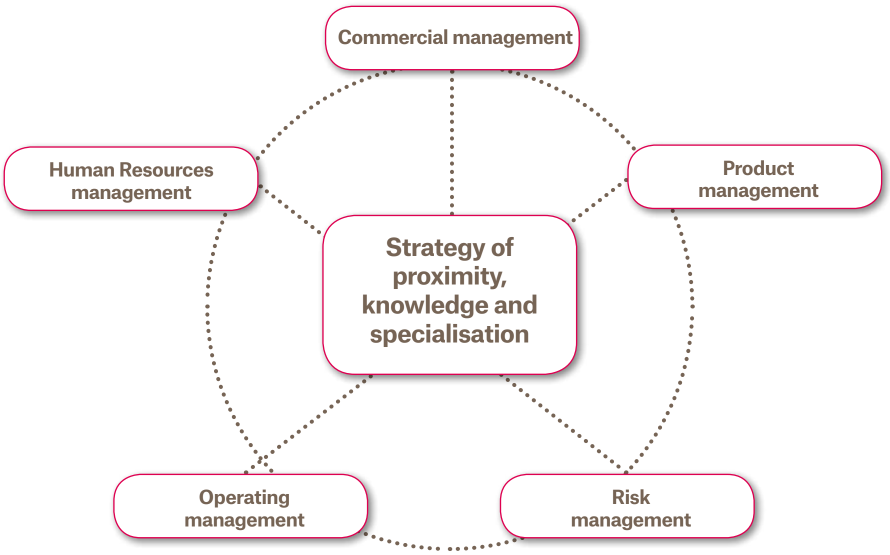
iv. **Conservative, agile, precise and specialised risk management.** Popular's process for analysing the risk on SMEs and self-employed persons is one of the most efficient in the Spanish financial sector. Popular's risk management has been adapted to support the new business model based on specialisation and allowing a global view on risk analysis, a forward-looking view in the analysis, allowing it to maintain a balanced balance sheet in terms of risk and to minimize the cost of risk adjusted to profitability.

This is thanks, on one hand, to Popular's commercial teams' extensive know-how and the tools at their disposal for analysing SME credit risk, and on the other hand to the credit approval system, designed and automated at branches, territorial and central services level, which makes for a streamlined process supported by highly systematised and specialist internal risk channels that are very close to the customer. The risk profile of SMEs and self-employed persons gives rise to high barriers to entry into the business and gives Banco Popular a competitive advantage due to its long-standing experience.

v. **Centralised and efficient operations management.** In order to respond to problems raised by SMEs and self-employed persons, Banco Popular has centralised back-offices that carry out administrative tasks for the branch network and this allows customer needs to be managed quickly and in a specialised manner.

vi. **Continuous management close to people.** Banco Popular continually develops a career and training plan for employees which focuses on the long term and ensures growth, motivation and the transfer of values; it is a key tool for managing talent within the entity.

Key components of the management model for SMEs and self-employed persons

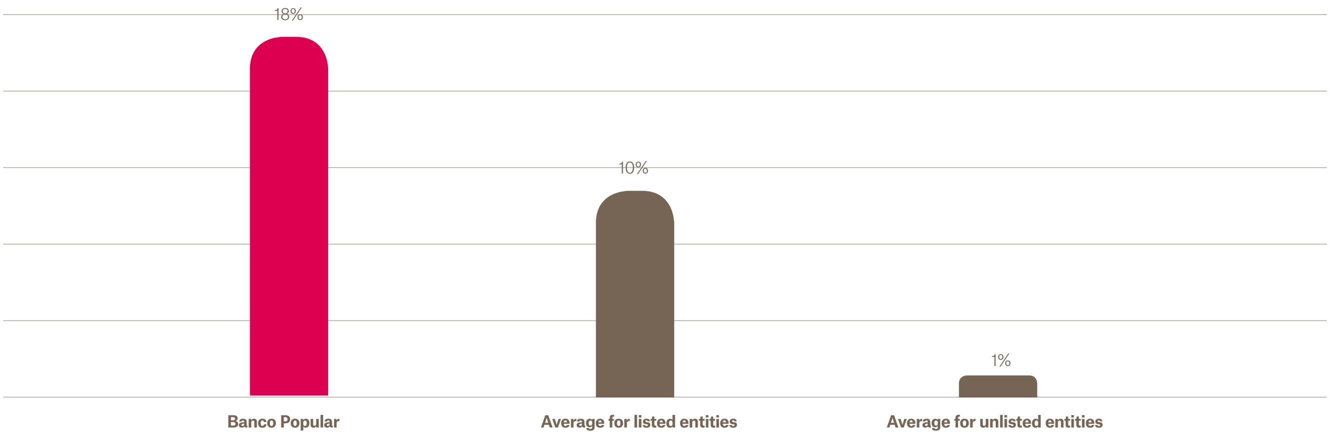


As a result, Banco Popular has developed strong competitive advantages in the SME and self-employed segment with a leading market share, focusing on transactional products, strong customer loyalty and the productivity of the commercial network.

Leadership in SMEs is shown in the business figures.

- More than 38,000 million euros in financing for SMEs and self-employed persons in Spain.
- A million self-employed and SME customers.
- One out of four SMEs is a customer of Banco Popular.
- High level of specialisation, through more than 1,700 branches and more than 1,000 company managers throughout Spain.

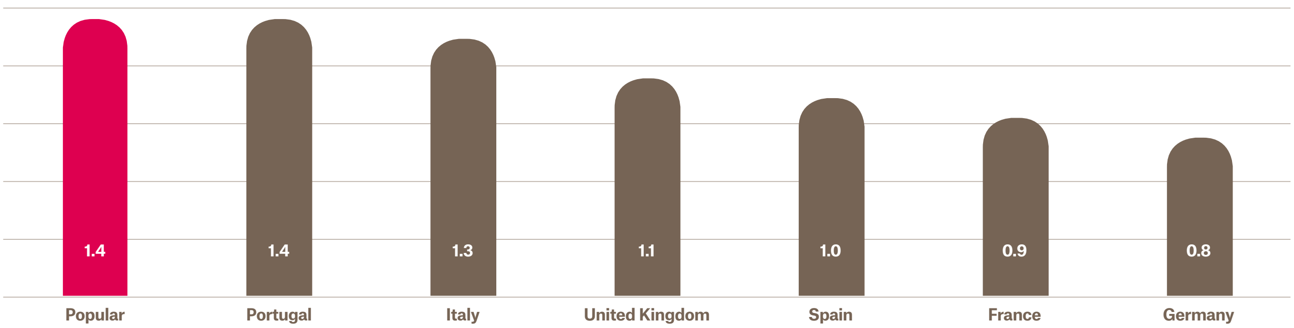
Figure 11: Estimate of SME market share in Spain (%)



Source: EBA. Transparency Exercise, June 2016

Its retail business model, oriented toward small and medium-sized businesses, associations, self-employed persons and Spanish families, has enabled it to attain greater levels of profitability than European domestic banking.

Figure 12: Net interest income ratio to average total assets in %



Source: EBA. Transparency Exercise, June 2016. Banco de España, data at September 2016. Banco Popular, as at December 2016

Popular is a customer-oriented bank

Over the years, the Bank has made great efforts to develop a differentiating factor with respect to the competition by constantly seeking ways to improve the provision of services to customers. Banking products can be copied, but it is the quality of service that differentiates some financial institutions from others. Accordingly, as long ago as 1977, long before it was made mandatory, Banco Popular set up a customer service office to attend to the unsatisfied needs of its customers, in which its employees devoted part of their time to personally reviewing all the complaints that were received.

Prioritising the commercial actions towards customer attraction through a broad range of products allows relationships to be started with customers, knowledge to be increased and an optimum foundation to be laid for developing commercial relationships. Product management at Banco Popular is focused on the creation of solutions that are personalised both in the variety of products offered and in their prices, always based on customer needs and risks.

In the case of the households segment, Banco Popular has focused on the creation of new solutions and financial channels with which to compete in the market, thus increasing customers' range of choices. For SMEs and self-employed persons the objective is to ensure that customers always have all the resources they need to carry on their business. To this end, customers are offered the most advanced tools and products for making their business run smoothly.

Customers are the reason behind all Popular's activities and the ones who impose changes in the organisation. The Bank has always made efforts to attain a flexible, decentralised and horizontal organisational structure that allows it to stay close to the customer and to be constantly aware of the financial needs that must be resolved, making quick responses and the resolution of any consultations that a customer may make a priority. Attaining this goal has involved extensive development of internal and external information and communication systems. The business model's operational management pursues specialised and efficient management of the operations, prioritising speed in the response time and resolution of incidents which the customer may have. Operationally, it focuses on cost efficiency, agility and flexibility without any loss of service quality.

Popular's commercial management is characterised by the implementation of relationship banking, establishing professional, lasting links with customers. This generates transversal knowledge of the business and we develop necessary action measures to maintain a commercial relationship that is tailored to each customer in whichever channel is chosen.

Moreover, the sales and marketing policy is defined, adapted to comply with the law and market needs offering customers added value commercial propositions. The commercial system organises the activities carried out in the channels, ensuring the effectiveness of contacts by means of appropriate commercial tools that facilitate management and make the business more dynamic.

Lastly, Banco Popular strives daily to ensure that **information is transparent**, with the conviction that doing things well is good for the bank and for customers. The banking business is based on **customer trust and loyalty**, and it is for this reason that in Banco Popular the qualities of **honesty, integrity and responsibility** are particularly important. Being transparent means sparing no efforts to make customers aware of what they need to know through clear and simple information (on terms, rates, commissions, prices, etc.) thereby generating a relationship of lasting trust between the Bank and its customers.

Constantly striving for efficiency

The culture of efficiency is embedded throughout the organisation allowing the entity to be historically one of the most efficient banks in Europe, with the exception of this year due to the operational optimisation process carried out by Banco Popular.

This culture is transferred to daily activities through the processes carried out and a flat organisational structure, and it becomes a competitive advantage because it is found in the values of the professionals making up the Bank.

Within this context and due to the changing environment and the demands of our stakeholders, Popular is orienting its commercial strategy in such a way that it wants to reach its customers through multiple channels, but without losing quality of the service nor the proximity offered by the commercial network. For this, Popular is developing an internal culture change, requiring that from the outset it is seen as a decided commitment from senior management. The digitisation process should be directed from a specific department, as has been done by Popular in the creation of the Digital Transformation General Management within the organisational structure whose purpose is to accelerate the digitisation process the bank has already started. All this will help the Bank to achieve a more efficient and profitable operational and commercial model.

Disciplined, diverse and integral risk management

Popular takes a disciplined, diversified and integral approach to risk management by enhancing internal governance which promotes control and prudent risk management and the qualification of the entity's professionals, establishing risk policy criteria aimed at achieving a Medium-low risk profile, ensuring at all times that the Group performs its commercial activity and business expectations within the established risk limits and objectives. Based on its business model, the main risks to which the Group is exposed are credit and liquidity risk.

The following principles govern its risk management:

- Geared to maintaining a healthy balance sheet
- Control of risk concentration encouraging sectoral diversity
- Appropriate risk measurement and monitoring
- Sustainable business growth geared to optimising profitability
- Reasonable balance between loans and receivables and deposits captured
- Systematisation and automation of processes

Likewise, Banco Popular has established the main axes of the risk management policy, as described below:

i. **Risk Culture:** Popular develops its business model according to values which are consistent with the risk appetite set by the Board of Directors. These principles constitute a risk culture which helps to ensure that any risk or activity in which it occurs can be identified, escalated, measured and mitigated in time. In this context, there are policies, procedures and processes aligned with the risk appetite which move downwards throughout the organisation.

ii. **Governance:** Popular has developed a corporate governance model of risks in line with the best market practices, in which the different governing bodies have clear responsibilities assigned to risk from the design and approval of the risk strategy to the monitoring and supervision of its implementation.

iii. **Risk Appetite:** It is a flexible framework in which the risks (financial and non-financial) to which the Group is exposed are identified and defined and qualitative aspects related to the principles, governance processes and escalation of risk-related decisions are established. as well as the objective of maintaining a Medium-Low risk profile by controlling the risks to which the Group is exposed due to its business model.

The marked risk appetite level determines the Risk strategy, establishing policies which will maintain or achieve a residual risk profile in line with the target, periodically assessing the level of inherent and residual risk.

The profile of different categories of financial risk (credit, operational, interest rate, market, liquidity and business) and non-financial such as reputational and compliance determine the objective of capital. The stress test planning process, for its part, ensures that the risk profile is in line with the set appetite and that the objective of capital is met.

iv. **General control model**: Popular views Internal Control as a transversal process promoted by the Board of Directors and which involves the entire organization. This model has been designed to comprehensively identify, monitor and manage all risks to which it is exposed, in order to provide reasonable assurance regarding the achievement of established corporate goals.

Within the diversification strategy and prudent risk management, Banco Popular has two foreign entities, Banco Popular Portugal and Totalbank, both 100% owned, and which operate in Portugal and Florida, respectively. In addition, since December 2013 it has had a stake of 24.9% in the Mexican financial group Bx+ thereby providing an entry for Banco Popular into Mexico and allowing the development of partners to seek investment opportunities in the Latin American financial sector. In addition to its presence in Portugal, United States and Mexico, Banco Popular has a broad international presence through 14 representative offices and 3 collaboration offices throughout the world in order to attend to the international financial needs of its customers.

Strategic alliances to develop specialised businesses

The Bank has always been able to maintain a flexible, horizontal and implicated structure with respect to the provision of services to key segments within its business model. Furthermore, over the past few years Banco Popular has reached agreements with specialists to develop businesses in which partner experience allows the value for the Group to be maximised.

In 2010, Popular concluded an agreement with Crédit Mutuel, a leading financial entity in France with more than twenty-three million customers and a loan market share exceeding 17%, for the provision of joint services to their customers through a new bank in which each entity holds a stake, and which adopted the trade name of Targobank comprising 125 branch offices and 610 employees.

In 2011, Popular created a new company with Allianz, a global leader in asset management and insurance, 40% owned by Banco Popular and 60% by Allianz, for the management of insurance, pension and other funds.

In 2013, Popular signed Spain's first joint venture agreement concerning an ATM network, with Euro Information, which belongs to Crédit Mutuel. The alliance allows the experience acquired by Euro Information in several European countries to be combined with proven technological capabilities to improve the services offered to users of Banco Popular's ATM network in Spain.

Also in 2013, Popular created a new company with Värde Partners - Kennedy Wilson, specialists in the real estate market, for the management of the real estate business of Popular, thus benefiting from the extensive experience in managing such assets of their partners and so making the most of managing this business.

In 2014, Popular Español reached an agreement on the sale to BNP Paribas of its depository and custodian business for investment funds, pension plans, SICAVs and EPSVs (Basque complementary pension funds) in Spain. Lastly, also in 2014, Banco Popular strengthened the alliance with Värde Partners with the fund's taking a 51% stake in the capital of bancopopular-e, the company that handles the Group's entire card issuing business.

In 2015, Popular signed a strategic agreement via Popular Payments (a joint venture with Evo Payments) with UnionPay International, leader in the credit card issuance business in China, with a view to taking advantage of the growing number of Chinese tourists visiting Spain. Furthermore, a new agreement regarding the distribution of non-life insurance was signed with Allianz

Contribution to economic and social growth and development

With the responsible development of its activity, Popular seeks to strengthen ties with key stakeholder groups, integrating their expectations into the daily management of the business. Maintaining lasting relationships with these groups leads to increased competitiveness and readiness to meet the challenges of a changing global market.

Alongside its day-to-day work in pursuit of its corporate object, Popular actively promotes and collaborates on numerous projects focused on furthering the progress of its educational, social, cultural and environmental milieux.

Popular believes that companies are the main agents in the socio-economic transformation of the environment in which they operate, not only for what they do but for how they do it. From this standpoint, financial institutions are considered to be an important part of the Spanish economic dynamism because, through the development of their activity, they contribute to the growth of the economy and the development of society.

In this sense, harmonising business success with a respectful and committed action with the environment is a responsibility which Popular assumes as its own. Therefore, our action in terms of Corporate Responsibility entails a constant innovation exercise which involves developing new initiatives which integrate the expectations of stakeholders, with the aim of encouraging the creation of shared value through business development. Thus, based on the CR Master Plan - Horizonte 2020, Popular rolls out a series of actions in the four dimensions defined in the Plan: structural,.economy and good governance, social, and environmental. This way, it seeks to strengthen its business model with a sustainable management of resources and to be responsible with the environment in which it operates.

With the responsible development of its activity, Popular seeks to strengthen ties with key stakeholder groups, integrating their expectations into the daily management of the business as well as them doing so by participating in the CR strategy followed by the Group. Maintaining lasting relationships with these groups leads to increased competitiveness and readiness to meet the challenges of a changing global market.

6 Main consolidated results

Table 4: Cumulative Income Statement

Data in thousands of euros	31.12.2016	31.12.2015	Var. (thousands of euros)	Var. %
Net Interest Income	**2,096,588**	**2,251,236**	**(154,648)**	**(6.9)**
Net fees and commissions	538,671	595,322	(56,651)	(9.5)
ROF and other income	190,493	584,353	(393,860)	(67.4)
Gross income	**2,825,752**	**3,430,911**	**(605,159)**	**(17.6)**
Administration expenses and depreciation and amortisation	2,027,951	1,741,440	286,511	16.5
Net operating income	**797,801**	**1,689,471**	**(891,670)**	**(52.8)**
Net Impairment losses	5,692,001	1,614,664	4,077,337	>
Loans and receivables and others	4,153,991	1,518,826	2,635,165	>
Real estate assets and goodwill	1,635,159	224,105	1,411,054	>
Write-offs recovery	(97,149)	(128,267)	31,118	(24.3)
Gains	5,718	39,377	(33,659)	(85.5)
Profit/(loss) before tax	**(4,888,482)**	**114,184**	**(5,002,666)**	**>**
Net attributable profit	**(3,485,366)**	**105,432**	**(3,590,798)**	**>**

Net profit/(loss) attributable to the Group in 2016 reflects losses of 3,485 million euros with provisions in excess of 5,000 million euros in the year. Even so, the Group maintains its leadership both in net interest income and customers.

Net Interest Income

In 2016, the Group reached a net interest income -the difference between products and financial costs-of 2,097 million euros. The behaviour of the net interest income is analysed below, making a distinction between:

- Trend of assets
- Trend of liabilities
- Spreads performance

Trend of assets

In 2016, balance sheet assets amounted to 147,926 million euros, a decrease of 6.8% with respect to the close of the previous year. Below the most relevant parts are highlighted:

Loans and receivables

Loans and receivables, before valuation adjustments, stood at 109,025 million euros; maintaining the 2015 levels (-3.08% with respect to the previous year) and representing 73.7% of total assets.

Table 5: Gross Loans and receivables to credit institutions and Loans and advances to customers

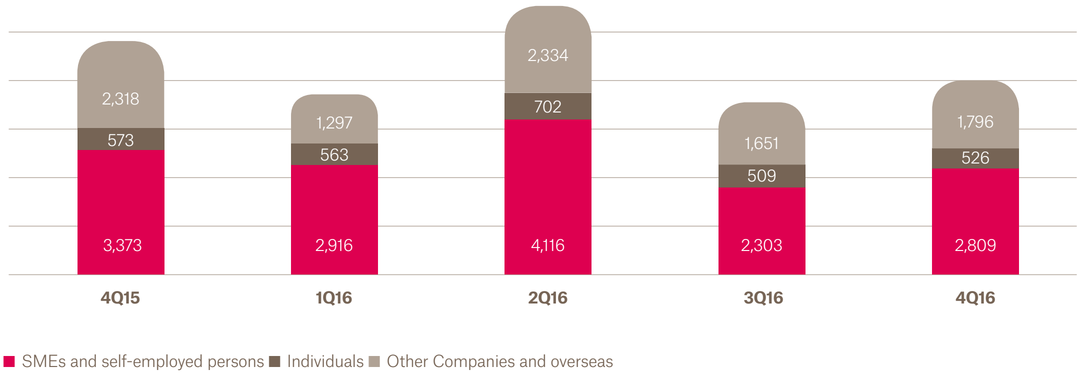
Data in thousands of euros	31.12.2016	31.12.2015	Var. %
Loans and receivables	**109,025,134**	**112,487,052**	**(3.1)**
Debt securities	572,974	1,097,442	(47.8)
Loans and advances	108,452,160	111,389,610	(2.6)
Central Banks	-	-	-
Credit Institutions	4,155,442	4,304,400	(3.5)
Customers	104,296,718	107,085,210	(2.6)
Accounts receivable from public authorities	4,831,084	5,327,992	(9.3)
Resident sectors	4,820,339	5,327,992	(9.5)
Non-resident sectors	10,745	-	-
Other private sectors	99,465,634	101,757,218	(2.3)
Resident sectors	87,835,554	90,569,951	(3.0)
Non-resident sectors	11,630,080	11,187,267	4.0

Loans and advances to customers saw a slight reduction (-2.6%, table 5), amounting to 104,297 million euros at the end of December 2016. However, the Bank's credit market share is 7 basis points higher than that achieved in the previous year (7.75%[4] vs. 7.68%) which shows the Group's good performance in comparative terms.

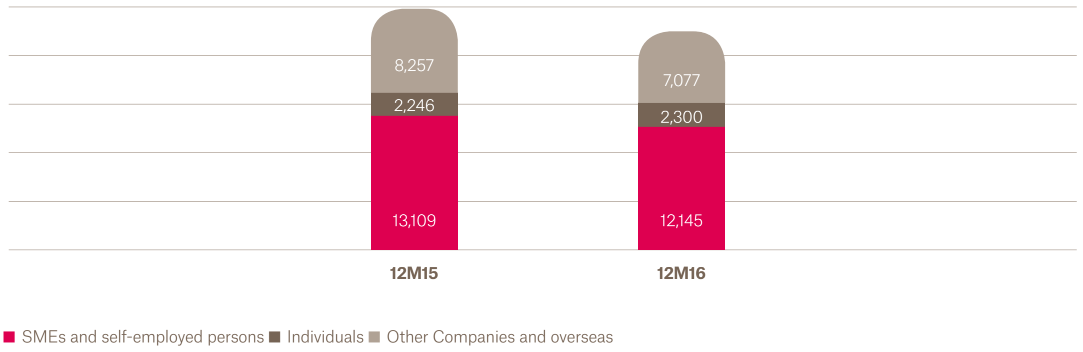
Likewise, it should also be noted that the share of SMEs continues to improve, standing at 17.7% this year, up by +102 bps in 2016.

4. Figures at November 2016

Figure 13: New production credit trend (Amounts in millions of euros)



[1] Data as at November 2016



89.3% of new loans and advances contracts are aimed at companies, mainly SMEs and self-employed people (56.4%), and 10.7% at individuals. The distribution of customer loans and advances remained similar to that seen in the previous year.

As shown in table 6, ex-repo gross loans and advances to customers stood at 97,595 million euros at the end of 2016.

Table 6: Gross loans and receivables

Data in thousands of euros	31.12.2016	31.12.2015	Var. %	Weight 16 (%)	Weight 15 (%)
Trade credit	4,175,345	4,140,855	0.8	4.0	3.9
Secured loans	35,664,946	38,648,708	(7.7)	34.2	36.1
Mortgages	34,750,814	37,701,706	(7.8)	33.3	35.2
Other	914,132	947,002	(3.5)	0.9	0.9
Reserve repos	6,701,640	6,504,071	3.0	6.4	6.1
Other term loans	36,219,963	37,411,824	(3.2)	34.7	34.9
Finance lease	2,172,968	2,237,495	(2.9)	2.1	2.1
Doubtful assets	19,361,856	18,142,257	6.7	18.6	16.9
Subtotal: Gross loans excl. reverse repos	**97,595,078**	**100,581,139**	**(3.0)**	**93.6**	**93.9**
TOTAL	**104,296,718**	**107,085,210**	**(2.6)**	**100.0**	**100.0**

33.3% of Loans and receivables relate to mortgage lending which fell by 7.8% in 2016 compared to 2015.

The mortgage portfolio has high-quality collateral. Specifically, the LTV[5] ratio of the individuals mortgage portfolio is 63.78%. To this must be added the fact that the affordability rate of the outstanding portfolio of personal mortgage loans is 26.47%.

Securities Portfolio

The debt securities portfolio has the dual objective of supporting the Income Statement via the Bank's net interest income as well as ROF from the sale of assets. The management of this portfolio follows criteria of maximum prudence and profitability in terms of bond rates, their liquidity and the terms of the investment. The assets are of high credit quality and the vast majority are eligible for discount with the ECB.

The duration of the portfolio during the year was maintained as less than two years.

The performance of the portfolio was very positive as a result of the strong debt market conditions and the optimisation of entry and exit timing. Furthermore, the cost of financing it continued to benefit from falls in interest rates, driven by the liquidity injected into the market by the ECB by means of QE, leading to negative rates being recorded.

Table 7: Securities portfolio

Data in thousands of euros	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investment	Total
B. Popular Español	422,977	-	12,286,425	597,150	4,583,511	17,890,063
Banco Pastor	-	-	1,678	-	-	1,678
Totalbank	-	-	527,442	4,817	-	532,259
B. Popular Portugal	-	-	966,444	-	-	966,444
Popular Banca Privada	**-**	**-**	**429,341**	**-**	**-**	**429,341**
TOTAL BANK GROUP	**422,977**	**-**	**14,211,330**	**601,967**	**4,583,511**	**19,819,785**
TOTAL NON-BANK GROUP	**-**	**348,345**	**533,058**	**-**	**-**	**881,403**
CONSOLIDATED TOTAL	**422,977**	**348,345**	**14,744,388**	**601,967**	**4,583,511**	**20,701,188**

Table 8: Maturities table

Data in thousands of euros	0-1 years	1-5 years	5-10 years	>10 years	Total
Financial assets held for trading	410,745	12,231	-	1	422,977
Financial assets designated at fair value through profit or loss	-	283,311	57,129	7,905	348,345
Available-for-sale financial assets	1,667,673	2,401,883	6,752,018	3,922,814	14,744,388
Loans and receivables	91,963	172,149	283,810	54,045	601,967
Held-to-maturity investment	-	-	2,448,847	2,134,664	4,583,511
Total	**2,170,381**	**2,869,574**	**9,541,804**	**6,119,429**	**20,701,188**

5. "Loan to value", loan amount with respect to the value of the property.

Asset Yield

The average yield on assets was 1.8%, a 40 basis point reduction with respect to 2015. This fall is basically due to the fact that the loans and receivables portfolio continues to be repriced downwards, amongst other causes, as a result of the fall in interest rates. However, this decrease has been accompanied by a reduction in the cost of funding, which, along with the active management of prices and in particular of spreads, partially offsets this impact on net interest income.

Most of the 2,930 million euros in interest and similar income derives from secured loans at 912 million euros (mainly mortgages, 882 million euros) and term and other loans, generating income of 1,094 million euros. These two items represent 68.47% of interest and yields in the year.

The return on profitable assets mainly derives from private sector loan activity, which represents 83.4% of the total (table 9). The contribution of Credit Institutions increased 0.4%. Securities operations mean 10.9%, mainly fixed income investment. The weight of the income from Public Administrations is 3.6% and 1.7% originates from other profitable assets.

Table 9: Interest income in 2016

Data in thousands of euros	31.12.2016	Weight 16 (%)	31.12.2015	Weight 15 (%)
Credit Institutions	**10,432**	**0.4**	**12,057**	**0.3**
Public administrations	**105,897**	**3.6**	**135,747**	**3.9**
Private sector	**2,443,643**	**83.4**	**2,947,426**	**84.0**
Trade credit	125,738	4.3	165,022	4.7
Secured loans	911,953	31.1	1,299,085	37.0
Mortgages	882,339	30.1	1,257,789	35.8
Other	29,614	1.0	41,296	1.2
Term and other loans	1,094,101	37.3	1,232,586	35.1
Finance leases	81,457	2.8	96,534	2.8
Doubtful assets	230,394	7.9	154,199	4.4
Debt securities	**319,531**	**10.9**	**406,379**	**11.6**
Other profitable assets	**50,244**	**1.7**	**7,079**	**0.2**
TOTAL	**2,929,747**	**100.0**	**3,508,688**	**100.0**

As can be seen in table 10, 88.8% of the Group's net interest income derived from activities with customers in Spain. Portugal represents 7.9% while the remaining 3.3% relates to the TotalBank business in the US.

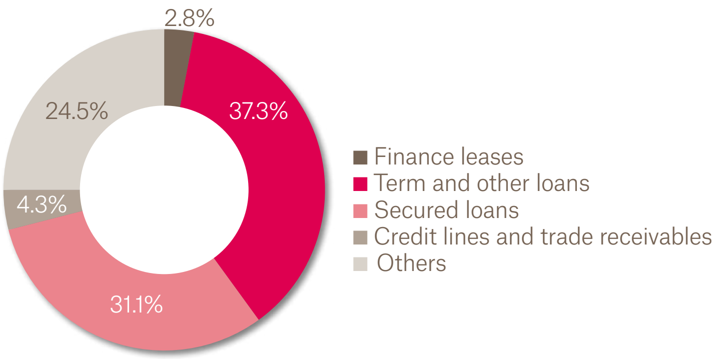
Table 10: Distribution of net interest income by country (Amounts in millions of euros)

Data in thousands of euros	31.12.2016	31.12.2015
Spain	1,863	88.8
Portugal	165	7.9
USA	69	3.3
TOTAL	**2,097**	**100.0**

6. Consolidated Credit Institutions Information

The origin of income by type of operation with customers is set out in Figure 14, in which Term loans and Secured loans represent more than 68.4% of the total.

Figure 14: Origin of income by type of operation with customers



Trend of liabilities

At the close of 2016, balance sheet resources amounted to 131,185 million euros (Table 11), representing a 6.6% decrease. Customer deposits fell by 6.2% to 82,841 million euros at year-end. The Bank maintains a comfortable liquidity position, ending 2016 with an LTD ratio[7] of 103.5%.

Table 11: Net resources managed

Data in thousands of euros	31.12.2016	31.12.2015	Var. %
Deposits from central banks	**15,987,478**	**14,204,120**	**12.6**
Deposits from credit institutions	**14,203,229**	**19,172,266**	**(25.9)**
Customer deposits	**82,840,947**	**88,335,415**	**(6.2)**
Retail deposits and Public Administrations	78,789,839	83,406,355	(5.5)
Public administrations	6,168,921	10,845,109	(43.1)
Other private sectors	72,498,046	72,498,678	-
Resident sectors	63,480,589	63,714,521	(0.4)
Non-resident sectors	9,017,457	8,784,157	2.7
Valuation adjustments	122,872	62,568	96.4
Deposits with central counterparty clearing	4,051,108	4,929,060	(17.8)
Debt certificates	**15,024,126**	**15,989,048**	**(6.0)**
Unadjusted debt certificates	14,919,835	15,798,519	(5.6)
Bonds and other securities outstanding	14,094,885	15,043,679	(6.3)
Commercial paper	824,950	754,840	9.3
Valuation adjustments	104,291	190,529	(45.3)
Subordinated liabilities	**2,039,472**	**2,066,951**	**(1.3)**
Other financial liabilities	**1,089,414**	**740,724**	**47.1**
TOTAL ON-BALANCE SHEET FUNDS	**131,184,666**	**140,508,524**	**(6.6)**

7. Loan to Deposits ratio: ratio of loans to deposits.

As shown in table 12, Retail deposits and Public Administrations decreased by 1.1% relative to 2015, bringing market share to 6.13%[7], an increase of 13 bps compared with the fourth quarter of 2015.

Table 12: Customer funds

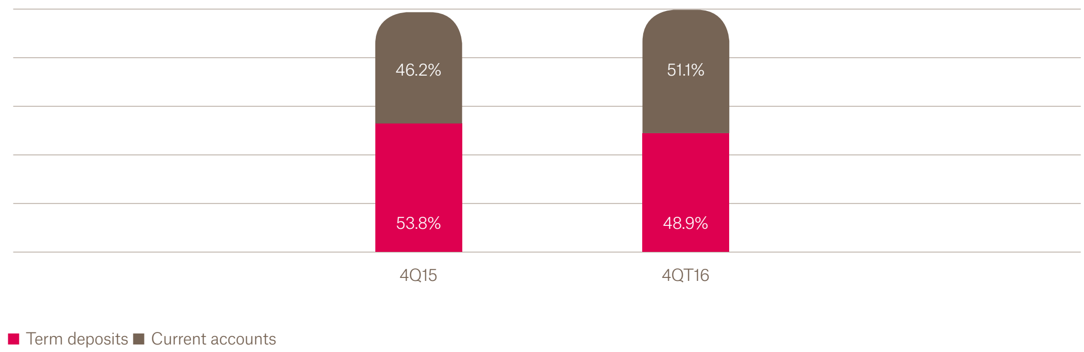
Data in thousands of euros	31.12.2016	31.12.2015	Var. %
Demand deposits (excl. Treasury) and Other accounts	39,794,472	35,953,703	10.7
Term deposits	38,079,083	41,882,347	(9.1)
Reverse repos	296,412	1,244,737	(76.2)
Valuation adjustments	122,872	62,568	96.4
Subtotal retail deposits and Public Administrations	**78,292,839**	**79,143,355**	**(1.1)**
			-
Retail commercial paper	271,728	128,742	>
Intermediation credits	5,458,505	6,362,208	(14.2)
Securitisation sold to third parties	50,824	237,507	(78.6)
Marketable securities distributed through the commercial network	454,589	467,662	(2.8)
Tax collection accounts	409,456	326,184	25.5
Reverse repos	(296,412)	(1,244,737)	(76.2)
Total Retail Funds	**84,641,529**	**85,420,921**	**(0.9)**

1. ICO and EIB funding received directly for loans to companies.

2. Includes convertible notes, preferred shares, and subordinated debt distributed via the branch network

With regard to the behaviour of traditional liability products, the transfer from term deposits to deposits in the form of current accounts (excl. Treasury, ICO and EIB funding) is worth particular mention, with the latter continuing to gain weight and having increased by 10.7% in the year.

Figure 15: Evolution of current accounts and term deposits distribution (%)



All these movements resulted in a slight decrease in Total Customer Resources of 0.9% compared to 2015.

As mentioned earlier, the LTD ratio stood at 103.5% at year end. This ratio measures the relationship between customer lending net of provisions and customer deposits and other commercial financing items for loans (mediated loans, securitisations sold to third parties, inter alia) and, therefore, shows the Bank's capacity to finance its loans without resource to wholesale funding.

7. Figures at November 2016

Cost of funding

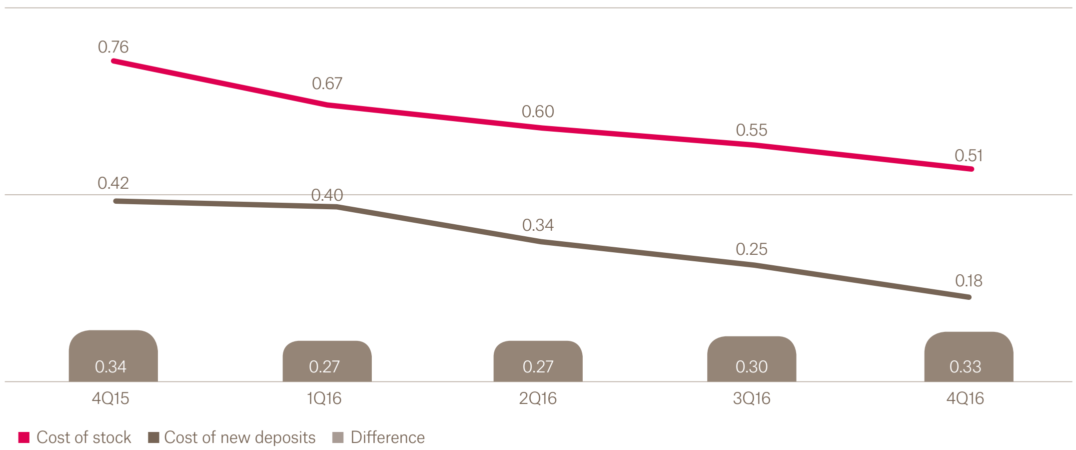
Financial costs have been reduced significantly in 2016, specifically by 33.7% with respect to 2015. In terms of distribution by sector and origin of products, table 13 shows that 35% of the costs stem from transactions with customers, lower than the previous year driven by the transfer between term deposits and current accounts as previously commented and mainly by the significant reduction in the cost of new production through an active management of the prices offered.

Table 13: Interest expenses in 2016

Data in thousands of euros	31.12.2016	Weight 16 (%)	31.12.2015	Weight 15 (%)	Var. %
Credit Institutions	**112,964**	**13.6**	**178,016**	**14.2**	**(36.5)**
Public administrations	**23,843**	**2.9**	**37,172**	**3.0**	**(35.9)**
Private sector	**291,741**	**35.0**	**545,921**	**43.4**	**(46.6)**
Current accounts	23,369	2.8	42,112	3.3	(44.5)
Savings accounts	2,310	0.3	2,975	0.2	(22.4)
Term deposits	264,712	31.8	498,896	39.7	(46.9)
Reverse repos	(292)	-	44	-	>
Other accounts	1,642	0.2	1,894	0.2	(13.3)
Deposits with central counterparties	**580**	**0.1**	**1,955**	**0.2**	**(70.3)**
Marketable securities	**375,529**	**45.1**	**485,019**	**38.6**	**(22.6)**
Bonds	318,723	38.3	424,341	33.7	(24.9)
Commercial paper and bills	3,274	0.4	7,606	0.6	(57.0)
Subordinated and preferred liabilities	53,532	6.4	53,072	4.2	0.9
Other funds	**28,502**	**3.4**	**9,369**	**0.7**	**>**
Total	**833,159**	**100.0**	**1,257,452**	**100.0**	**(33.7)**

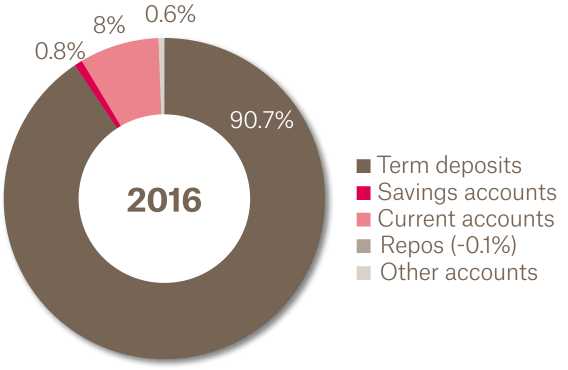
The cost of term deposits' new production remained low, closing 2016 at 0.18%, representing a decrease of 24 bps compared with the December 2015 rate. This contributed to the term deposits portfolio rate at the end of 2016 standing at 0.51%, 25 bps lower than at the close of 2015. Figure 16 shows the evolution of term deposits' quarterly cost.

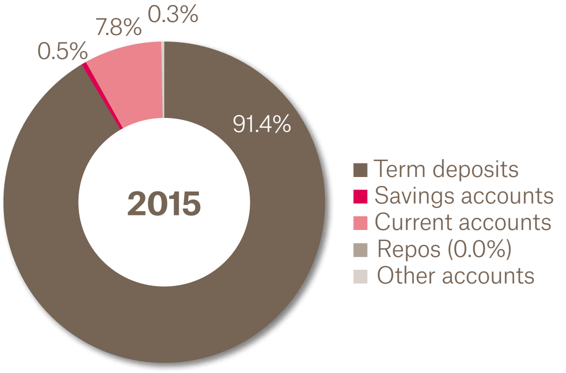
Figure 16: Evolution of the cost of term deposits (quarterly average in%)



As can be seen in Figure 17, 90.7% of the 292 million euros relates to term deposits, while the contribution of demand deposits increased slightly.

Figure 17: Origin of the costs by transaction type in the private sector





Spreads performance

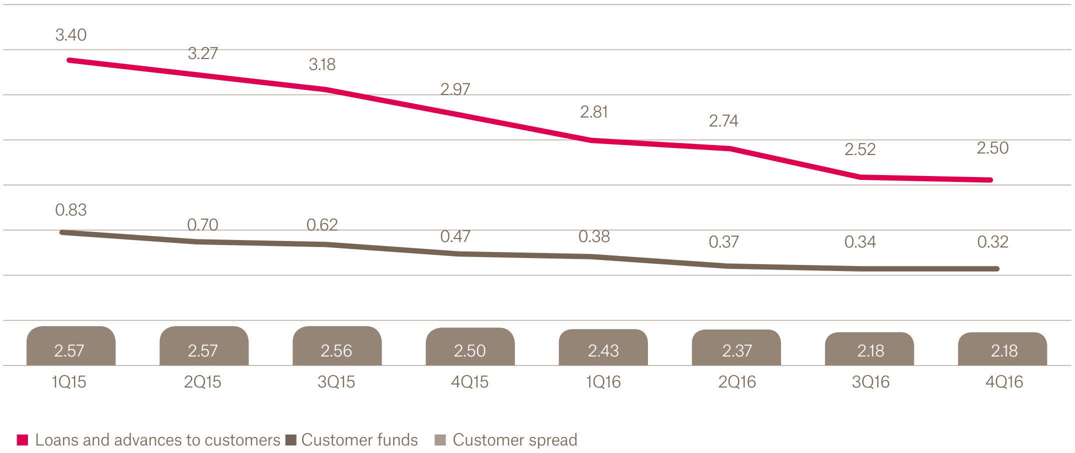
The customer spread decreased by 25 bps in comparisson with to 2015, to 2.30%, mainly as a result of low interest rates, which is driving down the profitability of lending and despite the reduction in the cost of term deposits. In this regard, it is noted out that the profitability of lending stood at 2.7% at the end of 2016.

Table 14: Yields and costs

Data in thousands of euros	31.12.2016				31.12.2015			
	Average balance	Weight (%)	Products or costs	Rates (%)	Average balance	Weight (%)	Products or costs	Rates (%)
Financial intermediaries	6,770,520	4.4	10,432	(0.1)	6,161,276	3.9	12,057	0.2
Loans to customers (a)	95,930,713	62.0	2,549,540	2.7	96,195,082	60.8	3,083,173	3.2
Securities portfolio	27,038,424	17.5	319,531	1.2	32,070,958	20.3	406,379	1.3
Other profitable assets	183,737	0.1	50,244	2.9	185,948	0.1	7,079	3.8
TOTAL PROFITABLE ASSETS (b)	**129,923,394**	**83.9**	**2,929,747**	**2.2**	**134,613,264**	**85.0**	**3,508,688**	**2.6**
Other assets	24,886,357	16.1	-	-	23,723,957	15.0	-	-
TOTAL ASSETS	**154,809,751**	**100.0**	**2,929,747**	**1.8**	**158,337,221**	**100.0**	**3,508,688**	**2.2**
Financial intermediaries	30,012,716	19.4	112,964	0.2	32,217,689	20.4	178,016	0.6
Customer funds (c)	86,632,995	56.0	316,164	0.4	89,100,066	56.3	585,048	0.7
Demand and savings	42,759,176	27.6	42,674	0.1	36,255,268	22.9	66,028	0.2
Term	40,735,974	26.3	273,151	0.7	43,473,490	27.5	512,558	1.2
Repos	3,137,845	2.0	339	(0.3)	9,371,308	5.9	6,462	0.1
Marketable securities and other	18,307,375	11.8	375,529	2.1	18,232,152	11.5	485,019	2.7
Other interest-bearing liabilities	276,798	0.2	28,502	2.5	313,230	0.2	9,369	3.0
TOTAL RESOURCES WITH COST (d)	**135,229,884**	**87.4**	**833,159**	**0.6**	**139,863,137**	**88.3**	**1,257,452**	**0.9**
Other funds	5,619,068	3.6	-	-	5,746,724	3.6	-	-
Shareholders' Equity	13,960,799	9.0	-	-	12,727,360	8.0	-	-
TOTAL RESOURCES	**154,809,751**	**100.0**	**833,159**	**0.5**	**158,337,221**	**100.0**	**1,257,452**	**0.8**
Customer spread (a-c)				2.30				2.55
Spread (b-d)				1.64				1.71
Net Interest Income				1.35				1.42

The quarter on quarter performance of customer spread since 2015 can be seen below:

Figure 18: Evolution of profitability and customer cost (including promissory notes) (%), without singular operations



Net interest income totalled 2,097 million euros, a fall of 6.9% compared to 2015. This evolution is mainly based on the reduction in volume on the fixed-income portfolio held by the bank and the decrease in interest rates on profitable investment. With regard to the fall in interest rates, the causes are as much in the cancellation of floor clauses on mortgage loans to individuals as well as the reduction in raised spreads against growing competition in the financial sector. However, its impact on margin has been dampened by the lowering of market rates on banking liabilities.

Table 15: Causal analysis of variations in interest rates (Amounts in thousands of euros)

Volume	Spread	Market rates	Var. SPREAD 2016 vs. 2015
(68,470)	(121,137)	34,959	(154,648)

Gross income

Gross income amounted to 2,826 million euros at 31 December 2016, 17.6% down on 2015.

Net fees and commissions

Net fees and commissions decreased by 9.5 % compared to 2015, reaching 539 million euros. In recent years, the Group has established joint ventures with specialist partners in different products to improve the profitability of each segment; in particular, the deconsolidation of the credit card business took place in the last quarter of 2014. From an accounting standpoint, companies established with specialised partners to boost businesses are accounted for using the equity method, so that the revenues disappear from the fees and commissions line and are shown instead as a net balance in results by the equity method heading.

Table 16: Net fees and commissions

Data in thousands of euros	31.12.2016	31.12.2015	Var. %	Weight 2016 (%)	Weight 2015 (%)
Portfolio management commissions	**99,652**	**100,666**	**(1.0)**	**18.5**	**16.9**
Securities portfolio	9,408	9,620	(2.2)	1.7	1.6
Asset management	6,150	5,045	21.9	1.1	0.8
Investment funds	76,168	77,261	(1.4)	14.1	13.0
Pension plans	7,926	8,740	(9.3)	1.5	1.5
Other financial assets	-	-	-	-	-
Other banking services	**439,019**	**494,656**	**(11.2)**	**81.5**	**83.1**
Securities and foreign currency purchases and sales	4,228	8,105	(47.8)	0.8	1.4
Current accounts administration	110,341	109,028	1.2	20.5	18.3
Provision of collateral and other guarantees	123,629	130,108	(5.0)	23.0	21.9
Asset transaction services	90,784	105,641	(14.1)	16.9	17.7
Collection and payment services	59,858	74,535	(19.7)	11.1	12.5
Other	50,179	67,239	(25.4)	9.3	11.3
Marketing of insurance	30,363	25,197	20.5	5.6	4.2
Advice on singular operations	7,714	21,608	(64.3)	1.4	3.6
Other	12,102	20,434	(40.8)	2.2	3.4
Total	**538,671**	**595,322**	**(9.5)**	**100.0**	**100.0**

Asset management fees stand out, reflecting the strong performance of investment funds, basically due to the growth in net subscriptions, which is indicative of the commercial efforts made. This past year once again saw high levels of competition in the fund management market; this is attributable to investment incentives against a backdrop of low interest rates, which specifically affects alternative sources of returns.

Table 17: Assets and variation in Spanish investment funds by type

Data in thousands of euros	31.12.2016	31.12.2015	Var. Total	Var. (%)	Weight (%)
Fixed income	3,253,325	3,983,172	(729,847)	(18.3)	29.2
Mixed funds	3,898,022	4,225,105	(327,083)	(7.7)	34.9
Equity	785,337	852,277	(66,940)	(7.9)	7.0
Guaranteed funds	2,364,126	1,509,126	855,000	56.7	21.2
Global funds	177,524	234,769	(57,245)	(24.4)	1.6
Other	680,957	777,676	(96,719)	(12.4)	6.1
Total Investment Funds	**11,159,291**	**11,582,125**	**(422,834)**	**(3.7)**	**100.0**

At the close of 2016, the assets sold by the Group through investment funds amounted to 10,949 million euros, down by 4.7% compared with the 11,493 million euros sold in 2015.

According to Inverco, the two main asset management unit of the Bank, Popular Gestión Privada and Allianz Popular Asset Management, managed, at the end of 2016, assets amounting to 11,159 million euros, which compared to 11,582 million in 2015 represents a 3.7% decrease.

Table 17 shows the distribution by type of product from the classification made by Inverco for greater comparability with sector data.

Compared to the previous year, there was a decrease of 730 million euros in fixed income funds, more than offset by a significant increase of 855 million euros in guaranteed funds, 57% higher than the previous year. More conservative funds once again played a leading role in investment preferences. The investor's increased appetite for secured funds is due to the pursuit of assets which guarantee at least the capital invested, given the current low interest rate situation and the low yields offered by fixed term deposits.

Gains/(losses) on financial transactions

The contribution of gains on financial transactions to gross income fell by 61.2% compared with the previous year. This decrease is due to the high revaluation of Spanish government debt securities in 2015, due to the improvement in sovereign risk, with interest rates having been the lowest absolute level in 2016 compared to the previous year.

Other products and operating charges

As for "Other products and operating charges", there was a net decrease of 24.7 million euros compared with 2015.

It should be noted the decrease in operating income by 57,722 thousand euros, compared to 2015, is mainly due to the registration in 2015 of an income of 43,600 thousand euros related to the signing of the new non-life insurance distribution agreement with Allianz. Also contributing to the decrease in the Gross Margin is the increase in Other operating expenses, mainly due to the first accrual of the cost of Equity Provision, which those entities which have monetisable DTAs higher than the net fees paid, related to the period from 2008 to 2015 must meet.

Net operating income

Table 18 breaks down Staff and General expenses

Table 18: Staff and general expenses in 2016

Data in thousands of euros	31.12.2016	31.12.2015	Var. %
Staff expenses	**1,237,465**	**935,833**	**32.2**
Wages and salaries	666,057	692,769	(3.9)
Social security contributions	183,756	180,378	1.9
Other staff expenses	353,501	29,081	>
Pensions	34,151	33,605	1.6
General expenses	**649,791**	**667,854**	**(2.7)**
Rents and common services	140,199	137,882	1.7
Communications	27,686	22,157	25.0
Maintenance of premises and equipment	66,791	72,638	(8.0)
IT expenses	63,898	72,349	(11.7)
Stationery and office supplies	6,466	5,963	8.4
Technical reports and legal expenses	58,178	54,775	6.2
Advertising and publicity	17,498	21,325	(17.9)
Insurance	4,828	6,195	(22.1)
Security and fund transport services	17,831	17,076	4.4
Travel	10,018	9,887	1.3
Property, VAT and other taxes	130,521	135,706	(3.8)
Other general administrative expenses	35,747	40,035	(10.7)
Outsourced administrative services	70,130	71,866	(2.4)
Total	**1,887,256**	**1,603,687**	**17.7**

Administrative expenses remained practically stable, falling by just 2.7% with respect to 2015.

Staff expenses suffered an increase of 32.2% due to the extraordinary increase as a result of the restructuring undertaken by the Group in 2016.

This restructuring has had the following impacts: initial provision fund of 370 million euros which, as the operation has materialised, has been applied in 2016 in accordance with the following expenses: Provisions for early retirement, 5.7 million euros; staff expenses, 325 million euros; impairment losses, 13.7 million euros; others and operating charges, 1.3 million euros; and other general expenses, 2.5 million euros.

At the end of 2016 a provisions fund of 21,6 million euros is pending application for the expenses which will materialise in 2017.

As a result, the efficiency ratio stood at 66.79% at the end of 2016, which has increased compared to 2015 (46.74%) due to the increase in staff expenses, as indicated above.

Depreciation and amortisation increased by 2.1% over the previous year, reaching 141 million euros at the end of the year.

As a result of the above, operating income for 2016 came to 798 million euros, 52.8% less than in 2015.

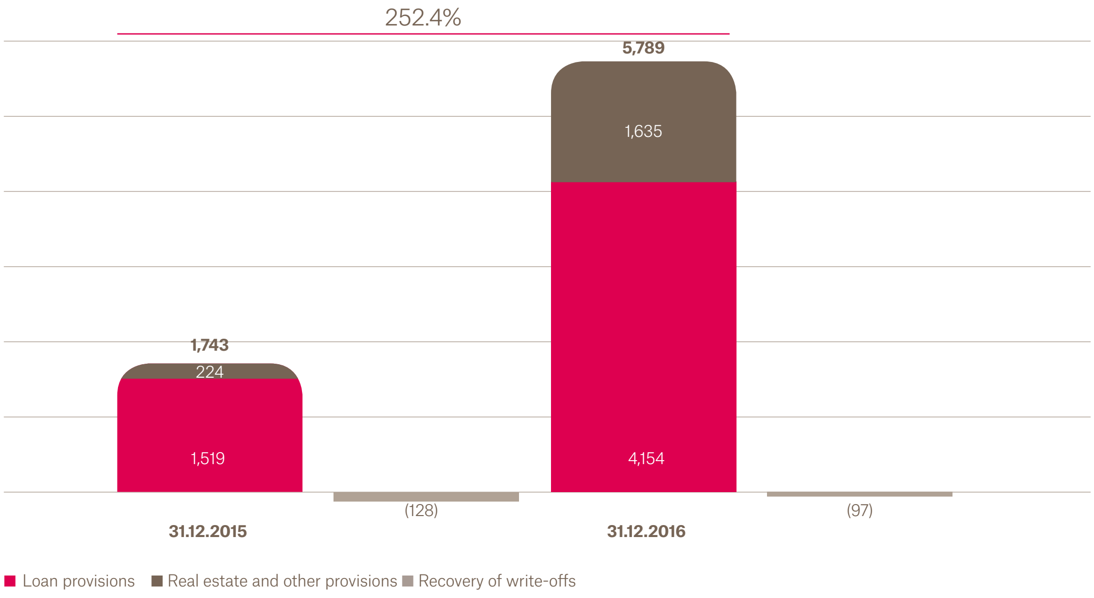
Consolidated profit/(loss) for the year

The Group made a significant effort with provisions in 2016:

Together with the clean-up made, 4,154 million euros corresponds to Credit provisions, an increase of 2,635 million euros.

Real estate provisions increased significantly by 1,411 million euros and the recovery of write-offs amounted to 97 million euros at the close of 2016.

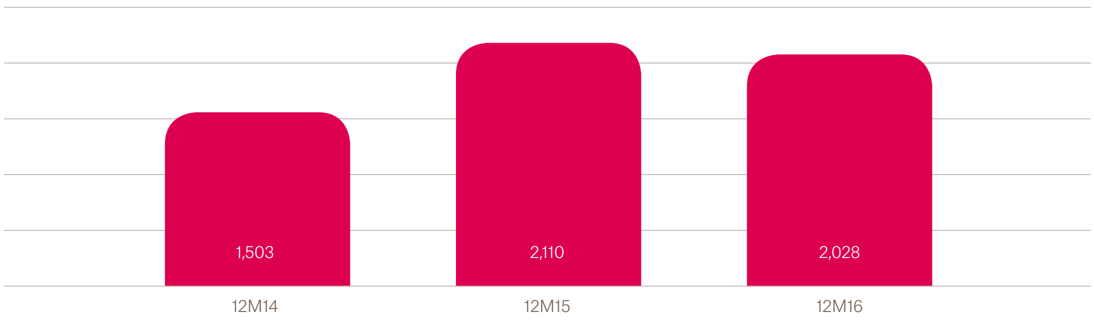
Figure 19: Allowance of provisions for loans and real estate (Amounts in millions of euros)



In 2016, a significant effort was also made in the generation of capital gains (ordinary and extraordinary); in total in 2016, extraordinary capital gains of 91 million euros were generated derived mainly on corporate operations, noteworthy amongst which are the capital gain of 67.7 million euros for the sale of the mortgage formalisation Business, the capital gain of 13.4 million euros for the sale of Banco Popular Portugal's credit card business to WiZink and the capital gain of 9.5 million euros for the distribution between shareholders of capital gains obtained by the partially owned company Sistemas 4b for the purchase of Visa EU by Visa Inc.

The sale of real estate has reduced by 4% compared to the previous year. Sales were made at prices similar to the book value (i.e. without losses) thanks to the provisions in place.

Figure 20: Sale of real estate (millions of euros)



Attributable profit

Profit/(loss) attributable to the Group, excluding the contribution of minority interests, was -3,485 million euros, 3,591 million euros lower than 2015.

Table 19: Information per share and return

Data in thousands of euros	31.12.2016	31.12.2015
Profit or loss attributable to owners of the parent	(3,485,366)	105,432
Earnings per share	(1.094)	0.049
ROA (%)	(2.25)	0.07
RORWA (%)	(4.70)	0.13

7 Activity by Business Line

Main business

Significant data from the main business

All banking business excluding real estate and relative business. Mainly includes Retail Banking and its sub-businesses (SMEs, consumer credit, asset management and insurance, etc.), Private Banking, Wholesale Banking, Fixed-income Portfolio and Market Financing (asset and liabilities operations with credit institutions, hedging derivatives and raising of funds in wholesale markets).

MAIN BUSINESS
12M16
in thousands of euros and %

Business volume	31.12.2016	31.12.2015
Net loans (ex reverse repos)	76,214,569	76,479,166
Commercial Liabilities	84,341,655	85,106,022
LTD	90.4%	89.9%
On-balance sheet funds	99,850,991	106,269,524

Profitability and efficiency	31.12.2016	31.12.2015
Net interest income/ ATAs	1.7%	1.9%
Gross income/ATAs	2.3%	2.8%
Net interest income/ ATAs	1.0%	1.7%
Average total assets	127,555,902	130,202,244
Cost-to-income ratio (ex amort)	55.0%	37.6%
ROA	(0.24)%	0.86%
ROTE*	(5.3)%	15.8%
FL RWAs	44,252,505	47,950,259
RORWA	(0.70)%	2.34%

Risk management	31.12.2016	31.12.2015
Total risks	116,065,032	121,670,425
Cost of risk	1.55%	0.46%
Gross Doubtful loans	7,130,646	6,495,012
Net Doubtful loans	3,558,558	2,959,610
Doubtful loans coverage rate1	50.1%	54.4%
Non-Performing Asset Ratio	6.1%	5.3%
Credit loss provisions	3,572,088	3,535,402

PROFIT/(LOSS)	31.12.2016	31.12.2015
Net Interest Income	2,213,542	2,416,931
Gross income	2,960,897	3,682,836
Net operating income	1,217,111	2,183,857
Profit/(loss) before tax	(364,168)	1,522,234
Profit/(loss) after tax	(306,738)	1,121,195

Table 20: Profit/(loss) of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
=Net Interest Income	**2,213,542**	**2,416,931**	**(8.4)**
+ Results from entities accounted for using the equity method	98,590	147,850	(33.3)
+ Net fees and commissions	530,256	573,923	(7.6)
± Net profit/(loss) on financial operations	184,928	517,260	(64.2)
± Other income	(66,419)	26,872	<
=Gross Income	**2,960,897**	**3,682,836**	**(19.6)**
- Administrative expenses:	1,629,942	1,383,464	17.8
- Depreciation and Amortisation	113,844	115,515	(1.4)
=Net operating income	**1,217,111**	**2,183,857**	**(44.3)**
- Impairment of assets and provisions	1,666,378	719,300	>
± Other gains/losses	85,099	57,677	47.5
= Profit/(loss) before tax	**(364,168)**	**1,522,234**	**<**
± Taxes and others	(57,430)	401,039	<
= Profit attributable to the parent company	**(306,738)**	**1,121,195**	**<**

Table 21: Balance sheet of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
ASSETS			
Cash and cash balances at central banks and other demand deposits	3,276,385	5,462,817	(40.0)
Financial assets held for trading	2,100,033	1,280,330	64
Financial assets designated at fair value through profit or loss	553,790	535,319	3.5
Available-for-sale financial assets	15,384,097	25,090,920	(38.7)
Loans and receivables:	87,677,440	88,421,759	(0.8)
Loans and advances to credit institutions	4,159,264	4,301,561	(3.3)
Of which are interbank deposits	202,510	253,190	(20)
Loans and advances to customers	82,916,209	82,983,237	(0.1)
Fixed income	601,967	1,136,961	(47.1)
Held-to-maturity investments	4,583,511	-	-
Derivatives – Hedge accounting	295,219	443,068	(33.4)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	265,519	233,228	13.8
Investments in subsidiaries, joint ventures and associates	1,458,069	1,490,468	(2.2)
Assets under insurance and reinsurance contracts	17,543	17,524	0.1
Tangible assets	762,017	774,425	(1.6)
Intangible assets	2,611,515	2,570,501	1.6
Tax assets	3,896,023	3,105,251	25.5
Other assets	736,164	602,515	22.2
Non-current assets and disposal groups classified as held for sale	-	-	-
TOTAL ASSETS	**123,617,325**	**130,028,125**	**(4.9)**
LIABILITIES			-
Financial liabilities held for trading	1,643,755	1,043,063	57.6
Financial liabilities designated at fair value through profit or loss	604,707	599,419	0.9
Financial liabilities measured at amortised cost:	130,803,056	140,111,002	(6.6)
Deposits from credit institutions	30,027,582	33,163,322	(9.5)
Of which are interbank deposits	1,881,236	2,728,852	(31.1)
Customer deposits	82,664,520	88,150,957	(6.2)
Marketable securities	15,023,810	15,989,048	(6)
Subordinated liabilities	2,039,472	2,066,951	(1.3)
Other financial liabilities	1,047,672	740,724	41.4
Derivatives – Hedge accounting	1,201,865	2,013,974	(40.3)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities under insurance and reinsurance contracts	484,284	486,829	(0.5)
Provisions	511,176	367,474	39.1
Tax liabilities	377,489	503,238	(25)
Share capital repayable on demand	-	-	-
Other liabilities	739,721	565,653	30.8
Liabilities included in disposal groups classified as held for sale	-	-	-
Net intra-segment financing (1)	(21,713,143)	(25,187,717)	13.8
TOTAL LIABILITIES	**114,652,910**	**120,502,936**	**(4.9)**
EQUITY	**-**	**-**	-
Own funds	9,188,605	9,754,992	(5.8)
Accumulated other comprehensive income	(233,883)	(236,247)	(1)
Minority interests [non-controlling interests]	9,694	6,444	50.4
Total equity	**8,964,415**	**9,525,189**	**(5.9)**
Total equity and total liabilities	**123,617,325**	**130,028,125**	**(4.9)**

(1) The assets of the Real Estate and Relatived Business are financed by the excess of retail and wholesale liabilities of the Main Business, through a transfer rate system, through which a financing cost is charged to the Real Estate Business. The financing cost includes the market interest rate plus a liquidity premium and, in the case of real estate developers, doubtful debt and real estate the cost of the entity's issue of senior debt is assimilated.

Table 22: Commercial GAO of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
Net loans and advances to customers	**82,916,209**	**82,983,237**	(0.1)
Reverse Repos (including valuation adjustments)	6,701,640	6,504,071	3
Total net loans and advances to customers (ex-reverse repos) (a)	**76,214,569**	**76,479,166**	**(0.3)**
Demand accounts	39,659,015	35,832,037	10.7
Term deposits	38,038,113	41,838,345	(9.1)
Other accounts and valuation adjustments	122,873	62,568	96.4
Subtotal customer deposits (ex Repos and Treasury)	**77,820,001**	**77,732,950**	0.1
Retail commercial paper	271,275	128,237	>
Intermediation credits[1]	5,337,947	6,214,860	(14.1)
Securitisation sold to third parties	50,824	237,507	(78.6)
Marketable securities distributed through the commercial network[2]	454,273	466,585	(2.6)
Tax collection accounts	407,336	325,883	25
Total customer funds (b)	**84,341,655**	**85,106,022**	(0.9)
			-
GAP (a-b)	(8,127,086)	(8,626,856)	(5.8)
LTD (a/b)	90.4%	89.9%	56 b.p.

1. ICO and EIB funding received directly for loans to companies.

2. Includes convertible notes, preferred shares, and subordinated debt distributed via the branch network

Table 23: Customer funds of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
Demand deposits (excl. Treasury) and Other accounts	39,659,015	35,832,037	10.7
Term deposits	38,038,113	41,838,345	(9.1)
Repos	-	-	
Valuation adjustments	122,873	62,568	96.4
Subtotal retail deposits and Public Administrations (excl. Treasury)	**77,820,001**	**77,732,950**	0.1
Retail commercial paper	271,275	128,742	110.7
Intermediation credits	5,337,947	6,214,860	(14.1)
Securitisation sold to third parties	50,823	237,507	(78.6)
Marketable securities distributed through the commercial network	454,273	466,585	(2.6)
Tax collection accounts	407,336	325,883	25
Repos	-	-	
Total Retail Funds	**84,341,655**	**85,106,022**	(0.9)

1.ICO and EIB funding received directly for loans to companies.

2.Includes convertible notes, preferred shares, and subordinated debt distributed via the branch network

Table 24: Managed funds of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
Customer deposits:	82,664,520	88,150,957	(6.2)
Valuation adjustments (+/-)	122,873	62,568	96.4
Total customer deposits	82,787,393	88,213,525	(6.2)
Unadjusted debt certificates:	14,919,835	15,798,519	(5.6)
Valuation adjustments (+/-)	104,291	190,529	(45.3)
Debt certificates:	15,024,126	15,989,048	(6)
Subordinated liabilities	2,039,472	2,066,951	(1.3)
Total on-balance sheet funds (a)	**99,850,991**	**106,269,524**	**(6)**
Investment funds	10,934,262	11,482,702	(4.8)
Asset management	1,639,617	1,683,649	(2.6)
Pension plans	5,150,062	5,313,985	(3.1)
Insurance premiums	2,385,540	2,289,255	4.2
Total other intermediated resources (b)	**20,109,480**	**20,769,592**	**(3.2)**
Total resources managed (b)	**119,960,471**	**127,039,116**	**(5.6)**

Table 25: Loans and advances to customers of the main business

Data in thousands of euros	31.12.2016	31.12.2015	Change %
Gross loans and advances to customers ex reverse repos	79,497,372	79,668,587	(0.2)
Retail Banking	64,803,167	66,329,446	(2.3)
Individuals and Private	21,679,106	21,492,404	0.9
SMEs and self-employed people	39,123,841	39,602,255	(1.2)
Large companies and Public Administrations in the network	4,000,220	5,234,787	(23.6)
Wholesale Banking	14,694,205	13,256,895	10.8
Valuation adjustments (+/-)	(3,282,803)	(3,189,421)	(2.9)
Net loans and advances to customers ex reverse repos	**76,214,569**	**76,479,166**	**(0.3)**

Table 26: Yields and costs of the main business

Data in thousands of euros and high rates of the year								
	31.12.2016				31.12.2015			
	Average balance	**Weight (%)**	**Products or costs**	**Rates (%)**	**Average balance**	**Weight (%)**	**Products or costs**	**Rates (%)**
Financial intermediaries	6,770,520	5.35	-9,166	-0.14	6,161,275	4.73	12,057	0.2
Loans to customers (a)	79,921,968	63.16	2,065,436	2.58	80,252,236	61.64	2,599,851	3.24
Securities portfolio	27,038,424	21.37	319,531	1.18	32,070,958	24.63	406,379	1.27
Other profitable assets	183,736	0.15	5,396	2.94	185,948	0.14	7,079	3.81
TOTAL PROFITABLE ASSETS (b)	113,914,648	90.02	2,381,197	2.09	118,670,418	91.14	3,025,366	2.55
Other assets	12,629,927	9.98	-	-	11,531,827	8.86	-	-
	-	-	-	-				
TOTAL ASSETS	**126,544,576**	**100**	**2,381,197**	**1.88**	**130,202,244**	**100**	**3,025,366**	**2.32**
Financial intermediaries	29,884,789	23.62	65,687	0.22	32,038,281	24.61	173,660	0.54
Customer funds (c)	86,491,044	68.35	306,714	0.36	88,945,273	68.31	584,828	0.66
Demand and savings	42,656,272	33.71	42,532	0.1	36,150,452	27.77	65,999	0.18
Term	40,696,929	32.16	273,061	0.67	43,423,513	33.35	512,367	1.18
Repos	3,137,845	2.48	-8,879	-0.28	9,371,308	7.2	6,462	0.07
Marketable securities and other	18,307,375	14.47	375,529	2.05	18,232,126	14	485,019	2.66
Other interest-bearing liabilities	276,798	0.22	6,870	2.48	313,230	0.24	9,369	2.99
Net intra-segment financing	-24,779,329	-19.58	-587,138	2.37	-24,938,770	-19.15	-644,441	2.58
TOTAL RESOURCES WITH COST (d)	110,180,677	87.07	167,662	0.15	114,590,140	88.01	608,435	0.53
Other funds	4,607,068	3.64	-	-	5,746,724	4.41	-	-
Shareholders' Equity	11,756,832	9.29	-	-	9,865,381	7.58	-	-
TOTAL RESOURCES	**126,544,577**	**100**	**167,662**	**0.13**	**130,202,244**	**100**	**608,435**	**0.47**
Customer spread (a-c)				2.23				2.58
Spread (b-d)				1.94				2.02
Net Interest Income				1.75				1.86

Real Estate and Relatived Business:

Significant data of the Real Estate and Relatived Business

Real estate and credit risk associated with the property sector (promotion, construction, sale/purchase or leasing of real estate, accommodation) both in Spain and in subsidiaries, and property shareholdings.

REAL ESTATE AND RELATIVED BUSINESS:
12M16
in thousands of euros and %

Business volume	31.12.2016	31.12.2015
Net loans (ex reverse repos)	11,426,706	16,654,532
Gross Loans (ex reverse repos)	18,097,706	20,912,552
Assets managed	24,308,403	28,621,749
On-balance sheet funds	299,874	314,899

Profitability and efficiency	31.12.2016	31.12.2015
FL RWAs	18,657,359	27,256,945
Average Total Assets	27,253,174	28,134,977

Risk management	31.12.2016	31.12.2015
Net Real Estate	11,035,737	10,863,315
Net unproductive Real Estate	9,819,728	9,822,315
Gross unproductive Real Estate	16,073,697	15,284,674
Gross Real Estate	17,807,271	16,789,674
Net Doubtful loans	5,799,932	7,586,493
Gross Doubtful loans	12,470,932	11,844,513
Non-performing loans coverage rate	53.5%	35.9%
NPAs coverage rate*	44.4%	35.6%
Coverage rate on unproductive Real Estate	38.9%	35.7%
Total provisions	13,442,534	10,184,379
of which are Loans	6,671,000	4,258,020
of which are Real Estate	6,771,534	5,926,359

Earnings	31.12.2016	31.12.2015
Net Interest Income	(116,954)	(165,695)
Gross income	(135,145)	(251,925)
Net operating income	(419,310)	(494,386)
Profit/(loss) before tax	(4,524,314)	(1,408,050)
Profit/(loss) after tax	(3,178,628)	(1,015,763)

Table 27: Profit/(loss) of the Real Estate and Relatived Business:

Data in thousands of euros	31.12.2016	31.12.2015	Change %
=Net Interest Income	**(116,954)**	**(165,695)**	**29.4**
+ Results from entities accounted for using the equity method	(38,695)	(100,428)	61.5
+ Net fees and commissions	8,415	21,399	(60.7)
± Net profit/(loss) on financial operations	15,800	-	>
± Other income	(3,711)	(7,201)	48.5
=Gross Income	**(135,145)**	**(251,925)**	**46.4**
- Administrative expenses:	257,314	220,223	16.8
- Depreciation and Amortisation	26,851	22,238	20.7
=Net operating income	**(419,310)**	**(494,386)**	**15.2**
- Impairment of assets and provisions	4,025,623	895,364	>
± Other gains/losses	(79,381)	(18,300)	<
= Profit/(loss) before tax	**(4,524,314)**	**(1,408,050)**	**<**
± Taxes and others	(1,345,686)	(392,287)	<
= Profit attributable to the parent company	**(3,178,628)**	**(1,015,763)**	**<**

Table 28: Balance sheet of the Real Estate and Relatived Business:

Data in thousands of euros	31.12.2016	31.12.2015	Change %
ASSETS			
Cash and cash balances at central banks and other demand deposits	2,423	2,896	(16.3)
Financial assets held for trading	3,816	5,553	(31.3)
Financial assets designated at fair value through profit or loss	-	-	
Available-for-sale financial assets	-	102,235	
Loans and receivables:	11,426,706	16,654,532	(31.4)
Loans and advances to credit institutions	-	-	
Of which are interbank deposits	-	-	
Loans and advances to customers	11,426,706	16,654,532	(31.4)
Fixed income	-	-	
Held-to-maturity investments	-	-	
Derivatives – Hedge accounting	-	-	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	
Investments in subsidiaries, joint ventures and associates	407,073	303,541	34.1
Assets under insurance and reinsurance contracts	-	-	
Tangible assets	1,433,114	923,360	55.2
Intangible assets	1,051	1,378	(23.7)
Tax assets	1,186,822	498,912	>
Other assets	955,720	1,083,413	(11.8)
Non-current assets and disposal groups classified as held for sale	8,891,678	9,045,928	(1.7)
TOTAL ASSETS	**24,308,403**	**28,621,748**	**(15.1)**
LIABILITIES			
Financial liabilities held for trading	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-
Financial liabilities measured at amortised cost:	381,610	397,522	(4.0)
Deposits from credit institutions	163,125	213,064	(23.4)
Of which are interbank deposits	-	-	
Customer deposits	176,427	184,458	(4.4)
Marketable securities	316	-	
Subordinated liabilities	-	-	
Other financial liabilities	41,742	-	
Derivatives – Hedge accounting	-	-	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	
Liabilities under insurance and reinsurance contracts	-	-	
Provisions	23,130	15,885	45.6
Tax liabilities	19,859	10,245	93.8
Share capital repayable on demand	-	-	
Other liabilities	47,463	20,944	>
Liabilities included in disposal groups classified as held for sale	-	-	
Net intra-segment financing (1)	21,713,143	25,187,717	(13.8)
TOTAL LIABILITIES	**22,185,205**	**25,632,312**	**(13.4)**
EQUITY			
Own funds	2,176,296	2,965,000	(26.6)
Accumulated other comprehensive income	(55,395)	14,504	<
Minority interests [non-controlling interests]	2,296	9,932	(76.9)
TOTAL EQUITY	**2,123,198**	**2,989,436**	**(29.0)**
TOTAL EQUITY AND TOTAL LIABILITIES	**24,308,403**	**28,621,748**	**(15.1)**

8

Solvency

Regulatory capital, returns on capital and own funds

The new European capital requirement entered into force on 1 January 2014. This requirement comprises Directive 2013/36/EU – CRD IV and Regulation 575/2013/EU – CRR, which constitute the implementation at the European level of the recommendations of the Basel Committee on Banking Supervision, also known as Basel III. Both instruments replace Directive 2006/48/EC of 14 June relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EU of 14 June on the capital adequacy of investment firms and credit institutions. The Directive requires Member States to transpose it into national law, whereas the Regulation is directly applicable.

The new European directive was transposed into national law by the publication of Law 10/2014 of 26 June on organisation, supervision and solvency and Royal Decree 84/2015 of 13 February which develops Law 10/2014. The legislation and its later development repeal Law 13/1985 of 25 May on investment coefficients, shareholders' equity and information obligations of financial intermediaries, and Royal Decree 216/2008 of 15 February on shareholders' equity of financial institutions, as well as some provisions of Circular 3/2008 of 22 May issued by the Banco de España.

Another important change involves the establishment of the Single Supervisory Mechanism (SSM), under which a new single financial supervision system has been created; the European Central Bank and the competent national authorities of Eurozone members participate in this system.

To ensure efficient supervision, the SSM established in Regulation (EU) No. 1024/2013 the powers reserved to the ECB and to the national authorities such that the ECB will directly supervise institutions classed as "significant", including Banco Popular, and national authorities will supervise those classed as "less significant".

Following the coming into force of the SSM and to complement this initiative, the second pillar for the establishment of the European Banking Union, the Single Resolution Mechanism (SRM) was implemented. The SRM comprises the national resolution authorities (Banco de España as the preventive authority and the FROB as the resolution authority), a Single Resolution Council and a mutualised private fund, the Single Resolution Fund (SRF), funded by contributions made by institutions (1% of guaranteed deposits from each country).

The objective of the SRM is to standardise decisions and actions to resolve banking crises and establish the option of resorting to the SRF in the event that bail-ins prove insufficient in covering the costs of the process.

The SRM is enshrined in Regulation 806/2014, which sets out uniform standards and a uniform procedure for resolutions and the Bank Recovery and Resolution Directive (BRRD), which grants authorities a series of resolution powers and tools that make it possible to reduce the impact of financial crises by means of: (i) fast detection of institutions' problems and their capital needs; (ii) ensuring the continuation of essential financial and economic functions; and (iii) improving the legal and economic credibility of the process.

In Spain, the transposition of the BRRD took place in 2015 with the passing of Law No. 11/2015 on the recovery and resolution of credit institutions and investment firms and Royal Decree No. 1012/2015 which enacts said law and partially revokes Law No. 9/2012.

The Group continues to give priority to one of the pillars of its management; strengthening its solvency. Capital strength is an unavoidable objective to ensure the development of the activity. The Group's objective is to remain comfortably above the ratios required by current regulations at all times, taking into account the position within the cycle and the implicit characteristics of each ratio, supported by a measurement, planning and control system that will allow to know its needs under normal conditions and under pressure in order to take early action.

In the area of solvency therefore, the minimum thresholds required by the introduction of a new minimum capital requirement based on the Common Equity Tier 1 (CET1) have changed and are situated at 4.5%, and will reach 7% when fully applying the capital conservation buffer. The planned implementation schedule for the capital conservation buffer will be 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 before reaching the definitive 2.5% from 1 January 2019.

Regarding the leverage ratio, it has been incorporated into Basel III and transposed to the CRR as a simple, transparent measurement, not linked to risk of a counter-cyclical nature, the objective of which is to avoid excessive leveraging during boom periods and complement the minimum risk-based capital ratio. This ratio is defined as the ratio of Tier 1 capital to an exposure value. This value is calculated using exposures of on- and off-balance sheet items, including derivatives. Although the definition and calibration of the leverage ratio will come into force from 2018, the Group carries out an estimation and monitoring of this measurement to ensure that leverage is kept well above the tentative minimum levels currently serving as a reference (3%). The full application of this regulatory framework will be gradual until 2019, and the regulations themselves establish compliance with a number of transitional provisions.

The main figures relating to the Group's solvency in 2016, as published in the results for the year, are as follows:

Table 29: Solvency

Data in thousands of euros	31.12.2016	31.12.2015
Capital	7,148,627	8,831,237
Reserves	4,176,959	3,861,877
Of which are distributable	3,834,365	3,526,219
Non-controlling interests	4,264	9,502
Common equity deductions	(3,521,709)	(2,874,743)
Common Equity Tier 1 capital	**7,808,140**	**9,827,872**
CET 1 ratio (%)	**12.13%**	**13.14%**
Convertible perpetual debt	1,284,216	1,336,580
Additional capital deductions	(1,284,216)	(1,336,580)
Tier 1 capital	**7,808,140**	**9,827,872**
Tier 1 ratio (%)	**12.13%**	**13.14%**
Tier 2 capital	**655,167**	**493,922**
Tier 2 ratio	**1.02%**	**0.66%**
Own funds	**8,463,307**	**10,321,795**
Total capital ratio (%)	**13.15%**	**13.80%**
Total risk-weighted assets	**64,372,232**	**74,777,640**
of which due to credit risk	58,902,367	68,837,682
of which due to operational risk	5,321,961	5,368,606
of which due to market risk	147,904	571,352
Distributable reserves	**3,832,387**	**3,524,210**
LEVERAGE RATIO		
Tier 1 capital	**7,808,140**	**9,827,872**
Exposure	**146,992,235**	**157,798,445**
Phase-in Basel III leverage ratio (%)	**5.31%**	**6.23%**

As seen in the previous table, at 31 December 2016 the solvency ratios are 12.13% for CET 1, 12.13% for Tier 1 and 13.15% for Total Capital. 2016 has been framed by the capital increase of 2,506 million euros and the results obtained. It should be noted that the group has reached these capital ratios by its own means, with a business model linked mainly to companies and without receiving public aid. It should also be noted that the Group has not transferred property assets to SAREB.

The Group continues to improve its risk management and control policies in order to reduce the risk of its assets and thus improve its long-term solvency. In this regard, it is worth noting that the Bank has internal credit risk measurement models for a large proportion of its portfolios, validated by the supervisor for calculating minimum capital requirements.

The following portfolios have already been validated by the supervisor:

- Financial institutions
- Large companies
- Medium-sized companies
- Small companies
- Retail mortgages
- Project Finance (Slotting Method)

It should also be pointed out that there are other internal models for other portfolios that are currently being validated by the supervisor and, therefore, the capital calculation is performed using the standard method until their use has been authorised. These models form part of the institution's risk management and refer to the micro companies and retail consumer portfolios.

Irrespective of the regulatory capital calculation method used for any particular one, all these models have been implemented and integrated into the Banco Popular systems, and are taken into account for the following processes:

- When taking decisions to approve new transactions and their price.
- In sales campaigns.
- In past due recovery applications.
- In the monthly monitoring of risk management and solvency information.
- In capital planning.

Within the framework of the management of all of the processes relating to the calculations of expected losses and regulatory capital required, the Bank maintains a database of all its exposures that are currently active. This database includes all the necessary data and calculations, and is the result of the joint and coordinated effort of multi-discipline areas, both technological and risk- or business-specific, that transversely cover the entire Bank. All these processes are updated on a monthly basis to include new data, legislative changes, improvements in the estimates of the parameters or in the risk mitigation processes due to guaranties, etc.

During 2016, pursuant to the CRR, we updated all calculation parameters used in each of the portfolios for the requirements of which advanced methods are used, taking factors which occurred during the year into account.

In accordance with the results of the Supervisory Review and Evaluation Process (SREP), the European Central Bank set a CET 1 capital requirement of 7.875% for Popular in 2017. This includes the regulatory requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2%, a capital conservation buffer of 1.25% and a local systemic institution buffer of 0.125% imposed by Banco de España. For its part, the Tier 1 level reached 9.375% and total capital 11.375%

9 Risk management

Popular takes a disciplined, diversified and integral approach to risk management by enhancing internal governance which promotes control and prudent risk management and the qualification of the entity's professionals, establishing risk policy criteria aimed at achieving a Medium-low risk profile, ensuring at all times that the Group performs its commercial activity and business expectations within the established risk limits and objectives.

Based on its business model, the main risks to which the Group is exposed are credit and liquidity risk.

The following principles govern its risk management:

- Geared to maintaining a healthy balance sheet.
- Control of risk concentration encouraging sectoral diversity.
- Appropriate risk measurement and monitoring
- Sustainable business growth geared to optimising profitability.
- Reasonable balance between loans and receivables and raised deposits.
- Systematisation and automation of processes.

The main axes of the risk management policy are as follows:

- Risk Culture
- Governance
- Risk Appetite
- General control model

Risk Culture

Banco Popular develops its business model according to values which are consistent with the risk appetite set by the Board of Directors. These principles constitute a risk culture which helps to ensure that any risk or activity in which it incurs can be identified, escalated, measured and mitigated in time. In this context, there are policies, procedures and processes aligned with the risk appetite which move downwards throughout the organisation.

The implementation of a robust risk culture is promoted through the following mechanisms:

- Corporate values which create an atmosphere of effective critical feedback, in which decision-making processes promote different viewpoints.
- Training of personnel on their responsibilities in the field of risks, specifying who responds to which typesof risk, as opposed to risk management's corresponding exclusively to risk specialists or control functions. Responsibility for daily management of the risk appetite and compliance with policies, procedures and controls will fall to the business units.
- A risk appetite which is incorporated into the processes and systems.
- Compensation and professional career plans to encourage attitudes and skills consistent with the management of risk appetite's objectives.

Governance

The Group has developed a corporate governance model of risks in line with the best market practices, in which the different governing bodies are assigned clear responsibilities in terms of risks, from the design and approval of the risk strategy to the monitoring and supervision of its implementation.

Board of Directors

The Board of Directors, as the body responsible for establishing strategic lines and general policies regarding risk management and control, is assigned the following main functions in the field of risks:

- Establishing the Risk Appetite Framework (RAF) subject to advice from the Risk Commission, including limits and objectives.
- Ensuring that the Risk Appetite Framework is consistent with the short- and medium-term strategy and capital planning and with the Group's compensation policy
- Verifying that the risk culture is appropriately transmitted throughout the Group.
- Reviewing the Group's risk profile at least quarterly, comparing it with the limits and objectives established for each specific risk, including those of a qualitative nature.
- Ensuring that resources are available in sufficient quantity and quality for the correct performance of the risk function.
- Ensuring that mechanisms are in place to enable the Management Committee to take appropriate action in order to manage the Bank's risk effectively and, when necessary, mitigate significant risk exposures, particularly those close to or in excess of risk limits.
- Discussions with the supervisory entity about the decisions regarding the establishment and continuous monitoring of the risk appetite, as well as about relevant changes in current risk appetite level or in the regulatory expectations associated with the risk profile

Board of Directors' Risk Commission

Advises the Board on risk issues. Assesses risk management and control to ensure the content, completeness and effectiveness of the Risk Appetite Framework. To this end, it periodically monitors the Group's risk profile.

Furthermore, it controls compliance with the approved risk limits and objectives, establishing the characteristics and frequency with which risk information should be received by Risk Management.

Audit Committee

Assists the Board of Directors in its supervision and control of the Bank by assessing the faithfulness of the financial statements and reviewing the Bank's internal control system.

Appointments, Governance and Corporate Responsibility Committee

The main task of the Appointments, Governance and Corporate Responsibility Committee is to assist the Board of Directors in its functions of appointing, re-electing and removing Directors and senior management, ensuring that the Directors receive all the information necessary for the proper performance of their duties, and monitoring compliance with the Bank's rules of governance, periodically reviewing compliance with its rules, recommendations and principles.

Compensation Committee

Proposes a compensation policy for Directors and senior management to the Board of Directors, as well as for those employees whose activity may impact the risk profile of the entity; the individual compensation for Executive Directors and other contractual conditions and the basic conditions for contracts of senior managers.

Furthermore, it is responsible for assessing and supervising compliance with the compensation policy and making proposals to the Board of Directors regarding the measures deemed most appropriate to maintain, correct or improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.

Management Committee

As the Group's technical and executive governance body, and chaired by the CEO, this Committee proposes the Risk Appetite Framework to the Board and supervises its implementation with the help of its various consultative committees in this field.

Furthermore, it is responsible for establishing a solid risk management culture by empowering and supporting Risk Management in its responsibilities and transmitting this culture throughout the organisation, promoting suitable training on risk issues.

It ensures that the IT infrastructure and risk management function have sufficient and qualified resources to correctly supervise compliance with the Risk Appetite Framework.

The Committee works diligently to ensure effective risk management and, when necessary, mitigate significant exposures to risk. It pays special attention to risks that are close to risk limits.

The following Committees advise the Management Committee on Risk-related matters:

- Capital Committee
- ALCO Committee
- Models Committee
- Operational Risk Committee
- New Products Committee

Risk Committee

The Risk Committee is the body responsible for approving transactions that exceed the limits assigned at the highest decision-making level of Risk Management for the various risk categories, and is therefore responsible for maintaining the risk profile within the appetite framework set by the Board of Directors.

Risk Appetite

In December 2014 the Board of Directors approved the Risk Appetite Framework, a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite.

This is a flexible framework where risks to which the Group is exposed are identified and defined, and sets:

- Qualitative aspects related to the principles, governance processes and escalation of risk-related decissions.
- The risk appetite statement sets objectives, warnings and limits for each risk in accordance with the Group's strategy. The aim is to maintain a medium-low risk profile by controlling the risks to which the Group is exposed to through its business model.

The risks to which the Group is exposed are as follows:

Financial Risks:

- Business risk
- Credit risk
- Operational risk
- Interest rate risk
- Market risk
- Liquidity risk

Non-financial Risks:

- Reputational risk
- Compliance risk

The marked appetite level determines the Risk strategy, establishing policies which will maintain or achieve a residual risk profile in line with the target, periodically assessing the level of inherent and residual risk.

The profile of different categories of financial (credit, operational, interest rate, market and business) and non-financial risks categories such as reputational and compliance determine the objective of capital. The stress test planning process, for its part, ensures that the risk profile is in line with the established Risk Appetite and that the objective of capital requirements is met.

The correct definition and control of the Risk Appetite are the key elements which reasonably ensure the capital objectives.

The metric chosen to measure each of the risks is that which is considered most informative and that better includes both the risk profile of the bank as well as the objectives and limits the entity imposes on itself to ensure an adequate risk management.

In addition to top-level metrics or Risk Appetite Framework metrics for all existing risks and Capital, each risk is managed with additional metrics or second-level monitoring which ensures that the risk profile remains within tolerance levels, integrating the Risk Appetite Framework in its management.

General Control Model

Popular views Internal Control as a transversal process promoted by the Board of Directors and which involves the entire organization. It has been designed to comprehensively identify, monitor and manage all risks to which it is exposed, in order to provide reasonable assurance regarding the achievement of established corporate goals.

Risk Management

Under the supervision of the CEO and reporting to the Management Committee and the Risk Commission, it is the management area responsible for ensuring that the Bank's risk level is adequate both to the economic and financial reality as well as to the Bank's business structure, being therefore the area charged with overall risk management and responsible for the design of risk policies which help identify, control and mitigate the bank's risks and their implementation through the RAF.

Additionally:

- Together with the Control area, it proposes the RAF to the Management Committee for its subsequent submission to the Risk Commission.
- If influences strategic decisions to ensure that the associated risks are within the approved risk framework.
- If ensures the identification of material risks, their measurement and analysis, establishing the appropriate risk measurement systems at all times.
- It advises the Management Committee through the Risk Commission on the implementation, revision, approval and control of the culture and risk appetite.
- After reporting to the Control area and jointly with the areas responsible for risk management, it validates the measures it proposed to the Management Committee whenever the limit of non-compliance or warning levels are exceeded

Control

Under the supervision of the Technical General Secretary and acting as the second line of defence, it is the area in charge of the supervision and control of the Group's risks, reporting on the compliance and efficacy of the RAF to the Risk Management, the Management Committee and the Risk Commission.

To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It reports to the Management Committee and the Risk Commission.

Additionally:

- It reports monthly to the Management Committee and the Risk Commission on the evolution of the risk profile with respect to the risk appetite.
- It establishes the information processes and the early warning controls on risks consistent with the RAF.
- It executes independent supervision of the risks, objectives and limits in the RAF. In the event that there are excesses on the warning levels and non-compliance with limits it escalates the excesses in a timely manner according to the action protocol defined in point IV.
- It ensures the integrity of the risk measurement techniques and the MIS used to compare and carry out monitoring of the risk profile with regard to its risk appetite.
- It revises and assesses the bank's control environment, ensuring compliance with the policies, limits and risk objectives authorised in the different links in the risk chain, suggesting other policies dynamically.

Regulatory Compliance

Compliance and regulatory Management reports to the Secretary of the Entity's Board of Directors. If defines and supervises the policies and procedures to comply with the regulatory standards amongst which include the prevention of money laundering and criminal risks.

To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It maintains contact with regulators and supervisors within the scope of its competences. The Compliance Office, under its supervision, has its objective of identifying the compliance risks within its scope of action and establishing controls for its mitigation.

The Compliance Office evaluates Compliance and Reputational Risk, considered as non-financial, and reporting periodically to the Audit Committee through Regulatory Compliance Management as well as the Risk Management and the Control area.

Internal Control Body

Its objective is to monitor the proper functioning of the Group in terms of prevention of money laundering and financing of terrorism.

Internal Audit

Reporting directly to the Audit Committee of the Group's Board of Directors, it reports to the Board of Directors through it, acting as the third line of defence.

It is the responsibility of the Internal Audit to assess the effectiveness of risk management processes, internal control and governance, and for this reason it submits an Annual Audit Plan for approval by the Audit Committee, which it draws up based on a process of risk assessment, regulatory requirements and the concerns of the Board of Directors and Senior Management.

Business risk

This risk, defined as the possibility that the gross income is not sufficient to cover the fixed costs due to changes in the volumes of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions. In this sense, it makes reference to the possibility that the Group does not meet the objective of profitability, which can ultimately affect its capital ratios.

Business risk is influenced by numerous factors such as the amount of income/costs, interest rates, competition, the economic environment and regulatory provisions, among other factors.

Since June 2016, the Group has segmented it Business into two large activities; the Main Business and the Real Estate and Related Business.

In its Main Business the Group maintains a prominent position in customer spread and credit profitability, which comes from, among others, its strategic focus on self-employed people, and small and medium-sized companies as well as in the development of other high-return businesses such as consumption, cards, mutual funds and insurance. This business model allows it to:

- Maintain a proven record of recurring income, with less reliance on extraordinary income in its net operating income than its peers. This is achieved due to the fact that the Bank's core business is commercial banking, establishing long-term relationships with customers, and providing a base of very stable results.
- Obtain a high credit profitability thanks to the Group being the Spanish bank specialising in SMEs. The increased presence in this segment allows the Bank to operate with higher margins while maintaining industry diversification in the markets in which it operates.

In the Real Estate and Related Business, all the Group's properties, the shareholdings in real estate companies as well as performing and non-performing loans related to the real estate sector are concentrated. This concenctration will allow for specialised treatments of the real estate business to accelerate the divestment of unproductive assets.

The Group continually monitors its relative position to its peers in key business ratios, sending a monthly summary report to the Management Committee.

Credit risk

Credit risk is the risk of deterioration in credit quality or through impairment due to changes in the capacity or intention of the counterparty to fulfil its obligations, resulting in a loss.

Banco Popular is an entity predominantly focused on retail banking, focused on business with companies, self-employed people and individuals so that their business model is oriented to credit risk.

Managing this risk is characterised by a prudent approvals' policy with a system of limits and strict powers, through the withdrawal of guarantees which mitigate this risk, and an appropriate level of coverage.

The basic principles and hallmarks in the Group's management of credit risk are based, in addition to those contained in the Risk Appetite Framework, as detailed below:

- Priority of the risk policies aimed at guaranteeing the Group's stability and its viability in the short-, medium- and long-terms, and at maximising the risk-return relationship.
- Senior Management involvement.

- Strict compliance with current legislation in every way, with particular attention paid to the monitoring of the current legislation on Prevention of Money Laundering and Terrorism Financing.
- Profitable and quality investment, opting for profitable, balanced and sustained growth overall and for returns commensurate with the risk on each individual borrower.
- Periodic information to Senior Management.
- Application of limits on the granting of risks.
- Diversification of the risk inherent to loans and receivables, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
- Flexibility of the target-oriented organisational structure.
- Separation between the risk and commercial areas.
- Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to the rigour of analysis.
- Systematisation and automation of processes.
- Terms are negotiated with the customer individually based on each customer's overall relationship with the Bank, the risk assumed, the profitability it offers and the market situation.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Integration of the internal risk management, scoring and rating models into the daily management.
- Management of the risks and limits granted for each customer or associated group of customers, when such a relationship exists.
- Incorporating guarantees to mitigate risk.
- Participation of risk analysts in risk monitoring and control.
- Formal system of discretionary powers built into the granting of risks.
- Differentiated analysis and treatment of refinancing and debt restructuring operations.
- Risk monitoring and control from origination to termination.
- Use of early warnings in the prevention and monitoring of risk.
- Recovery process oriented to efficient management.

In addition to the Risk Appetite Framework, the Group has a Risk Policy Manual authorised by the Board of Directors to establish the functions and responsibilities of the different areas and the basis for developing the means to estimate, analyse, control and manage risks, particularly as far as credit risk is concerned, as this is the area of greatest activity and exposure, in order to permanently optimise the risk-return and achieve the objectives defined in the Risk Appetite Framework.

It also has a Credit Risk Procedures Manual authorised by the Management Committee, which describes the Group's credit risk analysis model, explains the current rules for management and control and serves as a training and informative element.

Credit Risk Admission

The admission of credit risk is done through Credit Risk Admissions and its dependent offices; Retail Risks, Risks with Businesses and Public Administrations as well as risk departments located in different business units (Territorial Offices, Regional Offices, Specialised branches, etc.). This unit reports directly to Risk Management.

These offices and departments have the main function of the management and analysis of risk assumption under management principles, policies and operational and communication processes defined in the Risk Appetite Framework, the Risk Policy Manual and the Credit Risk Procedures Manual.

Analysis and management are performed by taking into consideration the overall exposure with customers and/or the economic group in which they are integrated and the profitability associated to the risk obtained.

To develop its functions it has unique IT support for the proposed risk circuit (from request to resolution) which allows for all necessary internal and external information needed for analysis to be used. This computer support is the electronic proposal and it is unique for each new transaction which takes place.

Also integrated into this computer support are:

- The discretionary powers' system is automated at all decision levels (from Branch to Head Quarters).
- The results of the rating/scoring models applied to different segments and their recommendation.
- The monitoring levels assigned by Risk Prevention for those involved and the irregular situations which might present (in the group, in the System or in external sources such as RAI or Credit Bureaux).
- Available pricing information.

Credit risk is approved in compliance with the limits and restrictions defined in the Risk Appetite Framework and the Risk Policies Manual; it ensures sustainable business growth by optimising the profitability of resources; it seeks a reasonable balance between loans and receivables and captured resources; it conforms to the provisions of the Law on the Prevention of Money Laundering; it applies the principles and requirements of "Responsible Lending"; it is based on the recurrent generation of resources over time by the borrower; and, it requires effective security in proportion to the transactions to mitigate the risks taken on.

Discretionary Powers System

Banco Popular Group has implemented a Discretionary Powers System for the granting of risk operations whereby different hierarchical levels of the organisation have been delegated various powers to authorise operations, which vary depending on the amount of risk, the probability of default according to internal credit risk models, amount, nature of the risk, use of the funding, term of the transaction, the borrower's activity and the profitability. The system is automated and integrates into the analysis and risk admission process.

The Risk Committee, comprising directors of the Group who are members of the Management Committee and chaired by the Risk Director, discusses and approves transactions which exceed the powers delegated by the Board to the Risk Director and submits those which exceed the limits of its powers to the Delegated Committee of the Board of Directors.

Limit structure

The Group has designed a credit limit structure in order to control exposure to credit risk and its concentration and to achieve an adequate diversification of its portfolio based on the following characteristics:

- Risk concentration by borrower. Limits are defined for the maximum exposure to groups or individual customers and limits for new individual transactions, as well as the participation of the Group in the syndicated funding or projects for a group or customer. Potential exceptions to these limits must be authorised by the Board of Directors or its Delegated Committee as the maximum decision-taking body within Banco Popular Group's system of discretionary powers.
- Risk concentration by sectors. The Group has analysed and evaluated different sectors of activity, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.

- Risk concentration by segment, factor for which thresholds are defined in terms of a percentage of maximum risk to be assumed with respect to the Large Company segment.
- Risk concentration by product, with a focus on mortgage security and pledged operations, property development and financing in foreign currency.
- Risk concentration in terms of geographical distribution, periodically analysing the levels of risk exposure in different geographical areas.

Credit Rating Models

The Group has internal models for the analysis and measurement (rating and scoring) of credit risk. For the retail segment (individuals and micro-companies), credit scoring models adapted to each kind of product are used. For the business segment, an internal rating is calculated based on the analysis of variables representative of economic and financial position, the operation, and business sector. The Group works with expert models for the large companies and financial institutions segments. Finally, for Project Finance, the Group has an internal allocation model for the regulatory categories considered under the CRR.

These models are actively used in credit risk management, from the granting of operations where they are a key input in making admission decisions, pricing, and delegation of authority, up to the monitoring of portfolios and segments, through evolution of outstanding portfolio's credit quality and that of new contracts and finally in the recovery process by assigning priorities according to expected losses.

At 31 December 2016, Banco Popular has authorised the use of these advanced models for the calculation of Capital requirements for large, small and medium-sized companies, financial institutions and retail mortgages portfolios. Also, on this date, using the project finance model under the "IRB - Slotting Method" approach.

Additionally, estimates are made of the credit risk parameters under various scenarios for planning exercises and stress tests both internally (ICAAP) and regulatory. These stress tests have a special importance as a dynamic assessment tool of the risks and therefore the solvency and liquidity of banking entities.

Internal Validation

The Group has an Internal Validation unit within the Control area whose main function is the validation of internal models for measuring and managing risk, both for regulatory and management purposes.

The opinion of the Internal Validation unit is a fundamental requirement and for their monitoring and subsequent modification and approval, evaluating their use and effectiveness.

The function of this unit is, to give well-founded and up-to-date opinion on whether the risk measurement models work correctly and whether the results obtained, (estimates of risk parameters and other information generated by the advanced management systems), are appropriate to the different uses to which they apply, both internal and regulatory.

At present, the main function of this unit focuses on the measurement models and credit risk management and it covers the essential elements of an advanced risk management system, involving review of the following items: methodology, documentation, data used, quantitative aspects, qualitative aspects, technological environment, etc.

In this area, the scope of the validation covers the essential elements of an advanced risk management system, involving review of the following items:

- **Methodology:** Review of the methodology used in the scoring/rating models. This makes reference to the adequacy of the statistical methodology, the assumptions and the techniques applied, which remain unchanged until the design of the models is modified.
- **Documentation:** Review of the quality of the documentation that supports these models.
- **Data Used**: Review of the quality of the data and databases used when developing the models during the rating assignment process and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.
- **Quantitative Aspects:** Review of the quantitative information provided regarding the validation and monitoring of the models. A number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.
- **Qualitative Aspects:** This area has a dual objective: the review of the information generated by the models and their appropriate interpretation. Secondly, the validation of compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.
- **Technological Environment:** Review of the integration into systems, the application environment and the quality of the information provided by the systems.

In addition and in accordance with best practice, Internal Validation's function, as a second line of defence in the Control area has gradually extended its scope into other internal review processes such as stress tests or ICAAP, the internal Incurred Loss measurement models (foreclosed model, for Collective and Individualised analysis) or Pricing models, validating the methodology for calculating the related models. In this sense, the functions of Internal Validation will continue expanding with the validation of other behavioural models and risk monitoring and control.

Pricing Policy

The pricing policy is one of the key pieces in the search for the optimal profitability on capital and investment in products offered, therefore it has to have a certain consistency throughout the year. However, due to changes in market characteristics, the change in competition or other situations, is it necessary to adjust product prices periodically.

Additionally, in recent years, the market has been rolling out value-based management capabilities with the development of Profitability Management tools adjusted to Risk (RoTE) and Asset Pricing tools for all products, segments and customers.

Also the new regulation on provisions implies having greater rigour in the processes of granting, renewing or reviewing credit. Therefore, in order to be positioned in this line derived from the regulations and the market, a project is underway to allow the basic price tables system to be developed so that the new model covers all the entity's products, segments and customers.

For this purpose, a Pricing model will be used to set prices based on the risk-adjusted return of the product and segment, in line with the entity's objective, under the prism of discrimination by risk, products and segments which allows the value to be maintained and increased and reinforce the profitability according to the risk, incorporating the profitability of the customer to obtain an overall profit adjusted to the risk that combines the profitability of the operation with the profitability of the customer.

In short, the main objective is risk adjusted pricing management which allows:

- Focusing on the active management of profitability and in value creation for the entity.
- Aligning itself with market practices and complying with the new regulatory requirements (incorporated into the new regulations on provisions), from an increase in rigour in the processes of granting, renewing and reviewing credit.

- Achieving an adequate analysis of the risk-adjusted profitability by combining the profitability of the operation with the profitability of the customer, allowing a better discrimination based on the credit quality of customers and operations.
- Establishing a pricing threshold for each product and segment which complies with the entity's risk-adjusted profitability objective.
- Encouraging attracting customers with the best creditworthiness and promoting the linkage of good existing customers.

Mitigation of Credit Risk

Guarantees are involved in the risk admission as an element whose analysis is a determining factor, as they serve to mitigate the risk assumed. However, they will never justify the granting of transactions by themselves since the criteria for granting credit are primarily based on capacity of the borrower to make repayment, and considering additional guarantees (which may be personal, mortgage related or other type) as a second and exceptional recovery option that may be used when the first has failed.

In view of the substantial legislative evolution regarding eligible guarantees and their proper management within the Group, compliance with regulatory requirements is subject to particular monitoring for a dual purpose: to ensure the mitigation of the risks assumed and, in addition, to improve the calculation of shareholders' equity by reducing exposure.

Banco Popular Group, in complying with the best market practices and with both Spanish and European regulations, such as, Circular 4/2004, Circular 4/2016 and IAS39, has defined accounting policies whose details are explained in an Accounting Policies Manual, approved by the Management Committee and the Audit Committee, which is updated at least annually.

Credit Risk Monitoring and Control

The Group has established a permanent credit risk monitoring system which allows it to have an assessment at the required monitoring level to monitor the evolution of overall risks in its loans portfolio, anticipate eventual difficulties and react to avoid default situations.

This permanent monitoring is mainly based on individual warning systems which allows differentiated monitoring for groups of individuals: "Technical Warning System" and legal "Early Warning Model", detect possible difficulties early in the evolution of customers and the development of granted operations.

The warnings are dealt with by teams specialised in risk monitoring and control with the central office of Risk Monitoring and Control in charge of supervising the process.

In addition, the Risk Monitoring and Control office carries out the monitoring of certain customers and economic groups risks with a high volume of assumed risk or who show certain incidents and regular monitoring of various risk portfolios which due to their nature require their evolution to be controlled.

Refinancing and Restructuring operations

Refinancing/restructuring operations are included in the Group's continuous credit portfolio management and are the result of permanent monitoring to anticipate portfolio destabilisation or debt collection difficulties and prepare solutions in advance, and to effectively monitor and control the risks involved and act flexibly in seeking solutions adapted to the characteristics of each customer.

In the case of refinancing and restructuring, the various existing regulations are taken into account, notably Banco de España Circular 6/2012, of 28 September (BOE of 2 October) and Banco de España Circular 4/2016 of 27 April, amending Circular 4/2004, of 22 December, to credit institutions, on public and reserved financial information and models of financial statements, and Circular 1/2013, of 24 May, on the Central of Information of Risks. Circular 4/2016 introduces amendments to Annex IX of Circular 4/2004, which requires entities to have a refinancing and restructuring operations policy which addresses the requirements which must be met for this, indicating the following definitions:

- **Refinancing operation:** an operation which, whoever be the titleholder or whichever be the guarantees, is granted or used for economic or legal reasons related to financial difficulties -current or foreseeable- of the titleholder (or titleholders) to cancel one or more operations granted, by the entity itself or by other entities of its group, to the titleholder (or titleholders) or to one or other companies in its economic group, or by which the said operations are listed as totally or partially up to date with payments, in order to assist the titleholders of cancelled or refinanced operations with the payment of their debt (principal and interest) because they cannot, or are not expected to be able to, comply with their conditions in a timely manner.

- **Refinanced operation:** an operation which is totally or partially up to date as a result of a refinancing operation carried out by the entity itself or another entity in its economic group.

- **Restructured operation:** an operation in which, for economic or legal reasons related to financial difficulties, either current or foreseeable, of the titleholder (or titleholders), their financial conditions are modified in order to facilitate payment of the debt (principal and interest) because the titleholder cannot, or is expected to not be able to, comply on time and under such conditions, even if such modification was provided for in the contract. In any case, operations are considered as restructured in which a reduction is made or assets are received to reduce the debt, or in which the conditions are modified to lengthen their maturity period, vary the amortisation table to reduce the amount of the payments in the short term or to reduce their frequency, or to establish or extend the grace period for principal, interest or both, unless it can be proven that the conditions are modified for reasons other than the financial difficulties of the titleholders and are analogous to those applied in the market on the date of its modification to operations granted to customers with a similar risk profile.

- **Renewal operation:** an operation formalised to replace another previously granted by the entity itself, without the borrower having, or expected to have financial difficulties in the future; that is, the operation is formalised for reasons other than refinancing.

- **Renegotiated operation:** an operation in which its financial conditions are modified without the borrower having, or expected to have financial difficulties in the future; that is, when terms and conditions are modified for reasons other than restructuring.

The number of transactions of this kind increases substantially in unfavourable macroeconomic environments, since they are caused by customers' inability to meet the obligations contracted with the Bank. The Group then detects the warning signals and assesses the possibility of adapting the terms of the obligations to the customer’s new payment capacity and/or of improving collateral obtained for the original loan.

In compliance with their continuous supervision duties, the monitoring, business, restructuring and recovery areas are responsible for identifying potential refinancing/restructuring operations.

The Group’s use of refinancing/restructuring transactions is done under common practices that allow effective monitoring and control over the risks inherent in the loans, as well as a flexible approach to solutions tailored to each customer’s circumstances.

The Banco Popular Group confines refinancing/restructuring transactions to cases in which the following circumstances apply:

- The customer has the capacity and the intention to make payments.
- The refinancing/restructuring operation will improve the Bank's position in terms of expected loss.
- The new terms will not encourage the customer to delay or suspend the fulfilment of payment obligations.

The Group's arrangement of refinancing/restructuring transactions is governed by the following general principles:

- Refinancing/restructuring transactions are only applicable to loans granted by the Banco Popular Group. Refinancing/restructuring operations for loans granted by third parties will not be considered in any circumstances.
- The proposed refinancing/restructuring will not increase the expected loss on the original loan. Refinancing transactions that are detrimental to collateral will not be considered under any circumstances.
- In general, loans with mortgage security may not be novated into personal loans, unless the mortgages are insufficient at the novation date and the new personal guarantee furnished provides additional surety.
- In order to access refinancing/restructuring, certain conditions must be fulfilled; in particular, the Group must have a minimum experience of 24 months with the borrower and payments must have been made in due time and form for at least 12 months.

The following principles are rigorously applied in studying the appropriateness of a refinancing/restructuring operation and in setting the specific terms, while also taking into account exceptional circumstances:

- Customer risk is considered as a whole and not only the risk of the original loan.
- Before approving a debt restructuring, all alternatives and possible impacts must be evaluated to ensure effectiveness and restrict excessive use of restructuring operations.
- Collateral, consolidation of collateral and expected evolution of collateral values are analysed in detail.
- The Bank's Legal Services must be involved until the transaction is completed, taking care to correctly formalise new guarantees and avoid any detrimental impact on existing collateral.
- The proposal/design or decision process will involve the Bank's risk and debt restructuring areas at the relevant functional levels.
- Once the transaction is approved, it will be specifically monitored until the obligations are extinguished. To this end, the most representative operations will be subject to special monitoring and may even be individually assigned to Group managers.

The Banco Popular Group has defined different treatment for refinancing/restructuring operations based on risk type.

Differentiated criteria are applied based on whether the refinancing/restructuring of non-property risk involves individuals or legal persons, or property risk with legal persons (there are differences, in turn, between refinancing land, real estate developments in progress or developments that have been completed):

- **Non-real state risk with legal entities:** to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. If the overall restructuring of the borrower's debt is deemed necessary, it must be studied and negotiated with the financial institutions to which the borrower is contractually bound. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated.

Efforts will be made to improve collateral, provided this does not result in a loss for the Bank.

- **Non-real state risk with natural persons:** to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. This must include all the borrower's loans under personal guarantee that show signs of impairment, particularly overdrafts and credit card balances, in view of the greater risk associated with these products. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated.

  The coverage level (collateral level) of the transactions must be improved so as to avoid a loss for the Group.

- **Real state risk with legal entities:** to authorise any refinancing/restructuring operation, the Group will seek to facilitate fulfilment of the borrower's obligations by bringing payment periods into line with the customer's fund generation dates. The Group will also seek new property or personal guarantees and suitable management of the mortgaged assets by the borrower in order to preserve their value. In land refinancing operations, grace periods for principal and interest will not be admissible, as a general rule. A grace period for principal may be established by adapting the period to the borrower's circumstances and the market situation. The ultimate purpose of refinancing of property developments in progress will be to facilitate completion of the development until the first occupancy licence is obtained. In completed property developments, the Group will analyse the possibility of providing facilities while the finished product is marketed.

When studying and analysing the convenience of refinancing/restructuring operations and when defining their specific conditions, an individual analysis is performed for each of the operations in order to establish the viability of that transaction by rigorously applying the general criteria and the specific criteria applicable to the refinancing transactions established by the Group, sometimes taking into account exceptional circumstances.

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analysing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least one year must have elapsed since the operation and the loan principal must have decreased by at least 10%. Such situations will also be specifically addressed by the Group's internal auditors.

Management of non-performing assets and recovery of impaired assets

Until October 2016, to manage non-performing assets and the recovery of impaired assets, the Group had a specialised Restructuring and Non-performing Assets Unit which, until then, reported to the Retail Banking Management while supervising the Restructuring and Non-performing assets Offices in each of the Territorial Offices, as well as at the Documentation Preparation Office. In addition, an external provider is responsible for the early recovery of items in accordance with the Restructuring and Non-performing assets guidelines.

Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, participates in the management of the recovery of non-performing customers who have a mortgage security, although the final decision rests within the Bank. Aliseda SGI manages, within authorised limits, the sale of the foreclosed properties. From January 2015, the SBU, Specialised Business Unit has concentrated on restructuring, collections and clients recovery activities related to the real estate market, specifically managing promotor customers whose management has not been transferred to Aliseda SGI.

In October 2016 the Real Estate and Asset Transformation Unit (NITA) was created which, amongst other functions, assumes the Group's management of non-performing assets. Parallel to its own organisation, with its own branch network specialised in the real estate business and recoveries, has begun to actively collaborate in the current management.

The non-performing assets area has specialised teams which have been assigned portfolios of different kinds of customers in order to recover defaults and non-performing loans, with the objective of:

- Managing and analysing the most appropriate exit from the risk in distress with respect to each customer and transaction, facilitating litigation in those cases in which the transaction cannot be redirected.
- Managing and monitoring cases classified as non-performing, so that they may be definitively recovered.

The issues are characterised based on the amount of risk. Currently the portfolios are under review to include additional criteria (severity, economic impact, etc.).

With the aim of streamlining and strengthening recoveries, the recovery teams created at the Regional and Territorial Offices have a specialised workforce dedicated to the management of distressed debt, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets. Also, the process of preparing documentation for litigation in cases in which it has not been possible to restructure the transaction is centralised.

The Group has different policies and procedures authorised for the different stages of recovery:

- Default recovery management, in which the Central Restructuring and Non-performing Assets Unit, the restructuring teams at Regional Offices and Territorial Offices and the external provider responsible for early recovery are involved.
- Non-performing loans recovery management, which is divided into the different document preparation stages , judicial management and recovery management by the Restructuring and Non-performing balances teams of Territorial Offices.
- Write-off management.

The Group has specialised platforms and applications for the proper management of non-performing balances which allow:

- A timely and accurate development of all doubtful, bad and write-off risks.
- Manage contact with customers who have contracts in a poor situation.
- Inform different levels of the Organisation the management performed on a set of files.
- The monitoring of activities by different agents (branch, regional, territorial and centre).
- Provide an overview of the breaches or issues in management, down to record and contract level information.
- Interactivity in communication between the different management units.
- Systematisation, automation and control of the affairs transferred to partner companies.

The Group has invested heavily in strengthening the IT systems and applications that support this area in order to systematise, centralise and rationalise by integrating and adapting the processes to the changes made in the management and control of irregular debt, thereby achieving greater efficiency and better results.

The experience gained over these years, the policy of continuous improvement, the guides of the regulators and the best practices of the sector force us into a permanent review of the processes and operations regarding recoveries. This is why, at the end of the fourth quarter, several lines of work have been promoted to assess results and implement improvements in the processes.

Real Estate and Related Business Management

In October 2016, the Group created the Real Estate and Asset Transformation Unit (NITA), whose main objective is the specialised management of the real estate and related business and the management of recoveries, as indicated above.

In addition to recoveries, NITA manages two large areas; the risks associated with its scope, mainly property both performing and non-performing, and the divestments of both foreclosed assets such as from the debtor's balance sheet, and the sale of loans to third parties. It also supports an operations and processes unit which supports this activity and ensures the control of the third parties involved (recovery companies, servicers, etc.). It also has its own branch network to specialise in the real estate and recovery activities of its scope. The NITA network is expected to be deployed and operational throughout the first quarter of 2017.

Information

Management information is considered a key element throughout the organisation, as it is through this tool that it is possible to obtain knowledge of the risk management activities undertaken, to monitor them and ensure compliance with the established risk limits and policies.

The Banco Popular Group, in adapting to the principles and requirements established by the Basel Committee on Banking Supervision (BCBS) in its guide called "Principles for effective risk data aggregation and risk reporting", has defined a Corporate Framework Of Risk Data Aggregation and Reporting approved by the Board of Directors.

The scope of the Corporate Framework considers all the data and reports corresponding to any scope of risk included in the Corporate Risk Map and which are raised to the Board, Management Committee or Risk Commission, both at the group and subsidiary level.

The Risk Data Aggregation & Risk Reporting Framework (RDA & RRF) in configured on the following fundamental elements:

- The existence of an organisational structure and governance scheme around it.
- The establishment of basic standards and guidelines for application to the process of risk data collection and treatment and the preparation of risk reports (RDA & RRF process), which includes documentation of concepts in a corporate data dictionary and the definition of a control model to ensure the consistency and quality of the data.
- The improvement of the IT infrastructure (corporate DWH) which integrates the critical information of all the areas.

In the organisational structure established by the RDA & RRF Framework, the Corporate Information Centre is entrusted with the function of unifying, homogenising and centralising management and risk reports, as well as ensuring the quality of the information used for its preparation, although the areas responsible for managing and controlling the various risks also issue relevant information which is also provided to Senior Management.

Total exposure to credit risk

At December 2016 the Group's total exposure to credit risk amounted to 140,808 million euros, 4.4% down year on year. If we add the 7,192 million euro exposure of lines of credit available to third parties (1% less than in 2016), the maximum exposure figure rises to 148,000 million (4.2% less than the 154,508 million in 2015).

As may be observed in Table 30, the Group's credit risk is fundamentally due to its primary area of business, which has a weight of 78% of the total. This activity mainly consists of loans and advances to customers, which represent 90.48%, the remaining 9.52% relating to contingent exposures.

Table 30: Global credit risk exposure

Data in thousands of euros	31.12.2016	31.12.2015	Change (%)
Commercial activity:			
Loans and advances to customers	104,296,718	107,085,210	(2.60%)
Guarantees granted	10,982,364	11,159,430	(1.59%)
Total commercial activity	**115,279,082**	**118,244,640**	**(2.51%)**
Market activity (including counterparty risk)	25,436,972	28,998,769	(12.28%)
Total exposure	**140,716,054**	**147,243,409**	**(4.43%)**
Drawable by third parties	7,191,872	7,264,597	(1.00%)
Maximum credit risk exposure	**147,907,926**	**154,508,006**	**(4.27%)**

In 2016, the global risk exposure decreased by 4.2%, mainly due to a decrease in counterparty risk in the market activity 12.3%, together with a reduction of 1.6% in contingent exposures due to a lower balance in guarantees.

This decrease in market activity risk in 2016 puts it at 25,437 million euros at December 2016, compared to 28,999 million euros at December 2015, mainly due to the reduction of the balance of fixed income investments at December 2016 due to its tactical management.

1. Commercial activity

In the Commercial Banking activity, as shown in Table 31, 93.3% of the risk exposure is concentrated in Spain, with the remaining 6.7% outside Spain. Concerning the risk in Spain, 84.1% is related to businesses and private individuals, and the remaining 9.3% related mainly to risk with general government, credit institutions and asset repos.

Table 31: Commercial banking credit risk exposure (in %)

	Weight (%) 2016	Weight (%) 2015
Spain	93.3	93.7
Businesses and individuals	84.1	80.2
Other risks*	9.3	13.5
Portugal	5.0	4.9
USA	1.7	1.4
Total Commercial Banking Risk	**100.0**	**100.0**

* Including repos, risks with Credit Institutions and Public Administrations

2. Market Activity

The following table shows a breakdown by type of asset of the credit risk exposure due to market activity. This risk mainly arises due to the issuer risk involving the fixed-income portfolio, representing 97.8% of the total.

Table 32: Market Activity (data in thousands of euros)

	31.12.2016	31.12.2015
Fixed income	24,866,981	28,262,074
Deposits	8,000	47,375
Repos and sell/buy backs	87,036	95,513
FX Cash	9,963	176
Derivatives	464,992	593,631
Total	**25,436,972**	**28,998,769**

3. Drawable by third parties

With regard to drawable by third parties (see Table 33), Spain again represented the main share with 92.8%.

Table 33: Drawable by third parties (in%)

	Weight (%) 2016	Weight (%) 2015
Spain	92.8	87.2
Businesses and individuals	92.3	86.1
Credit cards and others	0.5	1.1
Portugal	5.8	9.8
USA	1.4	3.0
Total drawable by third parties	**100.0**	**100.0**

Commercial activity

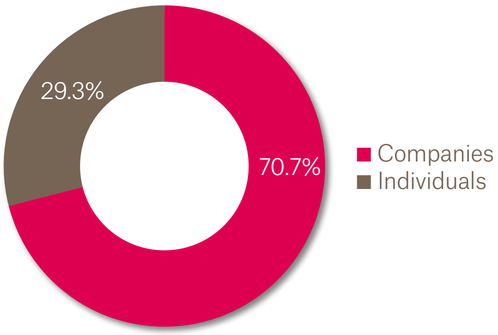
Distribution of the commercial activity risk by segments in Spain and Portugal

1. Commercial activity in Spain

As may be seen in Table 34, of the total risk in Spain 70.7% relates to business risk and the rest relates to private individuals.

Table 34: Distribution of risk in Spain

Data in thousands of euros	Weight (%) 2016	Balance
Companies:	70.7%	58,916,993
Individuals:	29.3%	24,411,964

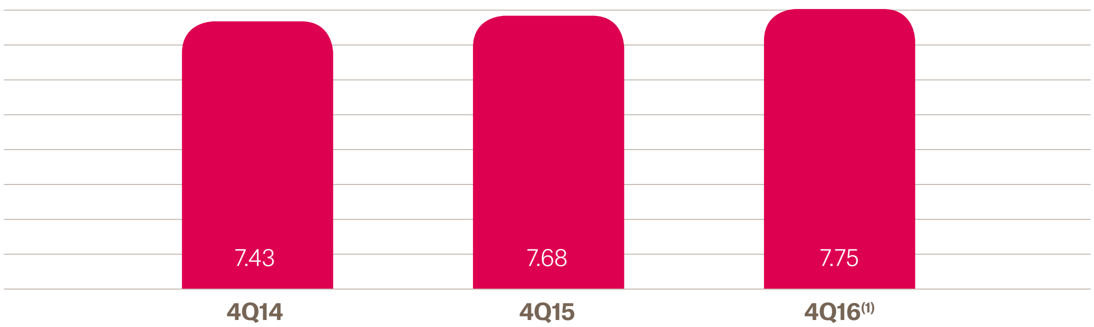


Risk with businesses

Related with the purpose of the loans granted, Figure 23 gives the breakdown of the Bank's risk with businesses in Spain. As may be observed, 74.8% of business loans are for purposes not related to construction and property development, and 76.6% relates to SMEs and self-employed persons (the segment in which the Group is the leader in the financial sector).

In 2016, the improving trend in the granting of credit continued, enabling us to further increase market shares in both credit and in business segments which at the end of 2016 reached 7.75% and 12.49% in loans and businesses respectively (see trend in the charts below).

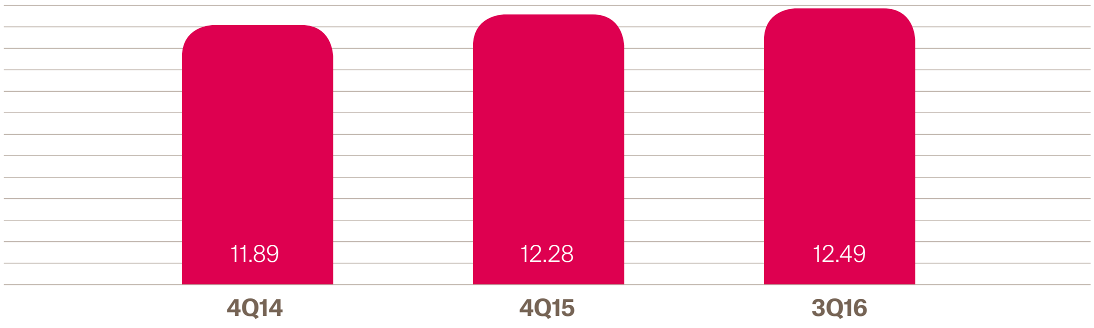
Figure 21: Credit market share evolution



(%) Source: Banco de España and own preparations

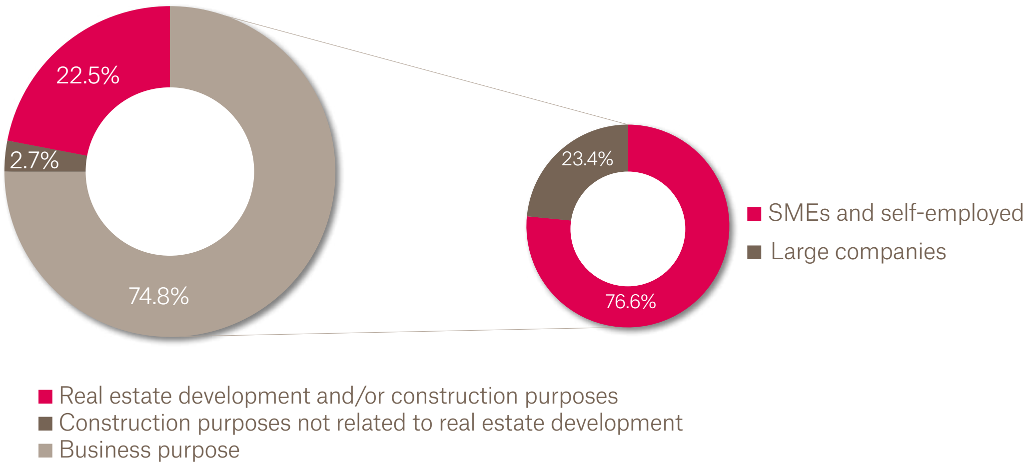
(1) Data as at November 2016

Figure 22: Companies market share evolution



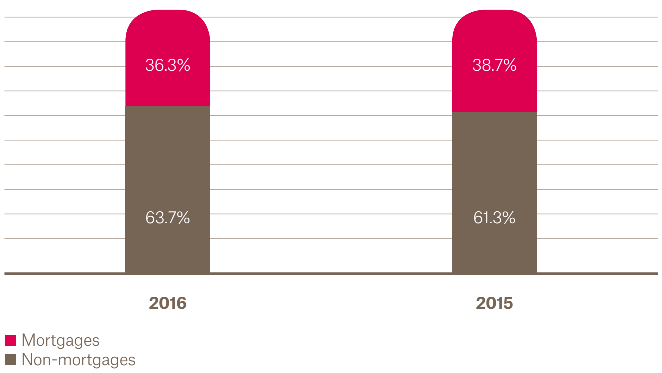
(%) Source: Banco de España and own preparations

Figure 23: Distribution of risk with businesses in Spain



Banco Popular has 65.4% of its portfolio risk in companies and 34.4% in individuals. Of this 35.4%, 36.3% is mortgage risk.

Figure 24: Distribution of risk with businesses in Spain (%)



Distribution of non-mortgage risk with businesses in Spain by product (%)

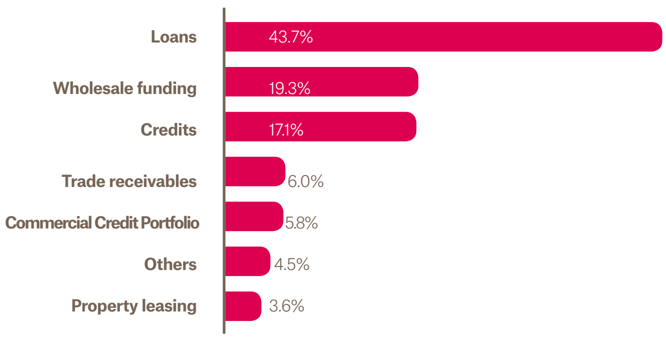


Table 35 shows information regarding credit in Spain for the purposes of property development and/or construction and includes distressed assets and the relevant coverage. It is noteworthy that credit for construction and property development has been reduced by more than 2,540 million euros, from 15,892 million euros in December 2015 to 13,352 million euros at the end of 2016, and likewise there has been a reduction in doubtful debts (9,181 million euros in 2016 vs. 9,488 million euros in 2015).

Table 35: Financing for property construction and development purposes and its coverage (data in thousands of euros)

2016	Gross carrying amount	Surplus over value of collateral	Accumulated impairment value	Carrying amount
Financing for construction and property development (including land) (transactions in Spain)	**13,351,750**	**4,946,825**	**5,002,757**	**8,348,993**
Of which: Defaulted/doubtful	9,181,312	4,025,875	4,987,414	4,193,897
Memorandum item: write-off assets	1,527,060			

2015	Gross carrying amount	Surplus over value of collateral	Accumulated impairment value	Carrying amount
Financing for construction and property development (including land) (transactions in Spain)	**15,891,503**	**6,342,634**	**3,957,530**	**11,933,973**
Of which: defaulted/doubtful	9,488,456	3,922,251	3,659,767	5,828,689
Memorandum item: writte-off assets	1,835,065			

Below, a breakdown by type of gross security risks granted to the real estate development and construction sectors is shown (not taking into account guarantees).

Table 36: Breakdown of financing for property construction and development purposes and related coverage (data in thousands of euros)

Data in thousands of euros	Gross credit amount	Total coverage	Coverage ratio (%)
Without mortgage guarantee	2,764,761	1,707,754	61.77
With mortgage guarantee (broken down according to asset type received as guarantee)	10,586,989	3,295,003	31.12
Buildings and other finished structures	5,764,598	1,545,634	26.81
Housing	2,150,273	502,425	23.37
Other	3,614,325	1,043,209	28.86
Buildings and other structures under construction	1,637,017	401,193	24.51
Housing	534,879	121,869	22.78
Other	1,102,138	279,324	25.34
Land	3,185,374	1,348,176	42.32
Consolidated urban land	2,751,623	1,099,233	39.95
Other land	433,751	248,943	57.39
Total	**13,351,750**	**5,002,757**	**37.47**

Risk with private individuals

As regards risks with private individuals, Table 37 shows the breakdown of these risks by type of product. 87.5% of the risk with private individuals is concentrated in loans with mortgage securities.

Table 38 presents information on financing provided to households for home purchase in Spain.

Home purchase lending to private individuals amounted to 17,734 million euros and the non-performing loans ratio was 7.10% as at 31 December 2016.

As Table 39 shows, these are high-quality loans, since 80.13% of them have a loan-to-value (LTV) ratio of 80% or less.

In line with the prudence that characterises the Group when it comes to extending credit, the average affordability ratio (the loan instalments as a percentage of net disposable income) in the private individuals' outstanding mortgage portfolio remained at 26.47% in December 2016.

Table 37: Breakdown of risk of private individuals at Group banks in Spain

Data in thousands of euros	Total risk	Weight (%)
Mortgages	24,969	87.5%
For home purchase	17,734	62.2%
Non-mortgage loans	3,274	11.5%
Consumption	769	2.69%
Loans and credit facilities	2,188	7.67%
Other	318	1.11%
Off-balance sheet risks	281	1.0%
Derivatives	0	0.0%
Total risk	**28,524**	**100%**

Table 38: Home purchase loans

Data in thousands of euros	Gross carrying amount	Of which: defaulted/doubtful
Home purchase loans	17,734,266	764,816
Without mortgage security	182,049	28,706
With mortgage security	17,552,217	736,110

Table 39: Breakdown of loans with mortgage securities to households for home purchase by percentage of LTV (latest available appraisal) (Business in Spain)

Data in thousands of euros	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	TOTAL
Gross carrying amount	3,339,382	5,378,897	5,346,639	1,836,472	1,650,827	17,552,217
Of which: defaulted/doubtful	96,431	127,659	257,803	156,792	97,425	736,110

2. Commercial activity in Portugal

Banco Popular Portugal's credit risk exposure at the end of 2016 stood at 6,804 million euros, gross lending to customers being the largest component, with a contribution of 3.9% of the total, and the rest corresponding to contingent exposures.

After two consecutive years of falling loans and advances to customers, in 2016, as in 2015, this figure reversed the trend, showing growth this year of 240 million euros (+3.9%) in 2015 thanks to the contribution of mortgage lending, term loans and overdrafts and the commercial portfolio.

Table 40: Risk exposure of Banco Popular Portugal (Amounts in thousands of euros)

Data in thousands of euros	Balances		Change		Weight (%)	
	2016	2015	Total	%	2016	2015
Gross loans and advances to customers	6,414,673	6,174,790	239,883	3.9	94.3	80.9
Commercial portfolio	442,187	97,795	344,392	352.2	6.5	1.3
Mortgages	1,949,654	1,849,187	100,467	5.4	28.7	24.2
Other term loans	2,817,630	3,059,103	(241,473)	(7.9)	41.4	40.1
Finance leases	361,597	333,650	27,947	8.4	5.3	4.4
Overdrafts and other	443,329	468,295	(24,966)	(5.3)	6.5	6.1
Doubtful assets	399,438	365,803	33,635	9.2	5.9	4.8
Other financial assets	838	957	(119)	(12.4)	-	-
Contingent exposures	389,180	1,458,288	(1,069,108)	(73.3)	5.7	19.1
Closing balance	**6,803,853**	**7,633,078**	**(829,225)**	**(10.9)**	**100.0**	**100.0**

Foreclosed assets

Table 41 shows a breakdown of the property portfolio in Spain, acquired or foreclosed. The book value of these assets at 31 December 2016 was 10,306 million euros and they were covered by provisions of 6,546 million euros.

Table 41: Foreclosed assets held by consolidated subsidiaries (business in Spain)

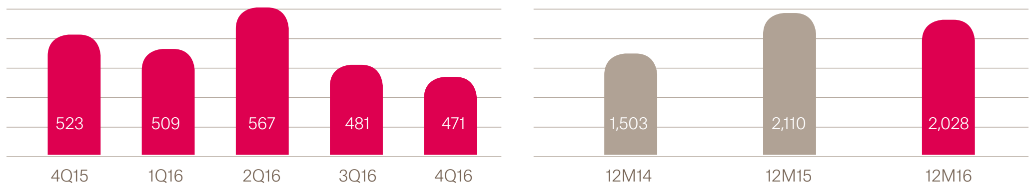
Data in thousands of euros	Gross carrying amount	Accumulated impairment value	Carrying amount
Property assets from financing for construction and property development	**12,364,591**	**5,333,271**	**7,031,320**
Buildings and other completed structures	**4,730,902**	**1,402,458**	**3,328,444**
Housing	2,660,394	772,686	1,887,708
Other	2,070,508	629,772	1,440,736
Buildings and other structures under construction	**277,489**	**98,249**	**179,240**
Housing	250,601	89,599	161,002
Other	26,888	8,650	18,238
Land	**7,356,200**	**3,832,564**	**3,523,636**
Consolidated urban land	2,587,937	1,152,497	1,435,440
Other land	4,768,263	2,680,067	2,088,196
Property assets from home purchase mortgage loans to households	**1,432,704**	**413,170**	**1,019,534**
Other property assets foreclosed or received in settlement of debt	**2,767,001**	**691,984**	**2,075,017**
Equity instruments foreclosed or received in settlement of debt	-	-	-
Equity instruments of entities holding property assets foreclosed or received in settlement of debt	**287,188**	**107,227**	**179,961**
Financing to entities holding property assets foreclosed or received in settlement of debt	-	-	-

In October 2016, the Group created the General Management of Real Estate and Asset Transformation, whose main objectives are specialised management of the Real Estate and Relative Business, and management of recoveries.

In addition to recoveries, NITA manages two large areas; the risks associated with its perimeter, mainly performing and impaired real estate and divestments from foreclosed asssets, debtor balance sheet and sales of loans to third parties. In addition, NITA is supported by the operations and processes unit, which supports these activities and ensures the control of third parties involved (recovery companies, servicers, etc.). It also has its own branch network to specialise in the property and recovery activities of its perimeter. NITA network is expected to be deployed and operational throughout the first quarter of 2017.

As a result of the effort made, the sale of real estate continues at an accelerated pace. In 2016, 10,214 units were sold (-6.76% compared to 2015), reaching a book value of 2,028 million euros (3.9% down on 2015).

Figure 25: Sale of Real estate



(1) Excludes sales from the developer's balance sheet

The coverage of foreclosed assets and other equity instruments was 38.8% in December 2016.

Analysis of credit risk quality

In 2016 the internal model of risk in difficulty was updated as explained in note 15.e). of the attached Financial Statements.

This update explains the increase of non performing loans and therefore the increment of its non performing rate compared to 2015. This rate stands at 14.61% compared to 2015 and stands at 14.61%.

As shown in Table 42, net new NPLs increased by 2,376 million euros, from (525) million euros in December 2015 to 1,851 million euros at the end of 2016.

Table 42. Risk management. Evolution of non-performing loans balances

Data in thousands of euros	2016	2015	Change	
			Total	%
Balance at 1 January	18,339,525	20,172,032	(1,832,507)	(9.1)
Increases	5,354,553	3,776,371	1,578,182	41.8
Recoveries	3,503,673	4,626,577	(1,122,904)	(24.3)
Other variations	-	324,719	(324,719)	(100)
Net change	1,850,880	(525,487)	2,376,367	-
% Increase	10.1	(2.6)		
Depreciation and Amortisation	(588,827)	(1,307,020)	718,193	(54.9)
Closing balance	**19,601,578**	**18,339,525**	**1,262,053**	**6.9**

As can be seen in the following graph, of the 19,602 million euros of non-performing loans at the end of 2016, 3,681 million euros correspond to subjectively doubtful.

Total risks reached 134,153 million euros (-5.9% vs. 2015, see Table 43) with an NPL rate of 14.61% at the end of 2016 compared with 12.86% in 2015. Therefore, it is worth noting that 2.74% of the total corresponds to the previously mentioned doubtful cases.

Figure 26: Non-performing loans rate and balance compared to doubtful items (Amounts in millions of euros)

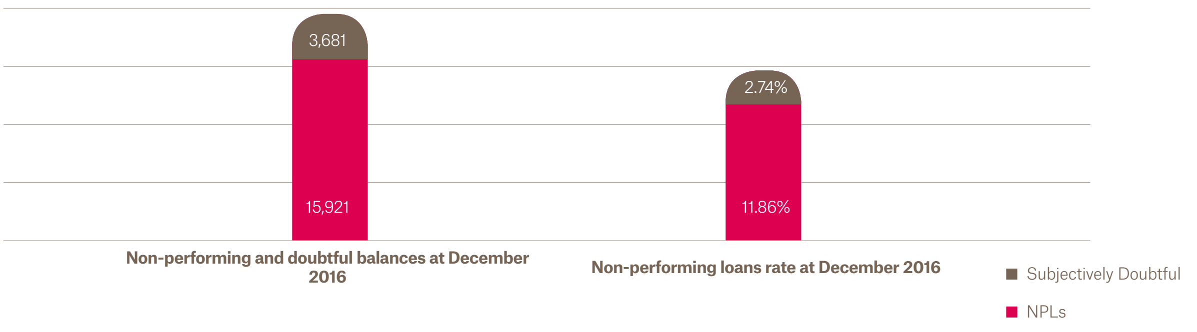


Table 43: Risk quality measurements (Amounts in thousands of euros)

Data in thousands of euros	2016	2015	Change	
			Total	%
Total risks (in thousands of euros)	134,162,738	142,582,977	(8,420,239)	(5.9)
Non performing ratio (Non-performing loans/Total risks) (%)	14.61	12.86	1.67	

The following two tables show the development of the Group's credit loss provisions. In Table 44 the various components that affected the change in the credit loss provisions in 2016 may be observed, and Table 45 contains a breakdown by type of fund: specific, generic, and risk country.

Table 44: Risk management. Evolution of funds for insolvencies

Data in thousands of euros	2016	2015	Change	
			Total	%
Balance at 1 January	**7,793,422**	**8,357,863**	**(564,441)**	**(6.8)**
Annual provision				
Net provisions	3,972,882	1,420,527	2,552,355	179.7
Other variations	(1,033,531)	(717,060)	(316,471)	44.1
Doubtful balances written-off	(489,685)	(1,267,908)	778,223	(61.4)
Closing balance	**10,243,088**	**7,793,422**	**2,449,666**	31.4

Table 45: Risk management. Evolution of funds for insolvencies by type

Data in thousands of euros	Specific	Generic	Country Risk	Total
Opening balance	**7,792,606**	**-**	**816**	**7,793,422**
Net provisions	3,624,834	348,231	(232)	3,972,882
Write-offs	(489,685)	-	-	(489,685)
Other changes and transfers	(1,033,219)	(49)	(263)	(1,033,531)
Balance at the end of the year	**9,894,536**	**348,290**	**321**	**10,243,088**

Charges to the income statement due to the impairment in 2016 and 2015 of financial and non-financial assets are summarised below:

Table 46: Risk management. Additions to provisions for asset impairment

Data in thousands of euros	2016	2015	Change	
			Total	%
Financial assets	4,056,842	1,390,559	2,666,283	191.7
For credit risk and additions to provisions	4,040,470	1,347,889	2,692,581	199.8
Of which: recovery of write-offs	97,149	128,267	(31,118)	(24.3)
For investments	16,372	42,670	(26,298)	(61.6)
Non-financial assets & buildings	1,465,882	224,105	1,241,777	554.1
TOTAL	**5,522,724**	**1,614,664**	**3,908,060**	**242**

As can be seen in the table above, in 2016 there was an increase of 3,908 million euros in the total impairment amount, due to the increase in provisions for both financial assets, an increase of 2,666 million euros, and property, with an increase of 1,241 million euros.

In order to keep its risks covered according to the Group's prudence policy, The Group has in place a set of instruments to provide coverage of its non-performing loans. The first consists of the collateral received and the second is the provisions created.

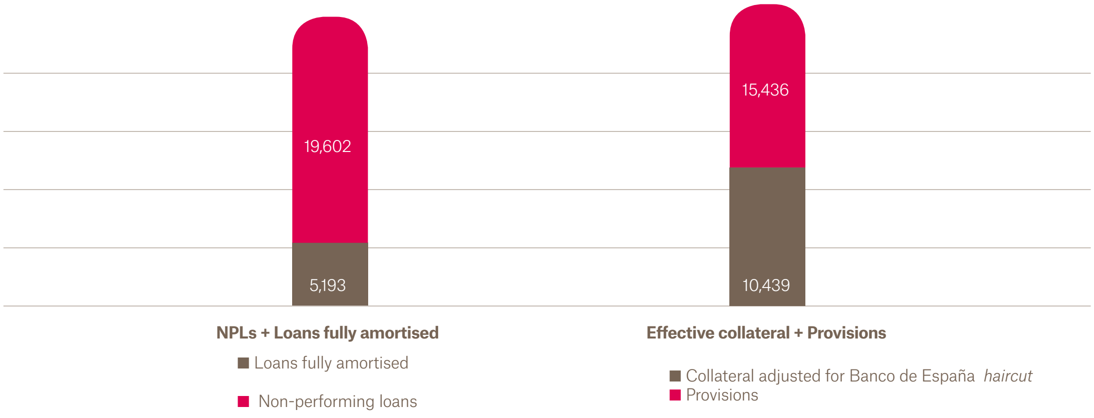
Table 47: Risk management. Coverage for type of NPL

Data in thousands of euros	**31.12.2016**
Non-performing loans without mortgage or collateral guarantee	5,513,008
Non-performing loans with mortgage or collateral guarantee	14,088,570
Value of guarantees (including regulatory discounts)	10,438,801
Total non-performing loans	19,601,578
Loans fully written-off	5,192,989
Non-performing loans + Loans fully written-off	24,794,567
Total value of guarantees[1]	10,438,801
Credit loss provisions	10,243,088
Credit loss provisions including written-off balances	15,436,077
Coverage of non-performing loans and written-off balances (%)	62.26
Coverage of non-performing loans without written-off balances (%)	52.26
Coverage with guarantees (%)	104.36

1.Not including value of guarantees of written-off balances

Figure 27 reflects an analysis of the coverage from guarantees and from provisions. As can be seen, the coverage rate for doubtful and written-off loans, including guarantees (with the applicable regulatory discounts) is 104.36%, which allows 2017 to be taken on with a very healthy balance sheet.

Figure 27: Analysis of coverage (Amounts in millions of euros)



Credit and Counterparty Risk of Market Activity

In market activity, which is carried out in Treasury and Fixed-income Portfolio Management, operations which are performed have an inherent credit risk. This risk can be classified in two ways:

- **Counterparty risk:** It refers to the ability or intention of a counterparty to not comply with the contracted financial obligations during the life of the contract and up to the transaction's maturity.
- **Issuer Risk** Represents the issuer's risk of insolvency through changes in its economic-financial strength meaning it cannot cope with obligations arising from the securities issued.

The risk of Market Activity is encompassed within the Banco Popular Group's Risk Appetite Framework.

To achieve this objective, operations are subject to the management policies and risk control approved by the Board of Directors, establishing first-line limits and complementary limits as well as the risk measurement methodology and application of mitigation techniques. Individual limits for each counterparty, which support the maintenance of risk within the first level, are approved by the Risk Committee.

Monitoring, measurement and control of the risk of market activity is done by different areas of the Group. The business unit taking the risk, as a first line of defence, ensures that the risks arising from its operations are within the policies and limits set by the Group. The Risk Control unit, as a second line of defence, checks that the risks taken by the business unit are measured and controlled within the established limits and policies, periodically informing the Risk Commission of compliance with them.

The measurement and control of counterparty and issuer risk is carried out from two angles: Measurement of the credit quality of the Issuer / Counterparty and measuring the exposure.

The credit quality of issuers and counterparties in the public sector is analysed through expert judgement, whereas for financial institutions and large company issuers/counterparties, the Bank has a rating calculated through an internal rating model authorised by the supervisor to estimate the probability of default.

Meanwhile, the measurement of the exposure is performed according to an internal methodology based on its current value plus a potential risk which also includes the application of risk mitigation techniques, following the signing of loss compensation agreements with their corresponding guarantee exchange annexes with the counterparties (ISDA + CSA, CMOF + Annex III). These agreements allow netting by market value of transactions covered under them, as well as covering the debit balance with guarantees.

Country Risk

Country risk is an additional credit risk component implicit in all cross-border transactions. It arises from the potential inability of a debtor to meet their payment obligations to external creditors in foreign currency due to macroeconomic, political reasons or natural disasters.

The risks included in the concept of country risk are sovereign risk (default risk on debt issued by states or entities guaranteed by them) and transfer risk (risk that a country will default on its payment obligations because it does not have a sufficient foreign currency reserve level). The risks associated with foreign direct investment are the risk of confiscation, expropriation and nationalisation, transfer risk in the repatriation of dividends or divestment, the risk of breach of contract and the risk of war, political conflict or natural disasters.

Banco de España regulations require that these risks be provisioned based on the estimated risk for each country. The risk from countries in groups 1 and 2 do not require provisioning. The countries in each risk group are defined in Banco de España Circular 4/2004 and in its amendment 4/2016 of 27 April. Group 1 includes operations whose ultimate obliger is resident in the European Union, Norway, Switzerland, Iceland, USA, Canada, Japan, Australia and New Zealand. Group 2 is those countries which, although having a good credit rating, are not included in group 1 (for example, China, Saudi Arabia, Chile, etc.).

The risk can be mitigated by collecting policies country risk coverage from ECAs, either nationally or international (CESCE, COFACE, KUKE, etc.), or private insurers. Other mitigation techniques are cash deposits or guarantees issued by entities of recognised solvency.

The Group's country risk management continues to be extremely prudent and profitable and is aimed at strengthening the business relationship with our customers.

Table 48: Country risk and provisions recorded (Amounts in thousands of euros)

Data in thousands of euros	2016		2015	
	Balances	Coverage	Balances	Coverage
Country				
No appreciable risk	154,065	-	175,114	-
Normal risk	230	28	2,990	314
Doubtful risk	350	293	448	502
Total	**154,645**	**321**	**178,552**	**816**
Coverage (%)		0.21		0.46
Memorandum item:				
Total risks		134,162,738		142,582,977
Country risk/Total risks (%)		0.12		0.13

Table 49: Provisions by type (data in thousands of euros)

Data in thousands of euros	2016		2015		Coverage (%)	
	Balances	Coverage	Balances	Coverage	2016	2015
Credit Institutions	-	-	-	-	-	-
Customer credits	154,585	293	130,881	507	0.19	0.39
Contingent liabilities	60	28	47,671	309	46.67	0.65
Total	**154,645**	**321**	**178,552**	**816**	**0.21**	**0.46**

Interest rate risk

Interest Rate Risk is understood as the financial exposure of the Entity against movements in market interest rates derived from the temporary differences between the repricing of assets and liabilities as well as the inequality of the maturities. Interest rates vary based on many factors; which cause volatility both in the Financial Margin (FM) projection and in the Economic value (EV) of assets, liabilities and memorandum accounts.

Regarding the nature of the Interest rate risk it is important to adequately differentiate the structural dimension limited to the Banking Book on which this section focuses, from the market dimension associated with this risk. The latter is realised only on changes in the value of held for trading portfolio occurring as a result of movements in interest rates and whose management and control policies are set out in the section related to Market Risk.

Focusing on the structural dimension of Interest rate risk, it is important to note that fluctuations in the rate account for two sources of risk:

- On one hand, uncertainty about the reinvestment rates (maturities/repricing) throughout the life of an asset/liability.
- In addition, fluctuations in the market value of Banco Popular's assets, liabilities and equity.

The Group manages both dimensions aggregately for all the Group's financial institutions. The perimeter considered is the ex-Totalbank economic Group, which includes Popular, Popular Portugal, Popular Banca Privada and Pastor.

The identification, measurement and assessment of the impacts caused by interest rate movements through the sensitivity on Economic Value (EV) and the Financial Margin (FM) is fundamental to ensure the recurrent generation of profits maximising the EV of the Banking Book (BB) within the risk framework approved by the Entity. To this end, the impacts on FM and EV are measured and analysed through the different risk factors: Repricing/Reinvestment Risk, Curve Risk, Basis Risk and Optionality Risk. In addition, in the management of Interest rate risk, the Bank carries out operations with hedging derivatives.

In an initial phase, Popular classifies balance sheet items into items which are sensitive and non-sensitive to changes in interest rates, and subsequently performs the calculation of metrics such as FM, EV, their corresponding sensitivities, the generation of the maturities and repricing gap and the calculation of durations, among others.

The FM is obtained as a result of the sum of all positive and negative financial accruals of assets and liabilities sensitive to interest rates and derivatives on a 12 month time horizon and for the already defined perimeter.

Economic Value is calculated as the sum of the fair value of the net assets and liabilities sensitive to the interest rate and the net carrying value of assets and liabilities on the balance sheet which are not sensitive to interest rates. The fair value of the items sensitive to interest rates is obtained as the present value based on the interest rate curve in the inter-bank market at the date of reference, for future flows of principal and interest. To this calculation is added the value obtained by full revaluation of the interest rate options in favour of the bank of the investment lending (minimum boundaries).

Once the FM and EV are calculated (base scenarios), Popular generates a series of scenarios which collect the impacts to interest rate shocks. The differences between the generated scenarios and the base scenarios result in the various FM and EV sensitivities.

In terms of governance, the Group has defined a structure which guarantees the proper segregation of functions and which entails various levels of control:

- Finance Management is the area charged with the measurement and monitoring of Interest rate risk. It is responsible for ensuring the implementation of internal controls and the processes to identify, monitor and present information on Interest rate risk and compliance with the RAF so as to implant a prudent culture in risk management. It produces information on Interest rate risk which it reports to the ALCO Committee.

- For its part, the Control unit and the Audit Department act as second and third line of defence respectively, while the Risk Directorate has the responsibility of establishing the Group's general risk policies. In the section General Control Model, the roles of these areas in terms of risk can be found in more detail.

The ALCO Committee monitors the evolution of Financial Margin and Economic Value against interest rate risk scenarios and proposes the short and medium term policies to manage prices, durations and the bulk of jobs and resources. In addition, it analyses and manages this risk through analysis of the structural position and movement scenarios of the main market parameters. It proposes internal limits for interest rates and monitors their compliance and proposes contingency plans for possible deviations. For its part, Finance Management applies the guidelines established by the Management Committee upon proposal from the ALCO Committee for the management of interest rates, calculates the internal and regulatory metrics and is charges with controlling compliance of the limits set for the metrics.

The policies, processes and controls, and responsibilities of Interest rate risk are documented in the Procedures and Controls Manual, the Risk Policy Manual and the RAF.

Internal reports on Interest rate risk are issued monthly and submitted to their respective Committees. They show the current risk levels, the objective, the limits and the warnings.

Table 50: Maturities and repricing gap in the consolidated balance sheet at 31 December 2016

Data in thousands of euros 2016	TOTAL	Not Sensitive	Sensitive	Up to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Loans and receivables	99,104	12,164	86,940	18,196	7,849	13,144	19,552	21,211	6,988
Deposits with Credit institutions	4,159	681	3,478	3,114	-	204	6	141	13
Loans and advances to customers	94,343	10,881	83,462	15,082	7,849	12,940	19,546	21,070	6,975
Other assets and valuation adjustments	602	602	-	-	-	-	-	-	-
Securities market	23,493	2,634	20,859	540	198	788	385	597	18,351
Other assets	25,328	25,328	-	-	-	-	-	-	-
TOTAL ASSETS	**147,925**	**40,126**	**107,799**	**18,736**	**8,047**	**13,932**	**19,937**	**21,808**	**25,339**
Financial liabilities measured at amortised cost	131,184	3,269	127,915	27,109	8,633	12,207	19,152	24,056	36,758
Deposits from credit institutions	30,191	888	29,303	4,617	324	3,335	1,606	1,318	18,103
Customer deposits	82,841	1,249	81,591	21,396	7,496	6,755	15,277	21,876	8,791
Debt Certificates	15,024	43	14,982	624	813	1,953	2,269	862	8,461
Subordinated and preference liabilities	2,039	-	2,039	472	-	164	-	-	1,403
Valuation adjustment (+/-) (Debt Securities)	1,089	1,089	-	-	-	-	-	-	-
Other liabilities	5,653	36,157	(30,504)	(17,721)	(1,106)	(10,736)	(941)	-	-
Equity	11,088	11,088	-	-	-	-	-	-	-
TOTAL LIABILITIES	**147,925**	**50,514**	**97,411**	**9,388**	**7,527**	**1,471**	**18,211**	**24,056**	**36,758**
Off-balance sheet transactions		-	-	2,752	530	(374)	(317)	815	(3,406)
Gap		(10,388)	10,388	12,101	1,050	12,087	1,409	(1,433)	(14,825)
Accumulated gap				12,101	13,150	25,237	26,646	25,213	10,388

ALM portfolio

At the end of 2016, the Asset Liability Management (ALM) Portfolio reached 15,465 million euros of nominal amount. As can be seen in the following table, the portfolio is distributed between available-for-sale investments (72%), held-to-maturity investment (26%) and Loans and receivables (2%). The total volume of the Investment Portfolio at 31 December 2016 decreased 26.7% compared to the previous year.

Table 51: Investment Portfolio

Data in thousands of euros	Nominal	Relative weight
Available-for-sale portfolio	11,132	72%
Held-to-maturity portfolio	3,978	26%
Loan portfolio	355	2%
Total Investment Portfolio	**15,465**	**100%**

In order to perform the asset allocation of the portfolio, high credit quality criteria have been applied together with attractive future margins, downward trending credit differentials and items with capacity to be self-funded. The distribution by product of the investment portfolios is presented in the following graphs:

Figure 28: Composition of the available-for-sale portfolio

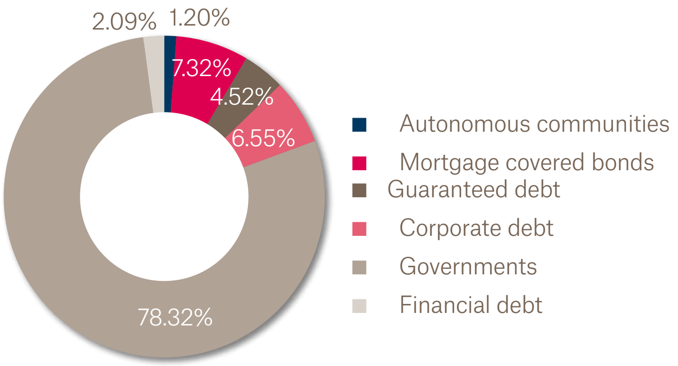


Figure 29: Composition of the held-to-maturity portfolio

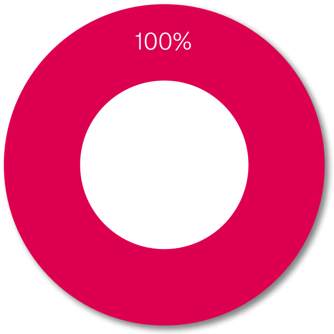
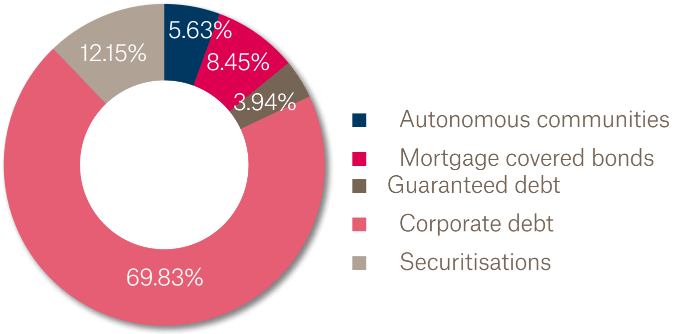


Figure 30: Composition of the loans and receivables portfolio



Market risk

Market risk is the risk incurred as a result of changes in the risk factors which define the valuation of financial assets in the market. These factors include, in general, interest rates, exchange rates, the prices of shares or raw materials, the volatility of them and credit spreads.

It also includes the liquidity risk associated with the financial instruments held by the Entity or the markets on which these are listed, with liquidity risk being understood as the impossibility of undoing positions in the market in a short period of time. For this purpose, positions are valued on a time horizon equal to the estimated time it will take to close the risk.

Corporate risk culture in Banco Popular, in relation to the management of market risk, assumes a number of principles; framework for action, inherent in the adoption of the Risk Appetite Framework, RAF, approved by the Board of Directors and which guide the management, measurement and control of Market risk incurred in Banco Popular as a result of its trading activity in financial markets.

Finance Management is responsible for the measurement and monitoring of compliance with market risk limits. It also calculates risk positions on at least a daily basis contrasting them with existing limits.

Meanwhile, Risk Control performs, at appropriate intervals, transverse controls on this risk and regularly reports its evolution to the Risk Commission.

In this regard and, as previously detailed, Banco Popular has hierarchical bodies with independent functions to ensure control of Market Risk.

With the purpose of controlling the market risk in this area's activity, undertakes daily monitoring of operations contracted, calculation of the impact of market trends on positions, quantification of market risk assumed, calculation of regulatory capital consumed and monitoring of compliance with limits.

The indicator used to measure market risk is Value at risk (VaR), which is defined as a potential maximum loss estimated based on historical data regarding variations in the risk factors and calculated with a confidence level for a specific time horizon. In measuring the Group's overall risk, VaR methodology by historical simulation is used, with a confidence level of 99%, taking into account historical variations over a period of 250 days, with more weight being placed on more recent observations [decay factor: 0.94], and using a term of 1 day to measure possible losses, since all open positions are liquid.

To complete the VaR figures for historical simulation, complimentary limits are calculated in terms of position and sensitivity, as well as Treasury Stop Loss limits. In addition, financial instruments held for trading are subjected to acute changes in market variables (stress testing).

Market risk management is based on the analysis of the sensitivity of trading positions to movements in risk factors. These sensitivities provide information regarding the impact of an increase in each risk factor on mark-to-market positions for the Bank. It should be pointed out that the operational risk of exotic structured items or products is very low because active management is carried out to cover the risk: in the case of smaller branch office network transactions the positions are closed on reaching the minimum amount that can be hedged efficiently, and in the case of significantly large tailored transactions hedging is immediate, on a transaction by transaction basis. This means that, in these cases, market risk would be non-existent.

In 2016, the average VaR of the Treasury trading activity was 2.407 million euros. As shown in the graph, the largest upturns occurred in the months of June, July and August. The increase in VaR during these months is attributable to a greater position taken in equity swaps along with the downward trend in the quoted price of one of the underlying assets involved in the operation.

Figure 31: Evolution of Banco Popular Group's VaR (data in millions of euros)

Table 52 includes a calculation of the average VaR attributable to the various Treasury trading activities: Money Market and Asset Trading Book, which includes interest rate risk and exchange rate risk; Equities, Volatility, Other Derivatives, Financial investments and Equity Swaps, which includes share price risk and volatility risk; Structured Derivatives, which includes interest rate risk, volatility risk and Balance Sheet Management, which includes interest rate risk and volatility risk. It can be seen that the risk is concentrated mainly on price rate risk produced by Equity Swaps.

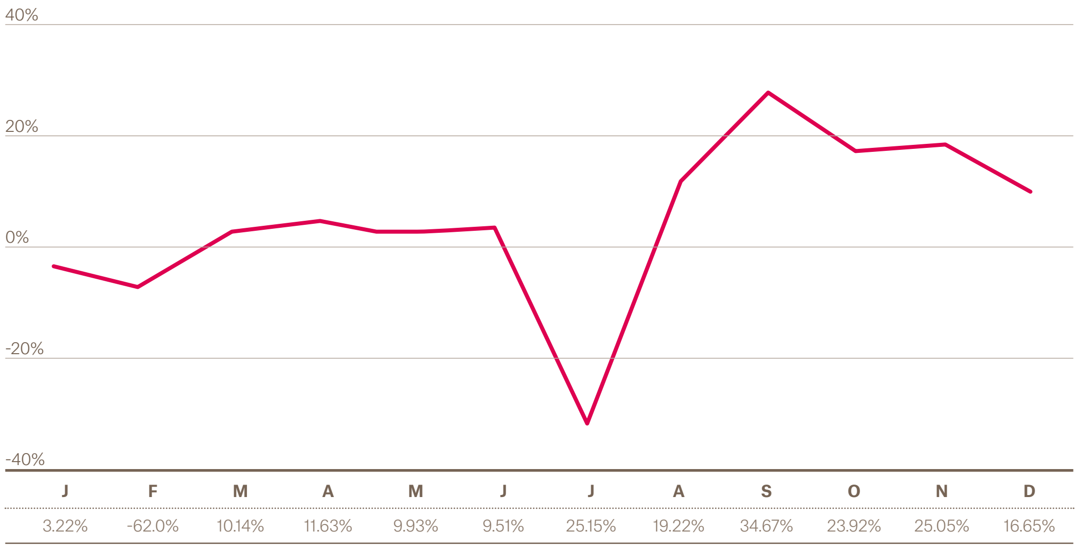
Table 52: Average VaR 2016

Data in thousands of euros										
Thousands of euros	**Money market**	**Asset Trading**	**Equity**	**Structured derivatives**	**Volatility**	**Other Derivatives**	**Financial investments**	**Balance Sheet Management**	**Equity Swaps**	**Aggregate VaR**
Average VaR 2016	46.77	49.03	54.53	26.11	24.35	15.05	52.63	835.21	2,691.67	2,406.84

The aggregate risk presents earnings for diversification of 11.52% on average, as a result of the correlation between the prices of equities and the yield curves, as well as the proper management of specific portfolios.

In the chart below you can see the trend during 2016 of earnings per diversification:

Figure 32: Increased profit by portfolio diversification in Treasury Office Trading



As seen, this benefit was at its maximum in September and its minimum in July. The greater benefit in September was mainly due to the increase in positions with underlying interest rate and the reduction in equity positions.

To verify the adequacy of the risk estimates and the consistency of the VaR model, daily results are compared against the loss estimated by the VaR, which is called Backtesting. Following the recommendations of the Regulator (Directive 2013/36/EU-CRD IV and Regulation 575/2013/EU - CRR) and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

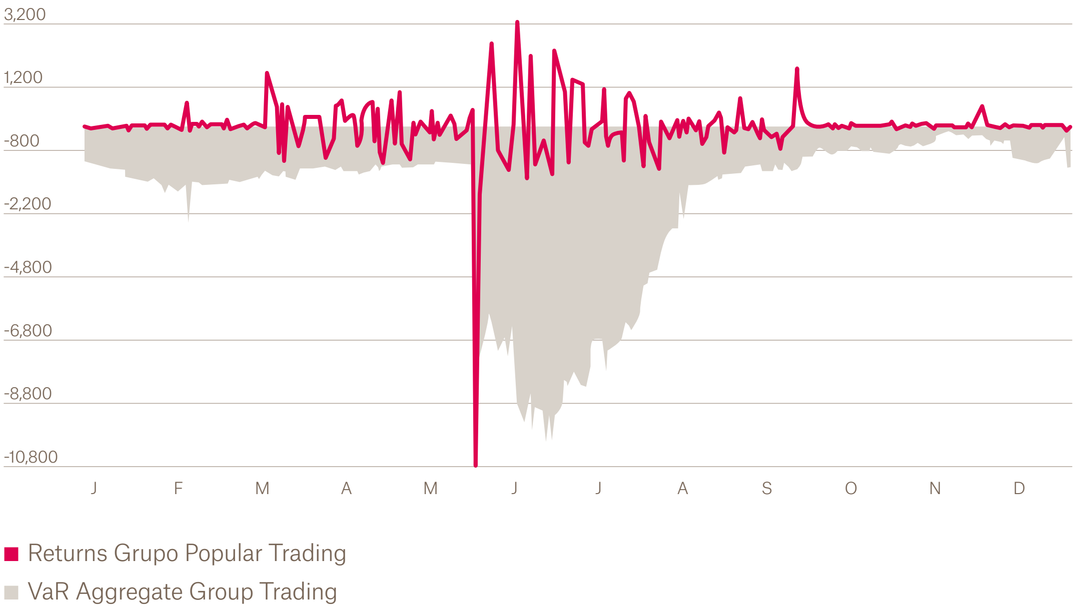
- **Clean Backtesting:** relates to the daily results from active transactions at the close of the previous session with the one-day estimated VaR, calculated using the active positions at the end of the preceding session. This exercise is the most suitable for the self-assessment of the methodology used to measure market risk.

- **Complementary or dirty backtesting:** evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on live transactions at the close of the previous session. This makes it possible to evaluate the importance of the intra-day trading in the generation of earnings and in the estimation of the total portfolio risk.

The findings in excess of VaR are tabulated by nature, identifying those which might potentially indicate a deficiency in the model. The results of both backtesting models are compared and reconciled on a daily basis.

The results of the clean backtesting analysis, also known as theoretical, are shown in the following figure. Thus, there has been, at the aggregate Treasury level, an excess by actual daily variation factors higher than the risk covered by the model. Under the evaluation procedure proposed by the Basel Supervision Committee, the Group's model would be in the green zone, indicating adequate accuracy. The number of excesses that occur in a time frame of one year is used for calculations of capital charges, so a good calibration of the VaR model is important, so that it neither understates nor overstates the risks.

Figure 33: Banco Popular Group's Clean Backtesting (Amounts in thousands of euros)



In addition to calculating VaR and conducting backtesting analysis, the following stress tests are performed on the value of the Treasury positions in order to estimate the possible losses of the portfolio in extraordinary situations of crisis:

- **Analysis of theoretical scenarios (systemic stress):** calculates the change in value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the main risk factor is equity price risk, which accounts for more than 99.78% of the total VaR. To see the possible combinations of the different movements on the risk factors, 16 joint scenarios are analysed monthly.

- **Analysis of historical scenarios:** calculates the change in value of the portfolio in response to certain changes in the principal risk factors produced historically in crisis scenarios.

The three scenarios which are the most aggressive in the analysis are reported daily.

To exemplify the above remarks, in the case of the maximum risk figure produced in June the contribution by risk factor was:

Table 53: Contribution of risk factors to the VaR figure

Contribution of risk factors to the VaR figure	
Volatility (Equity, Swap, Cap)	0.13%
Equity instrument Prices	99.78%
Interest Rate	0.06%
Spot FX	0.02%
Residual	0.01%

Liquidity risk

The Liquidity Risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid resources, or accessing them, of a sufficient amount and at adequate cost, in such a way that it is able to meet its payment obligations at all times.

This risk is common to all financial institutions and arises from the imbalance resulting from the different maturities of assets and liabilities on products necessary to develop the banking activity.

The Group's priority strategy is attracting Retail Funding through products adapted to customer needs and which offer stability to the Balance sheet. Likewise, the extension of the terms of Wholesale Funding is considered fundamental, as is reducing the reliance on Collateralised Funding.

In recent years, the governance model has been reinforced by being integrated with Liquidity Risk in a more global view of the Group's risks such as the Risk Appetite Framework (RAF). This framework is in response to demand from regulators, investors and market participants resulting from the financial crisis, to strengthen management systems and the risk control in financial institutions.

Thus, in order to cover all possible casuistry in managing Liquidity Risk, the governance and action framework involves differentiated policies and procedures according to the risk profile, aimed at developing correct measurement, monitoring and management of it at all times.

The Group supervises and manages Liquidity Risk centrally at a consolidated level through the Assets and Liabilities Committee (ALCO), which analyses and proposes, among other things, matters related to the management and control of Liquidity Risk for submission to the Management Committee.

The organisation and control of Liquidity Risk follows the following structure:

- Finance Management is the area responsible for managing liquidity and controlling its Risk in their capacity as first line of defence. This area has the responsibility of calculating, monitoring and reporting the financial position and liquidity buffers and reporting monthly to the ALCO Committee on these issues and those related to the evolution of the balance sheet structure, funding sources and survival horizons under extreme stress.

- For its part, the Control unit and the Audit Department act as second and third line of defence respectively, while the Risk Directorate has the responsibility of establishing the Group's general risk policies. In the section General Control Model, the roles of these areas in terms of risk can be found in more detail.

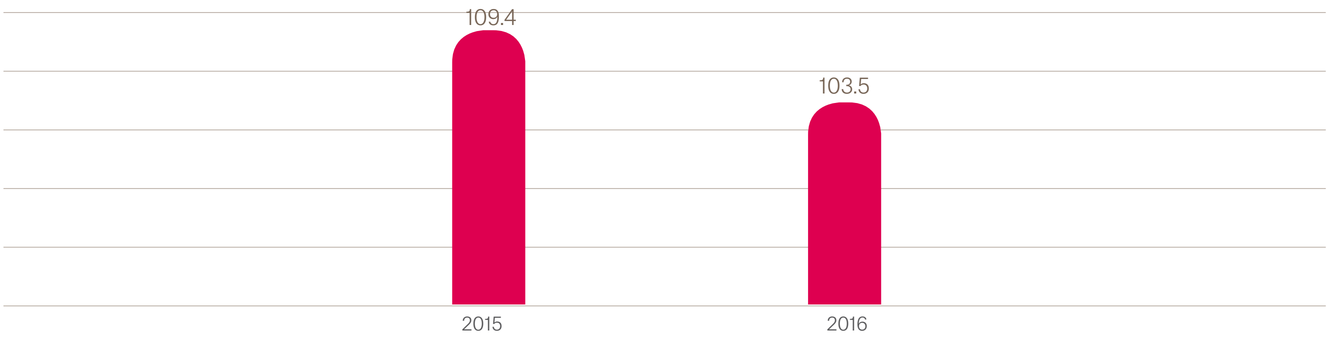
In order to maintain a prudent financial structure and balanced balance sheet, and to have a good liquidity position, the Group defines a Financing Plan that is reviewed at least annually and whenever themselves or systemic circumstances warrant it.

The Financing Plan maintains consistency at all times with the RAF and with decisions taken by Senior Management, establishing the volume and make up of the Group's Funding Sources for the next three years, ensuring that it meets the funding commitments made and complying with the established risk appetite metrics.

Finally, the existence of a Liquidity Contingency Plan is highlighted where the set of reference procedures to be followed by Banco Popular in situations which could present an impediment to the development of the Bank's activity, or in the end, jeopardise their own survival is described.

As at 31 December 2016, as shown in figure 34, the loan to deposit ratio (LTD) stands at 103.5%, which represents a commercial gap of 2,999 million euros. The improvement in the commercial gap observed in the year at 5,064 million euros is mainly due to the decrease in loans and receivables and the effort made in provisioning.

Figure 34: Loan to deposit ratio (%)



From the point of view of the composition of the commercial gap, in 2016 Retail Funding reached 84,642 million euros. Specifically, customer deposits have shown a stable behaviour during 2016, offsetting the reduction of term deposits with the increase in demand deposits at 3,803 and 3,840 million euros, respectively.

Retail Funding represents 64.86% of all Group funding, excluding Equity, and is distributed as follows: (i) 59.88% demand deposits, term deposits and commercial paper, (ii) 4.18% ICO and EIB mediation loans and (iii) 0.8% other operations.

For its part, Wholesale Funding represents 12.54% of the Group's funding, and at year-end stands at 16,360 million euros. Wholesale Funding is diversified into a broad variety of instruments, notably mortgage and territorial covered bonds, which represent 61.24% of this heading. In 2016, Banco Popular took advantage of issuance opportunities which have occurred in the wholesale markets, placing issues for 2,000 million euros, of which (i) 1,750 million in mortgage covered bonds and (ii) 250 million in territorial bonds.

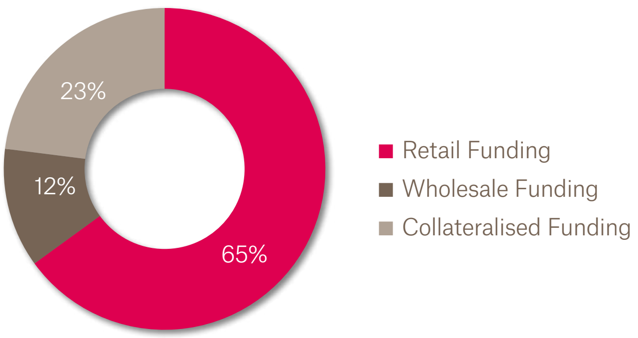
Finally, Collateralised Funding includes those operations which involve the delivery of collateral as financial guarantees and is broken down into: (i) Clearing houses and other market assignments, (ii) Collateralised treasury and (iii) operations with the European Central Bank (ECB). At the end of the year, this source of funding accounted for 22.6% of the total, standing at 29,490 million euros.

With regard to the activity with Clearing houses and other market assignments, this type of operation represents 10.35% of the total funding, standing at 13,503 million in the year. Since 2010, the Bank has been a member of the three main European counterparty clearing houses, LCH London, Paris and Eurex Repo, together with other international banks. This operation is part of the Group's strategy to diversify its funding sources and reduce costs, while increasing liquidity sources other than the ECB. The counterparty clearing houses act as guarantors for the transactions carried out between financial institutions, allowing risks to be minimised.

Lastly, funding from the ECB stood at 15,987 million euros, which represents 12.25% of the Group's total funding. This amount is related to the extraordinary measures approved by the ECB in order to support financing of the real economy through the private sector and return inflation rates to around 2%. In 2016, Banco Popular accessed the second series of "longer-term financing operations with a specific objective" (TLTRO-II) convened by the ECB. These auctions have made it possible to raise funding until December 2020 at a cost equivalent to the interest rate of Main Refinancing Operations (MRO) or, if applicable, the marginal rate of deposits in force at the time of each award.

The funding structure and trends can been seen in figure 35 and table 54.

Figure 35: Funding structure



In 2016, the reduction of the investment portfolio and the improvement of the commercial gap have supposed lower funding requirements, which has reduced the Group's dependence on wholesale and collateralised funding by 2,099 and 2,460 million euros, respectively.

Table 54: Funding trend sources for Banco Popular Group

Data in thousands of euros				Weight (%)		
	Dec 16	Dec 15	Var. (%)	Dec 16	Dec 15	Var.
Retail Funding	**84,642**	**85,421**	**(0.91)**	**64.86**	**60.97**	**(779)**
Demand deposits	39,794	35,954	10.68	30.5	25.66	3,840
Time deposits	38,079	41,882	(9.08)	29.18	29.9	(3,803)
Retail commercial paper	272	129	110.85	0.21	0.09	143
Intermediation credits [1]	5,459	6,362	(14.19)	4.18	4.54	(903)
Other operations [2]	1,038	1,094	(5.12)	0.8	0.78	(56)
Wholesale Funding	**16,360**	**22,723**	**(28)**	**12.54**	**16.22**	**(6,363)**
Interbank deposits and commercial paper	3,207	4,474	(28.32)	2.46	3.19	(1,267)
Senior debt	1,052	1,874	(43.86)	0.81	1.34	(822)
Mortgage and territorial covered bonds	10,019	10,513	(4.7)	7.68	7.5	(494)
Convertibles, Preferential ans Subordinate	1,585	1,599	(0.88)	1.21	1.14	(14)
Non-collateralised treasury	497	4,263	(88.34)	0.38	3.04	(3,766)
Collateralised Funding	**29,490**	**31,950**	**(7.7)**	**22.6**	**22.81**	**(2,460)**
Clearing houses and other market repos	13,503	16,958	(20.37)	10.35	12.1	(3,455)
Collateralised treasury	0	800	(100)	0	0.57	(800)
European Central Bank	15,987	14,192	12.65	12.25	10.13	1,795
TOTAL	**130,492**	**140,094**	**(6.85)**	**100**	**100**	**(9,602)**

1. ICO and EIB funding received directly for loans to companies.

2. Includes convertible notes, convertible perpetual debt, and subordinated debt distributed through the commercial network, securitisations sold to third parties and collection accounts.

Below shows the Liquidity Gap at the close of 2016. The Liquidity Gap shows the distribution of the balances of the asset and liability positions of the balance sheet in different time bands according to the contractual terms and incorporating the theoretical accrual of interest.

To calculate the current Liquidity Gap, the recommendations and various factors listed in IFRS7 have been taken into account, in particular those detailed in Note 18 of the Financial Statements where is also indicates the process the Group has followed in each case.

The information it offers is static and does not reflect foreseeable funding needs as it does not include behavioural models of asset and/or liability items. The difference between assets and liabilities is corrected by the "Available Liquid Assets" buffer which can be, if needed, converted into liquidity to deal with payment obligations at any time. This buffer is composed of: (i) available eligible assets, (ii) the excess on the Minimum Reserves Coefficient (MRC), (iii) the recovery of assets by maturities of the repurchase agreements (net of repos) and, (iv) the renewal of mortgage covered bonds on the market.

Bearing in mind the high credit quality of the assets sold under repos, mostly government debt securities, the repos are highly likely to be renewed at maturity. If this is not the case, this collateral could be used at any time in financial transactions in the Eurosystem.

Table 55: Liquidity Gap

Data in thousands of euros Popular	On demand sight	Up to 3 months	Between 3 and 6 months	Between 6 and 36 months	Between 36 and 60 months	More than 60 months	Total maturities	No maturity	TOTAL
Loans and advances to customers	-	8,872	4,860	22,211	13,280	38,116	87,339	10,676	98,015
Money market and repos	-	10,117	11	346	2,218	15	12,707	1,173	13,880
Debt securities	-	1,221	350	2,393	1,116	16,391	21,471	2,359	23,830
Other assets	-							24,582	24,582
TOTAL ASSETS		**20,210**	**5,221**	**24,950**	**16,614**	**54,522**	**121,517**	**38,790**	**160,307**
Customer deposits	38,801	12,757	7,989	16,382	354	299	76,582	700	77,282
Repos, ICO, Treasury and other	-	12,111	1,712	2,358	16,857	784	33,822	872	34,694
Negotiable securities and subordinated liabilities	-	2,071	1,275	5,427	3,991	7,766	20,530	42	20,572
Other liabilities	-							6,345	6,345
Equity	-							11,088	11,088
TOTAL LIABILITIES	**38,801**	**26,939**	**10,976**	**24,167**	**21,202**	**8,849**	**130,934**	**19,047**	**149,981**
GAP	**(38,801)**	**(6,729)**	**(5,755)**	**783**	**(4,588)**	**45,673**	**(9,417)**	**19,743**	**10,326**
Derivatives		152	23	(496)	(175)	(317)			
Available liquid assets	11,176	1,898	4,447	21,198	2,540	4,259			
Commitments drawable by to third parties	(6,451)								
ADJUSTED GAP	**(34,076)**	**(4,679)**	**(1,285)**	**21,485**	**(2,223)**	**49,615**			

On the other and the with the purpose of evaluating the adequacy of the second Liquidity Line (2LL), Banco Popular carries out stress tests that assume the non-renewal of all the maturities of Wholesale Funding sources. As may be observed in table 55, the 2LL easily covers all maturities in 2017. To cover this position, at year-end, the Group has a 2LL with which it could obtain funding of 11,176 million euros.

The 2LL is comprised of eligible assets and cash. Assets considered are eligible asset securities and discountable in operations with the European Central Bank; the cash included corresponds, if applicable, to the excess over the Minimum Reserves Coefficient (MRC).

This liquidity buffer allows the Group to continue to apply its traditional retail banking model based on the granting of loans and the acquisition of customer deposits. This stress test is performed without including repos with financial institutions since they are arrangements made with high credit quality and therefore their renewal on maturity is highly likely.

Table 56: Extreme scenario of the non-renewal of Wholesale Funding

Data in thousands of euros Popular	Mar-17	Jun-17	Sep-17	Dec-17	Total
MATURITIES					
Interbank deposits (net)	705	52	107	356	1,220
Institutional commercial paper and ECP	290	168	70	28	556
Senior debt	580	0	0	0	580
Covered mortgage & territorial bonds	1,000	921	950	0	2,871
Wholesale subordinated debt	0	0	0	0	0
Wholesale preferred shares	0	0	0	0	0
TOTAL MATURITIES	**2,575**	**1,141**	**1,127**	**384**	**5,227**
SOURCES OF LIQUIDITY					
Second Liquidity Line	11,176	0	0	0	11,176
TOTAL SOURCES OF LIQUIDITY	**11,176**	**0**	**0**	**0**	**11,176**
Liquidity surplus	**8,601**	**7,460**	**6,333**	**5,949**	

Regulatory ratios on Liquidity

The financial crisis which began in 2007 demonstrated the need to establish a common regulatory framework which would make the banking sector more resistant to financial or economic uncertainties and difficulties, thus minimising the risk of contagion to the real economy.

With this goal in mind, the Basel Committee on Banking Supervision published the principles for Sound Liquidity Risk Management and Supervision in 2008. In its different phases, this proposal has represented the basis for the current Europe-wide regulatory framework transposed by Regulation No. 517/2013 of 26 June 2013 on prudential requirements (CRR IV) and Delegated Regulation No. 2015/61 of 10 October 2014.

Liquidity Coverage Ratio

The LCR was developed to promote the short-term resilience of the liquidity risk profile of financial institutions by ensuring that they have sufficient HQLA to survive a significant stress scenario lasting 30 calendar days.

Although credit institutions must maintain a minimum LCR of 100%, compliance with this metric will be staggered from an initial level of 80% applicable from 1 January 2017 increasing progressively to 100% in 2018. The Group's consolidated LCR at December 2016 was 134.8%.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the ratio between the amount of stable funding available and the amount of stable funding required in a year. The stable funding available encompasses shareholders' and other equity during the considered time horizon, while the amount of stable funding required is based on the characteristics of liquidity and residual maturities of various assets and off-balance sheet positions.

In November 2016, the European Commission proposed introducing a mandatory and harmonised requirement including complying with a 100% minimum NSFR although, no mention has been made of the date of entry into force or of a phase-in period.

Regarding this ratio, the Banco Popular Group expects to comfortable meet the minimums demanded at all times.

Operational risk

The Banco Popular Group has adopted as its definition of operational risk the one established in the Basel II Capital Accord (2004) as well as the precepts and guidelines from EU Regulation 575/2013 and Directive 2013/36/EU. In general it defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events". This definition includes legal risk but it excludes strategic and reputational risks.

This risk is inherent to all products, activities, processes and systems and may arise in all business and support areas. Operational risk management affects the entire organisation and forms part of Banco Popular Group's global risk management; therefore the approach is similar to that applied to credit and market risk management, although with different methods and tools adapted to the specific type of risk, contemplating and safeguarding the principles established in the Risk Policy Manual (2016).

In 2008, the Management Committee approved the "Operational Risk Management Framework", which describes the policies and functions for the development and implementation of methodologies and tools allowing for better management of the Entity's operational risk.

The Banco Popular Group's Operational Risk Committee, on which particular departments of the Bank sit, basically serves to globally control and manage operational risk, and is therefore responsible for the process of monitoring and managing this risk from a global perspective. Furthermore, it monitors the evolution of the operational risk profile as regards the appetite and limits set in the Group's Risk Appetite Framework, authorised by the Bank's Board of Directors, by means of metrics defined to this end.

Responsibility for implementing and executing the operational risk management cycle is the primary objective of the corporate Operational Risk Office, although responsibility for managing risk falls to the business/support areas themselves. To this end, there is a network of operational risk coordinators, a key factor in appropriately rolling out management throughout the organisation. Furthermore, training courses are imparted with a view to raising awareness throughout the entire organisation as regards knowledge, monitoring and control of this risk in order to mitigate any impact on commercial activities and operational processes.

The general operational risk mitigation policy requires all areas or offices to prevent or mitigate all significant operational risks, with a general approach of low tolerance to residual risk. Prevention and mitigation measures are primarily established as part of preventive controls; when these prove insufficient, mitigating controls are applied.

The Group actively manages operational risk by means of continuously revising risk maps, quantitative data and improvement actions proposed by the Operational Risk Committee.

The Board of Directors of Banco Popular Group approved the use of the Standard Method provided for in BIS II regulations to calculate the minimum capital requirements for operational risk.

Apart from this, the Banco Popular Group has a Business Continuity department whose objective is to coordinate the efforts of all business and technology units on the joint development of action procedures and protocols needed to provide the appropriate ability to withstand and recover from serious contingencies or incidents. In addition, as the executive body responsible for managing the decision-making process and monitoring aspects relating to business continuity in the Group, the Business Continuity Committee was created as the body directly responsible for business continuity whenever any incidents affect the organisation. This unit also serves as the Incidents Management Team to adequately manage incidents that may arise.

The Banco Popular Group actively participates in the Spanish Operational Risk Consortium (CERO), an association of professionals in the financial sector set up in 2003 with the objective of being a forum for discussion, sharing and interpretation of the Operational Risk regulations, establishment of good practices and a specialised communication channel to the financial supervisors. In this, almost all the national entities are represented. In November 2016, and after internal voting of the members, Banco Popular holds the Presidency of this association's Executive Committee.

The management cycle for operational risks implanted in the Banco Popular Group is based on the following phases:

- **Identification Phase:** Collaborate in the preparation and maintenance of an overall risk and control map that captures all material operational risk exposures. The Group has qualitative tools that are used to prepare the Group's risk and control maps, which are reviewed and updated regularly, to measure the frequency and impact of operational risk and to assist in establishing action plans and improving controls and hedges in the areas of highest exposure, as well as the analysis by the Business Continuity Office of the necessary contingency plans to ensure the continuity of the Bank's operations. In addition, common taxonomies and metrics are identified at this stage to facilitate the application and transposition of best practices, consolidating information on operational risk and reporting to the Group and third parties. The identification of operational risk should consider internal and external factors and sources of information.

- **Evaluation Phase:** A comprehensive assessment of operational risk must incorporate risk quantification, which allows a better understanding of its profile and more effective management of resources and strategies. This supposes a regular evaluation of residual or net risk through a self-evaluation of the risks, evaluation of inherent risk and evaluation of the efficacy of the Entity's controls, whether business or support related, in order to identify the residual risk to which the Bank is exposed.

- **Monitoring Phase:** Consists in verifying the evolution of operational risks using various tools to this end:

  - Capture of event data: Process of feeding a database that collects information on losses due to operational risk events, classifying them into lines of business and types of events defined by the regulations in force. In this regard, there is an internal historical database of operational risk events dating back to January 2004. This capturing of events helps to identify and quantify risks to be taken into consideration in the Group's risk maps.

  - Furthermore, since December 2006 the Group has been a member of ORX (Operational Riskdata eXchange Association), an international consortium that maintains a database to which the main financial institutions around the world contribute events; we participate in the Spanish Service by exchanging data and indicators on a quarterly basis amongst the six main institutions in the country.

  - Self-assessment of Risks: The Bank has a tool that brings together the risks and controls identified by the Bank and whereby the corresponding valuations are carried out (as indicated in the Evaluation Phase) The frequency and severity of operational risk can change regardless of the stability of operating processes. For this reason, recurrence in the management and control of operational risk (permanent review of risk self-assessment, metrics, etc.) is considered fundamental for the proper management of this risk.

  - Periodic reports on exposure to operational risk are produced for Senior Management, including the values of the metrics defined in the Risk Appetite Framework. Furthermore, an information process is in place by means of which departments receive data on the management of operational risk in their area, enabling them to carry out actions accordingly. The availability of information and adequate reporting and communication of the most relevant aspects are fundamental for an integrated management and control of the operational risk cycle. Decision-making, at any level of the Entity, must always take into account the implications that may arise from the operational risk perspective.

- **Mitigation/Control Phase:** Risks considered to be unacceptable after their evaluation, or those which have accumulated losses that exceed an acceptable minimum, are analysed by the branch offices or by the Operational Risk Committee in order to make any appropriate proposals for the preparation of an action plan to prevent loss events and minimise their impact if the they do occur. These action plans materialise through the establishment of new procedures or improvements to existing procedures, the implementation of preventive or mitigating controls, the transfer of risk through insurance policies or the outsourcing of certain activities. Furthermore, the New Products Committee oversees the prevention of operational risk; its functions include analysing, prior to the launch of a new product or service, the different types of risk to which the product or service is exposed, to see whether preventive measures need to be adopted prior to its launch.

- **Measurement Phase:** Calculation of own funds requirements for operational risk. As indicated previously, Banco Popular Group has chosen to apply the Standard Method under Basel II to calculate operational risk capital requirements; the corresponding methodology was approved by Senior Management. This method uses a breakdown of gross revenues based on eight business lines considered significant for operational risk: Corporate finance, trading and sales, payments and settlement, agency services, asset management, retail brokerage, retail banking and commercial banking.

This management model is regularly reviewed by the Group's Internal Audit.

Figure 36 shows the number of operational risk events in 2016 broken down by event categories as established by Basel II. Figure 37 shows the distribution of net loss by operational risk in 2016 within those event categories.

Figure 36: Number of events (%)

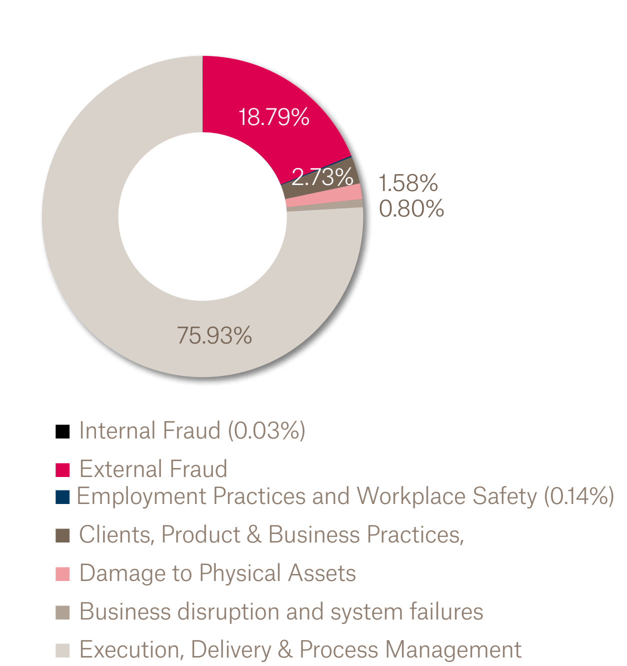
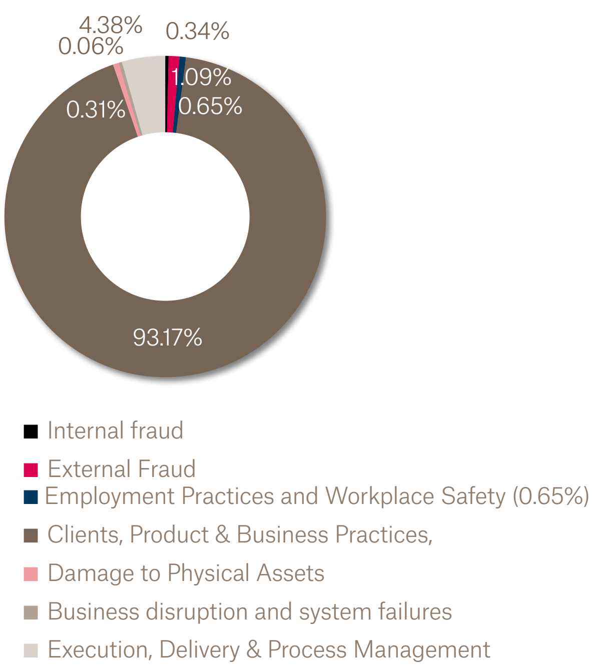


Figure 37: Net loss (%)



In terms of number of events, the most noteworthy category is "Process execution, delivery and management", which encompasses recurring losses of a lesser amount. In net losses, the category of "Customers, products and commercial practices" accrues the largest amount of operational losses due mainly to significant events related to Legal Risk and provisions for this purpose, among which is the one related to floor clauses.

Reputational risk

Reputational risk derives from an action, situation, transaction or investment that may lead to a negative perception of the Entity by customers, shareholders, employees and public opinion in general which may reduce faith in its integrity and competence of the Entity and which can adversely affect capital, earnings and development of the business constituting its activities.

To this end, the Bank must consider its capacity to confront the adverse effects on its image that controversial circumstances might have, in such a way that the business, its relationship with public opinion, customers, markets and suppliers is barely affected by negative comments and confidence is maintained. This means that, in this context, there would be insufficient grounds to dissuade existing or potential customers from working with the Bank, shareholders would maintain their investment in the Bank and the media would adopt a position of permanent interest and rapprochement towards the activities of Banco Popular Group. Legal, economic-financial, operational, ethical, social and environmental factors may influence this type of risk and could cause a loss of confidence in the institution. Therefore, mitigating this risk is the transversal responsibility of the entire organisation.

Banco Popular controls and assesses this risk on an overall basis, analysing different internal and external parameters, which make it possible to quantitatively assess reputational risk.

Compliance risk

It is defined as the risk of legal or administrative sanctions, significant financial loss whether material or reputational due to failures to comply with laws, regulations, self-regulation, codes of conduct or internal regulations applicable to its banking activities.

The Bank exhaustively monitors new legislation and regulatory changes in order to be aware of the main repercussions as early as possible. It also has coordination structures that ensure the adaptation of the Bank's processes and systems before any legislation enters into force.

Regulatory compliance is a responsibility that falls to the whole organisation of the Bank and its staff; not only to a particular area or department.

The Department of Compliance and Regulation reports to the Entity's Secretary of the Board of Directors, to which the Compliance Department and PML report with the following offices reporting to the latter:

- Compliance.
- Prevention of Money Laundering.
- Customer Service Department
- Response to Public Administrations.
- Implementation of Regulatory Projects

The main roles of these offices are as follows:

The **Compliance Office** is responsible for assessing and managing the risk of non-compliance related mainly to transparency, customer and investor protection, marketing of new products and services, standards of conduct in securities, market abuse, protection of personal data, as well as supervision of the criminal risks prevention model and FATCA; and promoting the proper training of staff in these matters. Also, the Compliance Office proposes corrective actions concerning issues detected, monitoring their implementation and periodically reporting to the Bank’s Audit Committee via Compliance and Regulatory Management.

It performs its functions in accordance with the framework established in the Statutes and in the Regulatory Compliance Policy, approved by the Board of Directors, which are developed in the Procedures Manual and in the different specific procedures approved by the Audit Committee.

The management and control of compliance risk is carried out by the Office, among others, through the following processes:

- Implementation of the Procedures Manual and specific procedures.
- Evaluation of the Controls and Risks Map. Risks covered are linked to controls with a view to mitigating risks inherent to activities.
- Use of the IT tool to manage risks included in the map (GRC) evaluating the impact and probability that the risk will occur, in addition to the effectiveness of controls.
- Production of the Dashboard to monitor the status and evolution of the main risks of non-compliance.
- Use of the IT tool to analyse alerts regarding potentially suspicious operations in terms of market abuse (SICAM).

The **Money Laundering Prevention Office** collaborates with the competent authorities and takes care of prevention by investigating and analysing operations and transactions suspected of being related to the laundering of funds from unlawful activities or the financing of terrorism, pursuant to the regulations in force on this matter, reporting any operations or transactions with characteristics possibly indicative of being associated with such activities.

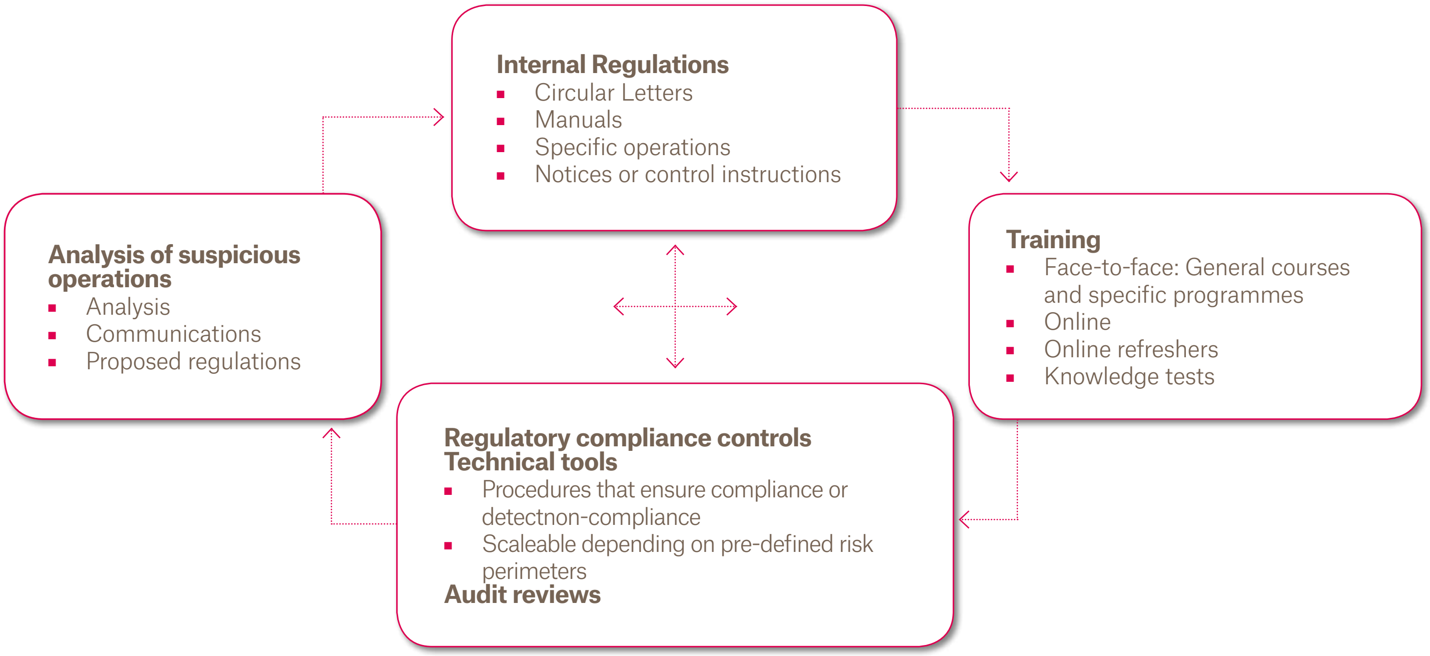
In terms of the prevention of money laundering and the financing of terrorism, the Banco Popular Group has implemented the following documents, authorised by the Internal Control Body (ICB):

- Procedures Manual for the Prevention of Money Laundering and the Financing of Terrorism (there is a general version, another for employees and a third for agents).
- Circular on the Prevention of Money Laundering and the Financing of Terrorism, which includes the customer acceptance policy.
- Regulations of the Internal Control Body.
- Protocol for the Prevention of Money Laundering Prevention and the Financing of Terrorism in the context of corporate operations.
- Annual training plan.

An IT tool is in place in the Office to review customers and operations, with alerts for operations suspected of being involved in money laundering or the financing of terrorism (NORKOM).

Specific tools are also available to manage cross checks, the production of the Monthly Declaration of Transactions and the handling of files generated as a result of alerts submitted by the sources of information.

Furthermore, Banco Popular Group has defined a Dynamic System for the Prevention of Money Laundering and the financing of terrorism, based on the following interrelated items:



The purpose of the **Customer Service Department** is to provide assistance and resolve queries, complaints and claims lodged by customers and users of the Banco Popular Group's financial services as regards their legally recognised rights and interests. Such claims may be filed by customers, non-customers and regulatory bodies (Banco de España, the Spanish National Securities Market Commission and the General Directorate of Insurance and Pension Funds).

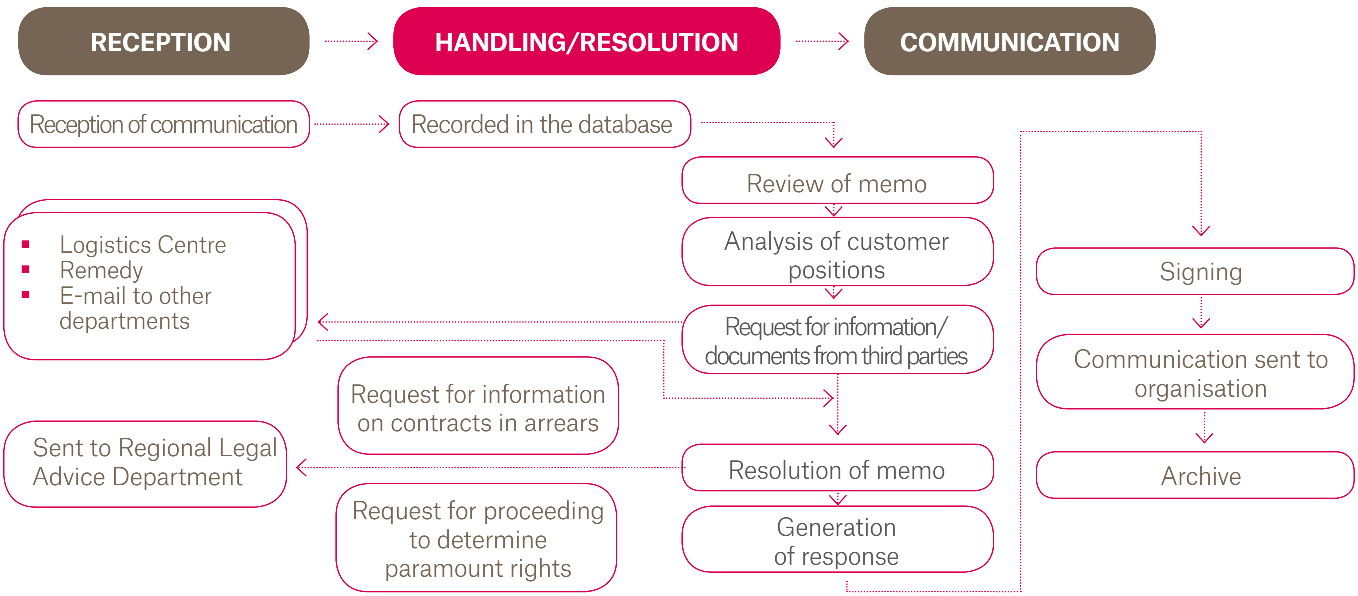
In developing the provisions set out in Law No. 44/2002 on Measures to reform the Financial System, the Ministry of Economy Order 734/2004 of 11 March on customer service departments and the ombudsman in financial institutions was approved. This law regulates the customer service department and established the following protocols:

- Creation of the Ombudsman Regulation approved by the Board of Directors. The Regulation is available for customers and employees to consult at the Bank's branches, as well as on its public website and Intranet.
- Production of the Annual Report submitted to the Board of Directors during the first quarter of the year and a summary that forms part of the Bank's annual report.

It has a specific IT tool to record and control queries, claims and complaints received, in accordance with the established procedures. Using this tool, response times to claimants are controlled, ensuring they comply with the time frames set out by the regulations in force, in addition to the production of management reports to comply with the requirements set out by the Regulators and other units of the Bank.

The **Public Administrations Response Office** handles all communications (letters, requests for information, attachment orders and other notices) addressed to consolidated subsidiaries by public authorities (Courts, Tax Authority, Social Security Fund, Local Authorities, Property Registers, Police, Civil Guard, the Spanish Banking Association, etc.).

The management and coordination of the responses to the notifications addressed to the Entities which make up the Group are based on the following process:



The Implementation of Regulatory Projects Office is in charge of monitoring the technological projects related to Compliance and Regulation, being the interlocutor between the aforementioned area and IT.

The main milestones in 2016 for Compliance and Regulation Management have been:

Compliance Office

- Implementation of the Risks and Controls Map and the Compliance Control Table.
- Preparation of the Risk Management Manual to assess Compliance Risk and Reputational Risk.
- Implementation of the Corporate Defence control model for the prevention of criminal risks.
- Implementation and execution of controls to monitor the 2016 Capital increase.
- Strengthening of controls on banking transparency.
- Analysis of market abuse alerts and support to the ICC surveillance body.
- Adaptation of the Group to EU Directives MAD and MAR.
- Supervision of updates to the Group's policies and procedures in its scope of activities as well as staff training.
- Updates to the Compliance Procedures and Manual.
- Replies to the communications of Regulators/Supervisors

Money Laundering Prevention Office

- Updating internal regulations and introducing improvements in the systems used to ensure the correct application of due diligence measures.
- A request for information has been received from SEPBLAC together with the corresponding inspection notice, which will focus on verifying compliance with the preventive obligations in relation to the higher risk operations of customers who make cash deposits and then subsequently transfer them out.
- The monthly records containing the information which has to be declared in the Financial Ownership File are being submitted to SEPBLAC.
- On-line training for all the employees in order to reinforce their knowledge on these matters through practical assumptions.
- Collaboration with the external expert who revised the procedures implemented in the Group for the prevention of money laundering and the financing of terrorism.

Customer Service Department

- Implementation of the Procedures Manual, improving of new controls for the supervision of compliance with response times established by the regulations in force, strict requirements for which have resulted in a notable reduction in their number and the creation of and updates to new management reports for the different units of the Group as well as for the Regulators. (Guideline 5 in the joint ESMA and EBA document on complaint and claim management).
- Strengthening of a specific IT tool to manage complaints and claims at branches, in addition to facilitating control and supervision by the various units responsible for them. Promotion of prior action and activities at source, creating action protocols to prevent claims and complaints being filed with the Customer Service Department and with Supervisory Bodies.
- Production of the bases to create of a new integrated Customer Service Department management tool.
- Consolidation of information exchange and communication systems with regulators: the EDITRAN platform with Banco de España and the CIFRADOC system on the CNMV website.
- Maintenance of a digital historic record of files opened with the customer service department since 2013.
- Forum SAC 2016, annual meeting of Customer Service Departments and Customer Defenders, promoted by Banco de España and the CNMV, with the participation at the table of the Customer Service Department director of Banco Popular.
- Collaboration and exchange of information on the Customer Service with Regulators with periodic meetings with both Banco de España and the CNMV.

Public Administrations Response Office

- Automation of certain functions to ensure timely and appropriate responses to official memoranda, in particular those relating to corruption and money laundering issues.

Implementation of Regulatory Projects Office

- Monitoring of the technological projects demanded by the Compliance and Regulation area and their dependent offices.
- Coordination and dialogue between the Compliance and Regulation area, and its offices, with IT.

10 Banco Popular's rating

The rating of Banco Popular Español in 2016 was marked by the announcement of the capital increase and the presentation of the new business plan, which triggered ratings actions by Fitch, S&P (in both cases confirming the bank's rating and positive outlook) and Moody's (who improved the outlook to positive from stable, in addition to confirming the ratings). Although not taking any action on the rating, DBRS immediately after the announcement of the increase issued a press release assessing it as positive. Apart from these actions, Fitch, DBRS and S&P confirmed the rating and outlook of the entity in their annual reviews.

Banco Popular has credit ratings from the four internationally recognised rating agencies: Dominion Bond Rating Service (DBRS), Fitch Ratings, Moody's and S&P.

Table 57: Ratings awarded by rating agencies

Agency	Long-term	Short-term	Outlook
DBRS	BBB (high)	R1 (low)	Stable
Fitch	BB-	B	Positive
Moody's	Ba1*	NP	Positive
S&P	B+	B	Positive

(*) Moody's differentiates between the rating on deposits (Ba1) and long-term senior debt which stands at Ba2.

DBRS:

The ratings assigned to Banco Popular by DBRS at 31 December 2016 were BBB (high) for the long-term and R1 (low) for the short-term, with the outlook for these ratings being stable. In September, the agency confirmed both the rating and the outlook in their annual revision. This rating by the agency places the entity in investment grade.

DBRS has also rated Banco Pastor and Banco Popular Portugal, BBB (high), and BBB (low) respectively. In addition, the agency raised the rating of Mortgage Covered Bonds issued by Popular and Pastor one notch to AA (high) from AA, as a result of the inclusion into the methodology of the preferential character of this instrument after the entry into force of the BRRD (Bank Recovery and Resolution Directive). The classification of the bonds as AA (high) places them into the category of high quality liquid assets. Likewise, the Obrigações Hipotecárias of Banco Popular Portugal saw their rating change to BBB from BBB (high).

FITCH RATINGS:

Fitch's rating of Banco Popular's long- and short-term debt at 31 December 2016 is BB- and B, respectively with a positive outlook. Fitch confirmed the entity's rating and positive outlook for the first time in the year in their annual revision in February to then subsequently confirm it after the announcement about the capital increase.

MOODY'S:

Moody's ratings of Banco Popular's deposits and long-term senior debt at 31 December 2016 are Ba1 and Ba2 respectively. The short-term debt rating on the same date was NP (Not Prime). The outlook of these ratings is positive. On 1 June 2016, after the announcement about the capital increase, Moody's confirmed Banco Popular's rating, improving the outlook to positive from stable.

It is worth noting that Moody's is the only agency to preserve a certain level of government support in ratings in the belief that, although limited, the European resolution system leaves clear space for States to take action in the event of a financial crisis at systemic institutions.

Additionally, the rating on Banco Popular's Mortgage Covered Bonds stands at Aa2 allowing them to be classes as high quality liquid assets.

S&P:

The ratings granted at 31 December 2016 to Banco Popular Español by S&P are B+ for the long-term and B for the short-term, with a positive outlook for them both. After the announcement about the capital increase, the agency confirmed Banco Popular's rating and its positive outlook. In November it reiterated both the rating and the outlook as part of its annual revision.

11 Shareholders

Shareholding structure

As at 31 December 2016 Banco Popular had 303,251 shareholders, compared with 270,114 at the end of December the year before, which is an increase of 33,137 in one year.

Table 59 presents a breakdown of share ownership and of the percentages of holding in the common stock of the Bank at the end of the last financial year.

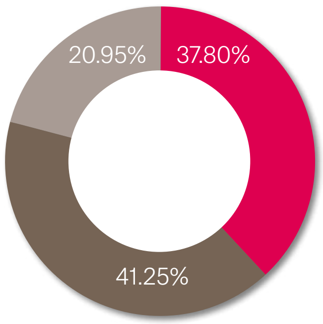
Table 58: Distribution of shareholders - 2016

	Number of shareholders	Weight (%)	Share capital (%)
fewer than 1000 shares	147,908	48.8	1.0
from 1,001 to 4,000 shares	82,370	27.1	4.2
from 4,001 to 10,000 shares	39,308	13.0	6.0
from 10,001 to 20,000 shares	17,029	5.6	5.7
from 20,001 to 40,000 shares	9,134	3.0	6.1
from 40,001 to 200,000 shares	6,416	2.1	12.1
from 200,001 to 400,000 shares	620	0.2	4.1
from 400,001 to 800,000 shares	249	0.1	3.4
more than 800,000 shares	217	0.1	57.4
TOTAL	**303,251**	**100**	**100**

Table 58 shows that 88.90% of the Bank's shareholders have less than 10,000 shares. Shareholders with more than 800,000 shares control 57.39% of share capital.

Figure 38 shows the distribution of the Bank's Share Capital at 31 December 2016. In 2016, the free float stood at 79.05%. The Board holds 20.95% of the share capital, including shares owned directly or indirectly by the directors and by parties habitually represented by them. The institutional branch stands at 37.8% while retail is 41.25%.

Figure 38: Distribution of capital



The breakdown of the shares controlled by the Board is shown in the following table:

Table 59: Shares controlled by the Management Board

Directors	Direct	%	Indirect	%	Represented	%	Total	%
Aparicio Valls, Francisco	665,529	0.016	485,630	0.012	0	0.000	1,151,159	0.027
Arias Mosquera, José María	237,321	0.006	0	0.000	0	0.000	237,321	0.006
Banque Federative du Credit Mutuel	165,859,985	3.952	0	0.000	0	0.000	165,859,985	3.952
Calderón Cuadrado, Reyes	7,146	0.000	0	0.000	0	0.000	7,146	0.000
Estévez Puerto, José Ramón	45,718	0.001	0	0.000	0	0.000	45,718	0.001
Higuera Montejo, Roberto	200,876	0.005	0	0.000	0	0.000	200,876	0.005
Larena Landeta, Pedro	100,100	0.002	0	0.000	0	0.000	100,100	0.002
Molins López-Rodó, Ana María	1,732	0.000	0	0.000	0	0.000	1,732	0.000
Oroviogoicoechea Ortega, Jorge	5,648	0.000	0	0.000	0	0.000	5,648	0.000
Pérez Jaime, Vicente José	200	0.000	0	0.000	0	0.000	200	0.000
Revoredo Delvecchio, Helena Irene	0	0.000	2,594,557	0.062	0	0.000	2,594,557	0.062
Ron Güimil, Angel	208,455	0.005	0	0.000	0	0.000	208,455	0.005
Ruiz Sacristán, Jaime	170,852	0.004	0	0.000	179,661,237	4.281	170,852	0.004
Sindicatura de Accionistas de BPE	25,677,000	0.612	375,218,312	8.940	0	0.000	400,895,312	9.552
Tardío Barutel, Vicente	28,377	0.001	0	0.000	128,004,145	3.050	28,377	0.001
Voting rights habitually represented[1]							307,665,382	7.331
Total shares							**879,172,820**	**20.948**

(1) Shares represented: Shares usually represented by certain members of the Board of Directors amount to 7.331% of share capital, broken down as follows: 4.281% of the Mexican shareholders group, represented by Mr Jaime Ruiz Sacristán; and 3.050% from Allianz, represented by Vicente Tardío.

Share Capital

The following table gives the breakdown of the changes in share capital during the course of 2016, indicating the type of transaction:

Table 60

	Transaction		Share Capital
Date [1]	Type	No. of shares	No. of shares
31.12.2015			**2,165,075,497**
28.01.2016	3rd dividend charged to 2015	10,732,181	2,175,807,678
30.03.2016	4th additional dividend 2015	16,609,261	2,192,416,939
23.06.2016	Capital increase	2,004,441,153	4,196,858,092
31.12.2016			**4,196,858,092**

(1) Date on which shares were registered

In May 2016, the Board of Directors of Banco Popular announced, pursuant to the resolutions adopted by the Board and by the Ordinary General Shareholders' Meeting of Banco Popular held on 11 April 2016, the capital increase by means of monetary contributions and with recognition of the pre-emptive right of the shareholders of the Company.

The main objective of this operation was to strengthen the Bank's balance sheet and improve both its profitability indices as well as its solvency and asset quality levels.

The total effective amount was €2,505,551,441.25, through a subscription of 2,004,441,153 new shares which began their listing in June.. The operation was a success, receiving a total demand of 3,401.3 million euros or 135.75% of the amount of the increase.

The share capital of Banco Popular was €2,098,429,046.00 at the end of 2016 represented by 4,196,858,092 shares represented by book entries and with a par value of €0.50 each.

The shares are listed on the four Spanish Stock Exchanges and are traded on the Spanish computerised trading system. Banco Popular shares are included in the Madrid Stock Exchange General Index (IGBM), with a weight of 0.66% of the total and in the Ibex-35 index, with a weight of 0.796% at the end of the year.

Share performance

Volatility has been the key word in the equity markets in 2016 as they are constantly influenced by both economic and geopolitical factors.

Amongst the economic factors, what stand out are the uncertainty on economic growth in China and the divergent actions of Central Banks worldwide. Thus, while in the United States the possible rise in interest rates by the Federal Reserve was being assessed, which finally happened in the December meeting; in Europe, the European Central Bank was discussing the continuation of non-conventional measures.

In the geopolitical field, both Europe and the United States had significant challenges (Brexit, the Italian referendum on constitutional reform, the election of Donald Trump as president-elect). In Spain there was an acting government for 10 months.

In this context, the balance of the equity markets has been mixed. In Europe, noteworthy is the behaviour of the UK FTSE which rose 14.43% (the euro revaluation would have been -1.23%), followed by the German DAX with 6.87% and the French CAC with 4.86%. Eurostoxx also closed on a positive note, up by 0.70%, while the Stoxx-50 lost -2.89%. In negative territory, those of note were the Portuguese and Italian markets which lost -11.93% and -10.20% respectively. The Spanish IBEX-35, having recovered 7.64% in December, ended 2016 with a loss of -2.01%.

On the other side of the Atlantic, the S&P 500 and the Nasdaq closed the year positively, climbing to 9.54% and 7.5% respectively. Asian markets closed practically neutral; the Nikkei was up by 0.42% while the Hang Seng did so by 0.39%.

At a sectoral level, Italian and German entities are those which caught the attention of investors the most. For German banks, they focused on Deutsche Bank, the entity on which the American Department of Justice imposed a fine of 14,000 thousand euros for its role in the subprime business. In the case of Italian banks, doubts about the soundness of the financial system, especially after publication of the European Banking Authority (EBA) transparency exercise results, culminated with the approval of a royal decree by which the Italian Government will allocate 20,000 thousand euros aimed at strengthening institutions which present financial difficulties.

Against this backdrop, the financial sector was one of the most heavily hit, with the SX7P European banking index closing the year down by -6.77%, while the average among domestic Spanish banks was a fall of -21.25% over the same period. In the year, Popular lost -66.37% closing with a share price of €0.918

The breakdown of the main stock market data regarding Banco Popular is set out below:

Table 61: Indicators of interest

	31.12.2016	31.12.2015
Shareholders and stock price		
Number of shareholders	303,251	270,114
Number of outstanding shares (thousands)	4,196,858	2,165,075
Closing listed price (euros) 1	0.918	2.730
Undiluted market capitalisation (in thousands of euros) 2	3,852,716	6,588,325
Maximum price during the period (euros) 1	2.694	4.350
Minimum price during the year (euros) 1	0.771	2.699
Trading volume		
Average daily trading (thousands of shares)	35,009	15,362
Average daily trading (thousands of euros)	49,417	61,864
Market ratios		
Dividend distributed in the year (euros)	0.04	0.076
Book value per share (euros)	2.71	5.88
Price/Earnings (annualised)	(0.84)	61.87
Price/Book value	0.34	0.52

(1) Closing listed price

(2) Calculated on the shares in circulation

Banco Popular's market capitalisation at 30 December 2016 stood at €3,852,715,728.

Trading in Banco Popular shares during the year continues to reflect their high liquidity. The shares were traded in 257 market sessions, with an average daily trading volume of 35,009 thousand shares.

Dividend policy

Banco Popular's Board of Directors agreed, during 2016, to the distribution of the following dividends:

Table 62: Dividends charged against 2015

Paid dividends at 2015 (amounts in euros)					
Type	**Payment date**	**Ex coupon date**	**Exchange ratio**	**Gross amount**	**Net amount**
3rd Interim dividend	25.01.2016	05.01.2016	1x154	0.02000	0.01600
4th Final dividend	15.03.2016	24.02.2016	1x106	0.02000	0.01600

Dividends were paid out under the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend) programme, offering shareholders the choice between receiving newly-issued shares or a cash amount equivalent to the dividend in each respective period.

Due to this capital increase, and based on possible uncertainties which could affect coverage levels, the temporary suspension of the payment of dividends was announced in order to face the environment with the greatest possible soundness. Therefore, the 2018 plan, amongst its objectives, includes a cash pay-out ratio of at least 40% for 2018.

12 Treasury Stock

Banco Popular's operations involving treasury stock in 2016 have adjusted to the recommendations made in this respect by the CNMV.

Banco Popular's treasury share portfolio is intended to provide adequate liquidity and depth for investors when trading its shares, as well as to minimise any imbalances between supply and demand in the market. It also seeks to avoid price variations that are not due to market trends.

The starting treasury stock balance was 0.30% of share capital. In 2016 the maximum amount of treasury stock held by the group totalled 2.99% of share capital on 03/11/2016, while at 31 December 2016 Banco Popular held treasury stock totalling 2.83% of share capital. The average balance throughout the year was 1.82% of share capital.

Operations with treasury stock did not have any impact on the Bank's net profit as they are directly recognised in reserves. The waiver of the rights corresponding to treasury stock in the capital increase, distributed to shareholders, supposes a lower theoretical book value of €6,000,201.45.

To obtain more detailed information regarding the treasury stock policy, the registration document is available to the public at the CNMV.

See: http://www.cnmv.es Enquiries to official registers > Issuing Entities > Significant Shareholdings and Treasury Shares > Notifications on treasury Shares

Table 63. Variations in the treasury stock portfolio in 2016

	No. of shares	**Par Value** (in euros)	**Average price** (in euros)	**% of Share Capital**
Balance at 31 March 2016	15,883,779	7,941,890	2.464	0.724%
Balance at 30 June 2016	67,737,961	33,868,981	1.829	1.614%
Balance at 30 September 2016	119,611,339	59,805,670	1.621	2.850%
Balance at 31 December 2016	118,560,222	59,280,111	1.606	2.825%

*On 22.06.16, the share capital was represented by 4,196,858,092 shares, from 2,192,416,939.

13 Post-closure events

After the end of the period, the following events must be highlighted:

On 21 December 2016, the Bank issued a Relevant Event to the CNMV in which it reported the unanimous proposal to appoint Mr. Emilio Saracho Rodríguez de Torres as Chairman of the Board of Directors to an Extraordinary General Shareholders' Meeting to be held on 20 February as reported by the Bank in the Relevant Event issued on 19 January 2017, in which he will be appointed Executive Director. Also on 20 February, in a subsequent meeting of the Board of Directors Mr Emilio Saracho will be appointed Chairman.

On 5 January 2017, the bank issued a Relevant Fact to the CNMV in which it reported the approval of the intra-community cross-border split common project of Banco Popular Portugal, S.A. as a company being divided, in favour of Banco Popular Español, S.A. as beneficiary company which will involve the transformation of the subsidiary Banco Popular Portugal, S.A. to Banco Popular Branches in Portugal.

14 Environment

In accordance with Note 11 of the Financial Statements, the entity considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results.

In addition, the "Environmental Dimension" of the 2016 Integrated Report details the principles of the Banco Popular Group's Environmental Policy to fight against Climate Change, which are summarised below:

- Seek compliance with current environmental legislation.
- Integrate environmental considerations into the organisation's overall management.
- Generate good environmental practices throughout its value chain.
- Identify and manage environmental risks and opportunities and implement the most appropriate improvement measures.
- Promote products with a special environmental benefit.
- Collaborate with initiatives aimed towards the fight against Climate Change as well as promoting participation in forums and meetings about it.
- Support the development of projects and initiatives which favour the circular economy.
- Extend these principles to all its stakeholders.

The Environmental Committee, which reports directly to the Board of Directors through its Appointments, Governance and Corporate Responsibility Committee, is responsible for establishing the objectives in this area each year and for ensuring that they are met, performing the task of promoting and supervising the environmental management of the bank's activities.

The internal environmental dimension of the Corporate Responsibility Master Plan, Horizonte 2020, establishes lines of action to be pursued in order to reduce the Bank's environmental impact. The strategy defined in the aforementioned Plan and in the Environmental Policy to fight against Climate Change supports the Eco-efficiency Plan 2014-2020, the main pillar of the Internal Environmental Dimension, which has the mission of minimising the entity's environmental footprint through the reduction of energy consumption and the optimal management of waste, thus positioning the bank as a company committed to its environment.

Internal environmental dimension

The internal environmental dimension of the Corporate Responsibility Master Plan, Horizonte 2020, establishes lines of action to be pursued in order to reduce the Bank's environmental impact. To this end, the bank's initiatives in 2016 focused mainly on three areas: resource consumption, waste management and emissions produced.

Energy

In 2016 the internal energy consumption decreased by 10.22% compared to the previous year. This decrease was due, among others, to the following actions:

ENERGY
Electricity

ACTIONS DEVELOPED

Sustainable building:

- LEED Gold certification in Abelias head office
- Construction of the New Luca de Tena Head Office to LEED Gold standard.

Lighting systems:

- Installation of building automation and LED systems in buildings and remodelled branches
- Inclusion of reflective vinyl and low radiation glass

Efficient office equipment:

- Installation of special air conditioning systems

SAVINGS IN EMISSIONS
CO_2

664
KWh

Paper

The Group puts various initiatives into practice at its facilities in Spain in order to reduce its paper and cardboard consumption. Of note in 2016 were the following:

Paper

ACTIONS DEVELOPED

Application of environmental criteria in purchases of:

- Neutral envelopes
- Lower weight paper
- Recycled paper
- Paper and envelopes with PEFC/FSC or ECF certification

Reduction in the use of envelopes and communications due to:

- Use of the e-mailbox in communications with customers
- Grouping communications with customers
- Use of internal multi-use envelopes

Paper recycling:

- Recycling of paper for its subsequent use

IMPACT ON THE ENVIRONMENT

Paper
887
tonnes saved

CO_2
5,782
tonnes which stopped being issued

Water
344,444
m^3 which has stopped being used

Electricity
17,318,391
kwh which has stopped being used

Emissions

Total direct and indirect emissions in 2016 amounted to 14,834 tonnes of CO_2. The steps that made this reduction possible were the following:

EMISSIONS OF **CO_2**

ACTIONS DEVELOPED | SAVINGS IN EMISSIONS

Electricity

Green energy:

- Exclusively renewable energy use in Spain
- In Portugal, 41% of energy used comes from renewable sources

23,980
tonnes

Travel

Employee travel:

- Use of multi-conference systems to avoid travel
- Car-sharing for employees for travel to and from the workplace

268
tonnes

Paper

Reduction in the use of paper:

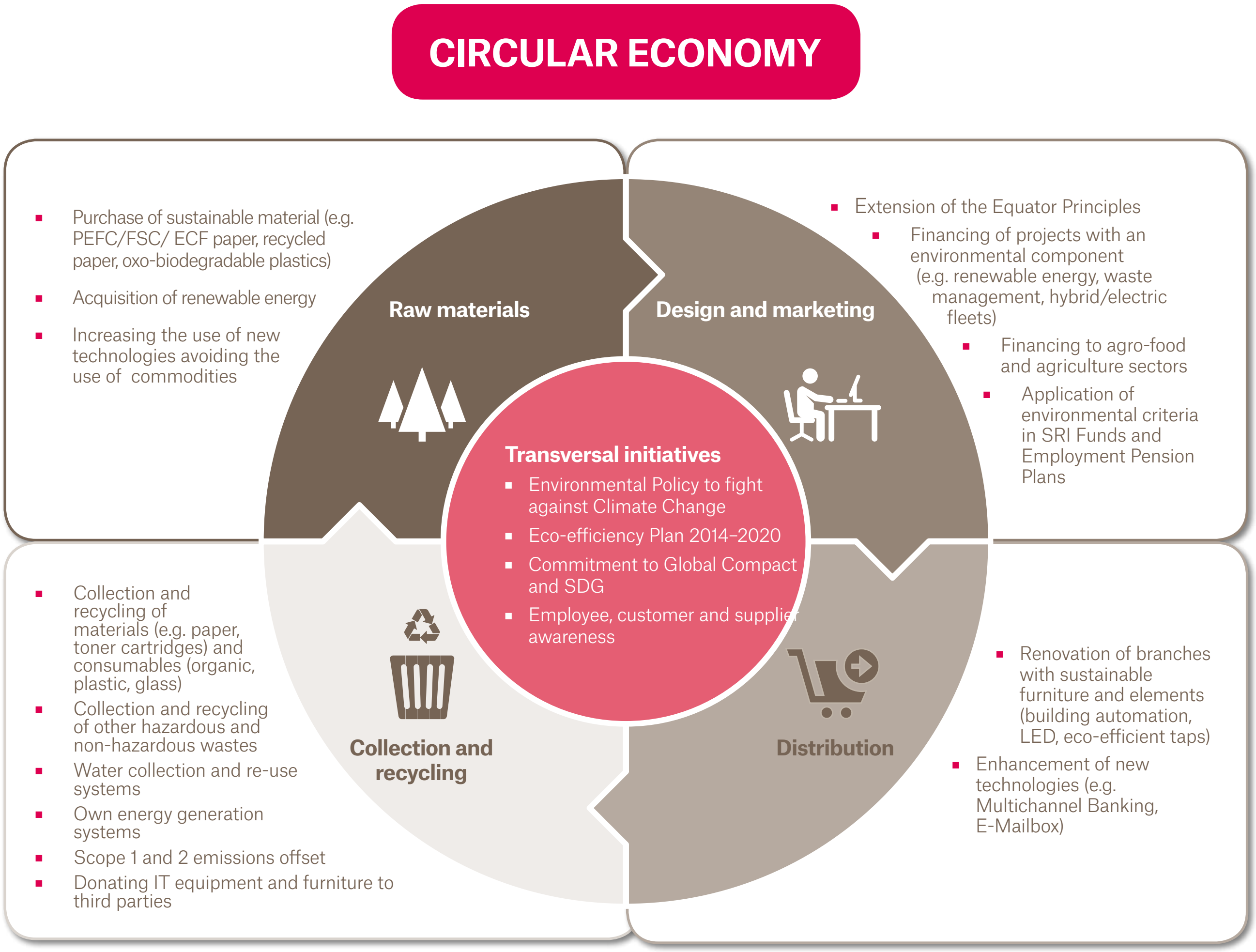
- Application of environmental criteria in purchases
- Reduction in the use of envelopes and communications to customers
- Paper and cardboard recycling

5,782
tonnes

Circular Economy

One of the most important lines which Popular describes in its Environmental Policy to fight against Climate Change is to support, through its activity, the principles of the circular economy whose objective is the development of sustainable and efficient, economic and environmental actions.

The Group has a series of products, services and initiatives, most of which are included in its Eco-efficiency Plan, which favour the improvement of natural capital, optimisation of the use of resources and minimisation of system risks when managing a finite number of stocks and renewable flows.



Other

Other smaller scale initiatives to reduce our environmental impact have also been implemented involving water, toner and used plastic consumption in addition to waste management.

External environmental dimension

Employee training and awareness

During 2016, all training actions provided for in the Eco-efficiency Plan 2014-2020 were carried out; the objective of these initiatives was to increase employee awareness regarding environmental matters.

All training modules form part of a course delivered to the entire workforce, as part of which the Group's environmental objectives are explained:

- Reporting on actions taken by the entity as part of its Eco-efficiency Plan
- Awareness raising regarding the impact of our habits on the environment
- Recommending behaviour to minimise said impact
- Highlighting the importance that the actions of individual employees can have in reducing Popular's environmental impact

Environmental initiatives

Popular works together with agencies and bodies that assess and evaluate the bank's activity in the environmental sphere. By way of example, Popular is a signatory to the Carbon Disclosure Project (CDP).

In 2016, for the second consecutive year, Popular has obtained the "CALCULO" seal from Ministry of Agriculture, Food and Environment (MAGRAMA) for registering the calculation of the carbon footprint it generated in 2015.

Finally, Popular participated in the 1st Climate Change Cluster, one of the main leadership business platforms in the field of climate change driven by Forética and is made up of 36 large companies.

100% offset of CO_2 direct emissions in Spain

The 100% offset of the CO_2 from direct emissions which the Group generated in 2016 is made though the CommuniTree Carbon Program project in Limay, Nicaragua.

It is a community initiative which brings together small farmers to reforest some of their disused land in one of the basins which feed the Royal Estuary, one of the most biodiverse areas in Central America. Through better land use and more sustainable management of forest resources, the project increases the forest cover of the area and prevents its deterioration.

It is the fourth consecutive year that Popular has become a neutral entity in emissions derived from Scopes 1 and 2 thanks to the fact that all electricity purchased and consumed in Spain has come from renewable sources and that it has offset 100% of its direct CO_2 emissions.

Therefore, as in the three previous years, Popular has obtained the CeroCO2 label (ECODES).

15 Human Resources Management

This section is developed in the Social Dimension of the Integrated Report for 2016. Below, the most relevant aspects of human capital management and social commitment development can be found.

Internal social dimension: human capital

The mission of the Human Resources area is to align the policies intended to manage Bank's workforce with the entity's corporate strategy. To do so, it attempts to attract personnel with suitable potential and to contribute to their development through training and teamwork experience in order to provide maximum value to the organisation. Employees at the Group acquire a sufficient level of knowledge to assume responsibility from their first years of employment, acquiring a high degree of autonomy in their daily work and committing to projects and attaining results.

Workforce restructuring process

In mid-2016, the Bank presented its strategic plan, thus initiating a new renovation and restructuring stage of its business, accompanied by a firm plan to reduce costs. After a thorough operational analysis on possible optimisation measures, a restructuring process was proposed, which has been developed at the end of the year, as the only way to adapt the productive capacity to the current level of income

This restructuring process almost fully materialised in the fourth quarter of 2016, which has affected both the branch network and the workforce in Spain of Banco Popular and Banco Pastor, and has led to the closure of about 300 branches and an adjustment of nearly 2,600 employees.

The process carried out has been negotiated with the Entity's union representatives and has been closed with an agreement signed by 85% of the trade union representation. This agreement was presided over by the will to minimise the traumatic effects on the workforce, betting on early retirement and voluntary measures. But it has also protected and considered the personal circumstances of each employee. The economic conditions offered have significantly exceeded what is legally established, including complementary compensation and maintaining certain social benefits.

As a result of this agreement, **100% of the employees undergoing the restructuring process have done so on a voluntary basis**, whether through pre-retirement formulas, compensated withdrawals or compensated surcharges.

It should be noted that in the Human Resources area, charged with managing the restructuring process and the agreement reached, a series of actions have been developed to provide the tools, information and support to the staff, facilitating collective and individual development of the adjustment.

Selection and hiring

The Selection office exercises its duties based on a model of selection by competency with maximum respect for the principle of non-discrimination and equal opportunities. To this end, in 2016 the Group was not involved in any incident involving discrimination in any setting. Also, the hiring of certain profiles required for very specific positions of the Entity has been maintained.

During this year, initiatives have been taken to directly hire individuals with disabilities. Of which the following are worth particular mention:

- **Participation in "Por Talento" through the "Convenio Inserta" programme.** This programme comprises a series of measures aimed at increasing the employment possibilities and education of persons with disabilities. "Convenio Inserta" is promoted by the ONCE Foundation and is co-funded by the European Social Fund.

- **Publication of different job vacancies on employment noticeboards.** Those published on Fundosa and disjob, employment websites, aimed at persons with disabilities, are worth particular mention.

- **Integration of people with disabilities in highly-qualified positions.** For this, it has reached an agreement with Seeliger y Conde Foundation which has established a channel for receiving professional profiles to assess their inclusion in various selection processes.

Human Resources management

Human Resources management makes it possible to maintain close contact with all employees thanks to a decentralised structure (with HR heads in each Regional, Territorial and Central Services Office), a constant communication system through interviews and tools in addition to specific plans designed to allow employees to manage their relationship with the bank in a flexible manner.

Management interviews make it possible to improve knowledge of the workforce, identify talent and manage alerts detected.

Diversity is a key value in the Group's human resource management system. Accordingly, the "Somos Diversidad" (We are Diversity) initiative has continued and is intended to reflect the commitment acquired through its integration as an element that makes the values, capabilities and differences of each employee the Bank's main asset.

Accordingly four lines of action have been defined: gender equality, support for disabilities, different generations and diverse nationalities.

Equal treatment and opportunities for men and women constitutes a fundamental principle that cannot be waived and its application is reflected in all of the Group's policies and actions. To this end, the Equality Plan was enacted in 2008 comprising 52 initiatives such as the creation of an Equality Committee responsible for ensuring compliance with the plan and evaluating its development. On the other hand, in 2015 Popular signed a collaboration agreement with the Ministry of Health, Social Services and Equality for four years, linked to taking measures to increase the presence of women in management positions and management committees.

In 2016 two female deputy general directors of the Bank have been appointed and incorporated into its Management Committee. The criteria for promotions are professional in nature and are based on the merits and capabilities demonstrated by the employee. Most executives are employees that have developed their professional careers within the Group and due to their merits, and as a result of the continuous training and teamwork experience, have been promoted in their professional careers.

Since 2011, the “Impulsando Talento” programme has strengthened the creation of a pool of future executives in specialised areas that are identified and linked to both the Bank’s development project as well as to its corporate values. This programme is intended for recent university graduates with postgraduate degrees and no professional experience, originating from various universities and business schools with excellent academic records and a high level of language skills. These individuals start their careers with the Bank after undergoing a more demanding selection process than normal.

Furthermore, Banco Popular has a Skills-based Performance Evaluation model, which represents an important communication tool oriented towards knowing individuals, their concerns and access to career development. This system makes it possible to assess the performance of each employee, adjusting their contribution to the organisation's objectives and thus setting remuneration levels.

Compensation

The compensation policy is aligned with the business strategy and its objective is to better compensate each employee in the most equitable and competitive manner. The compensation system that is applied to all Group banks and companies in Spain coincides with the concept of total compensation, which clearly exceeds the concept of a salary.

In 2016 a new process of revision of the employees' fixed compensation has been carried out which has meant the modification of some aspects of the remuneration system of the workforce in order to align it to the new Human Resources Management Model.

The implementation of this model has meant the introduction of new objective variables in the compensatory matrices. The most important has been the criticality of the position, an objective variable fully linked to the position and not to the person, allowing the decision on the remuneration review to be made on each worker based on more objective and consistent criteria. All this has meant giving the fixed compensation system an overall coherence to apply the same parameters to the whole organisation.

In addition to compensation and the various variable components, monetary compensation for employees is supplemented by a series of social and financial benefits that translate into in-kind compensation. There is also an intangible portion that is offered within the compensation plan and it operates as a source for attracting and retaining talent: development and environment.

Banco Popular considers that compensation is an important part of all of the items that retain employees at the bank and keep them highly committed, but it is not the key factor to obtaining employee commitment.

Training

Banco Popular considers the training of its professionals a strategic resource to realise an optimal talent management of its workforce, always attending to the different profiles and professional needs and to the specific business situation.

In a highly competitive environment, where changes take place rapidly, professional training and preparation are factors which ensure the Bank's optimal performance by influencing the quality of staff performance and contributing to the strengthening of the corporate culture, mission and vision of the organisation.

The training in Banco Popular supports the lines of the Human Resources Management Model according to professional trajectories and organisational needs; develops the professional potential of each employee and contributes to formalising the succession of certain profiles.

Social benefits

There is a Group Employee and Family Guide to Social Benefits that is updated and revised regularly indicating each benefit provided by Banco Popular.

They are benefits that an employee may easily translate into financial savings and which in many cases significantly increase their monetary compensation. These types of measures are some of the best valued benefits by employees.

Participation (relationships with trade unions)

Everyone has the right to freedom of association and affiliation is a right of every person. Banco Popular Group is aware of the respect that its employees deserve and it provides the elements that are necessary for them to exercise their employee rights in all countries in which it operates.

Safety and health

The Occupational Risk Prevention Service manages all issues relating to the identification of these risk at work centres, employee training, monitoring of health issues and the preparation of emergency and evacuation plans.

In 2013 the Occupational Risk Prevention Plan 2013-2018 was approved and is intended to include all actions relating to this area within a framework defined by the Group's preventive policy.

This policy is supplemented by the creation of a Prevention Management Manual, which includes working procedures and operating instructions relating to the prevention of occupational risks. All new employees are provided with a copy of this manual, which is also available on the Employee Portal.

During 2016, efforts have continued to implement the various emergency and evacuation teams at our buildings continued with relevant training and the required evacuation simulations. This is intended to accustom employees to using emergency exits and teach them the appropriate conduct which, in an emergency, will allow them to quickly evacuate the premises in an orderly fashion, and to verify the application of the emergency plans and the proper operation of available measures.

The Group carries out various types of action to monitor occupational health and accident prevention.

External social dimension: social investment and the Volunteer Programme

With regard to social investment, Banco Popular believes its work consists of contributing to the development of viable projects as part of its economic and technical operation, aimed at repairing the social fabric and providing access to education to people who could not otherwise afford it, given that they will be the ones to witness the improvement of society.

The Bank invests in non-profit organisations of recognised prestige in the beneficiaries' local areas with a view to ensuring its social initiatives and the effectiveness of its contribution benefit reach as many people as possible. Popular's social initiatives have been channelled for years through the Fundación Hispánica under the principle of assisting those that promote the initiatives. The Bank is most active where it directly pursues its activities and where assistance with development is most needed, regardless of whether commercial relationships exist with the benefiting area.

Banco Popular channels and organises the social initiatives with total separation from its commercial activity and in the manner that the Bank considers they should be carried out: without promoting any initiative but helping those who promote it. It only acts upon request, as a last resort and without publicity. Accordingly, it does not consider acts of sponsorship or patronage and does not sustain any initiative or activity on an ongoing basis, seeking to avoid reliance on systematic assistance.

The Bank makes contributions voluntarily and the social investment formulas developed by the Foundation that receives them have their own management style, based on the principles of professionalism, transparency and responsibility, selecting exclusively sustainable projects. The endowments are managed autonomously and are allocated in full for the fulfilment of their social purposes.

Finally, it is worth mentioning that since 2010 Banco Popular has had an extensive volunteer programme through which it encourages its professionals to participate, in person or online, in charitable initiatives organised by both the Bank and by the main NGOs and noteworthy associations.

16 Research and Development

The Group continues to be committed to research, development and technological innovation activities. Over the course of 2016 it invested a total of 128 million euros in both new projects and the development of projects started in prior years.

The main projects implemented in 2016 are structured around the following aspects:

- Development of management applications
- Risk management models
- Improvements to customer knowledge and reporting systems
- New infrastructure management model
- Integration of new business and management models
- New information systems to ensure regulatory compliance

Among the projects undertaken in 2016, three strategic projects are worth particular mention; the aim of these initiatives is to improve information on both customers and the banking transactions they conduct, in addition to improving corporate reporting and information.

Customer Platform Project. In 2016, work continued on Phase II of the project, as part of which the customer service interfaces of channels previously not addressed were incorporated into a new multi-channel interface providing a full and shared online view of the customer's situation and transactions completed or pending with them. Also in 2016 a new phase which divides the project into two has been addressed on one hand linked to the Financial Terminal and on the other directly linked to the internet. Investment in 2016 totalled 8.6 million euros.

SICYF Project. It aims to do so by designing and developing a new information architecture that provides quality information (that is reliable, relevant and timely) in order to ensure success in the decision-making process and efficiency and control in the generation and exploitation of information which is critical to the Bank. This new architecture encompasses the implementation of new developments that amend all the Bank's applications and processes; as a result, the overall functioning of the bank's activities will be significantly different. Investment in 2016 totalled 15.2 million euros.

RIM. The RIM (Regulatory Information Model) project aims to renew the technology employed in the regulatory reporting model according to the Group's corporate guidelines and in line with the principles set by regulatory standards, as well as the automation and integration of reports generating systems required by the new regulations CIRBE, COREP, FINREP and Asset Encumbrance, ANACREDIT and IFRS9. Investment in 2016 totalled 12.6 million euros.

17 Glossary of terms

Foreclosed Assets	Foreclosed assets are assets received from borrowers, or other debtors, to cover, either in full or in part, the financial assets that represent receivables from said debtors, regardless of the way in which the property is acquired.
Doubtful Assets	Assets whose owner is insolvent or the assets of an owner whose outstanding balances on their non-performing/write-offs transactions exceed 20% of its outstanding receivables exposure.
Subjective Doubtful Assets	Problematic assets for which there is reasonable doubt as to their collection in the terms established by contract. Includes, among others, the following situations: borrowers with financial difficulties, delays in any payment of principal and interest instalments, refinancing due to counter-party difficulties, loans to borrowers that are undergoing restructuring or settlement processes with other credit institutions.
Impaired Financial Assets	A financial asset is deemed to be impaired and its carrying value is adjusted in the accounts to reflect the effect of that impairment, when there is objective evidence that there has either been a negative impact on the future cash flows that were estimated at the time of recognition, in the case of loans or debt securities, or the carrying value cannot be recovered in the case of capital instruments.
Non-Performing Assets	Problematic assets whose overdue principal or interest has been outstanding for more than 90 days.
Substandard Assets	Assets which, without meeting the individual criteria for classification as doubtful or write-off, show weaknesses that could entail losses for the bank which are higher than the coverages for impairment of the specially monitored risks.
Average Total Assets	Calculated as the simple average of total assets in two consecutive annual balance sheets for a financial institution.
Risk-Weighted Assets (RWA)	The amount represented by an assessment of the exposure at risk (without taking into account expected losses) in terms of transaction type and quality. Under the standard method, the calculation is made using the weighting factor provided for in the regulations (20%, 50%, 100%, etc.) and under the IRB approach, using a weighting factor that is calculated internally by each institution using regulatory formulas as part of which each institution introduces its own PD, LGD and EAD estimates.

Average Total Risk-Weighted Assets (ARWA)	Sum of the value assigned to the assets of the bank or financial institution that are subject to risks and deriving from the multiplication of the carrying value of each asset by the respective risk weighting coefficient.
Bonus issue or scrip issue	Increase of capital charged to company reserves, either in part or in full.
Treasury Stock	Company portfolio of its own shares purchased on the market under conditions authorised by the General Shareholders' Meeting.
Bail-In	Tool set out in BRRD by means of which a resolution authority exercises powers in terms of amortisation and conversion of an institution's liabilities.
Basic Earnings per Share	The basic earnings per share are calculated by dividing the year's net profit attributable to the Group by the weighted average number of shares in circulation for that year, excluding the average number of treasury stock held during said period.
Diluted Earnings per Share	Calculated in a manner similar to basic earnings per share but the weighted d average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end. It is a measure used to analyse balance sheets with respect to earnings per share over a certain period of time.
BRRD	European Directive regarding the restructuring and resolution of credit institutions, establishing a Europe-wide regulatory framework, providing authorities with a series of instruments and procedures to take quick action in good time concerning institutions experiencing strength or feasibility issues. Reflected in the Spanish legal system under Law No. 11/2015.
MCNs	Subordinated notes mandatorily convertible into shares at their maturity.
Common Equity Tier 1 capital	High-quality shareholders' equity according to the CRR. Consists mainly of capital and reserves, net of the corresponding filters and deductions.
Market Capitalisation	The value that the market attributes to a company, expressed as the product of the number of shares outstanding by listed price.
CCF (Credit Conversion Factor)	Percentage applied to off-balance-sheet operations (with the exception of derivatives) to calculate exposure at default (EAD).
Mortgage Covered Bonds	Fixed-income securities issued by credit institutions that are secured overall by mortgage loan portfolios held by the issuing entity. The volume of issued bonds cannot exceed 80% of the overall value of the eligible loans in the mortgage portfolio, in accordance with the definition provided by the Mortgage Market Act.
Economic Cycle	Long-term change in the economic activity of a country measured by macroeconomic indexes. The cycle is called expansive when there is economic growth and recessive when activity contracts and production and employment falls.
Capital Buffers	Additional common equity Tier 1 capital that must be held by institutions to comply with their duty to maintain a capital conservation buffer and, where applicable, a countercyclical capital buffer, a buffer for global systemic institutions, a buffer for other systemically important institutions and a buffer against systemic risks.
Receivership	Procedure for resolving current or imminent insolvency situations affecting a company or an individual in cases in which the party is not able to comply with obligations. The objective is to satisfy creditors without complete liquidation. The situation may be invoked by the borrower or any creditor.
Convertibles	Hybrid debt and capital bonds as part of which coupon payments are discretionary. These bonds may be converted into new issue shares on a mandatory basis or, where applicable, a contingent basis.

CRR (Regulation No. 575/2013) **CRDIV (Directive 2013/36/EU)**	CRR is a mandatory Regulation, whereas CRD IV is a Directive that must be transposed by the different national legal systems prior to its implementation. In Spain, the Directive has been implemented via Law No. 10/2014 and Royal Decree No. 84/2015, which enacts said Law. Both represent the legal framework that governs banking activities, supervision and prudential rules applicable to credit institutions and investment firms in order to establish a shared regulatory framework and strengthen the solvency of European financial institutions.
Government Debt Securities	Fixed-income securities issued by a State, other territorial entities (Autonomous Regions, etc.) and public entities (ICO).
Dividend	The portion of net profit that is distributed among shareholders based on the resolution adopted by shareholders at a General Meeting.
Duration	In general terms, indicates the average life of a fixed-income security (calculated by discounting expected cash flows, weighted based on the amount and the time remaining until receipt). It also serves as an instrument to measure the sensitivity of a bond price to changes in interest rates (thus offering a measurement of risk). Duration also indicates at what time in the life of a bond it may be sold to neutralise the risk of interest rate changes, i.e. at that date there is no interest rate risk.
EAD (Exposure at Default)	The maximum amount that could be lost as part of an operation for a specific time horizon.
Stress Tests	Exercises carried out on a periodic basis that make it possible to predict the entity's balance sheet and results in response to adverse economic scenarios with varying likelihoods and thus predict possible changes in the economic environment and take decisions in this regard.
Investee Companies	A company is understood to be an associate when it is not a group company in accordance with the definition, but a company or one or more of its group companies exercises significant influence over that investee company due to holding a stake intended to contribute to its activity and when it creates a lasting association.
Euribor	The reference rate published daily indicating the average interest rate at which financial institutions offer money on the euro interbank market.
Write-offs	Loans for which recovery is considered remote, and which have been derecognised from assets.
Own Funds	The contributions made by owners or shareholders, the amounts generated by the company's activity that have not been distributed and those contributed by third parties without any repayment requirement. In accounting terms this item consists of share capital, reserves, profits pending application, profit for the year and non-repayable subsidies.
Maximum Distributable Amount (MDA)	Limits on the distribution of common equity Tier 1 capital to prevent possible non-compliance with capital requirements. Institutions perform this calculation based on the provisions of Law No. 10/2014 on organisation, supervision and solvency, for cases in which either they fail to meet the combined capital buffer requirement or as a consequence of a distribution of common equity Tier 1 capital fail to meet the combined buffer requirement.
Minority Interests	Net amount of the equity of subsidiaries attributable to shareholders outside of the Group (i.e. the amount that is not directly or indirectly attributable to the parent company).
LGD (Loss Given Default)	Percentage of a contract estimated as non-recoverable once it enters into default.
Loan To Value (LTV)	In mortgage transactions, the amount of the loan with respect to the appraised value of the property serving as collateral.
Gross Income	Net interest income plus: net fees and commissions, dividends received for equity consolidated companies, results from net financial activities, differences on exchange and other operating income and charges.
Customer Spread	This is the difference between the average rate that a bank pays for customer deposits and the average rate that it receives for customer loans.
Net interest income	Difference between financial income and financial costs. This is mainly the difference between what is received for loans and what is paid for deposits.

Net Operating Income	Ordinary income less operating expenses (staff expenses, other overhead and depreciation). It is the best reflection of the evolution of the bank's business.
SRM	Single Resolution Mechanism created by the EU to standardise decisions and actions relating to banking crises and the option of resorting to the Single Resolution Fund (SRF) in the event that bails-in prove insufficient in covering the costs of the process.
SSM	Single Supervisory Mechanism that guarantees standard supervision criteria for all institutions in the EU and the stability of the financial system as a whole.
Convertible Perpetual Debt	Hybrid debt and capital bonds, with perpetual maturity, as part of which coupon payments are contingent upon the attainment of distributable profit.
Expected Loss (EL)	The average amount that the Bank estimates will be lost in each operation. Calculated as the result of PD x LGD x EAD.
Phase-In/Fully Loaded	Phase-in is the transitory implementation period in which institutions may progressively adapt to full compliance with the requirements set out in CRR and CRD IV. On the other hand, Fully loaded is understood as the full application of this regulations (CRR, CRD IV).
Unexpected Loss (UL)	A variability measurement regarding portfolio losses, it represents potential unforeseen losses that must be covered with capital.
Price/Earnings	Proportion between the listed price for a share and the Diluted earnings per share. Conceptually, it expresses the value placed by the market on the company's capacity to generate profits.
Risk Premium	The higher yield that an investor requires from an asset for accepting higher risk compared with assets considered to be risk-free (generally government debt over the term of the investment is used as a reference).
Probability of Default (PD)	Defined as the probability, in percentage terms, that a contract or company will fail to meet its credit obligations and enter into default.
Credit Loss Provisions	Concept that includes both the amount of value adjustments due to reversible losses applied to short and long term loans, as well as the amounts used to cover losses that are expected to arise on the loans.
Basis Point	1/100 of one percent, i.e. 0.01%. Used to indicate changes in interest rates (basis points are added or subtracted from the rate of reference).
BIS ratio	Ratio that serves as an indicator of an institution's solvency, which measures the relationship between total shareholders' equity and total risk-weighted assets pursuant to CRR criteria.
CET1 ratio	Ratio between common equity Tier 1 capital and risk-weighted assets.
Loan to Deposits Ratio (LtD)	This ratio shows the relationship between financing granted to customers and resources gathered from customers.
Leverage ratio according to CRR	Ratio that serves to complement the solvency ratio linking Tier 1 resources to the institution's total exposure, calculated using CRR criteria.
Coverage Ratio	Proportion to which provisions cover the transactions classified as doubtful and in default.
Operating Efficiency Ratio	Ratio of operating expenses (staff expenses and other overhead)/gross income (all income obtained by the bank).
Non-Performing Loans Ratio	Ratio of the sum of doubtful transactions and defaults and balances subject to credit risk.
Tier 1 ratio	Ratio between total TIER 1 capital and risk-weighted assets.
Eligible Equity	This primarily consists of those equity items that may be immediately used without restriction to cover risks or losses as soon as they arise, and they are characterised by their stability and permanence over the long-term.
Average Equity	The arithmetical average over the past 12 months of own funds, excluding profits.

Total Tier 1 equity	First-class resources according to CRR criteria. Comprising ordinary tier 1 capital (CET1) and additional tier 1 capital (AT1), encompassing, for the large part, ordinary shares, reserves and subordinated perpetual securities, under certain conditions, net of the corresponding prudential filters and deductions.
Return on Assets (ROA)	The ratio of consolidated results/total average assets. This ratio indicates the yield that is being obtained on the bank's assets.
Return On Tangible Equity (ROTE)	The ratio of net profits attributable to the Group divided by tangible own funds. This ratio is a measure of the profitability obtained by shareholders in terms of the funds invested in the institution.
Return on Risk-Weighted Assets (RORWA)	Ratio of a Bank's net profit/average risk-weighted assets.
Contingent Exposures	Includes the accounts in which transactions are recorded for which the company has assumed credit risk that, depending on future events, may become direct loans and generate obligations with respect to third parties (off-balance sheet risks and guarantees).
Securitisation	Financial operation by means of which credit institutions, in addition to other companies, transform credit rights with the same characteristics, into fixed income securities that can be traded on capital markets.
Total Shareholders' Equity	Includes the Ordinary Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital (T2)

Annex 1

Alternative Performance Measures - APMs

(Alternative Performance Measures - APMs)

APM	Definition (1)	Accounting Information (2)	Management Information (3)	Section in the Annual Management Report (4)
MONITORING OF RESULTS	**The APMs in this section show the main income of the income statement.**			
Net Interest Income	Difference between financial income and financial costs. This is mainly the difference between what is received for loans and what is paid for deposits.	Accounting items of profit/(loss) Interest income; Interest expenses.		6
Gross income	Net interest income plus: net fees and commissions, dividends received for equity consolidated companies, results from net financial activities, differences on exchange and other operating income and charges.	Accounting items of profit/(loss) Net interest income; Dividend income; Fee and commission income; Fee and commission expenses; Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net; Gains or (-) losses on financial assets and liabilities held for trading, net; Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net; Gains or (-) losses on accounting hedges, net; Exchange differences (gain or (-) loss), net; Other operating income; (Other operating expenses); Income from assets under insurance and reinsurance contracts; (Expenses from liabilities under insurance and reinsurance contracts expenses).		6
Net operating income	Gross income less operating expenses (staff expenses, other overhead and depreciation). It is the best reflection of the evolution of the bank's business.	Accounting items of profit/(loss) Gross income, Staff expenses, Other administrative expenses, Amortisation and depreciation		6
PROFITABILITY AND EFFICIENCY	**The APMs in this section show the most representative measure of profitability and efficiency.**			
Average asset yield	It is the average yield of the asset and is calculated as the ratio between Interest Income and Average Total Assets.	Accounting items of profit/(loss): Interest income.	Average Total Assets: Average value of Accounting Assets at the end of the month, plus the average daily balance of Asset repurchases and Loans and receivables.	6
Return on Assets (ROA)	The ratio of consolidated results/total average assets. This ratio indicates the yield that is being obtained on the bank's assets.	Accounting items of profit/(loss): Profit or loss attributable to owners of the parent.	Average Total Assets: Average value of Accounting Assets at the end of the month, plus the average daily balance of Asset repurchases and Loans and receivables.	6

APM	Definition (1)	Accounting Information (2)	Management Information (3)	Section in the Annual Management Report (4)
Return on Risk-Weighted Assets (RORWA)	Ratio of a Bank's net profit/average risk-weighted assets.	Accounting items of profit/(loss): Profit or loss attributable to owners of the parent.	Total Risk-weighted Assets means: the sum of the bank's assets, weighted by the risk which each asset has according to the regulatory guidelines, calculated as the average of the reference period. (Regulation (EU) 575/2013, of the European Parliament and Council, 26 June 2013, about credit entity and investment Company credential requirements).	6
Return On Tangible Equity (ROTE)	The ratio of net profits attributable to the Group divided by tangible own funds. This ratio is a measure of the profitability obtained by shareholders in terms of the funds invested in the institution.	Accounting items of profit/(loss): Profit or loss attributable to owners of the parent.	Own Tangible Funds They result from reducing the Group's Own Funds by Goodwill and other intangibles with the same criteria used for the calculation of regulatory capital.	
Operating efficiency	Ratio of operating expenses (staff expenses and other overhead)/gross income (all income obtained by the bank).	Accounting items of profit/(loss) Administrative Expenses, Gross Income		6
Customer spread	This is the difference between the average rate that a bank charges for customer loans and the average rate that it pays for customer deposits.		Average Loans and Advances to Customers Rate: Annualised percentage between the accounting products of Loans and Advances to Customers in relation to the average balance of Loans and Advances to Customers. Average Customer Funds Rate: Annualised percentage between the accounting costs of Customer Funds in relation to the average balance of Customer Funds.	6
DETAILS PER SHARE	**The APMs in this section show information related to each share.**			
Share book value	It is obtained by dividing Own Funds by the final number of diluted shares and expressed in euros.	Accounting items of Balance sheet: Own Funds.	Final number of shares in circulation (diluted): number of shares in circulation during the year, adjusted to take the potential dilutive effect of options on shares, warrants and convertible debt in force at year-end into account, excluding the average number of treasury stock held throughout it.	11
Earnings per share	The diluted earnings per share is determined by dividing the net profit attributable to the Group from the year by the final number of diluted shares.	Accounting items of profit/(loss): Profit/(loss) for the year.	Final number of shares in circulation (diluted): number of shares in circulation during the year, adjusted to take the potential dilutive effect of options on shares, warrants and convertible debt in force at year-end into account, excluding the average number of treasury stock held throughout it.	6
Price / book value	It shows the relationship between market capitalisation and Own funds	Accounting items of Balance sheet: Own Funds.	Market capitalisation of the share, calculated on the shares in circulation.	
Diluted Earnings per Share	Earnings per share once certain dilutive assets such as options or convertible debt are executed and converted into common shares		(Earnings - Preferential Dividend), convertible preferential dividends and convertible debt by subtracting the tax rate deducted from it divided by the average number of shares and shares by conversion of assets	2
Cash dividend payment ratio	Percentage of the earnings used to pay dividends to shareholders. Financial institutions cannot go above a ratio of 40%		Dividends per share divided by earnings per share	11
RISK MANAGEMENT	**The APMs in this section show the main ratios in monitoring risks.**			
Non-Performing Assets Ratio	Ratio of the sum of the balances of doubtful assets plus the balance of doubtful contingent exposures divided by the total risks.	Accounting items of Balance sheet: Balances of doubtful assets and the balance of doubtful contingent exposures.	Total risks: balances of assets on the balance sheet plus the risks and contingent commitments subject to credit risk.	9
Coverage ratio of non-performing and non written-off assets	Proportion of provisions recorded with respect to the balance classified as doubtful assets plus the balance of doubtful contingent exposures. Does not include balances transferred to write-offs	Accounting items of profit/(loss): Credit loss provisions. Accounting items of Balance sheet: Total non-performing loans.		9
Coverage ratio of non-performing and written-off assets	Proportion of provisions recorded with respect to the balance classified as doubtful assets plus the balance of doubtful contingent exposures. Includes balances transferred to write-offs	Accounting items of profit/(loss): Credit loss provisions, including amortised risks, and Accounting items of Balance sheet: Total non-performing loans plus total amortised risk.		9
Coverage ratio with guarantees	Proportion of provisions recorded plus guarantees received with respect to the balance of doubtful assets plus the balance of doubtful contingent exposures.	Accounting items of profit/(loss): Credit loss provisions, including amortised risks, and Accounting items of Balance sheet: Total non-performing loans plus total amortised risk.	Total value of guarantees: balance which covers the doubtful risk balances and non-performing balances.	9
Property debt coverage ratio	The percentage of doubtful loans and foreclosed assets covered by provisions	Accounting items of Balance sheet: Balances of doubtful assets, balance of foreclosed assets on the balance sheet, balance of credit loss provisions and balance of provisions on foreclosed assets		2

APM	Definition (1)	Accounting Information (2)	Management Information (3)	Section in the Annual Management Report (4)
Coverage ratio of NPAs	The percentage of doubtful loans and foreclosed assets not generating income covered by provisions	Accounting items of Balance sheet: Balances of doubtful assets, balance of properties in the balance sheet except rented foreclosed assets, balance of credit loss provisions and balance of provisions on foreclosed assets not generating income		2
Loan to Deposits Ratio (LTD)	This ratio shows the relationship between financing granted to customers and resources gathered from customers.	Accounting items of Balance sheet: Loans and advances to customers excluding Asset repos.	Funds received from customers: customer funds excluding Asset repos and including other liabilities received through the branch office network.	9
FL CET 1 ratio	Ratio which measures the highest quality capital of a financial institution as a percentage of its risk-weighted assets to the capital requirements introduced by the CRD IV directive and CRR regulation.		Shareholders' equity considered to be of higher quality (Common Equity Tier 1 capital) to which are applied the deductions of the capital requirements introduced by the CRD IV directive and CRR regulation. Deductions are applied under the following concepts: - Negative amounts from the calculation of the amount of expected losses - Deferred tax assets on tax-loss carryforwards - Profit/(loss) on unrealised fixed income - Profit/(loss) on unrealised equity - Goodwill and other intangibles	8
Phased-in CET 1 ratio	Ratio which measures the highest quality capital of a financial institution as a percentage of its risk-weighted assets in accordance with the timetable for gradual application of the capital requirements introduced by the CRD IV directive and CRR regulation.		Shareholders' equity considered to be of higher quality (Common Equity Tier 1 capital) to which are applied the deductions in accordance with the timetable for gradual application of the capital requirements introduced by the CRD IV directive and CRR regulation. Deductions are applied, according to the timetable, under the following concepts: - Negative amounts from the calculation of the amount of expected losses - Deferred tax assets on tax-loss carryforwards - Profit/(loss) on unrealised fixed income - Profit/(loss) on unrealised equity - Goodwill and other intangibles	2, 8
Tier 2 ratio	Ratio which measures Tier 2 capital (Subordinated Issues, Preferentials, etc.) as a percentage of risk-weighted assets.			8
Leverage ratio according to CRR	Ratio which measures the ordinary capital of an entity as a percentage of its total assets in accordance with the capital requirements introduced by the CRD IV directive and CRR regulation.			2, 8
Coverage ratio of non-performing assets	Proportion of provisions recorded with respect to the balance classified as doubtful assets plus the balance of doubtful contingent exposures, including balances transferred to write-offs.			2
Liquidity Coverage Ratio	Amount of the bank's liquid assets as a percentage of its short-term obligations			9
Net Stable Funding Ratio	Amount of stable funding available as a percentage of the amount of stable funding required, a ratio which should be above 100%			
Loss Given Default (LGD)	Loss Given Default (LGD) is the ratio of the estimate of loss on an exposure due to the counterparty's default and the amount outstanding at the time of default.			

(1) Conceptual definition of APM and make up of the calculation variables.

(2) Variables which make up APMs whose accounting balances are reflected in the income statement and balance sheet.

(3) Variables which make up APMs whose balances are not directly reflected in the income statement and balance sheet.

(4) Section of the Annual Management Report which reflects the use of APMs in the entity's management.

Information and contact data for shareholders and customers

Shareholders and clients have numerous ways of getting in contact with Banco Popular in order to resolve any queries they may have.

In the Shareholders and Investors/Financial Information section of the corporate website, Banco Popular publishes its Management and Integrated Management Report, where all stakeholders can find relevant information on the entity; additionally, quarterly, it also publishes a report of the periodic results.

Popular contact details

GENERAL CONTACT
Tel 902 301 000
info@bancopopular.es
Monday to Friday 9 am to 9 pm

CUSTOMER SERVICE DEPARTMENT

Calle Núñez de Balboa 56, bajo A, 28001 Madrid
atencionaclientes@bancopopular.es

SHAREHOLDERS

C/ José Ortega y Gasset, 29. 28006 Madrid
Tel.: +34 91 520 72 65
Fax: +34 91 577 92 09
accionista@bancopopular.es

SHAREHOLDERS' OFFICE

Sara López Fernández
Director

Beatriz Gallego Pérez
Ruht Iturmendi Martínez
Maria Parente de Castro
Jorge Reina Juliá
Eduardo Villanueva Carrera

ANALYSTS AND INSTITUTIONAL INVESTORS

C/ José Ortega y Gasset, 29. 28006 Madrid
+34 91 657 55 96 / 91 520 72 62
ir@bancopopular.es

INVESTOR RELATIONS

Carlos Berastain Gonzalez
+34 91 748 63 43
cberastain@bancopopular.es
Director

María de Gea de Frutos
+34 91 657 55 96
mgea@bancopopular.es

Gonzalo López Eguiguren
+34 91 657 55 67
glopez@bancopopular.es

Álvaro Fernández-Garayzabal González
+34 91 520 75 40
afernandezg@bancopopular.es

Nieves Texeira Romero
+34 91 484 70 98
ntexeira@bancopopular.es

Pedro Landeras Cicero
+34 91 765 61 98
planderas@bancopopular.es

COMMUNICATION, BRAND AND CORPORATE RELATIONS DEPARTMENT

Carlos Balado García
Deputy General Manager
Director of Communication, Brand and Corporate Relations

COMMUNICATIONS MANAGEMENT TEAM

Victoria González Ceregido
Communications Director
mvgonzalezc@bancopopular.es

Mar Delgado Clemente
External Communication Manager
mmdelgado@bancopopular.es

Rafael Fernanz Andújar
Director of Internal Communications
rfernanz@bancopopular.es

Eva Fernández Novoa
Protocol and Corporate Forums Manager
evfernandez@bancopopular.es

Enrique Díaz García
Media Officer
ediaz@bancopopular.es

Mario Iniesta Mateo de Domingo
Digital Communication Officer
miniesta@bancopopular.es

CORPORATE RELATIONS MANAGEMENT TEAM

Eloy Écija Gálvez
Corporate Relations Director
eecija@bancopopular.es

BRAND, POSITIONING AND REPUTATION MANAGEMENT TEAM

Javier Fernández Arrieta
Brand, Positioning and Reputation Director
jafernandez@bancopopular.es

Annual Corporate Governance Report

A. Ownership structure

A.1 Complete the following table about the Bank's share capital:

Date of last change	Share capital (euros)	Number of shares	Number of voting rights
21-06-2016	2,098,429,046	4,196,858,092	4,196,858,092

Please indicate whether there are different classes of shares with different rights associated with them:

NO

A.2 Indicate direct and indirect owners of significant stakes and their stakes at year-end, excluding directors:

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the stake	Number of voting rights	
Blackrock Inc.	0	Various	186,229,656	4.437 (*)
Silchester International Investor LLP	0	Various	66,114,492	3.054 (*)

(*) According to information provided by shareholders themselves and on public record with the CNMV (National Securities Market Commission).

Indicate the most significant changes in the ownership structure during the year:

Name or company name of shareholder	Transaction date	Description of the transaction

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights through shares in the company:

Name or company name of Director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct owner of the stake	Number of voting rights	
Aparicio, Francisco	665,529	Fco. Aparicio y Cía	485,630	0.027
Arias, José María	237,321	-	-	0.006
Banque Fédérative du Crédit Mutuel	165,859,985	-	-	3.952
Calderón, Reyes	7,146	-	-	0.000
Estevez, José Ramón	45,718	-	-	0.001
Larena, Pedro	100,100	-	-	0.002
Higuera, Roberto	200,876	-	-	0.005
Molins, Ana María	1,732	-	-	0.000
Oroviogoicoechea, Jorge	5,648	-	-	0.000
Pérez, Vicente	200	-	-	0.000
Revoredo, Helena	0	Gubel, S.L.	2,594,557	0.062
Ron, Ángel	208,455	-	-	0.005
Ruiz, Jaime	170,852	-	-	0.004
Sindicatura de Accionistas de BPE	25,677,000	Plurality of individual investors	375,218,312	9.552
Tardío, Vicente	28,377	-	-	0.001
Total (direct and indirect)	193,208,939		378,298,499	13.618
Shares represented (1)				(1) 7.331
Total shares				20.948

(1) Shares represented: Include the 4.281% of the group of Mexican shareholders, represented by Mr. Jaime Ruiz, and 3.050% by the Allianz group, represented by Mr. Vicente Tardío.

% of Total voting rights held by the board of directors 20.948 (*)

Include the 4.281% of a group of Mexican shareholders, represented by Mr. Jaime Ruiz, and 3.050% by the Allianz group, represented by Mr. Vicente Tardío.

Complete the following tables regarding the members of the company's Board of Directors who hold rights over the company's shares:

Name or company name of Director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct owner	Number of voting rights		

A.4 Describe, where applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, to the extent that the company has knowledge of them, unless they are insignificant or stem from ordinary business operations.

Name or company name of related party	Type of relationship	Brief description

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, unless they are insignificant or stem from ordinary business operations:

Name or company name of related party	Type of relationship	Brief description
Popular de Mediación, S.A. (wholly-owned subsidiary of BPE) and Allianz Popular	Contractual	Marketing of Allianz's general insurance policies through Banco Popular.
Banco Popular - Allianz	Contractual	Outsourcing of pension commitments in respect of serving and retired personnel.
Banco Popular Group - Allianz Popular	Contractual	Outsourcing of pension commitments in respect of serving and retired personnel.
Allianz Popular	Corporate	Allianz Popular Vida, S.A.U., Cía. Seguros y Reaseguros, which sells life insurance, is owned by Allianz (60%) and Banco Popular (40%); Allianz Popular Pensiones, SGFP, S.A.U., a pension fund manager, is owned by Allianz (60%) and Banco Popular (40%) and Allianz Popular Asset Management, SGIIC, S.A., an investment fund manager, is owned by Allianz (60%) and Banco Popular (40%).
Banco Popular - Banque Fédérative du Crédit Mutuel	Corporate	Targobank, both shareholders having equal shareholdings of 49-51%; this entity's business is focused on private individuals and SMEs.

A.6 Indicate whether the company has been notified of any shareholders' agreements affecting it in accordance with Articles 530 and 531 of the Spanish Corporate Enterprises Act. If so, briefly describe the agreements and the shareholders bound by the agreement

Yes

Parties to the shareholders' agreement	% of share capital affected	Brief description of the agreement
Plurality of minority shareholders (3,425 as at 31.12.2016)	9.552%	This is a gentlemen's agreement whereby the syndicated shareholders are bound for such time as they freely decide.

Indicate whether the company is aware of any concerted actions among its shareholders. If so, give a brief description:

NO

Parties involved in the concerted action	% of share capital affected	Brief description of the concert
-	-	-

Specifically indicate any amendments to, or terminations of such agreements or accords or concerted actions during the year:

A.7 Indicate whether any natural or legal person currently exercises or could exercise control over the company in accordance with Article 4 of the Securities Market Act. If so, identify this person:

NO

Name or company name	Comments
-	-

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

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
118,522,429	37,793	2.825

(*) Through:

Name or company name of direct owner of stake	Number of direct shares
Popular Banca Privada, S.A.	37,793
Total	**37,793**

Explain the significant changes in the year in accordance with the provisions of Royal Decree 1362/2007:

Date of disclosure	Total number of direct shares acquired	Total number of indirect shares acquired	Total % of share capital
27/01/2016	17,340,242	171,601	0.805
22/03/2016	14,123.971	171,601	0.652
19/05/2016	32,153,553	174,268	1.475
22/06/2016	50,487,308	0	1.203
17/08/2016	92,389,773	17,765	2.202

A.9 Detail the conditions and the period(s) of the current authorisation granted by the Shareholders' Meeting to the Board of Directors for the issue, purchase or sale of treasury shares.

The General Shareholders' Meeting held on 7 April 2014 authorised the Bank's Board of Directors to acquire treasury shares, in the forms permitted by Law, subject to the limits and requirements indicated below:

* The nominal value of the shares acquired, added to those already held by the Bank and its subsidiaries, may not at any time exceed ten percent of the Bank's share capital.

* The acquisition, including such shares as the Company, or person acting in his/her/its own name but on behalf of the Company, may have acquired previously and may hold, must not result in equity being less than the amount of share capital plus the legal or statutorily restricted reserves.

* A restricted reserve equivalent to the amount of the Company's treasury shares recognised under assets can be established in equity. This reserve must be maintained until the shares are sold or redeemed.

* All shares thus acquired must be fully paid up.

* The purchase price may not be less than the nominal value or more than 20% higher than the listed value of the share on the stock market on the acquisition date.

The Board of Directors is further authorised to dispose of the treasury stock acquired or which may be acquired in the future and to amortise such treasury stock against shareholders' equity, reducing the share capital and amending the Articles of Association accordingly, in the amounts considered appropriate or necessary at any given time, up to the maximum limit of treasury shares established at any given time, in one or more transactions but within the maximum legal period of five years from the date of the General Meeting.

Also, for the purposes of the provisions of the last paragraph of section a) of Article 146.1 of the Corporate Enterprises Act, the shares acquired by the Company or its subsidiaries under this authorisation can be allocated entirely or in part to employees or directors of the Company or its subsidiaries, either directly or as a result of the exercise of option rights by those who own them.

The Ordinary General Meeting of 11 April 2016 adopted the following resolution, under point 5 of the agenda:

To authorise the Board of Directors to agree, in accordance with the provisions of Articles 297.1.b) and 506 of the Corporate Enterprises Act and with the terms of Article 311.1 of the same law, to one or more share capital increases, at such times and in such amounts as it sees fit, in accordance with the following conditions:

1. Period. The share capital may be increased one or more times within three years of the date of this resolution.

2. Maximum amount. The total amount of the capital increase(s) carried out under the terms of this authorisation may not exceed one-half of the share capital at the time of the authorisation and must be carried out by means of cash contributions.

3. Scope. The authorisation to increase the share capital shall extend, as broadly as may be required in law, to the setting and determining of the conditions inherent in each capital increase carried out under this resolution and to the performance of any and all such actions as may be necessary in order to obtain such authorisations as may be required by legal provisions in force.

   The powers of the Board of Directors with respect to each share capital increase shall include, but are not limited to, determining the amount and date, number of shares to be issued, whether the capital increase is to be carried out by increasing the par value of the existing shares or by issuing new, ordinary, or preferred, or redeemable shares, with or without premium, with or without voting rights, according to the classes and types allowed by law and by the Articles of Association.

   The Board of Directors is also authorised to exclude preferred subscription rights in whole or in part, in accordance with the provisions of Article 506 of the Corporate Enterprises Act, , although this power is limited to capital increases carried out under this delegation of powers, up to a maximum of 20% of the Bank's share capital at the time of the passing of this resolution by the Shareholders' Meeting.

4. Incomplete increase. In accordance with the terms of Article 311.1 of the Corporate Enterprises Act, to declare the subscription to the capital increase incomplete and to increase the capital only by the actual amount of the subscriptions, notifying the National Securities Market Commission (Comisión Nacional del Mercado de Valores) of this as necessary, pursuant to the terms of Article 507 of the Corporate Enterprises Act.

5. Amendment of the Articles of Association. By virtue of this authorisation, the Board of Directors is also empowered to redraft the Article of the Articles of Association relating to the share capital, once the capital increase has been agreed and carried out.

6. Admission to trading. To request that the new shares issued by virtue of this resolution be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges via the Stock Market Interconnection System, and on any other stock exchanges where the shares are traded.

   Likewise, to authorise the Board of Directors, which may in turn delegate to the Delegated Committee or the persons of its choosing, in such broad and sufficient terms as may be required in law, to request and obtain admission of the new shares issued under this resolution to trading on the stock exchanges where the Bank's shares are listed at the time of each capital increase through the Stock Market Interconnection System or the pertinent system in each case, drafting, presenting and executing any and all documents and taking any and all such steps as may be necessary to that end.

   For the purposes of the provisions of Article 27 b) of the Stock Exchange Regulations as approved by Decree 1506/1967 of 30 June, it is expressly declared that the company is subject to the rules that exist now or might be enacted in the future with regard to the Stock Exchange, and particularly with regard to initial and ongoing listing and possible delisting. It is further stated explicitly that, in the event that a request were to be made subsequently for the Bank's shares to be delisted, such delisting would be carried out with the same formalities as referred to in said Article, and in such case the interests of shareholders opposing or not voting on the resolution would be assured, complying with the requirements established in the Corporate Enterprises Act and concordant provisions, all in accordance with the terms of the aforementioned Stock Exchange Regulations, the Securities Market Act and any related provisions.

7. Delegation of powers. The Board of Directors is authorised to delegate its powers under this resolution to the Delegated Committee in accordance with the terms of Article 249.2 of the Corporate Enterprises Act.

8. Revocation of previous delegation. Once this resolution is passed, the Sixth resolution passed by the Ordinary General Shareholders' Meeting of 07 April 2014 shall be revoked.

A.9a Estimated floating capital;

Yes

	%
Estimated floating capital	79.052%

A.10 Indicate whether there are any restrictions on the transfer of shares and/or any restrictions on voting rights. In particular, indicate the existence of any type of restriction that could obstruct a takeover of the company by acquiring its shares on the market.

NO

Description of the restrictions

Articles 17 and 21 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions establishes a procedure for prior reporting to Banco de España of the acquisition or transfer of a significant holding in a Spanish credit institution or an increase or decrease in such holding in excess of the percentages of capital indicated. Banco de España has a maximum period of sixty business days from the date of its being notified in which to oppose, if appropriate, the intended acquisition.

A.11 Indicate whether the Shareholders' Meeting has adopted any measures to neutralise any public acquisition offer in accordance with the provisions of Law 6/2007.

NO

If so, explain the measures approved and the terms in which the restrictions would become ineffective:

A.12 State whether the company has issued securities that are not traded on a regulated EU market

The Bank's shares have been listed on the Mexican Stock Exchange (SIC) since 18 January 2013.

Where applicable, indicate the different classes of shares and, for each class, the rights conferred and obligations imposed.

B. General Shareholders' Meeting

B.1 Indicate whether there are any differences with the minimums provided by the Corporate Enterprises Act regarding the quorum for constituting the General Shareholders' Meeting, and if so provide details

NO

Description of the differences

B.2 State whether there are any differences with the system established by the Corporate Enterprises Act for adopting resolutions, and if so, provide details.

NO

Describe how they differ from the system envisaged in the Corporate Enterprises Act.

Describe the differences

B.3 Indicate the rules for amending the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules in place to protect shareholders' rights when the Articles of Association are amended.

The system of majorities for constituting a shareholders' meeting and passing resolutions to amend the Articles of Association, as set forth in Article 21 of the Articles of Association, is the same as that provided by law.

B.4 Indicate the attendance figures for the general shareholders' meetings held in the year to which this report refers and in the previous year:

		Attendance figures			
Date of General Shareholders' Meeting	% attending in person	% represented by proxy	% voting remotely		Total
			Electronic voting	Other	
11-04-2016	1.01	61.15	0.12	1.07	63.36
13-04-2015	6.82	48.46	0.12	4.55	59.95

B.5. State whether there is any restriction in the Articles of Association establishing a minimum number of shares required in order to attend the General Shareholders' Meeting.

Yes

Number of shares required to attend the General Shareholders' Meeting 200

B.6. Revoked

B.7 Give the address of the corporate website where the corporate governance material and other information about the general shareholders' meetings that must be made available to the shareholders can be found and how it can be accessed.

The information is available on the corporate website at www.grupobancopopular.com

C. Governance structure of the company

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors as per the Articles of Association:

Maximum number of directors	15
Minimum number of directors	12

C.1.2 Complete the following table with the members of the Board (*):

Name or company name of Director	Representative	Director category	Board position	Date first appointed	Date last appointed	Election procedure
Aparicio, Francisco		Executive	Secretary	18-12-2003	11-04-2016	General Shareholders' Meeting
Arias, José María		Other external	Deputy chairman	11-06-2012	11-04-2016	General Shareholders' Meeting
Banque Fédérative du Crédit Mutuel	François Martin	Proprietary	Director	13-04-2015	11-04-2016	General Shareholders' Meeting
Calderón, Reyes		Independent	Director	11-04-2016	11-04-2016	General Shareholders' Meeting
Estevez, José Ramón		Independent	Director	11-04-2016	11-04-2016	General Shareholders' Meeting
Higuera, Roberto		Independent	Deputy chairman	30-05-2008	07-04-2014	General Shareholders' Meeting
Larena, Pedro		Executive	CEO	27-07-2016	27-07-2016	Board of Directors
Molins, Ana María		Independent	Director	28-04-2011	20-12-2011	General Shareholders' Meeting
Oroviogoicoechea, Jorge		Independent	Director	30-01-2013	10-06-2013	General Shareholders' Meeting
Pérez. Vicente		Independent	Director	11-04-2016	11-04-2016	General Shareholders' Meeting
Revoredo, Helena		Independent	Director	30-05-2007	11-04-2016	General Shareholders' Meeting
Ron, Ángel		Executive	Chairman	Director 14-03-2002	07-04-2014	General Shareholders' Meeting
				Chairman 19-10-2004		
Ruiz, Jaime		Proprietary	Director	28-09-2016	28-09-2016	Board of Directors
Sindicatura de Accionistas de BPE	Miguel Angel de Solís	Proprietary	Director	28-06-1988	11-04-2016	General Shareholders' Meeting
Tardío, Vicente		Proprietary	Director	19-12-2007	07-04-2014	General Shareholders' Meeting

Total number of directors	15

Indicate any Directors who left the Board during the year:

Name or company name of Director	Director's status at time of resignation or removal	Date of exit
Fundación Barrié	Proprietary	23-02-2016
Luis Herrando Prat de la Riba	Independent	11-04-2016
Francisco Gómez Martín	Executive	27-07-2016
Antonio del Valle Ruiz	Proprietary	28-09-2016

C.1.3 Complete the following tables about Board members and their various statuses:

EXECUTIVE DIRECTORS

Name or company name of Director	Committee that proposed the appointment	Position in the company's organisational structure
Ron, Ángel	Appointments, Governance and Corporate Responsibility Committee	Chairman
Larena, Pedro	Appointments, Governance and Corporate Responsibility Committee	CEO
Aparicio, Francisco	Appointments, Governance and Corporate Responsibility Committee	Secretary

Total number of executive directors	3
% of Board members	21%

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of Director	Name or company name of the significant shareholder who is represented or who proposed the appointment
Banque Fédérative du Crédit Mutuel (Represented by François Martin)	Crédit Mutuel
Sindicatura de Accionistas de BPE (Represented by Miguel Angel de Solís)	Sindicatura de Accionistas de BPE
Tardío, Vicente	Allianz Group
Ruiz, Jaime	Group of Mexican Investors

Total number of proprietary directors	4
% of Board members	26%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Calderón, Reyes	She has a PhD in Philosophy and Economics from the University of Navarre. She has taken Leadership, Public Administration and Senior Business Management (PADE) Courses at the IESE Business School. She has a long track record as a lecturer at the University of Valladolid and at the University of Navarre, where she was Dean of the Faculty of Economics and Business Studies from 2008 to 2014, as well as Director of the Centre for Banking Studies from 2009 to 2014. She has been a Visiting Lecturer at the University College of London, the University of Berkeley (California) and the Sorbonne (Paris). In recent years, she has headed up numerous analysis and economic research projects and has published articles and monographs on subjects in her area of interest and expertise: corporate governance, business ethics, codes of good governance, transparency and reputational crises.
Estevez, José Ramón	He has a diploma in Economics and Business Studies from the University of Cádiz, in the Senior Business Management Programme (AD-1), and in the Senior Management of Agricultural Enterprises Programme at Instituto Internacional San Telmo (IIST). He has wide-ranging experience as a business manager. During his professional career, he has also held positions of high responsibility, complexity and competencies in a variety of sectors: Deputy chairman and member of the Executive Committee of the Chamber of Commerce, Industry and Navigation of Jerez de la Frontera; Chairman of the Industry and Environment Committee; member of the Foreign Trade Commission; member of the Association of Breeders and Exporters of Jerez (ACES); and member of the Federation of Jerez Wineries (FEDEJEREZ), member of the Regulatory Board of DO Jerez-Xerez-Sherry and Manzanilla de Sanlúcar and member of the Regulatory Council of DO Brandy de Jerez.
Higuera, Roberto	Vice-chairman of the Board. Aeronautical Engineer. His professional career has mainly been in Banco Popular where he held the positions of, among others, Director of International Activities, General Manager of Banco Popular Hipotecario and General Finance Director. In May 2008, he was appointed Vice-chairman and in September 2008, Chief Executive Officer, a position he held until June 26, 2009.
Molins, Ana María	Degree in Law. She has been a practising lawyer since 1972, advising businesses, mainly family-owned ones. Secretary to the Boards of Trustees of various foundations and non-profit organisations. Legal Adviser and Secretary to the Board of Directors of various companies.
Oroviogoicoechea, Jorge	Businessman. He has occupied a variety of executive and corporate posts in the business world. He has been the Managing Director of the Boyaca Group since 2002.
Pérez, Vicente	He has a degree in Economics and Business Administration from Universidad Complutense de Madrid and is an Insurance Actuary. He has taught BtoB Marketing at ICADE, given courses as the Garrigues School of Finance, and published numerous articles on matters related to finance, insurance and human resources. He was a finalist at the 3rd Juan Carlos I awards for Economics. He has extensive professional experience in the areas of finance, insurance and human resources. He has worked as Collective Life and Pensions Manager for UNIBER (Zurich group), Director General of Aserplan, Director General of Gestemar Pensiones (March group), director of Ibercaja Gestión, Director General of Plus Ultra (AVIVA group), Worldwide Partner of Mercer Consulting (MMC company), the world leader in human resources and social insurance systems consulting, head for Southern Europe (Italy, Spain and Portugal) for Mercer Consulting.
Revoredo, Helena	She holds a degree in Business Administration from Universidad Católica de Buenos Aires and a PADE masters from IESE in Madrid. She has been Chairwoman of the Security Company Prosegur and of Euroforum since 2004 and a member of the International Consultative Committee at IESE since 2006. Additionally, since its inception in 1997, she has been Chairwoman of the Prosegur Foundation. Between 1997 and 2004, she was the Vice chairwoman of Prosegur and a member of the Executive Board at the Family Business Institute, and between 2002 and 2005, Chairwoman of Adefam (Madrid Association for Family Business Development) and a Director of Telecinco. She has been a Director of Endesa Energia since November 2014.

Total number of external independent directors	7
% of Board members	47%

State whether any director classified as independent receives from the company or its group any payment or benefit for anything other than director's remuneration or has or has had during the past financial year a business relationship with the company or any member of its group, whether in his own name or as a significant shareholder, director or senior manager of an entity that has or has had such a relationship.

NO

If so, provide an explanation from the Board giving the reasons why it believes the director is able to perform his functions as an independent director.

OTHER EXTERNAL DIRECTORS

Other external directors shall be identified and it shall be stated why these directors cannot be considered proprietary or independent, and any relations between them and the company, its executives or its shareholders indicated:

Name or company name of Director	Reasons	Company, executive or shareholder with which he/she is related
Arias, José María	He has ceased to comply with the requirements established in Article 529k(2) of the Spanish Corporate Enterprises Act to continue as a proprietary director	Fundación Barrié

Total Number of Other External Directors	1
% of Board members	6%

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

Name or company name of Director	Date of change	Previous category	Current category
Arias, José María	23-04-2016	Proprietary	Other External

C.1.4 Complete the following table with the information relating to the number of female directors during the last four years and the statuses of such female directors:

	Number of female directors				% of total directors in each category			
	2016	2015	2014	2013	2016	2015	2014	2013
Executive	0	0	0	0	0.00	0.00	0.00	0.00
Proprietary	0	1	1	1	0.00	16.66	14	12.50
Independent	3	2	2	2	43	40	40	40
Other external	0	0	0	0	0.00	0.00	0.00	0.00
Total	3	3	3	3	20	21.42	20	17.64

C.1.5 Explain any measures implemented to include a sufficient number of women on the board of directors to achieve an even balance of men and women.

Explanation of measures

Article 14.5 of the Board Regulations stipulates that the Appointments, Governance and Corporate Responsibility Committee must ensure that selection procedures to fill vacancies are not biased in such a way as to impede the selection of female directors, and that the company must deliberately seek women with the right professional profile and include them among potential candidates.

Helena Revoredo was appointed a Director in 2007; Ana María Molins was appointed a Director in 2011, and in 2016 Reyes Calderón Cuadrado was appointed a Director and Independent Director.

Furthermore, the Board of Directors, at the proposal of the Appointments, Governance and Corporate Responsibility Committee, has passed a Director Selection Policy that includes a Diversity Policy, which (i) upholds an objective regarding representation of the under-represented gender on the Board and (ii) establishes guidelines regarding how to increase the number of individuals from said under-represented gender. Thus, the purpose of said Policies is to ensure that the composition of the Board of Directors does not solely promote the diversity of experience and knowledge, but that it also encourages gender diversity.

Currently, female Directors account for 20% of all Board Members; this percentage is higher than the Spanish average.

C.1.6 Explain any measures agreed on by the Appointments Committee to ensure that selection procedures to fill vacancies are not biased in such a way as to impede the selection of female directors, and that the company deliberately seeks women with the right professional profile and includes them among potential candidates:

Explanation of measures

The selection procedure for Directors established by Banco Popular is not affected by implicit bias that prevents the inclusion of women on the Board of Directors; this is expressly reflected in the Director Selection Policy approved by the Board of Directors. Said Policy also expressly addresses the objective of obtaining female representation on the Board of Directors of at least 30% by 2020.

The Appointments, Governance and Corporate Responsibility Committee assists the Board in its functions relating to the appointment and re-election of Directors, and is required to oversee the integrity of the Director selection process, ensuring that candidates' profiles are suited to the vacancy in question and that they have an honourable commercial and professional reputation, as well as having the professional knowledge and experience necessary for the performance of their functions.

This Committee evaluates the knowledge and experience of Directors and defines the duties and aptitudes that are necessary for candidates, evaluates the time and dedication necessary for the tasks to be successfully discharged and ensures that the procedures established for the selection process do not have any implicit bias that could hinder the selection of women Directors and that the Bank deliberately seeks women with the right professional profile and includes them among potential candidates.

If in spite of the measures taken, if any, there are few or no women Directors, explain the reasons for this:

Explanation of the reasons

Not applicable.

C.1.6a Explain the conclusions of the Appointments Committee regarding the verification of compliance with the Director selection policy. In particular, how said policy promotes the objective of female Directors accounting for at least 30% of all Board Members by 2020.

The Director Selection Policy establishes that the appointment of Directors must satisfy the criteria and procedures set out in the Director Selection Policy, based on all proposals for appointment and re-election as part of a prior analysis of the Board's needs and in compliance with the objectives of ensuring diversity in terms of experience, professional abilities, knowledge and gender diversity set by the Entity.

The Appointments, Governance and Corporate Responsibility Committee has verified that during 2016 the policy of selecting directors has been fulfilled in the appointments and re-elections of directors that have occurred throughout the year.

As part of the selection and assessment of Board Members, gender diversity is actively promoted and favourably regarded, given that this collective is under-represented on the Board. The Entity is committed to gender diversity as a tool with which to more efficiently harness human resources at the Bank, with the aim of contributing to the promotion of equal opportunities and thus operating in a socially responsible way. It is on this basis that over the past three years, Banco Popular has increased its number of female Directors, with a view this number accounting for at least 30% of all Board Members by 2020.

C.1.7 Explain how significant shareholders are represented on the Board.

See sections A.2 and C.1.2 of this report.

C.1.8 If any proprietary directors have been appointed at the request of shareholders with less than a 5% stake in the share capital, explain the reasons for this.

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others at whose request proprietary directors have been appointed. Detail the reasons for any such rejection.

NO

C.1.9 State whether any Director has left the position before the end of his term of office, whether the Director provided an explanation to the Board and if so by what means, and, in the event this was done in writing to the entire Board, explain at least the reasons he gave:

Yes

Name of Director	Reason for leaving
Francisco Gómez	Removed from the office of CEO
Fundación Barrié	Reduction of Proprietary Directors
Antonio del Valle	Replaced by Mr. Jaime Ruiz, at his request
Luis Herrando Prat de la Riba	Aged almost 75 years and more than 12 years as Independent Director

C.1.10 State the powers, if any, delegated to directors:

Name or company name of Director	Brief description
Ron Güimil, Angel	Broad powers of representation and administration befitting his position as Chairman
Larena Landeta, Pedro	Broad powers of representation and administration befitting his position as Chief Executive Officer

C.1.11 List the Board members, if any, that are directors or executives of other companies included in the group of the listed company:

Name or company name of Director	Name of Group entity	Position	Exercises executive functions
Arias, José María	Banco Pastor, S.A.	Chairman	No
Aparicio, Francisco	Banco Pastor, S.A. Popular Banca Privada, S.A. Grupo Financiero Bx+, S.A. Banco Bx+, S.A.	Deputy chairman Director Director Director	No No No No
Higuera, Roberto	Popular de Mediación, S.A. Wizink Bank, S.A.	Chairman Director	No No

C.1.12 Indicate any Directors of your company who are members of the Board of Directors of other non-group companies listed on the official stock exchanges in Spain, as reported to the company:

Name or company name of Director	Name of listed company	Position
Molins, Ana María	Cementos Molins, S.A.	Director
Revoredo, Helena	Prosegur, S.A. Mediaset España Comunicación, S.A. Endesa Energia, S.A.	Chairwoman Director Director
Calderón, Reyes	OHL	Director

C.1.13 State and, if appropriate, explain whether the Bank has established rules regarding the number of Boards to which its Directors may belong:

Yes

Explanation of the rules

The Appointments, Governance and Corporate Responsibility Committee, in accordance with Article 25.4 of the Board Regulations, verifies compliance with the internal rules that have been established regarding the number of Boards to which Directors may belong, which are those established by Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, as provided in Article 18.2 of the Board Regulations.

In addition, as stipulated in that Article of the Board Regulations, during the time the post is held a director may not accept any appointment as Director or Executive of another Bank, Investment Services Undertaking, Insurance Company or any other financial institution without the express and prior authorisation of the Board of Directors in plenary session, when such entity carries on its activities, in whole or in part, within the area in which Banco Popular or its subsidiaries operate

C.1.14. Revoked

C.1.15 State the total compensation of the Board of Directors:

Board of Directors' Compensation (thousands of euros)	6,888 (*)
Portion of directors' current cumulative pension rights (thousands of euros)	38,535
Portion of directors' old cumulative pension rights (thousands of euros)	53,448 (**)

(*) This amount includes the remuneration of the previous CEO, Mr. Francisco Gómez Martín, during the months of 2016 in which he held this position amounting to a total of 700 thousand euros (610 thousand euros fixed remuneration and 90 thousand euros an remuneration for his position as director), and the amount of 1,145 thousand euros he received in compensation for the termination of his employment as well as the remunerations received by former Directors Mr. Antonio del Valle, Mr. Luis Herrando Prat de la Riba and Fundación Barrié for the months of 2016 in which they held their positions which amounted to 90, 60 and 30 thousand euros respectively.

(**) This amount includes the accumulated funds corresponding to Mr. Francisco Gómez Martín.

C.1.16 List the members of senior management who are not executive directors and show the total remuneration earned by them during the year:

Name or company name	Position
Rafael Muñoz Bellido	Business Management
Carlos Balado García	Communication, Brand and Corporate Relations Management
Miguel Angel Moral Grací	Technical General Secretary
Isabel Moreno Ayuso	Management of Department of Information and Analysis
Javier Moreno Navarro	Finance Management
Alberto Muñoz Fernández	Resources Management
Fernando Rodríguez Baquero	Digital Transformation Management
Carmen Riveras Sierra	Risk Directorate
Francisco Sancha Bermejo	Real Estate Business and Asset Transformation Management
Juan José Rubio Fernández	Specialised Business Management

Total remuneration of senior management (in thousands of euros)	2,879

C.1.17 State the names of any Board members who are also Board members of companies owned by significant shareholders and/or their Group companies:

Name or company name of Director	Name of the significant shareholder	Position
Arias, José María	Fundación Barrié	Chairman of the Foundation
Tardío, Vicente	Allianz, S.E.	Chairman of Allianz, S.A., Cía. Seguros y Reaseguros Chairman of Compañía de Seguros Allianz Portugal, S.A. Director at Banco Portugués do Investimento, S.A.

List any significant relationships, other than those addressed in the previous section, of Board members linking them with significant shareholders and/or their group companies:

Name or company name of related party director	Name or company name of related party significant shareholder	Description of the relationship

C.1.18 Indicate whether any amendments have been made to the Board Regulations during the year:

Yes

Description of amendments

During the financial year 2016, the following articles of the Board Regulations were amended: Articles 3, 5, 6, 7, 9, 11, 14, 15, 16, 17, 18, 20, 22, 24 and 25. This includes the change of name of the Appointments Committee, which will henceforth be renamed the Appointments, Governance and Corporate Responsibility Committee, and the amendment of the Articles relating to the Independent Director and the Board Committees to adapt them to good governance recommendations and current regulations.

Likewise, the Board Regulations, which include the principles of action and the rules of internal procedure and functioning of the Board of Directors of Banco Popular Español, S.A. and of its Committees, are amended. In addition, the rules of conduct of its members and its supervision and control regime are regulated in order to ensure optimum management of the Bank and the other investees. Articles 5, 24, 25 and 26 shall be amended.

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing Directors. List the competent bodies, the procedures to be followed and the criteria to be employed within each procedure.

The procedures for the selection, appointment, re-election, evaluation and dismissal of Directors are regulated in detail in the Articles of Association, the Board Regulations and the Director Selection Policy.

Appointment

The Appointment of Directors and the determination of their number, in accordance with the Articles of Association, lies with the General Shareholders' Meeting, thus ensuring due representation of shareholders and efficient functioning.

If any vacancy arises during the term for which Directors were appointed, the Board may co-opt the person(s) who will occupy the post(s) until the next General Shareholders' Meeting is held.

Furthermore, the full Board of Directors reserves to itself the power to approve the appointment of the Bank's CEO.

Proposals for the appointment and re-election of Directors which are submitted by the Board of Directors for consideration by the shareholders at the General Shareholders' Meeting, and appointments of Directors made by co-option, must concern individuals who, in addition to meeting legal requirements and those of the Articles of Association for the position, also have prestige and an honourable commercial and professional reputation, as well as the professional knowledge and experience necessary for the performance of their functions and willingness to exercise good governance at the Entity.

Selection and appointment procedure

The Appointments, Governance and Corporate Responsibility Committee is the competent body for revising the criteria that must be applied with respect to the composition of the Board of Directors and the selection of candidates. In this respect, it must evaluate the skills, knowledge and experience necessary on the Board and define the necessary duties and aptitudes for candidates that cover each vacancy, while bearing in mind the time and dedication that are necessary to perform the role appropriately.

As part of the selection of candidates for the Board, the needs of the Bank will be assessed, and prior to the submission of candidates by the Appointments, Governance and Corporate Responsibility Committee, an initial assessment process will always be carried out, culminating in the production and dissemination of an Initial Assessment Report. This Report will contain an independent analysis based on the experience, knowledge, suitability and availability of the candidate to assume the role of director. Therefore, the Report will identify three preferred areas for the acquisition, maintenance and strengthening of knowledge, considering the individual needs of the candidate in question, the needs of the Bank and trends in the field of innovation in banking and financial spheres.

Board Members are obliged to inform the Bank of any fact arising as part of their appointment that affects or may affect the assessment of their individual aptitude and suitability; in such an event, the Committee will perform a new assessment of the Director in question.

The appointment and re-election of Directors conforms to a formal and transparent procedure. Proposals to appoint or re-elect Directors made by the Board of Directors at the General Shareholders' Meeting, as well as the appointment of Directors through co-option, must be covered by a prior proposal from the Appointments, Governance and Corporate Responsibility Committee, in the case of independent Directors, or a report from that Committee in the case of all other Directors. The Appointments, Governance and Corporate Responsibility Committee ensures that when new vacancies arise:
a) The selection process has no implicit bias against female Candidates;
b) The company deliberately seeks women with the right professional profile and includes them among potential Candidates.

In the appointments procedure, the candidate's circumstances, experience and skills are taken into consideration, as is the executive or external, independent or proprietary nature of the Director to be appointed.

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

Also, the Board shall endeavour to ensure that the directors as a whole represent a significant percentage of the share capital.

Term of office, re-election and evaluation

The director's term of office is four (4) years. At the end of this term, Directors may be re-elected for one or more periods of the same maximum duration, subject to a proposal by the Appointments, Governance and Corporate Responsibility Committee, in which it evaluates the work done by the Director and his or her effective commitment to the position during the last term of office.

On 26 June 2013, the Board of Directors of the Entity approved the Policy to assess the suitability of members of the Board of Directors and the Board as a whole; this policy sets out internal procedures and criteria for selecting and continuously assessing the suitability of each of the members of the Board of Directors and the Board in general as a collective body, with the aim of ensuring that it properly performs its functions.

Thus, pursuant to the provisions of said Policy, in general terms, to assess the members of the Board of Directors, the following shall be taken into consideration: professional and commercial standing, knowledge and experience and a willingness to exercise good governance at the Entity.

The Appointments, Governance and Corporate Responsibility Committee is responsible for evaluating the suitability of the members of the Board of Directors and for initially establishing and periodically assessing the integrity, experience and good governance of the parties in question, in accordance with the established procedure.
The Committee is responsible for:

a) Proposing to the Board of Directors the policy for evaluating the suitability of the Board members individually and the Board as a whole, and any amendments that are deemed necessary and/or appropriate.
b) Periodically, and in any case at least once a year, supervising the correct application of the policy for evaluating the suitability of Board members individually and the Board as a whole, reporting on compliance with the policy to the Board of Directors and proposing any adjustments to it that are deemed necessary.
c) Evaluating the suitability of the Directors, the candidates for Board membership and the Board of Directors as a whole. If a candidate is deemed to be unsuitable, an explanatory report will be submitted to the Board of Directors in this regard.
d) Coordinating the creation of a training programme for Directors and keeping said plan up-to-date.

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

The basic assessment criteria measurement tools established in the Policy are the Suitability Questionnaire and the corresponding Prior Experience Questionnaire, which must be filled out by each Director. Furthermore, the Appointments, Governance and Corporate Responsibility Committee shall schedule personal interviews in order to clarify and contrast the information provided in response to the Questionnaire, by exchanging views that make it possible to identify areas of improvement.

Having undertaken an initial assessment of the Directors, the Committee shall perform a further suitability assessment for each Director on an annual basis, in addition to whenever there is any relevant change in the personal circumstances taken into account as part of the prior assessment.

Removal

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

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

C.1.20 Explain to what extent the annual Board assessment resulted in significant changes to its internal organisation and the procedures applying to its activities:

Description of amendments

C.1.20a Describe the assessment process and the areas assessed by the Board of Directors assisted by an external consultant in terms of the diversity of its composition and competencies, the operation and composition of its committees, the performance of the Chairman of the Board and the CEO of the Bank and the performance and contribution of each Director.

Pursuant to the provisions of Article 529 of Royal Legislative Decree 1/2010 of 2 July, approving the recast text of the Corporate Enterprises Act, the Code of Good Governance at Listed Companies approved by the National Securities Market Commission on 18 February 2015, and the Articles of Association and the Regulations of the Board of Directors and its Committees, the Board of Directors is responsible for assessing the quality and efficiency of its own operations, based on the report submitted thereto by the Appointments, Governance and Corporate Responsibility Committee; of the Board's Committees based on the reports submitted to it thereby; and the assessment of the Chairman of the Board and the CEO of the Bank in terms of their performance.

Specifically, Article 25.4 of the Board Regulations establishes that the Appointments, Governance and Corporate Responsibility Committee is tasked with the following three duties:
a) Report on the evaluation of the Board of Directors, as well as that of the Chairman of the Board and the CEO of the Bank.
b) Evaluating the suitability of the Directors, the candidates for Board membership and the Board of Directors as a whole. If a candidate is deemed to be unsuitable, an explanatory report will be submitted to the Board of Directors in this regard.

At the proposal of the Appointments, Governance and Corporate Responsibility Committee, the Board of Directors carried out an annual assessment of its own operations and those of its Committees, in addition to the performance of functions by the Chairman of the Board and the CEO of the Bank, in which it verified:
a) The quality and efficiency of the Board’s operation.
b) The proper functioning and correct composition of its Committees.
c) Appropriate levels of diversity in the composition and competencies of the Board of Directors.
d) The adequate performance of the Chairman of the Board of Directors and the CEO of the Bank.
e) The correct performance and contribution of each Director, paying special attention to the heads of the Board's various Committees.

To undertake the assessment of the Board of Directors' different Committees, the report submitted thereby to the Board of Directors was taken into account; regarding the assessment of the Board itself, the report submitted by the Appointments, Governance and Corporate Responsibility Committee was considered.

To carry out the assessment, the Appointments, Governance and Corporate Responsibility Committee analysed and supervised the work carried out to produce a questionnaire to assess the operation of the Board of Directors and its Committees; this questionnaire was provided to all members of the Board as part of the annual assessment of its operation and the operation of its Committees. The self-assessment process focused on the supervisory function in terms of the Board of Directors management, the creation of value and the definition of strategy; its composition and functionality; the definition of long-term strategies; shareholder relations; the composition, competencies and functionality of the Board's Committees; in addition to other issues of interest, the performance of the Chairman of the Board and the CEO, as well as through an in-depth analysis of compliance with the obligations set out in the Board Regulations and other internal regulations. The self-assessment exercise was undertaken by preparing activity reports for the various Committees of the Board of Directors.

An analysis of the Board's evaluation shows that there have been endogenous circumstances (capital increase, changes in the composition of the Board, restructuring of the network, etc.) and exogenous circumstances (Brexit, judicial decisions, political situation, etc.) that have led the Board’s action throughout the year to be exceptional and differential.

Accordingly, pursuant to the provisions of Recommendation 36 of the Code of Good Governance for listed companies, it is expected that by 2018 the Board will receive support from an external independent consultant to assess its performance and that of its members and committees. From said point onwards, assistance from an external consultant for this purpose will be required at least every three years.

The Board emphasises its positive performance in strategic decisions, such as the capital increase for a significant amount that was implemented in record time and without incident. It also considers that it has significantly renewed its composition (which it is continuing to do as of the date of this report) which is in line with international standards and recommendations and which will enable it to lead the Bank throughout the 2017 financial year. As regards matters which the Board considers to be improvements, the necessary confidentiality and secrecy of the debates and discussions which must be kept within the Board are stressed.

C.1.20b Provide a breakdown, where applicable, of the business relationships that the consultant or any group company maintains with the company or any other group company.

C.1.21 Indicate the circumstances in which directors are obliged to resign.

Directors shall cease to hold office either at their own request, or when the term of office for which they were appointed has elapsed, or when the General Shareholders' Meeting so decides, and in all such other cases as may be applicable in accordance with the law or the Articles of Association. Article 16 of the Board Regulations provides that Directors must tender their resignation to the Board of Directors and, if the Board considers it appropriate, resign in the following cases:

a) In the case of executive Directors, when they cease to occupy the posts to which their appointment as Director was connected.

b) When they are affected by any of the legally envisaged situations of incompatibility or prohibition.

c) If their continuation as a Board member could negatively affect the functioning of the Board or the standing and reputation of the Entity in the marketplace, or jeopardise its interests.

If a Director is indicted or subject to the opening of oral proceedings for any of the offences referred to in Article 213 of the Corporate Enterprises Act, the Board shall examine the matter as soon as possible and, depending on the particular circumstances, decide whether or not the Director should continue in his or her position. The Board shall also disclose all such determinations in the Annual Corporate Governance Report.

d) In the case of a proprietary Director, when the shareholder whose interests are being represented on the Board disposes of its stake in the Bank or significantly reduces that shareholding or reduces it below the percentage that the Board determines at any given moment, or to the point whereby a reduction in the number of its proprietary Directors is required, without prejudice to their possible re-election as executive Director, independent Director or proprietary Director representing another shareholder.

e) Age limit for Directors - 75 years of age, except for proprietary directors who control or represent an interest of three percent or more of the share capital. The termination will arise at the first Annual General Meeting held after their 75th birthday.

f) In the event of any significant changes in their personal or professional circumstances that affect the status by virtue of which they were appointed, or when they are no longer suitable to serve as a Director.

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

In all cases in which a Director resigns or leaves before the end of his/her term for any other reason, the Bank will report this decision as a Significant Event and report on the reasons in the Annual Corporate Governance Report.

C.1.22 Revoked

C.1.23 Is a reinforced majority other than those legally prescribed required for any particular type of decision?

NO

If so, describe the differences

Description of the differences

C.1.24 Explain whether there are specific requirements, other than those relating to directors, to be appointed Chairman of the Board of Directors.

Yes

Description of requirements

In accordance with Article 25 of the Articles of Association, the Chairman of the Board must be a Director definitively ratified or elected as such by the shareholders at the General Shareholders' Meeting.

C.1.25 State whether the Chairman has a casting vote:

NO

Issues on which there is a casting vote
-

C.1.26 State whether the Articles of Association or the Board Regulations set any age limit for Directors:

Yes

Age limit for Chairman -
Age limit for CEO -
Age limit for Directors - 75 years of age, except for proprietary directors who control or represent an interest of three percent or more of the share capital.

C.1.27 Indicate if the Articles of Association or the Board Regulations establish a term limit for independent directors, other than the legal limit:

NO

Maximum term of office (years) -

C.1.28 State whether the Articles of Association or the Board Regulations establish specific rules for proxy voting, how proxies are issued and in particular the maximum number of proxies that may be held by one director, and whether the proxy must be delegated to a director in the same category as the principal. If so, briefly describe these rules.

Article 12 of the Board Regulations envisages the possibility of Directors appointing another Director to represent them at Board meetings.

Non-executive Directors may only appoint non-executive Directors. Such proxy may be granted by any means, including telegram, fax or e-mail addressed to the Chairman or Secretary of the Board.

C.1.29 Indicate the number of meetings of the board of directors held during the year. Also, state the number of times if any that the Chairperson did not attend the board meeting. The calculation shall deem representation with specific instructions as attendance:

Number of board meetings	16
Number of board meetings without the presence of the Chairman	0

If the Chairperson is an executive Director, indicate the number of meetings held, without any executive Director in attendance or represented, which were chaired by the coordinating Director.

Number of board meetings	0

Indicate the number of meetings held by the various board committees in the year:

Number of Delegated Committee meetings	24
Number of Audit Committee meetings	17
Number of Appointments, Governance and Corporate Responsibility Committee meetings	22
Number of Compensation Committee meetings	19
Number of Risk Commission	11

C.1.30 Indicate the number of meetings of the board of directors held in the year which were attended by all its members. The calculation shall deem representation with **specific instructions as attendance:**

Directors' attendance record	16
Attendances as a % of the total number of votes during the year	100

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

Yes

The Bank's Accounting Office is responsible for the drafting and presentation of all the financial documentation which appears in the Financial Statements. The Financial Director, being ultimately responsible for this financial information, signs the accounts and certifies their accuracy.

The Audit Committee assists the Board of Directors with supervising the financial statements and the Bank's internal control systems and its Financial Management and the Board of Directors prepare the financial statements, which are signed by all Directors.

Indicate the person(s), if any, who certified the company's individual and consolidated financial statements for board authorisation:

Name	Position
Javier Moreno	Financial Director

C.1.32 Explain any mechanisms established by the Board of Directors to ensure that the individual and consolidated financial statements authorised by it are presented to the General Shareholders' Meeting without qualifications in the auditor's report.

The Board of Directors endeavours to ensure that the individual and consolidated financial statements which it prepares and submits to the Shareholders' Meeting do not contain any reservations or qualifications in the Audit Report, and if such reservations or qualifications cannot be avoided, both the Chairman of the Audit Committee and the external auditor will clearly explain to shareholders the content and scope of the discrepancies and of these reservations or qualifications.

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

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

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

a) That they give a true and fair view of the equity, financial position and results of operations and contain the necessary information sufficient for their understanding.

b) An adequate definition of the scope of consolidation and the proper application of accounting standards.

c) That they clearly and simply explain economic, financial and legal risks that may be incurred.

d) That the principles and standards applied are in line with those applied in the previous year.

2. With respect to the Audit Committee.

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

a) The review of the individual and consolidated financial statements prepared by the Bank’s Internal Services and the monitoring of the operation of procedures and internal financial control manuals adopted by the Bank.

b) Regular reviews of the Bank’s internal control and risk management systems, so that the main risks are identified, managed and adequately reported.

c) Holding of meetings with the external auditor to receive any information relating to the audit process that is necessary, as well as to analyse and review any matters that are considered to be of special importance.

C.1.33 Is the board secretary a director?

Yes

C.1.34. Revoked

C.1.35 Indicate whether the bank has established mechanisms to maintain the independence of the external auditors, financial analysts, investment banks and rating agencies.

a. External auditors

Pursuant to Article 529m of the Spanish Corporate Enterprises Act and Articles 24 and 33 of the Board Regulations, relations with the external auditor are channelled through the Audit Committee, which is responsible for ensuring the independence of the external auditor.

In this regard, Article 33 of the Board Regulations establishes that:

1. The Board's relations with the Company's external auditors will be channelled through the Audit Committee.
2. The Board of Directors and the Audit Committee shall monitor situations that may pose a risk to the independence of the Bank's external auditor.
3. The Board of Directors will publicly report annually the total fees paid by the Company to the audit firm for services other than audit.
4. The Board of Directors will endeavour to prepare the financial statements in such a way that there is no qualification by the auditor. However, when the Board considers that it should maintain its criterion, it will publicly explain the content and scope of the discrepancy.

For its part, Article 24 of the Board Regulations establishes that one of the main tasks of the Audit Committee is to assist the Board of Directors in verifying the independence of the external auditor.

Without prejudice to such other duties as may be assigned to it by the Board of Directors, in accordance with Article 24 of the Board Regulations, the Committee will have the following competencies:

a) Submit to the Board of Directors, for submission to the General Shareholders' Meeting, proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of hiring, and regularly collect from it information about the audit plan and its implementation, in addition to preserving its independence in the exercise of its functions.

b) Establish the appropriate relations with the external auditors to receive information about any issues potentially threatening the auditor’s independence and any other issues connected with the process of performance of the audit for examination by the Committee, and any other matter related to the audit development process, as well as the other communications stipulated in the regulations governing the audit activity.

In any event, the Committee must be provided, on an annual basis, with written confirmation from the external auditors confirming their independence from the entity or entities related to it either directly or indirectly, as well as detailed and individualised information on any additional services provided, of any type, and the corresponding fees received by the external auditor, or by persons or entities related to them in accordance with auditing legislation.

c) The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to whether the auditors’ or audit firms independence is compromised. This report, where appropriate, is required to contain the reasoned assessment of the provision of additional services, as referred to in the previous section.

In 2016 the corresponding reports on the independence of the auditor were issued confirming such independence.

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

b. Financial analysts

The Investor Relations Department is entrusted with maintaining communications with institutional shareholders and financial analysts who cover the Banco Popular share, ensuring that they are given no privileged information which is not disclosed to other shareholders.

Likewise, the Board has approved a Policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

c. Investment banks and rating agencies

Regarding the rating agencies, the Bank has hired, the Bank has hired the services of the three main international rating agencies. The designated area to maintain the relationship with the rating agencies is the Group's Finance Management.

C.1.36 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

NO

Outgoing auditor	Incoming auditor
-	-

If there were any disagreements with the outgoing auditor, explain what they were about:

NO

Explanation of the disagreements

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

Yes

	Company	Group	Total
Fees for work other than auditing (thousands of euros)	743	953	953
Fees for non-audit work / Total amount invoiced by audit firm (%)	42.23%	31.90%	31.90%

C.1.38 State whether the audit report for the financial statements for the preceding year contained any reservations or qualifications. If it did, state the reasons given by the Chairperson of the Audit Committee to explain the content and scope of the reservations or qualifications.

NO

Explanation of the reasons

C.1.39 State the number of years for which the current audit firm has performed the audit of the company's and/or its group's financial statements without interruption. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Company	Group
Number of consecutive years	35	35

	Company	Group
Number of years audited by the present audit firm as a % of the years for which audits have been performed	97	97

C.1.40 Indicate whether there is a procedure for Directors to engage external consultants and, if so, provide details:

Yes

Details of the procedure

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

Article 20 of the Board Regulations establishes the right to receive expert assistance: In order to facilitate the work of the Directors, the Board guarantees them access to the services of the Bank's in-house experts. The Directors have the authority to propose to the Board of Directors the engagement, at the Bank's expense, of such external advisers as they may consider necessary to advise them on issues arising in the performance of their duties, when these issues are of a specific nature and are of a certain importance and complexity. The proposal must be conveyed to the Chairman through the Secretary of the Board. The Board may veto its approval by majority vote if it considers the proposal unnecessary, if its cost is disproportionate considering the level of importance of the issue in question and the assets and revenues of the Bank, or if there is a possibility of such technical assistance being adequately provided by the Company's own experts and technical staff.

C.1.41 State whether there is a procedure enabling directors to obtain the necessary information to prepare with sufficient time for meetings of the governing bodies, and if so, provide details:

Yes

Details of the procedure

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

There is an Internet portal available to the members of the Board of Directors through which they have exclusive access to the documentation and information reserved to the Board, such as meeting agendas, presentations and other documentation needed for the sessions, as well as the minutes of past meetings. In this regard, Article 11 of the Board Regulations stipulates that accurate information for the purposes of discussing and deciding upon matters set out in the meeting agenda shall be published on the Director's corporate website with sufficient notice prior to the meeting, with Directors being informed in due course.

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

Article 19 of the Board Regulations regulates the Directors' right to information in the following terms: The Directors have the broadest of 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 Bank's installations and facilities, provided that this is necessary for the performance of their duties. This right to information is to be channelled through the Chairman or the Secretary to the Board, who will deal with such requests from the Directors either by furnishing the information required directly, or by indicating the appropriate interlocutors, or by arranging such measures as may be necessary so that the information requested may be examined. The Board may refuse to grant the request for information if it feels the disclosure could be harmful to the Bank's corporate interests, without prejudice to the provisions of the Corporate Enterprises Act.

C.1.42 State whether the company has rules obliging Directors to inform the board of any circumstance that might harm the organisation's name or reputation, and to resign if necessary, and describe any that exist:

Yes

Describe the rules

Article 16.3.c) of the Board Regulations establishes the requirement that Directors place their office at the disposal of the Board of Directors and, if deemed appropriate by the Board, submit their resignation in cases in which their remaining on the Board may negatively affect its operation or the credit and reputation of the Bank in the market or may endanger the interests of the Bank.

If a Director is tried or in the case of opening of oral proceedings against him for any of the offences referred to in Article 213 of the Corporate Enterprises Act, the Board shall examine the matter and, depending on the particular circumstances and potential harm to the Bank's name and reputation, decide whether or not he or she should continue in office.

As provided for in the Director Selection Policy, Board Members are obliged to inform the Bank of any fact arising as part of their appointment that affects or may affect the assessment of their individual aptitude and suitability; in such an event, the Committee will perform a new assessment of the Director in question.
In all cases in which a Director leaves his/her post before the end of the relevant term of office, whether through resignation or for any other reason, the reasons behind this action must be explained in a letter, which will be sent to all members of the Board of Directors, and the Bank will report this decision through the communication of a Significant Event, indicating the aforementioned reasons in the Annual Corporate Governance Report.

C.1.43 State whether any member of the Board of Directors has informed the Bank that he has been charged with, or tried for, any of the offences referred to in Article 213 of the Corporate Enterprises Act.

NO

State whether or not the Board of Directors has analysed the case. If yes, explain the decision taken as to whether or not the Director will remain on the Board or any actions taken by the Board of Directors up to the date of this report or any actions it plans to take.

NO

C.1.44 Significant agreements entered into by the company that will come into force, be modified or terminate in the event of a change in control of the company resulting from a takeover bid, and their effects.

C.1.45 Identify on an aggregate and individualised basis any agreements between the company and its directors, officers or employees which contain indemnity clauses, guarantees or "golden parachutes" deriving from early termination of the contractual relationship if their employment ends because of a public takeover bid or other corporate transaction.

Number of beneficiaries	
Type of beneficiary	Description of agreement

State whether these contracts have to be communicated and/or approved by the company's bodies or those of its group:

	Board of Directors	**General Shareholders' Meeting**
Body that authorises the clauses		

	YES	**NO**
Is the General Shareholders' Meeting informed of the clauses?		

C.2 Committees of the Board of Directors

C.2.1 List all Board of Directors Committees, their members and the proportion of proprietary and independent directors who are members:

DELEGATED COMMITTEE

Category	Position	Category
Ron, Ángel	Chairman	Executive
Larena, Pedro	Director	Executive
Arias, José María	Director	Other External
Oroviogoicoechea, Jorge	Director	Independent
Higuera, Roberto	Director	Independent
Aparicio, Francisco	Secretary	Executive

% executive directors	50
% proprietary directors	0
% independent directors	33.33
% other external directors	16.67

Explain the duties assigned to this committee, describe its organisational procedures and rules and how it operates, and summarise its most important actions over the course of the year.

The Delegated Committee is formed by the number of Directors designated by the Board of Directors at any given moment. The Chairman of the Bank is an ex officio member of this Committee.

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

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

The Delegated Committee holds ordinary meetings regularly, in principle every two weeks, and the meetings are considered to be validly constituted when half plus one of its members are present or represented. Its resolutions are adopted by absolute majority of the Directors present or represented at the relevant meeting.

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

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

State whether the composition of the delegated or executive committee reflects the participation in the Board of the various directors depending on their category:

NO

If this is not the case, explain the composition of the delegated or executive committee

The Board of Directors ensures that, as well as the Executive Directors, the Delegated Committee also has a number of independent Directors that is congruent with the structure of the participation of external Directors on the Board of Directors.

The Board of Directors currently has fifteen Directors, three of whom are classed as executive directors, four as proprietary, seven as independent and one as other external. The Delegated Committee comprises six members: three executive, other external and two independent.

Given that this is a delegated body of the Board of Directors with decision-making authority, the three Executive Directors form part of the Committee. In addition, for the proper performance of its duties it is necessary that the non-executive Directors who form part of this Committee should be appointed in all cases from among the Independent Directors; at present, exceptionally, one Other External Director forms part of the Delegated Committee.

The proportion of independent Directors on the Delegated Committee (33.33%) is lower than the percentage on the Board of Directors (47%).

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

AUDIT COMMITTEE

Name	Position	Category
Higuera, Roberto	Chairman	Independent
Arias, José María	Director	Other External
Oroviogoicoechea, Jorge	Director	Independent

% proprietary directors	0
% independent directors	66.67
% other external directors	33.33

Explain the duties assigned to this committee, describe its organisational procedures and rules and how it operates, and summarise its most important actions over the course of the year.

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

Article 24 of the Board Regulations stipulates that the members of the Audit Committee must exclusively be non-executive directors, from among whom a Chairman will be chosen. The majority of its members must be independent Directors, including the Chairman.

The Board of Directors designates the Chairman of the Committee from among the independent Directors, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

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

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

Notwithstanding the above, the Chairman must be replaced every four years and may be re-elected once one year has passed since leaving the office, without prejudice to his continuing as a member of the Committee if so agreed by the Board of Directors.

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

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

The Committee may request the attendance of the Group's external Auditors at its meetings in which their report on the financial statements and the Directors' Report of the Bank and of its consolidated group are to be examined. Furthermore, this Committee may request the attendance for reporting purposes of the Group's senior management, other Group directors and personnel, as well as other advisers or consultants, as appropriate. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the Committee may, in the performance of its duties, request the collaboration of the Board of Directors and its other Committees, the Directors and the Secretary and Vice-Secretaries of the Board.

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

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Reporting to the General Shareholders' Meeting on matters arising in relation to matters within its competence and, in particular, on the result of the audit, explaining how it has contributed to the integrity of the financial information and the role that the Committee has played in that process.

b) Performing regular reviews of the effectiveness of the Bank's internal control, internal audit and risk management systems, as well as discussing any significant weaknesses in the internal control systems detected during the audit with the auditors, all of which without violating its integrity. For that purpose, and where applicable, recommendations or proposals may be submitted to Management in addition to the corresponding deadline for follow-up. The head of Internal Audit will present its annual work programme to the Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

c) Supervising the process of preparing and submitting mandatory financial information and submitting recommendations and proposals to management, with a view to safeguarding its integrity.

d) Submit to the Board of Directors, for submission to the General Shareholders' Meeting, proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of hiring, and regularly collect from it information about the audit plan and its implementation, in addition to preserving its independence in the exercise of its functions.

e) Establish the appropriate relations with the external auditors to receive information about any issues potentially threatening the auditor's independence and any other issues connected with the process of performance of the audit for examination by the Committee, and any other matter related to the audit development process, as well as the other communications stipulated in the regulations governing the audit activity.

In any event, the Committee must be provided, on an annual basis, with written confirmation from the external auditors confirming their independence from the entity or entities related to it either directly or indirectly, as well as detailed and individualised information on any additional services provided, of any type, and the corresponding fees received by the external auditor, or by persons or entities related to them in accordance with auditing legislation.

f) The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to whether the auditors' or audit firm's independence is compromised. This report, where appropriate, is required to contain the reasoned assessment of the provision of additional services, as referred to in the previous section.

g) Consider the suggestions that may be made to the Committee by the Chairman, other members of the Board, senior management or shareholders of the Bank, as well as report and submit proposals to the Board of Directors about measures that the Committee considers appropriate.

h) Establish and supervise a mechanism that allows employees to report, on a confidential basis and, if deemed advisable, anonymously, any irregularities that are potentially important, particularly those of a financial and accounting nature, that are observed within the Bank.

i) Detect and manage conflicts of interest that may arise between consolidated subsidiaries.

j) To inform the Board of Directors, prior to its adoption of the corresponding decisions, on all matters provided for in law, in the Articles of Association and in these Regulations, and in particular on:

- The financial information that the Company must make public periodically.
- The creation or acquisition of shares in special-purpose vehicles or any entities domiciled in countries or territories classified as tax havens,
- The transactions carried out with related parties.

k) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

l) All others established by Law or in these Regulations.

Identify the Director serving on the Audit Committee appointed based on his/her experience and knowledge of accounting, auditing or both and state the number of years that the Chairman of this Committee has been in the role.

Name of Director with experience	Roberto Higuera Montejo José María Arias Mosquera Jorge Oroviogoicoechea Ortega
No. of years served by Chairman in the role	4

APPOINTMENTS, GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

Name	Position	Category
Calderón, Reyes	Chairman	Independent
Revoredo, Helena	Director	Independent
Molins, Ana María	Director	Independent

% proprietary directors	0
% independent directors	100
% other external directors	0

Explain the duties assigned to this committee, describe its organisational procedures and rules and how it operates, and summarise its most important actions over the course of the year.

The Appointments, Governance and Corporate Responsibility Committee is formed of at least three (3) and at most five (5) Directors, designated by the Board of Directors, taking account of the knowledge, aptitudes and experience of the Directors and the duties of the Committee.

Article 25 of the Board Regulations stipulates that a majority of the members of the Audit Committee must be non-executive directors, from among whom a Chairman will be chosen. At least two of its members must be independent Directors, including the Chairman.

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

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

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

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

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

This Committee may require the Group's senior management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, in the performance of its duties.

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

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Keeping a close watch on the integrity of the selection process for the Group's Directors and senior management, ensuring that candidates are persons who conform to the profile of the vacancy.

b) Formulating and reviewing the criteria to be followed as regards the composition of the Board of Directors and the selection of candidates. In this respect, the competencies, knowledge and experience that are necessary on the Board must be evaluated and the necessary duties and aptitudes for candidates that cover each vacancy must be determined, while bearing in mind the time and dedication that are necessary to adequately perform the duties of the position. To this end, propose to the Board of Directors the policy for selecting Directors and ensuring that it is updated.

c) Setting a representation goal for the under-represented gender on the Board of Directors and developing guidance on how to reach that objective.

d) Examining or organising, in the manner deemed appropriate, the succession of the Chairman and the CEO and, if appropriate, making proposals to the Board so that said succession takes place in an orderly and well-planned manner.

e) Submitting to the Board of Directors proposals for the appointment, re-election and removal of Independent Directors or a Committee Report in the case of the other Directors, so that the Board may proceed directly to the appointment of these directors (co-option) or submit their appointments to the General Shareholders' Meeting, providing information on the class of Directors in all cases.

f) Submitting to the Board of Directors the proposals for appointment, re-election and removal of the Independent Director and the members who should form part of each of the Board Committees.

g) Reporting proposals to appoint or remove the Board's Secretary or Vice Secretaries.

h) Submitting to the Board of Directors reports for the appointment and re-election of members of senior management and of the surveillance body stipulated in the Internal Code of Conduct in the sphere of securities markets.

i) Examining any suggestions for appointments sent to it by the Bank's Chairman, members of the Board, executives or shareholders, evaluating them and reporting on them objectively and impartially so that the Board may act in full knowledge of all the relevant information.

j) Reporting to the Board of Directors regarding any gender diversity matters indicated in Article 14.5 of these Regulations.

k) Reviewing, on an annual basis, the classification of each Director among the different categories when preparing the Corporate Governance Report.

l) Proposing to the Board of Directors the Suitability Assessment policy for Board members individually and the Board of Directors as a whole and any modifications that are deemed necessary and/or appropriate.

m) Periodically supervising, at least once a year, the correct application of the Suitability Assessment policy for Board members individually and the Board of Directors as a whole, reporting on compliance to the Board of Directors and proposing, through its reports, any adjustments that are deemed necessary.

n) Providing guidance to new Directors, advising them of their legal obligations, informing them of the Bank's governance rules, and familiarising them with the characteristics, situation and environment of the company.

o) Examining the information sent by Directors regarding their other professional obligations and evaluating whether or not they could interfere with the dedication required to properly carry out their duties, as well as verifying compliance with the rules established regarding the number of Boards of which they may form part.

p) Taking care to ensure that the directors receive information of sufficient quantity and quality to enable them to adequately perform their functions.

q) Trying to detect cases in which the relation of a Director to the Bank may negatively affect its functioning or its standing and reputation.

r) Detecting and managing possible conflicts of interest between Directors, senior managers or major shareholders and the Bank, ensuring fulfilment of the obligations of discretion and impartiality and of the duties of confidentiality, diligence and loyalty of the directors.

s) Proposing the Annual Corporate Governance Report to the Board of Directors.

t) Proposing and verifying compliance with the Group's Corporate Social Responsibility Policy and the preparation of the Annual Corporate Responsibility Report.

u) Supervising compliance with these Regulations and, in general, with the internal codes of conduct and the rules of Bank governance, and making any necessary proposals for improvement.

v) Evaluating the Board of Directors on an annual basis, as well as the Chairman and the Bank's CEO.

w) Evaluating the suitability of the Directors, the candidates for Board membership and the Board of Directors as a whole. If a candidate is deemed to be unsuitable, an explanatory report will be submitted to the Board of Directors in this regard.

x) Coordinating the development of a training programme for the Directors and keeping it updated.

y) Proposing to the Board of Directors the policy of communication with shareholders, institutional investors and proxy advisors, as well as ensuring that it is updated.

z) Evaluating its operation on an annual basis and presenting the Board with a report on the activities carried out during the year.

aa) All others established by Law or in these Regulations.

COMPENSATION COMMITTEE

Name	Position	Category
Estevez, José Ramón	Chairman	Independent
Pérez, Vicente	Director	Independent
Molins, Ana María	Director	Independent

% proprietary directors	0
% independent directors	100
% other external directors	0

Explain the duties assigned to this committee, describe its organisational procedures and rules and how it operates, and summarise its most important actions over the course of the year.

The Compensation Committee is formed of a minimum of three (3) and a maximum of five (5) Directors, designated by the Board of Directors, taking account of the knowledge, aptitudes and experience of the Directors, and the Committee's tasks.

Article 26 of the Board Regulations stipulates that the Committee will be composed exclusively of non-executive Directors, two of whom must be independent Directors. At least two of its members must be independent Directors, including the Chairman.

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

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

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

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

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

This Committee may require the Group's senior management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings shall be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out work which it considers necessary for the execution of its duties, and may seek the advice of external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretaries to the Board of Directors, in the performance of its duties.

The main task of the Committee is to assist the Board of Directors in its approval of the Directors' and Senior Management's remuneration.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Proposing a compensation policy for Directors and senior management to the Board of Directors, as well as for those employees whose activity may impact the risk profile of the entity; the individual compensation for Executive Directors and other contractual conditions and the basic conditions for contracts of senior managers.

b) Ensuring compliance with the compensation policy established for the Board of Directors and making proposals to the Board of Directors regarding the measures deemed most appropriate to maintain, correct or improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.

c) Evaluating its operation on an annual basis and presenting the Board of Directors with a report on the activities carried out during the year.

d) All others established by Law or in the Board Regulations.

RISK COMMISSION

Name	Position	Category
Oroviogoicoechea, Jorge	Chairman	Independent
Estevez, José Ramón	Director	Independent
Pérez, Vicente	Director	Independent
Higuera, Roberto	Director	Independent

% proprietary directors	0
% independent directors	100
% other external directors	0

Explain the duties assigned to this committee, describe its organisational procedures and rules and how it operates, and summarise its most important actions over the course of the year.

Article 27 of the Board Regulations establishes that the Risk Commission will be formed of a minimum of three (3) and a maximum of five (5) Directors. It currently comprises two independent Directors, on a temporary basis, following the resignation submitted by the Board member Unión Europea de Inversiones, S.A. and, consequently, the Committee to which it belonged.

It is for the Board of Directors to set the exact number of members, as well as their appointment and removal.

The Committee will be formed exclusively of directors who do not perform executive functions and who possess the appropriate knowledge, skills and experience to fully understand and control the Bank's risk strategy and its propensity to risk.

At least of third of its members and, in any case, the Chairman, shall be independent directors.

The Board of Directors will designate the Chairman of the Committee from among the Committee Members, as well as the Secretary, who does not necessarily have to be a member of the Committee. If it does not appoint a Secretary, the Secretary to the Board of Directors will assume this position.

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

It may pass resolutions in writing without an actual meeting, provided that none of its members are opposed and it is in accordance with the provisions of the Articles of Association and the Law.

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

The main task of the Committee is to assist the Board of Directors in risk related matters.

The Committee will keep the Board of Directors permanently informed of the performance of the duties for which it is responsible.

Without prejudice to such other duties as may be assigned by the Board of Directors, the Committee will have the following competencies:

a) Advise the Board of Directors in the definition and evaluation of the risk polices which affect the Group and the current and future setting of the entity's propensity to risk and its strategy in this field. The Group's control and risk management policies must include:

- The identification of the different types of risk (operational, technological, financial, legal, reputational and other) that the Bank might face, including contingent liabilities and other off-balance sheet risks under financial and economic risks;
- The establishment of the risk appetite that the Bank considers acceptable;
- The measures established to mitigate the impact of identified risks should they materialise;
- The information and internal control systems that will be used to control and manage these risks.

b) Consider whether the prices of assets and liabilities offered to customers fully take into account the business model and risk strategy of the entity.

c) Assist the Board of Directors in the monitoring and application of the risk strategy.

d) Confirm that the Group possesses the means, systems, structures and resources benchmarked against best practices to allow it to implement its risk management strategy.

e) Collaborate in ensuring that the establishment of the Group's remuneration policies conform to the risk management strategy. To this end, it shall examine, without prejudice to the functions of the Compensation Committee, whether the incentives provided for in the remuneration system take into consideration the risk, capital, liquidity and the likelihood and appropriateness of the benefits.

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

The Committee may require members of the Group's Senior Management, other managers and personnel to attend in order to provide information, as well as any advisors or consultants providing services to the Group. Any of the persons mentioned in this paragraph who are asked to attend the meetings will be under the obligation to do so, offering their full cooperation and making all information they hold available. The Committee may seek the cooperation of these same persons to carry out such work as it may consider necessary for the performance of its duties, and may seek the advice of external professionals. In addition, the Committee may call for the collaboration of the Board of Directors and its Committees, Directors and the Secretary and Vice Secretary to the Board of Directors, in the performance of its duties.

7. The Committee Secretary will minute each meeting, signing the same with the approval of the Chairman, and forwarding it to the Board of Directors with a copy to each Board member.

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

C.2.2 Complete the following table with information on the number of female directors on each Board Committee over the last four years:

	Number of female directors							
	Financial year 2016 Number %		Financial year 2015 Number %		Financial year 2014 Number %		Financial year 2013 Number %	
Delegated Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Appointments, Governance and Corporate Responsibility Committee	3	100%	1	33.33%	1	33.33%	1	33.33%
Compensation Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Risk Commission	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Revoked

C.2.4. Revoked

C.2.5. Indicate, where appropriate, the existence of regulations applicable to the Board's committees, where they can be found
for the purposes of consultation, and amendments made over the course of the year. Also indicate whether annual reports on each committee's activities are voluntarily prepared.

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.grupobancopopular.com.

The Audit, Risk, Appointments, Governance and Corporate Responsibility and Compensation Committees have reported on the functions and activities carried out during the year.

The structure, composition and powers of the Board Committees contained in Articles 24, 25 and 26 have been changed to adapt to Law 10/2014 of 26 June on the Organisation, Supervision and Solvency of Credit Institutions.

C.2.6. Revoked

D. Related party transactions

D.1 Identify the competent governing body and explain the procedure for approving related party and intragroup transactions.

Procedure for approving related party transactions
The Board Regulations stipulate that transactions carried out by the Bank with Directors, significant shareholders or shareholders represented on the Board, or with persons related thereto ("related party transactions") must be approved by the Board on the basis of a prior favourable report from the Audit Committee, unless they meet all three of the following conditions simultaneously: 1. They are carried out in accordance with standardised contracts that are applied to customers en masse; 2. They are carried out at market rates, generally set by the supplier or provider of the goods or services; 3. The amount does not exceed 1% of the Bank's annual revenues. The powers referred to under the above letters may be exercised for justified reasons in cases of urgency by the Delegated Committee, which will inform a full session of the Board, which in turn may pass such resolutions as it deems appropriate in respect of such decisions of the Executive Committee.

D.2 List any transactions that are significant in terms of their amounts or their substance carried out between the company or its group entities and significant shareholders of the company:

Name or company name of significant shareholder	Name or company name of the company or group entity	Nature of relationship	Type of transaction	Amount (thousands of euros)
-	-	-	-	-

As regards significant shareholders, transactions of this kind carried out by Banco Popular during 2016 were confined to those conducted on market terms with Allianz and Banque Fédérative du Crédit Mutuel.

D.3 List any transactions that are significant in terms of their amounts or their substance carried out between the Bank or its group entities and the company's directors or executives:

Name or company name of director or executive	Name or company name of related party	Nature or relationship	Nature of transaction	Amount (thousands of euros)
-	-	-	-	-

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

The overall amount of direct risks granted by the Group to all the Directors considered in conjunction, as at 31 December 2016, was 881 thousand euros, and corresponded to credits and loans. The interest rates varied between 0.13% and 0.25%.

The overall amount of risks assumed by the Group in favour of each of the members of the Board of Directors is indicated in Note 10 to the Financial Statements in the Annual Report.

The risks assumed with the directors detailed in section B.1.12 are included within the general criteria for taking risks with the employees in the Group and always within the entity's business operations and under market conditions.

D.4 List the material transactions carried out by the company 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.

In any case any intragroup transactions with entities established in countries or territories considered to be tax havens must be reported:

Name of group entity	Brief description of transaction	Amount (thousands of euros)

D.5 State the value of the transactions carried out with other related parties.

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

Among the competencies of the Appointments, Governance and Corporate Responsibility Committee listed under Article 25 of the Board Regulations is the detection and management of any possible conflicts of interest between Directors or Senior Management and the Bank, ensuring compliance with their obligations of discretion and impartiality and their duties of confidentiality, diligence and loyalty, as well as of any such conflicts that may arise between significant shareholders and the Bank.

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

1. Conflicts of interest affecting Directors and Executives:

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

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

In turn, the Internal Code of Conduct (ICC) for Banco Popular consolidated subsidiaries in the sphere of securities markets details the information that must be provided by the Directors and Officers to the ICC Surveillance Body with respect to conflicts of interest:

a) In order to control possible conflicts of interest and, to the extent possible, prevent them, Directors and Executives shall present and update statements of their links – financial, family or of any other type – with customers of the Entity in respect of services relating to the stock market or with companies listed on the Stock Exchange.

b) The statement must also include any other links that, in the opinion of an external unbiased observer, could compromise the impartiality of the Director or Executive.

c) Directors and Executives must endeavour to avoid conflicts of interest and, if they are personally affected thereby, must refrain from deciding or, if appropriate, casting their vote in such situations as may arise.

d) The Surveillance 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.

2. Conflicts of interest with significant shareholders:

In accordance with the provisions of Article 31 of the Board Regulations, the Board of Directors formally reserves to itself cognisance of any direct or indirect transaction between the Bank and a significant shareholder, giving due value to the equal treatment of the shareholders and market conditions.

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

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

NO

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

Listed subsidiaries

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

NO

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

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

Mechanisms to resolve conflicts of interest

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Explain the scope of the Bank's Risk Management System, including tax risks.

Introduction

Banco Popular takes a prudent, disciplined and diversified approach to risk management by enhancing internal governance which promotes control and prudent risk management and the qualification of the entity's professionals, establishing a risk policy aimed at achieving a Medium-low risk profile, ensuring at all times that the Group performs its commercial activity and business expectations within the established risk limits and objectives.

Based on its business model, the main risks to which the Group is exposed are credit and liquidity risk.

The following principles govern risk management:

- Geared to a sound balance sheet.
- Control of risk concentration encouraging sectoral diversity.
- Appropriate risk measurement and monitoring.
- Sustainable business growth with criteria to optimise profitability.
- Reasonable balance between loans and receivables and deposits captured.
- Systematisation and automation of processes.

The main principles of the risk management policy are as follows:

- Risk Culture
- Governance
- Risk Appetite
- General Control Model

Risk Culture

Banco Popular develops its business model according to values which are consistent with the risk appetite set by the Board of Directors. These principles constitute a risk culture which helps to ensure that any risk or activity in which it occurs can be identified, escalated, measured and mitigated in time. In this context, there are policies, procedures and processes aligned with the risk appetite which move downwards throughout the organisation.

The implementation of a robust risk culture is promoted through the following mechanisms:

- Corporate values that create an environment in which effective critical feedback is provided, in which the decision-making processes promote different points of view.
- Staff training concerning their responsibilities in terms of risks, stating who responds to specific types of risk, without risk management exclusively corresponding to risk specialists or those occupying positions of control. The responsibility for the daily management of the risk appetite and the respect of its policies, procedures and controls will be the business units.
- A risk appetite that is included in processes and systems.
- Remuneration and career plans that encourage attitudes and abilities suited to the management objectives of the risk appetite.

E.2 Identify the governing bodies responsible for drafting and implementing the Risk Management System, including tax risks.

The Group has developed a corporate governance model of risks in line with the best market practices, in which the different governing bodies have clear responsibilities assigned to risk from the design and approval of the risk strategy to the monitoring and supervision of its implementation.

Board of Directors

The Board of Directors, as the body responsible for establishing strategic lines and general policies regarding risk management and control, is assigned the following main risk duties:

- Establishing the Risk Appetite Framework (RAF) subject to advice from the Risk Commission, including limits and objectives.
- Ensuring that the Risk Appetite Framework is consistent with the short- and medium-term strategy and capital planning and with the Group's remuneration policies.

- Verifying that the risk culture is appropriately disseminated throughout the Group.
- Reviewing at least on a quarterly basis the Group's risk profile, comparing it with the limits and objectives established for each specific risk, including those of a qualitative nature.
- Safeguarding resources in sufficient quantity and quality for the correct performance of the risk management function.
- Ensuring that mechanisms are in place that make it possible for the Management Committee to take action in an appropriate manner in order to effectively manage risk at the Bank and, where appropriate, mitigate significant exposure to risk, in particular exposure that is close to or in excess of risk limits.
- Discuss with the supervisory entity the decisions regarding the establishment and continuous monitoring of the risk appetite, as well as relevant changes in the current levels of risk appetite or in the regulatory expectations associated with the risk profile.

Board of Directors' Risk Commission

Advises the Board on risk issues. Assesses risk control and management to ensure the content, integrity and effectiveness of the Risk Appetite Framework. To this end, it periodically monitors the Group's risk profile. Furthermore, it controls compliance with the approved risk limits and objectives, establishing the characteristics and frequency with which risk information should be received by Risk Directorate.

Audit Committee

Assists the Board of Directors in terms of supervision and control of the Bank by assessing the faithfulness of financial statements and revising the Bank's internal control system.

Appointments, Governance and Corporate Responsibility Committee

The main task of the Appointments, Governance and Corporate Responsibility Committee is to assist the Board of Directors in its functions of appointing, re-electing and dismissing Directors and senior management, endeavouring to ensure that the Directors receive all the necessary information for the proper performance of their duties, and monitoring compliance with the Bank's rules of governance, periodically reviewing compliance with its rules, recommendations and principles.

Compensation Committee

Proposes a compensation policy for Directors and senior management to the Board of Directors, as well as for those employees whose activity may impact the risk profile of the entity; the individual compensation for Executive Directors and other contractual conditions and the basic conditions for contracts of senior managers. Furthermore, it is responsible for assessing and supervising compliance with the compensation policy and making proposals to the Board of Directors regarding the measures deemed most appropriate to maintain, correct and improve this policy, in particular to adjust the policy to meet the principle of moderation and to match the Bank's performance.

Management Committee

As the Group's technical and executive governance body, reporting to the CEO, this Committee is responsible for proposing the Risk Appetite Framework to the Board and supervising its implementation with assistance from the different consultative committees on this matter.

Furthermore, it is responsible for establishing a solid risk management culture by empowering and supporting Risk Directorate in its responsibilities and dissemination throughout the organisation, promoting suitable training of all individuals on risk issues.
It ensures that the IT infrastructure and risk management function have sufficient and qualified resources to correctly supervise compliance with the Risk Appetite Framework.

The Committee works diligently to guarantee effective risk management and, when necessary, mitigate significant exposures to risk. It places special emphasis on risks that are particularly close to risk limits.
The following Committees advise the Management Committee on Risk-related matters:

- Capital Committee: responsible for monitoring capital planning, the impact of corporate operations and self-assessment exercises in stress scenarios. It advises the Management Committee in the establishment of the objective of capital and ensuring coherence between risk appetite and capital planning. It monitors the evolution of the risk profile as regards the appetite established as part of the Risk Appetite Framework.
- ALCO Committee: advises the Management Committee in terms of setting the interest rate and liquidity risk appetite, and their coherence with the Group's business plans and strategy. It monitors the evolution of the risk profile as regards the appetite established as part of the Risk Appetite Framework.

Model Committee:

- Operational Risk Committee: advises the Management Committee in establishing the operational risk appetite. It monitors the evolution of the risk profile as regards the appetite established as part of the Risk Appetite Framework.
- New Products Committee: advises the Management Committee in terms of the different risks posed by the sale of new products, ensuring coherence between said risks and the Risk Appetite Framework.

Risk Committee

The Risk Committee is tasked with approving operations that exceed the limits assigned to the highest decision-making level of Risk Directorate for the different risk categories; in addition, it is therefore responsible for maintaining the risk profile within the appetite framework set by the Board of Directors.

E.3 Indicate the main risks that can affect the achievement of the business objectives.

In December 2014 the Board of Directors approved the Risk Appetite Framework, a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite.

This is a flexible framework where risks to which the Group is exposed are identified and defined, and sets:

- Qualitative aspects related to the principles, governance processes and escalation of risk-related decisions.
- Establishment of the risk appetite, setting objectives, alerts and limits for each type of risk according to the Group's strategy. The aim is to maintain a medium-low risk profile by controlling the risks to which the Group is exposed to through its business model.

The risks to which the Group is exposed are as follows:

Financial risk:

- Business risk
- Credit risk
- Operational risk
- Interest rate risk
- Market risk
- Liquidity risk

Non-financial risk:

- Reputational risk
- Compliance risk

The marked appetite level determines the Risk strategy, establishing policies which will maintain or achieve a residual risk profile in line with the target, periodically assessing the level of inherent and residual risk.

The profile of different categories of financial risk (credit, operational, interest rate, market and business) and non-financial such as reputational and compliance determine the objective of capital. The stress test planning process, for its part, ensures that the risk profile is in line with the set appetite and that the objective of capital is met.

The correct definition and control of the Risk Appetite are the key elements which reasonably ensure the capital objectives.

The metric chosen to measure each of the risks is that which is considered most informative and that better includes both the risk profile of the bank as well as the objectives and limits the entity imposes on itself to ensure an adequate risk management.

In addition to top-level metrics or Risk Appetite Framework metrics for all existing risks and Capital, each risk is managed with additional metrics or second-level monitoring which ensures that the risk profile remains within tolerance levels, integrating the Risk Appetite Framework in its management.

Business risk

This risk, defined as the possibility that the gross income is not sufficient to cover the fixed costs due to changes in the volumes of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions. In this sense, it makes reference to the possibility that the Group does not meet the objective of profitability, which can ultimately affect its capital ratios.

Credit risk

Credit risk is the risk of deterioration in credit quality or through impairment due to changes in the capacity or intention of the counterparty to fulfil its obligations, resulting in a loss. Banco Popular is an entity predominantly focused on retail banking, focused on business with companies, self-employed people and individuals so that their business model is oriented to credit risk. Managing this risk is characterised by a prudent approvals' policy with a system of limits and strict powers, through the withdrawal of guarantees which mitigate this risk, and an appropriate level of coverage.

Risk management

The Group has a specialised unit which it created in December 2014 under the Risk Directorate. It is responsible for safeguard-ng the risk management policies, functions and the needs arising from the entry into force of the new Single Supervisory Mechanism. It tracks the evolution of credit risk and its coordination and joint work with other areas of the Group, mainly Models and Capital, Business and Trade, for the use and integration in the management of credit risk management models and the Basel regulation. Additionally there is a team of analysts for the study both the one-offs and the restructuring such as corporate transactions.

Risk Admissions

The admission of credit risk is done through the Risk Admissions office and its dependent offices; Retail Risks, Risks with Businesses and Public Administrations and Risks with Financial Institutions and the Market as well as risk departments located in different business units (Territorial Offices, Regional Offices, Specialised branches, etc.). It is directly dependent on the Risk Directorate.

These offices and departments have the function of the management and analysis of risk assumption under management principles, policies and operational and communication processes defined in the Risk Appetite Framework, the Risk Policy Manual and the Credit Risk Procedures Manual. Analysis and management are performed by taking into consideration the overall exposure with customers and the economic group in which they are integrated.

Monitoring of Credit Risk

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mecha- nisms for the special surveillance of their progress and to react to avoid default situations. The Group has warning systems in place which makes it possible to anticipate problematic situations and apply preventive measures in respect of current risks. The warnings are based on an analysis of a group of variables relating to transactions and to customers that allow possible anomalous behaviour deviations to be detected and in the knowledge of material facts which could have an impact on the evolution of risks.

Dealing with warnings is done by teams specialised in monitoring risk, with the Risk Monitoring and Control office as a last decision level, in charge of assigning the rating and the policy to follow with customers in relation to the risks incurred, in addition to overseeing the process.

In addition, the Risk Monitoring and Control office carries out the monitoring of certain customers and economic groups risks with a high volume of assumed risk or who show certain incidents and regular monitoring of various risk portfolios which by their nature need their evolution to be controlled.

Management of non-performing balances and recovery of impaired assets

To manage non-performing items and to recover impaired assets, the Group has a General Retail Banking Department to which the Restructuring and Non-performing Balances Office reports while supervising the Restructuring and NPL Offices in each Territorial Management, as well as at the Documentation Preparation Office. In addition, an external provider is responsible for the early recovery of items in accordance with the Restructuring and Non-performing balances guidelines.

Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, participates in the management of the recovery of non-performing customers who have a mortgage security, although the final decision rests within the Bank. Aliseda SGI manages, within authorised limits, the sale of the foreclosed properties. From January 2015, the SBU, Specialised Business Unit has concentrated on restructuring, collections and clients recovery activities related to the real estate market, specifically managing promotor customers whose management has not been transferred to Aliseda SGI.

The structure of the default department has been amended, with specialist teams being created to handle different types of customer portfolios for the recovery of defaults and non-performings; the purpose of this change is to manage and analyse the most appropriate exit strategy regarding the risk in distress for each customer and operation. By doing so, it facilitates litigation in those cases in which the transaction cannot be redirected and allows cases classified as non-performing to be managed and monitored, so that they may be definitively recovered.

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the organisation have been defined. The recovery teams created under Regional and Territorial Management use specialist templates dedicated to the management of debts in difficulty, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets. Customers are grouped into differing portfolios and are assigned based on the amount of risk. Also, the process of preparing documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

The Group has different policies and procedures authorised for the different stages of recovery: 1) Recovery of defaults management, process in which the Central Restructuring and Non-performing Balances Unit, the restructuring teams at the Regional Departments and Territorial Departments, and the external supplier tasked with early recovery are involved. 2) Management of the recovery of non-performing loans, divided into different stages as regards the preparation of documents, legal management and recovery management between the Collection and Recovery teams at the Territorial Departments and 3) Write-off recovery management.

The Group has specialised platforms and applications for the proper management of non-performing balances which allow:

- Accurate and timely monitoring of the evolution of all non-performing, default and written-off risks.
- Managing contact with customers whose contracts have been classified as being in an irregular condition.
- Handling operations that affect a range of procedures throughout the organisation.
- Monitoring activities undertaken by a range of different stakeholders (Regional, Territorial and Central Departments).
- Producing a general vision of non-compliances or issues being managed, thus making it possible to drill down to information on the procedure and contract in question.
- Becoming involved in communications between the different business units.
- Systematising, automating and controlling matters outsourced to collaborating entities.

Management information is a key element throughout the organisation, as it is by using this tool that it is possible to obtain knowledge of the risk management activities undertaken, monitor said risks and ensure compliance with the established risk limits and policies.

At Banco Popular Group, the department responsible for producing information for use by Senior Management is the Corporate Information Centre, although the departments responsible for managing and controlling the different risks also issue relevant information which is also provided to Senior Management.

Credit and Counterparty Risk of Market Activity

In market activity, which is carried out in Treasury and Fixed-income Portfolio Management, operations are performed which have an inherent credit risk. This risk can be classified in two ways: 1) Counterparty risk: Corresponds to the capacity or intention of a counterparty to comply with the financial obligations assumed during the contract's lifetime and up to the maturity of the operations, and 2) Issuer Risk: Represents the issuer's risk of insolvency through changes in its economic-financial strength meaning it cannot cope with obligations arising from the securities issued.

The risk of Market Activity is encompassed within the Banco Popular Group's Risk Appetite Framework.

Country Risk

Country risk is an additional credit risk component implicit in all cross-border transactions. It arises from the potential inability of a debtor to meet their payment obligations to external creditors in foreign currency for macroeconomic, political reasons or of natural disasters.

The risks included in the concept of country risk are sovereign risk (default risk on debt issued by states or entities guaranteed by them) and transfer risk (risk that a country will default on its payment obligations because it does not have a sufficient foreign currency reserve level). The risks associated with foreign direct investment are the risk of confiscation, expropriation and nationalisation, transfer risk in the repatriation of dividends or divestment, the risk of breach of contract and the risk of war, political conflict or natural disasters.

Market risk

Market risk includes the risk of loss to the Entity arising from adverse movement of risk factors that determine the market value of financial instruments included in the held for trading portfolio. Thus, this risk arises from adverse movements in interest rates, in exchange rates, prices of shares or raw materials, credit spreads or volatility of these, arising from decision-making in the treasury field.

Also included is the liquidity risk linked to these positions. This is understood to refer to the impossibility of unwinding positions in the market without significant loss within a short period of time. For this purpose, positions are valued on a time horizon equal to the estimated time horizon it will take to close the inherent risk.

Corporate risk culture in Banco Popular, in relation to the management of market risk, assumes a number of principles; framework for action, inherent in the adoption of the Risk Appetite Framework, RAF, approved by the Board of Directors and which guide the management, measurement and control of Market risk incurred in Banco Popular as a result of its trading activity in financial markets.

Liquidity risk

The liquidity risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid funds, or accessing them, of a sufficient amount and at a suitable cost, in such a way that it is able to meet its payment obligations at all times. This risk is common to all financial institutions and arises from the imbalance resulting from the different maturities of assets and liabilities on products necessary to develop the banking activity.
The Group centralises the supervision and management of liquidity risk at a consolidated level in the Asset and Liability Committee (ALCO), a non-executive body, responsible for analysing and proposing issues related to the management and control of liquidity risk for submission to the Management Committee.

The organisation and control of Liquidity Risk follows, as is the case of all other risks, a model comprising three lines of defence: Finance Management, which is responsible for managing liquidity and controlling liquidity risk as the first line of defence; Risk Directorate, via the Risk Control unit, represents the second line of defence and is tasked with analysing risks assumed by the Bank; and Audit Management, or the third line of defence, which reports directly to the Board of Director's Audit Committee.

Operational risk

The Banco Popular Group has adopted the definition of operational risk established in the new Basel Accord (Basel II-2004): "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, evaluate, monitor and control it. This definition includes legal risk but it excludes strategic and reputational risks.

The Management Committee approved the "Operational Risk Management Framework", which includes the design of policies and functions for the development and implementation of methodologies and tools which allow for better management of the Bank's operational risk.

The Operational Risk Committee at Banco Popular Group, on which particular departments of the Bank sit, basically serves to globally control and manage operational risk, and is therefore responsible for the process of monitoring and managing this risk from a global perspective. Furthermore, it monitors the evolution of the operational risk profile as regards the appetite and limits set in the Group's Risk Appetite Framework, authorised by the Bank's Board of Directors, by means of metrics defined to this end.

The responsibility for implementing and executing the operational risk management cycle is the primary objective of the Operational Risk Office at Banco Popular Group. Since 2008 there has been an Operational Risk Committee which meets quarterly and in which notable Areas of the Group participate. This committee has the basic function of overall control and management of operational risk within the Organisation and it is therefore responsible for the operational risk management and monitoring process from an overall perspective. This committee also regularly reviews the base document for the "Operational Risk Management Framework", which is submitted for the approval of Senior Management when deemed necessary.

The management cycle for operational risks defined by the Banco Popular Group is divided into the following phases: Identification Phase; Evaluation Phase; Monitoring Phase; Mitigation / Control Phase and Measurement Phase

Interest Rate Risk

Structural balance sheet risk is the risk of loss in an economic value and in the margin; it arises as a consequence of fluctuations in interest rates and their impact on the different sensitive main aggregates in the balance sheet and off the balance sheet (excluding the held-for-trading portfolio), including derivatives that serve as coverage.

Regarding the nature of this risk it is important to differentiate the structural dimension of risk, so the focus of this section is the market dimension associated with interest rate risk. The latter is realised only on changes in the value of held for trading portfolio occurring as a result of movements in interest rates and whose management and control policies are set out in the section on Market Risk.

Focusing on the structural dimension of interest rate risk, it is important to note that fluctuations in the rate account for two sources of risk: On the one hand, uncertainty regarding reinvestment rates (maturity/repreciations) throughout the life of an asset/liability and, furthermore, fluctuations in the market value of assets, liabilities and shareholders' equity of Banco Popular.

The Group manages both dimensions aggregately for all the Group's financial institutions. Interest rate risk management is instrumented mainly through derivatives. The policy is to arrange the most perfect possible hedges, and this is why the preference is to arrange individual hedges, although operations with macro hedges are also performed.

Reputational risk

Reputational risk derives from an action, situation, transaction or investment that may lead to a negative perception of the Bank, which may reduce trust in the integrity and capacity of customers, shareholders, employees and public opinion in general; this type of risk can adversely affect capital, earnings and business development that comprise the Bank's activities.

For this reason, the Bank should consider its ability to face the impact of unfavourable images in controversial circumstances, so that its business, its relations with public opinion, customers, markets and suppliers, are hardly affected by the impact of adverse comments and trust is maintained. This means that, in this context, current or potential customers do not have significant reasons to dissuade them from working with the entity, shareholders maintain their investment in the Bank and the Media adopt a position of permanent interest and proximity towards the activities of the Banco Popular Group. This risk is influenced by legal, economic-financial, operational, ethical, social and environmental factors that may cause loss of trust in the institution. Mitigating this risk concerns the entire organisation and everyone in it.

Banco Popular controls this risk globally, analysing different parameters, both internal and external, that allow reputational risk to be assessed.

Compliance Risk

It is defined as the risk of legal or administrative sanctions, significant material financial loss or of reputation due to failures to comply with laws, regulations, self-regulation, codes of conduct and internal regulations applicable to its banking activities.

Regulatory compliance is a responsibility that falls to the whole organisation of the Bank and its staff; not only to a particular area or department.

The Regulatory Compliance Department is responsible to the General Secretary and reports to the Audit Committee of the Bank's Board of Directors. The Money Laundering Prevention Office, the Compliance Office, the Public Authority Response Office, the Customer Service Department and the Regulatory Project Implementation Office report to the aforementioned Regulatory Compliance Department.

The Money Laundering Prevention Office collaborates with the competent authorities and is responsible for prevention measures by investigating and analysing operations and transactions suspected of being related to money laundering as part of unlawful activities or financing terrorism, pursuant to the regulations in force on this matter. Any operations or transactions that are identified as being associated with the aforementioned activities must be communicated accordingly.

The Compliance Office is responsible for assessing and managing the risk of non-compliance related to transparency, customer protection and rules of conduct in the areas of: securities markets, market abuse, customer banking products and services, protection of personal data and the prevention of criminal risks related to business activities of the Bank and FATCA; promoting appropriate training for staff on these matters. Also, the Compliance Office proposes corrective actions concerning issues detected, monitoring their implementation and periodically reporting to the Bank's Audit Committee via the Regulatory Compliance Department.

The Public Administration Response Office handles all communications (letters, requests for information, attachment orders and other notices) addressed to consolidated subsidiaries by public authorities (Courts, Tax Authority, Social Security Fund, Local Authorities, Property Registers, Police, the Spanish Civil Guard, the Spanish Banking Association, etc.).

The purpose of the Customer Service Department is to provide assistance and resolve queries, complaints and claims lodged by customers and users of Banco Popular Group's financial services as regards their legally recognised rights and interests. Such claims may be filed by customers, non-customers and regulatory bodies (Banco de España, the Spanish National Securities Market Commission and the General Directorate of Insurance and Pension Funds).

Regulatory risk

Following the financial crisis of 2008, the global financial system was immersed in an unprecedented regulatory reform process, driven by the G20. Banco Popular actively manages the regulatory risks in the environment in which it operates and has adapted to new requirements. The reform is multifaceted and pursues several objectives; the most noteworthy initiatives defined to date include:

- Basel III reinforces the solvency of banks. In Europe, it is reflected in the Capital Requirements Directive (CRD IV).
- The regulation, which applies to systematic banks, minimises the probability of bankruptcy and mitigates its impact on the system.
- The new resolution framework defines standardised and predictable rules that favour the orderly resolution of failed banks. In Europe, it is reflected in the Bank Recovery and Resolution Directive (BRRD).
- The reform of the derivatives market increases the transparency and security of global markets, primarily as it encourages the liquidation of derivatives contracts by central clearing houses and increases reporting requirements. In Europe, it is reflected in the Markets in Financial Instruments Directive (MFID II).

- As a result of the revision of the Principles for Financial Markets Infrastructures (PFMI), infrastructures that support global markets will be subject to more strict supervision. In this regard, market infrastructures are now more robust and are more prepared to absorb financial shocks.
- The European framework also strengthens consumer protection, by means of the technical development of the Markets in Financial Instruments Directive (MFID II), which, amongst other measures, strengthens information available to retail customers. It is due to come into force in 2017, although this may be pushed back to 2018.

In addition to the transposition of the overall framework, the European environment was marked by the establishment of the Banking Union, the main objective of which is to break the link between sovereign risk and bank risk, and which involves a substantive change in the European institutional architecture.

In this context, Banco Popular, like other major banks, has been subject to single supervision by the European Central Bank since November 2014. Previously, these banks were subject to a Europe-wide exercise to assess the quality of their assets and resistance tests under strict scenarios, which Banco Popular passed successfully. As a result, European banking has been recapitalised after an in-depth, independent assessment process, which has contributed to dissipating uncertainty regarding the health of the European finance system and strengthening confidence in the banking sector.

Tax risk

Defined as the risk of administrative sanctions, default interest, surcharges or financial losses due to errors, omissions, the incorrect interpretation of tax regulations or discrepancies in the way in which the authorities interpret regulations.

Sanction risks can be evidenced by one-off events in the scope of management activities undertaken by the tax authorities (requirements) or general inspection activities.

The Tax Management Office identifies, assesses and prevents, in coordination with other units such as Technical Resources, Legal Services, the Comptroller's Office and even external advisers, when deemed necessary, operational-type tax risks, interpretive and transactional tax risks and accounting tax risk by establishing the necessary risk controls set out below:

- Administrative sanctions due to the late submission of annual retention summaries and informative returns.
- Sanctions for having failed to meet the requirements established by the tax authority or regional administrations, or incomplete compliance therewith.
- Surcharges for the late payment of corporate income tax, VAT and retentions.
- Losses for the overpayment of corporate income tax, VAT and retentions.
- Inspections.
- Risks arising from deferred tax assets (DTAs).
- Economic and reputational risk due to the implementation of new products.
- Regulatory amendments.
- Incorrect tax analysis of company restructuring activities.
- Risk resulting from the incorrect accounting of tax obligations.

Furthermore, sitting on the Tax Board of the Spanish Banking Association offers a first-hand insight into the industry's reaction to the tax authority's opinion on certain issues and, thus, adopt a strategy and, where appropriate, common defence on said issues, making it possible to minimise tax risks. On other occasions, via the Spanish Banking Association, it is possible to ascertain the "unofficial" opinion of the authorities regarding contentious issues, making it possible to define a strategy that eliminates or minimises tax risks.

E.4 State whether the bank has a risk tolerance level, including tax risk.

Banco Popular Group has a comprehensive risk management in which it is understood that the definition and control of its Risk Appetite is one of the key elements.

Banco Popular Group's Board of Directors approved, at its meeting on 17 December 2014, its "Risk Appetite Framework (RAF)" formalising the proper coordination of decisions in the field of Risk; the definition, the level and composition of business risk which Banco Popular Group wishes to take on in its activities and the supervision and monitoring mechanism of such risk. Banco Popular Group's RAF is defined at a Consolidated Group Level and includes those entities included in the scope of regulatory consolidation.

In this document the policies, processes, controls and systems by which the Board of Directors sets, communicates and monitors its risk appetite are described. It includes a description of the roles and responsibilities of those who must implement it.

Additionally, a Risk Appetite Statement is issued, formulating the types of risks that it is intended to accept or avoid in order to achieve the strategic goals, and the quantitative and qualitative indicators of risk appetite and its limits are set.

Risk Appetite is divided into two major categories: i) financial risks associated with the objective of capital: a) Business risk; b) Credit risk; c) Operational risk; d) Interest rate risk; e) Market risk; f) Reputational risk; g) Compliance risk; and h) Liquidity risk.

As a result of the Group's own culture, geared towards governance based on joint decision-making and responsibilities by means of committees and areas, the following actors are involved in the governance of the RAF: i) the board of directors, ii) the risk commission, iii) the management committee and their respective advisory committees on risk (the Capital Committee, the ALCO committee, the operational risk committee and the new products committee), iv) Risk directorate and v) the Risk committee, the competences of each being analysed.

E.5 State whether any of these risks, including tax risks, have materialised during the year.

The risks affecting the Group which are described in the preceding section are those corresponding to the normal activities carried out by consolidated subsidiaries.

See the section on Risks in the Financial Statements.

E.6 Explain the plans in place for responding to and supervising the main risks, including tax risks, faced by the Bank.

In the risk appetite framework of the Group, risk control is viewed as a process that is overseen by the Board of Directors, management and the rest of the Group's personnel and that has been designed to identify, control and manage the risks to which the Group is exposed in order to provide a reasonable level of security in terms of achieving the stated corporate objectives.

Popular views Internal Control as a transversal process promoted by the Board of Directors and which involves the entire organization. It has been designed to comprehensively identify, monitor and manage all risks to which it is exposed, in order to provide reasonable assurance regarding the achievement of established corporate goals, and is modelled on "three lines of defence":

- The first line of defence is formed of branches, operating centres and units which manage and control risks. All units are responsible for managing daily operations within their field of expertise and are tasked with the effective maintenance of internal controls and consistently controlling and implementing risk procedures.
- The second line of defence has a transversal responsibility and is made up of the following units:
    - Risk Directorate / Risk Control
    - Regulatory Compliance
    - Internal Control Body / Prevention of Money Laundering
    - The Management Committee's advisory committees: the Capital Committee, the ALCO Committee and the Operational Risk Committee, which perform control functions in their respective areas and therefore also act as a second line of defence.
- The third line of defence is Internal Audit, a comprehensive and transversal monitoring unit which reports directly to the Audit Committee, an aspect which gives the area a special degree of independence.

Second line of defence

Risk Directorate

Under the supervision of the CEO and reporting to the Management Committee and the Risk Commission, it is the management area responsible for ensuring that the Bank's risk level is adequate both to the economic and financial reality as well as to the Bank's business structure, being therefore the area charged with overall risk management and responsible for the design of risk policies which help identify, control and mitigate the bank's risks and their implementation through the RAF.

Control

Under the supervision of the Technical General Secretary and acting as the second line of defence, it is the area charged with the supervision and control of the Group's risks, reporting on the compliance and efficacy of the RAF to the Risk Directorate, the Management Committee and the Risk Commission.
To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It reports to the Management Committee and the Risk Commission.

Regulatory Compliance

Compliance and regulatory Management reports to the Secretary of the Entity's Board of Directors. If defines and supervises the policies and procedures to comply with the regulatory standards amongst which include the prevention of money laundering and criminal risks.

To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It maintains contact with regulators and supervisors within the scope of its competences. The Compliance Office, under its supervision, has its objective of identifying the compliance risks within its scope of action and establishing controls for its mitigation.

The Compliance Office evaluates Compliance and Reputational Risk, considered as non-financial, and reporting periodically to the Audit Committee through Regulatory Compliance Management as well as the Risk Directorate and the Control area.

Internal Control Body

Its objective is to monitor the proper functioning of the Group in terms of prevention of money laundering and financing of terrorism.

Internal Audit

Reporting directly to the Audit Committee of the Group's Board of Directors, it reports to the Board of Directors through it, acting as the third line of defence.

It is their responsibility to comment annually on the implementation of the RAF. Within its scope is the review of compliance with the Banco Popular Group's internal regulations and assessing the effectiveness of management processes, control and governance of the risk appetite, verifying the correct implementation of them. The result of the analysis is reported to the Board of Directors through the Risk Commission and the Management Committee.

F. Internal control and risk management systems in relation to the Internal Control System on Financial Reporting (ICSFR)

Description of the main characteristics of the internal control and risk management systems with regard to the Internal Control System on Financial Reporting (ICSFR).

F.1 Control environment.

Describe the main characteristics of:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective Internal Control System on Financial Reporting; (ii) its implementation; and (iii) its supervision.

Articles 4 and 5 of the Board Regulations establish that the primary mission of the Board of Directors is to govern and supervise the Bank, leaving the ordinary management of the Bank in the hands of executive bodies and management staff and focusing its activities on general supervisory functions. The Board is also responsible for approving the risk management and control policy, including for tax risks, and for periodically monitoring internal reporting and control systems.

Furthermore, as established in article 24 of the Board Regulations, the Audit Committee assists the Board of Directors in its supervisory and control functions by evaluating the Group's accounting systems, verifying the independence of the external auditor and reviewing its internal control system.

In this regard, the responsibilities of the Audit Committee include supervising the integrity of financial information and the process of preparing and presenting it and overseeing the Bank's internal controls and risk management systems so that the main risks are properly identified, reported and managed.

The Corporate Audit and Control Department of Banco Popular Group (hereinafter the Group) assists the Audit Committee in supervising the proper design and implementation of risk management and control systems, which includes the process of preparing financial information (ICSFR) and ensuring that they work properly and effectively.

Lastly, the Group's Finance Management collaborates on the design and implementation of risk management and control systems, and the Accounting Office in tasks related to the process of preparing, presenting and ensuring the completeness of the financial information that is distributed to the markets.

F.1.2. If they are, especially in relation to the process of preparation of the financial information, the following elements:

- **Indicate which departments and/or mechanisms are responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibilityand authority and an appropriate distribution of tasks and functions and (iii) ensuring that there are procedures in placefor making them known to Bank employees, especially with regard to the process of preparing financial information.**

  The Organisational Structure Office is responsible for designing and revising the organisational structure. Reporting directly to the CEO's Office, this office establishes the different corporate areas around which the entity is structured and continuously analyses their HR needs in order to perform the functions and competencies assigned to them.

  In turn, the Appointments, Governance and Corporate Responsibility Committee, pursuant to the Board Regulations, is responsible for informing and proposing the appointment and removal of senior managers to the Board.

  Human resource needs are defined in more detail by each Department in collaboration with the Organisational Structure Office. Any significant changes or new appointments must be proposed by the General Managers of the affected Departments and ratified by the Management Committee at its monthly meetings. The Bank's Intranet is used to publish the decisions of the Management Committees, with information on structural changes and appointments.

  In the Group, each Department defines its functions and HR and the Organisational Structure Office have job descriptions which include: the category, department and job location along with the functions and responsibilities.

  There are job descriptions for the management positions (Area Directors and Office Managers) in the areas involved in preparing financial information: Accounting and Finance Management.

The Accounting Department, the main area responsible for preparing the financial information that is presented to the markets, and the Department of Finance Management have their own functional organisational chart where the lines of responsibility, tasks and functions are defined. The organisational charts for these areas are updated when changes are made to the lines of responsibility.

- **Code of conducts, approval body, level of dissemination and instruction, principles and values contained in the code (indicate whether there are specific references to accounting procedures and financing reporting), body in charge of analysing non-compliance and proposing corrective/disciplinary actions.**

Banco Popular Group has a "Code of Conduct" that was approved by the Board of Directors in December 2011, which was distributed to all group employees nation-wide via a pop-up on the Bank's intranet. For new recruits, HR is tasked with providing a hard copy of the Code of Conduct upon signature of their employment contract.

The Code applies to the members of the governing body and all employees of the member companies of Banco Popular Group, including interns and trainees, and its stakeholders (collectively "Parties Applicable"), notwithstanding the fact that some of these parties are also bound by the Internal Code of Conduct for the Securities Markets and/or other codes of conduct specific to the functions they perform.

The Code of Conduct lays out the basic rules of conduct for both internal relations and relations with third parties applicable to the people who are bound by the Code and the rules for specific situations (privileged information, data protection, etc.), including internal procedures applicable to the integrity and preparation of the financial information that is reported to the markets.

There is an Oversight Unit at the Group, which is tasked with ensuring monitoring, compliance with and suitability of the Code of Conduct, in addition to other responsibilities. Likewise, this body is responsible for reviewing, at least annually, the content of the Code and approving successive updates, provided that no relevant changes have occurred. Specifically, the Surveillance Unit approved the last update of the document in July 2016.

A breach of the Code of Conduct may result in the application of the disciplinary measures provided for in labour laws, notwithstanding any administrative or criminal penalties that may apply.

The Training and Development Department of the Group led the launch of a specific training course designed to facilitate knowledge of the Code of Conduct by the workforce, as well as to help understand the provisions included in the Code. This training resource is mandatory for all the Group's staff at national level, and it is necessary to successfully pass an evaluation for the course to be considered completed.

- **Whistle Blower Hotline, which allows the Audit Committee to be notified of irregularities of a financial and accounting nature, in addition to any non-compliance with the code of conduct and irregular activities in the organisation, informing, if applicable, if this is of a confidential nature.**

Banco Popular Group has a Reporting System where employees can report violations of the Code of Conduct, both financial and/or accounting irregularities, and irregular or fraudulent activities within the organisation to the Oversight Unit. For the proper functioning of this Channel, an application ad hoc with direct access to the Bank employee portal has been implemented.

Communications received via this Channel are handled and analysed confidentially by the Oversight Unit of the Reporting System. Once the complaint has been investigated, if the committee finds no evidence of the events reported, the file is shelved. Otherwise, the Oversight Unit creates a report, which is then referred to the Oversight Unit of the Code of Conduct at its quarterly meetings and, in turn, to the Human Resources Department. Furthermore, the Oversight Unit of the Reporting System may ask other departments to adopt any corrective measures they deem fit. Finally, the aforementioned measures aside, the Oversight Unit of the Reporting System may file the corresponding complaint with the competent authorities.

Annually, the Oversight Unit of the Code of Conduct reports, to the Audit Committee, the minutes of the meetings held during the previous year, together with a summary of the activity carried out.

- **Training programmes and periodic refresher courses for the personnel involved in preparing and reviewing financial information and evaluating the Internal Control System on Financial Reporting which cover the accounting, auditing, internal control and risk management standards.**

The Group personnel involved in the different processes related to financial reporting (Accounting Department, Risk Management, Finance Management, Models and Capital, Technical General Secretary and Internal Audit) receive training and periodic refresher courses designed specifically to facilitate the correct performance of their functions.

These training programmes are taught by external and internal personnel and may be offered in person and/or online. Some of the most notable topics that are addressed include: "Financial Accounting", "Specialisation in Financial Options and Futures", "Executive Master's Degree in Financial Risk Management", Banking Management Planning and Control", "Advanced Treasury Programme", "Financial Risk Manager", "Master's Degree in Finance at CUNEF", "Expert Course in Portfolio Management", "Financial Planning", "Liquidity Risk Management and ALM", "Quantitative Methods for Finance", "Cibersecurity Fundamentals", "Structural Risk and Balance Sheet Modelling and Management" and "FRTB Prudent Valuation"

Among the most notable in 2016 were seminars given at AFI (Asesores Financieros Internacionales) on Basel III and prudential regulations.

In addition, it should be noted that the staff assigned to the areas involved in preparing financial information members of areas involved in preparing financial information are participating in a Management Development Programme for highly experienced and competent employees who are committed to the corporate vision and values. The programme is taught by high-level speakers and trainers: from within the Group, first-line consultants from IEDE UEM as a business school and avant-garde university. The MBA associated with this programme recognises the effort and excellence of the participants.

Furthermore, 23 members of Corporate Audit and Control have been certified during 2016 in the Expert Course in Internal Auditing at Credit Institutions programme imparted by the Cecabank Training School (ESCA). The material and structure are included in the file "5th Definitive Edition of the Global Calendar"

Lastly, the Group (represented by the Accounting Department), as a member of the Spanish Banking Association (AEB), periodically receives updates and attends meetings where regulatory changes are analysed. It also receives alerts from different professional service firms with technical updates.

F.2 Risk assessment with regard to financial information.

Provide information at least on the following:

F.2.1. What are the main characteristics of the process of identifying risks, including error or fraud?

- **Whether the process exists and is documented.**
- **Whether the process covers all financial reporting objectives (existence and occurrence; integrity; evaluation; presentation, disclosure and comparability; rights and obligations), whether it is regularly updated and how frequently.**
- **The existence of a process for identifying the scope of consolidation, bearing in mind the existence of complex business structures, instrumental entities or special purpose vehicles, among others.**
- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.), to the extent that they affect the financial statements.**
- **Which governing body supervises the process?**

The Group has established a process for identifying the risk of error in the financial information. The process is documented in a procedure in which the Group's relevant processes or areas are identified and analysed.

The risk identification process is the responsibility of the Accounting Department, while the supervision of the process is handled by the Audit Committee through the Internal Audit function.

The risk identification process is reviewed annually using the most recent information available as a baseline. When during the year, (i) previously unidentified circumstances revealing possible errors in the financial information, or (ii) substantial changes in the Group's operations arise, Accounting assesses the existence of risks that must be added to those already identified.

This evaluation process covers all of the objectives of the financial reporting system: (i) existence and occurrence; (ii) integrity; (iii) evaluation; (iv) presentation, (v) disclosure and comparability; (vi) rights and obligations and takes the effects of other types of risk into account (operational, technological, financial, legal, reputational, environmental, etc.).

Risks related to the proper identification of the scope of consolidation are documented in the "Consolidation Process", which is one of the Bank's three critical processes and is therefore audited annually.

Finally, it should be mentioned that according to article 5.2 of its Rules, “the Board of Directors has the authority to approve the creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories considered to be tax havens and any other transactions or operations of a similar nature which, because of their complexity, could impair the Group's transparency”.

F.3 Control activities.

State whether the following exists and, if so, describe the main characteristics:

F.3.1. Procedures for reviewing and authorising financial information and description of the ICSFR to be reported to the stock markets, and persons responsible for the Documentation that describes the activity flows and controls (including those relative to the risk of fraud) of the different types of transactions that can have a material effect on the financial statements, including closing procedures and special reviews of the most relevant judgements, estimates, valuations and forecasts.

Pursuant to Article 5(1) of the Board Regulations, the Board of Directors has the task of "approving the financial information that, due to its status as listed, the Company must periodically make public; the supervision of the information disclosure process and communications relating to the Company as a credit institution.

The procedures for reviewing and authorising the financial information reported by the Group to the markets begin with a review by the Accounting Department, which reports to the Finance Management Department. Following this, the six-monthly financial reports, the individual financial statements, the consolidated financial statements, the Management Report and the Annual Corporate Governance Report are reviewed by the Audit Committee as the step immediately prior to their formulation by the Board of Directors. In addition, the Audit Committee supervises the quarterly financial reports as part of information that is reported to the markets on a regular basis. All of these reviews are documented in the minutes of the Audit Committee meetings.

As mentioned in Indicator 1.1, the Audit Committee performs the following functions, among others:

a) Supervising the process of preparing and submitting mandatory financial information and submitting recommendations and proposals to management, with a view to safeguarding its integrity.

b) Performing regular reviews of the effectiveness of the Bank's internal control, internal audit and risk management systems, as well as discussing any significant weaknesses in the internal control systems detected during the audit with the auditors, all of which without violating its integrity. For that purpose, and where applicable, recommendations or proposals may be submitted to Management in addition to the corresponding deadline for follow-up. The head of Internal Audit will present its annual work programme to the Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

The Audit Committee meets at least twice a year (half-year and annual year-end) with the external auditors to go over the financial reporting review process and identify incidents, among other things.

The Group has documented all of the processes at risk of having a material impact on the Group's financial statements, identifying the key risks and controls associated with each one, such as fraud. It should be noted that the closing and consolidation processes and the judgements and estimates made are critical processes in the preparation of financial reports.

For each one of these processes, the Group has documentation describing the activity flows, the identified risks and the controls in place to mitigate those risks. This documentation describes: the control activities, the risks they mitigate, how often they take place, the degree of automation and the persons responsible for them.

With regard to the review of relevant judgements and estimates, the Group reports on the most critical estimates or judgements and the key hypotheses used by the Group in the Consolidated Financial Statements. The main estimates relate to: evaluation of the impairment of loan assets and property assets, valuation of Goodwill, useful life of tangible and intangible assets, actuarial assumptions used in the calculation of liabilities and compensation commitments, the reversal period of temporary differences for valuation purposes, on legal and other risks, valuation of certain unlisted assets, corporate income tax and income derived from corporate operations. These are reflected in the Group's accounting policies manual.

F.3.2. Internal control policies and procedures for information systems (safe access, change control, operations, continuity of operation and segregation of functions, among others) that support the Bank's relevant processes in relation to the preparation and publication of financial information.

The Information Technology Office is responsible for the systems that directly or indirectly support the financial information and contain the information used to prepare the financial reports. The Accounting Department is responsible for overseeing the preparation of financial information.

The Information Safety office has a regulatory framework in place that includes specifications on the policies and procedures for the information systems that support the preparation and publication of financial information. This regulatory framework and all other security measures that have been implemented apply to all areas of Banco Popular Group and to all of the systems which director or indirectly support the financial information and the transactions associated therewith.

The Information Technology Office is divided into different areas that handle the following processes:

- Logical security: controlling access to data, programmes and information security.
- Design and development of transversal applications and infrastructures that support the group's business applications.
- Software maintenance and quality validation in computer programme development.
- Managing the supply of services and communications, performance control and scheduled tasks.
- Continuity of operations, back-ups and technological contingency plan.

The Information Safety office has the appropriate tools in place to control and supervise access and, in coordination with the different business areas, to ensure that functions are properly segregated and that access to systems and information is effectively controlled.

The development methodology used by the Group establishes the steps to be followed over the software's life cycle, including both new applications and modifications of existing ones, to guarantee the quality, control and validation of phases and optimise computer developments in order to bring them in line with standards such as CMMI and ITIL, which in turn guarantees that these applications are processing the transactions correctly and providing reliable information.

The Information Technology area has a Contingency Plan which ensures that the bank's operations can continue (continuity of operations and registration of transactions) even when one or more systems go down. The procedures described in the plan include instructions for the failed functions to be supported by an alternate system, thus guaranteeing that operations are not interrupted and that the situation returns to normal as soon as possible. In addition, backup and restore procedures guarantee that the information can be recovered if it is lost. The Banco Popular Group has extensive experience with backup and restore procedures and the Contingency Plan is revised dynamically to accommodate new releases of platforms and applications. The availability and efficiency of these processes are verified by the Bank periodically.

F.3.3. Internal control policies and procedures intended to supervise the management of the activities outsourced to third parties and the evaluation and calculation responsibilities entrusted to independent experts which can have a material effect on the financial statements.

The Group does not believe that any of the work subcontracted to third parties can have a relevant impact on the process of preparing the Group's financial information.

The use of specialists and experts can have a fundamental effect on appraised values (property assets appraisals, actuarial calculations, valuations of certain financial assets and litigation).

The areas of the Group responsible for engaging the services of such experts work only with highly reputable professionals in keeping with the terms of the "Internal Policy on Selecting and Evaluating the Work of Independent Experts".

F.4.1 Information and communication.

State whether the following exists and, if so, describe the main characteristics:

F.4.1. A specific function responsible for defining accounting policies and keeping them up to date (accounting policy area or department) and resolving questions or conflicts arising from their interpretation, keeping the lines of communication open with the people responsible for operations within the organisation as well as a manual of accounting policies that is kept up to date and distributed to the Bank's operating units.

The Group has an accounting policies manual, approved by the Audit Committee, subject to submission to the Management Committee, which describes the accounting policies defined by the Accounting Department, applicable to the Group, and which explains the policies adopted for each transaction type, in order to ensure that the requirements established in accounting standards are complied with.

This manual is updated, at least, once a year, prior to the issuance of the financial statements.

The accounting regulatory framework that defines the policies applicable to the Group and ensures that the financial statements show a true image of the Group's equity and financial situation, includes the (i) the Commerce Code and other business legislation, (ii) the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and (iii) Banco de España Circular 4/2004 of 22 December and subsequent updates.

It specifically corresponds to the Accounting Department (directly reporting to the Financial Director):

- Responding to accounting questions raised by subsidiaries and other business units.
- Reviewing the implications of regulatory changes and passing them on to the pertinent departments and staff.
- Identifying, defining and communicating accounting policies regarding ratings applicable to loans and receivables, the assessment of loans and receivables and property assets affecting the Group, in addition to accounting queries that may arise in relation thereto.
- Finally, this office, which reports to the Regulations Office, is also tasked with informing the Group's Senior Management regarding new accounting standards and shareholders' equity standards both nationally and internationally (Banco de España, EBA, BIS, etc.), the results of their implementation and their impact on financial statements.

The Regulatory Office (directly reporting to the Accounting Department) is in charge of:

- In terms of new transactions to be carried out by the Banco Popular Group in the future, analysing and applying the regulations applicable to the transaction pursuant to the pre-defined accounting policies, in addition to the results of its implementation and its impact on the financial statements.
- Responding to accounting questions raised by subsidiaries and other business units.
- Identifying, defining and communicating the Group's accounting policies and critical judgements (i.e., goodwill, value of financial assets, etc.).
- Identifying and analysing the accounting implications of regulatory changes and passing them on to the pertinent departments and staff.
- This Department is in charge of reporting to the management of the Accounting Department on new accounting standards and shareholders' equity standards both nationally and internationally (European Central Bank, Banco de España, EBA, BIS, etc.), the results of their implementation and their impact on the financial statements.

F.4.2. Mechanisms for gathering and preparing standardised financial information that apply to and are used by all business units and that support the primary financial statements and notes to the financial statements, as well as detailed information on Internal Control System on Financial Reporting.

In the Group, the process of preparing and consolidating the financial information is centralised in the Consolidation Office, which reports to the Accounting Department.

The Consolidation process is performed using the Oracle-Hyperion corporate application which enters the information uploaded in the Central Computer referring to the closing of the Group's bank entities, and which automatically and uniformly loads the information. This process is used to automatically consolidate approximately 85% of the accounting amounts of the Group's financial statements, thereby mitigating operational risks. Part of the controls are also automated, allowing control reports to be created in different phases of the consolidation process.

For the rest of the Group's subsidiaries, the Consolidation Office gathers and analyses the information, performing the different consolidation phases: standardisation, harmonisation and consolidation using the Oracle-Hyperion application, with its account mapping and controls allowing the other subsidiaries to be automatically consolidated. The adjustments made in chained systems are also entered in the application in order to obtain the final consolidated statements. In turn, the Consolidation Office is responsible for gathering information and supervising the preparation of the notes to the Group's financial statements.

F.5 Supervision of system operation.

State whether the following exists and, if so, describe the main characteristics:

F.5.1. State whether there is an internal audit function whose responsibilities include assisting the Audit Committee with the task of supervising the internal control system, including the ICSFR. Also describe the scope of the evaluation of the Internal Control System on Financial Reporting performed during the year and the procedure whereby the person responsible for the evaluation reports his or her findings, and whether the entity has an action plan with the corrective measures referred to in the evaluation, considering the impact on the financial information.

According to article 24.4.c of the Board Regulations, the functions of the Audit Committee include: "Supervising the process of preparing and submitting mandatory financial information and submitting recommendations and proposals to management, with a view to safeguarding its integrity."

Furthermore, the Internal Auditing Statute approved by the Audit Committee in September 2016, establishes the following, inter alias:

- Internal Audit is the unit that performs supervisory, control, evaluation and advisory functions which, through Audit Management, ultimately reports to the Audit Committee of Banco Popular Español and carries out an independent and objective activity of assurance and consultation, designed to add value to and improve the Group's operations. This is the third line of defence of BPG, which helps to fulfil its objectives by providing a systematic and disciplined approach to analyse and improve the efficiency of risk, control and governance processes, complementing that applied by the persons responsible for managing these processes and second level control activities.
- The scope of action of Internal Auditing includes the mandatory activities that are stipulated by law or supervisory bodies and any additional functions required to fulfil the objective of evaluating and improving the efficiency of the risk management, control and governance processes, verifying that all relevant risks faced by the Group are properly identified and evaluated by the people responsible for controlling them and that the control measures are having the intended mitigating effects.

Consequently, the functions of Internal Auditing include reporting to and assisting the Audit Committee in supervising the correct design, implementation and operation of risk management and control systems, including ICSFR.

Article 24.4.b of the Board Regulations states that the functions of the Audit Committee shall include the following: "Performing regular reviews of the effectiveness of the Bank's internal control, internal audit and risk management systems, as well as discussing any significant weaknesses in the internal control systems detected during the audit with the auditors, all of which without violating its integrity. For that purpose, and where applicable, recommendations or proposals may be submitted to Management in addition to the corresponding deadline for follow-up. The head of Internal Audit will present its annual work programme to the Committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year."

Within the framework of the three-year ICSFR (Internal Control System on Financial Reporting) Supervision Plan approved by the Audit Committee for the 2015-2017 year, Internal Audit's objective is to review the areas or processes which are considered to be relevant for the Group, throughout the three-year period covered by the Plan, except for the Closing, Consolidation and Judgement and Estimates process, which, given that their evaluation is considered to be critical, have been performed on an annual basis.

The scope of the evaluation conducted in 2016 included the following reviews:

i. Critical Closure, Consolidation and Judgements and Estimates processes.
ii. Other Processes included in the three-year ICSFR (Internal Control System on Financial Reporting) Supervision Plan 2016: Syndicated Loans, Derivatives, Goodwill, Corporate Income Tax and Property Developer Loans. General IT controls have also been audited.

It should be noted that, in addition, the "Accounting Reconciliation" and "Accounting and Financial Information System – SICYF" Processes, which are part of the Closing process, have been created in the ICSFR.

The scope of review of all processes includes the evaluation of the following sections:

- Verification of the procedures of each process.
- Identification of risks.
- Identification and effectiveness of controls performed.
- Evaluation of evidence of controls.

The facts detected are included in the audit reports. The recommendations where the action plans of the audited units are included, are monitored. The expected implementation date is monitored as well. The result of implementing the recommendations is communicated to the Audit Committee.

F.5.2. State whether there is a discussion procedure whereby the auditor (pursuant to the terms of TAS), the internal audit are and/or other experts are able to report any serious weaknesses found in the internal control system to upper management and the Audit Committee. Also, state whether there is an action plan for correcting or mitigating any weaknesses encountered.

According to article 24.4.d of the Board Regulations, the functions of the Audit Committee include: "Submit to the Board of Directors, for submission to the General Shareholders' Meeting, proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process, in accordance with the provisions of the applicable regulations, as well as the conditions of hiring, and regularly collect from it information about the audit plan and its implementation, in addition to preserving its independence in the exercise of its functions."

The Internal Audit Charter also indicates that:

- In order to comply with the duty of information to the Audit Committee and the Management Committee, every quarter and every year, an activities report shall be drafted with details of the tasks carried out during the period which is the object of the report, their conclusions, main weaknesses detected and monitoring of the improvement recommendations issued.
- Likewise, the Audit Director will communicate to the Audit Committee and the Management Committee the results of the programme for assurance and improvement of the quality of the internal audit activity.

The Audit Committee meets every month to obtain and analyse the information needed to perform the functions entrusted to it by the Board of Directors, and, in its meetings, it addresses the following matters, inter alia:

i. it reviews all of the financial information reported to the markets (financial statements, Interim first half statements and interim quarterly reports),
ii. discusses any weakness observed in the Internal Control System on Financial Reporting and proposed solutions.

The meetings of the Audit Committee are attended by the external auditor, who also has direct access to and has regular meetings with the senior management (Management Committee). In these meetings, the external auditor gathers the information needed to perform his task of auditing the Financial Statements and reports any control weaknesses detected during this process. In addition, the external auditors present an annual report to the Audit Committee detailing the internal control incidents observed, the comments of the group's management and the measures implemented to remedy the weaknesses.

The General Manager of the Auditing Area also attends the meetings of the Audit Committee and of the Management Committee (of which he forms part), where he presents the details and scope of the activities performed and the monitoring of the recommended improvements put forward.

F.6 Other relevant information

There is no other relevant information to add for this year.

F.7 Report of the external auditors

Report on:

F.7.1. State whether the information on the ICSFR reported to the markets is reviewed by an external auditor, in which case the entity should include the auditor's report. Otherwise, a reason should be given for not having done so.

The information on the "Financial Reporting Internal Control Systems" reported to the markets for the year 2016 was examined by the external auditor. The scope of the auditor's review was in keeping with the terms of Circular E 14/2013 of the Spanish Institute of Certified Public Accountants dated 19 July 2013 and subsequent amendments.

G. Degree of compliance with corporate governance recommendations

Indicate the company's degree of compliance with the recommendations of the Unified Code of Corporate Governance.

In the event of any non-compliance or partial compliance, give a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to evaluate the company's performance. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant **Explain**

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant **Partially compliant** **Explain** **Not applicable**

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant **Partially compliant** **Explain**

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation

Compliant **Partially compliant** **Explain**

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant **Partially compliant** **Explain**

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and compensation committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Compliant **Partially compliant** **Explain**

7. The company should broadcast its general meetings live on the corporate website.

Compliant **Explain**

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general shareholders' meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant **Partially compliant** **Explain**

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general shareholders' meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend

Compliant **Partially compliant** **Explain**

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general shareholders' meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general shareholders' meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant **Partially compliant** **Explain** **Not applicable**

11. In the event that a company plans to pay for attendance at the general shareholders' meeting, it should first establish a general, long-term policy in this respect.

Compliant **Partially compliant** **Explain** **Not applicable**

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant **Partially compliant** **Explain**

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant **Explain**

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable;

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appoitments committee's explanatory report, to be published when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant **Partially compliant** **Explain**

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant **Partially compliant** **Explain**

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant **Explain**

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of share capital, independent directors should occupy, at least, a third of board places.

Compliant **Explain**

As at 31 December 2016, the Board of Directors comprised fifteen directors, of which seven, who represent 47 percent of the total, are independent Directors. At present, this number of independent Directors is deemed appropriate for the Board of Directors to perform its functions pursuant to the composition of current share capital and the correlation in the percentage of proprietary Directors represented on the Board.

In any event, the Company is aware of the importance of gradually increasing the number of independent Directors sitting on the Board to at least half the total number, pursuant to the recommendation made by the Appointments, Governance and Corporate Responsibility Committee.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant **Partially compliant** **Explain**

19. Following verification by the Appointments Committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Compliant Partially compliant Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the Appointments Committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant Partially compliant Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant Partially compliant Explain Not applicable

25. The Appointments Committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant Partially compliant Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant **Partially compliant** **Explain**

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant **Partially compliant** **Explain**

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant **Partially compliant** **Explain** **Not applicable**

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant **Partially compliant** **Explain**

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant **Explain** **Not applicable**

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant **Partially compliant** **Explain**

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant **Partially compliant** **Explain**

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant **Partially compliant** **Explain**

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant **Partially compliant** **Explain** **Not applicable**

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant **Explain**

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the Appointments Committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant **Partially compliant** **Explain**

37. When there is a delegated or executive committee (hereinafter, "delegated committee"), its participation structure formed by the different types of Directors should resemble that of the board of directors and its secretary should also act as secretary of the Board.

Compliant **Partially compliant** **Explain** **Not applicable**

The Delegated Committee is a collegial body with delegated decision-making powers of the Board of Directors. Therefore, the Board of Directors considers it appropriate to give considerable weight to the criteria of efficiency and knowledge of the inner workings of the entity when establishing the Committee's composition, which is why all three executive members of the Board of Directors are included. At the same time, it is important to maintain the participation therein of the external directors, especially those classed as independent, to be consistent with the structure of participation of external directors in the Board of Directors. In short, it ensures that its composition reflects, as far as possible, the composition of the Board of Directors.

The Delegated Committee has a composition that the Board of Directors considers balanced, consisting as it does of six directors, three of whom are executives and the remaining three external, two of whom are independent and the other one is other external.

The percentage of independent directors on the Board of Directors is 47% and the Delegated Committee is 33.33%.

38. The board should be kept fully informed of the business transacted and decisions made by the delegated committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant **Partially compliant** **Explain** **Not applicable**

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant **Partially compliant** **Explain**

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant **Partially compliant** **Explain**

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant **Partially compliant** **Explain** **Not applicable**

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant **Explain**

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant **Explain**

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant **Partially compliant** **Explain** **Not applicable**

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant **Partially compliant** **Explain**

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant **Partially compliant** **Explain**

47. Appointees to the appointments and compensation committee – or of the appointments committee and compensation committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant **Partially compliant** **Explain**

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Compliant **Explain** **Not applicable**

49. The Appointments Committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the Appointments Committee to propose candidates that it might consider suitable.

Compliant **Partially compliant** **Explain**

50. The compensation committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the compensation policy set by the company.

c) Periodically review the compensation policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant **Partially compliant** **Explain**

51. The compensation committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant **Partially compliant** **Explain**

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Compliant **Partially compliant** **Explain** **Not applicable**

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant **Partially compliant** **Explain**

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant **Partially compliant** **Explain**

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant **Explain**

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant **Explain**

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **Partially compliant** **Explain**

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant **Partially compliant** **Explain** **Not applicable**

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant **Partially compliant** **Explain** **Not applicable**

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant **Partially compliant** **Explain** **Not applicable**

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant **Partially compliant** **Explain** **Not applicable**

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant **Partially compliant** **Explain** **Not applicable**

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant **Partially compliant** **Explain** **Not applicable**

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant **Partially compliant** **Explain** **Not applicable**

H. Other information of interest

If there are any significant aspects relating to corporate governance in the company or consolidated subsidiaries that have not been addressed in other sections of this report, but which it is necessary to include in order to provide a more complete and reasoned account of the structure and practices of governance in the company or its group, describe them briefly.

This section may also include any other information, clarification or nuance relating to the preceding sections of the Report providing they are relevant and not 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 company should also indicate whether it has voluntarily subscribed to other codes of ethical principles or good practices at international, sectoral or other level and, if so, state the name of the code in question and the date of subscription. In particular, it shall refer to whether it has adhered to the Code of Good Tax Practices of 20 July 2010.

In 2011, Banco Popular Español subscribed to the Code of Good Tax Practices approved by the Forum of Large Companies pursuant to the wording proposed by the Spanish State Tax Administration Agency (AEAT) and complies with the contents thereof.

This annual corporate governance report was approved by the Bank's Board of Directors at its meeting of 20 February 2017.

Indicate whether any directors voted against or abstained from approving this Report.

NO

Name or company name of Director not voting in favour of approving this report	Reasons (against,	Explain the reasons
abstained, absent)	Explain the reasons	-

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Banco Popular Español, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Banco Popular Español, S.A. (Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent Company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Banco Popular Español, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

pwc

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Banco Popular Español, S.A. and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Emphasis of Matter

We draw your attention to Note 6 to the accompanying financial statements, which describes the Group's capital ratios at 31 December 2016 and 1 January 2017 and the compliance with the capital requirements established by the European Central Bank for the Group as a result of the Supervisory Review and Evaluation Process (SREP). That Note also describes that the Directors have prepared the accompanying financial statements on the understanding that, based on current business forecasts and specific capital measurements, the Group has the capital generation mechanisms, both organic and inorganic, to comply with capital requirements in 2017 and that the evolution of capital ratios is therefore subject to compliance with its business plan, currently under review, and the development of certain external aspects mentioned in Note 6. Additionally, it should be noted that as envisaged and indicated in Note 70, the change in the Presidency of the Bank and Group has been approved following the preparation of the consolidated financial statements. These matters do not modify our opinion.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2016 contains the explanations which the Parent Company´s Directors consider appropriate regarding Banco Popular Español, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2016. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Banco Popular Español, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pedro Barrio Luis

February 24, 2017

Reporting responsibility

The Bank's Senior Management, as the technical and executive body of Banco Popular pursuant to Article 26 of the Bank's Articles of Association, is responsible for the preparation and presentation of all the financial information shown in the following pages. In the Management's opinion, this information offers a true and fair view of the Bank's financial position, and the operational and accounting processes applied comply with current legal and administrative regulations and with the instructions and recommendations of the Banco de España and the European Central Bank in its role as the single banking supervisor.

To this end, certain procedures, which are periodically reviewed and optimised, have been implemented to ensure that a uniform accounting record is kept of all transactions by means of an appropriate system of internal controls.

These procedures include monthly management controls at all decision-making levels, the scrutiny and approval of transactions in the framework of a formal system of functional delegation, ongoing professional training of the staff and the issuance and updating of manuals and operating standards. Also, the professional independence of the related control bodies is formally established in the organisation.

The financial statements, which have been audited by PricewaterhouseCoopers, include such explanations and details as are considered necessary for a clear understanding. For a thorough understanding of the financial statements, reference should be made to the events and major results impacting them, which are described in the Management Report contained in the preceding pages of this document.

Consolidated balance sheets at 31 December 2016 and 2015

(Thousands of euros)

ASSETS	Notes	31.12.2016	31.12.2015
Cash and cash balances at central banks and other demand deposits	19	3,278,808	5,465,713
Financial assets held for trading	20	2,103,849	1,285,883
Derivatives		1,664,375	1,243,389
Equity instruments		16,497	21,523
Debt securities		422,977	20,971
Loans and advances		-	-
Central Banks		-	-
Credit Institutions		-	-
Customers		-	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge		115,748	-
Financial assets designated at fair value through profit or loss	21	553,790	535,319
Equity instruments		205,445	221,450
Debt securities		348,345	313,869
Loans and advances		-	-
Central Banks		-	-
Credit Institutions		-	-
Customers		-	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge		-	-
Available-for-sale financial assets	22	15,384,097	25,193,155
Equity instruments		639,709	446,509
Debt securities		14,744,388	24,746,646
Memorandum item: loaned or delivered as collateral with right of sale or pledge		7,257,763	11,376,677
Loans and receivables	23	99,104,146	105,076,291
Debt securities		601,967	1,136,961
Loans and advances		98,502,179	103,939,330
Central Banks		-	-
Credit Institutions		4,159,264	4,301,561
Customers		94,342,915	99,637,769
Memorandum item: loaned or delivered as collateral with right of sale or pledge		5,604,831	17,172,868
Held-to-maturity investments	24	4,583,511	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge		1,862,889	-
Derivatives – Hedge accounting	26	295,219	443,068
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	265,519	233,228
Investments in subsidiaries, joint ventures and associates	28	1,865,142	1,794,009
Joint Ventures		937,728	654,559
Associates		927,414	1,139,450
Assets under insurance and reinsurance contracts	29	17,543	17,524
Tangible assets	30	2,195,131	1,697,785
Property, Plant and Equipment		842,834	777,713
For own use		842,834	777,713
Assets assigned under operating leases		-	-
Investment property		1,352,297	920,072
Of which assets assigned under operating leases		-	-
Memorandum item: Acquired under finance leases		-	-
Intangible assets	31	2,612,566	2,571,879
Goodwill		2,075,034	2,072,901
Other intangible assets		537,532	498,978
Tax assets	32	5,082,845	3,604,163
Current tax assets		175,734	160,173
Deferred tax assets		4,907,111	3,443,990
Other assets	33	1,691,884	1,685,928
Insurance contracts linked to pensions		164,498	167,918
Inventories		791,762	897,315
Other assets		735,624	620,695
Non-current assets and disposal groups classified as held for sale	27	8,891,678	9,045,928
TOTAL ASSETS		**147,925,728**	**158,649,873**

LIABILITIES	Notes	31.12.2016	31.12.2015
Financial liabilities held for trading	20	1,643,755	1,043,063
Derivatives		1,643,545	1,043,063
Short positions		210	-
Deposits		-	-
Central Banks		-	-
Credit Institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss	21	604,707	599,419
Deposits		-	-
Central Banks		-	-
Credit Institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		604,707	599,419
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost	34	131,184,666	140,508,524
Deposits		113,031,654	121,711,801
Central Banks		15,987,478	14,204,120
Credit Institutions		14,203,229	19,172,266
Customers		82,840,947	88,335,415
Debt securities issued		17,063,598	18,055,999
Other financial liabilities		1,089,414	740,724
Memorandum item: subordinated liabilities		2,039,472	2,066,951
Derivatives – Hedge accounting	26	1,201,865	2,013,974
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	-	-
Liabilities under insurance and reinsurance contracts	35	484,284	486,829
Provisions	36 and 37	534,306	383,359
Pensions and other post employment defined benefit obligations		238,404	261,117
Other long term employee benefits		-	-
Pending legal issues and tax litigation		22,749	16,359
Commitments and guarantees given		195,037	69,311
Other provisions		78,116	36,572
Tax liabilities	32	397,348	513,483
Current tax liabilities		38,878	45,575
Deferred tax liabilities		358,470	467,908
Share capital repayable on demand		-	-
Other liabilities	38	787,184	586,597
Liabilities included in disposal groups classified as held for sale		-	-
TOTAL LIABILITIES		**136,838,115**	**146,135,248**

EQUITY	Notes	31.12.2016	31.12.2015
Own funds	40	11,364,901	12,719,992
Share capital		2,098,429	1,082,538
Paid up capital		2,098,429	1,082,538
Unpaid capital which has been called up		-	-
Memorandum item: uncalled capital		-	-
Share premium		5,277,886	7,774,555
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		-	-
Retained earnings		7,840,459	3,926,925
Revaluation reserves		1,978	2,009
Other reserves		(178,134)	(107,601)
Accumulated reserves or losses on investments in joint ventures and associates		(16,873)	(7,466)
Other		(161,261)	(100,135)
(-) Treasury shares		(190,351)	(21,479)
Profit or loss attributable to owners of the parent		(3,485,366)	105,432
(-) Interim dividends		-	(42,387)
Accumulated other comprehensive income	41	(289,278)	(221,743)
Items that will not be reclassified to profit or loss		(32,079)	(32,792)
Actuarial gains or (-) losses on defined benefit pension plans		(32,079)	(32,792)
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Other fair value changes		-	-
Items that may be reclassified to profit or loss		(257,199)	(188,951)
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		115,095	92,297
Hedging derivatives. Cash flow hedges [effective portion]		(72,728)	(92,207)
Available-for-sale financial assets		(300,217)	(191,166)
Debt instruments		(311,090)	(206,066)
Equity instruments		10,873	14,900
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		651	2,125
Minority interests	42	11,990	16,376
Accumulated other comprehensive income		-	-
Other items		11,990	16,376
TOTAL EQUITY		**11,087,613**	**12,514,625**
TOTAL EQUITY AND TOTAL LIABILITIES		**147,925,728**	**158,649,873**

MEMORANDUM ITEM			
Guarantees granted	46	10,982,364	11,159,430
Contingent commitments granted	47	8,286,647	8,568,748

Consolidated Profit and Loss Statements for the years ended December 31, 2016 and 2015

(Thousands of euros)

	Notes	31.12.2016	31.12.2015
Interest income	48	2,929,747	3,508,688
(Interest expenses)	48	833,159	1,257,452
(Expenses on share capital repayable on demand)		-	-
A) NET INTEREST INCOME		**2,096,588**	**2,251,236**
Dividend income	49	10,731	13,138
Share of profit or (-) loss of entities accounted for using the equity method	50	59,895	47,422
Fee and commission income	51	601,583	655,770
(Fee and commission expenses)	51	62,912	60,448
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	52	222,873	525,193
Gains or (-) losses on financial assets and liabilities held for trading, net	52	(2,219)	11,540
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net.	52	(18,442)	(15,877)
Gains or (-) losses from hedge accounting, net	52	(1,484)	(3,596)
Exchange differences [gain or (-) loss], net.	53	41,950	45,564
Other operating income.	54	138,499	196,221
(Other operating expenses).	55	260,385	227,374
Assets under insurance and reinsurance contracts income	56	33,501	33,241
(Liabilities under insurance and reinsurance contracts expenses)	56	34,426	41,119
B) TOTAL OPERATING INCOME		**2,825,752**	**3,430,911**
(Administrative expenses)		1,887,256	1,603,687
(Staff expenses)	57	1,237,465	935,833
(Other administrative expenses)	58	649,791	667,854
(Amortisation)	59	140,695	137,753
(Provisions or (-) reversal of provisions)	60	193,224	(35,028)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	61	3,863,618	1,425,587
(Financial assets measured at cost)		-	-
(Available-for-sale financial assets)		16,372	42,670
(Loans and receivables)		3,847,246	1,382,917
(Held to maturity investments)		-	-
C) NET OPERATING INCOME		**(3,259,041)**	**298,912**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)		-	-
(Impairment or (-) reversal of impairment on non-financial assets)	62	381,404	(21,648)
(Tangible assets)		169,463	(39,993)
(Intangible assets)		169,277	-
(Others)		42,664	18,345
Gains or (-) losses on derecognition of non financial assets, net	63	70,341	127,875
Of which, investments in subsidiaries, joint ventures and associates		(5,225)	57,876
Negative goodwill recognised in profit or loss	64	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	65	(1,318,378)	(334,251)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**(4,888,482)**	**114,184**
(Tax expense or (-) income related to profit or loss from continuing operations)		(1,403,121)	8,250
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**(3,485,361)**	**105,934**
Profit or (-) loss after tax from discontinued operations		-	-
F) PROFIT/(LOSS) FOR THE YEAR		**(3,485,361)**	**105,934**
Attributable to minority interests [Non-controlling interest]	66	5	502
Attributable to owners of the parent		(3,485,366)	105,432
EARNINGS PER SHARE		Amount in euros	Amount in euros
Basic	5	(1.094)	0.050
Diluted	5	(1.094)	0.049

Consolidated statements of recognised income and expenses for the years ended December 31, 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015
Profit or (-) loss for the year	**(3,485,361)**	**105,934**
Other comprehensive income	**(67,535)**	**(88,666)**
Items that will not be reclassified to profit or loss	713	1,107
Actuarial gains or (-) losses on defined benefit pension plans	(1,689)	3,144
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Other fair value changes	-	-
Income tax relating to items that will not be reclassified	2,402	(2,037)
Items that may be reclassified to profit or loss	(68,248)	(89,773)
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	40,857	60,013
Translation gains or (-) losses taken to equity	40,857	60,013
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	27,778	(98,017)
Valuation gains or (-) losses taken to equity	27,778	(98,017)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(154,403)	(88,421)
Valuation gains or (-) losses taken to equity	12,361	340,527
Transferred to profit or loss	(166,764)	(428,948)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	(1,474)	2,792
Income tax relating to items that may be reclassified to profit or (-) loss	18,994	33,860
Total comprehensive income for the year	**(3,552,896)**	**17,268**
Attributable to minority interests [Non-controlling interest]	5	502
Attributable to owners of the parent	(3,552,901)	16,766

Consolidated statements of changes in equity for the years ended December 31, 2016 and 2015

(Thousands of euros)

	OWN FUNDS											Minority interests		
	Share capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement] [01.01.2016]	**1,082,538**	**7,774,555**	**-**	**-**	**3,926,925**	**2,009**	**(107,601)**	**21,479**	**105,432**	**42,387**	**(221,743)**	**-**	**16,376**	**12,514,625**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [01.01.2016]	**1,082,538**	**7,774,555**	**-**	**-**	**3,926,925**	**2,009**	**(107,601)**	**21,479**	**105,432**	**42,387**	**(221,743)**	**-**	**16,376**	**12,514,625**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,485,366)**		**(67,535)**	**-**	**5**	**(3,552,896)**
Other changes in equity	**1,015,891**	**(2,496,669)**	**-**	**-**	**3,913,534**	**(31)**	**(70,533)**	**168,872**	**(105,432)**	**(42,387)**	**-**	**-**	**(4,391)**	**2,125,884**
Issuance of ordinary shares	1,015,891	1,503,331			(13,670)									2,505,552
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	4,000,000	-	-	(4,000,000)	-	-	-	-	-	-	-	-	-
Dividends (or remunerations to partners)	-	-	-	-	60,938	-	-	-	-	42,387	-	-	-	18,551
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	(9,581)	-	-	168,872	-	-				(178,453)
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	175,965	-	(70,533)	-	(105,432)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(178,242)	(31)	-	-	-	-	-	-	(4,391)	(182,664)
Closing balance [31.12.2016]	**2,098,429**	**5,277,886**	**-**	**-**	**7,840,459**	**1,978**	**(178,134)**	**190,351**	**(3,485,366)**	**-**	**(289,278)**	**-**	**11,990**	**11,087,613**

	OWN FUNDS										Minority interests		
	Share capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	Total
Opening balance [before restatement] [01.01.2015]	1,050,384	7,132,590	643,120	78	3,722,450	2,040	(94,223)	3,458	330,415	-	(133,077)	-	19,548	12,669,867
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [01.01.2015]	1,050,384	7,132,590	643,120	78	3,722,450	2,040	(94,223)	3,458	330,415	-	(133,077)	-	19,548	12,669,867
Comprehensive income for the year	-	-	-	-	-	-	-	-	105,432	-	(88,666)	-	502	17,268
Other changes in equity	32,154	641,965	(643,120)	(78)	204,475	(31)	(13,378)	18,021	(330,415)	42,387	-	-	(3,674)	(172,510)
Issuance of ordinary shares	11,891	-	-	-	(11,891)	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	20,263	641,965	(643,120)	(78)	-	-	-	-	-	-	-	-	-	19,030
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remunerations to partners)	-	-	-	-	20,033	-	-	-	-	(42,387)	-	-	-	62,420
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	(889)	-	-	18,021	-	-	-	-	-	(18,910)
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	343,793	-	(13,378)	-	(330,415)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(106,505)	(31)	-	-	-	-	-	-	(3,674)	(110,210)
Closing balance [31.12.2015]	1,082,538	7,774,555	-	-	3,926,925	2,009	(107,601)	21,479	105,432	42,387	(221,743)	-	16,376	12,514,625

Consolidated statements of cash flows for the years ended December 31, 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(2,758,987)**	**1,257,571**
Consolidated profit/(loss) for the year	(3,485,361)	105,934
Adjustments to obtain cash flows from operating activities	5,571,476	1,342,078
Amortisation	140,695	137,753
Other adjustments	5,430,781	1,204,325
Net increase/decrease in operating assets	(4,316,927)	(1,846,157)
Financial assets held for trading	417,951	(161,768)
Financial assets designated at fair value through profit or loss	(2,500)	24,520
Available-for-sale financial assets	(5,261,564)	(4,467,738)
Loans and receivables	(677,294)	2,592,544
Other operating assets	1,206,480	166,285
Net increase/decrease in operating liabilities	(9,208,491)	(2,208,886)
Financial liabilities held for trading	210	-
Financial liabilities designated at fair value through profit or loss	5,288	(49,935)
Financial liabilities measured at amortised cost	(9,247,455)	(2,093,024)
Other operating liabilities	33,466	(65,927)
Collections/payments for income tax	46,462	172,288
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(446,070)**	**601,350**
Payments	1,114,484	238,068
Tangible assets	115,470	72,903
Intangible assets	132,840	165,165
Investments and subsidiaries	707,673	-
Other business units	-	-
Non-current assets and associated liabilities held for sale	-	-
Held-to-maturity investments	158,501	-
Other payments related to investing activities	-	-
Collections	668,414	839,418
Tangible assets	121,941	146,027
Intangible assets	-	-
Investments and subsidiaries	7,280	90,258
Other business units	16,056	69,547
Non-current assets and associated liabilities held for sale	523,137	533,586
Held-to-maturity investments	-	-
Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**2,103,992**	**471,266**
Payments	480,854	327,214
Dividends	18,551	62,420
Subordinated liabilities	25,907	-
Own equity instruments amortisation	-	-
Own equity instruments acquisition	248,166	121,475
Other payments related to financing activities	188,230	143,319
Collections	2,584,846	798,480
Subordinated liabilities	-	695,026
Own equity instruments issue	2,505,552	-
Own equity instruments disposal	79,294	103,454
Other collections related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	**(1,101,065)**	**2,330,187**
F) CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**3,522,986**	**1,192,799**
G) CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**2,421,921**	**3,522,986**

COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR		
of which: held by consolidated subsidiaries but not available for the Group.	1,900,065	3,038,669
Cash	474,871	472,868
Balance of cash equivalent in central banks	1,947,050	3,050,118
Other financial assets	-	-
Minus: Bank overdraft refundable on demand	-	-

Notes to the consolidated financial statements for the year ended 31 December 2016

1. Nature of the institution

Banco Popular was incorporated on 14 July 1926, and its registered address is at Velázquez 34, Madrid. Banco Popular Español, S.A. is a private law company whose object, according to Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain. The shares of Banco Popular are listed on the four Spanish stock exchanges and are traded on the continuous market. Prior to 4 October 2013 it was also listed on the Euronext Exchange in Lisbon, this being the date on which its request to be voluntarily excluded from listings on said market became effective. The Group has also issued fixed income securities (Euronotes, preferred shares, mortgage covered bonds, securitisation bonds, subordinated bonds, etc.) which are listed on the following markets: AIAF Fixed Income Market, London Stock Exchange, Frankfurt Stock Exchange, Luxembourg Stock Exchange, Euronext Amsterdam, Euronext Lisbon and Irish Stock Exchange. Banco Popular is the parent company of a group of companies forming the Banco Popular Group. Accordingly, Banco Popular is obliged to prepare, in addition to its own individual financial statements, which are also submitted to obligatory audit, consolidated financial statements of the Group which include, as appropriate, the related investments in subsidiaries. joint ventures and the investments in associates. The companies forming the Group engage basically in financial activities and the holding and administration of property assets derived from that financial activity. The term "Banco Popular" in these consolidated financial statements refers exclusively to the parent company of the Group.

In 2016 the Group continued developing its banking activity through Banks established in Spain, Portugal and the U.S. At the same time, it has kept alliances with partners in certain businesses (mainly insurance, cards and the management of property assets).

In 2015, the business of managing property assets and other assets in Portugal was sold off and the company, RecBus-Recovery to Business, S.A., in which the Group held a 20% stake, was founded. Furthermore, the Group sold its 50% share Universalpay, Entidad de Pago, S.L. Conversely, the Group lost its control in Targobank, S.A. and Targoinmuebles, S.A. (Note 8).

At 31 December 2016 total assets, equity and profits for the year of Banco Popular Español, S.A. account for 93%, 95% y 92%, respectively, of the same items in the Group (93%, 93% and 129%, respectively, at 31 December 2015).

a) Individual balance sheets at 31 December 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015 (*)
Cash and cash balances at central banks and other demand deposits	2,288,949	4,057,074
Financial assets held for trading	2,136,411	1,376,555
Derivatives	1,701,253	1,360,955
Equity instruments	12,181	15,600
Debt securities	422,977	-
Loans and advances	-	-
Central Banks	-	-
Credit Institutions	-	-
Customers	-	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge	115,748	-
Financial assets designated at fair value through profit or loss	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Central Banks	-	-
Credit Institutions	-	-
Customers	-	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge	-	-
Available-for-sale financial assets	14,236,883	23,087,336
Equity instruments	424,279	224,981
Debt securities	13,812,604	22,862,355
Memorandum item: loaned or delivered as collateral with right of sale or pledge	7,231,023	11,346,304
Loans and receivables	99,758,290	106,647,683
Debt securities	754,192	1,293,995
Loans and advances	99,004,098	105,353,688
Central Banks	-	-
Credit Institutions	7,634,762	8,550,203
Customers	91,369,336	96,803,485
Memorandum item: loaned or delivered as collateral with right of sale or pledge	4,196,275	27,245,625
Held-to-maturity investments	4,583,511	-
Memorandum item: loaned or delivered as collateral with right of sale or pledge	1,862,889	-
Derivatives – Hedge accounting	269,847	464,416
Fair value changes of the hedged items in portfolio hedge of interest rate risk	265,519	233,228
Investments and subsidiaries	3,249,452	3,237,435
Consolidated subsidiaries	2,251,827	2,513,483
Joint Ventures	466,863	270,514
Associates	530,762	453,438
Tangible assets	791,769	335,390
Property, Plant and Equipment	264,711	265,993
For own use	264,711	265,993
Assets assigned under operating leases	-	-
Investment property	527,058	69,397
Of which assets assigned under operating leases	-	-
Memorandum item: Acquired under finance leases	-	-
Intangible assets	1,263,451	1,374,270
Goodwill	821,149	981,256
Other intangible assets	442,302	393,014
Tax assets	5,353,666	3,894,138
Current tax assets	185,804	138,452
Deferred tax assets	5,167,862	3,755,686
Other assets	524,917	363,849
Insurance contracts linked to pensions	49,311	50,156
Inventories	-	-
Other assets	475,606	313,693
Non-current assets and disposal groups classified as held for sale	3,111,581	3,238,704
TOTAL ASSETS	**137,834,246**	**148,310,078**

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

	31.12.2016	31.12.2015 (*)
Financial liabilities held for trading	1,677,644	1,157,417
Derivatives	1,677,434	1,157,417
Short positions	210	-
Deposits	-	-
Central Banks	-	-
Credit Institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Deposits	-	-
Central Banks	-	-
Credit Institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities measured at amortised cost	123,269,395	132,395,278
Deposits	107,353,799	116,927,385
Central Banks	15,987,478	14,204,120
Credit Institutions	19,892,675	25,547,612
Customers	71,473,646	77,175,653
Debt securities issued	15,028,322	14,961,210
Other financial liabilities	887,274	506,683
Memorandum item: subordinated liabilities	2,054,060	2,067,490
Derivatives – Hedge accounting	1,109,309	1,832,246
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	334,630	268,863
Pensions and other post employment defined benefit obligations	81,877	97,111
Other long term employee benefits	-	-
Pending legal issues and tax litigation	19,069	15,667
Commitments and guarantees given	184,696	136,085
Other provisions	48,988	20,000
Tax liabilities	279,119	481,004
Current tax liabilities	35,918	120,601
Deferred tax liabilities	243,201	360,403
Share capital repayable on demand	-	-
Other liabilities	680,268	584,498
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	**127,350,365**	**136,719,306**

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

	31.12.2016	31.12.2015 (*)
Own funds	**10,826,626**	**11,845,571**
Capital	2,098,429	1,082,538
Paid up capital	2,098,429	1,082,538
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium	5,277,886	7,774,555
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity	-	-
Retained earnings	7,023,548	3,136,539
Revaluation reserves	-	-
Other reserves	(161,261)	(100,135)
(-) Treasury shares	(189,658)	(20,954)
Consolidated profit/(loss) for the year	(3,222,318)	15,415
(-) Interim dividends	-	(42,387)
Accumulated other comprehensive income	**(342,745)**	**(254,799)**
Items that will not be reclassified to profit or loss	(15,755)	(5,370)
Actuarial gains or (-) losses on defined benefit pension plans	(15,755)	(5,370)
Non-current assets and disposal groups classified as held for sale	-	-
Other fair value changes	-	-
Items that may be reclassified to profit or loss	(326,990)	(249,429)
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges [effective portion]	(71,994)	(91,653)
Available-for-sale financial assets	(254,996)	(157,776)
Debt instruments	(258,831)	(165,740)
Equity instruments	3,835	7,964
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**10,483,881**	**11,590,772**
TOTAL EQUITY AND TOTAL LIABILITIES	**137,834,246**	**148,310,078**

MEMORANDUM ITEM		
Guarantees granted	11,569,487	11,815,434
Contingent commitments granted	7,277,838	7,347,250

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

b) Individual profit and loss statements for the years ended 31 December 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015 (*)
Interest income	2,642,105	3,175,750
(Interest expenses)	922,928	1,315,940
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**1,719,177**	**1,859,810**
Dividend income	128,713	231,594
Fee and commission income	498,577	546,126
(Fee and commission expenses)	26,777	29,499
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	188,443	498,981
Gains or (-) losses on financial assets and liabilities held for trading, net	(973)	10,985
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(916)	6,383
Exchange differences [gain or (-) loss], net	35,572	37,608
Other operating income	89,491	143,719
(Other operating expenses)	180,025	138,546
B) TOTAL OPERATING INCOME	**2,451,282**	**3,167,161**
(Administrative expenses)	1,465,027	1,228,471
(Staff expenses)	985,612	724,859
(Other administrative expenses)	479,415	503,612
(Amortisation)	270,235	265,182
(Provisions or (-) reversal of provisions)	105,600	(31,440)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	4,451,932	1,513,626
(Financial assets measured at cost)	-	-
(Available-for-sale financial assets)	12,487	33,046
(Loans and receivables)	4,439,445	1,480,580
(Held to maturity investments)	-	-
C) NET OPERATING INCOME	**(3,841,512)**	**191,322**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	155,837	131,044
(Impairment or (-) reversal of impairment on non-financial assets)	13,751	883
(Tangible assets)	13,751	883
(Intangible assets)	-	-
(Others)	-	-
Gains or (-) losses on derecognition of non financial assets, net	77,748	63,804
Negative goodwill recognised in profit or loss	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(507,062)	(212,545)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(4,440,414)	(89,346)
(Tax expense or (-) income related to profit or loss from continuing operations)	(1,218,096)	(104,761)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	(3,222,318)	15,415
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT/(LOSS) FOR THE YEAR	(3,222,318)	15,415
EARNINGS PER SHARE		Amount in €
Basic	(1.011)	0.007
Diluted	(1.011)	0.007

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

c) Individual statements of recognised income and expense for the years ended 31 December 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015 (*)
Consolidated profit/(loss) for the year	**(3,222,318)**	**15,415**
Other comprehensive income	**(87,946)**	**(68,574)**
Items that will not be reclassified to profit or loss	(10,385)	7,091
Actuarial gains or (-) losses on defined benefit pension plans	(14,836)	10,130
Non-current assets and disposal groups held for sale	-	-
Other fair value changes	-	-
Income tax relating to items that will not be reclassified	4,451	(3,039)
Items that may be reclassified to profit or loss	(77,561)	(75,665)
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	28,084	(98,229)
Valuation gains or (-) losses taken to equity	35,755	(98,229)
Transferred to profit or loss	7,671	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(138,886)	(9,864)
Valuation gains or (-) losses taken to equity	(1,881)	438,804
Transferred to profit or loss	137,005	448,668
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	33,241	32,428
Total comprehensive income for the year	**(3,310,264)**	**(53,159)**

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

d) Individual statements of changes equity for the years ended 31 December 2016 and 2015

(Thousands of euros)

	CURRENT PERIOD											
	Share capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other re-serves	(-) Treasury shares	Consolidated profit/(loss) for the year	(-) Interim dividends	Accumu-lated other compre-hensive income	Total
Opening balance [before restatement] [01.01.2016]	**1,082,538**	**7,774,555**	**-**	**-**	**3,136,539**	**-**	**(100,135)**	**20,954**	**15,415**	**42,387**	**(254,799)**	**11,590,772**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [01.01.2016]	**1,082,538**	**7,774,555**	**-**	**-**	**3,136,539**	**-**	**(100,135)**	**20,954**	**15,415**	**42,387**	**(254,799)**	**11,590,772**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,222,318)**	**-**	**(87,946)**	**(3,310,264)**
Other changes in equity	**1,015,891**	**(2,496,669)**	**-**	**-**	**3,887,009**	**-**	**(61,126)**	**168,704**	**(15,415)**	**(42,387)**	**-**	**2,203,373**
Issuance of ordinary shares	1,015,891	1,503,331	-	-	-	-	-	-	-	-	-	2,519,222
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remunerations to partners)	-	-	-	-	-	-	-	-	-	42,387	-	(42,387)
Purchase of treasury shares	-	-	-	-	70,449	-	-	251,523	-	-	-	(181,074)
Sale or cancellation of treasury shares	-	-	-	-	(79,025)	-	-	(82,819)	-	-	-	3,794
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	(4,000,000)	-	-	4,015,415	-	-	-	(15,415)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(119,830)	-	(61,126)	-		-	-	(180,956)
Closing balance [31.12.2016]	**2,098,429**	**5,277,886**	**-**	**-**	**7,023,548**	**-**	**(161,261)**	**189,658**	**(3,222,318)**	**-**	**(342,745)**	**10,483,881**

PREVIOUS PERIOD (*)

	Share capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other re-serves	(-) Treasury shares	Consolidated profit/(loss) for the year	(-) Interim dividends	Accumu-lated other compre-hensive income	Total
Opening balance [before restatement] [01.01.2015]	**1,050,384**	**7,132,590**	**-**	**645,870**	**3,336,135**	**-**	**(301,542)**	**3,458**	**476,692**	**-**	**(186,225)**	**12,150,446**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	(342,822)	-	-	-	(120,769)	-	-	(463,591)
Opening balance [01.01.2015]	**1,050,384**	**7,132,590**	**-**	**645,870**	**2,993,313**	**-**	**(301,542)**	**3,458**	**355,923**	**-**	**(186,225)**	**11,686,855**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,415**	**-**	**(68,574)**	**(53,159)**
Other changes in equity	**32,154**	**641,965**	**-**	**(645,870)**	**143,226**	**-**	**201,407**	**17,496**	**(355,923)**	**42,387**	**-**	**(42,924)**
Issuance of ordinary shares	11,892	-	-	-	-	-	-	-	-	-	-	11,892
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	20,262	641,965	-	(645,870)	-	-	-	-	-	-	-	16,357
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remunerations to partners)	-	-	-	-	-	-	-	-	-	(42,387)	-	42,387
Purchase of treasury shares	-	-	-	-	269	-	-	113,267	-	-	-	(112,998)
Sale or cancellation of treasury shares	-	-	-	-	(8,195)	-	-	(95,771)	-	-	-	87,576
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	370,923	-	-	-	(355,923)	-	-	15,000
Equity increase or (-) decrease resulting from busi-ness combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(219,771)		201,407	-		-	-	(18,364)
Closing balance [31.12.2015]	**1,082,538**	**7,774,555**	**-**	**-**	**3,136,539**	**-**	**(100,135)**	**20,954**	**15,415**	**42,387**	**(254,799)**	**11,590,772**

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

e) Individual statements of cash flows for the years ended 31 December 2016 and 2015

(Thousands of euros)

	31.12.2016	31.12.2015(*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(3,526,251)**	**1,697,599**
Consolidated profit/(loss) for the year	(3,222,318)	15,415
Adjustments to obtain cash flows from operating activities	5,397,118	1,696,393
Amortisation	270,235	265,182
Other adjustments	5,126,883	1,431,211
Net increase/decrease in operating assets	(3,506,078)	(1,756,737)
Financial assets held for trading	419,558	(115,947)
Financial assets designated at fair value through profit or loss	-	-
Available-for-sale financial assets	(4,280,150)	(4,956,554)
Loans and receivables	(80,476)	4,106,428
Other operating assets	434,990	(790,664)
Net increase/decrease in operating liabilities	(9,226,442)	(1,666,186)
Financial liabilities held for trading	210	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(8,863,920)	(656,090)
Other operating liabilities	(362,732)	(1,010,096)
Collections/payments for income tax	19,313	(104,760)
B) CASH FLOWS FROM INVESTING ACTIVITIES	**40,900**	**78,660**
Payments	545,624	449,630
Tangible assets	501,243	38,455
Intangible assets	-	231,765
Investments and subsidiaries	5,143	-
Other business units	-	-
Non-current assets and associated liabilities held for sale	(119,263)	179,410
Held-to-maturity investments	158,501	-
Other payments related to investing activities	-	-
Collections	586,524	528,290
Tangible assets	48,774	28,990
Intangible assets	491,506	-
Investments and subsidiaries	11,518	96,849
Other business units	-	-
Non-current assets and associated liabilities held for sale	34,726	402,451
Held-to-maturity investments	-	-
Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**2,120,215**	**559,110**
Payments	1,959,079	204,792
Dividends	18,551	42,387
Subordinated liabilities	23,620	-
Own equity instruments amortisation	1,480,778	-
Own equity instruments acquisition	248,166	115,256
Other payments related to financing activities	187,964	47,149
Collections	4,079,294	763,902
Subordinated liabilities	-	641,352
Own equity instruments issue	4,000,000	28,249
Own equity instruments disposal	79,294	94,301
Other collections related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	-
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	**(1,365,136)**	**2,335,369**
F) CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**3,270,982**	**935,613**
G) CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**1,905,846**	**3,270,982**

COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR		
Cash	391,249	386,369
Balance of cash equivalent in central banks	1,514,597	2,884,613
Other financial assets	-	-
Minus: Bank overdraft refundable on demand	-	-

(*) Figures restated for comparative purposes by the retrospective Goodwill amortisation of Banco Popular Español. This restatement is explained in the Individual Financial Statements of Banco Popular Español, S.A.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements of the Banco Popular Group are presented in accordance with International Financial Reporting Standards adopted by the European Union (IFRS - EU). In order to adapt the accounting system of Spanish credit institutions to the aforementioned regulations, Banco de España issued Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions, expressly stating that its purpose was to modify the accounting system of such entities with the adaptation to the accounting environment arising from the adoption of the International Financial Reporting Standards by the European Union, in order to make this Circular fully compatible with regard to the underlying conceptual framework. Circular 4/2004 has been obligatorily applicable since 1 January 2005, to the individual financial statements of Spanish credit institutions.

International Financial Reporting Standards are a set of standards changing over time in order to adapt to the economic and financial reality.

On 27 April 2016, Banco de España Circular 4/2016 was published which modifies Circular 4/2004 to adapt it to the latest developments in banking regulation, maintaining its full compatibility with the accounting framework established in IFRS, which has meant updating our internal impairment models as explained in note 69 of this Report.

The current Financial Statements have been prepared by adapting their policies, procedures, controls and the breakdown of information based on the requirements indicated above.

Compulsory standards, amendments and interpretations for the Group on all financial years beginning on or after 1 January 2016.

Annual Improvements to IFRS, 2010-2012 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2010-2012 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 01 February 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 2 "Share based payments": Definition of "vesting condition".
- IFRS 3, "Business Combinations": Accounting for a contingent consideration in a business combination.
- IFRS 8 "Operating segments": Information to be disclosed on aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets.
- IAS 16, "Property, plant and equipment", and IAS 38, "Intangible assets": Revaluation method—proportionate restatement of accumulated amortisation.
- IAS 24, "Related Party Disclosures": Entity providing KMP services as a related party.

Its adaptation has no significant impacts on the Group.

Improvement Project, 2012-2014 Cycle: The amendments affect:

- IFRS 5, "Non-current assets held for sale and discontinued operations": Changes in disposal methods.
- IFRS 7 "Financial Instruments: Disclosures": Continuing involvement in administrative contracts.
- IAS 19, "Employee benefits": Determining the discount rate for post-employment benefit obligations.
- IAS 34, "Interim financial reporting": Disclosure of information elsewhere in the interim financial report.

These amendments do not have a significant impact on the Group's consolidated financial statements.

IAS 16 Property, Plant and Equipment (Amendment) and IAS 38 Intangible Assets (Amendment) "Clarification of acceptable methods of depreciation and amortisation" This amendment clarifies that it is not appropriate to employ methods based on revenue to calculate the depreciation of an asset as the revenue generated by an activity, including the use of said asset, generally reflects factors other than the use of the economic benefits of the asset. This amendment will be in force for financial years beginning on or after 1 January 2016 and is retrospective in application.

These modifications enter into force from 1 January 2016 and have not had a significant impact on the Group's consolidated financial statements.

IAS 1 (Amendment) "Disclosure initiative": Amendments to IAS 1 encourage companies to apply professional judgement in determining what information to disclose in the financial statements.

Its application has not had a significant impact on the Group's consolidated financial statements.

IFRS 11 (Amendment) "Accounting for acquisition of interests in joint operations": Requires application of the principals of business combination accounting to an investor who acquires an interest in a joint operation that constitutes a business.

This modification enters into force from 1 January 2016 and has not had a significant impact on the Group's consolidated financial statements.

IAS 27 (Amendment), "Equity method in separate financial statements": IAS 27 is amended to re-establish the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

This modification enters into force from 1 January 2016 and has not had a significant impact on the Group's consolidated financial statements.

IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) “Investment entities: Applying the consolidation exception": These amendments clarify features on the application of the requirement on investment entities to value subsidiaries at fair value instead of consolidating them. They enter into force for financial years beginning on or after 1 January 2016, although early adoption is permitted, with the exception of three amendments which have not yet been adopted by the European Union.

This amendment has had no significant impact on the Group's consolidated financial statements.

IAS 19 (Amendment) "Defined benefit plans: Employee contributions": IAS 19 (revised in 2011) distinguishes between employee contributions relating to the service provided and those not linked to the service. The current modification also differentiates between contributions linked to the service only in the year in which they arise and those linked to service in more than one year. The amendment allows contributions linked to service which do not vary with it to deduct the costs of the benefits accrued in the year in which the corresponding service was provided. The contributions linked to the service which varies according to the duration of the service, must be extended during the service delivery period using the same allocation method that is applied to the services. This amendment applies to financial years beginning on or after 1 February 2015 and is retrospective in application.

This amendment has not had an impact on the Group's consolidated financial statements, as it does not affect the Bank's Defined Benefit Plans.

Standards, amendments and interpretation yet to enter into force but may be adopted in advance for financial years beginning on or after 1 January 2016, although the Group has not opted for advance adoption.

IFRS 15, "Revenue from contracts with customers": In May 2014, the IASB and the FASB jointly issued a convergent standard in relation to recognition of revenue from contracts with customers.

This standard will be effective for financial years from 1 January 2018, although early adoption is allowed.

It is expected that this new standard will not have a significant impact on the Group's consolidated financial statements given that its scope excludes both financial instruments under IFRS 9 (currently IAS 39) and leases under IAS17 (IFRS 16 in the future).

However, its application includes income derived from the sale of property. Following the ESMA Declaration on items to consider in the implementation of IFRS 15, the following points are detailed:

- In relation to qualitative aspects, possible impacts are foreseen derived from:

    - The recognition of income over a period of time (over time) or at a specific time (point in time).
    - The way in which the various products and services are offered, which must be accounted for separately.
    - The capitalisation or not of certain costs related to obtaining a contract.
    - The adjustment or not of income for the purposes of the temporary value of the money.
    - The way of accounting for contractual modifications.
    - The impact in case in which pricing mechanisms include variable amounts.

- Regarding the timing or expected implementation periods.

- In relation to the quantitative aspects, it is not possible to know or sufficiently estimate the impact of the changes to be introduced.

IFRS 9 "Financial Instruments": It addresses the classification, valuation and recognition of financial assets and financial liabilities. In the future it will replace IAS 39 on the classification and valuation of financial instruments. IFRS 9, whose final version was published in July 2014, establishes important differences in relation to the current standard; the most relevant are:

- IFRS 9 maintains but simplifies the mixed valuation model and sets out three main valuation categories for financial assets: amortised cost, fair value through profit and loss, and fair value through other comprehensive income. The classification depends on the business model of the entity and the characteristics of the contractual cash flow of the financial asset. Equity instruments will be valued at fair value through profit and loss with the irrevocable option at initial recognition to submit variations at a non-recyclable fair value through other comprehensive income, i.e. such variations will not be made through profit and loss upon sale of the instrument, provided said instrument is not held for trading. If the instrument is held for trading, the variations in the fair value will be directly presented in profit and loss.

As for financial liabilities, there are no changes to their classification and valuation, except in relation to liabilities under fair value through profit and loss whereby changes attributable to the credit risk will be presented in "other comprehensive income".

- Under IFRS 9, there is a new impairment loss model, the expected credit loss model, which replaces the incurred losses of IAS 39. It establishes three categories at the moment of classifying risks and the need to cover its expected losses: The first category encompasses the healthy or low risks, for which expected losses for 12 months are calculated; the second category relates to risks that have had a significant increase in risk, for which the expected losses over the instrument's lifetime are calculated; the third category comprises credit-impaired assets, on which the expected lifetime losses are applied and the accrued interest on the book value is calculated.

This change, in addition to being technically complex, requires an extensive accounting analysis which may lead to operational repercussions and the adaptation of systems.

- IFRS 9 relaxes the requirements on the effectiveness of hedging in attempting to align accounting treatment with financial risk management. Under IAS 39, a hedge must by highly effective in both its prospective and retrospective aspects. IFRS 9 replaces this obligation and requires a financial connection between the hedged item and the hedging instrument as well as the hedged ratio be the same as the entity actually uses in its risk management. Contemporaneous documentation remains necessary but is different from what was prepared under IAS 39.
- Extensive information is required, including reconciliation between the opening and closing amounts of the provision for expected credit losses, hypotheses and data, as well as reconciliation on the transition from the original IAS 39 categories to the new IFRS 9 categories.

IFRS 9 will take effect for financial years beginning on or after 1 January 2018, although early adoption is allowed. IFRS 9 will apply retroactively but does not require that comparative figures be restated. If an entity opts for early adoption of IFRS 9, it will have to apply all requirements from that moment.

Following the ESMA Declaration on items to consider in the implementation of IFRS 9, the following points are detailed:

- In relation to qualitative aspects, possible impacts are foreseen derived from the following elements:

  - On the part of the classification of the financial assets in the new categories, we consider that it will have a limited impact on the balance sheet.
  - The greatest impact, which we consider of importance, is in relation to the new system of calculating provisions for expected losses rather than incurred losses. The BPE Group has identified three sub-projects and is attempting to profit from the contributions of already completed work:
    - Automatic identification of triggers for determining if there is a significant increase in risk, which is already started.
    - Individual analysis of major recognised triggers. Continuing with the mechanisation of such analysis.
    - Calculation of the expected loss for group models.
- Regarding the timing or expected implementation periods, the project will allow for a quantification of the impacts between the second and third quarters of 2017 while the implementation in the computer systems will be carried out during the second half of 2017. In relation to quantitative aspects, the Group is currently analysing all future impacts of the adoption of this standard and, a priori, it is not possible to provide a reasonable estimate of its financial impact until such analysis is complete because they have not been able to know or reasonably estimate the expected impacts of the changes introduced.

Standards, amendments and interpretations to current standards that cannot be adopted early or that have not been adopted by the European Union.

At the date of preparation of the consolidated financial statements, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations detailed below, whose adoption by the European Union is pending.

IFRS 16 "Leases": On January 2016, the IASB published a new standard on leases, repealing IAS 17 "Leases"; it was the result of a joint project with the FASB.

The IASB and FASB arrived at the same conclusions in many areas related to the accounting of lease contracts, including the definition of a lease, the requirement, as a general rule, of reflecting leases on the balance sheet and the valuation of liabilities for leases. The IASB and FASB also agreed to not include substantial changes to the accounting by the lessor, keeping similar requirements to those of the previous regulation in force.

However, there continue to be differences between the IASB and FASB in terms of recognising expenses related to leases in the income statement and the cash flows statement.

This regulation will be applicable to financial years from 1 January 2019. Its early application is permitted if IFRS 15, "Revenue from contracts with customers" is adopted at the same time.

The Group is analysing the possible impact of this standard on the Group's consolidated financial statements, in the event it is adopted by the European Union. We foresee that it will affect approximately 88% of our fixed installations as they are currently under lease, whether it is a regular lease or on sale and lease-back. Therefore, we believe that it will not have a significant impact on the consolidated balance sheet.

IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses": The amendments to IAS 12 clarify the requirements to recognise deferred tax assets on unrealised losses. The amendments clarify the accounting treatment of deferred tax when an asset is valued at fair value and this fair value is below the tax base of the asset. It also clarifies other aspects in the accounting of deferred tax assets.

These amendments will be in force for financial years from 1 January 2017.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

IAS 7 (Amendment) "Disclosure initiative": An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- Cash flows, such as drawdowns and repayments of borrowings; and
- Non-monetary changes, such as acquisitions, disposals and unrealised exchange differences.

This new information requirement includes both changes in cash flows corresponding to liabilities arising from financing liabilities as well as changes in cash flows of financial assets which cover liabilities derived from said activity.

The amendment suggests that it would fulfil the reporting requirement to include a reconciliation between the beginning and ending balance sheets for liabilities arising from financing activities, but does not set a specific format.

These amendments will be in force for financial years from 1 January 2017.

At the date of preparation of these financial statements the group is analysing the potential impacts that this amendment might have on the Group if adopted by the European Union, although a significant impact is not expected.

IFRS 15 (Amendment) "Clarifications to IFRS 15 "Revenue from Contracts with Customers": The IASB has amended IFRS 15 with the aim of:

- Clarifying guidance for the identification of performance obligations, the accounting of intellectual property licences and the principle versus agent assessment (presentation of net versus gross ordinary revenues).
- To include new and amended illustrative examples for each of these areas in the guidance.
- Provide additional practical resources related to the transition to the new standard.

These amendments do not change the fundamental principles of IFRS 15 but clarify some of the more complex aspects of this standard. The amendments may be relevant for a wide variety of entities and consideration should be given to how management assessed the impact of IFRS 15.

This amendment will be in force for financial years from 1 January 2018, subject to its adoption by the EU.

This new standard is not expected to have a significant impact on the Group's consolidated financial statements.

IFRS 4 (Amendment) "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"": The amendments to IFRS 4 which were published by the IASB in September 2016 introduce two optional approaches for insurance companies:

A temporary extension until 2021 on IFRS 9 for entities complying with specific requirements (applied at the level of the entity submitting the information); and

The "overlapping approach" will provide all companies which issue insurance contracts the option of recognising the volatility which may arise when IFRS 9 "Financial Instruments" is applied in comprehensive income rather than the profit/(loss) for the year before the new insurance contracts standard is published.

IFRS 4 (including the amendments so far published) will be superseded by the upcoming new insurance contracts standard. As a result, both the temporary extension and the "overlapping approach" are expected to cease to apply when the new insurance standard takes effect.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sales or contributions of assets between an investor and its associate/ joint ventures": These amendments clarify the accounting requirements for sales or contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gains or losses when non-cash assets constitute a "business". If the assets do not fulfil the definition of a business, the investor recognises the gains or losses to the extent of the interests of other investors. The amendments will only apply when an investor sells or supplies assets to its associate or joint venture.

Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for financial years starting from 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone their effective date (without specifying a new date), as it is planning a more comprehensive review which may result in the simplification of accounting for these transactions and other aspects of accounting for associates and joint ventures.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

IFRS 2 (Amendment) "Classification and measurement of share-based payment transactions": The amendment to IFRS 2, developed through the IFRS Interpretations Committee, clarifies how to account for certain share-based payment transactions. In this sense, it provides the requirements for the accounting of:

- The effects of the conditions for irrevocability and the non-determining conditions for the irrevocability of the concession in the measurement of cash-settled share based payments;
- Share based payment transactions with a net settlement characteristic for tax withholding obligations; and
- An amendment to the terms and conditions of share based payments which changes with the classification of the transaction from cash settlement to equity settlement.

The amendment will take effect for financial years beginning on or after 01 January 2018, although early adoption is allowed.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

Annual Improvements to IFRS. Cycle 2014 - 2016: The amendments affect:IFRS 1, IFRS 12 and IAS 28 and will apply to financial years from 1 January 2018 for amendments IFRS 1 and IAS 28 and 1 January 2017 for IFRS 12, subject to their adoption by the EU. The most relevant amendments refer to:

- IFRS 1 "First-time adoption of International Financial Reporting Standards": Removal of the short-term exemptions for entities adopting IFRS for the first time.
- IFRS 12 “Disclosure of interests in other entities”. Clarification on the scope of the Standard.
- IAS 28 “Investments in associates and joint ventures”: Fair value measurement of an investment in an associate or joint venture.

If these amendments are adopted by the European Union, it is not foreseen that their application will have a significant impact on the Group.

IAS 40 (Amendment) "Transfers of investment property": This amendment clarifies that to transfer to, or from, investment property there must have been a change in use. To determine if there has been a change in use there must be an assessment to see if the property complies with the definition of investment property This change must be evidenced. The IASB confirmed that a change in intention, on its own, is not sufficient to justify a transfer.

The amendment will be in force for financial years from 1 January 2018. Early application is allowed.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

IFRIC 22 "Foreign currency transactions and advance consideration": This IFRIC addresses how to determine the transaction date when IAS 21, the standard on foreign currency transactions, is applied. The interpretation applies when an entity pays or receives an advance consideration for foreign currency transactions.

The transaction date determines the exchange rate to be used for the initial recognition of the corresponding asset, expense or income. The issue arises as IAS 21 demands the use of the "transaction date" exchange rate, which is defined as the date on which the transaction first qualifies for recognition. The question is therefore if the transaction date is the date on which the asset, expense or income is initially recognised or the first date on which the advance consideration is paid or received, resulting in an advance payment or deferred income.

The interpretation provides guidance for when a single payment/receipt is made, as well as for situations in which there are multiple payments/collections. The purpose of the guidance is to reduce diversity in its practice.

The amendment will take effect for financial years from 1 January 2018, although early application is allowed.

If it is adopted by the European Union, it is not foreseen that the application of this standard will have a significant impact on the Group.

In 2015 standards and interpretations issued by the International Standards Accounting Board came into effect, which amended the following standards:

Annual Improvements to IFRS, 2011–2013 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2011-2013 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 01 January 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 3, "Business Combinations": Scope exceptions for joint ventures.
- IFRS 13, "Fair value measurement": Scope of "portfolio exception" available in IFRS 13.
- IAS 40, "Investment property": Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The application of these amendments had no effect on these consolidated financial statements of the Group.

Consequently, the included consolidated financial statements were prepared from the accounting records of the consolidated subsidiaries and in accordance with the provisions of the IFRS-EU, whereby they present a fair and true image of the Group's consolidated equity and consolidated financial situation as of 31 December 2016 and 2015, as well as of its consolidated operation results, changes in the consolidated equity and the consolidated cash flows for said financial years. There is no obligatory principle, accounting standard or valuation policy having a material effect that has not been applied in preparing these financial statements. A summary of the most significant accounting principles, standards and valuation procedures that have been used in these consolidated financial statements is provided in Note 15. These consolidated financial statements comply in full with the provisions of EU-IFRS and do not contain any relevant deviations from the requirements of Circular Letter 4/2004 and subsequent updates thereof.

b) Preparation and responsibility for information

Banco Popular Group's consolidated financial statements for 2016 were prepared by the Directors of Banco Popular at the meeting of the Board of Directors of 20 February 2017 and have yet to be approved by its General Shareholders' Meeting. The information contained in these consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A. Except as otherwise mentioned, such information is presented in thousands of euros.

c) Consolidation principles

During the 2016 financial year, there was no significant change to standards that affected the scope of consolidation of the Group.

The Group was defined in accordance with IFRS-EU and Banco de España Circular 4/2004, of 22 December, which adapts that legislation to Spanish credit institutions and Spanish legislation. Investee Companies are all the subsidiary companies, joint ventures and associates.

Subsidiaries

Investee companies that constitute a decision-making unit with Banco Popular, which are those over which the Bank has, directly or indirectly through another or other investee companies, capacity to exercise control, are subsidiaries.

Companies are only considered to exert control when they meet the following requirements:

a) exertion of power over the investee

b) exposure, or right, to variable returns as a result of their involvement in the investee

c) ability to use their power over the investee to influence the investor's amount of income

Royal Decree Law 4/2014 of 8 March 2014 extended through 2014 the applicability of the provisions of section 1 of Additional Provision 1 of Royal Decree Law 10/2008 of 12 December in relation to the calculation of losses from the impairment of property assets in the event of the mandatory reduction of share capital in public limited companies and the dissolution of public and private limited companies. The above provisions were renewed for 2013 under Royal Decree Law 3/2013 of 22 February.

Although Royal Decree Law 4/2014 was in force on 31 December 2014, there was no corresponding renewal for the 2015 financial year. The Group shall adopt the relevant measures to ensure that the various companies suitably fulfil the provisions of the Corporate Enterprises Act.

At the level of individual Financial Statements, some of the Group companies are subject to mandatory reduction of share capital or dissolution at the date of preparation of these Consolidated Financial Statements. The Group will provide the financial help necessary for these companies to continue their activities. In order to ensure that these companies comply with the standards set forth in the Corporate Enterprises Act, the Group will take appropriate action during 2017.

2016

In March 2016, the securitisation vehicles IM GBP Empresas 1 and IM GBP FTPYME I were repaid early. In June 2016, the company Consulteam absorbed the Predefind Fund, in July the securitisation vehicle IM GBP Empresas V was settled through early repayment of the bonds issued, on this date the new company Popular Consumer Finance with 60 thousand euros in capital and 100% owned by Banco Popular Español. It's activity is centred on consumer finance.

Within the objective of unifying Portuguese companies, the Imopopular Fund has been absorbed by the company Consulteam which would own 100% of it. In October the company Popular de Factoring España was absorbed by Banco Popular España of which it owned 100%. In November the company Popular Operaciones S.A. with capital of 60 thousand euros and 100% owned by Banco Popular Español was created to provide outsourcing services for business processes.

In 2016, the following changes occurred in the subsidiaries:

- Banco Popular Portugal absorbed Popular de Factoring Portugal.

- With the backing of a portfolio of loans, the asset securitisation fund, IM GBP Empresas VII, was formed, which issued bonds totalling 2,500 million euros.

- The property company Aliseda Real Estate was created with capital of 120 thousand euros and 100% owned by Banco Popular Español. The company Aliseda Participaciones Inmobiliarias was created with capital of 21 thousand euros and 100% owned by Aliseda Real Estate.

- Aliseda Participaciones inmobiliarias S.A. has a 100% shareholding in the following property companies dedicated to the ownership of property with 3 thousand euros share capital in each.

    - Inversiones Inmobiliarias Linara S.A.
    - Inversiones Inmobiliarias Inagua S.A.
    - Inversiones Inmobiliarias Tamdab S.A.
    - Inversiones Inmobiliarias Valabia S.A.
    - Inversiones inmobiliarias Elencia S.A.
    - Inversiones Inmobiliarias Popsol S.A.

- Banco Popular Español has updated (based on events during the second half of 2016) its control analysis following the indications of IFRS 10, including the following companies as the scope of consolidation:

    - Pandantan S.L., share capital of 4 thousand euros
    - Platja Amplaries S.L. share capital of 27,777 thousand euros
    - Gestión de Activos Castellana 40 S.L., share capital of 3 thousand euros
    - Taler Real Estate, S.L., share capital of 23,300 thousand euros; this company is the parent of a group which includes the following companies:

        - Forum de Negocios del Sur S.L.
        - Forum de Negocios de Granada S.L.
        - Forum de Negocios de Motril S.L.
        - Bodegas Señorío de Nevada S.L.
        - Arco Organización S.L.
        - Las Albarzyzas de Otura, S.L.

2015

In March 2015, with the backing of a portfolio of loans, the asset securitisation fund, IM Grupo Banco Popular Empresas VI, was formed, which issued bonds totalling 3,000 million euros. Popularcompras, S.L.U. and Limatesa Gestión de Servicios Integrales, S.L. were incorporated in July and October respectively. Both instrumental companies are wholly owned by Banco Popular Español. In December, with the backing of a portfolio of loans, the asset securitisation fund, IM Grupo Banco Popular MBS 3, FTA, was formed, which issued bonds totalling 900 million euros.

With regard to disposals in July, the asset securitisation funds, IM Banco Popular FPYME I FTA and IM Grupo Banco Popular FT-PYME II FTA, were liquidated following the amortisation of their issued bonds.

In October, the instrumental company, Inmobiliaria Viagracia, S.A., absorbed the instrumental companies, Centro de Análisis y Reclamaciones de Incumplimientos, S.A., Naviera Islas Cíes, S.L. and Naviera Cañada,S.L. as well as the holding and services companies, Pastor Privada Eólica 2 S.L. and Pastor Privada Eólica 3 S.L., following the acquisition of 100% of shares in those companies by Banco Popular Español. Likewise in November, Aliseda SAU took over the company, Residencial Valdemar, in which Banco Popular Español had held a 100% stake.

Subsidiary companies were consolidated using the proportionate consolidation method. Consequently all material balances and transactions between these companies and the other consolidated subsidiaries have been eliminated in consolidation. Similarly, third-party holdings in the Group's equity are presented under Minority Interests on the consolidated balance sheet and the part of results for the year attributable to them is presented under Results attributable to minority interests in the consolidated income statement.

The results of the entities acquired by the Group during the year are consolidated taking into account only those results for the period between the date of acquisition and year end. Similarly, the results generated by the entities sold by the Group in the year are consolidated taking into account only those results for the period running from the beginning of the year to the date of disposal.

The information on investments in subsidiaries as of 31 December 2016 and 2015, is as follows:

At 31 December 2016	Address		Activity
Deposit-taking institutions:			
Banco Pastor, S.A.U.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular Consumer Finance, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Popular Servicios Financieros E.F.C., S.A.	Canton Pequeño,1	La Coruña	Finance special purpose entity
Sobrinos de Jose Pastor inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Instrumental companies:			
Aliseda, S.A.U.	J. Ortega y Gasset, 29	Madrid	Property development
Aliseda Participaciones Inmobiliarias, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Aliseda Real Estate, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Arco Organización, S.L.	Carretera GR-3210 (Finca Nevada)	Granada	Hotels
Bodegas Señorío de Nevada, S.L.	Carretera GR-3210 (Finca Nevada)	Granada	Restoration
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
BPE Preference International, Ltd.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores. S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Consulteam Consultores de Gestão, Lda.	Rua Ramalho Ortigão, 51	Lisbon	Real estate
EDT FTPYME Pastor 3	Lagasca, 120	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fórum de Negocios de Granada, S.L.	José Luis Pérez Pujadas s/n	Granada	Property rental
Fórum de Negocios de Motril, S.L.	Torre de la Cautiva, 13	Granada	Property development
Fórum de Negocios del Sur, S.L.	Torre de la Cautiva, 13	Granada	Property development
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestión de Activos Castellana 40, S.L.	Paseo de la Castellana, 40	Madrid	Property management

At 31 December 2016	Address		Activity
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Service instrumental
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity
Hercepopular S.L.	Plaza de Europa, 3	Guadalajara	Property development
IM Banco Popular MBS 2, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 6, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 7, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular MBS 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Angeles, Getafe	Madrid	Service instrumental
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Canvives, S.A.U.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Elencia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Inagua S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Linara S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Popsol, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Property development
Inversiones Inmobiliarias Tamdab, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Valabia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Las Albaryzas de Otura, S.L.	Torre de la Cautiva, 13	Granada	Property development
Limatesa Gestión de Servicios Integrales, S.L.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Pandantan, S.L.	Paseo de Recoletos, 19	Madrid	Property development
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Platja Amplaries, S.L.	Bélgica, 135	Castellón	Property development
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance brokerage
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Popular Operaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popularcompras, S.L.U.	J. Ortega y Gasset, 29	Madrid	Internet retail trade
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Taler Real Estate, S.L.	Andrés Segovia, 53	Granada	Property development
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate

At 31 December 2016	Address		Activity
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
Gestora Inmobiliaria La Toja, S.A.	Isla de la Toja	Pontevedra	Property development
Inti Entertainment	Santo Tomás de Villanueva, 2A	Santa Cruz Tenerife	Cinematography
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Property development

At 31 December 2016	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Deposit-taking institutions:							
Banco Pastor, S.A.U.	100.00	-	100.00	605,946	11,245,577	546,489	(45,599)
Banco Popular Portugal, S.A.	100.00	-	100.00	917,448	8,154,477	835,695	9,763
Popular Banca Privada, S.A.	92.50	7.50	100.00	62,989	949,222	72,553	833
TotalBank	100.00	-	100.00	266,377	2,662,335	253,852	20,017
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	5,467	20,637	5,483	(79)
Grupo La Toja Hoteles	90.00	-	90.00	58,125	65,701	64,495	(196)
Pastor Privada Investment 1, S.L.	-	40.00	40.00	229	576	576	2,896
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	6,311	(5,215)	(4,683)
Pastor Privada Investment 3, S.L.	-	33.33	33.33	67	207	207	721
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	7,564	6,239	738
Popular Consumer Finance, S.A.	100.00	-	100.00	59	59	59	-
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	42,868	36,537	(92)
Popular Gestão de Activos, S.A.	100.00	-	100.00	1,640	1,802	1,640	17
Popular Gestión Privada SGIIC, S.A.	-	100.00	100.00	4,006	9,430	7,370	422
Popular Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,846	187,563	25,536	2,156
Sobrinos de Jose Pastor inversiones, S.A.	100.00	-	100.00	-	18,490	(16,185)	(45)
Instrumental companies:							
Aliseda, S.A.	100.00	-	100.00	1	4,376,010	(1,287,137)	(267,027)
Aliseda Participaciones Inmobiliarias, S.L.	-	100.00	100.00	21	21	21	-
Aliseda Real Estate, S.A.	100.00	-	100.00	120	120	120	-
Arco Organización, S.L.	-	59.40	59.40	-	10,120	2,541	(201)
Bodegas Señorío de Nevada, S.L.	-	62.80	62.80	-	1,760	(797)	(1,127)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	1,355,681	549	302
BPE Preference International, Ltd.	100.00	-	100.00	52	35	49	(23)
BPE Representaçoes y Participaçoes, L.T.D.A.	100.00	-	100.00	165	367	333	43

At 31 December 2016	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
BPP Asesores. S.A.	50.38	49.62	100.00	172	165	(1,038)	(553)
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	1	712,254	(355,290)	(56,075)
EDT FTPYME Pastor 3	100.00	-	100.00	-	61,664	(32)	(140)
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finespa, S.A.	4.19	95.81	100.00	8,058	11,168	10,986	(830)
Fórum de Negocios de Granada, S.L.	50.00	50.00	100.00	-	11,101	(2,733)	(459)
Fórum de Negocios de Motril, S.L.	81.82	18.18	100.00	-	4,202	(325)	(1,151)
Fórum de Negocios del Sur, S.L.	50.00	50.00	100.00	-	(42)	(4,689)	(1,815)
GC FTPYME Pastor 4	100.00	-	100.00	-	32,856	(1,342)	(137)
Gestión de Activos Castellana 40, S.L.	100.00	-	100.00	-	337,970	(14,960)	-
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	13,817	(16,404)	8,952
Gold Leaf Title Company	-	100.00	100.00	256	1,582	1,250	133
Hercepopular S.L.	-	51.00	51.00	2,840	104,278	8,511	898
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	497,142	4,787	(365)
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,141,421	-	-
IM Grupo Banco Popular Empresas 6, FTA	100.00	-	100.00	-	1,262,743	18,355	9,972
IM Grupo Banco Popular Empresas 7, FTA	100.00	-	100.00	-	2,606,240	3,328	3,328
IM Grupo Banco Popular MBS 3, FTA	100.00	-	100.00	-	888,714	967	913
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,843	116,014	104,637	(4,885)
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	4,132	1,865	112
Inversiones Inmobiliarias Alprosa, S.L.	72.78	27.22	100.00	64,567	393,814	88,794	581
Inversiones Inmobiliarias Canvives, S.A.U	100.00	-	100.00	-	2,813,629	(25,682)	(171,560)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	50,550	(25,284)	(1,338)
Inversiones Inmobiliarias Elencia, S.A.	-	100.00	100.00	3	3	3	-
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	16,812	(10,453)	124
Inversiones Inmobiliarias Inagua S.A.	-	100.00	100.00	3	3	3	-
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	19,006	(27,466)	(16,484)
Inversiones Inmobiliarias Linara S.A.	-	100.00	100.00	3	3	3	-
Inversiones Inmobiliarias Popsol, S.A.	-	100.00	100.00	3	3	3	-
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	(1)	57,430	(6,848)	(3,588)
Inversiones Inmobiliarias Tamdab, S.A.	-	100.00	100.00	3	3	3	-
Inversiones Inmobiliarias Valabia, S.A.	-	100.00	100.00	3	3	3	-
Isla de los Buques, S.A.	99.98	0.02	100.00	61	376,371	1,282	(30)
Las Albaryzas de Otura, S.L.	50.00	50.00	100.00	-	17,898	1,488	810
Limatesa Gestión de Servicios Integrales, S.L.	100.00	-	100.00	2	2	2	(1)
Manberor, S.A.	-	100.00	100.00	1	37,680	(89,947)	(848)
Meglahe, S.A.	-	100.00	100.00	47	46	46	(1)
Pandantan, S.L.	100.00	-	100.00	-	42,214	4	-
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	13,485	1,080	218
Platja Amplaries, S.L.	100.00	-	100.00	-	254,270	(16,513)	-
Popular Arrendamento - FIIF para Arrendamento Habitacional	-	100.00	100.00	24,812	18,721	18,159	(2,487)

At 31 December 2016	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Popular Capital, S.A.	90.00	10.00	100.00	90	103,360	541	109
Popular de Mediación, S.A.	100.00	-	100.00	2,262	6,857	2,280	195
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	14	-	(1)
Popular Operaciones, S.A.	100.00	-	100.00	60	60	60	-
Popularcompras, S.L.U.	100.00	-	100.00	-	3	3	-
Read Leaf Holding	100.00	-	100.00	59,740	76,121	59,464	(354)
Taler Real Estate, S.L.	100.00	-	100.00	-	291,335	(8,230)	(4,680)
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,556	13,552	11
Velázquez 34, S.A.	97.80	2.20	100.00	-	43,375	(14,386)	(140)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	3,547	(815)	(95)
Eurovida, S.A. (Portugal)	84.07	15.94	100.00	82,105	1,001,713	99,487	8,445
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	3,497	2,585	535
General de Terrenos y Edificios, S.L.	100.00	-	100.00	11,846	44,476	11,723	(1,713)
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	2,125	1,989	10
Inti Entertainment	-	99.89	99.89	-	11	(3)	(601)
La Toja, S.A.	-	-	-	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	13,290	175,228	39,263	458
Popular de Renting, S.A.	100.00	-	100.00	3,005	67,420	6,868	1,383
Popular Seguros, S.A.	-	100.00	100.00	7,500	17,758	8,495	706
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	646	645	(5)
Vilamar Gestión, S.L.	-	100.00	100.00	-	140,498	(49,039)	6,061

At 31 December 2015	Address		Activity
Deposit-taking institutions:			
Banco Pastor, S.A.U.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financial Companies:			
Popular de Factoring, S.A.	María de Molina, 39	Madrid	Factoring
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Popular Servicios Financieros E.F.C., S.A.	Cantón Pequeño, 1	La Coruña	Finance special purpose entity
Sobrinos de José Pastor Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Instrumental companies:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
BPE Preference International, Ltd.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores. S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Consulteam Consultores de Gestão, Lda.	Rua Ramalho Ortigão, 51	Lisbon	Real estate
EDT FTPYME Pastor 3	Lagasca, 120	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Fundo Popular Predifundo	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Service instrumental
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity

At 31 December 2015	Address		Activity
Hercepopular S.L.	Plaza de Europa, 3	Guadalajara	Property development
IM Banco Popular MBS 2, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 5, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 6, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME I, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular MBS 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Angeles, Getafe	Madrid	Service instrumental
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Canvives, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustín Miralles Carlo, s/n	Las Palmas	Property development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Limatesa Gestión de Servicios Integrales, S.L.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Property development
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popularcompras, S.L.U.	J. Ortega y Gasset, 29	Madrid	Internet retail trade
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance brokerage
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance

At 31 December 2015	Address		Activity
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Property development
Gestora Inmobiliaria La Toja, S.A.	Isla de la Toja	Pontevedra	Property development
Inti Entertainment	Santo Tomás de Villanueva, 2A	Santa Cruz Tenerife	Cinematography
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Property development

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indi-rect	Total			Total	Of which, earnings
Deposit-taking institutions:							
Banco Pastor, S.A.U.	100.00	-	100.00	605,946	11,579,539	618,950	39,878
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	9,138,108	755,415	13,347
Popular Banca Privada, S.A.	92.50	7.50	100.00	62,989	969,323	71,722	8,416
TotalBank	100.00	-	100.00	266,377	2,406,927	233,835	14,271
Financial Companies:							
Popular de Factoring, S.A.	100.00	-	100.00	45,818	761,766	96,112	7,291
Popular Factoring, S.A. (Portugal)	99.83	-	99.83	36,840	154,624	36,906	2,634
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	2,282	20,611	5,563	4,147
Grupo La Toja Hoteles	90.00	-	90.00	58,455	66,984	64,670	(606)
Pastor Privada Investment 1, S.L.	-	5.00	5.00	247	4,956	4,956	-
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	11,883	(533)	(141)
Pastor Privada Investment 3, S.L.	-	5.00	5.00	72	1,434	1,434	-
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	8,126	6,775	1,276
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	42,960	36,629	(944)
Popular Gestão de Activos, S.A.	100.00	-	100.00	1,623	1,739	1,623	117
Popular Gestión Privada SGIIC, S.A.	-	100.00	100.00	4,006	9,204	7,221	273
Popular Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,846	255,274	23,381	2,932
Sobrinos de José Pastor Inversiones, S.A.	100.00	-	100.00	-	18,404	(16,140)	(34)
Instrumental companies:							
Aliseda, S.A.	100.00	-	100.00	-	4,712,783	(1,018,540)	(165,730)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,105,008	490	323
BPE Preference International, Ltd.	100.00	-	100.00	52	8,435	72	20
BPE Representações y Participações, Ltda.	100.00	-	100.00	120	242	290	43
BPP Asesores. S.A.	77.30	22.70	100.00	172	195	(573)	(493)
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	-	693,095	(299,214)	(46,347)
EDT FTPYME Pastor 3	100.00	-	100.00	-	39,711	(1,205)	(119)
Fib Realty Corporation	-	100.00	100.00	-	-	-	-

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indi-rect	Total			Total	Of which, earnings
Finespa, S.A.	4.19	95.81	100.00	8,058	10,795	10,261	1,744
Fondo Imopopular, FEIIF	90.00	10.00	100.00	20,976	23,033	20,162	(974)
Fundo Popular Predifundo	-	99.96	99.96	7,713	10,944	7,628	(124)
GC FTPYME Pastor 4	100.00	-	100.00	-	71,143	108	80
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	15,051	(25,357)	(118)
Gold Leaf Title Company	-	100.00	100.00	256	1,396	1,117	222
Hercepopular S.L.	-	51.00	51.00	2,840	110,037	7,675	1,177
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	532,927	5,152	(658)
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,222,475	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	192,605	4,404	(1,013)
IM Grupo Banco Popular Empresas 5, FTA	100.00	-	100.00	-	854,385	40,230	1,682
IM Grupo Banco Popular Empresas 6, FTA	100.00	-	100.00	-	2,393,337	8,383	8,383
IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	276,391	5,679	(1,740)
IM Grupo Banco Popular MBS 3, FTA	100.00	-	100.00	-	928,905	54	54
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,843	115,714	109,520	1,853
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	4,497	1,753	776
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,566	322,340	88,214	519
Inversiones Inmobiliarias Canvives, S.A.	100.00	-	100.00	157,977	2,925,713	161,935	(4,530)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	82,437	(24,566)	42
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	19,101	(10,578)	927
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	27,519	(10,982)	23
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	-	61,352	(3,191)	(411)
Isla de los Buques, S.A.	99.98	0.02	100.00	61	375,070	1,312	1
Limatesa Gestión de Servicios Integrales, S.L.	100.00	-	100.00	2	3	3	-
Manberor, S.A.	-	100.00	100.00	-	37,846	(89,099)	(51,647)
Meglahe, S.A.	-	100.00	100.00	49	47	47	(2)
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	13,269	864	221
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.42	15.58	100.00	51,485	51,079	50,836	(1,785)
Popular Capital, S.A.	90.00	10.00	100.00	90	108,856	431	232
Popularcompras, S.L.U.	100.00	-	100.00	2	2	2	(1)
Popular de Mediación, S.A.	100.00	-	100.00	2,210	5,410	2,208	123
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	18	1	1
Read Leaf Holding	100.00	-	100.00	59,818	74,061	59,818	(1,328)
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,553	13,540	44
Velázquez 34, S.A.	97.80	2.20	100.00	-	46,038	(14,247)	(2,544)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	3,326	(721)	(308)
Eurovida, S.A. (Portugal)	84.07	15.94	100.00	87,040	992,572	103,760	11,366
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	6,360	2,049	785
General de Terrenos y Edificios, S.L.	100.00	-	100.00	14,029	47,565	13,905	(2,608)

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indi-rect	Total			Total	Of which, earnings
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	2,193	1,979	545
Inti Entertainment	-	99.89	99.89	850	612	598	(253)
La Toja, S.A.	-	-	-	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	13,290	178,857	38,805	459
Popular de Renting, S.A.	100.00	-	100.00	3,005	72,400	5,485	1,793
Popular Seguros, S.A.	-	100.00	100.00	7,500	18,480	10,513	753
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	651	651	(3)
Vilamar Gestión, S.L.	-	100.00	100.00	-	166,217	(17,957)	(8,267)

Joint Ventures

Joint ventures are contractual agreements whereby two or more members undertake an economic activity that is subject to joint control, and in which the parties in joint control hold rights over the net assets thereof. A member of a joint venture shall recognise its share in that venture as an investment and shall account for the investment using the equity method pursuant to IAS 28 - "Investments in associates and joint ventures".

These companies are consolidated through the equity method.

2016

In 2016, the company Recbus - Recovery To Business S.A. based in Portugal, changed its name to Primestar Servicing S.A., the companies Bancopopular-e S.A., Popular-e Cobros A.I.E., Popular–e Operador de Banca Seguros Vinculado, S.A.U., changed to be known respectively as, Wizink Bank, Wizink Gestión A.I,E., y Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U..

In December, the company Iberalbión A.I.E. was acquired, with a share capital of three thousand euros. It is a call centre dedicated to recoveries and customer services for Wizink Bank's credit cards.

2015

In February 2015, the Portugal-based company, Recbus - Recovery To Business S.A., was formed and Banco Popular Español held 100% of its shares. On 30 June, 80% of the those shares were placed for sale as part of the selling off of the business of property assets and other asset management in Portugal; this operation is described in Note 8 – Business combinations and other corporate transactions with subsidiaries, joint ventures and associates.

In December 2015, Targobank, S.A. and Targoinmuebles, S.A. were removed from Joint Ventures and added to Associates. This change occurred due to the loss of control resulting from Credit Mutuel exercising its purchase option by requesting the acquisition of 1% in Targobank, S.A., which was accepted by the Group. In this way, Credit Mutuel gained control as its stake rose to 51% and, in addition to the right to appoint an additional director, obtained a majority in the executive body of the company.

The accounting information of these companies used for consolidation was related in all cases to 31 December 2016 and 2015, respectively, with the exception of SAITE, S.A. which, for 2016, has used the accounting statements from November.

The figures in the table showing assets and equity refer to the total for the company, regardless of the percentage included in the consolidation process.

Joint ventures at the end of 2016 were as follows:

At 31 December 2016	Address		Activity
Joint Ventures			
Aliseda Servicios de Gestión Inmobiliaria, S.L.	Paseo de la Castellana, 280	Madrid	Property management
Iberalbión A.I.E.	Bari, 11	Zaragoza	Service instrumental
IM Tarjetas 1, F.T.A.	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Property development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Property development
Primestar Servicing, S.A.	Rua do Comercio, 85	Lisbon	Property management
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Property development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment
Wizink Bank, S.A.	Velázquez, 34	Madrid	Banking
Wizink Gesión A.I.E.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity

At 31 December 2016	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Joint Ventures							
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	44,286	640,456	260,141	48,643
Iberalbión A.I.E.	-	49.00	49.00	1	1,637	2	(1)
IM Tarjetas 1, F.T.A.	-	49.00	49.00	-	1,064,775	-	-
Inverlur Águilas I, S.L.	-	50.00	50.00	-	481	413	(47)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,457	1,329	(133)
Primestar Servicing, S.A.	20.00	-	20.00	5,077	84,388	30,767	4,339
Saite, S.A.	50.00	-	50.00	4,266	24,952	13,826	1,321
Saite-Cobal, S.A.	-	50.00	50.00	-	6,770	(9,814)	(18)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	85,403	26,909	3,588
Wizink Bank, S.A.	49.00	-	49.00	408,344	4,426,594	1,124,458	99,571
Wizink Gesión A.I.E.	-	49.00	49.00	9	6,444	16	(2)
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U.	-	49.00	49.00	9,121	28,699	19,985	1,034

The following is important information on the most relevant joint ventures, stated in thousands of euros.

Data at 31.12.2016	Joint Ventures	
	Aliseda SGI	**Wizink Bank**
(a) Dividends obtained from the joint venture or associate	-	-
(b) Summarised financial information:		
(i) Current assets	79,587	3,707,984
(i) Non-current assets	560,869	718,610
(iii) Current liabilities	137,510	3,136,958
(iii) Non-current liabilities	241,195	165,178
(v) Ordinary revenues	219,105	140,729
(vi) Profit/loss for the year from continuing operations	48,230	98,277
(vii) Profit/loss after taxes from discontinued operations	-	-
(viii) Other comprehensive income	(1,807)	46
(ix) Overall profit/loss	46,423	98,323

Data at 31.12.2016	Joint Ventures	
	Aliseda SGI	**Wizink Bank**
(a) Cash and cash equivalents included in paragraph B12(b)(i) of IFRS 12	46,755	116
(b) Current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iii) of IFRS 12	97,295	3,112,093
(b) Non-current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iv) of IFRS 12	241,195	83,670
(d) Depreciation and amortisation	63,750	43,735
(e) Interest income	11	380,044
(f) Interest expenses	18,889	29,964
(g) Income or expenses from income tax	15,984	42,452

Data at 31.12.2016	Joint Ventures	
	Aliseda SGI	**Wizink Bank**
(i) Equity attributable to the parent company	127,469	550,984
Company equity	260,141	1,124,458
Share attributable to the parent company (%)	49	49
(ii) Share value in consolidated statement (Note 28)	131,811	771,636
(iii) Difference (i) - (ii)	4,342	220,652
Goodwill under equity method (Note 28)	-	208,963
Adjustment to consolidation reserves	(432)	5,429
Adjustment contribution to consolidated profit/loss	4,774	6,260

The following is information on insignificant joint ventures:

Data at 31.12.2016	Joint Ventures
(a) Aggregate carrying amount	34,281
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continuing operations	5,078
(ii) Profit/loss after taxes from discontinued operations	5,078
(iii) Other comprehensive income	-
(iv) Overall profit/loss	5,078

The table below sets out information concerning joint ventures for 2015:

At 31 December 2015	Address		Activity
Joint Ventures			
Aliseda Servicios de Gestión Inmobiliaria, S.L.	Paseo de la Castellana, 280	Madrid	Property management
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
IM Tarjetas 1, F.T.A.	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Property development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Property development
Popular-e Cobros A.I.E.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
RecBus-Recovery to Business, S.A.	Rua do Comercio, 85	Lisbon	Property management
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Property development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Joint Ventures							
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	44,286	690,067	212,500	54,117
Bancopopular-e, S.A.	49.00	-	49.00	211,995	3,329,106	639,747	100,306
IM Tarjetas 1, F.T.A.	-	49.00	49.00	-	1,000,885	-	-
Inverlur Águilas I, S.L.	-	50.00	50.00	-	513	459	(9)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,561	1,463	(15)
Popular-e Cobros A.I.E.	-	49.00	49.00	9	7,091	16	(2)
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	-	49.00	49.00	621	3,061	1,624	464
RecBus-Recovery to Business, S.A.	20.00	-	20.00	5,013	93,702	27,368	1,990
Saite, S.A.	50.00	-	50.00	4,266	24,928	12,387	1,279
Saite-Cobal, S.A.	-	50.00	50.00	-	6,799	(9,796)	(131)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	63,722	23,086	742

The following is important information on the most relevant joint ventures, stated in thousands of euros.

Data at 31.12.2015	Joint Ventures	
	Aliseda SGI	Wizink Bank
(a) Dividends obtained from the joint venture or associate	-	21,854
(b) Summarised financial information:		
(i) Current assets	66,197	2,944,064
(i) Non-current assets	623,001	402,766
(iii) Current liabilities	140,696	2,427,246
(iii) Non-current liabilities	333,982	280,914
(v) Ordinary revenues	245,991	143,624
(vi) Profit/loss for the year from continuing operations	56,138	100,305
(vii) Profit/loss after taxes from discontinued operations	-	-
(viii) Other comprehensive income	4,855	(204)
(ix) Overall profit/loss	60,993	100,101

Data at 31.12.2015	Joint Ventures	
	Aliseda SGI	Wizink Bank
(a) Cash and cash equivalents included in paragraph B12(b)(i) of IFRS 12	32,838	54,644
(b) Current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iii) of IFRS 12	102,726	2,412,711
(c) Non-current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iv) of IFRS 12	333,982	204,171
(d) Depreciation and amortisation	50,759	33,554
(e) Interest income	180	335,780
(f) Interest expenses	40,903	20,330
(g) Income or expenses from income tax	22,090	43,315

Data at 31.12.2015	Joint Ventures	
	Aliseda SGI	Wizink Bank
(i) Equity attributable to the parent company	104,125	312,949
Company equity	212,500	638,671
Share attributable to the parent company (%)	49.00	49.00
(ii) Share value in consolidated statement (Note 28)	103,692	520,025
(iii) Difference (i) - (ii)	(433)	207,076
Goodwill under equity method (Note 28)	-	208,963
Adjustment to consolidation reserves	4,630	723
Adjustment contribution to consolidated profit/loss	(5,063)	(2,610)

The following is information on insignificant joint ventures:

Data at 31.12.2015	Joint Ventures
(a) Aggregate carrying amount	30,842
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continuing operations	2,225
(ii) Profit/loss after taxes from discontinued operations	2,225
(iii) Other comprehensive income	-
(iv) Overall profit/loss	2,225

Associates

Associates are investee companies in which the Group exercises significant influence. This significant influence generally, although not exclusively, takes the form of a shareholding, held directly or indirectly through another or other Investee companies, of 20% or more of the investee company's voting rights. Associates were consolidated under the equity method. Therefore investments in associates were valued at the fraction represented by the Group's holding in their capital net of dividends received from them and other balance sheet eliminations. The results on transactions with an associate are eliminated in the proportion to the Group's holding therein. If losses cause an associate to have negative equity for accounting purposes, in the Group's consolidated balance sheet, it is presented with a zero value unless the Group has the obligation to support it financially.

2016

In June 2016, Banco Popular took a 4.66% stake in the company Procedimientos de Pago S.L., it is considered an associate company given that it holds a position on the company's Board of Directors. On the same date, the active consideration available for the sale of the company Compañía Española de Viviendas en Alquiler SA was changed to an associate company by the increase in ownership over the year, reaching 24.07% and the possession of a position on the company's Board of Directors.

In March 2016, Metrovacesa, S.A., in which Banco Popular Español owns 9.14%, was split into two companies, Metrovacesa Suelo y Promoción, S.A. And Metrovacesa Patrimonio, S.A., with the group maintaining the same ownership percentage over each of them in relation to the ownership it had on the split company. Subsequently, in November, the company Metrovacesa Patrimonio, S.A. split into three companies Metrovacesa Promoción y Arrendamiento, S.A., Testa Residencial, S.L.U. and Merlín S.A.; the ownership of each company was set at 9.14%, 6.01%, and 2.86% respectively. Both Testa Residencial, S.L.U., as with Mertrovacesa Promoción y Arrendamiento, S.A. are classed as associate companies due to their having representation on the Board of Directors but not with Merlin S.A. which is classified as a financial asset available for sale.

2015

In April 2015, Banco Popular Español sold its stakes of 49% and 40.9% which were held respectively in Puertos Futuros, S.L. and Amarres Deportivos, S.L.; these last two companies were involved in the business of operating sports marinas. Accordingly, they are no longer associates in the Banco Popular Group. The company, Universalpay S.A., was likewise sold in December and removed from the list of associates. Elsewhere, Targobank S.A. and Targoinmuebles S.A., previously joint ventures, were registered as associates due to the loss of control and ownership that occurred in December of this year when Credit Mutuel exercised its option to purchase and requested the acquisition of 1% in Targobank, S.A., which the Group accepted. In this way, Credit Mutuel gained control as its stake rose to 51% and, in addition to the right to appoint an additional director, obtained a majority in the Governing Body.

Metrovacesa, S.A. increased its share capital in April 2015 through the capitalisation of shareholder loans. Because Banco Popular did not participate in the capital raising, its stake was diluted by 4.64% and now stands at 8%. As in previous years, Banco Popular Group is deemed to hold significant influence according to IAS 28.7, even though its stake is below 20%, because it has a member on the board of directors which is made up of 8 directors and it participates in the policy-setting processes. On 29 December 2015, the General Shareholders' Meeting of Metrovacesa, S.A. approved a cash contribution and non-cash contribution. Both contributions were fully made in January 2016 and the Group's stake rose to 9.14%.

The Group raised its stake in Inversiones en Resorts Mediterráneos, S.L. from 20.98% in 2014 to 43.28% in 2015, following the Group's participation in the share capital increase of the company which diluted the shares of the other shareholders.

Even though the Group's stake does not reach 20%, we believe that we exercise significant influence pursuant to IAS 28.7. Specifically, this conclusion is on account of the following:

- Presence on the Board (one director on a Board with fewer members than in 2012, since from mid-2013 the number of directors was reduced from nine to eight).
- Participation in policy making processes.
- Relatively important transactions between the investor and the investee.

Relevant information on associates as of 31 December 2016 is as follows:

At 31 December 2016	Address		Activity
Associates			
Aevis Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Allianz Popular, S.L.	Tarragona, 109	Barcelona	Insurance
Aviación Intercontinental, A.I.E	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Compañía Española de Viviendas en Alquiler, S.A.	Av. Meridiana, 350	Barcelona	Property rental
Euro Automatic Cash Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Gestora Patrimonial c/Francisco Sancha, 12	Francisco Sancha, 12	Madrid	Means of payment
Grupo Financiero Ve por Más S.A. de CV.	Paseo de la Reforma, 365. Cuauhtemoc DF	Mexico	Financial services
Inversiones en Resorts Mediterraneos, S.L.	Av. Teniente Montesinos, 10	Murcia	Property development
Master Red Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Metrovacesa Promoción y Arrendamiento, S.A.	Quintanavides, 13	Madrid	Property development
Metrovacesa Suelo y Promoción, S.A.	Quintanavides, 13	Madrid	Property development
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Sociedad de Procedimientos de Pago, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Property development
Testa Residencial, S.L.U.	Ventura Rodríguez, 7	Madrid	Property development
Trindade Fundo de Investimento Imobiliario Fechado	Av. da Republica, 35	Lisbon	Property development

At 31 December 2016	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Associates							
Aevis Europa, S.L.	27.54	-	27.54	92	17,890	1,076	97
Allianz Popular, S.L.	40.00	-	40.00	11,063	2,220,512	126,390	105,626
Aviación Intercontinental, A.I.E	35.00	-	35.00	19,210	226,199	79,929	4,413
Compañía Española de Viviendas en Alquiler, S.A.	24.07	-	24.07	58,039	213,554	116,432	3,452
Euro Automatic Cash Entidad de Pago, S.L.	50.00	-	50.00	30,144	93,596	71,691	21,139
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	295	22,859	12,873	793
Gestora Patrimonial c/Francisco Sancha, 12	27.54	-	27.54	1,443	100,313	34,207	59,223
Grupo Financiero Ve por Más S.A. de CV.	24.99	-	24.99	100,774	2,348,772	258,058	12,499
Inversiones en Resorts Mediterraneos, S.L.	-	43.28	43.28	-	75	(1,447)	(563)
Master Red Europa, S.L.	27.54	-	27.54	92	57,652	1,114	116
Metrovacesa Promoción y Arrendamiento, S.A.	9.14	-	9.14	29,846	633,096	343,091	5,952
Metrovacesa Suelo y Promoción, S.A.	9.14	-	9.14	131,346	1,080,000	1,200,672	472
Sistema 4B, S.A.	27.54	-	27.54	406	9,343	1,456	190
Sociedad de Procedimientos de Pago, S.L.	4.66	-	4.66	261	6,278	2,102	(3,498)
Targobank, S.A.	48.98	-	48.98	126,373	2,469,120	187,792	(143,600)
Targoinmuebles, S.A.	-	48.96	48.96	220	2,751	(472)	(463)
Testa Residencial, S.L.U.	6.01	-	6.01	40,378	857,071	702,046	8,053
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	21,165	55,290	42,329	160

The following is important information on the most relevant associates, stated in thousands of euros.

Data at 31.12.2016	Associates	
	TargoBank	Allianz Popular
(a) Dividends obtained from the joint venture or associate	-	84,080
(b) Summarised financial information:		
(i) Current assets	2,425,414	2,131,639
(i) Non-current assets	43,706	88,873
(iii) Current liabilities	2,275,007	1,917,089
(iii) Non-current liabilities	6,322	152,509
(v) Ordinary revenues	(142,988)	141,031
(vi) Profit/loss for the year from continuing operations	(143,600)	316,213
(vii) Profit/loss after taxes from discontinued operations	-	-
(viii) Other comprehensive income	(1,208)	-
(ix) Overall profit/loss	(144,808)	316,213

(1) Valuation of equity in Metrovacesa according to NNAV

The information for insignificant associates is as follows:

Data at 31.12.2016	Associates	
	TargoBank	Allianz Popular
(i) Equity attributable to the parent company	91,973	50,556
Company equity	187,792	126,390
Share attributable to the parent company (%)	49.00	40.00
(ii) Share value in consolidated statement (Note 28)	90,794	397,379
(iii) Difference (i) - (ii)	(1,179)	346,823
Goodwill under equity method (Note 28)	-	346,823
Adjustment to consolidation reserves	(1,034)	-
Adjustment contribution to consolidated profit/loss	(145)	-

The information for insignificant associates is as follows:

Data at 31.12.2016	Associates
(a) Aggregate carrying amount	439,241
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continuing operations	111,906
(ii) Profit/loss after taxes from discontinued operations	111,906
(iii) Other comprehensive income	(354)
(iv) Overall profit/loss	111,552

The table below sets out information on associates for 2015:

At 31 December 2015	Address		Activity
Associates			
Aevis Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Allianz Popular, S.L.	Tarragona, 109	Barcelona	Insurance
Aviación Intercontinental, A.I.E	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Euro Automatic Cash Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Gestora Patrimonial c/Francisco Sancha, 12	Francisco Sancha, 12	Madrid	Means of payment
Grupo Financiero Ve por Más S.A. de CV.	Paseo de la Reforma, 365. Cuauhtemoc DF	Mexico	Financial services
Inversiones en Resorts Mediterráneos, S.L.	Av. Teniente Montesinos, 10	Murcia	Property development
Master Red Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Property development
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Property development
Trindade Fundo de Investimento Imobiliario Fechado	Av. da República, 35	Lisbon	Property development

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Associates							
Aevis Europa, S.L.	27.54	-	27.54	92	28,325	977	24
Allianz Popular, S.L.	40.00	-	40.00	11,062	1,020,489	230,444	97,837
Aviación Intercontinental, A.I.E	35.00	-	35.00	19,210	237,230	76,704	5,385
Euro Automatic Cash Entidad de Pago, S.L.	50.00	-	50.00	30,144	102,869	77,745	13,231
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	319	24,551	13,038	677
Gestora Patrimonial c/Francisco Sancha, 12	27.54	-	27.54	1,443	24,229	12,199	471
Grupo Financiero Ve por Más S.A. de CV.	24.99	-	24.99	100,775	2,228,828	245,257	12,594
Inversiones en Resorts Mediterráneos, S.L.	-	43.28	43.28	-	1,080	(3,134)	-
Master Red Europa, S.L.	27.54	-	27.54	92	39,638	997	36
Metrovacesa, S.A.	8.00	-	8.00	165,071	-	2,250,788	(560,375)
Sistema 4B, S.A.	27.54	-	27.54	306	19,007	1,619	538
Targobank, S.A.	48.98	-	48.98	126,373	2,547,426	333,298	17,808
Targoinmuebles, S.A.	-	48.96	48.96	220	3,066	(9)	(146)
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	21,084	45,405	40,295	(1,636)

The following is important information on the most relevant associates, stated in thousands of euros.

Data at 31.12.2015	Associates		
	TargoBank	Allianz Popular	Metrovacesa[1]
(a) Dividends obtained from the joint venture or associate	-	33,420	-
(b) Summarised financial information:			
(i) Current assets	2,476,785	1,874,091	3,914,114
(i) Non-current assets	70,641	92,189	855,739
(iii) Current liabilities	2,201,304	1,578,863	2,063,433
(iii) Non-current liabilities	11,208	132,071	855,133
(v) Ordinary revenues	24,160	136,019	57,288
(vi) Profit/loss for the year from continuing operations	17,808	181,301	(69,322)
(vii) Profit/loss after taxes from discontinued operations	-	-	-
(viii) Other comprehensive income	(1,986)	-	-
(ix) Overall profit/loss	15,822	181,301	(69,322)

(1) Valuation of equity in Metrovacesa according to NNAV

Data at 31.12.2015	Associates		
	TargoBank	Allianz Popular	Metrovacesa[1]
(i) Equity attributable to the parent company	164,027	92,178	165,037
Company equity	334,915	230,444	-
Share attributable to the parent company (%)	48.98	40.00	-
(ii) Share value in consolidated statement (Note 28)	332,501	439,001	165,037
(iii) Difference (i) - (ii)	168,474	346,823	-
Goodwill under equity method (Note 28)	169,277	346,823	-
Adjustment to consolidation reserves	(657)	-	-
Adjustment contribution to consolidated profit/loss	(146)	-	-

(1) Valuation of equity in Metrovacesa according to NNAV

The information for insignificant associates is as follows:

Data at 31.12.2015	Associates
(a) Aggregate carrying amount	202,911
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continuing operations	31,174
(ii) Profit/loss after taxes from discontinued operations	31,174
(iii) Other comprehensive income	7,441
(iv) Overall profit/loss	38,615

The best information available on the associate has been used since the associates' financial statements at 31 December is not always available on the close of the Group's consolidated financial statements, in this case at 31 December 2016. In the case of Sistema 4B S.L., Inversiones en Resorts Mediterráneos S.L., Compañía Española de Viviendas en Alquiler S.A., Metrovacesa Suelo y Promoción S.A., Testa Residencial, S.L.U. , Metrovacesa Promoción y Arrendamiento S.A., Aevis Europa, S.L., Master Red Europa S.L., Gestora Patrimonial c/Francisco Sancha, 12, Grupo Financiero Ve por Más S.A. de CV, y Sociedad de Procedimientos de Pago S.L., that corresponding to 30 November 2016 has been used, for Fotovoltaica Monteflecha S.L. if used the statements at 30 September and, for other associates, the financial statements at 31 December 2016 have been used.

In 2015, the financial statements at 31 December were used for all companies except Trindade Fundo de Investimento Inmobiliario Fechado, Inversiones en Resorts Mediterráneos S.L., Fotovoltaica Monteflecha, S.L., y Grupo Financiero Ve por Más S.A. de CV, where those from 30 November 2015 were used.

d) Comparability

The balance sheet, income statement, statement of changes in equity and cash flow statement models used in the consolidated annual financial statements are those provided for in the Spanish National Securities Market Commission Circular 1/2008 and Banco de España Circular 4/2004, as last updated in Circular 4/2016 of 27 April.

In order to adapt the financial statements models and the corresponding notes approved in Banco de España Circular 4/2016, indicated in note 2. Presentation basis, and for comparative purposes, in these financial statements the individual and consolidated figures for 2016 and 2015 are presented with the new format.

Appendix IV provides quantitative information on the effect of these changes in the standard by comparing the old and new formats of the consolidated Balance Sheet and Income Statement for 2015 and explaining the main differences.

In the first half of 2016, the business segments were redefined as explained in note 7 of this Report, presenting the information for 2015 with the same breakdown by segment.

There were no additional amendments to standards in 2016 which affected the comparability of the Group's financial information.

3. Treatment of accounting estimates, changes in accounting principles and error correction

The information contained in the consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A.

Estimates have been used, where appropriate, in these consolidated financial statements, in the measurement of certain assets, liabilities, revenues, expenses and commitments. These estimates have been made by the Senior Management of the Bank and investee companies and ratified by the Directors. These estimates mainly relate to:

- Impairment losses of certain assets (Note 15.h) and 15.y)).
- The actuarial assumptions used in calculating the liabilities and commitments for post-employment compensation (Note 15.p)).
- The useful life adopted for items of Tangible Assets and Intangible Assets and the valuation of goodwill on consolidation (Notes 15.r and s).
- Fair value of certain unlisted assets (Note 45) and 15.e)).
- The reversal period of timing differences for the purposes of their valuation (Note 32)).
- Income derived from corporate transactions (Note 8)).
- Estimates on provisions for legal risks and other risks (Note 15.v)).

In the above notes, the criteria and methodology including, depending on the circumstances, sensitivity analysis in the relative estimates regarding the valuation of goodwill and pension obligations are described.

Since such estimates have been calculated on the basis of the best information available at 31 December 2016 concerning the items involved, events may arise in the future that make it necessary to change them in forthcoming financial years. Any such modification will, in any event, be made prospectively, recognising the effects of the change in estimate in the relevant consolidated income statement.

When applying the entity's accounting principles, management has made several judgements, other than those relating to estimates, which may have a significant impact on the amounts recognised in the financial statements. Specifically, management has made professional judgements to determine:

- if certain financial assets are held-to-maturity investments;
- when all the significant risks and rewards of ownership of financial assets and leased assets have been substantially transferred to other entities;
- if, owing to their economic substance, certain asset sales are financing arrangements and therefore do not generate ordinary revenue; and
- if the economic substance of the relationship between the Group and a special purpose entity indicates that the latter is controlled by the Group.

a) Changes in accounting principles and error correction

As was the case in 2015, in 2016 there have been no changes to the Group's accounting principles.

b) Changes in accounting estimates

In 2016, there was a change in accounting estimate as a result of the update of our impairment models referring to financial assets and non-current assets held for sale, explained in notes 15.e), 15.h) and 15.y) of this Report.

The impacts of this change in accounting estimate are to be found in note 69 of this Report.

In 2015 there have been no changes to accounting estimates.

4. Shareholder payment arrangements and distribution of results for the year

In 2016, the payment to shareholders continued to be based on the flexible payment system "Banco Popular Dividend. A tailored dividend" which gives shareholders the option of choosing between receiving payment in cash by selling the rights obtained in each increase or receiving newly issued shares charged to voluntary reserves.

On 13 April 2015, the General Shareholders' Meeting approved four increases in the share capital through the issue of shares without a premium, charged against voluntary reserves, which would be used to remunerate shareholders under the "Banco Popular Dividend: A tailored dividend" scheme, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price. It was further approved that the payment to shareholders could be made in cash and charged to the voluntary reserves originating from undistributed profits or through shares coming from treasury shares charged to the share premium.

In 2015, the following occurred:

- On 8 September 2015, the first capital increase charged against 2014 reserves was approved and its conditions were reported to the market. On 25 September 2015, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of 4,829,371.50 euros (by means of issuing 9,658,743 new shares at a nominal value of 0.50 euros each) with 82.49% of shareholders holding free allocation rights choosing to receive new shares. The remaining 17.51% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 371,096,189 rights for a gross total of 7,421,923.78 euros. Banco Popular refused the gratuitous allocation rights thus acquired.

In 2016, the following occurred:

- On 4 January 2016, the first capital increase charged against voluntary reserves was approved and its conditions were reported to the market. On 20 January 2016, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of 5,366,090.50 euros (by means of issuing 10,732,181 new shares at a nominal value of 0.50 euros each) with 76.34% of shareholders holding free allocation rights choosing to receive new shares. The remaining 23.66% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 512,319,435 rights for a gross total of 10,246,388.70 euros. Banco Popular refused the gratuitous allocation rights thus acquired.

- On 23 February 2016, the first capital increase charged against voluntary reserves was approved and its conditions were reported to the market. On 10 March 2016, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of 8,304,630.50 euros (by means of issuing 16,609,261 new shares at a nominal value of 0.50 euros each) with 80.92% of shareholders holding free allocation rights choosing to receive new shares. The remaining 19.08% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 415,225,868 rights for a gross total of 8,304,517.36 euros. Banco Popular refused the gratuitous allocation rights thus acquired.

On 11 April 2016, the General Shareholders' Meeting approved four increases in the share capital through the issue of shares without a premium, charged against voluntary reserves, which would be used to remunerate shareholders under the "Banco Popular Dividend: A tailored dividend" scheme, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price. It was further approved that the payment to shareholders could be made in cash and charged to the voluntary reserves originating from undistributed profits or through shares coming from treasury shares charged to the share premium.

Subsequently, in May 2016, the Board of Directors of Banco Popular announced, pursuant to the resolutions adopted by the Board and by the Ordinary General Shareholders' Meeting of Banco Popular held on 11 April 2016, the capital increase by means of monetary contributions and with recognition of the pre-emptive right of the shareholders of the Company.

The main objective of this operation was to strengthen the Bank's balance sheet and improve both its profitability indices as well as its solvency and asset quality levels. The operation was completed successfully.

Due to this capital increase, and based on possible uncertainties which could affect coverage levels, the temporary suspension of the payment of dividends was announced in order to face the environment with the greatest possible soundness, with none of the four capital increases approved at the General Meeting on 11 April 2016 materialising in 2016.

The proposed distribution of the result for 2016 that the Board of Directors of Banco Popular Español, S.A. will submit to the General Meeting for approval, and the distribution of the profit for 2015 that was approved at the General Shareholders' Meeting on 11 April 2016, is as follows, with amounts stated in euros:

Data in euros	**2016**	**2015**
Consolidated profit/(loss) for the year	(3,222,317,508.86)	136,183,929.67
Distribution:		
Interim dividends	-	42,386,577.04
Return on subordinated equity instruments	-	-
Legal reserve	-	13,618,392.97
Goodwill reserve	41,057,457.88	80,053,269.90
Voluntary reserves and other	(3,263,374,966.74)	125,689.76
Profit/Loss distributed	(3,222,317,508.86)	136,183,929.67

5. Earnings per share

The basic earnings per share are calculated by dividing the year's net profit attributable to the Group by the weighted average number of shares in circulation for that year, excluding the average number of treasury shares held during said period.

	2016	**2015**
Net profit/(loss) for the year (thousands of euros)	(3,485,366)	105,432
Weighted average number of shares less treasury shares (thousand)	3,186,318	2,119,172
Basic earnings per share (euros)	(1.094)	0.050

Diluted earnings per share are calculated in a manner similar to basic earnings per share but the weighted average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end.

At 31 December 2016 there are no instruments with a potential dilutive effect.

At 31 December 2015, there were no instruments with potential dilutive effect. During the year the two issuances existing on 31 December 2014, issue IV/2012 and issue II/2012, were redeemed in January and November respectively.

	2016	2015
Net profit/(loss) for the year (thousands of euros)	(3,485,366)	105,432
Financial costs of mandatory convertible issues	-	289
Adjusted profit/(loss)	(3,485,366)	105,721
Weighted average number of shares less treasury shares (thousand)	3,186,318	2,119,172
Average number of shares owing to bond conversion	-	33,012
Adjusted total average number of shares to calculate diluted earnings (units)	3,186,318	2,152,184
Diluted earnings per share (euros)	(1.094)	0.049

6. Minimum shareholders' equity

The new European solvency requirement entered into force on 1 January 2014. This requirement comprises Directive 2013/36/EU – CRD IV and Regulation 575/2013/EU – CRR, which constitute the implementation at the European level of the recommendations of the Basel Committee on Banking Supervision, also known as Basel III. Both instruments replace Directive 2006/48/EC of 14 June relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EU of 14 June on the capital adequacy of investment firms and credit institutions. The Directive requires Member States to transpose it into national law, whereas the Regulation is directly applicable.

The new European directive was transposed into national law by the publication of Law 10/2014 of 26 June on organisation, supervision and solvency and Royal Decree 84/2015 of 13 February which develops Law 10/2014. The legislation and its later development repeal Law 13/1985 of 25 May on investment coefficients, shareholders' equity and information obligations of financial intermediaries, and Royal Decree 216/2008 of 15 February on shareholders' equity of financial institutions, as well as some provisions of Circular 3/2008 of 22 May issued by the Banco de España.

This statute and Royal Decree, aside from transposing the European rules, consolidate the principal regulations of organisation and activity of credit institutions, thereby becoming a single national text regulating this subject.

This new regulation requires institutions to hold capital of a better quality and at a higher level, it also increases deductions and reviews the requirements of specific assets. The requirements stipulated by previous regulations are increased with the implementation of capital buffers, as well as specific requirements with regard to liquidity and leverage.

The application of capital buffers follows a phased implementation schedule established in the CCR, with the exception of the O-SII and systemic buffer which were applied for the first time in 2016.

Part Two, Title I of Regulation 575/2013 sets out the rules for determining the amount of own funds of credit institution's groups and categorises the elements of own funds in Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital (T2).

As regards the structure of each Tier of capital, their component elements, generally speaking, are as follows:

Common Equity Tier 1 capital (CET1)

- Share capital;
- Reserves made up of: Share premiums derived from instruments included in Common Equity Tier 1 capital, undistributed profits and other accumulated (total) comprehensive income and other disclosed reserves;
- Minority interests (ordinary shares issued by consolidated subsidiaries of the bank and held by third parties) that meet the criteria for inclusion in CET1;
- The prudential filters: Securitised assets, cash flow hedges and changes in the value of own liabilities, credit risk adjustments (CVAs), and unrealised gains and losses measured at fair value.
- Deductions from CET1 items:

    - Goodwill and other intangible assets
    - Deferred tax assets that rely on future profitability (tax-loss carryforwards and DTAs)
    - Deficits in provisions for expected losses
    - Equity instruments holdings in financial sector entities in the case of significant or insignificant investment.
    - Reciprocal holdings of equity instruments in financial sector entities
    - Defined benefit pension fund assets
    - Qualifying holdings outside the financial sector, securitisation positions, free deliveries, positions in a basket and equity exposure, as an alternative to a risk weighting of 1,250%.
    - Excess AT1 deduction

Additional Tier 1 capital (AT1):

- Instruments, issued by the bank and by consolidated subsidiaries of the bank that are held by third parties, which meet the criteria for inclusion in the Additional Tier 1 capital (and not included in Common Equity Tier 1 capital) and the resulting share premiums less AT1 deductions.
- The deduction of AT1 items basically consists of the direct, indirect and synthetic holdings by an institution of its own AT1 instruments or those of other financial sector entities.

Tier 2 capital:

- Instruments, issued by the bank and by consolidated subsidiaries of the bank that are held by third parties, which meet the criteria for inclusion in the Tier 2 capital (and not included in Common Equity Tier 1 capital) and the resulting share premiums.
- The book balance of the generic provision representing standard portfolios (1.25% limit of the general RWAs) and the excess provisions calculated according to the Internal Rating-Based approach and their expected losses (0.6% limit of the IRB RWAs).
- T2 deductions consist of the direct, indirect and synthetic holdings by an institution of its own Tier 2 capital instruments or those of other financial sector entities.

One of the major developments of the new solvency framework pursued by the Basel principles is the greater convergence between the capital requirements demanded of entities and the risk levels actually assumed by those entities. This aspect is all the more important in the case of entities that are authorised to use their own risk-measurement models, a process in which Banco Popular Group is involved.

Additionally, the Internal Capital Adequacy Assessment Process (ICAAP) requires entities to perform a comprehensive assessment of the assumed risk levels and of the adequacy of its capital levels for confronting possible unexpected losses resulting from those risks.

This process is set out in:

- The Internal Capital Adequacy Assessment Report (ICAAP), which is approved every year by the Board of Directors
- Periodic review, at least every quarter, of the annual Capital Planning including actual new information on risk assessments and changes to the capital base, along with stress tests.

Part Seven of Regulation 575/2013 stipulates the rules for determining the institutions' leverage ratio according to CRR; which is calculated as the Tier 1 capital of the institution divided by the exposure measurement for this ratio and it is expressed as a percentage.

On the basis of Article 499.3, during the transition period from 1 January 2014 until 31 March 2017, the institution will calculate the leverage ratio according to CRR at the end of the quarter and will use Tier 1 capital subject to the adjustments allowed under transitional provisions as established by Article 499.1.b) of the Regulation.

In December 2016, the phase-in leverage ratio of the institution according to CRR was 5.31%, above the minimum levels established by the Basel Committee on Banking Supervision (3% of Tier 1 capital over the total balance).

At 31 December, the eligible shareholders' equity for the Group and the relevant capital requirements were as follows:

Thousands of euros	**2016**	**2,015**
Ordinary Tier 1 capital (CET1)	7,808,141	9,827,873
Tier 1 capital	7,808,141	9,827,873
Tier 2 capital	655,167	493,922
Total eligible shareholders' equity	**8,463,308**	**10,321,795**
Total minimum shareholders' equity (*)	5,149,779	5,982,211

* Strictly includes the Pillar I requirements

Overall, eligible equity amounted to 8,463 million euros of which 92.26% corresponds to core shareholders' equity: capital, reserves and convertible instruments.

The balances of risk-weighted assets for each type of risk at 31 December 2016 and 2015 and their change is shown below:

	2016		**2015**			
	RWA	**Require-ments**	**RWA**	**Require-ments**	**Annual RWA change**	**Annual require-ments change**
Total amount of the exposure to risk	**64,372,232**	**5,149,779**	**74,777,640**	**5,982,211**	**(10,405,408)**	**(832,432)**
Credit risk	58,902,367	4,712,189	68,837,682	5,507,015	(9,935,315)	(794,826)
Market risk	147,904	11,832	571,352	45,708	(423,448)	(33,876)
Operational risk	5,321,961	425,757	5,368,606	429,488	(46,645)	(3,731)

Below presents granular information on weighted assets for:

Credit Risk - Standard Method	**2016**	**2015**
Central governments and central banks	4,569,586	3,035,173
Regional governments and local authorities	5,712	23,457
Public sector entities and non-profit institutions	23,139	612,290
Multilateral development banks	-	-
International organisations	-	-
Credit institutions and investment services companies	828,995	1,280,982
Companies	5,264,745	6,126,833
Retail	5,073,866	4,908,533
Exposures guaranteed by investment property	4,201,251	5,063,902
Non-performing exposures	5,596,994	7,989,923
High risk exposures	191,283	-
Guaranteed bonds	22,406	28,740
Securitisations positions	-	3,448
Short-term exposures to institutions and companies with short-term credit assessment	3,000	11
Exposures to collective investment institutions	61,980	68,333
Equity exposures	1,300,053	1,814,397
Other exposures	122,452	135,938
Total requirements of the Standard Method	27,265,463	31,091,958
Credit Risk - Internal Rating-Based Method		
IRB Method when neither own LGD estimates nor conversion factors are used	**7,311,709**	**10,047,817**
Central governments and central banks	-	-
Entities	1,663,237	1,748,036
Companies - SMEs	852,605	1,460,235
Companies - specialised financing	884,946	1,877,077
Companies - others	3,910,921	4,962,469
IRB Method when own LGD estimates and/or conversion factors are used	**12,091,497**	**15,362,538**
Central governments and central banks	-	-
Entities	-	-
Companies - SMEs	3,509,096	5,716,711
Companies - specialised financing	-	-
Companies - others	1,616,815	2,302,651
Retail exposures - guaranteed by investment property, SMEs	844,762	1,023,800
Retail exposures - guaranteed by investment property, non SMEs	4,142,993	4,252,900
Permissible renewable retail exposures	-	-
Retail exposures - others, SMEs	1,485,107	2,066,476
Retail exposures - others, non SMEs	492,725	-
Equity exposures according to the IRB method	-	-
Securitisation exposures according to the IRB method	215,294	3,212
Of which: re-securitisation	-	-
Other non-credit obligations assets	11,745,229	12,029,030
Amount of exposure at risk by contribution to the guarantee fund for non-payment of an ECC	32,935	57,469
Total requirements of the IRB Method	31,396,663	37,500,067
Position, exchange rate and raw materials risks		
Total requirements for position, exchange rate and raw materials risks according to standard method	**147,904**	**571,352**
Negotiable debt instruments	144,718	109,889
Equity instruments	3,186	121,747
Currencies	-	339,716
Operating risk		
Total requirements for operating risk	**5,321,961**	**5,368,606**
Operating risk - basic indicator method	-	-
Operating risk - standard/alternative standard methods	5,321,961	5,368,606
Operating risk - advanced calculation methods	-	-
Risk for credit fair value changes		
Total requirements for risk for credit fair value changes	**240,240**	**245,657**
Advanced method	-	-
Standard method	240,240	245,657
Based on the method of the original exposure	-	-

At 31 December 2016 the solvency ratios of the Group are 12.13% for CET 1, 12.13% for Tier 1 and 13.15% for Total Capital. It should be highlighted that the Group achieved this capital ratio through its own means, with a business model principally connected to companies, eschewing State aid and following the integration of Banco Pastor and the card business of Citibank in Spain. It should also be noted that the Group has not transferred property assets to SAREB.

In accordance with the results of the Supervisory Review and Evaluation Process (SREP), the European Central Bank established a CET 1 capital requirement of 7.875% for Popular in 2017. This includes the regulatory requirement (Pillar 1) of 4.5%, a Pillar 2 requirement of 2%, a capital conservation buffer of 1.25% and a local systemic institution buffer of 0.125% imposed by Banco de España. For its part, the Tier 1 level reached 9.375% and total capital 11.375% At 1 January 2017, the Group complies with the aforementioned requirements after considering the adjustments for the phase-in of said year, presenting a CET1 ratio of 10.57%, a Tier1 ratio of 11.32% and a total capital ratio of 12.33%.

The CET1 fully-loaded ratio at the end of 2016 is 8.19%.

The evolution of the capital ratios, as in all years, is subject to the evolution of certain aspects such as compliance with the current forecasts of the business, the appearance of potential new capital requirements, changes in accounting regulation, the evolution of the market which could affect the valuation of financial assets and the evolution of estimates of provisions for certain litigation, mainly, floor clauses.

It is noteworthy that the Group, based on its business plan, currently under review, and specific capital measures, has both organic and inorganic mechanisms to generate capital which will allow compliance with the capital ratios for all of 2017. Those noteworthy amongst said mechanisms are:

- The generation of profits: for every 100 million of retained profit it will generate 22 b.p. of capital due to DTAs and the increase of thresholds.
- The additional reduction of risk-weighted assets as we move forward in the reduction of non-performing assets. For every 1,000 million euros of NPAs, it will generate about 20 b.p. of capital.
- The sale of treasury shares and the reduction of fixed income capital losses, which will allow us to generate 105 b.p. of capital.
- Additionally, another of the bank's alternatives to generate capital inorganically would be the divestment of non-strategic businesses, which could generate some 100 b.p. of capital.

7. Segment reporting

Segment reporting is the basis for analysing and monitoring Banco Popular Group's activities. In the second quarter of 2016 the business segments were redefined and regrouped into two business areas as described below:

- Main Business: All banking business excluding property and associates. Mainly includes Retail Banking and its sub-businesses (SMEs, consumption, asset management and insurance, etc.), Private Banking, Wholesale Banking, Fixed-income Portfolio and Market Financing (asset and liabilities operations with credit institutions, hedging derivatives and raising of funds in wholesale markets).
- Real estate and related business: Real estate and credit risk associated with the property sector (promotion, construction, sale/purchase or leasing of real estate, accommodation) both in Spain and in subsidiaries, and property shareholdings.

In 2015 segmentation was performed by grouping the activity into the four areas described below:

- Commercial Banking: this encompasses the activities conducted by the branch office network for typical lending transactions, fund-raising, acceptance of off-balance sheet risks and the supply of financial services of all kinds, including factoring and renting. In addition, it has been assigned the goodwill associated with commercial banking.
- Asset Management and Insurance: this comprises asset management activities and the administration of undertakings for collective investment (investment fund management, portfolios and pension funds) and the activities conducted in life and general insurance by the Portuguese entities Popular de Seguros, S.A. and Eurovida, S.A, as well as the insurance operations carried out in Spain through Allianz Popular, S.L. in which the Group has a 40% interest.
- Real Estate Area: this comprises the activities of the Group's real estate companies and the real estate activities of the Group's banks, which are managed on an integrated basis to allow for the orderly disposal of property assets.
- Institutional and Market Area: this reflects the other activities performed, including most notably asset and liability transactions with credit institutions, the financial instruments of banking entities held for trading, available-for-sale financial assets, asset and liability hedging derivatives, held-to-maturity portfolio and investments, asset and liability balances arising from pensions, raising of funds in wholesale markets by issuances of euronotes, subordinated debt and capital having the nature of a financial liability and convertible instruments.

Since what is involved is transversal information that in most cases is drawn from one or several of the consolidated subsidiaries in the corresponding segment, aggregation of the whole leads to the consolidated financial statements. For greater clarity, the liability side of the balance sheet includes a separate caption called “Net intra-segment financing”, obviously with a zero balance, so that the segments financed will have a positive symbol while the financing segments will have a negative symbol.

In order to determine results for each business segment in 2016 and 2015, the following criteria were used:

- Costs of intra-segment financing: calculated with a transfer rates system through which a financing cost is charged which includes the market interest rate plus a liquidity premium. In the case of promoters, doubtful loans and foreclosed properties or receipts in payment of debt the cost of the entity's issue of senior debt is assimilated.
- Operating expenses: direct and indirect expenses are allocated to each segment based on the related activity assigned, with the direct expenses on property and property management plus the expenses related to the management of property loans and associated to the units corresponding to Real estate and related business.
- Shareholders' equity: Shareholders' equity is assigned to each business based on the capital consumption of their risk-weighted assets, as well as those additional capital requirements derived from goodwill and other intangibles, shortfall in provisions for PE and fixed income capital losses.

The comparative information has been prepared considering the new segments and applying the same criteria to both years.

The balance sheet by business segment at 31 December 2016 is as follows:

(Data in € thousands)	Main Business	Real estate and related business	Consolidated
ASSETS			
Cash and cash balances at central banks and other demand deposits	3,276,385	2,423	3,278,808
Financial assets held for trading	2,100,033	3,816	2,103,849
Financial assets designated at fair value through profit or loss	553,790	-	553,790
Available-for-sale financial assets	15,384,097	-	15,384,097
Loans and receivables	87,677,440	11,426,706	99,104,146
Loans and advances to credit institutions	4,159,264	-	4,159,264
Of which are interbank deposits	202,510	-	202,510
Loans and advances to customers	82,916,209	11,426,706	94,342,915
Fixed income	601,967	-	601,967
Held-to-maturity investments	4,583,511	-	4,583,511
Derivatives – Hedge accounting	295,219	-	295,219
Fair value changes of the hedged items in portfolio hedge of interest rate risk	265,519	-	265,519
Investments in subsidiaries, joint ventures and associates	1,458,069	407,073	1,865,142
Assets under insurance and reinsurance contracts	17,543	-	17,543
Tangible assets	762,017	1,433,114	2,195,131
Intangible assets	2,611,515	1,051	2,612,566
Tax assets	3,896,023	1,186,822	5,082,845
Other assets	736,164	955,720	1,691,884
Non-current assets and disposal groups classified as held for sale	-	8,891,678	8,891,678
Total assets	**123,617,325**	**24,308,403**	**147,925,728**

(Data in € thousands)	Main Business	Real estate and related business	Consolidated
LIABILITIES			
Financial liabilities held for trading	1,643,755	-	1,643,755
Financial liabilities designated at fair value through profit or loss	604,707	-	604,707
Financial liabilities measured at amortised cost	130,803,056	381,610	131,184,666
Deposits from credit institutions	30,027,582	163,125	30,190,707
Of which are interbank deposits	1,881,236	-	1,881,236
Customer deposits	82,664,520	176,427	82,840,947
Marketable securities	15,023,810	316	15,024,126
Subordinated liabilities	2,039,472	-	2,039,472
Other financial liabilities	1,047,672	41,742	1,089,414
Derivatives – Hedge accounting	1,201,865	-	1,201,865
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities under insurance and reinsurance contracts	484,284	-	484,284
Provisions	511,176	23,130	534,306
Tax liabilities	377,489	19,859	397,348
Share capital repayable on demand	-	-	-
Other liabilities	739,721	47,463	787,184
Liabilities included in disposal groups classified as held for sale	-	-	-
Net intra-segment financing	(21,713,143)	21,713,143	-
Total liabilities	**114,652,910**	**22,185,205**	**136,838,115**
EQUITY			
Own funds	9,188,605	2,176,296	11,364,901
Capital, reserves and other equity instruments	9,495,342	5,354,925	14,850,267
Profit or loss attributable to owners of the parent	(306,738)	(3,178,628)	(3,485,366)
Interim dividends (-)	-	-	-
Accumulated other comprehensive income	(233,883)	(55,395)	(289,278)
Minority interests [non-controlling interests]	9,694	2,296	11,990
Total equity	**8,964,415**	**2,123,198**	**11,087,613**
Total equity and total liabilities	**123,617,325**	**24,308,403**	**147,925,728**

Results by business area at 31 December 2016 are as follows:

(Data in thousands of euros)	Main Business	Real estate and related business	Consolidated
=Net Interest Income	**2,213,542**	**(116,954)**	**2,096,588**
+ Results from investments in joint ventures and associates	98,590	(38,695)	59,895
+ Net fees and commissions	530,256	8,415	538,671
± Net profit/(loss) on financial operations	184,928	15,800	200,728
± Other income	(66,419)	(3,711)	(70,130)
=Gross Income	**2,960,897**	**(135,145)**	**2,825,752**
- Administrative expenses:	1,629,942	257,314	1,887,256
- Depreciation and Amortisation	113,844	26,851	140,695
=Net operating income	**1,217,111**	**(419,310)**	**797,801**
- Impairment of assets and provisions	1,666,378	4,025,623	5,692,001
± Other gains/losses	85,099	(79,381)	5,718
= Profit/(loss) before tax	**(364,168)**	**(4,524,314)**	**(4,888,482)**
± Taxes and others	(57,430)	(1,345,686)	(1,403,116)
= Profit attributable to the parent company	**(306,738)**	**(3,178,628)**	**(3,485,366)**

We present the balance sheet at 31 December 2015:

(Data in thousands of euros)	Main Business	Real estate and related business	Consolidated
ASSETS			
Cash and cash balances at central banks and other demand deposits	5,462,817	2,896	5,465,713
Financial assets held for trading	1,280,330	5,553	1,285,883
Financial assets designated at fair value through profit or loss	535,319	-	535,319
Available-for-sale financial assets	25,090,920	102,235	25,193,155
Loans and receivables	88,421,759	16,654,532	105,076,291
Loans and advances to credit institutions	4,301,561	-	4,301,561
Of which are interbank deposits	253,190	-	253,190
Loans and advances to customers	82,983,237	16,654,532	99,637,769
Fixed income	1,136,961	-	1,136,961
Held-to-maturity investments	-	-	-
Derivatives – Hedge accounting	443,068	-	443,068
Fair value changes of the hedged items in portfolio hedge of interest rate risk	233,228	-	233,228
Investments in subsidiaries, joint ventures and associates	1,490,468	303,541	1,794,009
Assets under insurance and reinsurance contracts	17,524	-	17,524
Tangible assets	774,425	923,360	1,697,785
Intangible assets	2,570,501	1,378	2,571,879
Tax assets	3,105,251	498,912	3,604,163
Other assets	602,515	1,083,413	1,685,928
Non-current assets and disposal groups classified as held for sale	-	9,045,928	9,045,928
Total assets	**130,028,125**	**28,621,748**	**158,649,873**

(Data in thousands of euros)	Main Business	Real estate and related business	Consolidated
LIABILITIES			
Financial liabilities held for trading	1,043,063	-	1,043,063
Financial liabilities designated at fair value through profit or loss	599,419	-	599,419
Financial liabilities measured at amortised cost	140,111,002	397,522	140,508,524
Deposits from credit institutions	33,163,322	213,064	33,376,386
Of which are interbank deposits	2,728,852	-	2,728,852
Customer deposits	88,150,957	184,458	88,335,415
Marketable securities	15,989,048	-	15,989,048
Subordinated liabilities	2,066,951	-	2,066,951
Other financial liabilities	740,724	-	740,724
Derivatives – Hedge accounting	2,013,974	-	2,013,974
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Liabilities under insurance and reinsurance contracts	486,829	-	486,829
Provisions	367,474	15,885	383,359
Tax liabilities	503,238	10,245	513,483
Share capital repayable on demand	-	-	-
Other liabilities	565,653	20,944	586,597
Liabilities included in disposal groups classified as held for sale	-	-	-
Net intra-segment financing	(25,187,717)	25,187,717	-
Total liabilities	**120,502,936**	**25,632,312**	**146,135,248**
EQUITY			
Own funds	9,754,992	2,965,000	12,719,992
Capital, reserves and other equity instruments	9,086,022	3,488,407	12,656,947
Profit or loss attributable to owners of the parent	711,357	(523,407)	105,432
Interim dividends (-)	(42,387)	-	(42,387)
Accumulated other comprehensive income	(236,247)	14,504	(221,743)
Minority interests [non-controlling interests]	6,444	9,932	16,376
Total equity	**9,525,189**	**2,989,436**	**12,514,625**
Total equity and total liabilities	**130,028,125**	**28,621,748**	**158,649,873**

Results by business area at 31 December 2015 are as follows:

(Data in thousands of euros)	Main Business	Real estate and related business	Consolidated Total
=Net Interest Income	**2,416,931**	**(165,695)**	**2,251,236**
+ Results from investments in joint ventures and associates	147,850	(100,428)	47,422
+ Net fees and commissions	573,923	21,399	595,322
± Net profit/(loss) on financial operations	517,260	-	517,260
± Other income	26,872	(7,201)	19,671
=Gross Income	**3,682,836**	**(251,925)**	**3,430,911**
- Administrative expenses	1,383,464	220,223	1,603,687
- Depreciation and Amortisation	115,515	22,238	137,753
=Net operating income	**2,183,857**	**(494,386)**	**1,689,471**
- Impairment of assets and provisions	719,300	895,364	1,614,664
± Other gains/losses	57,677	(18,300)	39,377
= Profit/(loss) before tax	**1,522,234**	**(1,408,050)**	**114,184**
± Taxes and others	401,039	(392,287)	8,752
= Profit attributable to the parent company	**1,121,195**	**(1,015,763)**	**105,432**

The distribution of interest and similar income by geographical area for the consolidated Group for the years ended 31 December 2016 and 31 December 2015 is detailed below.

GEOGRAPHICAL AREA			
		Consolidated group	
(Data in € thousands)	**31.12.2016**	**31.12.2015**	**Var %**
Domestic market	2,638,131	3,199,945	(17.56)
Exports:			
a) European Union.	205,528	227,545	(9.68)
b) OECD countries	86,085	81,198	6.02
c) Other	3	-	-
TOTAL	**2,929,747**	**3,508,688**	**(16.5)**

The breakdown of consolidated ordinary revenues for each of the Group's new activity segments for the years ended 31 December 2016 and 31 December 2015 is shown below:

(Data in € thousands)						
SEGMENTS	**Ordinary revenues from external customers**		**Ordinary intra-segment revenues**		**Total ordinary revenues**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Main Business	3,455,713	4,461,870	587,126	652,241	4,042,839	5,114,111
Real estate and related business	501,026	508,012	-	-	501,026	508,012
(-) Adjustments and elimination of ordinary revenues between segments	-	-	(587,126)	(652,241)	(587,126)	(652,241)
TOTAL	**3,956,739**	**4,969,882**	**-**	**-**	**3,956,739**	**4,969,882**

The consolidated profit/(loss) for the segments reported and their reconciliation with the profit/(loss) before tax of the consolidated income statement is detailed below for the years ended 31 December 2016 and 2015 respectively.

(Data in € thousands)		
Segments	**31.12.2016**	**31.12.2015**
Main Business	(306,738)	1,121,195
Real estate and related business	(3,178,628)	(1,015,763)
Total profit/(loss) of the segments reported	(3,485,366)	105,432
(+/-) Unassigned profit/(loss)	-	-
(+/-) Removal of internal profit/(loss) (between segments)	-	-
(+/-) Income tax	(1,403,116)	8,752
(+/-) Other profit/(loss)	-	-
PROFIT/(LOSS) BEFORE TAX	**(4,888,482)**	**114,184**

8. Business combinations and other corporate transactions with subsidiaries, joint ventures and associates

A business combination is an event involving the acquisition of the assets and the assuming of the liabilities that make up a business over which control is acquired and which is administered and managed in order to obtain a return.

The Group carried out the following corporate transaction in 2016:

Sale of the signing and coordination and execution of Pre-signature and Post-signature process on mortgage security operations business

On 30 June 2016 Banco Popular and Banco Pastor sold the signing and coordination and execution of Pre-signature and Post-signature process on loans with mortgage security and property and equipment leasing operations business unit. It was acquired by Indra BPO who took a 100% shareholding in the company through which this business is acquired.

The purchase agreement included the transfer of all the necessary means to develop the aforementioned business activity independently which previously had been done centrally in the Group to free branches of administrative tasks.

This transaction has the following objectives

- Achieve adequate segregation of duties because in this way the functions of control and management of this process will depend on different management.
- Develop a long-term relationship with a reputable and trusted provider able to improve the business process as a whole, due to their expertise and professionalism in its management.
- Separating the management of this business from "core" banking means the Group can focus on its traditional SMEs and individuals management model.

The sale was implemented through the following contracts:

- An asset purchase agreement (APA) by which Banco Popular and Banco Pastor sell the assets and resources necessary for business development to the Purchaser and receive a change in price. The Group will not have a shareholding in the company through which the Purchaser acquires 100% of the business and where, therefore, the Purchaser will have a 100%. shareholding An independent expert concluded that "the price paid for 100% of the Business is within the range of fair values for the Business at 30 June 2016".
- A service level agreement (SLA) which regulates the relationship between Banco Popular, Banco Pastor and Purchaser for the provision of services, subject to compliance with certain service levels, which will be valid for 10 years, extendable by agreement of the parties. Through this contract the Group is committed to prescribe exclusive Post-signature services while the final contracting decision will be that of customers who have signed a mortgage transaction. Regarding the pre-signature service which the Purchaser will provide, an independent expert has concluded that the cost of the pre-signature service which Group will pay to the Purchaser has been set under market conditions.
- A put option contract in favour of the Purchaser in the case of a change in the control of Banco Popular. This contract specifies the compensation the Purchaser would receive if a change of control should occur in Banco Popular and the Purchaser decides to exercise the option. It is considered to be a remote risk.
- Banco Popular will grant the company which acquires the business a financing contract for a maximum of 28 million euros which is 40% of the sale price. The financing is offered under market conditions and its term is seven years.

According to that established in accounting standard IFRS 3 "Business Combinations", the Group transferred a set of inputs, processes, activities, products and services to Indra BPO which themselves generate revenues and profits for Indra BPO, having therefore lost the control and transferred the risks and benefits of the business. Therefore, based on IFRS 10.25 and since the control over the business is lost, the Group will discontinue the consolidation of the business, deregistering assets and liabilities from its balance sheet which have been sold and recognise the consideration received at fair value.

The price of the transaction amounted to 69.5 million euros in which will be received: 64.6 million euros by Banco Popular and 4.9 million euros by Banco Pastor. The transaction generated a capital gain for the Group of 67.7 million euros has been recognised under Gains or (-) losses on derecognition of non-financial assets and shareholdings, net on the income statement.

As a result of the termination of the contract requested by Indra BPO on 30 December 2016, a provision was made for the current collection rights against Indra BPO.

The most important corporate transactions that took place in 2015 were as follows:

Sale of the business unit of managing property assets and other assets in Portugal

On 9 June 2015, Banco Popular Portugal and Consulteam, which are 100% owned by the Group, agreed to sell the business unit of property asset management and the particular debt of the bank relating to real estate to the company, Recbus – Recovery to business, S.A. (hereinafter, Recbus, which at the end of 2015 renamed itself to Primestar), which, from this date, would develop that business. Quarteira, S.a.R.L., a company controlled by investment funds managed by Carval Investors LLC which itself is a subsidiary of the Cargill Group, holds an 80% stake in Recbus. The remaining 20% is held by Banco Popular Español (hereinafter, BPE).

Through this transaction, the Group has pursued a double objective: on the one hand, exploit fully the property management business in Portugal by benefiting from the knowledge and experience of a partner specialised in optimising property asset management, the recovery of debts and the management of impaired assets; on the other hand, remove the management of this business so as to concentrate Banco Popular Portugal on traditional commercial banking which is directed at savings' management and financial services for individuals, families and businesses, especially SMEs.

The sales agreement included the transfer of all necessary means, including personnel and tangible assets, from the sellers to Recbus for the independent development of the property management and debt recovery activities. This sale was carried out by the Banco Popular Group with the objective of maximising the sale price of property assets and maximising the recovery of debt related to the real estate sector.

The current management of the sold business is wholly through the Purchaser, Recbus, which has assumed the assets and the material and human resources necessary to develop this business Therefore, it takes its own decisions regarding the company's strategy, its relationships with suppliers, personnel management, so that its decision are important to achieve economies of scale and to improve its efficiency. By acquiring this business, the Purchaser assumes the risks of the business (its risks in general and its profits or losses), operational risk, market risk, credit/counterpart risk in that any shortage related to these risks is assumed by them.

The analysis concluded that the transaction involves the sale of a business taking into account that:

- It constituted an integrated set of activities and processes which are carried out by personnel specialised in the management of this business.
- The assets and resources necessary to carry out this activity were transferred. Apart from the handover of personnel, all contracts with suppliers which are essential to develop this activity were transferred.
- The know-how required to develop this business was transferred, including the manuals describing the key processes of the business.
- Recbus takes all the strategic decisions which affect the business and which allows it to attract new customers, replace suppliers, manage personnel, etc. These fully independent decisions determine the revenues and costs of the business and, consequently, its future profitability.
- To ensure the revenues of the acquired business, Recbus has to carry out suitable management of the business, assume the risk that revenues increase or decrease based on how the acquired business evolves, assume the evolution of its structure costs and assume any type of contingency this business may face.
- It was found that there is a wide market developed in Europe for the management of past due debt (with or without mortgage security) and for the management of property assets received in payment of debts.

The financing of 21 million euros received initially accounts for 30% of the sales price. If this financing is added to the outlay made by Banco Popular as a partner (20% of the capital and 20% of the loan to partners), the risk assumed would reach 44% of the sales price. The financing granted has nothing to do with the likelihood that Recbus obtains the economic benefits of the business. For its part, Banco Popular assumes the credit risk associated with this financing and will have to carry out the impairment analysis of it. There is no indication of impairment:at the close of 2015 or 2016.

From the point of view of IAS 39.20, it is important to analyse if the involvement in the financing could mean that all the risks and benefits have not been substantially transferred. This analysis is made taking into account the variability of the risks and benefits before and after the transaction. To the extent that the entity to which the business is sold is an operating entity and not an SPE, the transfer of risks and benefits must be analysed taking into account all the instruments involved in the transaction, i.e. loans and equity instruments. The following relevant factors should be assessed before concluding this aspect:

a) The percentage of financing granted by Popular represents approximately 30% of the total financing; the total exposure to risk including the holding in equity instruments amounts to and is limited to 44%. No guarantee related to this operation was granted.

b) The terms of the loans (shareholder loans and long-term loan) are at market conditions and Popular, under no circumstances, undertook any type of commitment that any other financial entity would assume had they financed Recbus. The interest rate is within the market range for similar loans in Portugal, in accordance with the analysis conducted by Banco Popular Portugal.

c) The reimbursement of capital contributions will only be carried out if there are funds available, it is not an obligation of Recbus.

d) Some payments may have priority over others, all equity instruments (including subordinated financing granted by shareholders) will be subject to the income and expenses of the business and Recbus offers no guarantee;

e) Popular transferred most of the business's income and expenses variability by transferring the controlling shareholding in the business to a third party, the Investor, who has an 80% shareholding in Recbus.

As a result, with this level of financing, it can be concluded that the risks and benefits of the company were transferred to Recbus.

Neither Banco Popular nor entities of its Group provided financing to Quarteira, S.a.R.L. nor to investment funds managed by Carval Investors LLC.

In relation to the service level agreement (SLA), prior to the approval of the agreement, it needs to be taken into account that Banco Popular and the Investor had no form of business relationship. Moreover, the Investor has no stake in Banco Popular's capital and this does not have a stake in the Investor's capital. We consider Popular to have no direct involvement in the management of the transferred business given that Recbus controls and manages the business independently. The terms and conditions of the SLA include certain aspects in which Popular has a stake, such as its stage in the Monitoring Committee whose objective is to contrast the quality of the service provided. Therefore, serious involvement in the management cannot be considered; rather, it deals with the conditions which are usually established between the supplier and the customer in this type of agreement. An independent expert was contracted who verified that the fees paid for the service received are at market rates and therefore correspond to transactions made between independent third parties.

The call and put options are under market conditions and do not seek, in any way, to retain control of the business. In general, they are protective for one party if significant breaches are caused by the other party. In the need of their being exercised, two independent experts will calculate the strike price based on current market conditions on the date the option is exercised In some cases they carry an additional penalty which seeks to discourage its exercise and to penalise the defaulting party.

The sale was implemented through the following contracts: Investment Agreement, Sales Agreement for the Business Unit of Managing Property Assets and Other Assets, Agreement for the Provision of Services, Agreement for the Provision of Transitional Services and a Shareholders' Agreement.

The Investment Agreement contained a clause with conditions precedent, which had to be fulfilled before the Agreement could become final. By 30 June 2015, the parties had fulfilled the conditions precedent and, accordingly, the Agreement was considered finalised by both parties. Payment for the sale was completed on 22 July 2015.

The sale included a contract for the provision of exclusive services which was signed by Banco Popular Portugal and Consulteam on one side and Recbus on the other; said contract is for a 10-year duration and establishes the services to be provided and their cost. An independent third party certified that the contractual prices were at market rates.

The exclusivity in the service provision agreement means that Banco Popular, Portugal and Consulteam agreed to contract Recbus to manage their portfolios of property assets and other assets. Said exclusivity implies that only Recbus would be contracted for said management. However, the contract is conditional on complying with a level of quality is such management so that, in the event of non-compliance, Banco Popular, Portugal and Consulteam will have the right to withdraw the service provision agreement.

There is no exclusivity for the Purchaser who may freely offer their management services to other customers in order to optimise their costs.

The price of the transaction amounted to 72 million euros. The transaction generated a capital gain for the Group of 69.5 million euros, which was recognised in the income statement under "Gains on disposals of assets not classified as non-current assets held for sale", after the transfer of assets worth 0.26 million euros and personnel serving in the productive unit affected by the transfer to Recbus. From that capital gain, 55.6 million euros originated from the sale of 80% in Recbus, while 13.9 million euros was the result of the revaluation of the retained 20% stake.

In compliance with accounting standard IFRS 3 "Business Combinations", the Group transferred to Recbus a group of inputs, processes, activities, products and services that in themselves generate ordinary income and profits for Recbus, after it relinquished control and transferred the risks and rewards of the business. The following transactions were performed:

- Issuance of additional capital by Recbus for the amount of 25.3 million euros, of which BPE and Quarteira, S.A.r.L. subscribed 20% and 80% respectively.
- Shareholders' loan to Recbus equalling 25.4 million euros provided by BPE and Quarteira, S.A.r.L. in the respective proportions of 20% and 80%.
- Recbus received long-term financing from Banco Popular Portugal for the amount of 21.8 million euros, granted at market rates.

While BPE retains a 20% share, a change of control occurred within Recbus since the new shareholder, Quarteira, S.A.r.L., holds the major share of 80%.

The Shareholders' Agreement (SHA) includes specific call and put options in the event of a substantial breach of obligations or under other very restrictive events, as summarised in the following table:

Option	Underlying asset	Holder	Counterparty	Exercise price	Market value calculation	Exercise period	Conditions for exercising the option
Call	Recbus shares	BPE	Quarteira, S.a.R.L.	Market value	Market value of the Recbus shares on the date of exercising the option with 30% penalty.	From the date of the transaction's conclusion	Gross breach of obligations. Change of control in Recbus if acquired by a competitor of the Group.
Put	Recbus shares	Quarteira, S.a.R.L.	BPE	Market value	Market value of the Recbus shares on the date of exercising the option with 30% penalty. No penalty if due to a detrimental change in Portuguese regulations,	From the date of the transaction's conclusion	Gross breach of obligations. Change of control in the Group. Detrimental changes in the Portuguese regulations.
Put	Recbus shares	BPE	Quarteira, S.a.R.L.	Market value	Market value of the Recbus shares on the date of exercising the option.	From the date of the transaction's conclusion	If the other options are exercised and the Group acquires the business but not the shares of Recbus.

In a conducted analysis which considered both the retained 20% share in Recbus and the long-term financing granted to Recbus by the Group, a significant proportion of risks and benefits was transferred. With regard to the financing, it is carried out at market rates and under the same criteria applied to lending operations. The Agreement sets out that, at no time, the risk held by BPE, including its stake in the share capital and the granted financing, should exceed 44% of the equity and liabilities of Recbus.

In relation to the accounting treatment of the retained 20% share in Recbus based on IFRS 10 and 11, and taking into account the Shareholders' Agreement on decision-making with respect to specific reserved matters for the General Shareholders' Meeting and the Board of Directors, there will be joint control of Recbus for the first two years:

a) The Shareholders' Agreement (SHA) specified matters reserved for the decision of the General Shareholders' Meeting or the Board of Directors, which require an 85% majority in favour. Among those reserved matters, the following are highlighted:

- Changes to the corporate governance model affecting the Board of Directors or the Articles of Association.
- Capital increases or reductions, except where necessary to comply with the agreement, regulatory requirements or any other applicable provision under law.
- Changes to the nature of the company's business.
- Any proposal to wind-up or liquidate the company.

b) The Board of Directors comprises 9 members (7 appointed by the Purchaser and 2 appointed by BPE). Decisions by the Board will be taken by simple majority of those present or represented at the Board's meeting, except in the case of reserved matters where, for the first two years, a favourable vote of the members appointed by the shareholders will be necessary and said favourable vote must represent at least 85% of the company's share capital; some such matters are as follows:

- Approval or amendment to the annual budget or business plan.
- Decisions that cause an increase in costs incurred in the management of properties or in the management of loans.

With regard to the types of joint arrangements contemplated by IFRS 11.4 and 11.7, there is joint control by both investors and, considering the rights and obligations resulting from the different arrangements, the existing joint arrangement corresponds to a joint venture.

Sale of 50% stake in Universalpay, Entidad de Pago, S.L.

On 24 December 2015, the Group agreed to sell its 50% stake in Universalpay, Entidad de Pago, S.L. (hereinafter, Universalpay) to EVO Payments International (hereinafter, EVO Payments), so that the latter held 100% of Universalpay.

Universalpay was incorporated in October 2013 as a result of a December 2012 agreement between the Group and EVO Payments regarding the sale of the purchase-service business. In said company, the Group held 50% of its shares, which it agreed to sell, while EVO Payments held the other 50% and also had control of the company.

The conclusion of the sales agreement entailed the effective transfer of all risks and benefits held by the Group in the company, which allowed the disposal of asset since it was not subject to any conditions precedent. The sale amounted to 94,403 thousand euros, 99% of which was received in cash by 30 December 2015 while the remaining 1% will be received on the date of the technology migration. The agreement includes subsequent adjustment to the sales price which will probably be of little importance, and which is mainly based on two components:

- The price is based on the 2015 estimated EBITDA and, therefore, the contract considered a subsequent adjustment based on the definitive EBITDA of that year.

- An adjustment to the price is considered is the main payment service provider adjusts the cost of their services during 2016.

Based on the available information, the price adjustment would suppose additional income for the Group in the amount of one million euros which would be considered of little impact and therefore paragraph 16 of IAS 18 would not apply. The date on which the final amount of said price adjustment would be determined will be 31 January 2017.

In relation to the governing body of Universalpay, it was agreed that the directors appointed by the Group would be removed.

Prior to the sale, a cash dividend of 4,970 thousand euros was received which had no impact on the Group's income statement.

As a result of this sale, the Group recorded capital gain in the amount of 54,810 thousand euros on its income statement under the heading "Gains (losses) on disposals of assets not classified as non-current assets held for sale".

A summary of the information required by IAS 7.40 for the above-mentioned corporate transactions of 2015 is given below:

			Thousands of euros
		Sale of the business unit of managing property assets and other assets in Portugal	**Sale of 50% stake in Universalpay**
a.	Total consideration paid (-) or received (+)	72,003	94,403
b.	Percentage in cash and cash equivalents	100%	99%
c.	Cash or cash equivalent amount in subsidiaries or other businesses in which control is gained (+) or lost (-)	-	-
d.	Amount of assets and liabilities, excluding cash, in which control is gained (+) or lost (-)	-	-
	ASSETS	31,648	(36,383)
	Held for trading	-	-
	Other financial assets at fair value through profit and loss	-	-
	Available-for-sale financial assets	-	-
	Loans and receivables	26,828	-
	Held-to-maturity portfolio	-	-
	Adjustments to financial assets in respect of macro-hedges	-	-
	Hedging derivatives	-	-
	Non-current assets held for sale	-	-
	Investments	5,076	(36,383)
	Insurance contracts linked to pensions	-	-
	Reinsurance assets	-	-
	Tangible assets	(256)	-
	Intangible assets	-	-
	Tax assets	-	-
	Other assets	-	-
	LIABILITIES	-	-
	Held for trading	-	-
	Other financial liabilities designated at fair value through profit or loss	-	-
	Financial liabilities measured at amortised cost	-	-
	Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-
	Hedging derivatives	-	-
	Liabilities associated with non-current assets held for sale	-	-
	Liabilities under insurance contracts	-	-
	Provisions	-	-
	Tax liabilities	-	-
	Other liabilities	-	-
	Memorandum item:	-	-
	Contingent exposures	-	-
	Contingent commitments	-	-

9. Discontinued operations

In 2016 and 2015 the Group recorded no transactions of this kind.

10. Remuneration of the directors and senior management of Banco Popular Español, S.A.

1. Directors' remuneration

Below reports the remuneration accrued in 2016 by the members of the Board of Directors at 31 December 2016, as well as those directors who were part of the Board during the year 2016, and who resigned their position before the end of the year. The information is also presented in a comparative manner with that received in 2015. None of the stated directors have received any amount for their involvement in other Banco Popular Group companies

Thousands of euros		2016 Remunerations						
		Fixed remuneration		Bonuses				
				Immediately payable		Deferred		
Direct Risks	Name of the Directors	Salaries [1]	For their position as Directors	In cash	In shares	In cash	In shares	Total
801	Angel Ron Güimil	1,350	120	-	-	-	-	1,470
20	Pedro Larena Landeta	333	30	1,000 (2)	-	-	-	1,363
2	Francisco Aparicio Valls	650	120	-	-	-	-	770
26	José María Arias Mosquera	-	120	-	-	-	-	120
-	Banque Federative Du Credit Mutuel	-	120	-	-	-	-	120
6	Reyes Calderón Cuadrado	-	90	-	-	-	-	90
-	José Ramón Estévez Puerto	-	90	-	-	-	-	90
6	Roberto Higuera Montejo	-	120	-	-	-	-	120
-	Ana María Molins López-Rodó	-	120	-	-	-	-	120
4	Jorge Oroviogoicoechea Ortega	-	120	-	-	-	-	120
-	Vicente José Pérez Jaime	-	90	-	-	-	-	90
-	Helena Revoredo Delvecchio	-	120	-	-	-	-	120
-	Jaime Ruiz Sacristán	-	30	-	-	-	-	30
-	Sindicatura de Accionistas	-	120	-	-	-	-	120
16	Vicente Tardío	-	120	-	-	-	-	120
-	Francisco Gómez	1,755 (3)	90	-	-	-	-	1,845
-	Antonio del Valle (4)	-	90	-	-	-	-	90
-	Luis Herrando (5)	-	60	-	-	-	-	60
-	Fundación Barrié (6)	-	30	-	-	-	-	30
881	**TOTAL**	**4,088**	**1,800**	**1,000**	**-**	**-**	**-**	**6,888**

(1) Includes the amount corresponding to the performance complement.
(2) Guaranteed bonuses under article 34.1.e) of Law 10/2014 of 26 June on the management, supervision and solvency of credit institutions.
(3) Includes the remuneration received during 2016 (from 01.01.2016 to 27.07.2016) in which he held this position, in the amount of 610 thousand euros plus the amount of 1,145 thousand euros received in compensation for the early termination of his employment contract, which was suspended.
(4) Held the position of director from 01.01.2016 to 28.09.2016
(5) Held the position of director from 01.01.2016 to 11.04.2016
(6) Held the position of director from 01.01.2016 to 23.02.2016

Thousands of euros		2015 Remunerations						
Direct Risks	Name of the Directors	Fixed remuneration		Bonuses				Total
		Salaries (1)	For being a Director	Immediately payable		Deferred		
				In cash	In shares	In cash	In shares	
814	Angel Ron	1,350	120	-	-	-	-	1,470
136	Francisco Gómez Martín	950	120	-	-	-	-	1,070
-	Francisco Aparicio	650	120	-	-	-	-	770
-	José María Arias	-	120	-	-	-	-	120
-	Antonio del Valle	-	120	-	-	-	-	120
-	Banque Federative Du Credit Mutuel	-	120	-	-	-	-	120
966	Fundación Barrié de la Maza	-	120	-	-	-	-	120
-	Luis Herrando	-	120	-	-	-	-	120
-	Roberto Higuera	-	120	-	-	-	-	120
-	Ana María Molins	-	120	-	-	-	-	120
-	Jorge Oroviogoicoechea Ortega	-	120	-	-	-	-	120
-	Helena Revoredo	-	120	-	-	-	-	120
-	Sindicatura de Accionistas	-	120	-	-	-	-	120
3	Vicente Tardío	-	120	-	-	-	-	120
1,919	**TOTAL**	**2,950**	**1,680**	**-**	**-**	**-**	**-**	**4,630 (*)**

(1) Includes the amount corresponding to the performance complement.

(*) This amount does not include the remuneration received by the former Director Unión Europea de Inversiones, S.A. during the months of 2015 in which they held that office, which totalled 120 thousand euros.

a) Annual bonuses for 2016 and previous years

The executive director received no bonuses whatsoever in relation to the Bonus System for 2015 and 2016 nor in relation with the deferred amounts of the Bonus System for 2013 and 2014.

b) Long-term Bonus Plan

On 10 June 2013, the General Shareholders' Meeting approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 for the members of the executive team, including executive Directors and senior management members.

With respect to the Long-Term Bonus Plan for 2013 to 2016 approved at the General Shareholders' Meeting held on 10 June 2013, in 2016, the Executive Directors benefited from the Plan are Messrs, Ron, Gómez and Aparicio, 207,182, 85,050 (units apportioned by the term he held the position in 2016) and 99,754 units, respectively, corresponding to the fourth cycle of the four which make up the Long-Term Remuneration Plan, which will be quantified in shares and delivered, where appropriate, in 2020.

In relation to the first cycle of said Plan, the Executive Directors participating in it are Messrs. Ron, Gómez and Aparicio, who in 2017 will not receive Banco Popular shares under it, as the objectives under which they would receive them have not been fulfilled.

c) Long-Term Savings Arrangements

The cost payable by the Bank in 2016 for the coverage of the pension commitments of the current directors who are beneficiaries, Messrs. Ron and Aparicio, amounts to 243 and 786 thousand euros, respectively, amounting to a total of 1,029 thousand euros. In 2015, the amounts corresponding to these two directors totalled 574 thousand euros. The cost borne by the Bank in 2016 to cover the pension commitments of the former CEO totalled 2,484 thousand euros as a result in the change of Mr Gómez's marital status and 12,139 thousand euros as a result of the pension commitments pending payment and recorded in full on the date of their termination, all in application of provision of article 27 of the articles of association.

In addition, Messrs. Ron, Larena, Aparicio, as well as Mr. Gómez, are joint beneficiaries of life and health insurance premiums for a total of 39 thousand euros.

The vested rights and technical mathematical reserves linked to the pensionable rights of the current directors Messrs. Ron, Aparicio, Higuera and Arias amount to 8,575, 5,163, 9,119 and 15,678 thousand euros respectively, totalling 38,535 thousand euros which, together with the 53,448 thousand euros pertaining to other former directors, amounts to a total of 91,983 thousand euros at 31 December 2016, 76,696 thousand euros at 31 December 2015.

The Director and Vice-Chairman José María Arias Mosquera, by virtue of the agreements adopted in the past by Banco Pastor and in effect prior to its integration in Banco Popular, received 1,091 thousand euros in 2016 for his early retirement as Executive Chairman of Banco Pastor and resignation from its Board, which was charged to provisions established by Banco Pastor prior to its integration in Banco Popular. In 2015 he received 1,091 thousand euros under the same agreement.

2. Remuneration of Senior Management.

a) Annual Remuneration for 2016 and previous years

Remuneration relating to the ten members of senior management for 2016, excluding directors, totals 2,879 thousand euros

The members of senior management received no bonuses whatsoever in relation to the Bonus System for 2015 and 2016 nor in relation with the deferred amounts of the Bonus System for 2013 and 2014.

On the other hand, the aggregate amount for these persons with respect to benefits in kind (basically, housing, life and health insurance premiums and the tax allocation of advances and delivery of shares) is 137 thousand euros.

b) Long-term Bonus Plan

In relation to the Long-Term Bonus Plan for 2013 to 2016 approved at the General Shareholders' Meeting held on 10 June 2013, in 2016, the members of the Management Committee who were beneficiaries at the time of the Plan's calculation were pre-assigned a total of 622,161 units, corresponding to the fourth cycle of the four which make up the Long-Term Remuneration Plan, which will be quantified in shares and delivered, if applicable, in 2020.

In relation to the first cycle of the aforementioned Plan, the members of the Management Committee participating in it, will not receive any Banco Popular shares in 2017, since the objectives to which they were conditioned were not fulfilled .

c) Long-Term Savings Arrangements

The cost payable by the Bank in 2016 for the coverage of pension commitments in favour of senior management members totals 907 thousand euros. In 2015, this amount totalled 1,531 thousand euros.

The vested rights and technical mathematical provisions linked to the pensionable rights of these managers amount to 9,823 thousand euros at 31 December 2016. At 31 December 2015, the amount was 16,221 thousand euros.

The credits and loans from the Entity to this group amounted to 2,214 thousand euros and those granted to parties related to them to 554 thousand euros. Demand and term deposits amounted to 3,383 thousand euros and those of their related parties to 1,013 thousand euros.

11. Agency contracts

The list of agents of Banks Popular, S.A., Banco Pastor, S.A. and Popular Banca Privada, S.A., as at 31 December 2016, as required for reporting purposes by Royal Decree 1245/1995 of 14 July, is shown in Appendix I to these consolidated financial statements.

12. Environmental impact

The Group considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results. Therefore, as at 31 December 2016 and 31 December 2015, the accompanying consolidated financial statements do not include specific disclosures in these notes regarding environmental issues. The Environmental Dimension of the Integrated Report details the Bank's actions in relation to the environment.

13. Guarantee Fund and National Resolution Fund

The contributions to the Deposit Guarantee Fund (Spain, Portugal and USA), in the case of credit institutions, and to the Investment Guarantee Fund created in 2001 by Royal Decree 948/2001 of 3 August, on indemnity systems for investors, for securities companies and agencies and contributions to the National Resolution Fund, are recognised in Other operating expenses (Note 55) in the consolidated income statement.

In 2014, the EU adopted Regulation (EC) 634/2014, which reflects IFRIC 21 on Levies; applicable and effective from the 1/1/2015, although it provides for its early adoption. Said interpretation establishes that the levy should be accounted when the implicit obligation arises, regardless of the time of its settlement. Therefore, the accounting of the contributions to these funds in 2016 and 2015 was carried out by applying this interpretation.

Deposit Guarantee Fund

In June 2015 the Law 11/2015 of 18 June on recovery and resolution of credit institutions was approved which, in its tenth final Provision amends Royal Decree Law 16/2011 of 14 October, creating the Deposit Guarantee Fund; and which also performs a partial transposition of the European Directive on Deposit Guarantees to the Spanish legal system.

Royal Decree 1012/2015, of 6 November, which develops Law 11/2015, amends RD 2606/1996 of 20 December on deposit guarantee funds of credit institutions.

The new legislation has introduced a new method for calculating contributions. The entities' contributions will be calculated based on a formula whose outcome depends on:

- The basis for calculating the amount of deposits guaranteed by each entity. Its determination will be made based on the provisions of Banco de España Circular 8/2015, of 18 December. It is a significant decrease compared to the calculation basis previously used.
- The contribution rate set of all the member entities. Established dividing the sum of the contributions of the member entities (determined by the Deposit Guarantee Fund) and the sum of deposits guaranteed by each of the entities (reported by them).
- Adjusted by the risk profile of each member entity. Whose methodology was established by Banco de España in its Circular 5/2016 of 27 May, in accordance with Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee systems. This methodology takes indicators of capital, liquidity and financing and asset quality into account.

For the 2016 contributions, on 18 July 2016 the Deposit Guarantee Fund sent a letter to entities to inform that the Fund's Management Committee had determined that for 2016 contributions to the various parts of the fund must be calculated as follows:

- Deposit guarantee part, 1.6 per thousand of the calculation basis.as of 30 June 2016, calculating the contribution of each entity based on the guaranteed deposits and its risk profile.

- Deposit assurance part of the DGF, 2 per thousand of the calculation basis as of 31 December 2016.

The expense accounted for relating to annual contributions to the Deposit Guarantee Fund by the consolidated Banks of the Group operating in Spain, Portugal and USA totalled an overall amount of 65,649 thousand euros (of which 799 thousand euros corresponds to adjustments to that accrued in 2015) and 61,747 thousand euros in 2016 and 2015.

The contribution to the Investment Guarantee Fund by the consolidated companies to which that legislation is applicable amounted to 44 and 41 thousand euros in 2016 and 2015, respectively.

Banco Popular Portugal made annual and extraordinary contributions to the Deposit Guarantee Fund in Portugal and Investor Indemnity System. Additionally, in accordance with Portuguese legislation, other contingent commitments continue to be recorded in suspense accounts amounting to 5,314 thousand euros accumulated for possible future risks which the Fund may be required to cover.

National Resolution Fund

Law 11/2015, of 18 June, together with its regulation developed through Royal Decree 1012/2015, of 6 November, undertakes the transposition into Spanish law of Directive 2014/59/EU of 15 May (BRRD). In this regulation a new framework for the resolution of credit institutions and investment service companies is established, which is in turn one of the standards contributing to the creation of the Single Resolution Mechanism (SRM), as established by Regulation (EU) No. 806/2014 of 15 July and a Single Resolution Fund (SRF).

One of the pillars of the new resolution framework is the creation of resolution funds as financing instruments with which the resolution authorities will have to effectively undertake the various resolution measures in place. In order to finance these funds, on one hand the BRRD determines that each Member State should ensure the establishment of financing mechanisms for national resolution procedures in its territory, establishing their legal status, financing, use, and other regulatory provisions thereof. In Spain it has been approved by Law 11/2015 and its developing RD.

On the other hand, in financing the SRF funds raised by national resolution mechanisms can be used, referring to an agreement on the treatment of transfers and mutualisation of the fund. Therefore, an agreement was signed on 21 May 2014 which determines how to transfer national compartmentalisation contributions to the SRF and its progressive mutualisation for the creation of a 100% European resolution fund. This agreement has been signed in Spain, with publication in the Official Gazette on 18 December 2015.

Nationally, Law 11/2015 regulates the creation of the National Resolution Fund (NRF), whose funding, before 31 December 2024, must meet 1% of the amount of deposits guaranteed by the contributions of credit institutions and investment service companies established in Spain, obligatorily starting from the year 2015. In order to achieve this level, the FROB as executive resolution authority, and therefore manager of the NRF, will communicate and collect, at least annually, regular contributions from the entities.

In calculating the contribution of each entity the following criteria must be met, as established by Delegate Regulation (EU) 2015/63 of the Commission on 21 October 2014:

a) The proportion that each of them represents over the total aggregate of the following concept: total liabilities of the entity, excluding shareholders' equity and guaranteed amount of deposits ("Adjusted Liabilities ").

b) Contributions will be adjusted to the risk profile of each entity considering, among others, indicators on capital, liquidity and financing, importance of the institution within the financial system and other risk indicators.

For 2016, the FROB has sent letters to entities communicating the amount corresponding to each in order to meet the annual ordinary contribution to the NRF.

Calculations have been made by the FROB on the basis of the information provided by the competent supervisory authority, and taking 31 December 2014 as the reference date thereof.

For 2015, the first year of contribution to the Resolution Fund, the FROB sent letters to entities communicating the amount corresponding to each in order to meet the annual ordinary contribution to the NRF, calculated taking 31 December 2013 as their reference date.

At a European level, the amounts collected by the NRF, and according to Law 11/2015 which incorporates the provisions of Regulation (EU) 806/2014 and the Agreement on the transfer and mutualisation, the NRF will transfer the part belonging to it to the Single Resolution Fund (SRF) prior to 31 January 2017.

The expense for the annual contributions to the Resolution Funds by the consolidated Banks of the Group operating in Spain and Portugal supposes 46,320 and 43,408 thousand euros in 2016 and 2015 respectively.

14. Audit fees and other services

The fees accrued by PricewaterhouseCoopers Auditores, S.L. for the audit of the individual and consolidated financial statements for 2016 of the parent entity and subsidiaries amounted to 2,035 thousand euros while the fees accrued for other services (including regulatory and regulation-related services) amounted to 814 thousand euros. The amounts recorded for these items in 2015 were 1,976 and 407 thousand euros, respectively. Fees for tax advisory services received in 2016 amounted to 51 thousand euros while fees for other services totalled 88 thousand euros. Fees for these services in 2015 totalled 50 and 410 thousand euros, respectively.

The audit fees accrued in 2016 by other auditors of Group companies for other services totalled 10,555 thousand euros. The amounts recorded audit and other services in 2015 were 148 and 7,096 thousand euros, respectively.

15. Accounting principles and valuation methods used

The most significant accounting standards and measurement rules used in the preparation of these consolidated financial statements, in addition to those listed in Note 2 a) "Basis of Presentation" to the consolidated financial statements, are described below:

a) Going concern principle

In preparing the consolidated financial statements, it was considered that the companies included in the Group will continue to operate for the foreseeable future. Accordingly, the application of accounting standards is not intended to determine the value of consolidated equity for the purposes of their total or partial sale, nor the amount resulting in the event of their liquidation.

b) Accrual principle

Except in connection, where appropriate, with the consolidated cash flow statements, the accompanying consolidated financial statements were prepared on the basis of the actual flows of goods and services, regardless of their payment or collection dates.

c) Other general principles

The consolidated financial statements have been prepared based on the fair value approach, except for historical cost or amortised cost when applicable (land and buildings or financial assets and liabilities). The preparation of the consolidated financial statements requires that certain accounting estimates be made. In addition, Management is required to exercise judgement in applying the Group's accounting policies. Such estimates may affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amount of revenues and expenses in the consolidated financial statements. Although estimates are based on the best information available to Management about the present and foreseeable circumstances, final outcomes may be at variance with these estimates.

d) Financial derivatives

Financial derivatives are instruments the value of which changes in response to changes in an observable market variable, sometimes called the underlying asset, such as an interest rate, a foreign exchange rate, the price of a financial instrument or a market index, including credit ratings; they do not require any initial investment, or if they do it is much smaller than would be required for other similar financial instruments, and they are generally settled at a future date.

Financial derivatives are instruments that can have a high leverage and generate gains or losses with a minimum investment, or may under certain conditions enable all or part of the credit and/or market risks associated with balances and transactions to be offset, using interest rates, certain indices, the prices of some securities, cross exchange rates of various currencies or other similar references as underlying elements. The Group uses financial derivatives traded on organised markets or traded bilaterally with counterparties on the over-the-counter (OTC) market.

Financial derivatives are used to trade with customers when they so request, to manage the risks associated with the group's own exposures (hedging derivatives), or to take advantage of changes in their prices. Financial derivatives that have not been designated as accounting hedges are considered to be trading derivatives. To be designated as a hedging instrument, a financial derivative must satisfy the following conditions:

i) It must cover exposure to changes in the values of assets and liabilities caused by interest rate and/or exchange rate transactions (fair value hedge); exposure to changes in the estimated cash flows from financial assets and liabilities and from commitments and transactions forecast as highly probable (cash flow hedge); or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

ii) It must effectively eliminate a risk that is inherent in the hedged item or position over the expected term of the hedge. It must therefore be prospectively effective, be effective at the time of arrangement of the hedge in normal conditions and be effective retrospectively, with sufficient evidence that the effectiveness of the hedge will be maintained throughout the life of the element or position hedged.

iii) Fulfilment of the requirements for accounting treatment of the hedge is evidenced by the performance of tests to make it possible to consider the hedge as highly effective at inception, through prospective tests, and throughout the life of the transaction by means of retrospective tests to confirm the effectiveness of the hedge made, by observing that the results arising from variations in the value of the hedging derivative have fluctuated within a variation range from 80% to 125% with respect to the variation in value of the item hedged; this tolerance interval is that admitted by accounting standards.

Adequate documentary evidence must be provided that the arrangement of the contract for the financial derivative took place specifically in order to hedge certain risks or transactions and showing how it was intended to achieve and measure that effective hedge, provided that this is consistent with how the Group manages its own risks.

Hedges may be applied to individual elements or balances (micro hedges) or to portfolios of financial assets and liabilities (macro hedges). In the latter case, the set of financial assets or liabilities to be hedged must share a common type of risk, this requirement being understood to be fulfilled when the sensitivity of the individual elements hedged to interest rate changes is similar. Financial derivatives aim to hedge, when interest rate expectations so advise, the risk existing as a result of mismatches in the re-pricing of balance sheet assets and liabilities, by using instruments that make it possible to compare the dates of rate revisions on both sides of the balance sheet or to convert fixed rate elements to variable rate elements or vice versa, in such a way that interest rate variations affect the asset and liability items equally.

It should be noted that in 2012, and on the date of the takeover of Banco Pastor, S.A. a valuation was carried out of the acquired bank's assets and liabilities and the relevant fair value adjustments were recognised.

Financial derivatives embedded in other financial instruments or other primary contracts are recognised separately as derivatives when their risks and other characteristics are not closely related to those of the primary contracts and the primary contracts are not classified as Financial instruments held for trading or as other financial assets or liabilities at fair value through profit or loss.

Finally, hybrid financial instruments, although separable for accounting purposes, are not individually transferable.

e) Financial assets

Financial assets, for the purpose of their valuation, are included in some of the following portfolios:

a) Financial assets at fair value through profit and loss:

(i) Portfolio held for trading. This category includes all financial assets which fulfil some of the following characteristics:

1) The originate or were acquired with the aim of realising them in the short term.

2) They are part of a portfolio of financial instruments identified and managed jointly where there is evidence of recent actions to obtain short-term gains.

3) Are derivative instruments which do not comply with the financial guarantee contract, no have they been designated as such.

(ii) Other financial assets designated at fair value through profit and loss: This category includes the financial assets designated as such upon initial recognition by GBP. This designation can only be made if:

A hybrid financial instrument contains one or more embedded derivatives, GBP may designate, upon initial recognition, the entire hybrid financial instrument as a financial asset or financial liability at fair value through profit and loss, unless:

a) The embedded derivative or derivatives do not significant alter cash flows that would otherwise have generated the instrument; or

b) When considering the hybrid instrument for the first time, it is evident that the separation of the embedded derivative or derivatives is prohibited, such as with the early cancellation option implied by a loan which allows the borrower to cancel the loan early for an amount approximately equal to its amortised cost.

The provisions of this section are without prejudice to the possibility of classifying these instruments in the portfolios of "other financial assets (or liabilities) designated at fair value through profit and loss" if, in doing so, more relevant information is obtained.

The initial value of the embedded derivatives which are separated from the main contract and which are options are obtained on the basis of their own characteristics, and those which are not options have their initial recognition value as zero. In any case, in the event of GBP's inability to reliably estimate the fair value of an embedded derivative based on its own terms and conditions, it shall be estimated by the difference between the fair value of the hybrid contract and that of the main contract, provided that both values can be considered as reliable. If this is not possible, the entity will, either at the acquisition date or at a later date, not segregate the hybrid contract and treat the hybrid financial instrument for accounting purposes as a whole as included in the portfolio of instruments

b) Held-to-maturity investments

This category may include debt securities traded in an active market, with fixed maturity and cash flows of a determined or determinable amount, that the entity has, from the beginning and at any later date, both the positive intention as well as the demonstrated financial capacity to hold them to maturity.

c) Available-for-sale financial assets

This category shall include debt securities and equity instruments not included in other categories.

GBP's intention to hold financial assets to maturity will not be called into question by the fact that the financial asset may be repaid by the issuer before maturity, unless the entity would not be able to substantially recover its amortised cost due to future events or scenarios only remotely possible; on the contrary, such an intention will be denied when:

a) GBP intends to hold the asset for an indefinite period.

b) GBP is willing to sell the financial asset before maturity, subject to changes in market conditions, such as the interest rate or exchange rate, or liquidity needs.

c) The issuer has the right to cancel the asset for an amount significantly lower than the amortised cost of the holder.

d) The financial asset contains early cancellation options in favour of GBP.

In any event, GBP may not classify or have any financial asset classified as held-to-maturity investments if, during the current year or the preceding two years, it has sold or reclassified assets included in this portfolio for more than an insignificant amount in relation to the total amount of the assets included in this category, unless:

a) Sales very close to the final maturity of the financial asset, or the date of exercising of call options by the issuer, so that changes in market interest rates would not have a significant effect on the fair value of the financial asset, such as a sale three months before its amortisation for an investment with a residual maturity of 5 years at the time of realising it.

b) Sales after the payment of almost all of the principal of the financial asset, in accordance with its amortisation plan.

c) Sales attributable to an isolated and non-recurring event which could not reasonably have been anticipated by the entity, such as a material impairment of the debtor's ability to pay, tax or regulatory changes, or a significant business combination which requires the realisation of financial assets held to maturity in order to maintain credit or interest rate risk levels within the policies and limits set by GBP.

All debt securities classified in the held-to-maturity portfolio will be immediately reclassified to the category of available-for-sale financial assets if the entity sells or reclassifies assets in that portfolio for more than an insignificant amount as indicated in the previous paragraphs

The financial ability to hold financial assets to their maturity is demonstrated when GBP, in addition to maintaining financial resources available to finance those assets to maturity, is not subject to legal limitations or other restrictions which would preclude their intention to hold them to maturity .

In any event, GBP's intention and financial ability to hold financial assets to maturity is not called into question by the fact of such assets having been pledged, lent or are subject to a repurchase agreement as long as the entity maintains the intention and ability to hold them to maturity.

d) Investments, including equity instruments in associates and joint ventures.

e) Loans and receivables, which includes financial assets that are not traded on an active market and are not required to be valued at fair value, whose cash flows are of a determined or determinable amount, and in which all the disbursement made by the Group will be recovered, excluding reasons attributable to the debtor's solvency. This category comprises investments associated with normal bank lending and includes amounts loaned to customers and not yet repaid; deposits placed with other financial institutions, regardless of the legal arrangements under which the funds were provided, financial guarantees and unquoted debt securities; and any debts incurred by purchasers of goods or services forming part of the group's business.

f) Fair value changes of the hedged items in portfolio hedge of interest rate risk, corresponding to the balancing entry for amounts credited to the consolidated income statement arising in the valuation of the portfolios of financial instruments of which the interest rate risk is effectively hedged by fair value hedge derivatives.

g) Hedging derivatives, that include the positive fair value of the financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

Registration and valuation

Generally financial assets are initially carried at fair value, which, unless otherwise evidenced, will be the transaction price. They are subsequently valued at each accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except for credits, loans and receivables, the held-to-maturity portfolio, equity instruments whose fair value may not be determined in a sufficiently objective manner and financial derivatives for which the underlying assets are equity instruments and which are settled through the delivery of the same.

ii) The fair value of a financial asset on a given date is defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value of an asset is the price being quoted for the asset on an active market where the market is organised, transparent and of reasonable depth. Where there is no market price for a particular financial asset, its fair value is estimated based on that established in recent transactions involving similar instruments and, failing that, on sufficiently tested valuation models such as discounting of flows, multiples, etc. Also to be borne in mind are the specific peculiarities of the assets to be valued and, particularly, the various types of risk associated with the financial asset.

iii) The fair value of listed financial derivatives in an active market and included in the Held for trading Portfolio is their daily quoted price and, if for exceptional reasons, their price cannot be set on that given date, it is measured using, like OTC derivatives, sufficiently proven methods such as Black-Scholes or Monte Carlo.

The fundamental hypothesis used in the valuation of derivatives is based on the principle of Risk-neutral, ensuring that differential equations solved are expressed by keeping the price of risk factors such as martingale under the choice of appropriate measure or tenure (underlying price, Forwards types, Forwards FX., etc.).

iv) Loans and receivables and the held-to-maturity portfolio are valued at their amortised cost, using the effective interest rate method to establish this cost .

Amortised cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the income statement, using the effective interest rate method, of the difference between the initial cost and the related repayment value at maturity, minus any reduction of value for impairment directly recognised as a decrease in the amount of the asset or through a value adjustment account. In the event that they are hedged through fair value hedges, those variations in fair value related to the risk or risks hedged through such hedging transactions are recorded.

The effective interest rate is the rate which exactly matches the value of a financial instrument with the estimated cash flows over the expected life of the instrument, based on contractual conditions, such as early amortisation options, but excluding future credit risk losses. For fixed interest rate financial instruments the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, where appropriate, commissions which, by their nature, can be equated to an interest rate.

For financial instruments at variable interest rates, the effective interest rate coincides with the rate of return valid for all concepts until the first revision of the interest rate reference that is to take place.

v) Investments in the capital of other companies whose fair value cannot be determined with sufficient objectivity and the financial derivatives whose underlying asset are such instruments and which are settled by delivery thereof, are carried at their cost, adjusted, if appropriate, by the losses for impairment which may have occurred.

vi) Valuation methodologies. Financial instruments and in particular derivatives require frequent and accurate measurement for management, risk, regulatory and accounting reasons.

There are basically two types of valuation: Mark-to-Market and Mark-to-Model.

Mark-to-Market: The Mark-to-Market valuation methodology is based on the ability to assign instrument market prices identical to those included in the Bank's portfolio.

These market prices may derive from the quoted prices of market makers within financial reporting systems, operations carried out on trading platforms, clearing houses or organised markets.

Their accuracy and validity depend on the number of quotes and transactions carried out on the instrument, with the update frequency of degree of liquidity being the same. This means that only simple, standardised financial instruments belonging to active markets can be measured correctly using a Mark-to-Market method (sovereign bonds, financial futures, etc.).

This methodology corresponds to the revaluation group, or level 1 (market prices), in international accounting standards.

Mark-to-Model: The Mark-to-Model methodology has to be applied in all cases where, due to liquidity, exotic characteristics, etc., it is not feasible to assign a market valuation (Mark-to-Market) to financial instruments.

This methodology assumes a reasonable behaviour, usually framed within standard market models, of the basic underlying financial instrument and on that basis it will infer an accurate valuation for more complex instruments. It may be said that a valuation by model is a sophisticated way to interpolate the value of a financial instrument that is not listed on a stock exchange, from the quoted prices of those that are.

In general, these standard market models (e.g. stochastic trends resolved by the Monte Carlo method) could be interpreted as an assignment of values and probabilities to each of the possible scenarios for the financial instrument, which, when combined, generate its valuation. The most common models in the market are usually free of internal and external arbitrage.

This approach corresponds to the revaluation groups or levels 2 and 3 (valuation based on market parameters and valuation based on unobservable parameters, respectively) within the international accounting standards.

The sophistication of the models used in the Banco Popular Group depends on the degree of complexity of the instrument to be measured and the optimisation of computational performance versus accuracy in the measurement, i.e. to calculate on a daily basis the revaluation of all operations of the Banco Popular Group as accurately as possible.

Valuation of equity products

Financial instruments linked to equity are mostly valued by the Mark-to-Model method.

Listed shares, futures and equity options traded on organised markets with standard features could be excluded from this generalisation.

The Equity valuation models commonly used in the market are usually found in a Black valuation framework (this is a free arbitration lognormal evolution model of the underlying stock) and, for its calibration and adjustment, take into account inputs related to market interest rates in the currency of the share price (so-called without risk), the volatility of the share based on its term and strike, the estimated market dividends (consensus of analysts, dividend swaps, etc.).

The models currently developed in Banco Popular for equity include Monte Carlo flat volatility calculators, stochastic simulation processes of local volatility and analytical solutions where possible (Black-Scholes formula for plain vanilla options and application of absence of arbitrage opportunity for instruments without pay-off asymmetries).

GBP continued to apply the same approach to the analysis of impairment of investments in equity instruments: it is considered that there is evidence of impairment when, after initial recognition, the combined effect of several events occur which supposes that their carrying value cannot be recovered.

Among other criteria, a fall in value over a period of one and a half years or a significant fall (40% or more) in listed price (used in all cases) is considered objective evidence of impairment.

Valuation of interest rate, fixed income and credit products

The bond market (fixed income) is broad and varied and therefore it is relatively common to find liquid quotes for identical instruments that are to be measured (Mark-to-Market methodology). In the absence of quoted prices or if they are illiquid, it is necessary to develop a Mark-to-Model valuation.

If the fixed income instruments are sufficiently homogeneous (senior debt, mortgage covered bonds, etc) it is possible to obtain the necessary inputs for the Mark-to-Model valuation based on market prices. In the worst-case scenario, usually linked to hybrid and equity instruments, there are no observable parameters in the market and no widely distributed models and therefore a Mark-to-Model valuation must be performed based on reasonable financial assumptions and models that combine credit and interest rates.

The valuation of most interest rate derivatives is performed using standard market models and with the usage of inputs with the highest liquidity possible. In this case, it is not the prices that are quoted directly but the parameters to be used in a model accepted by all (as in the case of calculating Cap volatilities rather than their prices because they are assumed to be equivalent since the entire market uses the Black-Scholes-Merton model). For exotic interest rate instruments more sophisticated models are needed which, although claiming to be the most commonly used, need stronger assumptions concerning the dynamics of the core assets and which involve parameters that are less observable on the market because these exotic instruments are less liquid. Some examples of these sophisticated models are the Libor Market Model (interest rate stochastic dynamics model) or the SABR (stochastic dynamic model of interest rate volatilities).

Any of these models must coincide for plain vanilla products with market prices, free from internal arbitrage and with appropriate inputs (market), and free of external arbitrage.

The valuation of derivatives includes carrying amount adjustment for underlying credit risk (CVA-DVA) in accordance with IFRS 13.

For the calculation of this adjustment, internally developed mathematical models are applied which involve the combination of three factors:

- EAD (Exposure at Default): measures, by simulating different market variables, the future exposure that the Bank has in each derivative at any time until maturity. The calculation takes into account the guarantees posted by counterparties.
- PD (Probability of Default): measures the likelihood that a counterparty will default on its payment obligations, applying the PDs of the Bank's internal models.
- LGD (Loss Given Default): Measures the post-recovery net loss in the event of default, applying a 60% rate in line with market standards.

The models that Banco Popular has developed and which are used in accordance with the needs of the product are the absence of arbitrage opportunity model for the simplest products, the Black implied volatility model for plain vanilla interest rate options and the Libor Market Model with implied volatility for exotic interest rate products..

Valuation of foreign exchange derivatives

The different types of foreign exchange derivatives can be measured using the methods described above.

This allows us to obtain prices for foreign exchange futures directly on financial information platforms, which means that the applicable method would be Mark-to-Market.

On the other hand, we can get the prices Forward not directly quoted, without model, with absence of arbitrage opportunity in a Mark-to-Model methodology also within this group we could include the plain vanilla valuation of options, since although they require a model (Black-Scholes), this model is widespread and extracts all the market parameters.

The most exotic structures also come under the Mark-to-Model methodology, since it is necessary to develop a theoretical framework within accepted market standards, although sometimes with certain unobservable parameters, to carry out the valuations. This theoretical framework broadens depending on the complexity of the derivative, and in most cases, Monte Carlo simulation methods are necessary.

An important factor for effecting valuations within a theoretical framework is the quality and accuracy of the inputs used to develop the model. In general for these products, the inputs used in said models are quoted, for example volatility.

The models currently developed in Banco Popular for exchange rates include Monte Carlo flat volatility calculators, stochastic simulation processes of local volatility and analytical solutions where possible (Black-Scholes formula for plain vanilla options and application of absence of arbitrage opportunity for instruments without pay-off asymmetries).

Valuation of commodity products

The commodities market is very diverse with a variety of different products and trading in a wide variety of markets (LME, NYMEX, IPE, etc.), although it is true that Banco Popular's operations in this area are currently rather limited, and low-volume, particularly in comparison with other types of business.

For commodities instruments which are indexes or futures on organised markets, valuations can be obtained directly using the Mark-to-Market method, as these are fairly liquid markets, particularly as regards short-term transactions.

For products where the Mark-to-Market method is not appropriate, the Mark-to-Model method may be employed, which is used in the market to carry out the relevant valuations. Apart from commodities a number of variables which differ from those we are accustomed to must be taken into account in the commodities market. These include storage costs, convenience yield and lease rate. These variables are not directly quoted on the market but are estimated on the basis of the prices of other instruments.

The models currently developed in Banco Popular for commodities are analytical solutions for the application of the absence of arbitrage opportunities.

Among the securities included in Level 3, it is not considered that a reasonable variation in some assumption could entail a significant change in fair value.

Regarding financial instruments in non-active markets classified in Level 2 of the fair value hierarchy, these are assets in which few transactions are carried out, so the market price does not adequately reflect the fair value and therefore the Mark-to-Model method is used.

Changes in the carrying amount of financial assets are generally recognised with a balancing entry in the consolidated income statement, differentiating between those arising from the accrual of interest and similar items, which are recognised under Interest and similar income, and those arising from other causes, which are recognised at their net amount under Gains or losses on financial transactions in the consolidated income statement, or under Impairment losses on financial assets (net) if this should be the reason for the change in value.

However, these changes in book value of the instruments included under "Available-for-sale financial assets" are temporarily recorded under the heading. Accumulated other comprehensive income consolidated, net of tax effect, unless arising from exchange differences.

The amounts included under the Accumulated other comprehensive income heading continue to form part of consolidated equity until the asset giving rise to them is removed from the consolidated balance sheet, or in the case of negative adjustments, when impairment is considered irreversible, at which time they are charged to the consolidated income statement.

Similarly, changes in the carrying amount of items included under Non-current assets held for sale and meeting certain requirements are recognised with a balancing entry in Accumulated other comprehensive income consolidated.

For financial assets designated as hedged items and accounting hedges, valuation differences are recognised taking account of the following criteria:

i) For fair value hedges, the changes in both the hedging instruments and the hedged items, as regards the type of risk hedged are recognised directly in the consolidated income statement under Gains/ losses on financial transactions.

ii) The valuation differences relating to the ineffective portion of cash flow hedges and of net investments in foreign operations are recognised directly in the consolidated income statement under Gains/ losses on financial transactions.

iii) In cash flow hedges, valuation differences arising in the effective portion of the hedging instruments are recognised temporarily under Accumulated other comprehensive income consolidated, net of the tax effect.

iv) In hedges of a net investment in a foreign operation, the valuation differences arising in the effective portion of the hedge elements are recorded temporarily in the Accumulated other comprehensive income consolidated heading, net of the tax effect.

In the latter two cases, the valuation differences are not recognised in profit and loss until the losses or gains on the hedged item are recognised in the consolidated income statement or until the maturity of the hedged item.

With regard to hedges applied, there remain the individually applied micro-hedging transactions in respect of deposit-capturing campaigns in place at reporting date, the characteristics of which, as regards start date, term and remuneration offered to each depositor, were identical. treatment. In order to justify this accounting treatment, we contracted a derivative corresponding to the total of the specific campaign to be hedged, with flows receivable, from the financial derivative, similar to those payable to all the depositors and distributed in proportion to their balances.

Macro-hedging operations have also been performed, either by selling options to hedge the intrinsic value of options purchased that are implicit in a set of mortgage loans granted to our customers (floors). Hedged assets (mortgage loans together with the floors) meet the requirements to be designated as hedged items. Changes in the fair value of the hedged risks have been recorded in the income statement with a balancing entry in "Adjustments to financial assets in respect of macro-hedges".

In cash flow hedges of interest rate risk in a portfolio of financial instruments, the effective part of the change in the value of the hedging instrument is temporarily registered under the heading "Accumulated other comprehensive income consolidated, net of tax effect, until the expected transactions occur at such time they will be registered in the income statement. The change in the value of hedging derivatives by the ineffective part is registered directly in the consolidated income statement.

f) Financial liabilities

Financial liabilities, for the purpose of their valuation, are classified in some of the following categories:

a) Financial liabilities designated at fair value through profit or loss:

(i) Financial liabilities held for trading This category includes all financial liabilities which fulfil some of the following characteristics:

1) The have been issued with the intention of reacquiring them in the near future.
2) They are short positions
3) They form part of a portfolio of financial instruments identified and managed jointly where there exists evidence of recent actions to obtain short-term gains.
4) Are derivative instruments which do not comply with the financial guarantee contract, no have they been designated as hedging instruments.

The fact that a financial liability is used to finance trading activities does not in itself entail its inclusion in this category.

(ii) Financial liabilities designated at fair value through profit or loss This category includes the financial liabilities designated as such upon initial recognition by GBP. This designation is only made if permitted by the provisions in section B) Classification of financial assets of the item Recognition, classification and valuation of financial instruments or, when doing so, more relevant information is obtained due to:

1) This will eliminate or significantly reduce inconsistencies in the recognition or valuation that arises from the valuation of assets or liabilities, or by the recognition of their gains or losses, with different criteria.
2) A group of financial liabilities or financial assets and liabilities are managed and their performance is evaluated on the basis of their fair value in accordance with a documented risk management or investment strategy and information is also provided for that group on the basis of the fair value to key management personnel.

When this option is used, it will be included in the report.

a) Financial liabilities designated at fair value through changes in equity:

This category includes financial liabilities associated with available-for-sale financial assets originated as a result of transfers of assets that have to be valued at fair value through changes in equity.

b) Financial liabilities measured at amortised cost:

This category includes financial liabilities not included in any of the previous categories.

The liabilities included in disposal groups classified as held for sale are valued according to the criteria set forth in this standard irrespective of their presentation in the balance sheet under the item "liabilities associated with non-current assets held for sale"-

g) Transfers and removals from the consolidated balance sheet of financial instruments

Transfers of financial instruments are recorded having regard to whether or not the risks and benefits associated with the financial instruments transferred are retained, on the basis of the following criteria:

i) If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales with agreement for repurchase at fair value at the repurchase date, sales of financial assets with a purchase option acquired or sale option issued deeply out of the money, securitisations of assets in which the assignor does not retain subordinated financing and does not grant any kind of credit enhancement to the new owners, etc., the financial instrument transferred is removed from the consolidated balance sheet with simultaneous recognition of any right or obligation retained or created as a result of the transfer.

ii) If all the risks and benefits associated with the financial instrument transferred are retained, as in sales of financial assets under repos for a fixed price or the selling price plus interest, security loan contracts in which the borrower is required to return the same or similar assets, etc., the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior the transfer. Nonetheless, the associated financial liability is recognised for accounting purposes in an amount equal to the price received, which is subsequently measured at amortised cost. In order to reflect the net financing received under liabilities, entities should present financial instruments (securitisation bonds) acquired from the entity to which the financial assets have been transferred by deducting the associated financial liability.

Also, the Group includes in its scope of consolidation, by the full or proportionate consolidation method, as appropriate, the securitisation vehicles to which the assets were transferred. In consolidation the related eliminations were therefore made between the associated financial liability by the companies which individually recognised the transfer and the financial assets recorded for accounting purposes by the special-purpose vehicle. Also eliminated was the interest income and interest expense arising from the aforementioned assets and liabilities eliminated in consolidation. Consequently, the consolidated balance sheet reflects the original assets not derecognised and recognition is given to the liabilities issued by the securitisation vehicle which are held by third parties outside the Group.

Notes 34 and 68 to these consolidated financial statements offer more information on the Group's securitisations.

If the risks and rewards associated with the financial instrument transferred are not substantially transferred or retained, as in sales of financial assets with an option to purchase acquired or an option to sell issued which are not deeply in or out of the money, the securitisations in which the transferor assumes subordinated financing or another kind of credit improvement for a portion of the asset transferred, a distinction is made between the following cases:

- If the Group does not retain control of the financial instrument transferred, it is removed from the consolidated balance sheet and recognition is given to any right retained or obligation created as a result of the transfer.

- If the Group does retain control of the financial instrument transferred, it continues to recognise it in the consolidated balance sheet at an amount equal to its exposure to changes of value that it may experience and recognises a financial liability associated with the financial asset transferred. The net amount of the asset transferred and of the associated liability will be the amortised cost of the rights and obligations retained if the asset transferred is measured by its amortised cost, or the fair value of the rights and obligations retained if the asset transferred is measured at its fair value.

Therefore, financial assets are only removed from the consolidated balance sheet when the cash flows they generate are extinguished or when the implicit risks and benefits have been substantially transferred to third parties.

Similarly, financial liabilities are only written off the consolidated balance sheet when the obligations they generated are extinguished or acquired with the intention of cancelling or resale.

h) Financial asset impairment

The carrying amount of financial assets is generally adjusted with a charge to the consolidated income statement when there is objective evidence that an impairment loss has arisen, which occurs:

i) In the case of debt instruments, i.e. loans and debt securities, if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows. Possible events pointing to objective evidence of impairment include:

a) When the party obliged to pay has entered into or may enter into receivership or has significant financial difficulties.

b) When the contractual conditions have been breached, for example by non-payment of principal or interest on the agreed date.

c) When the obligor of the payment has been granted financing or the debt has been restructured on account of financial difficulties.

d) When there is data that provides evidence of a quantifiable diminution in the future cash flows from a group of debt instruments.

ii) In the case of equity instruments, if after their initial recognition an event occurs or the combined effect arises of several events indicating that it will not be possible to recover their carrying amount. Evidence of impairment exists when any of the following cases arises:

a) The issuer has entered, or is likely to enter into receivership or has significant financial difficulties.

b) There have been significant changes in the issuer's economic environment which may have adverse effects on recovery of the investment.

c) The fair value of the instrument suffers a significant or prolonged decrease below the carrying amount.

As a general rule, the carrying amount of financial instruments is adjusted for impairment against the consolidated income statement for the period in which such impairment is detected and recoveries of previously recognised impairment losses, if any, are recognised in the consolidated income statement for the period in which such impairment is eliminated or reduced.

If the recovery of any amount recognised for impairment is considered remote, the amount is eliminated from the consolidated balance sheet, although the Group may take the necessary action to attempt to achieve collection for as long as its rights have not definitively been extinguished due to prescription, cancellation or other reasons.

A) Debt instruments valued at amortised cost

In a context of the use of best practices and continuous evolution, during 2016 the Group has performed a review of the procedures followed to calculate the impairment of this type of instrument.

Debt instruments valued at amortised cost, the amount of the losses incurred for impairment is equal to the negative difference between their carrying amount and the present value of their estimated future cash flows. In the case of listed debt instruments, market value is used provided that this is sufficiently reliable to be considered representative of the value that might be recovered by the Group.

The estimated future cash flows of a debt instrument are all the amounts of principal and interest which the Group estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the consolidated financial statements which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regard is had to the flows which would be obtained from their realisation , less the amount of the costs necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original spread of the instrument, if the contractual rate is fixed; if the contractual rate is floating, the discount rate used is the effective interest rate at the date of the consolidated financial statements determined in accordance with the contract conditions.

The portfolios of debt instruments, contingent exposures and contingent commitments, regardless of titleholder, instrumentation or guarantee is analysed to determine the credit risk to which the Group is exposed and to estimate the impairment provision required.

For the preparation of the consolidated financial statements, the Group classified its operations according to their credit risk by separately analysing the risk of insolvency attributable to the customer and the country risk to which, if any, they are exposed.

Accounting classification based on the risk of insolvency attributable to the customer

Debt instruments not included in the portfolio of financial assets held for trading as well as off-balance sheet exposures will be classified, depending on the credit risk due to the customer's insolvency or the operation, in some of the following categories without taking the type of borrower nor the guarantees concerned into account:

a) Doubtful risk due to non-performing balances of the customer (default due to non-compliance) Understood as the total amount of the debt instruments; be they titleholder or guarantee, which have some amount of the principle, interest or contractually agreed expenses overdue by more than 90 days, except when classed as write-off.

In the case of overdrafts and other demand debit balances without agreed maturity, the period for computing the seniority of the defaulted amounts shall be counted from the start date of the debit balance.

In operations with periodic repayments, the date of the first maturity for the purposes of classifying operations in this category will be the date of the oldest instalment of which, at the balance sheet date, some amount of principal, interest or contractually agreed expenses is in default. Operations classified in this category may be reclassified to normal risk if, as a result of the collection of part of the defaulted instalments, the causes that led to its classification as doubtful assets disappear in accordance with the previous paragraphs, unless other reasons remain to classify them as doubtful.

b) Doubtful risk due to reasons other than non-performing balances of the customer (doubtful not due to non-compliance)

Understood as debt instruments, past due or not, in which, without concurring with the circumstances to classify them as write-off or doubtful due to the titleholder's non-performing balances, reasonable doubts arise about their total repayment (principal and interest) in the contractually agreed terms; as well as off-balance sheet exposures not classified as doubtful because of the titleholder's non-performing balances whose payment by the entity is probable and its recovery doubtful.

This category includes the risks of customers in receivership. The risks of clients in receivership without a wind-up request will be reclassified to the normal risk category when the main titleholder of the operation has no non-compliance, has paid at least 25% of the loans to the entity affected by the receivership - once the agreed reduction has been discounted, or 2 years have elapsed since the approval of the creditors agreement was registered in the Mercantile Register, provided that said agreement is being faithfully complied with and the evolution of the financial and equity situation of the company eliminate doubts about the total repayment of debts. Risks incurred subsequent to the approval of the creditors agreement will not need to be qualified as doubtful as long as the agreement is complied with and there are no reasonable doubts as to their collection.

Additionally, the amounts of all customer operations will be included in this category when the operations with past-due balances of more than 90 days are greater than 20% of the outstanding collections amount. For these purposes, the gross carrying amount of the doubtful transactions due to delinquency due to non-performing balances associated with the operation's main titleholder (not including contingent exposures or write-offs) will be considered the numerator, and the denominator will be considered the gross carrying value of all the debt instruments granted to the titleholder. If the calculated percentage is greater than 20%, both the monetary risks and the contingent exposures contracted with the main titleholder, except financial guarantees will become doubtful for reasons other than non-performing balances. Operations classed as doubtful by entrainment can only be declassified as such when its main titleholder has no other operations with >90 days default.

In the case of technical guarantees, they will be review individually with the aim of determining their enforceability. No doubtful risk is considered if they are determined to be not enforceable on the date of the analysis. The fact that one year has elapsed since its maturity will be considered as an indication of its non-enforceability although, in the analysis carried out, the specific circumstances of the guarantee will be considered in each case.

Doubtful risks for reasons other than non-performing balances are reclassified as doubtful due to non-performing balances when meeting the conditions of 90 days of not fulfilling their payment obligations

Specific criteria and Refinancing policy

Below sets out the criteria used for the proper accounting of the refinancing and restructuring operations as credit risk management instruments, without the use of such instruments deviating the timely recognition of the risk of default.

The focus of these operations is on the recovery of all amount due which implies the need to immediately recognise the amounts which are deemed irrecoverable.

- Refinancing and restructuring decisions should be taken or reviewed at a level different to that which originally granted the operation or, if it is the same, submit the review to a higher decision-making level or body
- Take into account the efficacy of the guarantees in the case of new contributions.
- Have an internal information system with mechanism which allow for the individualisation and monitoring of these operations.

Operations are classified into two types, depending on whether the titleholder at the date of analysis has the financial capacity or not to obtain operations in the market under conditions analogous to those applied by the entity:

- The titleholder has the ability to contract in the market under the same conditions:

    - Renewal operation: formalised to replace another previously granted by the entity without the titleholder having or foreseeing any financial difficulties. That is, formalised for reasons other than refinancing.
    - Renegotiated operation: which modifies the operation's financial conditions without the borrower having or foreseeing any financial difficulties. That is, modifying the conditions for reasons other than restructuring.

- The titleholder does not have the ability to contract in the market under the same conditions:

    - Refinancing operation: An operation which, be it for the titleholder or guarantees, is granted or used for economic or legal reasons related to financial difficulties (current or foreseeable) of the titleholder (or titleholders) to cancel one or more operations granted, by entity itself or by other entities in its group, to the titleholder (or titleholders) or to one or another companies in its economic group, or by which the said operations are totally or partially up to date with payments, in order to assist the titleholders of cancelled or refinanced operations with the payment of their debt (principal and interest) because they cannot, or are not expected to be able to, comply with its conditions in a timely manner.
    - Refinanced operation: an operation which is totally or partially up to date as a result of a refinancing operation carried out by the entity itself or another entity in its economic group.
    - Restructured operation: An operation in which, for economic or legal reasons related to financial difficulties, either current or foreseeable, the financial conditions are modified in order to facilitate payment of the debt (principal and interest) because the titleholder cannot, or is expected to not be able to, comply on time and under such conditions, even if such modification was provided for in the contract. Restructured operations are those in which:
        - A reduction is made or assets are received to reduce the debt.
        - In which the conditions are modified to lengthen the maturity period, vary the amortisation table to reduce the amount of the payments in the short term or to reduce their frequency, or to establish or extend the grace period for principal, interest or both, unless it can be proven that the conditions are modified for reasons other than the financial difficulties of the titleholders and are analogous to those applied in the market on the date of its modification to operations granted to customers with a similar risk profile

There is an ongoing review process which is performed using the Group's ordinary risk management systems, so that refinancing analysis forms part of daily management activities.

Refinancing transactions are reviewed using the same management tools, such as advanced credit risk assessment models, in which default probabilities and expected losses may be assigned to each specific customer or loan, and the risk monitoring and control system, through specialised departments that analyse and assess the outstanding risk portfolio, assigning ratings to customers and determining specific policies to detect impairment.

With the periodic assessment of these operations, the stock of refinancing or restructuring operations is built to which the accounting qualification criteria are in accordance with the criteria below.

Refinancing and restructuring operations are classified as doubtful in accordance with the following criteria:

a. No indication of cure reported, according to the criteria established in the internal model approved by the bank.

b. Refinanced or restructuring operations are considered doubtful where grace periods on the principle of more than two years are formalised, or when the operation has a single repayment upon maturity and is made in a period greater then two years from formalisation and those operations with a Bullet greater than 50% when the operation if formalised.

c. The rating should be kept as doubtful in the case of operations which are already classified as doubtful and in which non-compliances of less than 90 days occur.

Refinancing operations can be reclassified as normal risk in the following assumptions in which cure criteria already exist.

1. 5% must have been repaid in the case of individuals and 10% in the case of legal entities. (In both cases the repayment refers to the principle plus interest).

2. If the operation has a grace period, a minimum of 2 years since its end must have elapsed for the operation to be cured (provided the other criteria are met).

3. If it is an operation without a grace period:

- If it is a Refinancing operation, a minimum of 2 years since the approval of the refinancing proposal must have elapsed.
- If it is a Restructuring operation, a minimum of 2 years since the approval of the change to the contract must have elapsed.
- If it is a Refinanced operation, a minimum of 2 years since the formalisation of the refinanced operation must have elapsed.

4. The operation must not have, in the month of analysis, a default greater than 30 days, that is, the date of default, if reported, must be the same as the month of analysis, or otherwise, reported as zero.

c) Write-off risk. This category will include those creditors in which the amount of debt instruments, past-due or not, for which after an individualised analysis, their recovery is considered remote and the asset becomes derecognised. Considered remote recovery are:

- Doubtful operations due to non-performing balances when they have a date of seniority greater than four years, except when they have effective security which covers at least 10% of the risk.
- Operations of titleholders in receivership stating that the wind-up phase has started or is going to start, except when they have effective security which covers at least 10% of the risk.

d) Normal risk Understood as all debt instruments and contingent exposures which do not fulfil the requirements to be classified in other categories.

Estimation of correction for impairment

The following describes the criteria applied by the Group for the calculation of provisions for impairment of credit risk.

In relation to operations identified as having no appreciable risk (which essentially include those operations with central banks, public administrations of European Union countries, central governments of countries classified in group 1 for country-risk purposes, financial institutions belonging to the Union European countries and countries considered to be without risk), a 0% coverage rate is applied to them.

For the other operations, the different methodologies used by the Group in the calculation of its estimates are described below.

- Value corrections estimated individually:

In order to determine the perimeter of the creditors subject to individualised analysis, the Group has established certain thresholds in terms of exposure and qualitative criteria.

For the significant creditors identified in accordance with the above, the Bank performs an individualised analysis with the aim of estimating the present value of the available future flows for payment of the debt and/or value of the available guarantees and to determine the needs of the provision.

The analysis is performed by the Risk Department which determines the accounting qualification of these creditors and carries out an estimate of the provisions to be made.

For the estimation of the flows to service the debt, it takes the overall position of the customer in the system into account as well as the following indications:

a) Analysis of the adequacy of provisions for viable creditors: for viable creditors is should be estimated if the cash flows they generate and which can be attributed to the Entity for the repayment of the debt are sufficient.

b) Analysis of the adequacy of provisions for non-viable creditors: for those creditors not considered viable and which therefore have insufficient ability to generate cash flows to repay the debt, the adequacy of the provision is determined from the recoverability of the operation's guarantees as follows:

  - Determination of the estimated time required to sell the asset which includes the estimated time for repossession.
  - Determination of the costs of selling and settling the asset.
  - For each year the inflows (sale of the asset) will be estimated as the outflows (costs of sale and maintenance of the asset) and will be discounted by the operation's effective interest rate.

- Value corrections estimated collectively:

The Group estimates the estimated value correction collectively through an internal model for the following exposures:

  - Exposures classified as risk normal.
  - Exposures classified as doubtful for which an individualised analysis is not done.

The most significant aspects considered in the internal model developed by the Group are detailed below.

The need, firmly anchored in IAS 39, to build a collective model has justified the structuring of the collective model on the use of the Basel II/III environment structures and the processes that allow the calculation of the risk parameters, which also allow the use of robust elements and widely reviewed by different regulators. This incurred loss model is maintained from the Risk area and determines the provisions to be made.

This way, the collective incurred loss for each segment is obtained by multiplying the estimated risk parameters (PD, LGD, EAD). This parameters are obtained from historical elements of the Internal Rating-Based approach environment with a subsequent specific PiT treatment in response to the needs of the collective model. The parameters are granular, varying according to the portfolio and segment considered. Once the incurred loss is obtained for each segment, all the amounts are added together to obtain a single incurred loss model for the whole group. The treatment is performed in line with AG89 of IAS 39:

"Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Entities that have no entity-specific loss experience or insufficient experience, use peer group experience for comparable groups of financial assets. (...)".

Depending on the situation of the operation, the risk parameters are applied in the following manner:

- Normal Portfolio: PD Point-in-Time (PiT) and LGD Point-in-Time (PiT) are applied based on the current situation of the economic cycle.
- Default Portfolio PD 100% and LGD Best Estimate (BE) are applied considering the maturity of the operation in Default within the segment.

EAD (Exposure at Default) is the exposure subject to the counterparty one in a non-compliance situation. It consists of the whole exposure plus that available multiplied by a CCF (Credit Conversion Factor). The consideration of CCFs allows a more realistic estimate to be obtained, by including the available exposure which will be available if the operation/customer encounters difficulties meeting their payments normally, resulting in their default.

The CCFs are applied on products with a compromised limit, estimating it from the entity's historical defaults.

PD (Probability of Default) is the probability of an event causing a Default. This probability is obtained from the series of historical defaults witnessed by the entity (ODF, Observed Default Frequency). The observed default frequencies are calculated following the same criteria as the internal models, as the ratio of contracts which enter Default on the total exposures (for retail) or people (for companies).

It is also necessary to estimate the PD Point-in-Time (PD PiT); this PD is the best estimate subject to the current economic cycle and, therefore, it is sensitive to the current situation of the entity's loans portfolio and the economic situation, in accordance with paragraph AG89 if IAS 39.

"(...) Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently."

For operations in cure, the PD PiT, which is applied for the 12 months from when the operation exits default and doesn't show any non-payments, allows a greater degree in differentiation between the different exposures recovered to be included, with the PD being lower the longer the time which has elapsed since the operation's default was recovered, since the probability that the operations returns to a non-payment situation reduces as the recovery period lengthens.

Consequently, for operations in cure, a decreasing exponential curve is applied from the PD in Default (100%) and converges with the healthy PD once twelve months have elapsed from the last default.

LGD (Loss Given Default) measures the loss which will occur in the even of default, expresses as a percentage on the total exposure at the time of default. It is obtained from the total default history, determining the loss suffered by calculating the discount of all recovery flows and observed costs. The observation sample includes all type of operations which Defaulted, from cured operations up to foreclosures, write-offs and assignment of write-offs.

The collective calculation severity models have been enhanced with the experience obtained from the 2014 Stress Test for the ECB. Currently, the LGD is a component of three clearly differentiated parameters:

- NCR (Non-Cure Rate) This non-cure ratio describes the probability that assets in default do not return to a normal situation.
- LGL (Loss Given Loss), defined as the loss on the operations which do not cure.
- LGC (Loss Given Cure), defined as the loss on the operations which do cure.

For doubtful operations, the LGD depends on the maturity of the non-performing portfolio, in line with the LGD Best Estimate of the Basel environment, LGD being higher the greater the operation's time in default. Given the needs of the collective loss model and similar to the PD, it is also necessary to estimate an LGD Point-in-Time (PiT).

In relation to the collective estimates of the coverages, the bank will make periodic contrasts, through retrospective tests, between the resulting coverages as indicated in note 18 of this Report.

Assessment of credit risk due to country risk

Debt instruments not carried at fair value through changes to the income statement as well as contingent exposures, irrespective of the customer, will be analysed to determine the credit risk due to the country risk.

For these purposes, country risk is understood as the risk associated with customers resident in a given country due to circumstances other than normal commercial risk. Country risk comprises sovereign risk, transfer risk and other risks arising from the international financing activity as defined below:

a) Sovereign risk is that of creditors of the states or entities guaranteed by them, insofar as legal actions against the final borrower for reasons of sovereignty may be ineffective.

b) Transfer risk is that of foreign creditors of residents of a country which is experiencing a general inability to pay its debts, due to lack or currency or currencies in which they are denominated.

c) Other risks arising from international financial activity are those resulting from any of the following situations: civil or international war, revolution, any similar or catastrophic event; events of particular political or economic seriousness, such as balance of payments crises or significant changes in monetary parity leading to widespread insolvency; expropriation, nationalisation or seizure by foreign authorities, and any express or implied measures taken by a foreign government or by the Spanish authorities resulting in breach of contract.

Operations will be assigned to the titleholder's country of residence at the date of analysis, except in the following cases, where they will be classified as follows:

a) The amounts which are fully guaranteed by residents of a higher ranked country, or by CESCE or other residents in Spain which will be classified in the group in which the guarantor is included, provided that they have the sufficient financial capability to cope with the commitments.

b) The amounts which have guarantees pledged on financial instruments will be reclassified in the country of residence of the securities' issuer by the part covered by them, whenever the issuer resides in a higher ranked country and the guarantee is adequate. Those which have other collateral, for the guaranteed part, whenever the guarantee is adequate and the item guaranteed is and can be realisable in Spain or another group 1 country which will be classified amongst the group 1 risks.

The amounts of the debt instruments and off-balance sheet exposures classified, for the purposes of country risk in groups 3 to 6 (in accordance with sectoral information issued by the regulator), with the exception of operations excluded from country risk coverage, must be covered by at least the following percentages:

A) Group 3	10.10%
B) Group 4	22.80%
C) Group 5	83.50%
D) Group 6	100.00%

Notwithstanding the foregoing, interbank loans with a term not exceeding three months will be covered by 50% of the coverage established in this section, provided that the country is included in groups 3 or 4 for country risk purposes and have serviced their agreements normally, without extensions or renewals.

B Available-for-sale financial assets

The amount of impairment losses incurred on debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between acquisition cost, net of any amortisation of the principal, and fair value less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence that the fall in fair value is due to impairment, the latent capital losses recognised directly in Valuation Adjustments in Consolidated equity, net of the tax effect, are immediately recognised in the consolidated income statement. If all or part of the impairment losses are subsequently recovered, the amount recognised for debt securities, in the consolidated income statement for the recovery period, and for equity instruments, under the heading Valuation adjustments in Consolidated net equity.

C Non-current assets held for sale

In the case of debt and equity instruments classified under Non-current assets held for sale, the losses previously recognised in Consolidated equity are considered to have been realised and are recognised in the consolidated income statement at their classification date.

D Equity instruments valued at cost

Impairment losses on equity instruments carried at acquisition cost are accounted for as the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of profitability for other similar securities. Such impairment losses are recognised in the consolidated income statement for the period in which they arise and directly reduce the cost of the financial asset. The amount involved may not be recovered except in the event of their sale.

E Investments in associates

For investments in associates, the Group estimates impairment losses by comparing their recoverable amount with their carrying amount. Such impairment losses are recognised in the consolidated income statement for the period in which they arise, and any subsequent recoveries are recognised in the consolidated income statement for the relevant period.

i) Valuation of accounts in foreign currency

The presentation currency of the consolidated financial statements is the euro, which is also the functional currency of Banco Popular Español, S.A. Therefore all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The equivalent value in euro of assets, liabilities and contingent exposures denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2016 and 2015 is as follows:

ASSETS	31.12.2016	31.12.2015
Cash and cash balances at central banks and other demand deposits	221,544	385,201
Financial assets held for trading	-	-
Financial assets designated at fair value through profit or loss	-	-
Available-for-sale financial assets	770,428	525,394
Loans and receivables	4,553,919	4,214,628
Held-to-maturity investments	-	-
Derivatives – Hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in subsidiaries, joint ventures and associates	96,767	96,779
Assets under insurance and reinsurance contracts	-	-
Tangible assets	18,834	26,362
Intangible assets	17,236	16,693
Tax assets	10,573	19,832
Other assets	27,292	22,346
Non-current assets and disposal groups classified as held for sale	71	1,180
TOTAL ASSETS	**5,716,664**	**5,308,415**
LIABILITIES	**31.12.2016**	**31.12.2015**
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	4,544,384	4,446,337
Derivatives – Hedge accounting	1,194	1,599
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Liabilities under insurance and reinsurance contracts	-	-
Provisions	5,707	156
Tax liabilities	1,106	28
Share capital repayable on demand	-	-
Other liabilities	20,325	7,287
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	**4,572,716**	**4,455,407**

MEMORANDUM ITEM		
Guarantees granted	631,512	695,397
Contingent commitments granted	229,268	339,297

The Notes concerning the most significant captions of the consolidated balance sheet set out detailed information on the basis of the principal currencies in which foreign currency balances are denominated. These Notes are 22, 23 and 34 which correspond to Available-for-sale financial assets, Loans and receivables and Financial liabilities measured at amortised cost, respectively. A summary of the currencies other than the euro in which the Group carries out most of its transactions is as follows:

Thousands of euros	Assets		Liabilities	
Currencies	**2016**	**2015**	**2016**	**2015**
USD	4,238,206	3,965,925	4,295,470	4,138,670
GBP	37,615	112,952	94,006	132,507
CHF	252,814	291,518	17,464	21,061
JPY	660,324	680,485	1,715	5,924

According to these data, the USD and the Yen are the principle currencies apart from the euro with which the Group's assets operate and accounts for 93.35 per cent of the foreign currency at 31 December 2016 and 85.69 per cent at 31 December 2015. These percentages referring to liabilities applying the USD and GBP as major currencies representing 96.58 per cent of the foreign currency at the end of 2016 and 95.87 per cent in December 2015.

On initial recognition, receivables and payables denominated in foreign currencies are converted to the functional currency using the spot exchange rate on the date of recognition, understood as the exchange rate for immediate delivery. Subsequent to initial recognition, the following rules are applied for translation of balances denominated in foreign currency to euro:

i) Monetary assets and liabilities are converted at the closing exchange rate, defined as the average spot exchange rate on the date referred to in the financial statements published by the European Central Bank.

ii) Non-monetary items valued at historical cost are translated at the exchange rate prevailing on the date of acquisition.

iii) Non-monetary items valued at fair value are translated at the exchange rate prevailing on the date on which the fair value is determined.

iv) Revenues and expenses are translated at the exchange rate on the transaction date. However, an average exchange rate for the period may be used for all transactions during the period, unless there have been significant variations. Depreciation and amortisation are translated at the exchange rate applied to the asset concerned.

Exchange differences arising on the conversion of debit and credit balances denominated in foreign currency are generally recognised in the consolidated income statement. However, in the case of exchange differences arising on non-monetary items measured at fair value for which adjustments to fair value are recognised under Accumulated other comprehensive income, the exchange rate component of the revaluation of the non-monetary item is disclosed.

At the investee companies whose functional currency is other than the euro, the balances in their financial statements are translated to euros as follows:

i) Assets and liabilities are translated at the year-end exchange rate.

ii) Revenues and expenses and treasury flows are translated at the average exchange rates during the year.

iii) Equity is translated at historical exchange rates.

Exchange differences arising on translation of the financial statements of investee companies whose functional currency is other than the euro are recognised under Accumulated other comprehensive income.

None of the functional currencies of the investee companies relate to economies classified as highly inflationary by currently established criteria. Consequently, at the accounting close of 2016 and 2015, it was not necessary to adjust the financial statements of any investee company to correct them for the effects of inflation.

j) Offset of balances

Debit and credit balances arising from transactions which contractually or by force of law provide for possible offset, and where the intention is to settle them at their net amount or to realise the asset and pay the liability simultaneously, are presented in the consolidated balance sheet at their net amount.

Balance offsetting is basically concentrated in reciprocal accounts with credit institutions. The following table shows the starting total amount for the Group's credit institutions and the offsets of balances of 247,083 thousand euros in 2016 and 227,879 thousand euros in 2015. The intragroup eliminations leading to the balances in the consolidated balance sheet are made from the total net balances at individual level of the companies.

Thousands of euros	**2016**		**2015**	
Currencies	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Accounting balances	333,140	580,223	350,161	578,041
Offsets	(247,083)	(247,083)	(227,879)	(227,879)
Net balances	86,057	333,140	122,282	350,162
Eliminations	(18,965)	(18,782)	(33,507)	(33,374)
Consolidated	67,092	314,358	88,775	316,788

k) Recognition of revenues and expenses

Interest and similar income and interest and similar charges are generally recognised for accounting purposes on the basis of their accrual period and by applying the effective interest rate method. Dividends received from other companies are recognised as revenues when the right to receive them arises.

Financial services fee and commission expenses or income, however contractually denominated, are classified in the following categories, which determine their allocation in the income statement:

i) Financial fees and commissions are those which are an integral part of the effective cost or yield of a financial transaction and are allocated to the consolidated income statement in two stages: first, recognition is given in the consolidated income statement to the portion of the fee or commission compensating direct costs, and second, the remainder is accrued over the expected term of the transaction as an adjustment to the effective cost or yield thereof.

The amount of these commissions and fees is disclosed in Note 48.

ii) Non-financial commissions and fees are those arising from the provision of services and can be of two kinds:

- Those arising from the provision of a service over a period of time, which are recognised in the consolidated income statement over the period of the service.
- Those arising from the provision of a service in a single act. These commissions and fees are accrued and recognised in the consolidated income statement when the single act is carried out.

Commissions and fees received and expense and similar items are generally recognised in the consolidated income statement, in accordance with the following criteria:

i) Those linked to financial assets and liabilities carried at fair value through profit or loss are recognised at the time of collection.

ii) Those relating to transactions or services taking place over a period of time are recognised during the period of such transactions or services.

iii) Those relating to a transaction or service performed in a single act are recognised when such act takes place.

Non-financial fees received and paid are recognised on an accruals basis. Collections and payments deferred over time are recognised in the accounts at the amount resulting from discounting the projected cash flows to present value at market rates.

l) Asset Exchanges

Swaps of tangible and intangible assets are acquisitions of such assets in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets, except for foreclosed assets which are treated in accordance with the rules for Non-current assets held for sale.

The asset received in an asset swap is recognised at the fair value of the asset delivered plus, if appropriate, any monetary consideration given in exchange, unless there is clearer evidence of the fair value of the asset received.

m) Securities lending agreements

Securities loans are transactions in which the borrower receives full ownership of securities merely by paying certain commissions and fees, with the commitment to return to the lender securities of the same class as those received upon maturity of the contract.

Securities lending agreements in which the borrower is obliged to return the same assets or substantially identical assets or other similar assets with an identical fair value are considered as transactions in which the risks and benefits connected with ownership of the asset are substantially retained by the lender. The lending entity maintains them in portfolio, because they do not meet the conditions for removal from the balance sheet, and the borrowing entity does not reflect them in its balance sheets.

n) Financial guarantees

Contracts under which the Group is required to pay specific amounts to reimburse the creditor for the loss incurred when a specific debtor fails to comply with a payment obligation under the contract terms are considered financial guarantees, irrespective of their legal form, which may be a guarantee, a financial guarantee, an insurance contract or a credit derivative, among others.

Financial guarantees are carried at fair value, which will be the premium received plus the present value of the cash flows to be received over the term of the contract.

The classification of a financial guarantee contract as doubtful entails its reclassification to Provisions for contingent risks and commitments.

For calculation of impairment loss, financial guarantees are classified on the basis of the risk of insolvency attributable to the customer or to the transaction and, if appropriate, the need is estimated for recording provisions for them using criteria similar to those indicated in Note 15.h. for debt instruments valued at amortised cost, based on estimates of the amounts considered to be non-recoverable.

ñ) Leases

Leases are presented on the basis of the economic substance of the transaction, irrespective of its legal form, and are classified at inception as finance or operating leases.

i) A lease is considered finance lease when substantially all the risks and rewards inherent in ownership of the leased asset are transferred.

When the Group acts as lessor of an asset, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value, usually the price of the purchase option price at the end of the lease, is recognised as financing provided to third parties. It is therefore included under Loans and receivables in the consolidated balance sheet, in accordance with the nature of the lessee.

This amount, the gross investment in the lease, is the sum of: the minimum payments to be received for the finance lease plus any unguaranteed residual value that pertains to the debtor.

The detail of the reconciliation of these items in relation to the operations of the Group's credit institutions is as follows:

Thousands of euros	**2016**	**2015**
Present value of the minimum payments to be received	1,997,629	2,026,865
Residual values not guaranteed	175,339	210,630
Gross investment in finance lease	2,172,968	2,237,495

The distribution by period of the gross investment and present value of the minimum payments to be received is as follows:

Thousands of euros	**Gross investment**		**Present value of minimum payments to be received**	
Currencies	**2016**	**2015**	**2016**	**2015**
Up to 1 year	412,791	488,761	413,127	469,716
From 1 to 5 years	1,235,587	1,208,166	1,139,262	1,108,954
More than 5 years	524,590	540,568	445,240	448,195
Total	2,172,968	2,237,495	1,997,629	2,026,865

The value adjustments covering bad debts relating to the minimum payments under leases amounted to 67,340 thousand euros in 2016 and 56,779 thousand euros in 2015.

Conversely, if the Group were to act as lessee, the cost of the assets leased would be recognised in the consolidated balance sheet in accordance with the nature of the leased asset and at the same time a liability would be recognised for the same amount, which would be the lower of the fair value of the asset leased or the sum of the present values of the amounts payable to the lessor plus, if appropriate, the exercise price of the purchase option. These assets would be depreciated by methods similar to those used for all the tangible assets for own use. The Group has not entered into finance leases as the lessee with third parties in 2016 or 2015.

The financial revenues and expenses arising from these contracts are credited and charged, respectively, to the consolidated income statement so that the return remains constant over the term of the contracts

ii) Lease contracts not considered to be finance leases are classified as operating leases. The basic conditions that must be fulfilled to treat a lease as such are as follows:

- There must be no purchase option at the maturity of the lease period, or any such option must allow the lessee to purchase the asset at its fair value.
- At lease inception, the present value of the future lease payments must be considerably lower than the leased asset's fair value.
- The lease period must not encompass virtually all the useful life of the leased assets.

When the Group acts as lessor of an asset, the acquisition cost of the leased assets is reflected in tangible assets. These assets are depreciated in accordance with the policies applied for similar tangible assets, based on their estimated useful life, and the initial direct revenues and costs allocable to the lease contracts are recognised on a straight- line basis in the consolidated income statement.

When the Group is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight line basis in the consolidated income statement.

As a result of the property divestment process which was started in 2008, the Group acts as lessee of various properties under sale and lease-back arrangements, described in more detail in Note 30.

o) Assets managed

Assets managed by the Group which are owned by third parties are not included on the consolidated balance sheet. Commissions and fees generated by this activity are recognised under Fee and commission income in the consolidated income statement.

The detail by nature of these assets marketed and managed by the Group is as follows:

Thousands of euros	2016	2015
Investment funds	10,948,963	11,493,462
Asset management	1,639,617	1,683,649
Pension plans	5,150,871	5,314,996
Insurance premiums	2,385,540	2,289,255
Total	20,124,991	20,781,362

p) Staff expenses – post-employment remuneration

Post-employment benefits are defined as benefits paid to employees after the end of their period of employment. Post-employment benefits, including those covered by internal or external pension funds, are classified as defined contribution plans or defined benefit plans, based on the conditions of these obligations, taking into account all the commitments undertaken within and outside the terms formally agreed with the employees.

The liability recognised for defined benefit plans is the present value of the liability at the balance sheet date less the fair value of the assets allocated to the plan. The liabilities for defined benefits are calculated annually by independent actuaries using the projected unit credit method.

Plan assets are those with which the liabilities will be settled directly, including insurance policies, which meet the following conditions:

a) They are not owned by the Group but by a legally separate, non-related third party.

b) They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.

c) They cannot be returned to the Group unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the Bank relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.

d) They are not non-transferable financial instruments issued by the Group.

The assets contracted with Pastor Vida in cover of commitments to personnel are not plan assets, since they were contracted with a party related to the Group, and they are recognised as reimbursement rights linked to employee benefits.

In the treatment of post-employment benefits the following criteria are taken into account:

- Actuarial gains and losses arising during the year due to changes in financial or actuarial assumptions or to differences between the assumptions and the actual situation are recognised immediately in the period in which they occur, directly in “Other comprehensive income”.

- Recognition of past service costs, which must be recognised immediately in the Consolidated income statement under "Staff expenses".

- Interest cost of the liability and the expected profitability on assets allocated to defined benefit plans will be determined as a net amount calculated by applying the interest rate at the beginning of the year to the liability (asset) of the defined benefit plan.

The present value of the defined benefit obligations to personnel is determined by discounting the estimated future cash flows at rates for corporate bonds with high credit ratings that are consistent with the currency and estimated terms in which the liabilities for post-employment benefits will be settled.

The expected profitability on assets allocated to defined benefit plans and reimbursement rights is determined using the same discount rate as for calculating the present value of the liabilities.

a) Post-employment employee benefits: Banks in Spain

At 31 December 2016 and 2015, the Group banks operating in Spain had outsourced their pension commitments towards serving and retired employees by means of defined-contribution and defined-benefit pension plans and group insurance contracts, pursuant to the terms of Royal Decree 1588/1999.

Defined contribution plans

These are defined contribution pension plans that cover retirement contingencies for employees taken on after 8 March 1980.

The contributions made each year are recognised under “Staff expenses - Social charges” in the income statement. Any amounts not yet contributed at each year end are recognised, if any, at their present value, under "Provisions for pensions and similar obligations" under liabilities on the balance sheet.

The contributions made by the banks running the defined contribution pension plans amounted to 9,116 thousand euros in 2016 and 8,562 thousand euros in 2015.

Defined benefit plans

Post-employment defined benefit plans for the Group's serving and retired personnel are summarised below.

Serving and retired employees

Pension commitments to retired employees prior to 8 November 2001 of Banco Popular Español, S.A. were outsourced in October 1995 through insurance arranged by the banks with Allianz Compañía de Seguros y Reaseguros, S.A.

On 8 November 2001, Banco Popular Español, S.A. outsourced its defined benefit pension commitments to its serving employees by contributing the internal provisions already established to the respective defined-benefit pension plans that had been set up – which simultaneously took out insurance contracts to cover these commitments – or to insurance contracts covering the financial limit overrun.

The pension commitments for serving and retired personnel are underwritten by the insurance company Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from its parent company Allianz A.G.. Contributions were fully paid in as at 31 December 2001 to cover past service costs at that date. This represented the completion of the outsourcing agreements signed in 2000 and 2001 by the Bank and employee representatives.

In the case of Banco Pastor, commitments to retired personnel prior to August 2002 were outsourced in November 1999 through insurance policies to BBVA Seguros, S.A. de Seguros y Reaseguros. In August 2002 Banco Pastor outsourced its commitments to BBVA Seguros, S.A. de Seguros y Reaseguros. Contributions were completed on 29 August 2002.

Pension plans cover defined benefit commitments for disability and death and retirement for the group of qualifying employees (those hired prior to 8 March 1980) and defined contribution commitments for the retirement of other employees (those hired after 8 March 1980).

Although the principal actuarial and financial risks relating to the benefits insured to date have been transferred to the insurance company, it cannot be concluded that they have been transferred in full, and therefore they should be regarded as defined benefit plans.

Early retirees

The Group has commitments to certain of its employees of the banks in Spain under early retirement agreements. For those commitments arranged up until December 2004, a temporary annuity insurance contract was entered into with the insurance company Allianz, S.A. which bears all the actuarial and investment risk in relation to the commitments assumed.

This insurance was designed so that the benefits periodically received from the insurance company match, in term and amount, the Group's obligations to its early retirees. These obligations consist of both income paid monthly to pre-retirees and the amounts equivalent to the special agreement that each pre-retiree has arranged with the Social Security and the amounts needed to cover benefits for non-serving employees: pension and loss of spouse and loss of parent payments and the premiums necessary to maintain adequate coverage of occupational risks until the agreed retirement age is reached.

The remainder relates to the extraordinary pre-retirement plans implemented after 2004, maintained in an internal fund. Accordingly, the Entity has established, under the Provisions for risks heading, a provision to cover commitments to early retirees, for both salaries and other social charges, from the date of their early retirement until that of their effective retirement, and for the total amount of the necessary supplementary contributions to the pension plan until effective retirement or for risks of death of spouse and death of parent if these events were to occur previously.

The Group carried out an extraordinary early-retirement plan in 2012 due to the integration of Banco Pastor, which affected 810 employees (348 from Banco Pastor).

During the fourth quarter of 2016 the Group has carried out a restructuring plan.

Other commitments

The Group has assumed other pension and welfare commitments for personnel on retirement, such as the company store, voluntary bonus payments, Christmas gifts, etc.

b) Post-employment benefits: Banco Popular Portugal, S.A.

The Banco Popular Portugal Pension Plan is a defined benefit plan that provides for the benefits laid down by the Working Conditions Authority (ACT) governing bank employment in Portugal.

Following the publication of Decree Law no. 1-A/2011 of 3 January, workers covered by the ACT who were active at 4 January 2011, were transferred to be covered by the General Social Security Regime, with respect to the provision of retirement benefits. From that date, the defined benefit plan for workers covered by the ACT has been financed through the Pension Fund and Social Security, with respect to the provision of retirement coverage. However, coverage of responsibility for death, disability and retirement benefits, remains with the Pension Fund after 4 January 2011, in order to bring member retirement under the Pension Fund into line with the values of the current pension plan.

In accordance with Decree Law 127/2011 of 31 December, Banco Popular Portugal transferred the commitment corresponding to pension liabilities payable at 31 December 2011 to the Social Security.

The liabilities transferred amounted to 6.3 million euros, 55% of which was paid in 2011 while the remaining 45% was paid in 2012, after an independent entity certified the value of the liabilities transferred.

q) Income tax

Spanish Corporate Income Tax and taxes of a similar nature applicable to foreign investee companies are considered an expense and recorded in accordance with that established in the General Accounting Plan approved by Royal Decree 1514/2007 of 16 November and the regulation which develops it. They are recognised under Income tax expense in the consolidated income statement, except when they arise as a consequence of a transaction recognised directly in consolidated equity or of a business combination, in which case the deferred tax is recognised as forming part of the value of the transaction.

The income tax expense is determined by tax payable calculated with respect to the tax base for the year, taking into account the variations during that year deriving from permanent differences, deductions and credits and tax-loss carryforwards. The taxable base for the year may differ from the net income for the year presented in the income statement since it excludes the items of revenues or expenses that are taxable or deductible in other years and the items that are never taxable or deductible.

The taxable base for the year may differ from the consolidated net income for the year presented in the consolidated income statement since it excludes the items of revenues or expenses that are taxable or deductible in other years and the items that are never taxable or deductible.

Tax assets: It includes the amount of all tax assets, which consists of:

(i) Current: Includes the amounts to be recovered for taxes in the next twelve months.

(ii) Deferred: Includes the amounts of taxes that are to be recovered in future years, including those arising from tax-loss carryforwards or tax deductions or tax credits to offset.

Tax liabilities: It includes the amount of all tax liabilities, except for provisions for taxes, which consists of:

(i) Current: Includes the amount to pay for the income tax on the taxable profit for the year and other taxes in the next twelve months.

(ii) Deferred: Understood as the amount of income tax to pay in future years.

Deferred tax assets and liabilities relate to the differences between the carrying amounts of the assets and liabilities in the financial statements and the related taxable bases, and are quantified by applying to the relevant temporary difference or credit the tax rate at which it is expected to be recovered or settled.

A deferred tax asset, such as prepaid tax, tax credits for deductions and allowances and a tax credit for tax-loss carryforwards, is recognised provided that the Group is likely to obtain sufficient taxable income in the future against which to realise it for which the Group makes projections on various scenarios with the aim of demonstrating its future recoverability. It is considered probable that the Entity will obtain in the future sufficient taxable income when, among other cases:

i) There are deferred tax liabilities which can be cancelled in the same year as that of the realisation of the deferred tax asset or in another subsequent year in which the existing tax loss carry-forward or caused by the amount prepaid can be offset.

ii) The tax-loss carryforwards have arisen for identified reasons which are unlikely to recur.

Nonetheless, the deferred tax asset resulting from the recording of investments in subsidiaries, multi-group companies or associates is only recognised when its future realisation is probable and sufficient tax income is expected to be obtained in the future against which to apply it. Nor is it recognised when an equity item which is not a business combination and that at the time of recognition did not affect the accounting or tax result is initially recognised.

According to Law 27/2014, of 27 November on Corporate Income Tax, deferred tax assets related to loan loss provisions for impairment of loans or other assets arising from possible bad debts, as well as those for allocations or contributions to social and early retirement systems will become an enforceable claim against the tax authorities, under any of the following circumstances:

a) The taxpayer posts accounting losses in its financial statements audited and approved by the relevant body.

In this case, the amount of the deferred tax assets converted will be determined by the result of applying to the total figure the percentage of accounting losses for the year in relation to the sum of capital and reserves.

b) A court declares the entity to be in liquidation or insolvent.

The Law on Corporate Income Tax provides that payers of this Tax who have registered convertible deferred tax assets with the Tax Administration will be required to pay the Financial Contribution in favour of those entities which have monetisable DTAs higher than the settlement fees paid, in both cases referring to the period 2008 to 2015. The first accrual of expenditure for a Financial Contribution, associated with these monetisable DTAs will occur on 31.12.2016, and accounted for under the heading of Other operating charges, with payment being made in the year 2017.

On 28 November 2014 Law 27/2014 on Corporate Income Tax was published. This amendment included provisions applicable to 2014 and 2015, specifically relating to the limitation on the reversal of certain temporary differences and tax-loss carryforwards that are considered in the 2015 consolidated financial statements. On 3 December 2016, Royal Decree Law 3/2016 was published where, amongst other aspects, it modifies the limitation to 25%.

Tax benefits in the form of double taxation deductions, allowances, deductions for research and development, donations and other deductions for investments in the Canary Islands are treated as a reduction in corporate income tax each year. In order for the deductions to be effective, the requirements established by the current regulations must be complied with and those corresponding to 2016 have been fully activated.

Deferred tax liabilities are always recorded except when goodwill is recognised or when they arise in the recording of investments in subsidiaries and joint ventures or associates, if the Group is capable of controlling the date of reversal of the timing difference and, also, it is probable that this difference will not reverse in the foreseeable future. A deferred tax liability is not recognised either upon initial recognition of an asset that is not a business combination and which at the time of recognition has not affected either the accounting or the tax result.

At each accounting close the recorded deferred tax assets and liabilities are reviewed in order to check that they are still current, and the appropriate corrections are made to them

r) Tangible assets

The tangible assets for own use are the property, plant and equipment of which the Group considers it will make ongoing use, and the property, plant and equipment acquired under finance lease. They are measured at acquisition cost less the relevant accumulated amortisation and, if appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount.

Amortisation is calculated systematically by the straight line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, this land is deemed to have an indefinite life and therefore is not amortised. The annual provisions for amortisation of tangible assets are charged to the consolidated income statement and are calculated on the basis of the following average years of estimated useful life of the various groups of items:

	Years of estimated useful life
Buildings	25-75
Furniture	4-8
Installations	4-16

At each accounting close, the Group checks for internal and external indications that the carrying amount of tangible assets exceeds the recoverable amount, understood as the higher of fair value less selling costs and value in use. In this case, the Group reduces the carrying amount of the relevant asset to its recoverable amount and adjusts future amortisation charges in proportion to the adjusted carrying amount and new remaining useful life if it is necessary to re-estimate it. When there is an indication that the value of an asset has been recovered, the Group recognises the reversal of the impairment loss recognised in prior periods and adjusts future amortisation charges accordingly. The reversal of the impairment loss of an asset may in no case entail an increase in its carrying amount in excess of what it would have been if such prior year impairment losses had not been recognised.

At least at the end of each year the Group reviews the estimated useful lives of its tangible assets for own use in order to detect significant changes therein which, if they occur, are adjusted by correction of the charge for amortisation in the consolidated income statement for that year and the following years based on the new estimated useful life.

Expenses for the upkeep and maintenance of tangible assets for own use are recognised in the consolidated income statement in the year in which they occur.

The investment properties of the tangible assets correspond to the net values of the land, buildings and other structures which the Group holds for rental or for obtaining a capital gain on their sale and which are not expected to be realised in the ordinary course of business and are not dedicated to own use.

The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating lease with respect to amortisation and the estimation of their respective useful lives and the recording of impairment losses, agree with those described for tangible assets for own use.

s) Intangible assets

Intangible assets are non-monetary assets that are identifiable but have no physical appearance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be individually sold, leased or used or arise as a result of a contract or other kind of legal procedure. An intangible asset is recognised when, in addition to meeting the foregoing definition, the Group estimates that economic benefits are likely to be received from the item and its cost can be reliably estimated.

Intangible assets are initially recognised at acquisition or production cost, and are subsequently valued at cost less, where appropriate, accumulated amortisation and any impairment loss.

a) Goodwill

Goodwill is an asset that represents the future economic benefits deriving from net assets acquired in a business combination, which cannot be individually or separately identified or recognised.

It is initially measured as the algebraic sum of the consideration transferred (assets transferred less liabilities assumed) on the acquisition plus the amount of any non-controlling interest in the acquiree (minority interests) plus the fair value at the acquisition date of the interest in the acquiree's equity held by the acquirer before obtaining control over the entity involved in the combination less the fair value at the acquisition date of the acquiree's identifiable net assets.

Positive differences between the cost of business combinations in subsidiaries, joint ventures and associates and their underlying carrying amounts, adjusted at the date of initial consolidation, are allocated as follows:

i) If they are allocable to specific assets and liabilities in the acquirees, they are recognised by increasing or decreasing the value of the assets or liabilities the fair values of which are higher or lower, respectively, than the carrying amounts at which they were recognised in their balance sheets and the accounting treatment of which is similar to that of the same assets or liabilities, respectively, of the Group.

ii) If they are assignable to specific intangible assets, they are allocated by explicit recognition in the consolidated balance sheet, provided that their fair value at the acquisition date can be reliably determined, irrespective of whether they were not previously recognised in the acquiree.

iii) The remaining non-allocable differences are recorded as goodwill, which is assigned to one or more specific cash-generating units which are expected to benefit from the synergies deriving from the business combination.

Goodwill acquired since 1 January 2004, remains valued at its acquisition cost and goodwill acquired prior to that date continues to be carried at its recognised net value as at 31 December 2003. At each accounting close the Group estimates whether there has been any impairment in the Goodwill which reduces its recoverable value to below its recognised net cost and, if so, recognises the necessary write-down with a balancing entry in the consolidated income statement. Losses for impairment of Goodwill cannot subsequently be reversed.

b) Impairment testing of goodwill

Banco Popular Group performs annual reviews to assess the existence of potential impairment of its goodwill by comparing the recoverable values with carrying amounts.

There is impairment when the carrying amount of the Cash Generating Unit (CGU) to which goodwill is assigned exceeds its recoverable amount. That value is generally calculated using the discounted cash flow method. According to this method, the value of a banking business is the present value of potential distributable dividends and depends on a series of basic variables:

Business variables: growth of assets and liabilities, margins, impairment losses, etc. These variables are estimated from a prudent perspective, on the basis of the type of business, foreseeable macro-economic performance, etc., at all times ensuring the consistency of the assumptions with the Group's strategy in general and for each business in particular. Broadly speaking, the assumptions used envisage weak business growth in the short term and persistently high non-performing rates. For the middle years, moderate growth is projected which levels off at the end of the projected period.

- Projection period: the projection period covers the period strictly necessary for the entity to be in a position in which it can calculate a complete stable and normalised year to take as a reference to perpetuity, on a going-concern basis. This situation is characterised by fixed growth and consistent and sustainable asset performance.
- Discount rate: the Capital Assets Pricing Model is used to determine the discount rate which estimates the cost of capital based on the risk-free rate in the corresponding currency, the market premium and a coefficient (beta) which relates the performance of the specific asset with the market in general.
- Perpetuity growth rate (g): this rate is applied to the terminal value of the business and is estimated taking nominal GDP growth and long-term inflation into account. Depending on the country, the (g) may be different.

They are 10-year projections calculated in a conservative manner in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates from the fifth year incorporate flat or negative growth rates versus previous years, whereas these cash flow projections for a period of 10 years comply with the stipulations in IAS 36.

Given the current economic environment, it is possible to justify a longer period than five years set by preference by the standard, taking into account the following considerations:

- Banco Popular Group since its founding more than 85 years ago has been developing a retail model that has not significantly changed, so we believe Management has the ability to project ten years, given the recurrent nature of the business.
- The current as well as future years continue to show moderate growth due to the current financial crisis, making it more appropriate to extend the projection period to allow for more specific growth rates compared with those that would be included in the expected growth rate used to calculate the terminal and standardised value of the CGU.
- This is in line with the provisions of standard practice for business valuation exercises, which recommend that the projection period should be long enough for the company to reach a stable situation from which to calculate a stable and normalised full year in order to be able to use it as a reference to perpetuity, on a going concern basis. This situation is believed to be characterised by fixed growth and consistent and sustainable asset performance. The Bank applies this valuation policy to any kind of corporate transaction and to internal analysis of its businesses
- In our models this results in two years of weak growth in lending, a few middle years of somewhat larger increases and a final stage of moderation until a nominal growth rate close to "g" growth in the last year and in perpetuity . We believe that these growth rates are prudent and are aligned with those of the sector.

- Given the experience of the Bank's management with ten-year projections, we believe that they are reliable. It is noted that the business model is sustainable and that there is sufficient historical information. The key assumptions underpinning the cash flow projections are growth in lending, the interest margin on average total assets, the cost-to-income ratio and the risk premium (loan provisions).

Considering the current circumstances, cash flow projections made in the ten-year period reflect more clearly and reliably the economic environment, and are justified for the reasons discussed, and thus are being made in all impairment analyses of goodwill in the Group.

Details are provided below of the parameters applied to the discount rate and residual value in 2016:

	BPE Commercial CGU	Pastor Commercial CGU	Targobank	Banco Popular Portugal	Totalbank
Key Assumptions					
Risk-free rate	2.06%	2.06%	2.06%	2.06%	1.60%
Beta Coefficient	1.27	1.27	1.27	1.27	0.95
Risk premium	5.50%	5.50%	5.50%	5.50%	6.90%
Cost of Capital	9.02%	9.02%	9.02%	9.02%	8.17%
"G" growth	2.50%	2.50%	2.50%	2.50%	4.00%

Details are provided below of the parameters applied to the discount rate and residual value in 2015:

	BPE Commercial CGU	Pastor Commercial CGU	Targobank	Banco Popular Portugal	Totalbank
Key Assumptions					
Risk-free rate	2.06%	2.06%	2.06%	2.34%	2.06%
Beta Coefficient	1.21	1.21	1.21	1.21	1.21
Risk premium	5.50%	5.50%	5.50%	5.50%	7.00%
Cost of Capital	8.73%	8.73%	8.73%	9.01%	10.54%
"G" growth	2.50%	2.50%	2.50%	2.50%	4.00%

In order to determine the cost of shareholders' equity, the present value of the projected flows, the following assumptions based on external sources were used in setting the discount rate:

- The risk-free rate corresponding to the long-term interest rate on risk-free financial assets. The profitability on Spanish government bonds in accordance with the EC long-term monetary policy was used to analyse the CGUs of the business in Spain (Acquisition Banco Pastor, New Banco Pastor and Targobank) and Portugal. For CGUs of the business in the United States, it is obtained using the profitability on 10-year American bonds. In all cases, external sources were used.
- The beta coefficient is a factor for weighting the sensitivity of a company's profitability relative to the trend of market performance in general. It reflects the difference between the sector's inherent risk and the average risk of the stock market and thereby measures the volatility of systematic risk. The beta considered the beta for Banco Popular is calculated as the average of daily exposures over a 5-year period.
- The market risk premium represents the difference between the rate of profitability of an efficiently diversified portfolio and the risk-free asset. It reflects the inherent risk of the evaluated business, and has been estimated as the excess of the historical average profitability of the capital market over that of long-term government bonds, according to various empirical studies. In the case of business in the United States that premium has been calculated long-term (1926-2013).

The growth rate in perpetuity ("g") for Spain and Portugal, has considered a standard growth of the sector in the years immediately following the forecast period, standing at 2.5% for Spanish CGUs estimated based on the correlation between the quarterly series of nominal GDP and credit to the private sector, according to the historical Credit series of the Banco de España and statistics of nominal GDP growth provided by the National Statistics Institute. Specifically, this correlation has been considered as an estimate of the growth rate in perpetuity, taking into consideration the high correlation between the growth of the financial sector and the economy as a whole, assuming constant sustainable returns on the entities' capital, a constant evolution of the degree of leverage in the economy as a whole and continuity of legal regulatory capital requirements in terms of proportion of risk-weighted assets. And in the case of Portugal, as well as the correlation between nominal GDP and lending the intention of the company to grow its market share in the Portuguese market has been considered, which makes a growth higher than the expected national GDP. In the case of the Totalbank goodwill analysis, it corresponds to the long-term projected GDP of the State of Florida as calculated by the Institue for Economics Competitiveness (University of Central Florida).

c) Other intangible assets

The remaining intangible assets may have either an indefinite useful life when, based on analyses of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which net cash flows may be expected to be generated for the Group, or a finite useful life in other cases. Intangible assets with an indefinite useful life are not amortised, although at each accounting close the Group reviews the remaining useful lives in order to ensure that they are still indefinite or, alternatively, take the relevant action. Intangible assets with a finite useful life are amortised on the basis thereof, applying methods similar to those for tangible assets.

Computer software developed by the Group is recognised as an intangible asset when it reaches its development stage, understood as one in which the intangible asset can be identified and it can be demonstrated that economic benefits in the future can be generated, and the following requirements are met:

a) The feasibility, from a technical point of view of completing the intangible asset so that it is available for future use.

b) The intention to complete and use or sell the intangible asset.

c) The ability to use or sell.

d) The manner in which the asset is likely to generate future economic benefits.

e) The availability of sufficient resources, such as technical and financial, to complete development and to use or sell the intangible asset.

f) The ability to reliably estimate the costs attributable to the development stage of the intangible asset.

The cost for which they are recognised as intangible assets includes the cost of external subcontracted services and the cost of internal resources involved in the analysis and development of such software.

In any event, the Group records for accounting purposes any loss that may have arisen in the recorded value of these assets arising from impairment with a balancing entry in the consolidated income statement. The methods for recognition of losses for impairment of these assets and, if appropriate, of recoveries of losses for impairment recorded in prior years are similar to those applied for tangible assets.

t) Inventories

Inventories are assets other than financial instruments that are held for sale in the ordinary course of business, are in the process of production, construction or development for such sale, or will be consumed in the production process or provision of services. Inventories includes land and other properties that are held for sale in the activity of property development. Inventories are valued at the lower of their cost and their net realisable value.

Being:

- Cost of inventories: comprises all costs incurred in the acquisition and processing, and other costs, direct or indirect, which they incurred to give them their present location and condition.
- Net realisable value: is the estimated selling price of inventories in the ordinary course of business, less the estimated costs of completion and those necessary to carry out their sale.

u) Insurance operations

The subsidiaries that are insurance companies credit the consolidated income statement for the premiums that they write and charge to the consolidated income statement the cost of the claims that they must meet when final settlement thereof is reached. Also, accruals are recorded at the end of each year both for the amounts credited to the consolidated income statement but unearned at the year end, and for the costs incurred but not charged to the consolidated income statement.

The principal technical provisions relating to the direct insurance activity are as follows:

i) Technical reserve for unearned premiums, relating to the rate premium collected in one year allocable to future years net of the loading for contingencies.

ii) Technical reserve for outstanding risks which supplements the technical reserve for unearned premiums by the amount by which the latter is insufficient to reflect the valuation of the risks and expenses to be covered relating to the unelapsed coverage period at year-end.

iiii) Technical reserve for benefits, which relates to the estimated valuations of the outstanding obligations arising from claims occurred before year-end. This technical reserve includes the unsettled or unpaid claims and the undeclared claims. The outstanding obligations are calculated by deducting the payments made on account and taking into consideration the internal and external expenses of settlement of the claims and, if appropriate, the additional provisions which may be necessary to cover variances in the valuations of claims requiring lengthy procedures.

iv) Technical reserve for life insurance:

- For life insurance policies whose coverage period exceed one year, mathematical technical provision is calculated as the difference between the actuarial present value of future obligations of the insurer and the policyholder or insured, based on calculating the premium accrued during the year which is constituted by the pure premium plus a charge for administrative expenses as per the technical rules.
- In life insurance where the investment risk is borne by the policyholders, the technical provision is determined by the assets specifically assigned to determine the value of rights.

v) Technical provision for profit-sharing and refunds, which relates to the profit accruing to the policyholders, insured or beneficiaries of the insurance and that of premiums that must be refunded to the policyholders or insured, because of the conduct of the risk insured unless they have been individually assigned to each of the former.

The technical provisions for accepted reinsurance are calculated by methods similar to those used for direct insurance, and generally on the basis of the information provided by the ceding companies.

The technical provisions of direct insurance and of accepted reinsurance are included under Liabilities under insurance contracts in the consolidated balance sheet.

The amounts which the Group is entitled to receive for reinsurance contracts are recorded under Reinsurance assets in the consolidated balance sheet. The Group checks whether these assets are impaired and if so recognises the related loss in the consolidated income statement with a direct charge to that heading.

v) Provisions

The Group's present obligations resulting from past events are considered provisions when their nature is clearly defined at the date of the financial statements but the amount or time of settlement are not defined, and upon the maturity of which and in order to settle them the Group expects an outflow of resources which embody economic benefits. These obligations may arise as follows:

i) A legal or contractual requirement.

ii) An implicit or tacit obligation, arising from a valid expectation created by the Group for third parties for the assumption of certain kinds of responsibilities. These expectations arise when the Group publicly accepts responsibilities, and derive from past performances or business policies in the public domain.

iii) The virtually certain evolution of the regulations on certain aspects, in particular, draft legislation which the Group cannot disregard.

Provisions are booked on the basis of the probability of an event occurring. Events are classified as probable when they are more likely to occur than not; as possible, when they are less likely to occur than not; and remote, when their occurrence is extremely rare.

The Group includes in its consolidated financial statements all the material provisions with regard to which it is considered that the likelihood of having to meet the obligation is greater than not.

Provisions are quantified based on the best information available about the consequences of the event giving rise to them and are estimated at each accounting close. They are used to meet the specific obligations for which they were recognised, and are fully or partly released when these obligations cease to exist or decrease.

This balance sheet heading reflects provisions for pensions, taxes and legal contingencies, contingent risks and commitments and other provisions.

At 31 December 2016 and 2015 various legal proceedings and claims instigated against the Group resulting from its ordinary business activities were ongoing.

w) Contingent assets and liabilities

Contingent assets are possible assets arising as a result of past events whose existence is conditional and must be confirmed when events outside the control of the Group occur or do not occur.

Contingent assets are not recognised in the consolidated balance sheet or in the consolidated profit and loss account. The Group discloses their existence if the increase in funds including economic benefits for this reason is probable.

Contingent liabilities are the possible obligations of the Group arising as a result of past events whose existence is conditional on the occurrence or not of one or more future events which are independent of the Group's decision. Contingent exposures include the Group's present obligations the settlement of which is unlikely to give rise to a decrease in resources that embody economic benefits or the amount of which, in extremely rare cases, cannot be sufficiently reliably quantified.

x) Employee share-based remuneration

In order to bring the Bank's remuneration system into line with the requirements of Directive 2010/76/EU of 24 November 2010 on the supervision of remuneration policies and the principles of the CEBS, the General Shareholders' Meetings, held on 8 April 2011, 11 June 2012, 10 June 2013, 7 April 2014 and 13 April 2015, approved deferred and conditional Bonus Systems for 2011, 2012, 2013, 2014 and 2015, applicable to the executive directors, senior management and those employees who assume risks or exercise control functions. These Plans laid down specific conditions for the receipt of bonuses.

In addition, the General Shareholders' Meeting held on 13 April 2015 approved a Compensation Policy which will remain in effect for the years 2015 to 2018.

Thus, within the framework of this Compensation Policy approved by the General Meeting of 2015, the Board of Directors, following a proposal from the Compensation Committee, approved the 2016 Annual Bonus System, aimed at the management team of Banco Popular, according to the aforementioned Compensation Policy approved by the Board in regard to the settlement and payment system of the annual bonuses of those directors and employees of the Bank whose professional activities have a material impact on the Bank's risk profile, as well as those other employees who exercise control functions.

This way, the variable components of the total compensation of the Executive Directors corresponding to the 2016 financial year could in no case be more than 100% of the fixed components of the total compensation of each Director, in accordance with Article 34.1.g) 1st of Law 10/2014 of 26 June, on the management, supervision and solvency of credit institutions, since the Board of Directors agreed not to submit its elevation to a higher level to the Ordinary General Meeting held on 11 April 2016.

Pursuant to the Compensation Policy of Banco Popular's Directors approved by the 2015 General Shareholders' Meeting (and applying to 2016), the bonuses of the Executive Directors for 2016 were set based on the achievement of objectives determined by the Board of Directors, included in the Bonus System corresponding to 2016, which established financial indicators linked to the Bank's results and the evolution of the business, and non financial indicators, always avoiding incurring excessive risks.

Thus, remuneration of the personnel referred to with reference to the above-mentioned plans are detailed in Note 10 (Remuneration of Directors and Senior Management) of this Report corresponding to each of the years mentioned.

On 10 June 2013, the shareholders, in a General Shareholders' Meeting, approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 (hereinafter "the Plan") for the members of the executive team and Senior Management (including executive directors and members of the Management Committee). This Plan is based on the allocation to the beneficiaries of a number of units, to be granted in cycles, each with a duration of four years(2013, 2014, 2015 and 2016), which will form the basis for calculating the shares to be delivered to the Plan beneficiaries in 2017, 2018, 2019 and 2020, if appropriate and provided that the objectives laid down in the Plan are met and whose characteristics are detailed in the documentation provided to shareholders at the Ordinary General Meeting of Shareholders of 2013, 2014.2015 as well as 2016 and are as follows:

- The Plan will enable Beneficiaries of the remuneration to receive a number of ordinary shares of Banco Popular in the years 2017, 2018, 2019 and 2020, provided that certain strategic objectives of the Bank are met.
- Members of Banco Popular's the management team, including executive directors and members of the Management Committee of Banco Popular will be considered Beneficiaries of the Plan when it enters into force.
- The Plan consists of the allocation in 2013, 2014, 2015 and 2016 of a number of "units" to each beneficiary, which will serve as the basis for determination of, depending on the degree of compliance with certain objectives, the number of shares Banco Popular provides, where appropriate, to each Beneficiary in the years 2017, 2018, 2019 and 2020.

- The "units" will be awarded in cycles, in 2013, 2014, 2015 and 2016.

    - First grant cycle: Assignment of "units" in 2013 and, where appropriate, settlement in Banco Popular shares in 2017.
    - Second grant cycle: Assignment of "units" in 2014 and, where appropriate, settlement in Banco Popular shares in 2018.
    - Third grant cycle: Assignment of "units" in 2015 and, where appropriate, settlement in Banco Popular shares in 2019.
    - Fourth grant cycle: Assignment of "units" in 2016 and, where appropriate, settlement in Banco Popular shares in 2020.

- To determine the "units" to be assigned to each Beneficiary in each cycle the following is taken into account: (i) a reference amount, to be determined as a percentage of their fixed compensation which, in no case, will exceed 50% of the Beneficiaries fixed remuneration corresponding to each year units are allocated, and (ii) the weighted average price of Banco Popular shares corresponding to trading sessions between 15 December 2012 and 15 January 2013, adjusted for the reverse split (one new share for every five old) executed in June 2013.
- The total number of shares awarded to each Beneficiary on the settlement date of each cycle is determined according to the following formula:

N.S. = U x DIA

Where:

N.S. = Number of shares in the Bank awarded to each Beneficiary at the end of each cycle.

U = Number of "units" assigned to the Beneficiary in each cycle.

DIA = Degree of Initiative Achievement; depending on the degree of compliance with the objectives which link each of the Plan's cycles.

These conditions may be modified within the limits of the Plan's approval by the General Shareholders' Meeting.

Availability of shares system

For the total amount of the incentive due in each of the cycles, the Bank shall pay the cash amount necessary to enable the Beneficiary to deal with the corresponding payment of income tax or similar which may be applicable, giving each Beneficiary the "net" number shares which results.

Beneficiaries may not dispose of the shares awarded under the Plan until a year after they were awarded has elapsed.

Once this time has elapsed, Beneficiaries are freely able to dispose of the shares.

Assumptions leading to early settlement of the Plan

In the event of a takeover or change of control in the Bank, or an event or corporate transaction which, in the opinion of the Board of Directors, would significantly affect the Plan's pending settlement cycles, they will be settled in advance, taking into account the date of the event to calculate the degree of compliance of the metrics, depending on the period of time elapsed.

Should the takeover or change of control be a result of takeover bid the Plan's pending settlement cycles <u>will be settled in cash</u>, by reference to the price offered in the aforementioned public offering.

Requirements for obtaining shares

As a condition for receiving the corresponding shares for each cycle the Beneficiary must maintain a continuous relationship with the Bank (normal work, senior management or commercial) until the date of delivery of the shares, except in the following special circumstances: retirement, disability, death or removal of directors not motivated by a serious breach of their duties.

In the special cases where the Beneficiary may receive shares despite their relationship with the Bank having concluded, the time the Beneficiary provided services will be calculated pro rata to the duration of each cycle. The shares will be delivered on the generally date stated for Beneficiaries in each of the Plan's cycles.

In any case, and in accordance with Article 76 e 2 i of RD 216/2008, as amended by Royal Decree 771/2011, the bonuses will be paid only if it is sustainable according to the situation of Banco Popular and justified based on the results of the Bank, the business unit and the employee in question.

Clawback clause

In the event that during the three years following the liquidation of each of the Plan's cycles any of the following circumstances occur, Banco Popular may require Beneficiaries to return the shares that were delivered under this Plan or make other payments of any kind that the beneficiary is entitled to receive against such delivery. These assumptions are:

- If the Beneficiary has been penalised for breach of the code of conduct and other internal regulations, particularly those relating to risks, which resulted in its application;
- When it becomes apparent that the liquidation of each of the Plan's cycles has been produced in whole or in part based on manifestly false or severely misstated information demonstrated a posteriori, or risks incurred during the period considered or other unforeseen circumstances not assumed by the Bank arise, which have a material adverse effect on the income statement of any year of the clawback period.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committees determine if any circumstances which must lead to the implementation of this clause occur and the shares, if any, should be returned to the Bank.

Tax and labour implications for Beneficiaries of the Plan

The tax shall be that which corresponds to each beneficiary according to current tax regulations applying to it at the time of the liquidation of the Plan, and in any case will be borne by the Beneficiary of the Plan.

The amount, if it is derived from the Plan, is not considered salary, will not be consolidated, and will not be computable for the purpose of determining pensions, allowances or other perceptions that may correspond to the Beneficiary as a result of their relationship with Banco Popular.

The strategic objectives that have been established in the Plan, aim primarily to improve the relative positioning of the Group in the long term compared to European competitors who have been selected as reference banks. In order to achieve maximum involvement and loyalty of the management team with the Group's business plan, ambitious targets to be evaluated at the end of each cycle have been set, although an annual evaluation is performed in order to quantify their accounting impact at year-end.

In response to the assignment of units made and assuming that the Plan's objectives were met 100%, shares to be potentially delivered at fair value as shown below, are calculated taking into account the share price at the assignment date:

- In the Relevant Act published 10 June 2013 the assignment of 8,417,740.77 allocation units for the first phase of the Plan was reported, which adjusted for the reverse split (one new share for every five old) would be 1,683,548.15 units having a fair value at that date of 5.3 million euros;
- In the Relevant Act published 24 April 2014 the assignment of 1,900,710 allocation units for the second phase of the Plan was reported, having a fair value at that date of 10.5 million euros;
- In the Relevant Act published 29 April 2015 the assignment of 2,060,467 allocation units for the third phase of the Plan was reported, having a fair value at that date of 9 million euros;
- Finally, In the Relevant Act published 15 April 2016 the assignment of 2,101,903 allocation units for the fourth phase of the Plan was reported, having a fair value at that date of 5 million euros;

In any case, the number of shares awarded will be determined at the end of each cycle depending on the degree of achievement of the strategic objectives that have been set.

y) Non-current assets and disposal groups classified as held for sale and Liabilities associated with non-current assets held for sale

Assets foreclosed or received in payment of debt are registered on the balance sheet of the Group at their acquisition cost based on their nature as (I) "Investment Property" (Note 15.r)) within "Tangible assets" (Note 15.r)), (ii) "Inventories" (Note 15.t)) or as (iii) "Non-current assets and disposal groups classified as held for sale".

An asset is classified as "Non-current assets and disposal groups classified as held for sale" when its carrying value is intended primarily to be recovered through its sale rather than through its continuous use and complies with the following requirements:

a) It is available for immediate sale in the condition and form existing at the date of the balance sheet in accordance with the custom and usual conditions for the sale of these assets.

b) Its sale is considered highly probable, which is considered as such when it complies with the following conditions:

- Persons or management bodies with the power to do so have approved and adopted a plan with the commitment to realise the asset or disposal group.
- An active programme to find a purchaser and complete the plan has started.
- The asset or group is being actively offered for sale at a suitable price in relation to its current fair value.
- The sale is expected to be completed within a year from the date of the asset being classified in "Non-current assets and disposal groups classified as held for sale", except when, for circumstances beyond the control of the entity, the time needed for its sale has to be lengthened and the is sufficient evidence that the entity continues with is commitment to the plan to dispose of the asset.
- Actions to complete the plan indicate that significant changes to the plan or that it will be withdrawn are unlikely.

When a non-current asset is acquired exclusively with the purpose of its subsequent disposal, it is classified on its acquisition date in "Non-current assets and disposal groups classified as held for sale" only when it complies with the requirements to complete the sale within a year established in the previous sections and it is highly probable that the other requirements in that sections will be complied with in a short period of time after the acquisition, generally within three months of it.

In terms of valuation of ANCEV, they are valued as the lower amount between their fair value less sales costs and its carrying amount on the date of its classification. Non-current assets held for sale are not amortised whilst in this category.

Non-current assets acquired solely for the purposes of selling them which comply with the requirements to be classed as non-current assets held for sale are initially valued as the lower amount between that it would be recognised at if not classified as such and its fair value less necessary sales costs, except for those acquired in a business combination which are recognised by their fair value less necessary sales costs.

Impairment losses on assets due to initial or subsequent reductions of their carrying amount to their fair value less sales costs are recognised in the item "Gains or (-) losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" on the income statement unless they have already been registered in another item as a result of applying the valuation criteria of section 10 (44) of Banco de España Circular 4/2004.

On the date of sale, any gains or losses not previously recognised are registered in the income statement.

When a non-current asset held for sale ceases to be classified as such, it is valued at the lower amount between its carrying value prior to its being classified as a non-current asset held for sale, adjusted, if necessary, by the amortisation and value corrections which would have been recognised as a non-current asset held for sale and its recoverable amount, registering any difference in the item on the income statement which corresponds to its nature.

During 2016, the procedures used to calculate the impairment of non-current assets held for sale was revised through the implementation of internal impairment estimation models. This model is based on the segmentation of assets, observation of sales experience and associated costs, as well as the use of average periods in the divestment of such assets with the objective of obtaining value discounts on valuations obtained in the reappraisal processes of such assets.

Initial registration

The initial value of the properties will be the Gross Accounting Amount less the provision resulting from the application of the discount percentages obtained from the internal Foreclosed model.

At the time of entry onto the balance sheet all the properties must have had a complete individual appraisal carried out by an appraisal company approved by Banco de España, less than six months old.

The appraisal must be carried out with the ECO methodology at market value, assessed for sale and auction adjudication, and the mortgage security is not valid (except for those in which it is certain that the value for mortgage purposes does not differ from any Of the previous ones either by communication of the appraiser or by internal knowledge).

Subsequent valuation

Depending on the policy for obtaining updated appraisals (approved by the Group in 2016), the Group will apply the discount percentage obtained through internal calculation methodologies. The properties model will be segmented by type of asset and geographical area.

This model is maintained by the Risks area and determines, through the calculated discount percentages together with application of the collateral valuation model, the provisions to make on the assets.

Obtaining the appraisals of properties is made in accordance with that established in Banco de España circular 4/2004, modified by 3/2010. The appraisals will be made by appraisal companies approved by Banco de España and the use of appraisals of credit institutions' appraisal companies is allowed as a residual method.

The Valuation Methodology, understood as the type of appraisal (See note 45 of this Report) obtained by the Group will depend on the situation of the assets in question, as approved in the Group's internal model. The value of the foreclosed properties assets will be reviewed with a minimum frequency of one year by means of full individual appraisals

z) Consolidated cash flow statement

Set out below is a description of certain items used in the consolidated cash flow statement:

i) Cash flows that are inflows and outflows of cash and cash equivalents, the latter being defined as high liquidity short-term investments with low risk of alteration in value, irrespective of the portfolio in which they are classified.

ii) Operating activities are the Group's typical activities and other activities which cannot be classified as investing or financing activities and interest paid on any financing received, with some exceptions, such as financial assets included in the investments held-to-maturity portfolio, equity instruments classified as available for sale which are strategic investments, and subordinated financial liabilities.

For these purposes, an investment in equity instruments is considered strategic when it is made with the intention of establishing or maintaining a long-term operating relationship with the investee without significant influence being exercised.

iii) Investing activities relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents. The main lending or funding transactions that have not entailed the use of cash or equivalents relate to the purchase, dation in payment or foreclosure of assets to cancel loans in the broadest sense.

Variations caused by the purchase or disposal of a set of assets or liabilities which make up a business or line of business are included under "other business units" in the individual statements, and under "subsidiaries and other units business" in the consolidated statements, according to their denomination.

iv) Financing activities are activities that result in changes in the size or composition of consolidated equity and liabilities that are not part of operating activities, such as subordinated financial liabilities.

The bank gets the information on cash flows from operating activities using the indirect method as described below:

(i) It is part of the profit/(loss) for the year or, where applicable, the consolidated profit/(loss) for the year.

(ii) Income and expenses recognised in the income statement which are not cash flows are set as are profits or losses recognised directly in equity for operating activities, before deducting the tax effect.

(iii) Balances for the various categories of operating assets and liabilities include all the differences between the amounts recorded on the balance sheet at the beginning and end of the period, but do not correspond to payments and collections, except those parts qualified as cash and cash equivalents.

The balances for the items included in investing and financing activities only collect payments and receipts made in the period for the concepts to which they refer. The cash flow statement contains details of the composition of cash and cash equivalents at year end.

The consolidated cash flow statement is prepared by eliminating the collections and payments occurring between consolidated subsidiaries, making the necessary reclassifications.

16. Duty of loyalty of the Directors

With regard to the provisions of Article 229 of the Revised Text of the Corporate Enterprises Act, the Members of the Board of Directors of Banco Popular Español, SA have not reported any conflicts of interest with the Bank, neither in 2016 nor in 2015.

17. Customer service

Ministry of Economy Order 734/2004, of 11 March, stipulated, among other matters, the obligation for the customer service departments and services of financial institutions to prepare a report explaining the performance of their functions during the preceding year. The Order also required a summary of this report to be included in the notes to the institution's financial statements.

In accordance with this legal requirement, the Banco Popular Group's customer service department prepared the 2016 Activities Report, which was submitted to the Board of Directors of Banco Popular in its meeting on 25 January 2017.

This Report states that a total of 15,747 complaints, claims and enquiries were made to the Group, 34% up on the previous year. The number of matters settled in 2016 totalled 14,208, (of which 628 related to the previous year), an increase of 23.9% on 2015.

At 31 December 2016, only 571 cases had not yet been resolved. Of these, 168 were pending resolution by the Banco de España's Complaints Service, Spanish National Securities Market Commission and the General Directorate of Insurance and Pensions, with the remaining 403 pending resolution by the Customer Service Department within the legally established time frame to provide a response.

In 2016, a total of 13,210 findings have been issued, which are set out below together with comparative data for the previous year.

Findings	2016	2015
In favour of the complainant	2,098	1,534
In favour of BPE Group	5,658	3,548
In favour of both parties	494	194
No findings issued	338	392
Agreed	506	1,348
Acceptances	4,116	3,766
Total	13,210	10,782

Of the above matters, 525 were handled through the Financial Services Customer Ombudsman Offices, which issued 364 findings, as follows:

	Banco de España		CNMV		Dir. Directorate for Insurance		Total	
Findings	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
In favour of the complainant	106	318	30	29	2	3	138	350
In favour of BPE Group	152	471	39	21	7	16	198	508
No findings issued	23	37	3	3	2	8	28	48
Total	281	826	72	53	11	27	364	906

18. Risk management

The Banco Popular Group takes a disciplined, diversified and integral approach to risk management by enhancing internal governance which promotes control and prudent risk management and the qualification of the entity's professionals, establishing risk policy criteria aimed at achieving a Medium-low risk profile, ensuring at all times that the Group performs its commercial activity and business expectations within the established risk limits and objectives.

The Group develops its business model according to values which are consistent with the risk appetite set by the Board of Directors. These principles constitute a risk culture which helps to ensure that any risk or activity in which it occurs can be identified, escalated, measured and mitigated in time. In this context, there are policies, procedures and processes aligned with the risk appetite which move downwards throughout the organisation.

The implementation of a robust risk culture is promoted through the following mechanisms:

- Corporate values which create an atmosphere of effective critical comments, in which decision-making processes promote different viewpoints.
- Staff trained in their responsibilities regarding risks, showing who responds to what kind of risk without risk management corresponding only to experts in risk or control functions. The responsibility for the daily management of the risk appetite and the respect of its policies, procedures and controls will be the business units.
- A risk appetite which is incorporated into the processes and systems.
- Compensation and professional career plans to encourage attitudes and skills consistent with the management of risk appetite's objectives.

The Group has developed a corporate governance model of risks in line with the best market practices, in which the different governing bodies have clear responsibilities assigned to risk from the design and approval of the risk strategy to the monitoring and supervision of its implementation.

In December 2014 the Board of Directors approved the Risk Appetite Framework (hereinafter RAF), a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite.

This is a flexible framework where risks to which the Group is exposed are identified and defined, and sets:

- Qualitative aspects related to the principles, governance processes and escalation of risk decisions.
- The risk appetite statement marks objectives, warnings and limits for each risk in accordance with the Group's strategy. The aim is to maintain a medium-low risk profile by controlling the risks to which the Group is exposed to through its business model.

The marked appetite level determines the Risk strategy, establishing policies which will maintain or achieve a residual risk profile in line with the target, periodically assessing the level of inherent and residual risk.

The profile of different categories of financial risk (credit, operational, interest rate, market and business) and non-financial such as reputational and compliance determine the objective of capital. The stress test planning process, for its part, ensures that the risk profile is in line with the set appetite and that the objective of capital is met.

The correct definition and control of the Risk Appetite are the key elements which reasonably ensure the capital objectives.

The metric chosen to measure each of the risks is that which is considered most informative and that better includes both the risk profile of the bank as well as the objectives and limits the entity imposes on itself to ensure an adequate risk management.

In addition to top-level metrics or Risk Appetite Framework metrics for all existing risks and Capital, each risk is managed with additional metrics or second-level monitoring which ensures that the risk profile remains within tolerance levels, integrating the Risk Appetite Framework in its management.

The Group views Internal Control as a transversal process promoted by the Board of Directors and which involves the entire organization. It has been designed to comprehensively identify, monitor and manage all risks to which it is exposed, in order to provide reasonable assurance regarding the achievement of established corporate goals.

Risk Directorate

Under the supervision of the CEO and reporting to the Management Committee and the Risk Commission, it is the management area responsible for ensuring that the Bank's risk level is adequate both to the economic and financial reality as well as to the Bank's business structure, being therefore the area charged with overall risk management and responsible for the design of risk policies which help identify, control and mitigate the bank's risks and their implementation through the RAF.

Additionally:

- Together with the Control area, it proposes the RAF to the Management Committee for its subsequent submission to the Risk Commission.
- If influences strategic decisions to ensure that the associated risks are within the approved risk framework.
- If ensures the identification of material risks, their measurement and analysis, establishing the appropriate risk measurement systems at all times.
- It advises the Management Committee through the Risk Commission on the implementation, revision, approval and control of the culture and risk appetite.
- After reporting to the Control area and jointly with the areas responsible for risk management, it validates the measures it proposed to the Management Committee whenever the limit of non-compliance or warning levels are exceeded

Control

Under the supervision of the Technical General Secretary and acting as the second line of defence, it is the area charged with the supervision and control of the Group's risks, reporting on the compliance and efficacy of the RAF to the Risk Directorate, the Management Committee and the Risk Commission.

To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It reports to the Management Committee and the Risk Commission.

Additionally:

- It reports monthly to the Management Committee and the Risk Commission on the evolution of the risk profile with respect to the risk appetite.
- It establishes the information processes and the early warning controls on risks consistent with the RAF.
- It executes independent supervision of the risks, objectives and limits in the RAF. In the event that there are excesses on the warning levels and non-compliance with limits it escalates the excesses in a timely manner according to the action protocol defined in point IV.
- It ensures the integrity of the risk measurement techniques and the MIS used to compare and carry out monitoring of the risk profile with regard to its risk appetite.
- It revises and assesses the bank's control environment, ensuring compliance with the policies, limits and risk objectives authorised in the different links in the risk chain, suggesting other policies dynamically.

Regulatory Compliance

Compliance and regulatory Management reports to the Secretary of the Entity's Board of Directors. It defines and supervises the policies and procedures to comply with the regulatory standards amongst which include the prevention of money laundering and criminal risks.

To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises. It maintains contact with regulators and supervisors within the scope of its competences. The Compliance Office, under its supervision, has its objective of identifying the compliance risks within its scope of action and establishing controls for its mitigation.

The Compliance Office evaluates Compliance and Reputational Risk, considered as non-financial, and reporting periodically to the Audit Committee through Regulatory Compliance Management as well as the Risk Directorate and the Control area.

Internal Control Body

Its objective is to monitor the proper functioning of the Group in terms of prevention of money laundering and financing of terrorism.

Internal Audit

Reporting directly to the Audit Committee of the Group's Board of Directors, it reports to the Board of Directors through it, acting as the third line of defence.

Internal Audit is responsible for revising the efficacy of the risk management, internal control and governance processes, for which it has submitted for approval by the Audit Committee an Annual Audit Plan based on a risk assessment process, the regulatory requirements and the concerns of the Board of Directors and Senior Management.

BUSINESS RISK

This risk, defined as the possibility that the gross income is not sufficient to cover the fixed costs due to changes in the volumes of the balance sheet items and the fee and commission income, caused in turn by changes in the economic conditions. In this sense, it makes reference to the possibility that the Group does not meet the objective of profitability, which can ultimately affect its capital ratios.

Business risk is influenced by numerous factors such as the amount of income/costs, interest rates, competition, the economic environment and regulatory provisions, among other factors.

Since June 2016, the Group has segmented it Business into two large activities; the Main Business and the Real estate and related business.

In its Main Business the Group maintains a leadership position in customer spread and credit profitability, which comes from, among others, its strategic focus on self-employed people, and small and medium-sized companies as well as in the development of other high-return businesses such as consumption, cards, funds and insurance. This business model allows it to:

- Maintain a proven record of recurring income, with less reliance on extraordinary income in its operating income than its peers. This is achieved due to the fact that the Bank's core business is commercial banking, establishing long-term relationships with customers, and providing a base of very stable results.
- Be the sector leader in credit profitability, with customer margins above that of their competitors. This is possible because the Group is the Spanish bank specialising in SMEs. The increased presence in this segment allows the Bank to operate with higher margins while maintaining industry diversification in the markets in which it operates.
- Operate with a greater recurring cost-to-income ratio than the average peers, giving the Bank greater resilience to crisis periods of reduced revenue.

In the Real estate and related business, all the Group's properties, the shareholdings in real estate companies as well as profitable and doubtful loans related to the real estate sector are concentrated. This concentrations will allow for specialised dealings of the real estate business to accelerate the divestment of unproductive assets.

The Group continually monitors its relative position to its peers in key business ratios, sending a monthly summary report to the Management Committee.

CREDIT RISK

Credit risk is the risk of deterioration in credit quality or through impairment due to changes in the capacity or intention of the counterparty to fulfil its obligations, resulting in a loss.

Banco Popular is an entity predominantly focused on retail banking, focused on business with companies, self-employed people and individuals so that their business model is oriented to credit risk.

Managing this risk is characterised by a prudent approvals' policy with a system of limits and strict powers, through the withdrawal of guarantees which mitigate this risk, and an appropriate level of coverage.

The basic principles and hallmarks in the Group's management of credit risk are based, in addition to those contained in the Risk Appetite Framework, as detailed below:

- Priority of the risk policies aimed at guaranteeing the Group's stability and its viability in the short-, medium- and long-terms, and at maximising the risk-return relationship.
- Senior Management involvement.
- Scrupulous compliance with current legislation in every way, with particular attention paid to the monitoring of the cur- rent legislation on Prevention of Money Laundering and Terrorism Financing.
- Profitable and quality investment, opting for profitable, balanced and sustained growth overall and for returns commensurate with the risk on each individual borrower.
- Periodic information to Senior Management.
- Application of limits on the granting of risks.
- Diversification of the risk inherent to loans and receivables, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
- Flexibility of the target-oriented organisational structure.
- Separation between the risk and commercial areas.
- Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to the rigour of analysis.
- Systematisation and automation of processes.
- Terms are negotiated with the customer individually based on each customer's overall relationship with the Bank, the risk assumed, the profitability it offers and the market situation.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Integration of the internal risk management, scoring and rating models into the daily management.
- Management of the risks and limits granted for each customer or associated group of customers, when such a relationship exists.
- Incorporating guarantees to mitigate risk.
- Participation of risk analysts in risk monitoring and control.
- Formal system of discretionary powers built into the granting of risks.
- Differentiated analysis and treatment of refinancing and debt restructuring operations.
- Risk monitoring and control from origination to termination.
- Use of early warnings in the prevention and monitoring of risk.
- Recovery process oriented to efficient management.

In addition to the Risk Appetite Framework, the Group has a Risk Policy Manual authorised by the Board of Directors to establish the functions and responsibilities of the different areas and the basis for developing the means to estimate, analyse, control and manage risks, particularly as far as credit risk is concerned, as this is the area of greatest activity and exposure, in order to permanently optimise the risk-return and achieve the objectives defined in the Risk Appetite Framework.

It also has a Credit Risk Procedures Manual authorised by the Management Committee, which describes the Group's credit risk analysis model, explains the current rules for management and control and serves as a training and informative element.

Credit Risk Admission

The admission of credit risk is done through Credit Risk Admissions and its dependent offices; Retail Risks, Risks with Businesses and Public Administrations as well as risk departments located in different business units (Territorial Offices, Regional Offices, Specialised branches, etc.). It is directly dependent on Risk Management.

These offices and departments have the main function of the management and analysis of risk assumption under management principles, policies and operational and communication processes defined in the Risk Appetite Framework, the Risk Policy Manual and the Credit Risk Procedures Manual.

Analysis and management are performed by taking into consideration the overall exposure with customers and/or the economic group in which they are integrated and the profitability associated to the risk obtained.

To develop its functions it has unique IT support for the proposed risk circuit (from request to resolution) which allows for all necessary internal and external information needed for analysis to be used. This computer support is the electronic proposal and it is unique for each new transaction which takes place.

Also integrated into this computer support are:

- The discretionary powers' system is automated at all decision levels (from Branch to Central Services).
- The results of the rating/scoring models applied to different segments and their recommendation.
- The monitoring levels assigned by Risk Prevention for those involved and the irregular situations which might present (in the group, in the System or in external sources such as RAI or Credit Bureaux).
- Available pricing information.

The credit risk admission is carried out in compliance with the limits and restrictions set out in the Risk Appetite Framework and the Risk Policy Manual; it ensures sustainable business growth by optimising the profitability of resources; seeking a balance between loans and receivables and capital raised. It complies with that set by the Law on the Prevention of Money Laundering; applies the principles and requirements of "Responsible Lending"; is based on the recurrent and timely generation of resources by the borrower; and requires effective and proportional guarantees in operations to mitigate the risk assumed.

Discretionary Powers System

Banco Popular Group has implemented a Discretionary Powers System for the granting of risk operations whereby different hierarchical levels of the organisation have been delegated various powers to authorise operations, which vary depending on the amount of risk, the probability of default according to internal credit risk models, amount, nature of the risk, use of the financing, term of the transaction, the borrower's activity and the profitability. The system is automated and integrates into the analysis and risk admission process.

The Risk Committee, comprising directors of the Group who are members of the Management Committee and chaired by the Risk Director, discusses and approves transactions which exceed the powers delegated by the Board to the Risk Director and submits those which exceed the limits of its powers to the Delegated Committee of the Board of Directors.

Limit structure

The Group has designed a credit limit structure in order to control exposure to credit risk and its concentration and to achieve an adequate diversification of its portfolio based on the following characteristics:

- Risk concentration by borrower.Limits are defined for the maximum exposure to groups or individual customers and limits for new individual transactions, as well as the participation of the Group in the syndicated financing or projects for a group or customer. Potential exceptions to these limits must be authorised by the Board of Directors or its Delegated Committee as the maximum decision-taking body within Banco Popular Group's system of discretionary powers.
- Risk concentration by sectors. The Group has analysed and evaluated different sectors of activity, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.
- Risk concentration by segment, factor for which thresholds are defined in terms of a percentage of maximum risk to be assumed with respect to the Large Company segment.
- Risk concentration by product, with a focus on mortgage security and pledged operations, property development and financing in foreign currency.
- Risk concentration in terms of geographical distribution, periodically analysing the levels of risk exposure in different geographical areas.

Credit Rating Models

The Group has internal models for the analysis and measurement (rating and scoring) of credit risk. For the retail segment (individuals and micro-companies), credit scoring models adapted to each kind of product are used. For the business segment, an internal rating is calculated based on the analysis of variables representative of economic and financial position, the operation, and business sector. The Group works with expert models for the large companies and financial institutions segments. Finally, Project Finance, the Group has an internal allocation model for the regulatory categories considered in the CRR.

These models are actively used in credit risk management, from the granting of operations where they are a key input in making admission decisions, pricing, and delegation of authority, up to the monitoring of portfolios and segments, through evolution of outstanding portfolio's credit quality and that of new contracts and finally in the recovery process by assigning priorities according to expected losses.

At 31 December 2016, Banco Popular has authorised the use of these advanced models for the calculation of Capital requirements for large, small and medium-sized companies, financial institutions and retail mortgages portfolios and also, on this date, using the project finance model under the "IRB - Slotting Method" approach.

Additionally, estimates are made of the credit risk parameters under various scenarios for planning exercises and stress tests both internally (ICAAP) and regulatory. These stress tests have a special importance as a dynamic assessment tool of the risks and therefore the solvency and liquidity of banking entities.

Internal Validation

The Group has an Internal Validation unit within the Control area whose main function is the validation of internal models for measuring and managing risk, both for regulatory and management purposes.

The opinion of the Internal Validation unit is a fundamental requirement and for their monitoring and subsequent modification and approval, evaluating their use and effectiveness.

The function of this unit is , to give well-founded and up-to-date opinion on whether the risk measurement models work correctly and whether the results obtained, (estimates of risk parameters and other information generated by the advanced management systems), are appropriate to the different uses to which they apply, both internal and regulatory.

At present, the main function of this unit focuses on the measurement models and credit risk management and it covers the essential elements of an advanced risk management system, involving review of the following items: methodology, documentation, data used, quantitative aspects, qualitative aspects, technological environment, etc.

In this area, the scope of the validation covers the essential elements of an advanced risk management system, involving review of the following items:

- Methodology: Review of the methodology used in the scoring/rating models. This makes reference to the adequacy of the statistical methodology, the assumptions and the techniques applied, which remain unchanged until the design of the models is modified.
- Documentation: Review of the quality of the documentation that supports these models.
- Data Used: Review of the quality of the data and databases used when developing the models during the rating assignment process and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.
- Quantitative Aspects: Review of the quantitative information provided regarding the validation and monitoring of the models. A number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.
- Qualitative Aspects: This area has a dual objective: the review of the information generated by the models and their appropriate interpretation. Secondly, the validation of compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.
- Technological Environment: Review of the integration into systems, the application environment and the quality of the information provided by the systems.

In addition and in accordance with best practice, Internal Validation's function, as a second line of defence in the Control area has gradually extended its scope into other internal review processes such as stress tests or ICAAP, the internal Incurred Loss measurement models (foreclosed model, for Collective and Individualised analysis) or Pricing models, validating the methodology for calculating the related models. In this sense, the functions of Internal Validation will continue expanding with the validation of other behavioural models and risk monitoring and control.

Pricing Policy

The pricing policy is one of the key pieces in the search for the optimal profitability on capital and investment in products offered, so it has to have a certain consistency throughout the year. However, due to changes in market characteristics, the change in competition or other situations, is it necessary to adjust product prices periodically.

Additionally, in recent years, the market has been rolling out value-based management capabilities with the development of Profitability Management tools adjusted to Risk (RoTE) and Asset Pricing tools for all products, segments and customers.

Also, the internal impairment model implies having greater rigour in the processes of granting, renewing or reviewing credit. Therefore, in order to be located in this line derived from the regulations and the market, a project is underway to allow the basic price tables system to be developed so that the new model covers all the entity's products, segments and customers.

For this purpose, a Pricing model will be used to set prices based on the risk-adjusted return of the product and segment, in line with the entity's objective, under the prism of discrimination by risk, products and segments which allows the value to be maintained and increased and reinforce the profitability according to the risk, incorporating the profitability of the customer to obtain an overall profit adjusted to the risk that combines the profitability of the operation with the profitability of the customer.

In short, the main objective is risk adjusted pricing management which allows:

- Focusing on the active management of profitability and in value creation for the entity.
- Aligning itself with market practices and complying with the new regulatory requirements (incorporated into the new regulations on provisions), from an increase in rigour in the processes of granting, renewing and reviewing credit.
- Achieving an adequate analysis of the risk-adjusted profitability by combining the profitability of the operation with the profitability of the customer, allowing a better discrimination based on the credit quality of customers and operations.
- Establishing a pricing threshold for each product and segment which complies with the entity's risk-adjusted profitability objective.
- Encouraging attracting customers with the best creditworthiness and the link with current good customers.

Mitigation of Credit Risk

Guarantees are involved in the risk admission as an element whose analysis is a determining factor, as they serve to mitigate the risk assumed. However, they will never justify the granting of transactions by themselves since the criteria for granting credit are primarily based on capacity of the borrower to make repayment, and considering additional guarantees (which may be personal, a mortgage or other type) as a second and exceptional recovery option that may be used when the first has failed.

In view of the substantial legislative evolution regarding eligible guarantees and their proper management within the Group, compliance with regulatory requirements is subject to particular monitoring for a dual purpose: to ensure the mitigation of the risks assumed and, in addition, to economise on the calculation of shareholders' equity by reducing exposure.

Banco Popular Group, in complying with the best market practices and with both Spanish and European regulations, such as, Circular 4/2004, Circular 4/2016 and IAS39, has defined accounting policies whose details are explained in an Accounting Policies Manual, approved by the Management Committee and the Audit Committee, which is updated at least annually.

Credit Risk Monitoring and Control

The Group has established a permanent credit risk monitoring system which allows it have an assessment at the required monitoring level to monitor the evolution of overall risks in its loans portfolio, anticipate eventual difficulties and react to avoid default situations.

This permanent monitoring is mainly based on individual warning systems which allows differentiated monitoring for groups of individuals: "Technical Warning System" and legal "Early Warning Model", detect possible difficulties early in the evolution of customers and the development of granted operations.

The warnings are dealt with by teams specialised in risk monitoring and control with the central office of Risk Monitoring and Control charged with supervising the process.

In addition, the Risk Monitoring and Control office carries out the monitoring of certain customers and economic groups risks with a high volume of assumed risk or who show certain incidents and regular monitoring of various risk portfolios which by their nature need their evolution to be controlled.

Management of non-performing balances and recovery of impaired assets

Until October 2016, to manage non-performing balances and the recovery of impaired assets, the Group had a specialised Restructuring and Non-performing Balances Unit which, until then, reported to the Retail Banking Management while supervising the Restructuring and Non-performing balances Offices in each of the Territorial Offices, as well as at the Documentation Preparation Office. In addition, an external provider was responsible for the early recovery of items in accordance with the Restructuring and Non-performing balances guidelines.

Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, has participated in the management of the recovery of non-performing customers who had mortgage security, although the final decision rested within the Bank. Aliseda SGI managed, within authorised limits, the sale of the foreclosed properties. From January 2015, the SBU, Specialised Business Unit has concentrated on restructuring, collections and clients recovery activities related to the real estate market, specifically managing promoter customers whose management was not transferred to Aliseda SGI.

In October 2016 the Property and Asset Transformation Unit (PATU) was created which, amongst other functions, assumes the Group's management of non-performing balances. Parallel to its own organisation, with its own branch office network specialised in the property business and recoveries, it has begin to actively collaborate in the current management.

The non-performing balances area has specialised teams which have been assigned portfolios of different kinds of customers in order to recover defaults and non-performing loans, with the objective of:

- Managing and analysing the most appropriate exit from the risk in distress with respect to each customer and transaction, facilitating litigation in those cases in which the transaction cannot be redirected.
- Managing and monitoring cases classified as non-performing, so that they may be definitively recovered.

The issues are characterised based on the amount of risk. Currently the portfolios are under review to include additional criteria (severity, economic impact, etc.).

With the aim of streamlining and strengthening recoveries, the recovery teams created at the Regional and Territorial Offices have a specialised workforce dedicated to the management of distressed debt, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets. Also, the process of preparing documentation for litigation in cases in which it has not been possible to restructure the transaction is centralised.

The Group has different policies and procedures authorised for the different stages of recovery:

- Default recovery management, a process in which the Central Restructuring and Non-performing Balances Unit, restructuring teams at the Regional Offices and Territorial Offices, and external suppliers who deal with early recovery are involved.
- Non-performing loans recovery management, which is divided into the different document preparation stages , judicial management and recovery management by the Restructuring and Non-performing balances teams of Territorial Offices.
- Write-off management.

The Group has specialised platforms and applications for the proper management of non-performing balances which allow:

- A timely and accurate development of all doubtful, bad and write-off risks.
- Manage contact with customers who have contracts in a poor situation.
- Inform different levels of the Organisation the management performed on a set of files.
- The monitoring of activities by different agents (Branch, Regional, Territorial and Centre).
- Provide an overview of the breaches or issues in management, down to record and contract level information.
- Interactivity in communication between the different management units.
- Systematisation, automation and control of the affairs transferred to partner companies.

The Group has invested heavily in strengthening the IT systems and applications that support this area in order to systematise, centralise and rationalise by integrating and adapting the processes to the changes made in the management and control of irregular debt, thereby achieving greater efficiency and better results.

The experience gained over these years, the policy of continuous improvement, the guides of the regulators and the best practices of the sector force us into a permanent review of the processes and operations regarding recoveries. This is why, at the end of the fourth quarter, several lines of work have been promoted to assess results and implement improvements in the processes.

Responsible lending to consumers

Pursuant to Banco de España Circular 5/2012 of 27 June on the transparency of banking services and responsibility for granting loans and the principles referred to in Annex 6 of said circular, the principles and practices for the responsible granting of credits and loans to consumers have been included in a document authorised by the Bank's Board of Directors dated 18 December 2012. In order to comply with these principles and criteria, the Group has implemented various measures and controls into its risk management. These are included in the Credit Risk Procedures Manual and the Risk Policy Manual, both of which have been authorised by Senior Management in accordance with the corporate risk governance model developed by the Group. These controls are based on: a system of automated discretionary authorisations; risk limits; procedures for analysing transactions by product type, including the necessary information; evaluation of ability to pay; maximum LTV thresholds ; management and valuation of guarantees; appraisal policies; marketing and sales policies for credits and loans, including those in foreign currencies; marketing of risk hedging products; and, debt renegotiation and restructuring policies. Furthermore, controls and ongoing monitoring are employed to ensure their correct application and effectiveness.

The credit quality of the risks assumed is analysed in the following table, which shows internal ratings for credit risk exposure, including credit institutions, companies and institutions, 5.72% of which have an A or higher rating in 2016 and 6.01% in 2015.

Rating	2016	2015
AAA	0.00%	0.00%
AA+	0.00%	0.00%
A	5.72%	6.01%
BBB	19.30%	19.49%
BB	39.35%	27.81%
B	19.60%	24.79%
Other	16.03%	21.90%
Total	100.00%	100.00%

Set out below is an analysis of the Group's maximum exposure to credit risk in 2016 and 2015:

Thousands of euros	**2016**	**2015**	**% change**	**Weight (%) 2016**
Commercial activity:				
Customers	104,296,718	107,085,210	(2.60%)	70.51%
Guarantees Granted	10,982,364	11,159,430	(1.59%)	7.43%
Total commercial activity	**115,279,082**	**118,244,640**	**(2.51%)**	**77.94%**
Market activity (including counterparty risk)	25,436,972	28,998,769	(12.28%)	16.46%
Total exposure	**140,716,054**	**147,243,409**	**(4.43%)**	**95.14%**
Drawable by third parties	7,191,872	7,264,597	(1.00%)	4.86%
Maximum credit risk exposure	**147,907,926**	**154,508,006**	**(4.27%)**	**100.00%**

The table below sets out the risk concentration by activity and geographical area, based on the borrower's place of residence, at 31 December 2016, by subject:

Thousands of euros	**TOTAL***	**Spain**	**Rest of the European Union**	**America**	**Rest of the world**
Central banks and credit institutions	9,373,563	4,135,307	4,345,503	637,088	255,665
Public administrations	19,936,339	11,813,001	7,594,674	282,460	246,204
Central government	17,628,653	9,976,062	7,594,656	57,935	0
Other Public Administrations	2,307,687	1,836,939	19	224,525	246,204
Other financial companies and individual entrepreneurs (financial business)	14,106,195	11,998,436	2,107,334	280	146
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	67,190,201	57,509,252	6,276,507	3,201,138	203,304
Construction and property development (including land)	14,139,615	13,603,373	413,735	116,253	6,255
Civil engineering	1,499,737	1,384,654	86,873	25,838	2,372
Other purposes	51,550,848	42,521,225	5,775,899	3,059,047	194,678
Large companies	15,542,083	9,202,271	3,328,157	2,863,150	148,506
SMEs and individual entrepreneurs	36,008,765	33,318,954	2,447,742	195,897	46,171
Other households (broken down by purpose)	27,069,757	24,120,982	2,478,563	181,659	288,552
Housing	20,417,406	18,000,626	1,984,210	163,914	268,657
Consumption	1,313,545	1,266,646	40,548	2,529	3,821
Other purposes	5,338,805	4,853,710	453,805	15,215	16,075
TOTAL	137,676,055	109,576,978	22,802,581	4,302,624	993,871

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, Held-to-maturity investments, Trading derivatives and hedges, Shareholdings and Guarantees received, in the consolidated financial statements.

Regarding the total risk concentration balance in 2016, 7,681,811 thousand euros corresponded to Banco Popular Portugal, the majority of it under "Rest of the European Union", and 2,315,882 thousand euros to Totalbank, most of it under "America".

This same breakdown by Autonomous Region is as follows:

Thousands of euros	TOTAL	Andalucía	Aragón	Asturias	Islas Baleares	Islas Canarias	Cantabria
Central banks and credit institutions	4,135,307	256,039	-	-	-	-	647,675
Public administrations	11,813,001	205,072	4,720	21,161	29,042	19,163	50,474
Central government	9,976,062	-	-	-	-	-	-
Other Public Administrations	1,836,939	205,072	4,720	21,161	29,042	19,163	50,474
Other financial companies and individual entrepreneurs (financial business)	11,998,436	-	2,321	1,114	297	1,095	319
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	57,509,252	8,009,561	1,167,605	1,035,470	1,185,155	1,463,737	301,862
Construction and property development (including land)	13,603,373	1,749,165	291,431	177,177	109,314	183,182	28,116
Civil engineering	1,384,654	158,283	8,611	10,406	21,400	23,015	5,362
Other purposes	42,521,225	6,102,113	867,562	847,887	1,054,441	1,257,540	268,384
Large companies	9,202,271	530,709	210,518	324,859	213,097	229,486	82,148
SMEs and individual entrepreneurs	33,318,954	5,571,404	657,044	523,028	841,344	1,028,054	186,236
Other households (broken down by purpose)	24,120,982	4,949,185	304,436	530,984	672,378	774,159	159,003
Housing	18,000,626	3,485,681	217,899	432,381	511,927	579,355	122,826
Consumption	1,266,646	300,861	13,035	24,725	37,467	43,617	8,795
Other purposes	4,853,710	1,162,643	73,503	73,878	122,984	151,187	27,382
TOTAL	109,576,978	13,419,857	1,479,082	1,588,728	1,886,872	2,258,155	1,159,332

Thousands of euros	Castilla - La Mancha	Castilla y León	Cataluña	Extremadura	Galicia	Madrid	Murcia
Central banks and credit institutions	-	-	414,912	-	171,062	1,498,985	-
Public administrations	72,263	359,061	248,093	67,626	202,234	413,109	8,289
Central government	-	-	-	-	-	-	-
Other Public Administrations	72,263	359,061	248,093	67,626	202,234	413,109	8,289
Other financial companies and individual entrepreneurs (financial business)	835	5,275	7,377,673	446	205,767	4,301,257	536
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	1,344,297	2,497,893	7,981,220	515,870	4,111,460	19,002,299	1,552,674
Construction and property development (including land)	181,501	437,205	813,968	50,446	382,515	7,614,381	287,306
Civil engineering	19,911	40,255	77,995	5,761	112,888	698,395	37,064
Other purposes	1,142,885	2,020,433	7,089,257	459,663	3,616,057	10,689,523	1,228,304
Large companies	77,423	201,996	2,104,732	48,987	561,241	2,949,949	245,622
SMEs and individual entrepreneurs	1,065,462	1,818,437	4,984,526	410,676	3,054,816	7,739,574	982,681
Other households (broken down by purpose)	747,354	1,364,479	3,698,781	303,700	2,496,370	4,740,722	534,599
Housing	544,293	1,019,946	2,913,367	224,410	1,829,360	3,602,827	408,812
Consumption	36,525	76,536	160,556	16,455	172,756	193,861	27,415
Other purposes	166,536	267,996	624,858	62,835	494,254	944,033	98,373
TOTAL	2,164,748	4,226,708	19,720,679	887,642	7,186,894	29,956,371	2,096,098

Thousands of euros	Navarra	Comunidad Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Central banks and credit institutions	-	610,671	535,963	-	-
Public administrations	5,327	21,836	31,478	77,983	9
Central government	-	-	-	-	-
Other Public Administrations	5,327	21,836	31,478	77,983	9
Other financial companies and individual entrepreneurs (financial business)	184	16,406	84,339	570	2
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	941,547	3,484,219	2,584,861	270,481	59,040
Construction and property development (including land)	104,683	826,304	271,344	94,987	347
Civil engineering	41,555	46,858	72,431	1,374	3,090
Other purposes	795,309	2,611,057	2,241,086	174,120	55,603
Large companies	202,599	377,754	834,170	6,654	328
SMEs and individual entrepreneurs	592,711	2,233,304	1,406,916	167,466	55,275
Other households (broken down by purpose)	262,858	1,786,566	658,367	93,941	43,100
Housing	169,262	1,347,316	504,900	58,603	27,461
Consumption	20,628	92,783	29,232	4,812	6,589
Other purposes	72,968	346,468	124,235	30,526	9,051
TOTAL	1,209,916	5,919,698	3,895,008	442,976	102,151

The tables below set out the risk concentration by activity and geographical area at 31 December 2015.

Thousands of euros	TOTAL*	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	14,766,509	8,354,539	5,641,728	559,956	210,286
Public administrations	22,634,061	22,339,892	248,591	43,019	2,559
Central government	21,264,719	20,970,550	248,591	43,019	2,559
Other Public Administrations	1,369,342	1,369,342	-	-	-
Other financial companies and individual entrepreneurs (financial business)	7,445,188	6,563,396	564,116	10,992	306,684
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	73,021,715	65,117,782	4,726,808	2,961,258	215,867
Construction and property development (including land)	13,862,348	11,927,879	548,289	1,386,158	22
Civil engineering	3,237,696	3,004,230	103,017	130,449	-
Other purposes	55,921,671	50,185,673	4,075,502	1,444,651	215,845
Large companies	20,528,235	18,640,636	1,213,461	567,529	106,609
SMEs and individual entrepreneurs	35,393,436	31,545,037	2,862,041	877,122	109,236
Other households (broken down by purpose)	29,562,388	26,786,322	2,458,477	92,304	225,285
Housing	21,802,907	19,379,770	2,154,715	63,169	205,253
Consumption	1,878,585	1,662,360	201,040	11,887	3,298
Other purposes	5,880,896	5,744,192	102,722	17,248	16,734
TOTAL	147,429,861	129,161,931	13,639,720	3,667,529	960,681

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, held-to-maturity portfolio, Trading derivatives, Investments and Contingent exposures in the consolidated financial statements.

This same breakdown by Autonomous Region is as follows:

Thousands of euros	TOTAL	Andalucía	Aragón	Asturias	Islas Baleares	Canary Islands	Cantabria
Central banks and credit institutions	8,354,539	-	52,013	-	870	-	1,280,319
Public administrations	22,339,892	11,324	26,410	-	13,799	35,402	4,128
Central government	20,970,550	-	-	-	-	-	-
Other Public Administrations	1,369,342	11,324	26,410	-	13,799	35,402	4,128
Other financial companies and individual entrepreneurs (financial business)	6,563,396	1,194	414,909	285	1	2	715,598
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	65,117,782	8,322,995	1,167,553	1,007,018	1,075,229	1,391,056	270,130
Construction and property development (including land)	11,927,879	2,411,506	318,371	234,627	91,003	218,396	25,179
Civil engineering	3,004,230	293,274	26,364	28,537	19,387	36,143	10,699
Other purposes	50,185,673	5,618,215	822,818	743,854	964,839	1,136,517	234,252
Large companies	18,640,636	861,337	246,316	308,899	128,622	255,755	48,448
SMEs and individual entrepreneurs	31,545,037	4,756,878	576,502	434,955	836,217	880,762	185,804
Other households (broken down by purpose)	26,786,322	6,006,163	292,764	568,724	753,433	872,956	176,797
Housing	19,379,770	4,272,231	215,543	438,557	561,056	610,415	131,706
Consumption	1,662,360	339,592	14,339	25,734	42,602	43,877	7,755
Other purposes	5,744,192	1,394,339	62,882	104,433	149,775	218,665	37,336
TOTAL	129,161,931	14,341,676	1,953,649	1,576,027	1,843,332	2,299,416	2,446,972

Thousands of euros	Castilla - La Mancha	Castilla y León	Cataluña	Extremadura	Galicia	Madrid	Murcia
Central banks and credit institutions	-	-	766,528	-	88	5,254,203	-
Public administrations	-	67,890	70,167	-	25,016	1,057,425	7,959
Central government	-	-	-	-	-	-	-
Other Public Administrations	-	67,890	70,167	-	25,016	1,057,425	7,959
Other financial companies and individual entrepreneurs (financial business)	-	-	1,654,146	-	56,334	3,720,866	-
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	1,328,648	2,551,897	8,773,957	453,085	4,101,402	24,652,890	1,717,041
Construction and property development (including land)	304,202	533,908	901,098	54,618	671,327	4,150,694	499,017
Civil engineering	35,187	82,366	167,847	11,838	277,806	1,673,320	67,467
Other purposes	989,259	1,935,622	7,705,012	386,629	3,152,270	18,828,875	1,150,557
Large companies	107,818	307,189	3,489,829	32,858	676,082	10,000,810	233,466
SMEs and individual entrepreneurs	881,441	1,628,433	4,215,183	353,771	2,476,188	8,828,065	917,091
Other households (broken down by purpose)	847,648	1,672,569	3,896,701	378,710	2,781,265	4,896,700	598,257
Housing	569,370	1,114,873	2,979,252	253,910	1,878,963	3,707,514	432,714
Consumption	41,263	82,379	178,769	18,392	291,553	380,542	29,176
Other purposes	237,015	475,317	738,680	106,408	610,749	808,645	136,368
TOTAL	2,176,295	4,292,356	15,161,498	831,795	6,964,106	39,582,084	2,323,258

Thousands of euros	Navarra	Comunidad Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Central banks and credit institutions	-	129,063	871,456	-	-
Public administrations	8,269	21,730	19,824	-	-
Central government	-	-	-	-	-
Other Public Administrations	8,269	21,730	19,824	-	-
Other financial companies and individual entrepreneurs (financial business)	-	53	9	1	-
Non-financial companies and individual entrepreneurs (non-financial business (broken down by purpose)	1,025,929	3,645,536	3,117,237	464,580	51,597
Construction and property development (including land)	138,119	719,100	353,202	299,847	3,663
Civil engineering	54,023	98,226	118,128	2,903	713
Other purposes	833,787	2,828,210	2,645,907	161,829	47,222
Large companies	228,877	470,272	1,231,695	12,364	-
SMEs and individual entrepreneurs	604,910	2,357,938	1,414,211	149,465	47,222
Other households (broken down by purpose)	265,118	1,904,395	732,286	96,286	45,550
Housing	184,729	1,412,289	524,782	63,693	28,176
Consumption	24,344	101,125	31,526	5,283	4,109
Other purposes	56,045	390,981	175,978	27,310	13,264
TOTAL	1,299,316	5,700,777	4,740,811	560,867	97,147

Notes 23, 46 and 47 of these Financial Statements contain detailed information on this type of risk, including guarantees. In addition, the risk management section of the Directors' Report provides further comments and quantitative information, analysing credit risk, related monitoring and control, management of non-performing balances, total exposure to credit risk, risk concentration and country risk, including information by geographical segment, counterparty and available credit lines.

Credit and Counterparty Risk of Market Activity

In market activity, which is carried out in Treasury and Fixed-income Portfolio Management, operations are performed which have an inherent credit risk. This risk can be classified in two ways:

- Counterparty risk: It refers to the ability or intention of a counterparty to comply with the contracted financial obligations during the life of the contract and up to the transaction's maturity.
- Issuer Risk Represents the issuer's risk of insolvency through changes in its economic-financial strength meaning it cannot cope with obligations arising from the securities issued.

The risk of Market Activity is encompassed within the Banco Popular Group's Risk Appetite Framework.

To achieve the objectives of the Risk Appetite Framework, operations are subject to the management policies and risk control approved by the Board of Directors, establishing first-line limits and complementary limits as well as the risk measurement methodology and application of mitigation techniques. Individual limits for each counterparty, which support the maintenance of risk within the first level, are approved by the Risk Committee.

Monitoring, measurement and control of the risk of market activity is done by different areas of the Group.

The business unit taking the risk ensures that the risks arising from its operations are within the policies and limits set by the Group.

Risk Management is responsible for ensuring that the Bank's risk level is adequate both to the economic and financial reality as well as to the Bank's business structure, being therefore the area charged with overall risk management and responsible for the design of risk policies which help identify, control and mitigate the bank's risks and their implementation through the RAF.

The Control unit, as a second line of defence, checks that the risks taken by the business unit are measured and controlled within the established limits and policies, periodically informing the Risk Commission of compliance with them.

The measurement and control of counterparty and issuer risk is carried out from two angles: Measurement of the credit quality of the Issuer / Counterparty and measuring the exposure.

The credit quality of issuers and counterparties in the public sector is analysed through expert judgement, whereas for financial institutions and large company issuers/counterparties, the Bank has a rating calculated through an internal rating model authorised by the supervisor to estimate the probability of default.

Meanwhile, the measurement of the exposure is performed according to an internal methodology based on its current value plus a potential risk which also includes the application of risk mitigation techniques, following the signing of loss compensation agreements with their corresponding guarantee exchange annexes with the counterparties (ISDA + CSA, CMOF + Annex III). These agreements allow netting by market value of transactions covered under them, as well as covering the debit balance with guarantees.

Country Risk

Country risk is an additional credit risk component implicit in all cross-border transactions. It arises from the potential inability of a debtor to meet their payment obligations to external creditors in foreign currency for macroeconomic, political reasons or of natural disasters.

The risks included in the concept of country risk are sovereign risk (default risk on debt issued by states or entities guaranteed by them) and transfer risk (risk that a country will default on its payment obligations because it does not have a sufficient foreign currency reserve level). The risks associated with foreign direct investment are the risk of confiscation, expropriation and nationalisation, transfer risk in the repatriation of dividends or divestment, the risk of breach of contract and the risk of war, political conflict or natural disasters.

Banco de España regulations require that these risks be provisioned based on the estimated risk for each country. The risk from countries in groups 1 and 2 do not require provisioning. The countries in each risk group are defined in Banco de España Circular 4/2004. Group 1 includes operations whose ultimate obliger is resident in the European Union, Switzerland, USA, Canada, Japan, Australia and New Zealand. Group 2 is those countries which, although having a good credit rating, are not included in group 1 (for example, China, Saudi Arabia, Chile, etc.).

The risk can be mitigated by collecting policies country risk coverage from ECAs, either nationally or international (CESCE, COFACE, KUKE, etc.), or private insurers. Other mitigation techniques are cash deposits or guarantees issued by entities of recognised solvency.

The Group's country risk management continues to be extremely prudent and profitable and is aimed at strengthening the business relationship with our customers.

A breakdown of the various areas of the balance sheet affected by country risk and the hedging performed by the Group at 31 December 2016 and 2015 is as follows:

Thousands of euros	Credit Institutions		Customers		Contingent liabilities		Total	
2016	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**
No appreciable risk	-	-	154,065	-	-	-	154,065	-
Normal risk	-	-	199	25	31	3	230	28
Doubtful risk	-	-	322	268	28	25	350	293
Total	-	-	154,586	293	59	28	154,645	321
2015								
No appreciable risk	-	-	129,744	-	45,370	-	175,114	-
Normal risk	-	-	790	91	2,200	223	2,990	314
Doubtful risk	-	-	347	416	101	86	448	502
Total	-	-	130,881	507	47,671	309	178,552	816

Interest rate risk

Interest rate risk is understood as the financial exposure of the Entity against movements in market interest rates derived from the temporary differences between the repricing of assets and liabilities as well as the inequality of the maturities. Interest rates vary based on many factors; which cause volatility both in the Financial Margin (FM) projection and in the Economic value (EV) of assets, liabilities and memorandum accounts.

Regarding the nature of this risk it is important to differentiate the structural dimension of interest rate risk limited to the Bank Book, so the focus of this section is the market dimension associated with interest rate risk. The latter is realised only on changes in the value of held for trading portfolio occurring as a result of movements in interest rates and whose management and control policies are set out in the section related to Market Risk.

Focusing on the structural dimension of Interest rate risk, it is important to note that fluctuations in the rate account for two sources of risk:

- On one hand, uncertainty about the reinvestment rates (maturities/repricing) throughout the life of an asset/liability.
- In addition, fluctuations in the market value of Banco Popular's assets, liabilities and equity.

The Group manages both dimensions aggregately for all the Group's financial institutions. The perimeter considered is the ex-Totalbank economic Group, which includes Popular, Popular Portugal, Popular Banca Privada and Pastor.

The identification, measurement and assessment of the impacts caused by interest rate movements through the sensitivity on Economic Value (EV) and the Financial Margin (FM) is fundamental to ensure the recurrent generation of profits maximising the EV of the Banking Book (BB) within the risk framework approved by the Entity.

For this purpose, Popular has classified balance sheet items into items which are sensitive and non-sensitive to changes in interest rates, and then, based on the relevant metrics, assess the positioning of the balance sheet and measure the impacts arising from variations in interest rate types .

Interest Rate Risk measures the impacts on FM and EV through the different risk factors: Repricing/Reinvestment Risk, Curve Risk, Basis Risk and Optionality Risk. In addition, in the management of Interest rate risk, the Bank carries out operations with hedging derivatives.

The Group has defined a structure which guarantees the proper segregation of functions and which entails various levels of control:

- Finance Management is the area charged with the measurement and monitoring of Interest rate risk. It is responsible for ensuring the implementation of internal controls and the processes to identify, monitor and present information on Interest rate risk and compliance with the RAF so as to implant a prudent culture in risk management. It produces information on Interest rate risk which it reports to the ALCO Committee.
- Risk Management, under the supervision of the CEO and reporting to the Management Committee and the Risk Commission, it is the management area responsible for ensuring that the Bank's risk level is adequate both to the economic and financial reality as well as to the Bank's business structure, being therefore the area charged with overall risk management and responsible for the design of risk policies which help identify, control and mitigate the bank's risks and their implementation through the RAF.
- The Control unit, under the supervision of the Technical General Secretary and acting as the second line of defence, is responsible for ensuring compliance with the policies, limits and objectives, reporting on the evolution of the risk profile and compliance and efficacy of the RAF to Risk Management, the Management Committee and the Risk Commission. To preserve its independent nature, it does not carry out tasks or management functions on the activities it supervises.
- Internal Audit, reporting directly to the Audit Committee of the Group's Board of Directors, it reports to the Board of Directors through it, acting as the third line of defence. It is their responsibility to comment annually on the implementation of the RAF. Within its scope is the review of compliance with the Banco Popular Group's internal regulations and assessing the effectiveness of management processes, control and governance of the risk appetite, verifying the correct implementation of them.

The ALCO Committee monitors the evolution of Financial Margin and Economic Value against interest rate risk scenarios and proposes the short and medium term policies to manage prices, durations and the bulk of jobs and resources. In addition, it analyses and manages this risk through analysis of the structural position and movement scenarios of the main market parameters. It proposes internal limits for interest rates and monitors their compliance and proposes contingency plans for possible deviations. For its part, Finance Management applies the guidelines established by the Management Committee upon proposal from the ALCO Committee for the management of interest rates, calculates the internal and regulatory metrics and is charges with controlling compliance of the limits set for the metrics.

The policies, processes and controls, and responsibilities of Interest rate risk are documented in the Procedures and Controls Manual, the Risk Policy Manual and the RAF.

Internal reports on Interest rate risk are issued monthly and submitted to their respective Committees. They show the current risk levels, the objective, the limits and the warnings.

At the year end, the effect of a 200 basis point increase in the euro interest rates, with respect to the current implicit rates, has a positive impact of 2.67% on the Economic Value. Additionally, a drop in interest rates of the same magnitude also promotes economic value due to the low level found in the rate curve, which is limited to 0%. The impact of rate shifts on currencies other than the euro is considered to be immaterial due to the Group's low exposure at year end.

As may be observed, the sensitivity of the economic value to very stressed variations in interest rates is well below the maximum thresholds permitted by current legislation.

At 31 December 2016, interest-rate sensitive assets totalled 107,799 million euros, compared with 97,411 million euros of similarly sensitive liabilities, with an aggregate positive gap of 10,388 million euros.

At 31 December 2015, interest-rate sensitive assets totalled 119,885 million euros, compared with 112,678 million euros of similarly sensitive liabilities, with an aggregate positive gap of 7,177 million euros.

Maturity and repricing gap in the consolidated balance sheet at 31 December 2016 and at 31 December 2015 (millions of euros):

2016	**TOTAL**	**Not Sensitive**	**Sensitive**	**Up to 1 month**	**1 to 2 months**	**2 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More than 1 year**
Loans and receivables	99,104	12,164	86,940	18,196	7,849	13,144	19,552	21,211	6,988
Credit Institutions	4,159	681	3,478	3,114	-	204	6	141	13
Customers	94,343	10,881	83,462	15,082	7,849	12,940	19,546	21,070	6,975
Other assets and valuation adjustments	602	602	-	-	-	-	-	-	-
Securities market	23,493	2,634	20,859	540	198	788	385	597	18,351
Other assets	25,328	25,328	-	-	-	-	-	-	-
TOTAL ASSETS	**147,925**	**40,126**	**107,799**	**18,736**	**8,047**	**13,932**	**19,937**	**21,808**	**25,339**
Financial liabilities measured at amortised cost	131,184	3,269	127,915	27,109	8,633	12,207	19,152	24,056	36,758
Credit Institutions	30,191	888	29,303	4,617	324	3,335	1,606	1,318	18,103
Customers	82,841	1,249	81,591	21,396	7,496	6,755	15,277	21,876	8,791
Debt securities	15,024	43	14,982	624	813	1,953	2,269	862	8,461
Subordinated and preference liabilities	2,039	-	2,039	472	-	164	-	-	1,403
Valuation adjustment (+/-) (Debt Securities)	1,089	1,089	-	-	-	-	-	-	-
Other liabilities	5,653	36,157	(30,504)	(17,721)	(1,106)	(10,736)	(941)	-	-
Equity	11,088	11,088	-	-	-	-	-	-	-
TOTAL LIABILITIES	**147,925**	**50,514**	**97,411**	**9,388**	**7,527**	**1,471**	**18,211**	**24,056**	**36,758**
Off-balance sheet transactions		**-**	**-**	**2,752**	**530**	**(374)**	**(317)**	**815**	**(3,406)**
Gap		**(10,388)**	**10,388**	**12,101**	**1,050**	**12,087**	**1,409**	**(1,433)**	**(14,825)**
Accumulated gap				**12,101**	**13,150**	**25,237**	**26,646**	**25,213**	**10,388**

2015	TOTAL	Not Sensitive	Sensitive	Up to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Loans and receivables	107,019	12,128	94,891	18,132	8,789	14,506	21,436	23,686	8,342
Credit Institutions	6,244	1,295	4,949	4,687	-	79	2	10	171
Customers	99,638	9,696	89,942	13,445	8,789	14,427	21,434	23,676	8,171
Other assets and valuation adjustments	1,137	1,137	-	-	-	-	-	-	-
Securities market	27,248	2,284	24,964	180	40	131	161	748	23,704
Other assets	24,383	24,383	-	-	-	-	-	-	-
TOTAL ASSETS	**158,650**	**38,795**	**119,855**	**18,312**	**8,829**	**14,637**	**21,597**	**24,434**	**32,046**
Financial liabilities measured at amortised cost	140,508	30,541	109,967	24,407	11,651	6,238	13,203	16,914	37,554
Credit Institutions	33,376	895	32,481	10,126	931	1,109	1,003	930	18,382
Customers	88,335	28,812	59,523	13,367	10,407	3,691	10,283	13,429	8,346
Debt securities	15,989	93	15,896	914	313	1,273	1,917	2,077	9,402
Subordinated and preference liabilities	2,067	-	2,067	-	-	165	-	478	1,424
Valuation adjustment (+/-) (Debt Securities)	741	741	-	-	-	-	-	-	-
Other liabilities	5,627	2,916	2,711	769	909	708	270	55	-
Equity	12,515	12,515	-	-	-	-	-	-	-
Equity	12,515	12,515	-	-	-	-	-	-	-
TOTAL LIABILITIES	**158,650**	**45,972**	**112,678**	**25,176**	**12,560**	**6,946**	**13,473**	**16,969**	**37,555**
Off-balance sheet transactions	**-**	**-**	**-**	**6,612**	**55**	**1,967**	**1,824**	**3,233**	**(13,690)**
Gap	**-**	**(7,177)**	**7,177**	**(252)**	**(3,676)**	**9,658**	**9,948**	**10,698**	**(19,199)**
Accumulated gap	**-**	**-**	**-**	**(252)**	**(3,928)**	**5,730**	**15,678**	**26,376**	**7,177**

MARKET RISK

Market risk is the risk incurred as a result of changes in the risk factors which define the valuation of financial assets in the market. These factors include, in general, interest rates, exchange rates, the prices of shares or raw materials, the volatility of them and credit spreads.

It also includes the liquidity risk associated with the financial instruments held by the Entity or the markets on which these are listed, with liquidity risk being understood as the impossibility of undoing positions in the market in a short period of time. For this purpose, positions are valued on a time horizon equal to the estimated time it will take to close the risk.

Corporate risk culture in Banco Popular, in relation to the management of market risk, assumes a number of principles; framework for action, inherent in the adoption of the Risk Appetite Framework, RAF, approved by the Board of Directors and which guide the management, measurement and control of Market risk incurred in Banco Popular as a result of its trading activity in financial markets.

Finance Management is responsible for the measurement and monitoring of compliance with market risk limits. It also calculates risk positions on at least a daily basis contrasting them with existing limits.

Meanwhile, Risk Control perform, at appropriate intervals, transverse controls on this risk and regularly reports its evolution to the Risk Commission.

In this regard and, as previously detailed, Banco Popular has hierarchical bodies with independent functions to ensure control of Market Risk.

With the purpose of controlling the market risk in this area's activity, undertakes daily monitoring of operations contracted, calculation of the impact of market trends on positions, quantification of market risk assumed, calculation of regulatory capital consumed and monitoring of compliance with limits.

The indicator used to measure market risk is Value at risk (VaR), which is defined as a potential maximum loss estimated based on historical data regarding variations in the risk factors and calculated with a confidence level for a specific time horizon. In measuring the Group's overall risk VaR methodology by historical simulation is used, with a confidence level of 99%, taking into account historical variations over a period of 250 days with more weight being placed on most recent observations [decay factor: 0.94], and using a term of 1 day to measure possible losses, since all open positions are liquid.

To complete the VaR figures for historical simulation, complimentary limits are calculated in terms of position and sensitivity, as well as Treasury Stop Loss limits. In addition, financial instruments held for trading are subjected to acute changes in market variables (stress testing).

Market risk management is based on the analysis of the sensitivity of trading positions to movements in risk factors. These sensitivities provide information regarding the impact of an increase in each risk factor on mark-to-market positions for the Bank. It should be pointed out that the operational risk of exotic structured items or products is very low because active management is carried out to cover the risk: in the case of smaller branch office network transactions the positions are closed on reaching the minimum amount that can be hedged efficiently, and in the case of significantly large tailored transactions hedging is immediate, on a transaction by transaction basis. This means that, in these cases, market risk would be non-existent.

Below shows the average VaR for 2016 and 2015 (Data in thousands of euros)

Thousands of euros	Money market	Asset Trading	Equity	Structured derivatives	Volatility	Other Derivatives	Financial investments	Balance Sheet Management	Equity Swaps	Aggregate VaR
Average VaR 2016	47	49	55	26	24	15	53	835	2,692	2,407
Average VaR 2015	88	42	106	40	-	-	86	-	595	799

To verify the adequacy of the risk estimates and the consistency of the VaR model, daily results are compared against the loss estimated by the VaR, which is called Backtesting. Following the recommendations of the regulator and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

- Clean Backtesting: relates to the daily results from active transactions at the close of the previous session with the one-day estimated VaR, calculated using the active positions at the end of the preceding session. This exercise is the most suitable for the self-assessment of the methodology used to measure market risk.
- Complementary or dirty backtesting: evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions alive at the close of the previous session. This makes it possible to evaluate the importance of the intra-day trading in the generation of earnings and in the estimation of the total portfolio risk.

The findings in excess of VaR are tabulated by nature, identifying those which might potentially indicate a deficiency in the model. The results of both backtesting models are compared and reconciled on a daily basis.

In addition to calculating VaR and conducting backtesting analysis, the following stress tests are performed on the value of the Treasury positions in order to estimate the possible losses of the portfolio in extraordinary situations of crisis:

- Analysis of theoretical scenarios (systematic stress) calculates the change in value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 97% of the total VaR. To see the possible combinations of the different movements on the risk factors, 16 joint scenarios are analysed monthly.
- Analysis of historical scenarios: calculates the change in value of the portfolio in response to certain changes in the principal risk factors produced historically in crisis scenarios.

The three scenarios which are the most aggressive in the analysis are reported daily.

Set out below is information on the consolidated balance sheet items carried at fair value, showing the valuation method used:

Thousands of euros	**Fair value of financial instruments**		**Level 1: Financial instruments traded in active markets**		**Level 2: Financial instruments whose fair value is based on market observations**		**Level 3: Financial instruments whose fair value is calculated using internal models**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assets								
Financial assets held for trading	2,103,849	1,285,883	439,474	42,352	1,664,375	1,243,389	-	142
Derivatives	1,664,375	1,243,389	-	-	1,664,375	1,243,389	-	-
Equity instruments	16,497	21,523	16,497	21,381	-	-	-	142
Debt securities	422,977	20,971	422,977	20,971	-	-	-	-
Financial assets designated at fair value through profit or loss	553,790	535,319	553,358	534,272	427	84	5	963
Equity instruments	205,445	221,450	205,445	221,439	-	-	-	11
Debt securities	348,345	313,869	347,913	312,833	427	84	5	952
Available-for-sale financial assets	15,384,097	25,193,155	14,920,486	24,670,837	2,112	2,112	461,499	520,206
Equity instruments	639,709	446,509	262,177	141,151	2,112	2,112	375,420	303,246
Debt securities	14,744,388	24,746,646	14,658,309	24,529,686	-	-	86,079	216,960
Derivatives – Hedge accounting	295,219	443,068	-	-	295,219	443,068	-	-

Thousands of euros	Fair value of financial instruments		Level 1: Financial instruments traded in active markets		Level 2: Financial instruments whose fair value is based on market observations		Level 3: Financial instruments whose fair value is calculated using internal models	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Liabilities								
Financial liabilities held for trading	1,643,755	1,043,063	210	-	1,643,545	1,043,063	-	-
Derivatives	1,643,545	1,043,063	-	-	1,643,545	1,043,063	-	-
Short positions	210	-	210	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	604,707	599,419	-	-	604,707	599,419	-	-
Derivatives – Hedge accounting	1,201,865	2,013,974	-	-	1,201,865	2,013,974	-	-

The Bank employs a valuation methodology which establishes a fair value hierarchy in three levels explained in Note 15.e).

The following table shows the evolution of the values of each category of financial assets and liabilities measured at fair value in 2016, calculated using variables that may not be observed in the market or internal models (Level 3).

Thousands of euros	ASSETS			LIABILITIES	
	Financial assets held for trading	**Available-for-sale financial assets**	**Derivatives – Hedge accounting**	**Financial liabilities held for trading**	**Derivatives – Hedge accounting**
Opening balance 01.01.2016	142	520,206	-	-	-
Movements:					
in profit and loss	-	-	-	-	-
in equity	-	(8,841)	-	-	-
Procurement	-	2,181	-	-	-
Issues	-	-	-	-	-
Sales	(142)	(4,585)	-	-	-
Settlements		(951)	-	-	-
Other transfers	-	-	-	-	-
Level 1 and 2 transfers		(46,511)	-	-	-
Closing balance 31.12.2016	-	461,499	-	-	-

In 2016, transfers from Level 3 to Level 1 are included in the amount of (46,511) thousand euros relating to investment funds, for which the criterion of fair value hierarchy has been modified.

Thousands of euros	ASSETS			LIABILITIES	
	Financial assets held for trading	Available-for-sale financial assets	Derivatives – Hedge accounting	Financial liabilities held for trading	Derivatives – Hedge accounting
Opening balance 01.01.2015	25,925	753,793	-	-	-
Movements:					
in profit and loss	-	-	-	-	-
in equity	4	2,025	-	-	-
Procurement	138	17,506	-	-	-
Issues	-	-	-	-	-
Sales	-	(253,118)	-	-	-
Settlements	-	-	-	-	-
Other transfers	-	-	-	-	-
Level 1 and 2 transfers	(25,925)	-	-	-	-
Closing balance 31.12.2015	142	520,206	-	-	-

In 2015, transfers from Level 3 to Level 1 were included in the amount of (25,925) thousand euros relating to investment funds, for which the criterion of fair value hierarchy has been modified.

The amount of (253.187) thousand euros of sales of assets available for sale, corresponds mainly to the amortisation of two Iberdrola finance securities amounting to 150,000 thousand euros and Santander Consumer amounting to 80,000 thousand euros.

LIQUIDITY RISK

The Liquidity Risk reflects the possibility of a credit institution encountering difficulties in disposing of liquid resources, or accessing them, of a sufficient amount and at adequate cost, in such a way that it is able to meet its payment obligations at all times.

This risk is common to all financial institutions and arises from the imbalance resulting from the different maturities of assets and liabilities on products necessary to develop the banking activity.

The Group's priority strategy is attracting Retail Funding through products adapted to customer needs and which offer stability to the Balance sheet. Likewise, the extension of the terms of Wholesale Funding is considered fundamental, as is reducing the reliance on Collateralised Funding.

In recent years, the governance model has been reinforced by being integrated with Liquidity Risk in a more global view of the Group's risks such as the Risk Appetite Framework (RAF). This framework is in response to demand from regulators, investors and market participants resulting from the financial crisis, to strengthen management systems and the risk control in financial institutions.

Thus, in order to cover all possible casuistry in managing Liquidity Risk, the governance and action framework involves differentiated policies and procedures according to the risk profile, aimed at developing correct measurement, monitoring and management of it at all times.

The Group monitors and manages Liquidity Risk centrally at a consolidated level through the Asset and Liability Committee (ALCO), which analyses and proposes related issues for submission to the Management Committee including, among others, the management and control of Liquidity Risk.

In order to maintain a prudent financial structure and balanced balance sheet, and to have a good liquidity position, the Group defines a Financing Plan that is reviewed at least annually and whenever themselves or systemic circumstances warrant it.

The Financing Plan maintains consistency at all times with the RAF and with decisions taken by Senior Management, establishing the volume and make up of the Group's Funding Sources for the next three years, ensuring that it meets the funding commitments made and complying with the established risk appetite metrics.

Finally, the existence of a Liquidity Contingency Plan is highlighted where the set of reference procedures to be followed by Banco Popular in situations which could present an impediment to the development of the Bank's activity, or in the end, jeopardise their own survival is described.

As at 31 December 2016, as shown in figure 35, the loan to deposit ratio (LTD) stands at 103.6%, which represents a commercial gap of 3,060 million euros. The improvement in the commercial gap observed in the year at 5,003 million euros is mainly due to the decrease in loans and receivables and the effort made in provisioning.

Measurement and oversight of liquidity risk

The Group monitors Liquidity Risk centrally with formal procedures for the analysis and monitoring of the Group's liquidity position through the ALCO Committee.

The measurement and monitoring of Liquidity Risk is carried out through the production of reports which offer knowledge about the risk profile, its evolution, its suitability to the objectives and limits set both in the Risk Appetite Framework and the Group's management policies. In this regard, the Group internally reports information at a high enough quality and sufficient frequency to obtain a suitable view designed to comply with the Group's risk profiles.

Likewise, the Group has a Liquidity Contingency Plan for possible deviations due to internal causes or the behaviour of the market. The measures to be adopted, which are defined in it, take into consideration the particular nature of the type of crisis. These simulations allow a quantification of a minimum amount of available eligible assets as a second liquidity line that ensures that the simulated scenarios can be comfortably surpassed.

The Liquidity Gap is one of the analyses used by to control and monitor the Group's liquidity. It shows the distribution of the balances of the asset and liability positions of the balance sheet in different time bands according to the contractual terms and incorporating the theoretical accrual of interest.

The information it offers is static and does not reflect foreseeable funding needs as it does not include behavioural models of asset and/or liability items. The difference between assets and liabilities is corrected by the "Available Liquid Assets" buffer which can be, if needed, converted into liquidity to deal with payment obligations at any time. This buffer is comprised of (I) available eligible assets, (ii) the excess on the Minimum Reserves Coefficient (MRC), (iii) the recovery of assets by maturities of the repurchase agreements (net of repos) and, (iv) the renewal of mortgage covered bonds on the market.

Bearing in mind the high credit quality of the assets sold under repos, mostly government debt securities, the repos are highly likely to be renewed at maturity. If this is not the case, this collateral could be used at any time in financial transactions in the Eurosystem.

For the calculation of the liquidity matrix, the recommendations of the various factors listed in IFRS7 have been taken into account, in particular those detailed below, also indicating the process the Group has followed in each case:

IFRS7.B11C takes into account the following information:

- The funding obtained by the Group in wholesale markets (monetary and capital) has -in turn- clauses which could lead to an accelerated repayment ("put option"), which is or little significance compared to the size of the Balance sheet. In any case, the date of the "put option" is taken as the maturity date for this type of operation.

In regard to the balances of "demand customer deposits", note that they are shown in the "on demand" time period.

- The balances "drawable by third parties immediately disposable" are considered, being shown in the "on demand" time band. It mainly deals with credit facilities with agreed limits which had not been drawn down by the borrowers at the date of presentation of the results.

  The fact of declaring 6,451 million euros on demand does not imply that the disposal of them is immediate. Credit accounts, the main component of the balance, are available to customers based on their funding needs over time.
- The Liquidity Gap does not contain amounts that may be required as a result of the execution of financial guarantees (financial sureties) issued amounting to 957 million euros in 2016 and 1,199 million in 2015 (Note 45). However, a significant part of these amounts will mature without any payment obligation by the Group materialising.

In regard to IFRS7.B11D, in the calculation of this Gap, as it is a Static Gap, the cash flows contributed in the analysis have not been discounted. Flows (principal and interest) are simulated but their current value is not calculated.

Other factors considered in the calculation of the Liquidity Gap are:

- The Group's funding, which includes clauses that could lead to the accelerated repayment ("put option"), is reduced in relation to the size of the Balance sheet. Given its scare materiality, its estimated impact on the Gap is not considered significant.
- The flows corresponding to the collateral deposits delivered or received with counterparties have been added to the Liquidity Gap as a result of the daily liquidation agreed in the framework contracts which regulate the contracting of derivative products and the operations of temporary financial assets repurchase/repos agreements.
- The Group has instruments, issued for the purpose of their computation as shareholders' equity which allow for their amortisation through the delivery of newly issued shares. The balance of these instruments at the close of 2016 was 1,250 million euros, the same as at the close of 2015. These financial instruments lack a maturity date and do not generate amortisation flows on the principle which impacts negatively on the Gap. Therefore we believe not including them is justified.
- In the case of compensation agreements, the operations have been included separately in the Liquidity Gap in the term corresponding to their maturity since it is considered a low probability of said agreements being executed.

The 2016 and 2015 liquidity gaps show the maturities of principal and interest on the Group's balance sheet:

Millions of euros

2016	At sight	Up to 3 months	Between 3 and 6 months	Between 6 and 36 months	Between 36 and 60 months	More than 60 months	Total maturities	Without maturity	TOTAL
Customers	-	8,872	4,860	22,211	13,280	38,116	87,339	10,676	98,015
Money market and repos	-	10,117	11	346	2,218	15	12,707	1,173	13,880
Debt securities	-	1,221	350	2,393	1,116	16,391	21,471	2,359	23,830
Other assets	-	-	-	-	-	-	-	24,582	24,582
TOTAL ASSETS		**20,210**	**5,221**	**24,950**	**16,614**	**54,522**	**121,517**	**38,790**	**160,307**
Customer deposits	38,801	12,757	7,989	16,382	354	299	76,582	700	77,282
Repos, ICO, Treasury and other	-	12,111	1,712	2,358	16,857	784	33,822	872	34,694
Negotiable securities and subordinated liabilities	-	2,071	1,275	5,427	3,991	7,766	20,530	42	20,572
Other liabilities	-	-	-	-	-	-	-	6,345	6,345
Equity	-	-	-	-	-	-	-	11,088	11,088
TOTAL LIABILITIES	**38,801**	**26,939**	**10,976**	**24,167**	**21,202**	**8,849**	**130,934**	**19,047**	**149,981**
GAP	**(38,801)**	**(6,729)**	**(5,755)**	**783**	**(4,588)**	**45,673**	**(9,417)**	**19,743**	**10,326**
Derivatives		152	23	(496)	(175)	(317)	-	-	-
Available liquid assets	11,176	1,898	4,447	21,198	2,540	4,259	-	-	-
Commitments available to third parties	(6,451)	-	-	-	-	-	-	-	-
CORRECTED GAP	**(34,076)**	**(4,679)**	**(1,285)**	**21,485**	**(2,223)**	**49,615**	-	-	-

Millions of euros									
2015	**At sight**	**Up to 3 months**	**Between 3 and 6 months**	**Between 6 and 36 months**	**Between 36 and 60 months**	**More than 60 months**	**Total maturities**	**Without maturity**	**TOTAL**
Customers	-	9,344	4,992	24,334	12,416	45,216	96,302	11,203	107,505
Money market and repos	-	10,270	623	1,179	1,503	898	14,473	2,082	16,555
Debt securities	-	200	148	4,931	8,649	12,593	26,521	2,172	28,693
Other assets	-	-	-	-	-	-	-	22,337	22,337
TOTAL ASSETS	**-**	**19,814**	**5,763**	**30,444**	**22,568**	**58,707**	**137,296**	**37,794**	**175,090**
Customer deposits	38,775	13,602	7,805	19,681	384	166	80,413	533	80,946
Repos, ICO, Treasury and other	-	17,545	1,507	17,707	1,314	1,330	39,403	897	40,300
Negotiable securities and subordinated liabilities	-	726	1,108	7,048	4,435	5,686	19,003	93	19,096
Other liabilities	-	-	-	-	-	-	-	6,041	6,041
Equity	-	-	-	-	-	-	-	12,515	12,515
TOTAL LIABILITIES	**38,775**	**31,873**	**10,420**	**44,436**	**6,133**	**7,182**	**138,819**	**20,079**	**158,898**
GAP	**(38,775)**	**(12,059)**	**(4,657)**	**(13,992)**	**16,435**	**51,525**	**(1,523)**	**17,715**	**16,192**
Derivatives	-	(73)	(27)	(1,220)	(268)	140	-	-	-
Available liquid assets	12,917	9,426	671	19,811	3,372	3,155	-	-	-
Commitments available to third parties	(6,742)	-	-	-	-	-	-	-	-
CORRECTED GAP	**(32,600)**	**(2,706)**	**(4,013)**	**4,599**	**19,539**	**54,820**	**-**	**-**	**-**

19. Cash and cash balances at central banks and other demand deposits

These headings in the consolidated balance sheet are mainly comprised of three elements:

a) The cash balances of consolidated subsidiaries, basically the banks.
b) The balances in central banks. These deposits are obligatory, in part, in order to maintain minimum reserves in each central bank, based on the credit institution's eligible liabilities. Interest is paid on the balances by the central banks. Note 48 provides details of the interest received.
c) Other demand deposits which basically include the balances of mutual accounts, other demand accounts and balances in correspondent accounts with foreign banks, both in euros and foreign currency.

Thousands of euros	**2016**	**2015**
Cash	474,871	472,868
Balances of cash in central banks	1,947,050	3,050,118
Banco de España	1,772,045	3,027,072
Other central banks	175,005	23,046
Other demand deposits	856,887	1,942,705
Banks operating in Spain	402,697	837,758
Savings banks and credit cooperatives	1,833	1,147
Other non-resident sectors	452,357	1,103,800
Valuation adjustments	-	22
Total	3,278,808	5,465,713

The breakdown of deposits with other central banks, by position held by Banco Popular Portugal, S.A, and TotalBank, is as follows:

Thousands of euros	2016	2015
Banco de Portugal	125,347	11,568
US Federal Reserve	49,658	11,478
Total	175,005	23,046

20. Financial assets and liabilities held for trading

Includes the amounts of those items of assets and liabilities that the Group has acquired with the purpose of realising them in the short term or corresponding to the valuations of derivatives that are not designated as hedging instruments.

Set out below is a breakdown of these items in the consolidated balance sheets as at 31 December 2016 and 2015:

Thousands of euros	Assets		Liabilities	
	2016	2015	2016	2015
Derivatives	1,664,375	1,243,389	1,643,545	1,043,063
Equity instruments	16,497	21,523	-	-
Debt securities	422,977	20,971	-	-
Loans and advances / Deposits	-	-	-	-
Central Banks	-	-	-	-
Credit Institutions	-	-	-	-
Customers	-	-	-	-
Short positions	-	-	210	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Total	2,103,849	1,285,883	1,643,755	1,043,063

The fair value of the items included in Financial assets and liabilities held for trading was calculated as follows:

The fair value of all assets and liabilities was calculated based on market quotations, prices and interest rate curves, as applicable. Most debt securities and marketable debt securities in this portfolio are traded in organised markets. For all cases in which the market is deep enough, the listing and their price exactly matches their fair value. Listed financial assets deemed to be illiquid are measured using observable market variables or internal models. For derivatives traded bilaterally with an individual counterparty (OTC), fair value is determined by reference to derivative contracts in the organised market. Where there is no applicable reference value in an organised market, due to the nature of the derivative contract, the value is obtained using techniques that include a realistic estimate of the instrument's price, in accordance with habitual market practice, based on factors such as the time value of money, credit risk, foreign exchange rates, prices of equity instruments, volatility, liquidity, early repayment risk and administrative overheads.

In relation to the option offered by regulation to reclassify non-derivative financial assets outside the portfolio of Financial Assets and Liabilities held for trading in exceptional circumstances, the Group carried out no reclassification in 2015 nor 2016.

The balances of the Financial Assets and Liabilities held for trading at the end of the two years are provided in euros, except for the currency purchase and sale values, which are reflected in the item Trading derivatives. Note 44 contains a breakdown of the consolidated financial statements by maturity of this caption.

The effect of this consolidated balance sheet item on the consolidated income statement reflected in the item Gains/(losses) on financial transactions (net) (see Note 52) for the financial years ended 31 December 2016 and 2015 is set out below:

Thousands of euros	Net amount	
	2016	2015
On derivatives	(1,202)	20,517
In equity instruments	(2,337)	(9,721)
On debt securities	1,320	744
On other assets	-	-
Total	(2,219)	11,540

a) Trading derivatives

Set out below is a breakdown of trading derivatives included under financial assets and liabilities held for trading in the consolidated balance sheets at 31 December 2016 and 2015:

Thousands of euros	2016			2015		
	Carrying amount		Notional amount	Carrying amount		Notional amount
	Positive Valuation	Negative Valuation	Total trading	Positive Valuation	Negative Valuation	Total trading
Interest rate	1,605,940	1,607,311	43,153,873	1,163,793	981,624	36,987,154
Of which: economic hedges	294,331	290,914	6,067,442	316,262	326,317	6,934,229
OTC Options	406,603	390,492	11,366,860	408,242	222,176	12,962,608
Other OTC	1,199,337	1,216,819	31,676,834	755,551	759,448	23,812,038
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	110,179	-	-	212,508
Equity instruments	25,470	12,893	103,802	26,148	14,439	183,885
Of which: economic hedges	13,645	12,749	40,000	13,473	12,794	41,566
OTC Options	25,412	12,749	61,122	25,057	12,616	61,122
Other OTC	29	-	3,136	775	1,550	64,404
Options in organised markets	-	111	5,823	160	184	35,507
Others in organised markets	29	33	33,721	156	89	22,852
Foreign currency and gold	28,740	19,116	3,746,623	49,063	42,615	4,557,480
Of which: economic hedges	19,390	11,333	1,301,223	44,565	37,581	2,983,966
OTC Options	7,994	7,532	585,736	4,181	4,013	409,433
Other OTC	20,746	11,584	3,160,887	44,882	38,602	4,148,047
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Loans	-	-	-	-	-	-
Of which: economic hedges	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
Options on credit differential	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
Other	-	-	-	-	-	-
Raw materials	4,225	4,225	3,210	4,385	4,385	3,219
Of which: economic hedges	4,225	4,225	3,210	4,385	4,385	3,219
Other	-	-	-	-	-	-
Of which: economic hedges	-	-	-	-	-	-
DERIVATIVES	**1,664,375**	**1,643,545**	**47,007,508**	**1,243,389**	**1,043,063**	**41,731,738**

The notional amount of trading derivative contracts does not reflect the market risk assumed by the Group. This may be inferred from the difference between the fair values of the instruments recognised in assets and liabilities to which a risk and results valuation, management and control system is permanently applied, allowing the monitoring of all the financial assets included and the verification that the risk is effectively and significantly mitigated.

b) Equity instruments

Set out below is a breakdown of equity instruments included in financial instruments held for trading in the consolidated balance sheets at 31 December 2016 and 2015:

Thousands of euros	2016	2015
Investments in Spanish companies	12,085	15,303
Credit institutions	10,459	10,988
Other resident sectors	1,626	4,315
Investments in foreign entities	4,412	6,220
Total	16,497	21,523

c) Debt securities

Set out below is a breakdown of the balances of Debt securities of the financial assets held for trading portfolio in the consolidated balance sheets at 31 December 2016 and 2015:

Thousands of euros	Net amount	
	2016	2015
Spanish government debt securities	360,551	20,519
Treasury bills	360,551	-
Government bonds	-	-
Other book-entry debt securities	-	20,519
Other Spanish government debt securities	-	452
Foreign government debt securities	4,960	-
Issued by credit institutions	9,690	-
Resident sectors	9,690	-
Non-resident sectors	-	-
Other debt securities	47,776	-
Issued by the public sector	-	-
Issued by other resident sectors	47,776	-
Issued by other non-resident sectors	-	-
Doubtful assets	-	-
Total	422,977	20,971

21. Financial assets and liabilities designated at fair value through profit or loss

Assets include hybrid financial assets that are not included in Financial Assets and Liabilities held for trading and are measured in full at fair value, and assets managed together with "Financial liabilities designated at fair value through profit or loss", or with derivative financial instruments whose purpose is to significantly reduce exposure to changes in fair value, or that are managed jointly with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk. Financial assets may be included in this category only at the date of origination or acquisition and must be permanently measured, managed and controlled to identify risks, gains and losses so as to monitor all the financial assets and verify that risk is effectively and significantly reduced.

Financial liabilities designated at fair value through profit or loss include all hybrid financial liabilities not included in financial instruments held for trading that are measured in full at fair value because the embedded derivative cannot be separated and measured. They also include the deposit component of life insurance policies linked to investment funds, which are in turn measured at fair value through profit or loss. The balances under these headings relate entirely to the Group's insurance companies.

Set out below is a breakdown of these headings in the consolidated balance sheets for 2016 and 2015:

Thousands of euros	**Assets**		**Liabilities**	
	2016	**2015**	**2016**	**2015**
Equity instruments	205,445	221,450	-	-
Debt securities	348,345	313,869	-	-
Loans and advances / Deposits	-	-	-	-
Central Banks	-	-	-	-
Credit Institutions	-	-	-	-
Customers	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	604,707	599,419
Total	553,790	535,319	604,707	599,419

These balances relate in full to transactions denominated in euros. Note 44 to these consolidated financial statements contains a breakdown by maturity.

The balances recognised under "Other financial liabilities" relate to balances for the subsidiary Eurovida S.A. (Portugal) and relate to unit-linked products, contracts in which the insurance policyholder fully assumes both market risk and credit risk, and are recognised in accordance with this principle to avoid accounting mismatches. The assets of the investment portfolios associated with these unit-linked products are classified under financial assets designated at fair value through profit or loss. Changes in the fair value of the assets invested are assumed by the policyholder and, therefore, give rise to adjustments in the fair value of the financial liability for the same amount.

Changes in the fair value of these financial liabilities are therefore determined mainly by market risk, as there are no changes attributable to credit risk for these liabilities.

The effect of these consolidated balance sheet headings on the consolidated income statement included under Gains/(losses) on financial transactions (net) (see Note 52) for the years ended 31 December 2016 and 2015 is set out below:

Thousands of euros	Net	
	2016	2015
On derivatives	-	-
In equity instruments	(15,692)	2,407
On debt securities	(2,750)	(18,293)
On other assets	-	9
Total	(18,442)	(15,877)

a) Equity instruments

Set out below is a breakdown of equity instruments:

Thousands of euros	2016	2015
Investments in Spanish companies	761	1,266
Credit institutions	388	568
Other resident sectors	373	698
Investments in foreign entities	204,684	220,184
Total	205,445	221,450

b) Debt securities

A breakdown of debt securities is as follows:

Thousands of euros	2016	2015
Spanish government debt securities	13,992	-
Treasury bills	10,002	-
Government bonds	-	-
Other book-entry debt securities	3,990	-
Other Spanish government debt securities	-	-
Foreign government debt securities	163,338	64,232
Issued by credit institutions	28,822	63,539
Resident sectors	6,860	11,969
Non-resident sectors	21,962	51,570
Other fixed-income securities	142,193	186,098
Issued by the public sector	-	-
Issued by other resident sectors	7,812	12,787
Issued by other non-resident sectors	134,381	173,311
Doubtful assets	-	-
Total	348,345	313,869

A breakdown by maturity term of Foreign Government Debt Securities, which pertains to Eurovida S.A. (Portugal), at 31 December 2016 and 2015 is as follows:

	Eurovida Portugal	
Thousands of euros	**2016**	**2015**
Within 3 months	751	2,500
3 months to 1 year	8,587	1,876
1 to 2 years	7,652	776
2 to 3 years	17,836	2,442
3 to 5 years	44,109	8,424
5 to 10 years	83,458	46,452
More than 10 years	1,023	1,762
Total	163,417	64,232

A breakdown by maturity of non-resident Other Fixed-Income Securities, corresponding to Eurovida S.A. (Portugal), at 31 December 2016 and 2015 is shown below:

	Eurovida Portugal	
Thousands of euros	**2016**	**2015**
Within 3 months	112	10,654
3 months to 1 year	7,282	10,716
1 to 2 years	14,637	9,991
2 to 3 years	30,078	24,399
3 to 5 years	61,468	74,177
5 to 10 years	14,411	41,180
More than 10 years	6,394	2,194
Total	134,381	173,311

22. Available-for-sale financial assets

This heading includes debt securities and equity instruments not classified in other categories. These debt securities are debentures and other securities that recognise a debt for the issuer, may or may not be marketable and accrue remuneration consisting of implicit or explicit interest.The interest rate may be fixed or linked to other rates and is stipulated contractually, and the securities may take the form of certificates or book entries.

Equity instruments comprise those not included under financial assets and liabilities held for trading and not related to joint ventures or associates. They are presented in the consolidated balance sheet at fair value and value differences, net of the tax effect, are adjusted through equity.

In October 2016, Banco Popular Español, S.A. transferred the portfolio of available-for-sale financial assets to the held-to-maturity portfolio for a balance on the transfer date of 5,579,975 thousand euros. During 2015 there were no transfers between the available-for-sale financial assets portfolio and other portfolio categories.

a) On the balance sheet

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

Thousands of euros	**2016**	**2015**
Equity instruments	639,709	446,509
Investments in Spanish companies	458,404	257,755
Credit Institutions	1,948	30,268
Resident sector	456,456	227,487
Investments in foreign entities	181,305	188,754
Debt securities	14,744,388	24,746,646
Spanish government debt securities	6,427,929	15,985,128
Treasury bills	47,271	-
Government bonds	-	-
Other book-entry debt securities	6,380,658	15,985,128
Other Spanish government debt securities	141,394	350,267
Foreign government debt securities	4,153,832	1,491,946
Issued by credit institutions	2,270,158	3,627,719
Resident sectors	1,612,030	2,788,220
Non-resident sectors	658,128	839,499
Other debt securities	1,747,803	3,291,253
Issued by the public sector	-	-
Issued by other resident sectors	672,957	1,814,138
Issued by other non-resident sectors	1,074,846	1,477,115
Doubtful assets	-	-
Fair value changes (+/-)	3,272	333
Micro-hedge adjustments	3,289	333
Value corrections	-	-
Other	(17)	-
Total	15,384,097	25,193,155

Note 44 to these consolidated financial statements provides a breakdown by maturity.

The balance at 31 December 2016 and 2015 of 4,153,832 and 1,491,946 thousand euros, respectively, in foreign government debt securities reflected in the above table relate to fixed income balances distributed by country as follows: Does not include CDS risks.

2016

Thousands of euros	USA	Portugal	Italy	Germany	Other countries
Within 3 months	25,549	249,169	135,112	37,088	-
3 months to 1 year	-	-	271,336	-	10
1 to 2 years	-	-	204	-	-
2 to 3 years	-	2,224	2,657	-	-
3 to 5 years	-	8,184	5,161	516	1,388
5 to 10 years	226,922	1,403,919	71,997	-	8,211
More than 10 years	610	278,193	1,392,942	16,872	15,567
Total	253,081	1,941,689	1,879,409	54,476	25,176

2015

Thousands of euros	USA	Portugal	Italy	Germany	Other countries
Within 3 months	-	-	-	80	562
3 months to 1 year	-	-	-	-	-
1 to 2 years	2,394	-	845	-	2,223
2 to 3 years	-	-	512	-	-
3 to 5 years	1,309	17,399	307	519	-
5 to 10 years	151,248	1,153,320	35,987	21,449	18,193
More than 10 years	23,851	5,928	23,146	29,594	3,080
Total	178,802	1,176,647	60,797	51,642	24,058

In 2016, the balance in "Other countries" mainly comprised the following: Switzerland 12,928 thousand euros, Ireland 3,606 thousand euros, Austria 1,965 thousand euros, Belgium 1,520 thousand euros, Finland 1,221 thousand euros, Holland 1,213 thousand euros, South Korea 841 thousand euros, France 785 thousand euros, Luxembourg 584 thousand euros and Mexico 513 thousand euros.

In 2015, the balance in "Other countries" mainly comprised the following: Ireland 6,787 thousand euros, France 2,966 thousand euros, Belgium 2,108 thousand euros, Austria 4,256 thousand euros, South Korea 809 thousand euros, Finland 898 thousand euros, Holland 4,461 thousand euros, Israel 23 thousand euros and Mexico 1,750 thousand euros

b) Gains/losses on financial assets and liabilities

The effect of this item on the consolidated income statements is reflected in the item Gains/(losses) on financial operations (net) (see Note 52).

Thousands of euros	2016	2015
In equity instruments	36,567	11,579
Gains	41,952	13,269
Losses	(5,385)	(1,690)
On debt securities	146,569	460,039
Gains	1,706,669	540,754
Losses	(1,560,100)	(80,715)
Total	183,136	471,618

c) Valuation adjustments

The balance under Valuation adjustments to equity at 31 December 2016 and 2015 resulting from changes in the fair value of the assets included in Available-for-sale financial assets, net of the tax effect, is as follows:

Thousands of euros	2016	2015
Equity instruments	10,873	14,900
Gains	22,995	21,487
Losses	12,122	6,587
Debt securities	(311,090)	(206,066)
Gains	74,298	198,643
Losses	385,388	404,709
Total	(300,217)	(191,166)

2016

The balance under Accumulated other comprehensive income relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to 10,873 thousand euros, which is broken down into 22,995 thousand euros in positive adjustments and 12,122 thousand euros in negative adjustments.

The balance under Accumulated other comprehensive income relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a (311,090) thousand euros, consisting of 74,298 thousand euros in positive valuation adjustments and 385,388 thousand euros in negative valuation adjustments.

A breakdown of the relevant gross amounts recorded in equity in the year as capital gains and losses is included in Note 41, Accumulated other comprehensive income, to these consolidated financial statements.

2015

The balance under Accumulated other comprehensive income relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to 14,900 thousand euros, which is broken down into 21,487 thousand euros in positive adjustments and 6,587 thousand euros in negative adjustments.

The balance under Accumulated other comprehensive income relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a (206,066) thousand euros, consisting of 198,643 thousand euros in positive valuation adjustments and 404,709 thousand euros in negative valuation adjustments.

A breakdown of the relevant gross amounts recorded in equity in the year as capital gains and losses is included in Note 41, Accumulated other comprehensive income, to these consolidated financial statements.

The capital gains/capital losses included in this table, corresponding to 2016, and associated with the foreign government debt securities broken down in the table included in section a) of this note, are detailed below:

Thousands of euros	Italy	Germany	Portugal	France	Other countries
Capital Gains/(Losses)	(16,717)	(154,645)	(80,372)	7,002	4,357
% calculated on position balance	6.61%	7.96%	4.28%	12.85%	17.30%

The amount included under "Other countries" mainly breaks down as follows: Switzerland (5,363) thousand euros, Ireland 266 thousand euros, Austria (376) thousand euros, Belgium 885 thousand euros, Finland (16) thousand euros, Holland 17 thousand euros, South Korea 84 thousand euros, France 126 thousand euros, Luxembourg 14 thousand euros and Mexico 6 thousand euros.

The information for 2015 is the following:

Thousands of euros	Italy	Germany	Portugal	France	Other countries
Capital Gains/(Losses)	8,471	1,616	(10,583)	(3,009)	1,733
% calculated on position balance	13.93%	3.13%	0.90%	1.68%	7.20%

The amount included under "Other countries" mainly breaks down as follows: Belgium 767 thousand euros, Austria 547 thousand euros, Ireland 302 thousand euros, France 155 thousand euros, Korea 52 thousand euros, Finland 38 thousand euros, Mexico (8) thousand euros and Holland (120) thousand euros.

d) Breakdown by currency

Set out below is a breakdown by currency, other than the euro, of Available-for-sale financial assets in the consolidated balance sheets at 31 December 2016 and 2015:

	Debt securities		Other equity instruments	
Thousands of euros	**2016**	**2015**	**2016**	**2015**
USD	648,251	509,337	18,130	15,285
CHF	-	-	779	772
Total	648,251	509,337	18,909	16,057

e) Impairment losses

A breakdown of the balance in Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss - Available-for-sale financial assets in the consolidated income statements (Note 61) for the years ended 31 December 2016 and 2015 is set out below:

Thousands of euros	**2016**	**2015**
Equity instruments	16,372	42,040
Debt securities	-	630
Total	16,372	42,670

Reflected in the consolidated income statements as follows:

Thousands of euros	**2016**	**2015**
Impairment losses charged to profit and loss	17,888	44,363
Determined individually	17,888	44,363
Determined collectively	-	-
Recoveries	1,516	1,693
Total	16,372	42,670

In 2016, evidence of deterioration in the available-for-sale financial assets portfolio are recorded by the provisions made mainly by the securities Bagoeta, S.L. at 11,613 thousand euros.

In 2015, evidence of deterioration in the available-for-sale financial assets portfolio were recorded by the provisions made mainly by the securities of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) at 14,110 thousand euros and 14,240 in Constructora San José, S.A.

The balance changes in 2016 and 2015 as regards Impairment of Asset Value Corrections in the Debt Securities caption are as follows:

Thousands of euros	Specific provision	Collective allowance	Total
Opening balance 2015	-	-	-
Allocated to profit or loss:	-	-	-
Additions to Provisions for the year	630	-	630
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other transfers	(630)	-	(630)
Closing balance 2015	-	-	-
Allocated to profit or loss:	-	-	-
Additions to Provisions for the year	-	-	-
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other changes and transfers	-	-	-
Closing balance 2016	-	-	-

23. Loans and receivables

This consolidated balance sheet heading includes financial assets carried at amortised cost using the effective interest method.

The first table shows the data for typical lending activities, loans and advances made to other institutions and other debts incurred by users of financial services.

Thousands of euros	2016	2015
Debt securities	601,967	1,136,961
Loans and advances	98,502,179	103,939,330
Central Banks	-	-
Credit Institutions	4,159,264	4,301,561
Customers	94,342,915	99,637,769
Total	99,104,146	105,076,291

With regard to country distribution of the 601,967 thousand euros in debt securities - fixed income securities -, 341,747 thousand euros relates to Spain, 14,762 thousand euros to Italy, 225,638 thousand euros to Holland, 15,003 thousand euros to Luxembourg and 4,817 thousand euros to the USA. In 2015 of the 1,136,961 thousand euros in debt securities, 21,776 thousand euros related to Italy, 220,953 thousand euros to Holland, and the remainder to Spain.

The following table expands the above information, showing gross lending and valuation adjustments, together with certain additional details:

Thousands of euros	**2016**	**2015**
Debt securities	572,974	1,097,442
Loans and advances	108,452,160	111,389,610
Central Banks	-	-
Credit Institutions	4,155,442	4,304,400
Customers	104,296,718	107,085,210
Accounts receivable from public authorities	4,831,084	5,327,992
Resident sectors	4,820,339	5,327,992
Non-resident sectors	10,745	-
Other private sectors	99,465,634	101,757,218
Resident sectors	87,835,554	90,569,951
Non-resident sectors	11,630,080	11,187,267
Subtotal	109,025,134	112,487,052
Valuation adjustments (+/-):	(9,920,988)	(7,410,761)
Value corrections for impairment of assets	(10,048,051)	(7,724,111)
Debt securities	-	-
Loans and advances	(10,048,051)	(7,724,111)
Central Banks	-	-
Credit Institutions	(3,141)	(3,041)
Customers	(10,044,910)	(7,721,070)
Other valuation adjustments	127,063	313,350
Debt securities	28,993	39,519
Loans and advances	98,070	273,831
Central Banks	-	-
Credit Institutions	6,963	202
Customers	91,107	273,629
Total	99,104,146	105,076,291

A breakdown of Loans and receivables, in euros and foreign currencies, in the consolidated balance sheets at 31 December 2016 and 2015 is the following:

Thousands of euros	2016		2015	
	Euros	Foreign currency	Euros	Foreign currency
Debt securities	568,157	4,817	1,097,442	-
Loans and advances	103,871,825	4,580,335	107,143,756	4,245,854
Central Banks	-	-	-	-
Credit Institutions	4,085,838	69,604	4,211,594	92,806
Customers	99,785,987	4,510,731	102,932,162	4,153,048
Subtotal	104,439,982	4,585,152	108,241,198	4,245,854
Valuation adjustments (+/-):				
Debt securities	28,993	-	39,519	-
Loans and advances	(9,918,748)	(31,233)	(7,419,054)	(31,226)
Central Banks	-	-	-	-
Credit Institutions	6,367	(2,545)	(1,578)	(1,261)
Customers	(9,925,115)	(28,688)	(7,417,476)	(29,965)
Subtotal	(9,889,755)	(31,233)	(7,379,535)	(31,226)
Total	94,550,227	4,553,919	100,861,663	4,214,628

Set out below is a breakdown of the gross amounts of Loans and advances to credit institutions by instrument:

Thousands of euros	2016	2015
Reciprocal accounts	67,092	88,775
Term accounts	202,510	253,190
Asset repos	1,300,271	1,506,985
Other accounts	2,232,523	2,356,425
Cheques	31,894	99,007
Clearing house	321,152	18
Doubtful assets	-	-
Total	4,155,442	4,304,400

Note 44 to these financial statements provides details of the residual terms of these consolidated balance sheet captions. A breakdown of the gross amounts of Loans and advances to credit institutions in the Loans and receivables caption at 31 December 2016 and 2015, without considering fair value changes, is as follows:

Thousands of euros	**2016**	**2015**
By nature		
Banks operating in Spain	902,222	1,011,467
Savings banks	-	-
Credit cooperatives	61	61
Resident credit establishments	-	-
Non-resident credit institutions	1,599,842	1,686,862
Asset repos	1,300,271	1,506,985
Banks operating in Spain	341,904	200,639
Savings banks	-	-
Credit cooperatives	-	-
Non-resident credit institutions	958,367	1,306,346
Cheques	31,894	99,007
Clearing house	321,152	18
Doubtful assets	-	-
Other	-	-
Total	4,155,442	4,304,400

By currency		
Euros	4,085,838	4,211,594
Foreign currency	69,604	92,806
Total	4,155,442	4,304,400

Non-performing loans and related provisions	-	-

Doubtful assets	-	-
Value corrections for impairment of assets	(3,141)	(3,041)
Of which is for country risk	-	-

The average interest rate in 2016 was -0.14% and 0.20% in 2015, as detailed in the chapter on yields and costs of the Management Report of this document. A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

Thousands of euros	2016	2015
USD	66,132	83,977
GBP	1	4,906
CHF	40	25
JPY	9	1
Other	3,422	3,897
Total	69,604	92,806

The balances of Loans and advances to customers under Loans and receivables at 31 December 2016 and 2015, excluding fair value changes, by type, were as follows:

Thousands of euros	2016	2015
Trade credit	4,175,345	4,140,855
Debtors with mortgage security	34,750,814	37,701,706
Other secured loans	914,132	947,002
Asset repos	6,701,640	6,504,071
Other term loans	33,496,391	34,816,134
Finance lease	2,172,968	2,237,495
Overdrafts and other	2,493,509	2,398,743
Other loans	230,063	196,947
Doubtful assets	19,361,856	18,142,257
Total loans and advances to customers	104,296,718	107,085,210
Valuation adjustments (+/-)	(9,953,803)	(7,447,441)
Of which: value corrections for asset impairment	(10,044,910)	(7,721,070)
Total	94,342,915	99,637,769

The amounts recognised under “Mortgage security loans” and in “Other secured loans” concern loans formally backed by mortgages, securities pledged, cash deposits or other collateral securing the full repayment of the loans. Loans that are partially secured are recognised under “Other term loans”.

In the case of doubtful assets, the renewal or restructuring of loans does not interrupt non-performing balances, unless there is reasonable certainty that the customer will make payment as scheduled or effective new collateral is furnished and, in both cases, outstanding ordinary interest is received.

The Group has a number of guarantees for each type of risk which partially or fully mitigate the risks to which commercial activities are exposed and may be called in should the principal debtor default. The Group prudently manages its guarantee policy to minimise the risks to which its lending activity is exposed. The following table contains an analysis of the guarantees, which are ordered in terms of liquidity and assurance of repayment. Surplus guarantees for over-guaranteed loans were eliminated when the table was prepared. The efforts made by the Group in the past year to strengthen collateral for its lending activities may be observed in the table.

Thousands of euros	**2016**	**2015**
Loans and receivables	104,296,718	107,085,210
Related collateral		
Cash	10,616,937	10,017,218
Public sector and credit institutions	10,874,824	10,556,411
Mortgages	76,522,469	75,945,995
Securities	1,521,106	1,233,047
Bank guarantees and other	4,744,340	3,683,051
Total collateral	104,279,676	101,435,722
% cover		
Cash	10.18	9.35
Public sector and credit institutions	10.43	9.86
Mortgages	73.37	70.92
Securities	1.46	1.15
Bank guarantees and other	4.55	3.44
Total collateral	99.99	94.72
Correction for impairment	10,044,910	7,721,070
% cover	9.63	7.21

Set out below is an analysis of Loans and advances to customers by borrower sector.

The residual terms of these balances are indicated in Note 44.

Thousands of euros	2016	2015
Accounts receivable from public authorities	4,831,084	5,327,992
Resident sectors	4,820,339	5,327,992
Central government	3,136,351	3,387,499
Other term loans	3,019,501	3,061,250
Asset repos	116,850	326,249
Regional government	1,509,612	1,752,502
Other term loans	1,509,612	1,752,502
Asset repos	-	-
Local government	150,259	186,925
Other term loans	150,259	186,925
Asset repos	-	-
Social security	557	651
Other term loans	557	651
Asset repos	-	-
Doubtful assets	23,560	415
Non-resident sectors: Other term loans	10,745	-
Private sectors:	99,465,634	101,757,218
Resident sectors:	87,835,557	90,569,951
Trade credit	3,529,720	3,723,722
Secured loans	31,073,551	34,302,814
Mortgages	30,254,320	33,382,129
Other	819,231	920,685
Asset repos	6,584,790	6,177,822
Other term loans	24,172,583	24,982,146
Finance lease	1,811,210	1,903,505
Overdrafts and other	2,030,468	1,900,206
Other loans	229,631	196,815
Doubtful assets	18,403,604	17,382,921
Non-resident sectors:	11,630,077	11,187,267
Trade credit	576,772	341,084
Secured loans	4,591,395	4,345,894
Mortgages	4,496,494	4,319,577
Other	94,901	26,317
Asset repos	-	-
Other term loans	4,702,008	4,908,776
Finance lease	361,758	333,990
Overdrafts and other	463,020	498,470
Other loans	432	132
Doubtful assets	934,692	758,921
Total loans and advances to customers	104,296,718	107,085,210
Valuation adjustments (+/-)	(9,953,803)	(7,447,441)
Of which: value corrections for asset impairment	(10,044,910)	(7,721,070)
Total	94,342,915	99,637,769

Set out below is a breakdown of the item Loans and Receivables net of value adjustments by activity at 31 December 2016, also showing the value of collateral and the carrying amount of the loans as a percentage of the collateral:

Thousands of euros				Secured loans Carrying amount as % of latest available appraisal (loan to value)				
	Total	Of which: Secured property	Of which: Secured by other assets	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
1 General government	**4,880,703**	**32,231**	**155,782**	**4,558**	**17,090**	**5,152**	**5,795**	**155,419**
2 Other financial corporations and individual entrepreneurs	**10,273,010**	**230,881**	**6,778,362**	**17,512**	**30,042**	**20,685**	**167,552**	**6,773,452**
3 Non-financial corporations and individual entrepreneurs	**52,119,445**	**23,620,750**	**4,579,305**	**5,778,980**	**5,288,596**	**4,264,540**	**5,266,028**	**7,601,909**
3.1 Construction and property development (including land)	11,164,639	8,323,852	327,352	1,723,559	1,718,494	1,418,967	1,546,843	2,243,341
3.2 Civil engineering	1,499,737	499,582	439,718	105,151	78,230	83,111	140,357	532,451
3.3 Other purposes	39,455,069	14,797,316	3,812,235	3,950,270	3,491,872	2,762,462	3,578,829	4,826,118
3.3.1 Large companies (c)	10,655,018	1,266,784	1,158,292	317,093	288,628	160,343	610,185	1,048,827
3.3.2 SMEs and individual entrepreneurs	28,800,051	13,530,532	2,653,942	3,633,177	3,203,244	2,602,119	2,968,644	3,777,291
4 Other households (broken down by purpose)	**27,069,757**	**24,494,646**	**475,009**	**5,663,236**	**7,343,321**	**7,082,085**	**2,869,313**	**2,011,699**
4.1 Housing	20,417,406	20,147,773	55,070	4,147,201	6,179,635	6,126,468	2,258,252	1,491,287
4.2 Consumption	1,313,545	512,090	83,532	228,294	146,592	110,532	69,345	40,859
4.3 Other purposes	5,338,805	3,834,782	336,407	1,287,741	1,017,094	845,085	541,716	479,553
6 TOTAL	**94,342,915**	**48,378,507**	**11,988,457**	**11,464,286**	**12,679,049**	**11,372,462**	**8,308,687**	**16,542,479**
MEMORANDUM ITEM								
Refinanced and restructured operations	**9,270,979**	**7,043,023**	**561,317**	**1,382,395**	**1,330,005**	**1,507,986**	**1,846,204**	**1,537,750**

The following table shows the same information at 31 December 2015:

Thousands of euros				Secured loans Carrying amount as % of latest available appraisal (loan to value)				
	Total	Of which: Secured property	Of which: Secured by other assets	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
1 General government	**5,393,752**	**3,065,664**	**62,913**	**70,879**	**14,145**	**7,967**	**3,019,162**	**16,405**
2 Other financial corporations and individual entrepreneurs	**6,287,290**	**75,068**	**6,178,107**	**12,473**	**-**	**6,098**	**6,230,233**	**4,371**
3 Non-financial corporations and individual entrepreneurs	**61,737,052**	**30,852,132**	**3,415,462**	**5,914,367**	**12,501,017**	**6,750,218**	**2,497,212**	**6,604,780**
3.1 Construction and property development (including land)	13,831,813	12,536,337	275,216	1,912,357	4,254,793	2,921,922	1,115,506	2,606,975
3.2 Civil engineering	1,763,906	657,336	90,574	93,279	179,066	112,057	100,082	263,426
3.3 Other purposes	46,141,333	17,658,459	3,049,672	3,908,731	8,067,158	3,716,239	1,281,624	3,734,379
3.3.1 Large companies (c)	11,054,311	1,743,814	1,392,542	292,221	1,590,587	255,732	89,358	908,458
3.3.2 SMEs and individual entrepreneurs	35,087,022	15,914,645	1,657,130	3,616,510	6,476,571	3,460,507	1,192,266	2,825,921
4 Other households (broken down by purpose)	**26,219,675**	**24,616,998**	**155,672**	**5,008,826**	**6,886,509**	**8,850,860**	**2,255,632**	**1,770,843**
4.1 Housing	21,788,800	21,604,983	19,534	4,064,476	6,062,987	8,093,885	2,027,713	1,375,456
4.2 Consumption	1,858,621	938,556	77,923	289,397	241,181	245,387	92,893	147,621
4.3 Other purposes	2,572,254	2,073,459	58,215	654,953	582,341	511,588	135,026	247,766
6 TOTAL	**99,637,769**	**58,609,862**	**9,812,154**	**11,006,544**	**19,401,671**	**15,615,163**	**14,002,239**	**8,396,399**
MEMORANDUM ITEM								
Refinanced and restructured operations	**12,624,916**	**9,763,794**	**349,986**	**1,220,648**	**2,824,533**	**2,534,528**	**1,046,841**	**2,487,230**

Within the Loans and Receivables item there are operations which have been refinanced or restructured. Set out below are the balances of these loans in the consolidated balance sheet at 31 December 2016:

	TOTAL							
	Unsecured		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk	Carrying amount
					Maximum amount of collateral which can be considered			
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Secured property	Secured by other assets		
Credit Institutions	-	-	-	-	-	-	-	-
Public administrations	8	10,985	1	189	-	189	-	11,174
Other financial companies and individual entrepreneurs (financial business)	50	14,814	34	3,752	2,362	261	1,060	17,506
Other non-financial companies and individual entrepreneurs (non-financial business)	22,415	2,722,615	19,430	10,100,736	5,715,495	312,773	4,825,178	7,998,173
Of which: financing for construction and property development (including land)	931	1,010,140	3,484	5,075,474	2,529,455	60,209	2,999,756	3,085,858
Rest of households	14,109	186,913	12,719	1,205,370	1,012,693	20,649	148,157	1,244,126
Total	36,582	2,935,327	32,184	11,310,047	6,730,550	333,872	4,974,395	9,270,979
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-

	Of which: WITH DEFAULT/DOUBTFUL							
	Unsecured		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk	Carrying amount
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of collateral which can be considered			
					Secured property	Secured by other assets		
Credit Institutions	-	-	-	-	-	-	-	-
Public administrations	1	89	-	-	-	-	-	89
Other financial companies and individual entrepreneurs (financial business)	17	182	17	2,088	1,159	-	1,043	1,227
Other non-financial companies and individual entrepreneurs (non-financial business)	11,959	2,017,556	12,096	7,634,106	3,822,951	133,623	4,673,814	4,977,848
Of which: financing for construction and property development (including land)	856	939,324	3,104	4,431,822	1,998,806	52,051	2,989,218	2,381,928
Rest of households	5,212	82,843	5,273	469,513	351,227	5,111	139,257	413,099
Total	17,189	2,100,670	17,386	8,105,707	4,175,337	138,734	4,814,114	5,392,263
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-

The average probability of default (PD) of refinanced/restructured loans classified as performing instrument:

	Average PD 2016
1. Public administrations	-
2. Other legal entities and individual entrepreneurs	15.1%
Of which: Financing for construction and property development	21.2%
3. Other individuals	6.5%

During 2016, the amount of refinancing, refinanced and restructured operations reduced by 1,668,976 thousand euros, while the balance of refinancing operations classified as doubtful increased by 1,280,936 thousand euros.

23.05% of all refinancing transactions classified as doubtful relate to situations other than non-performing balances. The provisions for doubtful risk increased in 2016 by 1,550,972 thousand euros as a result of the updating of the internal impairment models applied by the Group, as explained in notes 3.b) and 15.h).

This change in model is reflected in the increase of the weighted average PD which went from 14.7% in 2015 to 21.2% in 2016 for the refinancing operations of "Financing to construction and property development".

The balances of these refinanced or restructured loans at 31 December 2015 are shown below:

	TOTAL							
	Unsecured		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk	Carrying amount
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of collateral which can be considered			
					Secured property	Secured by other assets		
Credit Institutions	-	-	-	-	-	-	-	-
Public administrations	16	28,136	-	-	-	-	151	27,985
Other financial companies and individual entrepreneurs (financial business)	27	21,746	3	400	289	-	2,775	19,371
Other non-financial companies and individual entrepreneurs (non-financial business)	19,013	3,334,520	22,548	10,888,599	6,544,117	179,387	3,285,198	10,937,921
Of which: financing for construction and property development (including land)	800	740,390	5,366	6,226,832	3,357,964	64,004	2,105,196	4,862,026
Rest of households	20,229	263,585	15,752	1,377,364	1,142,376	16,181	105,754	1,535,195
Total	39,285	3,647,986	38,303	12,266,364	7,686,782	195,568	3,393,878	12,520,472
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-

	Of which: WITH DEFAULT/DOUBTFUL							
	Unsecured		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk	Carrying amount
					Maximum amount of collateral which can be considered			
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Secured property	Secured by other assets		
Credit Institutions	-	-	-	-	-	-	-	-
Public administrations	3	180	-	-	-	-	151	28
Other financial companies and individual entrepreneurs (financial business)	9	12,001	1	128	128	-	2,775	9,353
Other non-financial companies and individual entrepreneurs (non-financial business)	8,180	1,718,991	12,401	6,723,577	4,020,870	82,859	3,165,271	5,277,297
Of which: financing for construction and property development (including land)	533	647,342	4,245	4,593,994	2,529,079	58,028	2,031,808	3,209,528
Rest of households	3,943	59,000	4,772	411,566	348,737	2,485	94,945	375,620
Total	12,135	1,790,171	17,174	7,135,270	4,369,735	85,344	3,263,142	5,662,299
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-

The average probability of default (PD) of refinanced/restructured operations in a normal situation at 31.12.2015 was the following:

	Average PD 2015
1. Public administrations	-
2. Other legal entities and individual entrepreneurs	14.9%
Of which: Financing for construction and property development	14.7%
3. Other individuals	8.0%

In 2015, the balance of refinancing operations classed as doubtful reduced by 114,658 thousand euros while the total balance of these operations increased by 331,584 thousand euros. 22.4% of all refinancing transactions classified as doubtful related to situations other than non-performing balances. Provisions allocated to risks in difficulty reduced in 2015 by 322,716 thousand euros

Refinancing and restructuring operations:

Refinancing/restructuring operations are included in the Group's on-going loan portfolio management and are the result of continuous monitoring to anticipate portfolio destabilisation or debt collection difficulties and prepare solutions in advance, and to effectively monitor and control the risks involved and act flexibly in seeking solutions adapted to the particularities of each customer.

The number of transactions of this kind increases substantially in unfavourable macroeconomic environments, since they are caused by customers' inability to meet the obligations contracted with the Bank. The Group then detects the warning signals and assesses the possibility of adapting the terms of the obligations to the customer's new payment capacity and/or of improving collateral obtained for the original loan.

In compliance with their continuous supervision duties, the monitoring, business, restructuring and recovery areas are responsible for identifying potential refinancing/restructuring operations.

The Group's use of refinancing/restructuring transactions is done under common practices that allow effective monitoring and control over the risks inherent in the loans, as well as a flexible approach to solutions tailored to each customer's circumstances.

The Banco Popular Group confines refinancing/restructuring transactions to cases in which the following circumstances apply:

- The customer has the capacity and the intention to make payments.
- The refinancing/restructuring operation will improve the Bank's position in terms of expected loss.
- The new terms will not encourage the customer to delay or suspend the fulfilment of payment obligations.

The Group's arrangement of refinancing/restructuring transactions is governed by the following general principles:

- Refinancing/restructuring transactions are only applicable to loans granted by the Banco Popular Group. Refinancing/restructuring operations for loans granted by third parties will not be considered in any circumstances.
- The proposed refinancing/restructuring will not increase the expected loss on the original loan. Refinancing transactions that are detrimental to collateral will not be considered under any circumstances.
- In general, loans with mortgage security may not be novated into personal loans, unless the mortgages are insufficient at the novation date and the new personal guarantee furnished provides additional surety.
- In order to access refinancing/restructuring, certain conditions must be fulfilled; in particular, the Group must have a minimum experience of 24 months with the borrower and payments must have been made in due time and form for at least 12 months.

The following principles are rigorously applied in studying the appropriateness of a refinancing/restructuring operation and in setting the specific terms, while also taking into account exceptional circumstances:

- Customer risk is considered as a whole and not only the risk of the original loan.
- Before approving a debt restructuring, all alternatives and possible impacts must be evaluated to ensure effectiveness and restrict excessive use of restructuring operations.
- Collateral, consolidation of collateral and expected evolution of collateral values are analysed in detail.
- The Bank's Legal Services must be involved until the transaction is completed, taking care to correctly formalise new guarantees and avoid any detrimental impact on existing collateral.
- The proposal/design or decision process will involve the Bank's risk and debt restructuring areas at the relevant functional levels.
- Once the transaction is approved, it will be specifically monitored until the obligations are extinguished. To this end, the most representative operations will be subject to special monitoring and may even be individually assigned to Group managers.

The Banco Popular Group has defined different treatment for refinancing/restructuring operations based on risk type.

Differentiated criteria are applied based on whether the refinancing/restructuring of non-property risk involves individuals or legal persons, or property risk with legal persons (there are differences, in turn, between refinancing land, real estate developments in progress or developments that have been completed):

- Non-property risk exposure to legal entities: to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. If the overall restructuring of the borrower's debt is deemed necessary, it must be studied and negotiated with the financial institutions to which the borrower is contractually bound. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated. Efforts will be made to improve collateral, provided this does not result in a loss for the Bank.
- Non-property risk exposure to natural persons: to authorise any refinancing/restructuring operation, the Group must demonstrate the borrower's capacity to fulfil the obligations deriving from the proposed loan novation. This must include all the borrower's loans under personal guarantee that show signs of impairment, particularly overdrafts and credit card balances, in view of the greater risk associated with these products. Refinancing/restructuring operations for borrowers without a suitable obligation fulfilment record will not be contemplated.
  The coverage level (collateral level) of the transactions must be improved so as to avoid a loss for the Group.
- Property risk to legal entities: to authorise any refinancing/restructuring operation, the Group will seek to facilitate fulfilment of the borrower's obligations by bringing payment periods into line with the customer's fund generation dates. The Group will also seek new property or personal guarantees and suitable management of the mortgaged assets by the borrower in order to preserve their value. In land refinancing operations, grace periods for principal and interest will not be admissible, as a general rule. A grace period for principal may be established by adapting the period to the borrower's circumstances and the market situation. The ultimate purpose of refinancing of property developments in progress will be to facilitate completion of the development until the first occupancy licence is obtained. In completed property developments, the Group will analyse the possibility of providing facilities while the finished product is marketed.

When studying and analysing the advisability of refinancing/restructuring operations and when defining their specific conditions, an individual analysis is performed for each of the operations in order to establish the viability of that transaction by rigorously applying the general criteria and the specific criteria applicable to the refinancing transactions established by the Group, sometimes taking into account exceptional circumstances.

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analysing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least one year must have elapsed since the operation and the loan principal must have decreased by at least 10%. Such situations will also be specifically addressed by the Group's internal auditors.

The accounting policy of classification and impairment of refinanced and restructured operations is explained in notes 15.e) And 15.h) of the Financial Statements.

The following table shows changes in refinancing stock at 31 December 2016.

Thousands of euros	Gross carrying amount	Provisions
Opening balance	**15,914,350**	**3,393,878**
(+) Refinancing and restructuring in the period	2,513,926	750,153
(-) Debt amortisations	(3,785,646)	(197,451)
(-) Foreclosures	(422,329)	(151,060)
(-) Derecognition from the balance sheet (reclassification as write-off)	(207,645)	(190,489)
(+)/(-) Other changes	232,718	1,369,364
Closing balance	**14,245,374**	**4,974,395**

The following table shows changes in refinancing stock at 31 December 2015.

Thousands of euros	Gross carrying amount	Provisions
Opening balance	**15,582,766**	**3,716,594**
(+) Refinancing and restructuring in the period	3,726,078	420,508
(-) Debt amortisations	(2,613,478)	(595,954)
(-) Foreclosures	(655,138)	(201,405)
(-) Derecognition from the balance sheet (reclassification as write-off)	(267,437)	(254,313)
(+)/(-) Other changes	141,558	308,448
Closing balance	**15,914,350**	**3,393,878**

The cure criteria for refinanced operations applied by the bank are explained in the accounting policy for classification and impairment of refinanced and restructured operations in note 15.e) of the Financial Statements.

Securitisations

Balances of securitisation operations completed by the Group in 2016 and 2015 that have not been derecognised in assets because the risks and rewards have not been substantially transferred are carried at amortised cost on the basis of the instrument securitised.

Note 68 provides information and comments on the securitisation operations completed. The items Public sector and Private sector, Residents include 4,733,385 and 4,244,706 thousand euros, respectively, at year-end 2016 and 2015 in respect of securitised receivables; they remain in the balance sheet because derecognition requirements have not been fulfilled, due mainly to the Group's acquisition of bond series having the lowest credit rating, reflecting the expected loss on the loan portfolio assigned.

Note 2 to these consolidated financial statements describes the special-purpose vehicles formed as asset securitisation vehicles in the last two years. Pursuant to disclosure requirements for this type of operations, set out below is a breakdown of the securitised receivables, including the initial amounts and balances outstanding at each year end, and the date of the operations, for each securitisation fund:

Thousands of euros			**Balances at 31 December**	
	Transaction date	**Initial amount**	**2016**	**2015**
EDT FTPYME Pastor 3, FTA	Dec 2005	520,000	15,748	21,537
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	-	131,955
GC FTPYME Pastor 4, FTA	Nov 2006	630,000	43,262	51,392
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	-	221,302
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	439,739	478,187
IM Grupo Banco Popular Empresas V, FTA	Feb 2013	2,650,000	-	500,005
IM Grupo Banco Popular Empresas VI, FTA	Mar 2015	3,000,000	953,881	1,943,257
IM Grupo Banco Popular MBS 3, FT	Dec 15	900,000	855,976	897,071
IM Grupo Banco Popular Empresas VII, FT	Dec 16	2,500,000	2,424,779	-
Total		14,747,400	4,733,385	4,244,706

Note 68, "Securitisation detail" shows all relevant information corresponding to these operations as well as in Note 34 "Financial liabilities measured at amortised cost" in the section "Debt securities issued".

A breakdown by nature of these securitised lending operations is as follows:

Thousands of euros	**2016**	**2015**
Public administrations	-	-
Personal	3,394,004	2,483,970
Leases	-	-
Mortgages	1,339,381	1,682,930
Other collateral	-	77,806
Total	4,733,385	4,244,706

Set out below is a breakdown by Autonomous Region of Spain, based on the location of the branches where gross loans and advances to public and private sector resident customers were arranged, and transactions generated in the Portuguese branch office network with Spanish residents, irrespective of the use of the funds:

Thousands of euros	**2016**	**2015**
Branches in Spain	92,633,771	95,872,278
Andalucía	14,826,663	15,295,224
Aragón	1,240,801	1,384,360
Asturias	1,488,596	1,547,369
Islas Baleares	1,731,713	1,789,185
Canary Islands	2,017,591	2,082,159
Cantabria	354,982	350,580
Castilla - La Mancha	2,036,142	2,166,002
Castilla y León	4,758,670	5,003,578
Cataluña	10,118,733	10,304,235
Extremadura	855,364	877,872
Galicia	7,591,542	7,990,229
Madrid	33,526,258	34,421,585
Murcia	2,440,288	2,618,306
Navarra	916,125	999,722
País Vasco	2,519,556	2,688,565
La Rioja	549,371	532,726
Comunidad Valenciana	5,588,995	5,753,566
Ceuta	34,671	30,168
Melilla	37,710	36,847
Branches in Portugal	22,125	25,660
Total	92,655,896	95,897,938

Set out below is a breakdown by country of the branches in which the lending transactions with non-residents were arranged:

Thousands of euros	**2016**	**2015**
Spain	3,312,604	3,243,854
Portugal	6,320,480	6,159,160
USA	1,996,993	1,784,121
In Argentina	-	66
Total	11,630,077	11,187,201

The average interest rate on loans and advances to customers was 2.65% in 2016 and 3.21% in 2015.

A breakdown of loans and advances to customers into euros and foreign currencies, based on the currency in which refund occurs regardless of the currency in which it was executed, it is as follows

Thousands of euros	2016		2015	
	Euros	Foreign currency	Euros	Foreign currency
Accounts receivable from public authorities	4,820,339	10,745	5,327,992	-
Resident sectors:	4,820,339	-	5,327,992	-
Central government	3,136,351	-	3,387,499	-
Regional government	1,509,612	-	1,752,502	-
Local government	150,259	-	186,925	-
Social security	557	-	651	-
Doubtful assets	23,560	-	415	-
Non-resident sectors:	-	10,745	-	-
Private sectors:	94,965,648	4,499,986	97,604,170	4,153,048
Resident sectors:	86,082,448	1,753,109	88,961,453	1,608,498
Trade credit	3,529,720	-	3,723,662	60
Secured loans	30,208,778	864,773	33,451,506	851,308
Mortgages	29,449,069	805,251	32,531,993	850,136
Other	759,709	59,522	919,513	1,172
Asset repos	6,584,790	-	6,177,822	-
Other term loans	23,367,554	805,029	24,291,887	690,259
Finance lease	1,811,210	-	1,903,505	-
Overdrafts and other	2,026,548	3,920	1,896,580	3,626
Other loans	229,628	3	196,810	5
Doubtful assets	18,324,220	79,384	17,319,681	63,240
Non-resident sectors:	8,883,200	2,746,877	8,642,717	2,544,550
Trade credit	576,772	-	341,084	-
Secured loans	2,742,578	1,848,817	2,665,809	1,680,085
Mortgages	2,690,215	1,806,279	2,650,420	1,669,157
Other	52,363	42,538	15,389	10,928
Asset repos	-	-	-	-
Other term loans	3,849,677	852,331	4,072,192	836,584
Finance lease	361,758	-	333,990	-
Overdrafts and other	452,931	10,089	476,957	21,513
Other loans	-	432	-	132
Doubtful assets	899,484	35,208	752,685	6,236
Total loans and advances to customers	99,785,987	4,510,731	102,932,162	4,153,048
Valuation adjustments (+/-)	(9,925,115)	(28,688)	(7,417,476)	(29,965)
Total	89,860,872	4,482,043	95,514,686	4,123,083

A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

Thousands of euros	2016	2015
USD	3,505,693	3,076,827
GBP	37,614	93,065
CHF	251,995	285,156
JPY	660,315	671,420
Other	55,114	26,580
Total	4,510,731	4,153,048

The heading “Other loans” under loans and advances to customers is as follows:

Thousands of euros	2016	2015
Financial transactions pending settlement	47,615	6,202
Cash guarantees provided	71,286	74,488
Commissions and fees for financial guarantees	17,234	18,116
Other	93,928	98,141
Total	230,063	196,947

The balance of “Cash guarantees provided” includes those lodged with various European clearing houses covering the sale of securities from our portfolio.

Financial guarantee commissions and fees reflect the present value of future cash flows pending collection, with a balancing entry in “Other financial liabilities”, from where they are taken to the income statement on a straight-line basis as fee and commission income.

Impairment of Loans and receivables

The Group estimates that the value corrections for impairment and provisions recognised by the Group are adequate to cover possible impairment of assets and the results of the contingencies that the Group has in progress.

The changes in the impairment of loans and receivables through the income statement (Note 61) in 2016 and 2015 were as follows:

Thousands of euros	2016	2015
Loans:		
Net provisions	3,845,253	1,472,072
Additions to provisions	7,642,461	5,308,549
Available in the current year	(1,839,970)	(887,405)
Reversal of impairment losses recognised in prior years	(1,957,238)	(2,949,072)
Depreciation and Amortisation	99,142	39,112
Recoveries of written-off assets	(97,149)	(128,267)
Total	3,847,246	1,382,917

These movements contemplate the accounting records of all additions, under provisions, and disposals, under available and under recoveries, taking into account that the same risk may be classed as doubtful at various times throughout the year based on it having, or not, defaults of more than 90 days.

The increase in provisions in 2016, compared to 2015 as a result of the application of the new internal models explained in notes 3.b) and 15.h) of this Report.

Set out below is a breakdown of Value corrections for asset impairment in Loans and Receivables at 31 December 2016 and 2015:

Thousands of euros	**2016**	**2015**
By type of cover		
Specific provision	9,723,760	7,723,604
Credit Institutions	3,141	3,041
Resident sectors	9,340,000	7,173,988
Non-resident sectors	380,619	546,575
Generic provision	323,998	-
Credit Institutions	-	-
Resident sectors	318,795	-
Non-resident sectors	5,203	-
Country-risk provision	293	507
Credit Institutions	-	-
Resident sectors	-	40
Non-resident sectors	293	467
Total	10,048,051	7,724,111

The changes in 2016 and 2015 in value corrections for asset impairment under Loans and advances to customers were as follows:

Thousands of euros	**Specific provision**	**Generic provision**	**Country-risk provision**	**Total**
Opening balance 2015	8,235,678	-	913	8,236,591
Allocated to profit or loss:				-
Net provisions	1,472,493	-	(421)	1,472,072
Provisions applied	(1,267,908)	-	-	(1,267,908)
Other changes and transfers	(716,659)	-	15	(716,644)
Closing balance 2015	7,723,604	-	507	7,724,111
Allocated to profit or loss:				
Net provisions	3,521,424	323,998	(169)	3,845,253
Provisions applied	(489,685)	-	-	(489,685)
Other changes and transfers	(1,031,583)	-	(45)	(1,031,628)
Closing balance 2016	9,723,760	323,998	293	10,048,051

Set out below is a breakdown showing individual and collective provisions:

Thousands of euros	2016	2015
Determined individually	4,774,583	2,597,273
Determined collectively	5,273,468	5,126,838
Total	10,048,051	7,724,111

Other risks

On 21 January 2016 the Group was notified of the Supreme Court ruling of 23 December 2015 handing down the collective order submitted by the OCU (Consumers and Users Organisation). The ruling declares the nullity of the clause in Banco Popular Español and orders the cessation in its use

After receiving the judgement OCU 21/01/2016 the Group informed the market that from the date of publication of the ruling it upheld the decision and from that date the floor clauses included in Banco Popular Español's contracts would be removed.

Additionally, in 2010, ADICAE presented a collective macro-process before Commercial Court 11 in Madrid against practically all financial entities which include limits on the variation of interest rates on their mortgage loan contracts for natural persons, including Banco Popular Español and Banco Pastor, a collective action requesting the cessation of the floor clause refunding charges levied by its application. This process was seen for sentencing in the first instance dated 24 June 2015, and the judgment was published on 7 April 2016. In its current wording, and leaving aside the possible appeal, the judgement (i) declares the nullity of the floor clauses contained in the mortgage loan agreements signed with consumers identical to those transcribed in the legal basis of said judgment, due to lack of transparency, (ii) sentences the entities to eliminate said clauses from the contracts in which they are inserted and to cease their use, (iii) declares the subsistence of the mortgage loan agreements in force signed by the defendant banks which Included the clauses whose use it is ordered to cease, and (iv) sentences the return of amounts wrongly paid pursuant to clauses declared null as of 9 May 2013, with the interests that legally correspond. The judgement in relation to the exclusion of the resolution of certain groups of clients did not conclude on this aspect since it considers it necessary to make an individualised assessment on the transparency of the floor clauses incorporated into the signed contracts. This judgement is not final, and in response to it, requests have been made to complement and clarify the judgement, announcing our intention to appeal to the Provincial Court of Madrid. The Group has argued in favour that the floor clauses on their mortgage deeds were lawful, non-abusive and transparent.

On the other hand, there are also individual actions that are underway in various courts. Regarding individual actions whose processes have been completed, it should be noted that the sentences have been completed in different ways either for or against the plaintiff.

At the time of preparation of the consolidated financial statements for 2015, our estimate concluded the risk assessment of full retroactivity as remote, for which we relied both on the analyses carried out by our legal advisor and on the analyses carried out by our external legal advisors. These advisors concluded that based on current jurisprudence and the nature of the litigation that the risk was remote. In relation to the quantification of the amount stated, it was based on the same criteria applied for the estimate recorded in the 2015 financial statements.

In relation to the process opened at the Court of Justice of the European Union, if offered the news in the process about the compatibility with European law of the formula of limited retroactivity applied by the Spanish Supreme Court in these floor clause cases. On 13 July 2016, the Advocate General Mr Mengozzi delivered his conclusions on the pending matters C-154/15, C-307/15 and C-308/15. The conclusions were favourable to the doctrine drawn up by the Spanish Supreme Court in its ruling of 9 May 2013 and subsequent ones that followed it on that matter.

The Advocate General observes that a Supreme Court may exceptionally time limit the effects of its decision by weighing the protection of consumers against the macroeconomic implications associated with the extent to which the floor clauses were used with said time limitation justified for the effects of the nullity of an abusive clause, without breaking the relationship between the consumer and the professional. The Advocate General therefore proposes that the Court of Justice of the European Union declare that the time limitation of the effects of the nullity of floor clauses included in mortgage loan agreements in Spain is compatible with the Directive on the protection of consumers, giving retroactivity valid from 9 May 2013, as indicated in the Supreme Court's Judgement and not requiring retroactivity from the beginning.

As a better estimate, at the end of December 2015, a provision was recorded to cover possible contingencies of floor clauses of 350 million euros. Following the publication of the OCU ruling on 21 January 2016, a transversal team was set up at the Bank to determine the population for which the floor clauses would terminate with immediate effect. The perimeter affected by the judgement was reviewed, including all the titleholders of the operations (in the estimate of 31 December 2015 only the first titleholder was considered) and more detailed information on the destination of the financing.

During 2016, this estimate has been updated in relation to provisions for retroactive effect until May 2013, standing at 31 December 2016 at 282 million euros, having recovered 53 million euros and having applied 15 million euros throughout 2016.

Following the judgment of the EU Court on 21 December 2016 which obliges the retroactive effect to origin of the floor clauses to be considered, the provision made by this concept has been updated, which has been estimated finally at 229 million euros for retroactive effect from the beginning until May 2013, provided for in 2016.

The provision fund constituted at 31 December 2016 for this process amounts to 511 million euros.

Such estimates have been made based on hypotheses, assumptions and premises which are considered reasonable even though they may not materialise, apart from a high uncertainty about the potential group of mortgages which could be affected. This estimate has been made based on the analysis and conclusions obtained by internal legal advisors.

Set out below is a breakdown of the carrying amounts of Loans and advances to customers past-due and not impaired, by debtor residence and period since default:

Thousands of euros	2016			2015		
	Resident sectors	Non-resident sectors	Total	Resident sectors	Non-resident sectors	Total
Up to 1 month	336,536	7,817	344,353	444,559	10,994	455,553
1 to 2 months	25,678	17,446	43,124	91,936	18,169	110,105
2 to 3 months	9,531	63,059	72,590	47,278	7,815	55,093
Total	371,745	88,322	460,067	583,773	36,978	620,751

Accrued interest accumulated, past-due and receivable on impaired financial assets, up until the date on which accrual was interrupted due to their classification as doubtful assets, totalled 460,067 thousand euros in 2016 and 620,751 thousand euros in 2015.

Not taking into account the adjustments or eliminations on consolidation, the following table shows written-off assets, defined as the principal of impaired financial assets plus interest accrued and receivable that have been written off the balance sheet when chances of recovery are deemed to be remote.

Derecognition does not in any case preclude the instigation by the Group of legal actions to recover the debts.

The definitive derecognition of these accounts occurs when the amounts due are recovered, the debt is cancelled, the statute-of-limitations period expires or for other reasons.

Thousands of euros	**2016**	**2015**
Balance at 31 December of the previous year	5,178,892	5,116,143
Additions: Charged to value corrections for asset impairment	1,084,957	1,270,112
Charged directly to the income statement	100,007	40,984
Uncollected past-due amounts	244,031	269,694
Other	6,980	303
Total recognition	1,435,975	1,581,093
Derecognitions: For recovery of principal in cash	86,358	109,802
Due to recovery of uncollected past-due amounts in cash	11,701	8,470
Due to cancellation	269,452	457,645
Due to expiry of the statute-of-limitations period	-	-
Due to foreclosure of tangible assets	963	2,581
Due to foreclosure of other assets	-	1
Due to debt restructuring	1,998	2,116
Due to other reasons	1,051,407	937,730
Total reductions	1,421,879	1,518,345
Net change due to exchange differences	1	1
Balance at 31 December of reporting year	5,192,989	5,178,892

In derecognitions for other reasons the sale of written-off assets in 2015 amounting to 439,645 thousand euros should be noted.

Property market

As part of the policy to continuously improve the Banco Popular Group's transparency policy, which is its calling card, set out below is information on the Group's exposure to the property market in Spain at 31 December 2016.

Construction and property development

The Group's exposure to these market sectors in Spain is analysed in the following tables:

Financing for construction and property development and related allowances

Thousands of euros	Gross carrying amount	Surplus over value of collateral	Accumulated impairment value	Carrying Amount
Financing for construction and property development (including land) (transactions in Spain)	13,351,750	4,946,825	5,002,757	8,348,993
Of which: With default/doubtful	9,181,312	4,025,875	4,987,414	4,193,898

	Gross carrying amount
Memorandum item:	
Written-off assets	1,527,060

	Amount
Memorandum item:	
Loans and advances to customers, excluding public authorities (businesses in Spain) (carrying amount)	91,689,636
Total assets (total businesses) (carrying amount)	147,925,728
Impairment value and provisions for exposures classified as normal (total businesses)	76,988

(*) Only considers the value of eligible guarantees by Banco de España for the calculation of provisions. It does not include the value of financial guarantees received.

Set out below is a breakdown of this financing by type of collateral and purpose of the transaction:

Breakdown of financing for construction and property development

Thousands of euros	**Gross carrying amount**
Without mortgage guarantee	2,764,761
With mortgage guarantee (broken down according to asset type received as guarantee)	10,586,989
Buildings and other completed structures	5,764,598
Housing	2,150,273
Other	3,614,325
Buildings and other structures under construction	1,637,017
Housing	534,879
Other	1,102,138
Land	3,185,374
Consolidated urban land	2,751,623
Other land	433,751
Total	13,351,750

As regards exposure to the retail mortgage market, the following table contains details of home loans granted in Spain:

Thousands of euros	**Gross carrying amount**	**Of which: With default/doubtful**
Home purchase loans	17,734,266	764,816
Without mortgage	182,049	28,706
With mortgage	17,552,217	736,110

The following table shows exposure as a percentage of the appraised value of properties for the home loans with mortgage security reflected in the previous table:

Breakdown of loans with mortgage security by total risk as a percentage of the latest available appraisal (loan-to-value).

	Gross carrying amount as % of latest appraisal (loan to value)					
Thousands of euros	**Less than or equal to 40%**	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**More than 100%**	**TOTAL**
Gross carrying amount	3,339,382	5,378,897	5,346,639	1,836,472	1,650,827	17,552,217
Of which: With default/doubtful	96,431	127,659	257,803	156,792	97,425	736,110

Below shows with amount of guarantees received and financial guarantees granted:

Thousands of euros	**Value of guarantees**
Value of collateral	**7,840,311**
Of which: guarantees doubtful risks	**4,301,029**
Value of other guarantees	**553,977**
Of which: guarantees doubtful risks	349,971
Total value of guarantees received	**8,394,288**

Financial guarantees

Thousands of euros	**Value of guarantees**
Financial guarantees granted related to construction and property development	**77,818**
Amount registered in liabilities of the balance sheet	-

Lastly, set out below is information on the assets foreclosed in Spain by consolidated subsidiaries (non-current assets held for sale, inventories and investment property):

Thousands of euros	Gross Value	Of which: Value corrections for impairment of assets	Carrying amount
Property assets from financing for construction and property development	12,364,591	5,333,271	7,031,320
Buildings and other completed structures	4,730,902	1,402,458	3,328,444
Housing	2,660,394	772,686	1,887,708
Other	2,070,508	629,772	1,440,736
Buildings and other structures under construction	277,489	98,249	179,240
Housing	250,601	89,599	161,002
Other	26,888	8,650	18,238
Land	7,356,200	3,832,564	3,523,636
Consolidated urban land	2,587,937	1,152,497	1,435,440
Other land	4,768,263	2,680,067	2,088,196
Property assets from home purchase mortgage loans to households	1,432,704	413,170	1,019,534
Other property assets foreclosed or received in settlement of debt	2,767,001	691,984	2,075,017
Equity instruments foreclosed or received in settlement of debt	-	-	-
Equity instruments of entities holding property assets foreclosed or received in settlement of debt	287,188	107,227	179,961
Financing to entities holding property assets foreclosed or received in settlement of debt	-	-	-

Set out below are the figures for 2015:

Thousands of euros	Gross carrying amount	Surplus over value of collateral	Accumulated impairment value	Carrying Amount
Financing for construction and property development (including land) (transactions in Spain)	15,891,503	6,342,634	3,957,530	11,933,973
Of which: With default/doubtful	9,488,456	3,922,251	3,659,767	5,828,689

	Gross carrying amount
Memorandum item:	
Written-off assets	1,835,065

	Amount
Memorandum item:	
Loans and advances to customers, excluding public authorities (businesses in Spain) (carrying amount)	94,243,986
Total assets (total businesses) (carrying amount)	158,649,873
Impairment value and provisions for exposures classified as normal (total businesses)	-

Thousands of euros	Gross carrying amount
Without mortgage guarantee	5,293,218
With mortgage guarantee (broken down according to asset type received as guarantee)	10,598,285
Buildings and other completed structures	6,682,660
Housing	3,219,786
Other	3,462,874
Buildings and other structures under construction	1,280,448
Housing	884,669
Other	395,779
Land	2,635,177
Consolidated urban land	2,439,454
Other land	195,723
Total	15,891,503

Thousands of euros	Gross carrying amount	Of which: With default/doubtful
Home purchase loans	17,519,167	799,876
Without mortgage	10,786	-
With mortgage	17,508,381	799,876

	Gross carrying amount as % of latest appraisal (loan to value)					
Thousands of euros	**Less than or equal to 40%**	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**More than 100%**	**TOTAL**
Gross carrying amount	3,822,345	5,710,758	5,019,994	1,657,278	1,298,006	17,508,381
Of which: With default/doubtful	124,844	155,772	296,851	131,011	91,398	799,876

Thousands of euros	Value of guarantees
Value of collateral	**10,707,383**
Of which: guarantees doubtful risks	5,373,484
Value of other guarantees	**502,804**
Of which: guarantees doubtful risks	269,987
Total value of guarantees received	**11,210,187**

Financial guarantees	
Thousands of euros	**Value of guarantees**
Financial guarantees granted related to construction and property development	**123,260**
Amount registered in liabilities of the balance sheet	-

Thousands of euros			
	Gross Value	**Of which: Value corrections for impairment of assets**	**Carrying amount**
Property assets from financing for construction and property development	11,439,825	4,548,690	6,891,135
Buildings and other completed structures	4,355,258	1,248,588	3,106,670
Housing	2,742,284	807,431	1,934,853
Other	1,612,974	441,157	1,171,817
Buildings and other structures under construction	398,665	134,645	264,020
Housing	349,150	116,050	233,100
Other	49,515	18,595	30,920
Land	6,685,902	3,165,457	3,520,445
Consolidated urban land	2,812,358	1,196,589	1,615,769
Other land	3,873,544	1,968,868	1,904,676
Property assets from home purchase mortgage loans to households	1,436,997	413,105	1,023,892
Other property assets foreclosed or received in settlement of debt	2,727,107	685,800	2,041,307
Equity instruments foreclosed or received in settlement of debt	-	-	-
Equity instruments of entities holding property assets foreclosed or received in settlement of debt	529,000	364,000	165,000
Financing to entities holding property assets foreclosed or received in settlement of debt	-	-	-

Real estate and related business management

Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria, has participated in the management of the recovery of non-performing customers who had mortgage security, although the final decision rested within the Bank. Aliseda SGI managed, within authorised limits, the sale of the foreclosed properties. From January 2015, the SBU, Specialised Business Unit has concentrated on restructuring, collections and clients recovery activities related to the real estate market, specifically managing promoter customers whose management was not transferred to Aliseda SGI.

In October 2016, the Group created the General Management of Property Business and Asset Transformation (NITA), whose main objective is the specialised management of the Real estate and related business and the management of recoveries, as indicated above.

In addition to recoveries, NITA manages two large areas; the risks associated with its perimeter, mainly property both healthy and impaired, and the divestments of both foreclosed assets such as from the debtor's balance sheet, and the sale of loans to third parties. It also supports an operations and processes unit which supports this activity and ensures the control of the third parties involved (recovery companies, servicers, etc.). It also has its own branch office network to specialise in the property and recovery activities of its perimeter. The NITA network is expected to be deployed and operational throughout the first quarter of 2017.

24. Held-to-maturity investments

At the end of the 2-year contamination period during which the Group was unable to record amounts in this portfolio, after having realised significant sales during 2013, during 2016, the Group recorded 4,583,511 thousand euros in the Held-to-maturity investments portfolio corresponding to the balance at 31 December 2016 from the portfolio of available-for-sale financial assets.

Securities classified in this portfolio meet the requirements of trading in an active market, have a fixed maturity and cash flows of a determined amount.

In this sense, the Group has both the positive intention as well as the financial ability to hold and retain it until its maturity. During 2015, the Group did not hold balances in this category as a result of that stated at the start of this paragraph.

The average interest rate on the held-to-maturity portfolio, without taking fair value hedges into account, was 2.62% in 2016.

25. Fair value changes of the hedged items in portfolio hedge of interest rate risk

During 2016, the Group maintained interest rate hedges portfolio in effect at the close of 2015. The balance of this item in the current year amounts to 265,519 thousand euros, as compared with 233,228 thousand euros at year-end 2015.

Changes in the fair value of such hedged assets are recognised in profit and loss against "Fair value changes of hedged items in portfolio hedge of interest rate risk". No macro-hedges have been arranged for Financial liabilities.

26. Derivatives - asset and liability hedge accounting

These balance sheet captions reflect the fair values for (Assets) or against (Liabilities) of the entities in respect of derivatives designated as hedging instruments in accounting hedges.

The criteria for determining the conditions and recognition of hedges are explained in Note 15.d). The net gain/(loss) on hedging derivatives is reflected on the line "Gains or (-) losses from hedge accounting, net" in the table in Note 52, as analysed below:

Thousands of euros	2016			2015		
	Gain	Loss	Net	Gain	Loss	Net
Hedging instruments	524,852	490,966	33,886	644,230	612,981	31,249
Hedged items	597,048	632,418	(35,370)	623,036	657,881	(34,845)
Total	1,121,900	1,123,384	(1,484)	1,267,266	1,270,862	(3,596)

a) Fair value hedges

The following table shows the type of risks hedged, the instruments used for fair value hedges and the notional and carrying amounts of the hedges.

Thousands of euros	2016			2015		
	Carrying amount		Notional amount	Carrying amount		Notional amount
	Positive Valuation	Negative Valuation	Total	Positive Valuation	Negative Valuation	Total
Interest rate	214,797	887,289	20,185,485	385,942	1,462,567	29,963,063
OTC Options	-	66,242	766,911	-	49,911	683,209
Other OTC	214,797	821,047	19,155,281	385,942	1,412,656	28,384,216
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	263,293	-	-	895,638
Equity instruments	41,032	31,318	2,872,448	46,869	42,139	2,595,949
OTC Options	6,156	32	1,313,260	6,368	298	1,175,684
Other OTC	34,876	31,286	1,559,188	40,501	41,841	1,420,265
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Foreign currency and gold	-	-	-	-	-	-
OTC Options	-	-	-	-	-	-
Other OTC	-	-	-	-	-	-
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Loans	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
Options on credit differential	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
Other	-	-	-	-	-	-
Raw materials	-	-	-	-	-	-
Other	-	-	-	-	-	-
FAIR VALUE HEDGES	**255,829**	**918,607**	**23,057,933**	**432,811**	**1,504,706**	**32,559,012**
FAIR VALUE HEDGES OF INTEREST RATE RISK OF THE PORTFOLIO	**-**	**190,253**	**1,914,500**	**-**	**440,634**	**3,987,300**

The notional amounts of fair value hedge instruments reflected in the above table relate to the following hedged balance sheet items:

Thousands of euros	**2016**	**2015**
Asset hedges	15,888,910	27,818,698
Loans and advances to credit institutions	-	-
Loans and advances to customers	3,488,571	6,104,731
Available-for-sale assets	12,400,339	21,713,967
Liability hedges	9,083,522	8,727,615
Deposits from credit institutions	-	-
Customer deposits	2,900,932	2,595,949
Debt certificates	6,182,590	6,131,666
Total	24,972,432	36,546,313

b) Cash flow hedges

The following table shows the notional and carrying amounts at year-end 2016 and 2015 of the types of cash flows that are fully hedged at that date, Debt certificates. As explained in Note 41, in Accumulated other comprehensive income, the amount recognised in this item is the value of the effective portion of 2016 cash flow hedges, which matured in 2016.

Thousands of euros			**2016**			**2015**
	Carrying amount		**Notional amount**	**Carrying amount**		**Notional amount**
	Positive Valuation	**Negative Valuation**	**Total**	**Positive Valuation**	**Negative Valuation**	**Total**
Interest rate	23,894	92,350	1,266,165	5,381	68,634	1,384,756
OTC Options	-	-	-	-	-	-
Other OTC	23,894	92,350	1,266,165	5,381	68,634	1,384,756
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
OTC Options	-	-	-	-	-	-
Other OTC	-	-	-	-	-	-
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Foreign currency and gold	-	-	-	-	-	-
OTC Options	-	-	-	-	-	-
Other OTC	-	-	-	-	-	-
Options in organised markets	-	-	-	-	-	-
Others in organised markets	-	-	-	-	-	-
Loans	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
Options on credit differential	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
Other	-	-	-	-	-	-
Raw materials	-	-	-	-	-	-
Other	-	-	-	-	-	-
CASH FLOW HEDGES	**23,894**	**92,350**	**1,266,165**	**5,381**	**68,634**	**1,384,756**

The gross amount recognised in Accumulated other comprehensive income deriving from the valuation of cash flow hedging derivatives totalled (104,044) thousand euros in 2016 and (131,822) thousand euros in 2015. (Note 41).

For the table to 31 December 2016, the current cash hedges correspond to operations which cover issues from floating-rate liabilities amounting to 1,242 million euros. This balance also justifies another contracted operation in 2014 in the amount of 156 million euros for overseas business relating to Banco Popular's 24.9% shareholding in the Mexican financial group Ve por Más, S.A. de C.V.

For the table to 31 December 2015, the current cash hedges corresponded to operations which cover issues from floating-rate liabilities amounting to 1,205 million euros. This balance also justified another contracted operation in 2014 in the amount of 179 million euros for overseas business relating to Banco Popular's 24.99 % shareholding in the Mexican financial group Ve por Más, S.A. de C.V.

c) Hedge of net investments in foreign operations

The following table shows the nominal value and the corresponding valuations, at 2016 and 2015, on the net investments in foreign operations which are fully hedged which, at that time, the corresponding operation shows Banco Popular's 24.99% shareholding in Mexican financial group Ve por Más, S.A. de C.V.

Thousands of euros			2016			2015
	Carrying amount		Notional amount	Carrying amount		Notional amount
	Positive Valuation	Negative Valuation	Total	Positive Valuation	Negative Valuation	Total
HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS	15,496	654	87,042	4,876	-	104,801

27. Non-current assets and disposal groups classified as held for sale

This caption in the Group's consolidated balance sheet relates basically to purchased or foreclosed assets received by the Group from its borrowers or other debtors for total or partial settlement of financial assets representing debt claims against the borrowers or debtors. Additionally, the Group has obtained buildings by means of purchase or the dation of debt claims so as to avoid, in many cases, difficulties that could be encountered by debtors when repaying their debts. These assets are initially recognised at the net amount of the financial assets delivered, taking into account any valuation adjustments to the assets. The amounts for both periods are analysed below.

Thousands of euros	2016	2015
Non-current assets and disposal groups classified as held for sale	8,891,678	9,045,928
Debt securities	-	-
Equity instruments	-	-
Property, Plant and Equipment	8,891,678	9,045,928

In the sale of these assets the Group recognised a net result of (64,623) thousand euros (profit of 269,384 and loss of 334,007) in 2016 and a net result of (88,498) thousand euros (profit of 383,518 and loss of 472,016) in 2015, as reflected in note 65 of this Report.

Additions to this caption relate basically to foreclosed assets, payment-in-king in payment of debt claims and purchases of assets that secured loans which were not repaid on a timely basis. Disposals arise in all cases from the sale or transfer of the assets to tangible fixed assets for own use, investment property or inventories.

The movements witnessed during 2016 and 2015 in non-current assets and disposal groups classified as held for sale are as follows:

Thousands of euros	
Opening balance 2015	8,201,378
Additions	3,045,563
Disposals	2,464,005
Change in value corrections (1)	(262,992)
Closing balance 2015	9,045,928
Additions	2,771,922
Disposals	1,907,900
Change in value corrections	1,018,272
Closing balance 2016	8,891,678

(1) Includes 226,932 thousand euros arising from the contribution of real estate by the banks and related value adjustments due to the capital increase in the group's real estate companies, mainly Aliseda, SAU., Inversiones Inmobiliarias Canvives, SAU. and Inversiones Inmobiliarias Tamadaba, S.A.

The increase in the variation of provisions in 2016, compared to 2015 as a result of the application of the new internal appraisal update models and discount models explained in notes 3.b) and 15.y) of this Report.

Transactions recognised in Gains or (-) losses on non-current assets or disposal groups held for sale in the consolidated income statements in 2016 and 2015 are as follows:

Thousands of euros	**2016**	**2015**
With balancing entry in profit and loss (Note 65)		
Net profit per sale	(64,623)	(88,498)
Impairment losses	1,253,755	245,753
Total	(1,318,378)	(334,251)

28. Investments in subsidiaries, joint ventures and associates

This caption in the Group's consolidated balance sheets solely covers equity-consolidated associates and joint ventures.

The carrying amount includes the balances of the subordinated loans granted by the Group, if applicable. The changes in these investments in 2016 and 2015 are set out below:

Thousands of euros	**2016**	**2015**
Joint Ventures	728,765	445,596
Credit Institutions	574,109	320,873
Insurance companies	-	-
Other institutions	154,656	124,723
Total carrying amount of joint ventures	728,765	445,596
Value corrections for impairment of assets	-	-
Other valuation adjustments	208,963	208,963
Total Joint ventures	937,728	654,559
Associates	515,555	580,953
Credit Institutions	90,794	163,224
Insurance companies	50,556	92,178
Other institutions	374,205	325,551
Total carrying amount of associates	515,555	580,953
Value corrections for impairment of assets	-	-
Other valuation adjustments	411,859	558,497
Total associates	927,414	1,139,450
Total investments	1,865,142	1,794,009

In accordance with IFRS 11, joint ventures have been accounted for using the equity method since January 2014.

In 2016, the most significant movements regarding Joint Ventures is the increase in the carrying amount of Wizink Bank, S.A. in the amount of 251,611 thousand euros of which 196,349 thousand euros is the result of a capital increase performed by Wizink Bank, S.A. for the acquisition of the Barclaycard card business in Spain and Portugal.

In 2015 the more significant movements with respect to Joint ventures were the following:

- The transfer of Targobank, S.A. and TargoInmuebles, S.A. from joint venture to business partners, as a result of the sale of 1% as referred to in Note 2 c), which also involves the transfer of scope of consolidation, a reduction of the carrying value of the shareholding amounting to 2,643 thousand and a decrease in goodwill amounting to 3,598 thousand, as evidenced in Other valuation adjustments.
- The amount of the transfer of joint ventures to associates, for the loss of control of Targobank. S.A., is 169,277 thousand euros in Other valuation adjustments for associated Goodwill consolidation, and 163,224 thousand euros, in the carrying value of the shareholding,
- The incorporation as a Joint Venture of the Portuguese company Primestar Servicing, S.A., a company in which it owned 20% as referenced in Note 2.
- And in company Aliseda SGI two share premiums dated 29.06.2015 and 27.11.2015 were made for the amount of 5,044 and 59,444 thousand euros respectively, which implicitly assumed a reduction in the carrying value of the shareholding.

With regard to associates, in 2016 the most significant movements are as follows:

- The recognition of the company Compañía Española de Viviendas en alquiler, S.A.(Cevasa), as a result of successive acquisitions of shares, reached 24.07% of the shareholding in June 2016.
- The restructuring of the goodwill of Targobank, S.A. in the amount of 169,277 thousand euros (as reflected in note 62 of this Report), and
- the reduction in the carrying amount of the company Metrovacesa, S.A. compared to 2015. This decrease is due to the different corporate operations of Metrovacesa and, in particular, to Merlin Properties, Socimi, S.A., which is considered an equity instrument (see note 2 c and 28 other shareholdings).

Regarding associates, in 2015, the shareholdings of the following companies were deregistered through their sale;

- Universal Pay entidad de pago, S.L, a company which had a 50% shareholding.
- Puertos Futuros, a company which had a 49% shareholding.
- And, Amarres deportivos, a company which had an 80% shareholding.

The shares of these associates were not listed on organised markets.

Of the goodwill included, tests are run to check for impairment, pursuant to the provisions of IAS 36. The detail of the testing methodology is shown in note 15s.

a) Goodwill of Targobank

At 31 December 2016 it has been impaired in full after being 169.3 million euros at 31 December 2015.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on will include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.02% discount rate, comprising a risk-free rate (Spanish 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

The result from Targobank in 2016 led to the recognition of losses in the amount of 143,600 thousand euros as a result of the increase in impairment losses on loans and advances to customers recorded in the 4th quarter of 2016, not forecast at 31 December 2015. In addition, Targobank's Management has revised its results estimates for the next three years, reducing expected results compared to previous estimates. As a result, the company's value in use has deteriorated and has involved full consolidation of existing goodwill.

b) Goodwill of Allianz

At 31 December 2016 it amounted to 346.8 million euros, the same as in December 2015.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. This CGU includes three different business types: life, pensions and asset management, with estimates made separately. Growth rates of 3.5%, 2.10% and 0% have been used respectively. As regards the discount rate used, it is also different on account of the different correlation concerning these businesses with the risk-free premium. The rates of 8.00%, 9.00% and 9.00% have been used respectively.

Additionally an analysis has been carried out on the sensitivity of growth variables and the cost of capital. They generate a variation of +10% and -8% in the value in use for changes in the cost of capital and between 6% and -3% for variations of the final growth rate, but remain above the company's reference value.

This evaluation has revealed that no impairment need be recognised at 31 December 2016 and 2015.

c) Goodwill of Grupo Financiero Ve por Más S.a. de CV

At 31 December 2016 it was 34.2 million euros, having been 42.4 million euros in December 2015.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used.

In order to determine the present value of projected flows, a sustainable growth rate of 2.3% has been used to extrapolate flows to perpetuity (taking into account provisions made by the Bank of Mexico), and a 12.16% discount rate, comprising a risk-free rate (Mexican 10-year bond in December) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Mexican bonds, to which the average beta of similar financial institutions in this country have been applied.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (4.85)% and 6.52%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 1.02% and 0.97% respectively.

It was not considered necessary to recognise impairment as at 31 December 2016 as a result of this evaluation. As contrast an analysis of backtesting has been carried out checking that the objectives outlined in the business plan as a basis for analysis are being met on a recurring basis, without significant deviations.

d) Wizink Bank, S.A. Goodwill

At 31 December 2016 it amounted to 208.9 million euros, the same as in December 2015.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 10.01% discount rate, comprising a risk-free rate (Spanish 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's average beta has been applied to similar financial institutions in Spain.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (5.56)% and 6.35%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 4.42% and 3.87% respectively.

It was not considered necessary to recognise impairment as at 31 December 2016 as a result of this evaluation.

Other investments

Regarding the significant influence exercised on Metrovacesa, S.A., as indicated in Note 2.c of the Report, it should be noted that:

- As a significant corporate milestone, a public acquisition offer was made in May 2013, to delist the company's shares from the stock market; the offer was made by the shareholder financial institutions, except for Bankia (i.e. by Santander, BBVA, Sabadell and Banco Popular), on the free float existing at the time (around 4.4%). The delisting public acquisition offer represented an increase in control by the current shareholders, whereby Banco Popular's ownership interest in the share capital Metrovacesa increased to 12.64%, since the shareholder banks that made the public acquisition offer acquired the shares included in the offer in proportion to their previous shareholdings (11.97% in the case of Banco Popular) and by Bankia (as this bank did not take part in the public acquisition offer, as indicated above).
- At Board meetings held in 2013, very important decisions were adopted, with the favourable vote of Banco Popular, regarding the company's future, such as the commencement of the Jupiter project, which will contribute to the company's sustainability by restructuring its debt. This project, after many months of work, was carried out in June and July 2014 through the sale of the shareholdings that Metrovacesa had in Gecina. The amount obtained from the sale was used to repay a large portion of tranche A of the syndicated financing.
- A non-monetary and monetary contribution formalised in early January 2016 was approved at the Extraordinary General Meeting of 29 December 2015, by the favourable vote of Banco Popular. As a result of these contributions, the Group will have a stake of 9.14% compared with 8% it had at the close on 31 December 2015. These contributions are part of steps designed in the proposed partial split of the land-promotion branch in which Metrovacesa had worked for several months. The project was published in November 2015 and materialised in the Extraordinary General Meeting of 11 January 2016 with the favourable vote of Banco Popular.
- In March 2016, Metrovacesa, S.A., in which Banco Popular Español owns 9.14%, was split into two companies, Metrovacesa Patrimonio, S.A. and Metrovacesa Suelo y Promoción, S.A., with the group maintaining the same ownership percentage over each of them in relation to the ownership it had on the split company. Subsequently, in November 2016, Metrovacesa Patrimonio, S.A., was split into three companies. Of these three companies, the current shareholding by the Banco Popular Group is as follows; 9.14% in Metrovacesa Promoción y Arrendamiento, S.A., 6.01% in Testa Residencial, S.L.U. and 2.86% in Merlín, S.A. Tanto la sociedad Testa Residencial, S.L.U. and Mertrovacesa Promoción y Arrendamiento, S.A. are classed as associate companies due to their having representation on the Board of Directors but not with Merlin S.A. which is classified as an asset available for sale.

As mentioned in Note 2 c), the conditions in which the Group participates in the management of said entity calls for its consideration as an associate.

The investees amount includes goodwill recorded in the balance sheets for these companies. Worth particular mention is the goodwill of Aliseda SGI, which recorded intangible assets of 642 million euros, of which 49% (315 million euros) form part of the group's stake. During 2014, the purchase price allocation was carried out by an independent third party, who deemed that 85.7% of said intangible assets were finite useful life assets associated to the significance of the exclusive agreement with Banco Popular Group, the brand, relationship with suppliers, etc. with the remainder, 14.3% corresponding to goodwill (45 million euros). In both 2016 and 2015, the company has carried out, via an independent expert, the appropriate impairment test which did not reveal impairment to the goodwill.

In 2014, Universal Pay recorded goodwill of 31 million euros and carried out a purchase price allocation; said activity was performed by an independent third party, allocating 87.2% to finite useful life intangible assets and the remaining 12.8% (4 million euros) to goodwill.

All companies have carried out their corresponding goodwill impairment tests and have been revised by the entity.

The change in investments during the year is as follows:

Thousands of euros	Total	Insurance companies	Credit Institutions	Other institutions
Opening balance 2015	1,870,785	433,268	837,105	600,412
Additions	13,019	-	-	13,019
Disposals	109,876	-	6,241	103,635
Changes in value	20,081	5,733	31,473	(17,125)
Profit or loss for the year	35,870	2,461	40,557	(7,148)
Impairment	(550)	-	-	(550)
Adjustments	(15,239)	3,272	(9,084)	(9,427)
Closing balance 2015	1,794,009	439,001	862,337	492,671
Additions	254,866	-	196,349	58,517
Disposals	40,323	-	-	40,323
Changes in value	(143,410)	(41,622)	(184,820)	83,032
Profit or loss for the year	11,425	3,115	(69,330)	77,640
Impairment	(169,277)	-	(169,277)	-
Adjustments	14,442	(44,737)	53,787	5,392
Closing balance 2016	1,865,142	397,379	873,866	593,897

Set out below is a breakdown of the carrying amounts of the companies included in this heading in 2016 and 2015:

Thousands of euros	**2016**	**2015**
Joint Ventures	**937,728**	**654,559**
Inverlur Águilas I, S.L.	2,215	2,239
Inverlur Águilas II, S.L.	6,886	6,953
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago “Iberia Cards”, S.A.	11,436	9,811
Aliseda Servicios de Gestión Inmobiliaria, S.L.	131,811	103,692
Wizink Bank, S.A.	771,636	520,025
Primestar Servicing, S.A.	6,153	5,473
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U.	680	174
Wizink Gesión A.I.E.	-	-
Saite, S.A.	6,911	6,192
Saite-Cobal, S.A.	-	-
Iberalbión A.I.E.	-	-
IM Tarjetas 1, F.T.A.	-	-
Associates:	**927,414**	**1,139,450**
Targoinmuebles, S.A.	-	-
Targobank, S.A.	90,794	332,501
Sistema 4B, S.A.	401	445
Inversiones en Resorts Mediterraneos, S.L.	-	-
Trindade Fundo de Investimento Imobiliario Fechado	21,165	20,147
Aviación Intercontinental, A.I.E	27,976	26,846
Allianz Popular, S.L.	397,379	439,001
Euro Automatic Cash Entidad de Pago, S.L.	38,744	38,874
Compañía Española de Viviendas en Alquiler, S.A.	58,882	-
Metrovacesa, S.A	-	165,037
Metrovacesa Suelo y Promoción, S.A.	109,740	-
Fotovoltaica Monteflecha, S.L.	1,552	7,149
Aevis Europa, S.L.	296	270
Master Red Europa, S.L.	307	274
Gestora Patrimonial c/Francisco Sancha, 12	9,420	3,360
Grupo Financiero Ve por Más S.A. de CV.	100,439	105,546
Sociedad de Procedimientos de Pago, S.L.	98	-
Testa Residencial, S.L.U.	40,379	-
Metrovacesa Promoción y Arrendamiento, S.A.	29,842	-

29. Assets under insurance and reinsurance contracts

Set out below in this heading is a breakdown by company of the consolidated balance sheet at 31 December 2016 and 2015:

Thousands of euros	**2016**	**2015**
Eurovida, S.A. (Portugal)	15,795	15,834
Popular Seguros, S.A.	1,748	1,690
Total	17,543	17,524

30. Tangible assets

There follows a breakdown of the reported investment in property, plant and equipment, net of depreciation and impairment adjustments. Tangible assets for the Group's own use include, if applicable, assets acquired under finance lease from consolidated subsidiaries engaged in leasing activities.

Property leased between Group companies has also been classified as tangible assets for own use.

Thousands of euros	**2016**	**2015**
Property, Plant and Equipment	842,834	777,713
For own use	842,834	777,713
IT equipment and installations	19,736	23,667
Furniture, vehicles and other installations	162,585	154,644
Buildings for own use	426,872	438,145
Assets under construction	238,334	164,029
Other	13,108	13,012
Value corrections for asset impairment (-)	(17,801)	(15,784)
Assets assigned under operating leases	-	-
Tangible assets at amortised cost	-	-
Value corrections for asset impairment (-)	-	-
Investment property	1,352,297	920,072
Buildings and other structures	1,688,675	1,524,156
Value corrections for asset impairment (-)	(336,378)	(604,084)
Total	2,195,131	1,697,785

The "Investment property" activity relates, in a small portion, to activities undertaken by the majority of the Group's banks and, additionally, to the Group's real estate subsidiaries that hold these investments to obtain income or gains and are not expected to sell them in the ordinary course of business.

The evolution of individual items in this heading in the consolidated balance sheets braking down gross amounts, accumulated amortisation and net value adjustment amounts at 31 December 2016 and 2015 is as follows:

Thousands of euros	For own use	Investment property	Assets leased out under operating leases	Total
Gross				
Balance at 01.01.2015	**1,752,316**	**1,700,050**	**10,363**	**3,462,729**
Additions	100,951	81,927	-	182,878
Disposals	153,726	221,189	10,363	385,278
Balance at 31.12.2015	**1,699,541**	**1,560,788**	**-**	**3,260,329**
Additions	134,600	515,666	-	650,266
Disposals	121,822	291,848	-	413,670
Balance at 31.12.2016	**1,712,319**	**1,784,606**	**-**	**3,496,925**
Accumulated amortisation				
Balance at 01.01.2015	**989,702**	**36,286**	**-**	**1,025,988**
Additions charged to profit and loss	45,365	6,427	-	51,792
Disposals	129,023	6,081	-	135,104
Balance at 31.12.2015	**906,044**	**36,632**	**-**	**942,676**
Additions charged to profit and loss	42,785	5,757	-	48,542
Additions without charge to profit and loss*	3,636	56,218		59,854
Disposals	100,781	2,676	-	103,457
Balance at 31.12.2016	**851,684**	**95,931**	**-**	**947,615**
Value corrections for impairment of assets				
Balance at 01.01.2015	**15,784**	**709,709**	**24**	**725,517**
Net Impairment 2015	-	(105,625)	(24)	(105,649)
Net additions	-	(39,993)	-	(39,993)
Net disposals	-	65,632	24	65,656
Balance at 31.12.2015	**15,784**	**604,084**	**-**	**619,868**
Net Impairment 2016	2,017	(267,706)	-	(265,689)
Net additions	3,669	165,794	-	169,463
Net disposals	1,652	433,500	-	435,152
Balance at 31.12.2016	**17,801**	**336,378**	**-**	**354,179**
Net				
Balance at 01.01.2015	**746,830**	**954,055**	**10,339**	**1,711,224**
Balance at 31.12.2015	**777,713**	**920,072**	**-**	**1,697,785**
Balance at 31.12.2016	**842,834**	**1,352,297**	**-**	**2,195,131**

* Entries in accumulated amortisation with no charge to profit/(loss) due to the incorporation to the perimeter of new companies with property investments during 2016

Impairment losses recognised in the year can be seen in Note 62 to the consolidated profit and loss account.

Set out below is an analysis of tangible assets for own use in the consolidated balance sheets for each period:

Thousands of euros	**Gross**	**Accumulated amortisation**	**Impairment adjustments**	**Net**
At 31 December 2016:				
Furniture, IT equipment & installations	962,647	780,326	-	182,321
Buildings for own use	495,362	68,490	17,801	409,071
Other tangible assets for own use	254,310	2,868	-	251,442
Total	**1,712,319**	**851,685**	**17,801**	**842,834**
At 31 December 2015:				
Furniture, IT equipment & installations	1,010,032	831,721	-	178,311
Buildings for own use	511,012	72,867	15,784	422,361
Other tangible assets for own use	178,497	1,456	-	177,041
Total	**1,699,541**	**906,044**	**15,784**	**777,713**

At 31 December 2016 the amount of fully depreciated tangible assets for own use is 725,962 thousand euros. At 31 December 2015, this amount was 730,817 thousand euros.

The Group has been divesting property for own use since 2008. As a result, a number of buildings (branches and other premises) were sold, mostly under sale and lease-back arrangements. The Group has recognised the results of these transactions in the income statement because they were completed at fair value and all the lease-back operations fulfil the requirements to be treated as operating leases.

The agreed terms, which are common practice in the operating lease market, include the provision that the Group's lessees have the right not to extend the lease for a longer period than that stipulated as the first maturity, although the majority of leases include options for the Group to extend the lease for equal periods subject to the update or revision of rentals.

These clauses related to the rental review tie the revision to the performance of the consumer price index. The standard clause included in the lease agreements is as follows:

RENTAL REVIEW

The monthly rental agreed upon will be updated on a yearly basis in accordance with the changes in the Spanish General Consumer Price Index (CPI, General Index), published by the Spanish National Statistics Institute or such body as might replace it.

The Lessee shall be required to pay the updated rental at the end of each year of the lease agreement. For the purposes of determining the updated rental, the rental that the Lessee has been paying in the immediately preceding month, resulting from the various updates that may have been applied in previous years, will be used as a basis for the calculation. For the first year of the agreement, the total rental will be obtained by multiplying the monthly rental by twelve.

Given that this index is published with a certain delay, if the index is not available at the time of the rental review, the Lessee will continue to pay the rental stipulated for the previous period. Once the final index is published, the Lessee will pay the updated rental in the next monthly payment in accordance with the stipulations of this clause. In addition, at this date and according to whether the index has decreased or increased, the parties will adjust the accounts by paying each other the amounts not received since the date on which the rental should have been adjusted. For such purposes, the Lessor must notify the Lessee of the new updated rental in writing, including the new percentage applied and the appropriate certificate from the Spanish National Statistics Institute.

In the event that the Spanish National Statistics Institute should cease to publish the indices referred to in this clause, the stipulated review will be calculated based on such indices or modules as may replace them".

This clause on rental review does not include adding a spread to the performance of the consumer price index, but rather only increases or decreases the rental based on the performance of the reference index.

The average maturity period of the lease agreements was set at 13 years on the date of execution, while agreements in force at year-end 2016 had an average residual maturity of 6.30 years, whereas this figure was 7.21 years for 2015.

The accounting treatment applied is that the embedded derivative is not separated, given that it is considered to be closely related to the host contract, since:

- It is not leveraged, i.e. it is tied to the CPI without a multiplier

The specific paragraph of the standard on which this treatment is based is included in paragraph AG 33.f) of IAS 39: an embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) contingent rentals related to sales made, and (iii) contingent rentals relate to variable interest rates.

With regard to the counterparty, of the 845 lease agreements in force on 31 December 2016, only 7 agreements were entered into with related parties, at market conditions, which represent 0.83% of the total agreements and 7.43% of the lease payments made. In 2016, 5,843 thousand euros was paid. In other words, 99.17% of the current contract would have been formalised with counterparties independent to the Group.

In 2015, existing contracts with related parties were the same supposing 6.4% on the lease amounts having paid 5,973 thousand euros. In other words, in 2015, 99.24% of the current agreements were with counterparties independent to the Group.

In 2016, a total of 78.7 million euros was recognised as an expense for the period in respect of operating lease payments made, an amount which in 2015 was 82.3 million euros.

At this point, it is important to note that as a consequence of the restructuring and closure of branches in 2017, the early cancellation of 71 S&L contracts is estimated and anticipated. Taking this circumstance into account, the amount to be paid in 2017 for the same concept (with current income and expenses paid data as in 2016) is expected to be 75.87 million euros and in the next four years (2018 to 2021) will be 209.15 million euros. Lease payments made after more than five years, from 2022 until initial maturity, will amount to 214.12 million euros.

As regards the leases that contain a purchase option, the option exercise price is the market value of the buildings on the lease expiration dates. That price will be determined in all cases by independent experts. The Group has not provided the buyers with any additional guarantees to reduce possible losses arising from early termination of the leases or changes in the residual values of the leased buildings.

The Group bears any costs payable as the lessee relating to operating and upkeep expenses and taxes.

Rentals collected under these leases in 2016 has totalled 677.9 thousand euros and 566.5 thousand euros in 2015. For 2017, the amount forecast to collect under the same concept (using current rental data) will be 803.4 thousand euros; the amounts estimated for the next four years (2018 to 2021) will be 3,311.7 thousand euros and 4,047.4 thousand euros from 2022 until its maturity.

The general terms and conditions of the lease agreements linked to virtually all sales are usually the same in all leases arranged, including minimum periods during which the Bank must lease the premises of between 10 and 15 years, rental reviews in line with the consumer price index and payment obligations relating to taxes, insurance and other costs payable by the Bank as the lessee.

In 2016, 15 premises for own use were sold (27 premises for own use in 2015) for a total of 3.1 million euros (4.7 million euros in 2015) with capital gains of 1.1 million euros. (1.3 million euros in 2015). Furthermore, as a result of the sale of other tangible assets, a loss of 0.95 million euros was recognised (a capital gain of 0.84 million euros in 2015). These results are recorded in the Gains (losses) on disposal of assets not classified as non-current held for sale caption.

31. Intangible assets

The balance of intangible assets recognised by the consolidated entities as described in Note 15.s are analysed below, distinguishing between goodwill and other intangible assets:

Thousands of euros	**2016**	**2015**
Goodwill	2,075,034	2,072,901
Other intangible assets	537,532	498,978
Total intangible assets	2,612,566	2,571,879
Goodwill		
In company balance sheets:	1,758,661	1,758,106
On consolidation:	316,373	314,795
Total goodwill	2,075,034	2,072,901
Other intangible assets		
Amortised cost	537,532	499,221
On company acquisitions	135,746	158,830
Computer Software	401,786	340,391
Value corrections for asset impairment (-)	-	(243)
Total other intangible assets	537,532	498,978

Goodwill recognised on the subsidiaries' balance sheets relates to the items already recorded by the subsidiaries when they joined the Group, and/or as a result of transactions completed. Set out below is a breakdown:

Thousands of euros		**2016**			**2015**		
	Business segment with which the CGU is associated	**Gross**	**Impairment adjustments**	**Net**	**Gross**	**Impairment adjustments**	**Net**
Banco Popular Español, S.A.	Commercial Banking	1,601,066	-	1,601,066	1,601,065	-	1,601,065
Banco Pastor, S.A.	Commercial Banking	145,057	-	145,057	145,056	-	145,056
TotalBank	Commercial Banking	12,378	-	12,378	11,985	-	11,985
Taler Real Estate, S.L.	Property Development	160	-	160	-	-	-
Total		1,758,661	-	1,758,661	1,758,106	-	1,758,106

Goodwill on consolidation arises as the difference between: (i) the sum of the payment made, the amount of the investments not controlled in the target company and, in acquisitions completed in phases, the fair value of the interest in the target's equity held previously by the acquiring party; and (ii) the net amount of the identifiable assets acquired and liabilities assumed at the acquisition date.

Set out below is a breakdown of goodwill on consolidation by consolidated company in the scope of consolidation:

Thousands of euros		**2016**			**2015**		
	Business segment with which the CGU is associated	**Gross**	**Impairment adjustments**	**Net**	**Gross**	**Impairment adjustments**	**Net**
Popular Factoring (Portugal), S.A	Commercial Banking	-	-	-	2,615	-	2,615
Banco Popular Portugal, S.A.	Commercial Banking	184,447	-	184,447	184,447	-	184,447
TotalBank	Commercial Banking	131,926	-	131,926	127,733	-	127,733
Total		316,373	-	316,373	314,795	-	314,795

In relation to these CGUs, sensitivity analyses were performed on the key variables according to the Group's Management. These variables are the cost of capital which is used as a discount rate and GDP growth which is used as perpetual growth. In none of the sensitivity analyses does the carrying amount exceed the recoverable amount, due to logical variations in the key variables. For this reason, we consider that we don't have to disclose the information as per IAS36 paragraph 134(f).

On the other hand, a variation of +/- 50 basis points of the key variables has been considered in the sensitivity analysis as it is usual in the market and used by the most significant entities in the sector. This interval has also been used by the independent expert in the review reports of the goodwill valuations in which he has expressed his opinion. In addition, in agreement with the current macroeconomic data in stable situations, no changes are expected to exceed +/- 50 basis points, which implies considering extending the margin of these sensitivity analyses.

The Group has performed the necessary impairment tests on the Goodwill, using the method described in Note 15.s, with the following results:

GOODWILL ON COMPANIES' BALANCE SHEETS

Goodwill from the acquisition of Banco Pastor (Banco Popular Español)

In 2012, Banco Popular took control over Banco Pastor, which was subsequently absorbed by the parent company.

The acquisition generated goodwill of 1,746 million euros.

Accordingly, at 31 December 2016 and 2015, goodwill is allocated in the amount of 1,601 million euros to the Commercial Banking Spain CGU; this groups together the retail banking business in Spain, excluding the new Banco Pastor business (see analysis in the item below).

The Bank has tested the goodwill assigned to the Commercial Banking Spain CGU for impairment, comparing its recoverable amount with its carrying amount. We used cash flow projections estimated by the Group's Management, not taking into account restructuring or improvements not carried out, although they are expected, and using external sources of information on the performance of its key parameters. In accordance with the provisions of current legislation, the projections were based on and are in line with the Banco Popular Group's latest Business Plan.

The projections are calculated in a 10-year term in a conservative manner in view of the current phase of the cycle, as explained in Note 15.s.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.02% discount rate, comprising a risk-free rate of 2.06% plus a premium reflecting the inherent risk in the evaluated business of 6.96%, estimated to be the risk premium of an efficiently diversified equity portfolio on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2016 nor 2015 as a result of this evaluation carried out.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (5.8%) and +9.1%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +4.4% and (2.7%) respectively.

The sensitivity analysis performed revealed a sufficient difference between the CGU's value and its carrying amount.

The valuation of this goodwill, required as it amounts to more than 5% of the Group's own funds, has been reviewed by an independent expert who concluded favourably on the process, and on the reasonability of the impairment test performed by the Bank, having carried out its work on the basis of IFRS and Circular 4/2004 and, specifically, it concluded favourable on the following aspects of the impairment test:

- Reasonability of the various components of the valuation parameters (discount rate, residual value, valuation premises, etc.).
- Appropriateness and reasonableness of the 10-year period used for the projections included in the calculation of the value in use of the CGUs. Application of the appropriate valuation methodology according to the purpose and nature of the business and intangible asset valued.
- Attainment of the value range by using generally accepted valuation methodologies, such as the dividend discount model and market multiples.
- Sensitivity analysis.

Furthermore, the independent expert concluded there was no impairment to the goodwill.

Goodwill of Banco Pastor

Goodwill totalling 145,057 thousand euros at 31 December 2016 was assigned to the Pastor CGU following the segregation of the branch office network in Galicia from the Commercial Banking Spain CGU; equal to that in 2015. This CGU pools the retail banking business in Galicia.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections have been calculated at a ten year term, as mentioned, as at the end of that year it will be possible to obtain a stable and normalised full year to be used as a reference to perpetuity, on a going concern basis. In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.02% discount rate, comprising a risk-free rate of 2.06% plus a premium reflecting the inherent risk in the evaluated business, of 6.96%, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied, considered applicable to Banco Pastor.

It was not considered necessary to recognise impairment as at 31 December 2016 nor December 2015 as a result of this evaluation carried out.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (7.0%) and 8.2%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +4.0% and (3.5%) respectively.

The sensitivity analysis performed revealed a sufficient difference between the CGU's value and its carrying amount.

As in the case of Banco Popular's CGU, the valuation of the goodwill of the Banco Pastor's CGU, which represents 84% of the Bank's total goodwill.has been reviewed by an independent expert who has deemed that there is no impairment. The following valuation methods were used: estimated present value of future capital flows, the multiples in comparable transactions' method and the cost method.

Taking the current circumstances into account, we consider the cash flow projections made for the 10-year period to clearly and reliably reflect the economic environment.

GOODWILL ON CONSOLIDATION

Goodwill of Banco Popular Portugal

At 31 December 2016 and 2015 the gross amount totalled 184.4 million euros.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections were calculated conservatively at a ten year term, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation be- tween nominal GDP growth and loans granted to the private sector), and a 9.02% discount rate, comprising a risk-free rate plus a premium reflecting the inherent risk in the evaluated business, estimated to be the equity risk premium on Portuguese bonds, to which Banco Popular's beta has been applied.

As a result of the evaluation performed, no impairment was recognised as at 31 December 2016, nor at December 2015.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (7.6)% and 8.9%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 2.2% and (1.9)% respectively.

The sensitivity analysis performed has shown that the CGU's valuation is higher than its carrying amount, for the most probable macroeconomic environments currently, of low interest rates and do not present a probability of impairment; only environments in which the current risk-free rate doubles could lead to some impairment.

Goodwill of Totalbank

At 31 December 2016, this goodwill amounts to 144.3 million euros, of which 12.4 million euros was recognised in subsidiaries and 131.9 million euros on consolidation. At 31 December 2015, this goodwill amounted to 139.7 million euros, of which 11.9 million euros was recognised in subsidiaries and 127.7 million euros in consolidation.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections were calculated conservatively at a ten year term, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 4% (State of Florida estimated GDP) has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts), and a 8.17% discount rate, comprising a risk-free rate (profitability of American 10-year bond at 30 September 2016 at 10 years) plus a premium reflecting the inherent risk in the evaluated business, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2016 or 2015 as a result of this evaluation.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (7.2%) and 9.1% respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +8.7% and (6.8%) respectively.

The sensitivity analysis performed revealed that the CGU's value is higher than its value in pounds, for the most probable macroeconomic environments at this time, of low interest rates.

Other intangible assets

Set out below is a breakdown of the gross amount, accumulated amortisation and deterioration and net balance of "Other intangible assets":

Thousands of euros	2016	2015
Intangible assets (gross)	1,056,182	919,467
Accumulated amortisation	(518,650)	(420,489)
Intangible assets (net)	537,532	498,978

Other intangible assets are classified as follows on the basis of their useful lives:

- The trademark is considered to have an indefinite useful life; it relates to the intangible asset recognised when Banco Pastor was acquired and has a balance sheet amount of 47,945 thousand euros at 31 December 2016.
- IT projects have a useful life of four years, barring significant projects which are individually analysed to estimate their useful life. The corresponding amount was 401,786 thousand euros as at 31 December 2016.
- Customer relationships capitalised as a result of business combinations are estimated on the basis of a useful life between 5 and 11 years. The corresponding amount was 83,670 thousand euros as at 31 December 2016. Of this, 82,796 thousand euros corresponds to Core deposits originating in the acquisition of Banco Pastor, S.A. in 2012, of which 195,633 thousand euros was activated and 112,837 thousand euros is amortised.
- The remaining Other intangible assets amounted to 4,131 thousand euros as at 31 December 2015.

At 31 December 2015, the breakdown was the following:

- The trademark balance sheet rose to 47,945 thousand euros as at 31 December 2015.
- At 31 December 2015, IT projects showed a balance of 340,148 thousand euros.
- Customer relationships at 31 December 2015 had a balance of 106,042 thousand euros.
- The remaining Other intangible assets amounted to 4,843 thousand euros as at 31 December 2015.

At 31 December 2016, the amount of the totally amortised intangible asset elements was 266,974 thousand euros. At 31 December 2015, this amount was 205,359 thousand euros.

Other intangible assets recognised in the year were as follows:

Thousands of euros	2016	2015
Intangible assets	128,303	148,221
Intangible assets derived from capitalisation of internal costs	26,644	34,843
Intangible assets derived from external costs borne	101,659	113,378

The following table shows the evolution in the past two years in intangible assets by its components, goodwill and other intangible assets. The exchange differences "on consolidation" arise from the conversion to euros of the goodwill (denominated in US dollars) attributable to Totalbank.

Thousands of euros	**Goodwill**		**Other intangible assets**
	On consolidation	**In subsidiaries**	
Balance at 01.01.2015	**301,602**	**1,756,868**	**434,205**
Change in scope of consolidation	-	-	-
Exchange differences and other movements (net)	13,193	1,238	150,734
Amortisation/Impairment	-	-	85,961
Closing balance 2015	**314,795**	**1,758,106**	**498,978**
Change in scope of consolidation	(2,615)	160	27
Exchange differences and other movements (net)	4,193	395	130,680
Amortisation/Impairment (*)	-	-	92,153
Closing balance 2016	**316,373**	**1,758,661**	**537,532**

(*) See Note 59.

32. Tax assets and liabilities

Set out below is a breakdown of these items in the consolidated balance sheets as at 31 December 2016 and 2015:

Thousands of euros	**Assets**		**Liabilities**	
	2016	**2015**	**2016**	**2015**
Current taxes	**175,734**	**160,173**	**38,878**	**45,575**
Corporate income tax	143,743	89,421	18,001	7,136
Value added tax and other taxes	31,991	70,752	20,877	38,439
Deferred taxes	**4,907,111**	**3,443,990**	**358,470**	**467,908**
1. Deferred taxes recognised in equity	311,549	374,049	172,081	304,997
2. Adjustments for temporary differences (charged/credited to Profit and Loss)	4,595,562	3,069,941	186,389	162,911
Of which are Monetisable	2,036,624	2,127,713	-	-
Depreciation and Amortisation	-	4,291	19,073	20,627
Goodwill	472	6,163	66,522	70,188
Commissions, fees and financial expenses	2,160	2,691	-	-
Provisions for credit losses and property assets	2,763,095	2,179,156	21,896	18,271
Of which are Monetisable	1,965,065	2,058,341	-	-
Pension funds and similar obligations	100,397	84,616	-	-
Of which are Monetisable	71,559	69,372	-	-
Tax-loss carryforwards	1,539,585	679,252	-	-
Tax adjustment for impairment of investments and other funds	137,426	61,186	423	1,378
Accounting consolidation adjustments	45,001	38,204	3,333	2,564
Reinvestment deduction pending application	3,307	10,194	-	-
Revaluation of investment property (IFRS)	-	-	6,334	6,267
Revaluation of property due to mergers	-	-	44,177	-
Tax regime for mergers	1,122	4,114	-	-
Tax bases recognised	-	-	16,764	18,571
Other deferred taxes	2,997	74	7,867	25,045

In accordance with prevailing income tax applicable to Banco Popular and its investee companies, in 2016 and 2015 certain differences between accounting and tax principles gave rise to the recognition of deferred tax assets and liabilities for corporate income tax purposes.

Movements and changes experimented in the deferred tax assets and liabilities balances in 2016 and 2015 are set out below:

Thousands of euros	**Assets**		**Liabilities**	
	2016	**2015**	**2016**	**2015**
Opening balance	**3,443,990**	**3,436,488**	**467,908**	**621,412**
Adjustments for differences recognised in equity	**(62,500)**	**(112,261)**	**(132,916)**	**(112,118)**
Adjustments for differences recognised in profit and loss	**1,525,621**	**119,763**	**23,478**	**(41,386)**
Accounting depreciation and amortisation	(4,291)	(9,134)	(1,554)	(1,733)
Goodwill	(5,691)	(1,450)	(3,666)	(3,676)
Commissions, fees and financial expenses	(531)	(827)	-	-
Provisions for credit losses and property assets	583,939	379,572	3,625	(32,677)
Pension funds and similar obligations	15,781	(28,789)	-	-
Tax-loss carryforwards	860,333	(194,708)	-	-
Tax adjustment for impairment of investments and other funds	76,240	(12,975)	(955)	-
Consolidation and property revaluation Properties	6,797	4,441	769	(52)
Reinvestment deduction pending application	(6,887)	(7,677)	-	-
Tax bases recognised	-	-	(1,807)	(311)
Tax regime for mergers	(2,992)	(1,965)	-	-
Other deferred taxes	2,923	(6,725)	27,066	(2,937)
Closing balance	**4,907,111**	**3,443,990**	**358,470**	**467,908**

The following table shows the foreseeable reversal periods for deferred taxes, including amounts arising from valuation adjustments:

Thousands of euros	**Assets**		**Liabilities**	
Reversal period	**2016**	**2015**	**2016**	**2015**
From 0 to 1 year	735,618	280,717	64,503	79,498
From 1 to 5 years	1,586,759	1,733,160	223,853	308,497
From 5 to 10 years	2,271,987	1,417,246	40,259	40,412
More than 10 years	312,747	12,867	29,855	39,501
Total	4,907,111	3,443,990	358,470	467,908

As at 31 December 2016, Banco Popular Group carried deferred tax assets in its balance sheet totalling 4,907 million euros, of which 312 million euros are related to fair value changes, 1,540 million euros to tax-loss carryforwards and 3,053 million euros to temporary differences, of which 2,631 million euros relates to credit loss provisions and property assets, arising largely from the balance sheet clean-up completed in recent years.

As at 31 December 2015, Banco Popular Group carried deferred tax assets in its balance sheet totalling 3,444 million euros, of which 374 million euros are related to fair value changes, 679 million euros to tax-loss carryforwards and 2,380 million euros to temporary differences, of which 2,179 million euros relates to credit loss provisions and property assets, arising largely from the balance sheet clean-up completed in recent years.

In order to determine its capacity to absorb the deferred tax assets, the Group made new projections based on different results scenarios. Set out below is the result obtained by applying the new full estimates for the 2016-2018 period.

In the absorption capacity analysis, the same assumption introduced for the preparation of the 2016 Financial Statements was used, which were are follows:

a) No new deferred tax assets will be generated in addition to the consideration of the tax-loss carryforwards for the expected losses according to the consensus of analysts in 2016.

b) Offset of deferred tax assets against deferred tax liabilities.

c) Limitations in reversal of certain temporary differences and of tax-loss carryforwards, to the percentages of 25% for 2016-2018, as well as the absorption of tax credits by non-applied deductions, taking into account the limits stated in Corporate Income Tax Act (Law 27/2014). From 2019 onwards, taking into account the Board's Directive Proposal of 25 October 2016 on a common tax base for corporate income tax, the previous percentage would be 100%.

d) The net amounts of deferred fiscal assets and liabilities due to valuation adjustments do not arise from temporary differences and their absorption does not depend on future carry forwards, and therefore their amounts are included in the following table.

Millions of euros	**Full analyst estimates**	**Calculations to justify the capacity to absorb deferred taxes**			
Period	**Profit/(loss) before tax**	**Estimated income tax**	**Annual net absorption of deferred taxes**	**Net balance pending reversal**	**% pending reversal**
2016 balance	-	-	-	4,409	-
2017	601	180	(642)	3,767	85%
2018	854	256	(185)	3,582	81%
2019	1,103	331	(331)	3,251	74%

As can be seen, at the end of year 3 the Group would have reduced its deferred tax assets net of liabilities by 26%. Taking into account Royal Decree-Law 3/2016, of 2 December, which adopts measures in the area of tax aimed at consolidating public finances and other urgent social measures, as well as the Proposal for a Directive of the Board of 25 October 2016 on a common corporate income tax base, the estimated period for the reversal of unsecured tax credits would be 13 years. However, if the limit established by Royal Decree-Law 3/2016 was maintained indefinitely, the estimated term would be 18 years.

It should be noted that of the total 4,907 million euros in deferred tax assets, 2,037 million euros are monetisable (1,965 million euros due to timing differences in credit loss provisions and property assets, and 72 million euros due to pensions) under Law 27/2014, of 27 November on Corporate Income Tax, meaning that they will be converted into a receivable from the Tax Administration in any of the following circumstances:

a) The taxpayer posts accounting losses in its financial statements audited and approved by the relevant body. In this case, the amount of the deferred tax assets converted will be determined by the result of applying to the total figure the percentage of accounting losses for the year in relation to the sum of capital and reserves.
b) A court declares the entity to be in liquidation or insolvent.

Having regard to current taxes, set out below is a breakdown of the main consolidated subsidiaries that have generated current and deferred taxes:

Thousands of euros	**Type of Tax**	**Assets**		**Liabilities**	
		2016	**2015**	**2016**	**2015**
Banco Popular Español S.A.	Current	142,260	111,913	11,065	21,330
	Deferred	3,927,209	2,646,059	264,478	373,366
Banco Popular Portugal	Current	26,496	23,082	14,497	8,914
	Deferred	117,434	115,462	5,573	-
Other consolidated subsidiaries	Current	6,978	25,178	13,316	15,331
	Deferred	862,468	682,469	88,419	94,542
Consolidated Group total	Current	175,734	160,173	38,878	45,575
	Deferred	4,907,111	3,443,990	358,470	467,908

Note 43 provides details of the Group's tax situation.

33. Other assets

This heading consists of inventories and other assets not recognised under other balance sheet headings.

Thousands of euros	**2016**	**2015**
Insurance contracts linked to pensions	164,498	167,918
Banco Popular Español	2,412	4,396
Other consolidated subsidiaries	162,086	163,522
Inventories	791,762	897,315
Carrying amount	1,357,629	1,497,147
Value corrections for impairment	(565,867)	(599,832)
Other assets	735,624	620,695
Accruals	171,312	242,121
Transactions in transit	64,764	31,932
Other	499,548	346,642
Total	1,691,884	1,685,928

In the heading "Insurance contracts linked to pensions", it includes the technical mathematical provisions for post-employment obligations outsourced to the insurance company Allianz S.A. and technical mathematical provisions or fair values of pension and similar obligations insured by Group companies.

Firstly, it reflects the amounts of the technical mathematical provisions for the early retirement policy taken out with the insurance company Allianz, S.A. de Seguros y Reaseguros.

On the other hand, the heading "Other entities" reflects both the retirement bonuses arranged through insurance policies with Allianz Popular Seguros S.A., and the fair value of the fund administered in relation to Banco Popular Portugal, S.A.'s obligations.

The balances included in "Other items" are broken down by type as follows. It will be seen that they are immaterial relative to Total assets:

Thousands of euros	**2016**	**% of total assets**	**2015**	**% of total assets**
Transitory balances	177,171	0.12%	96,705	0.06%
Operations by means of payment	20	0.00%	578	0.00%
Miscellaneous accounts relating to forward currency transactions	42,420	0.03%	2,349	0.00%
Miscellaneous material in stock	4,210	0.00%	4,107	0.00%
Sundry debtors in Group companies	270,488	0.18%	236,279	0.15%
Other assets	5,239	0.00%	6,624	0.00%
Total	499,548	0.34%	346,642	0.22%

The balances of Sundry debtors in Group Companies refer to balances with trade debtors.

Movements over the course of the year in the "Other concepts" balance were as follows:

Balance at 31.12.2015 in thousands of euros	346,642
Additions	312,864
Disposals	159,958
Balance at 31.12.2016	499,548

Changes during the previous year were:

Balance at 31.12.2014 in thousands of euros	393,400
Additions	200,808
Disposals	247,566
Balance at 31.12.2015	346,642

Movements in value corrections for impairment on inventories were as follows:

Thousands of euros	
Opening balance 2015	620,918
Value corrections for impairment 2015	(21,086)
Closing balance 2015	599,832
Value corrections for impairment 2016	(33,965)
Closing balance 2016	565,867

At 31 December 2016 and 2015, the net charge to the income statement totalled 42,664 thousand euros and 18,345 thousand euros respectively (Note 62).

34. Financial liabilities measured at amortised cost

This consolidated balance sheet caption includes repayable amounts received in cash, arranged as deposits, marketable debt securities or subordinated liabilities. It also includes guarantee deposits and other deposits received in cash by the Group. These liabilities are valued at amortised cost using the effective interest method.

A breakdown by residual term of the items in this heading is presented in Note 44 to these financial statements.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2016 and 2015:

	Liabilities	
Thousands of euros	**2016**	**2015**
Deposits	113,031,654	121,711,801
Central Banks	15,987,478	14,204,120
Credit Institutions	14,203,229	19,172,266
Customers	82,840,947	88,335,415
Debt securities issued	17,063,598	18,055,999
Other financial liabilities	1,089,414	740,724
Total	131,184,666	140,508,524
of which:		
euros	126,640,282	136,062,187
foreign currency	4,544,384	4,446,337

Deposits

Set out below is a breakdown of deposits from credit institutions by type of financial instrument:

Thousands of euros	**2016**	**2015**
Reciprocal accounts	314,358	316,788
Term accounts	4,058,823	6,810,628
Asset repos	9,155,264	11,584,621
Other accounts	651,898	441,610
Clearing house	-	-
Valuation adjustments	22,886	18,619
Total	14,203,229	19,172,266

A breakdown by counterparty and by currency (euros or foreign currency) is as follows:

Thousands of euros	2016		2015	
	Euros	Foreign currency	Euros	Foreign currency
Banks operating in Spain	3,401,935	173,473	9,800,208	213,050
Savings banks	4,884	-	119	-
Credit cooperatives	814,870	-	1,136,129	-
Instituto de Crédito Oficial (ICO, Spain's state finance agency)	2,383,088	-	3,768,629	-
Non-resident credit institutions	6,568,473	688,395	3,306,737	588,468
Specialised credit institutions	145,225	-	340,307	-
Clearing house	-	-	-	-
Valuation adjustments	21,217	1,669	16,394	2,225
Total	13,339,692	863,537	18,368,523	803,743

Set out below is a breakdown of foreign currency balances showing the currencies in which the balances are repayable:

Thousands of euros	2016	2015
USD	825,914	727,876
GBP	23,409	55,092
CHF	1,949	3,151
JPY	194	449
Other	12,071	17,174
Total	863,537	803,743

The average annual interest rate in 2016 and 2015 on loans and advances to credit institutions was 0.23% and 0.55% respectively.

Set out below is a breakdown by sector of "Customer deposits" in the consolidated balance sheets at 31 December 2016 and 2015:

Thousands of euros	2016	2015
Public administrations	6,168,921	10,845,109
Resident sectors	5,643,843	9,917,806
Non-resident sectors	525,078	927,303
Private sector	76,550,070	77,427,042
Resident sectors	67,532,613	68,642,885
Non-resident sectors	9,017,457	8,784,157
Total customer deposits	82,718,991	88,272,151
Valuation adjustments	121,956	63,264
Total	82,840,947	88,335,415

Set out below is a breakdown of “Valuation adjustments” by sector:

Thousands of euros	2016	2015
Public administrations	3,213	4,824
Private sector - residents	105,819	36,253
Private sector - non-residents	12,924	22,187
Total	121,956	63,264

Set out below is a breakdown of “Customer deposits” by type of instrument:

Thousands of euros	2016	2015
Current accounts	28,596,499	29,773,732
Savings accounts	11,113,799	10,012,172
Term deposits	38,079,083	41,882,347
Asset repos	4,348,436	6,173,101
Other accounts	581,174	430,799
Valuation adjustments	121,956	63,264
Total	82,840,947	88,335,415

The following table shows an itemised breakdown of Valuation adjustments:

Thousands of euros	2016	2015
Accrued interest	131,440	91,862
Micro-hedging transactions (+/-)	404	(8,929)
Premiums and discounts (+/-)	(9,888)	(19,669)
Other valuation adjustments	-	-
Total	121,956	63,264

Deposits of customers resident in Spain, including General Government and the Private Sector, at each year end, indicating the Autonomous Region in which they were captured, and deposits in the Portuguese branch office network from Spanish residents, are as follows:

Thousands of euros	2016	2015
Branches in Spain		
Andalucía	6,675,960	6,599,381
Aragón	790,727	728,943
Asturias	1,226,690	1,141,549
Islas Baleares	920,416	906,474
Islas Canarias	1,875,170	1,174,840
Cantabria	379,820	372,376
Castilla-La Mancha	1,307,076	1,227,654
Castilla y León	5,503,295	5,425,947
Cataluña	6,778,379	6,567,433
Extremadura	564,709	565,196
Galicia	9,295,604	9,197,998
Madrid	29,026,053	36,002,476
Murcia	1,087,052	1,068,456
Navarra	1,171,635	1,116,070
País Vasco	2,148,625	2,160,796
La Rioja	331,140	320,968
Comunidad Valenciana	3,967,550	3,845,295
Ceuta	47,746	48,761
Melilla	51,530	64,911
Branches in Portugal	27,279	25,167
Total	73,176,456	78,560,691

Set out below is a breakdown by country of the geographic zones in which the foreign branches and entities captured non-resident deposits:

Thousands of euros	2016	2015
Spain	2,999,585	3,153,081
Portugal	4,667,786	4,876,902
USA	1,875,164	1,681,477
Total	9,542,535	9,711,460

An overall breakdown of "Customer deposits" by euros and foreign currency is as follows:

Thousands of euros	2016		2015	
	Euros	Foreign currency	Euros	Foreign currency
Public administrations	6,139,441	29,480	10,821,399	23,710
Current accounts	4,241,836	1,719	7,486,910	1,804
Savings accounts	11,674	-	8,472	-
Term deposits	1,868,181	27,761	2,526,018	21,906
Asset repos	17,750	-	799,999	-
Private sector	72,998,694	3,551,376	73,913,354	3,513,688
Resident sectors	66,724,823	807,790	67,759,830	883,055
Current accounts	20,648,784	301,722	19,222,095	280,152
Savings accounts	10,475,097	26,260	9,353,478	35,821
Term deposits	30,758,742	467,661	33,440,721	539,557
Asset repos	4,330,686	-	5,373,102	-
Other accounts	511,514	12,147	370,434	27,525
Non-resident sectors	6,273,871	2,743,586	6,153,524	2,630,633
Current accounts	2,112,103	1,290,335	1,566,684	1,216,087
Savings accounts	484,464	116,304	491,336	123,065
Term deposits	3,624,162	1,332,576	4,064,722	1,289,423
Asset repos	-	-	-	-
Other accounts	53,142	4,371	30,782	2,058
Valuation adjustments (+/-)	116,955	5,001	56,492	6,772
Total	79,255,090	3,585,857	84,791,245	3,544,170

The average annual interest rate on customer deposits was 0.35% in 2016 and 0.66% in 2015. Set out below is a breakdown of foreign currency balances by currency:

Thousands of euros	2016	2015
USD	3,469,556	3,410,793
GBP	70,597	77,415
CHF	15,515	17,911
JPY	1,521	5,476
Other	28,668	32,575
Total	3,585,857	3,544,170

Debt securities issued

Debt securities issued comprise bearer or demand debt securities such as cash or treasury bonds, covered bonds, mortgage covered bonds, debentures, commercial paper, certificates of deposit and similar instruments.

Set out below is a breakdown by instrument of the debt securities issued by Group companies and held by third parties outside the Group, which are carried at amortised cost:

Thousands of euros	2016	2015
Commercial paper and bills	824,950	754,840
Mortgage securities	11,306,238	11,263,079
Debentures and bonds	2,788,647	3,780,600
Subordinated liabilities	2,045,118	2,071,025
Valuation adjustments	98,645	186,455
Total	17,063,598	18,055,999

Commercial paper and bills

Banco Popular has a corporate promissory note issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission. The features of this issuance programme are as follows:

The nominal outstanding balance has a maximum limit of 5,000 million euros and a validity of 12 months. The nominal value of each note is 100,000 euros. The notes are represented by book entries and mature at between three business days and seven hundred and thirty-one calendar days, as of the date of issuance. They are issued at a discount and their effective value is determined at the issuance date on the basis of the agreed interest rate. The programme is listed on the AIAF organised secondary market.

Banco Popular also sells commercial paper on international markets through a Euro Commercial Paper (ECP) programme, which is registered in Ireland. It also has a 12-month validity.

This programme allows the issuance of commercial papers in any currency (including the euro), up to a maximum limit of 5,000 million euros. The current programme also provides for the issuance of certificates of deposit at a discount, subject to the same limit.

A breakdown by instrument of the balances of these issuance programmes is as follows:

Thousands of euros	2016		2015	
	Euros	Foreign currency	Euros	Foreign currency
Treasury notes	813,166	11,784	746,631	8,209
Certificates of deposit	-	-	-	-
Total	813,166	11,784	746,631	8,209

Mortgage securities

The item "Mortgage securities" includes the outstanding balance held by third parties from the successive issues of mortgage covered bonds under the Fixed Income and Structured Securities issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission.

The current programme allows the issuance of different types of securities up to a maximum nominal limit of 12,000 million euros.

The outstanding balance held by third parties of Mortgage covered bonds issued under the current programme and under previous programmes is analysed below:

Thousands of euros	2016	2015
Mortgage covered bonds	11,306,238	11,263,079

Debentures and bonds

The amount recognised in "Debentures and bonds" mainly comprises Euronotes issued by the Group and bonds issued by the securitisation vehicles, after eliminating intragroup balances and other bonds issued basically by Banco Popular Español, S.A.

Thousands of euros	2016	2015
Notes issued by securitisation vehicles	972,024	1,158,707
Euronotes	1,054,722	1,874,208
Other	761,901	747,685
Total	2,788,647	3,780,600

The outstanding balance of notes issued by securitisation vehicles and held by non-Group parties is as follows:

Thousands of euros	2016	2015
IM Cédulas Grupo Banco Popular 3, FTA	921,200	921,200
Total covered bond securitisations	921,200	921,200
IM Grupo Banco Popular Empresas 1, FTA	-	61,662
IM Grupo Banco Popular FTPYME I, FTA	-	112,483
GC FTPYME Pastor 4	42,151	49,672
EDT FTPYME Pastor 3	8,673	13,690
Total loan securitisations	50,824	237,507
Total	972,024	1,158,707

A new securitisation was made in 2016. On 1 December 2016 the IM Grupo Banco Popular Empresas VII FT fund was disbursed for an amount of 2,500,000 thousand euros, fully subscribed by the Group.

Two securitisations were made in 2015. In March 2015 the IM Grupo Banco Popular Empresas VI FTA fund was disbursed for an amount of 3,000,000 thousand euros. In December 2015 the IM Grupo Banco Popular MBS 3 FT fund was disbursed for an amount of 900,000 thousand euros. Both securitisations were fully subscribed by the Group.

As regards the securitisation vehicles for which no balance is reflected, the Group has acquired all the outstanding notes, which have therefore been eliminated from the consolidated balance sheet.

In 2016 and 2015 the Group's banks recorded in their balance sheets the amounts of 4,920,354 and 4,319,350 thousand euros respectively, of the bonds issued by loan securitisation vehicles (Note 68), which were eliminated on consolidation.

The following table contains a breakdown of Euronote issues by different Group entities, recognised in the item "Debentures and bonds":

Thousands of euros	**2016**	**2015**
BPE Financiaciones, S.A.	1,054,722	1,874,208
Total	1,054,722	1,874,208

In order to diversify medium- and long-term financing sources, Banco Popular sells euro and foreign currency bonds under a Euronote issuance programme registered in Ireland: Euro Medium Term Note Programme (EMTN).

This programme allows the issuance of notes in any currency (including the euro), up to a maximum limit of 5,000 million euros and a validity period of 12 months.

All issues in currencies other than the euro are hedged by swaps against euros and are referenced to Euribor, meaning that the actual cost of the issues for the Group is in euros.

The following table shows the residual maturities of Euronotes in 2016 and 2015. In the case of issues with early redemption options, the earliest option maturity date has been applied.

Thousands of euros	**2016**	**2015**
Up to 1 year	564,000	716,246
From 1 to 2 years	12,000	568,762
From 2 to 5 years	478,722	589,200
More than 5 years	-	-
Total	1,054,722	1,874,208

Movements in the item “Euronotes” in 2016 and 2015 are set out below:

Thousands of euros	2016	2015
Opening balance	1,874,208	2,133,278
Issues	12,000	650,000
Depreciation and Amortisation	750,000	1,000,000
Other movements	(81,486)	90,930
Closing balance	1,054,722	1,874,208

The following table contains a breakdown of issues by Group entities of “Other debentures and bonds” held by third parties:

Thousands of euros	2016	2015
Banco Popular Español, S.A.	760,348	731,579
Banco Popular Portugal, S.A.	1,553	16,106
Total	761,901	747,685

In 2016 and 2015, no bonds were issued by Banco Popular Español, S.A nor were there any Official Credit Institute bond initiatives.

On the other hand, no new issues were made by Banco Popular Portugal, S.A. in 2016 and 2015.

The following table provides a breakdown of outstanding issues for 2016 and 2015:

Thousands of euros	Amount		Issue	Maturity	Cost rate
	2016	2015			
Banco Popular Español, S.A.					
Regional covered bonds	200,000	200,000	25.05.2012	25.05.2020	Euribor 6m+3.25%
Regional covered bonds	95,000	95,000	14.03.2013	14.03.2023	Euribor 6m+2.95%
Regional covered bonds	135,000	135,000	21.07.2014	21.07.2022	Euribor 6m+1.05%
Regional covered bonds	250,000	-	18.05.2016	20.05.2024	0.708%
	680,000	**430,000**			
Banco Popular Portugal, S.A.					
Senior debt	-	20,000	26.10.2012	26.10.2016	6.500%
Senior debt	-	6,676	26.02.2013	26.02.2016	3.650%
Senior debt	-	4,536	30.07.2013	30.07.2016	3.000%
Senior debt	-	928	28.10.2013	28.10.2016	3.600%
Senior debt	-	3,955	10.01.2014	10.01.2017	3.000%
Senior debt	-	1,455	26.02.2014	26.02.2016	3.000%
Senior debt	247	-	09.08.2016	09.08.2019	0.571%
Senior debt	552	-	10.10.2016	10.10.2019	0.571%
	799	**37,550**			
	680,799	**467,550**			

The interest on debt certificates recognised in the income statement totalled 321,997 thousand euros in 2016 and 431,947 thousand euros in 2015.

Subordinated liabilities

For credit seniority purposes, issues classed as subordinated debt are after all common creditors and are jointly and severally, and irrevocably, guaranteed by Banco Popular Español, S.A., including the principal and interest of the issues of BPE Financiaciones, S.A, Popular Capital, S.A., BPE Preference International, LTD and Pastor Participaciones Preferentes, S.A.U.

They may all be redeemed as of the start of year six at the issuer's discretion, subject to authorisation by Banco de España, or the Bank of Portugal in the case of issues by Banco Popular Portugal, S.A., except for the issue of Banco Pastor and the first issue of Pastor Participaciones Preferentes, which may be redeemed as of the start of year eleven.

Set out below is a breakdown of this balance sheet item:

Thousands of euros	**2016**	**2015**
Subordinated debt certificates	2,045,118	2,071,025
Subordinated marketable securities - Convertible	1,246,105	1,250,000
Subordinated marketable securities - Non-convertible	799,013	821,025
Subordinated deposits	-	-
Preferred investments and shares	-	-
Total subordinated liabilities issued	2,045,118	2,071,025
Fair value changes	(5,646)	(4,074)
Total	2,039,472	2,066,951

Set out below is a breakdown of outstanding balances by issuer, including Popular Capital, S.A., the issuer of preferred shares in Spain.

Thousands of euros	**2016**	**2015**
Banco Popular Español, S.A.	1,852,342	1,855,304
BPE Financiaciones, S.A.	91,600	91,700
BPE Preference International, Ltd.	-	7,326
Popular Capital, S.A.	89,206	104,491
Pastor Participaciones Preferentes, S.A.	11,970	12,204
Total	2,045,118	2,071,025

In 2016, no new subordinated bonds were issued by the group.

In 2015 perpetual securities eventually convertible into ordinary shares were issued ("Participaciones Preferentes de Banco Popular Español, S.A. I/2015"), for an amount of 750,000 thousand euros.

The issue is considered Additional Tier 1 capital, pursuant Regulation (EU) 575/2013, of the European Parliament and Council, 26 June 2013, about credit institutions and investment Company credential requirements.

The following table provides details of the outstanding issues of Subordinated Mandatorily Convertible Notes held by third parties as at 31 December 2016:

Thousands of euros	Currency	Issue date	Issue amount	Accounting amount 31.12.16	Cost rate
Banco Popular Español, S.A.					
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A.I 2013	EUR	10.10.2013	500,000	499,985	11.50%
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A.I 2015	EUR	12.02.2015	750,000	746,120	8.25%
TOTAL (*)				1,246,105	

(*) Excluding treasury shares

The outstanding amount of subordinated convertible issues at December 2016 amounting to 1,246,105 thousand euros are held by third parties, having repurchased subordinated issues amounting to 3,895 thousand euros this year, which are held in the portfolio and which were held by third parties on 31 December 2015.

The following table provides details of the outstanding issues of Subordinated Mandatorily Convertible Notes as at 31 December 2015:

Thousands of euros	Currency	Issue date	Issue amount	Accounting amount 31.12.2015	Cost rate
Banco Popular Español, S.A.					
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A.I 2013	EUR	10.10.2013	500,000	500,000	11.50%
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A.I 2015	EUR	12.02.2015	750,000	750,000	8.25%
TOTAL (*)				1,250,000	

(*) Excluding treasury shares

Of the outstanding balance of these convertible subordinated issues, in December 2015 a total of 1,250,000 thousand euros was held by third parties.

In January 2015, notes totalling 16,667 thousand euros were converted into 3,866,975 new shares, thus cancelling the MCN, IV-2012 issue.

Set out below is an analysis of outstanding issues of non-convertible subordinated bonds by issuer at 31 December 2016 and 2015:

		Amount		Maturity	Cost rate (*)
		2016	2015		
Banco Popular Español, S.A.					
USD	26.07.2004	9,256	12,000	17.09.2034	Libor 3m+262bps
USD	18.06.2005	9,256	12,000	15.09.2035	Libor 3m+155bps
USD	29.03.2006	9,256	12,000	15.06.2036	Libor 3m+145bps
USD	24.08.2006	9,256	12,000	15.09.2036	Libor 3m+165bps
EUR	23.12.2009	99,700	99,700	22.12.2019	MID-SWAP 5 years+3.10
EUR	29.07.2011	200,000	200,000	29.07.2021	8.000%
EUR	19.10.2011	250,000	250,000	19.10.2021	8.250%
EUR	11.06.2004	12,100	12,100	Indefinite	Euribor 3m+90 bps
Banco Pastor, S.A.					
EUR	30.12.2013	90,000	90,000	02.01.2024	6.000%
EUR	30.12.2013	67,000	67,000	Indefinite	9.000%
BPE Financiaciones, S.A. (**)					
EUR	23.12.2005	-	-	23.12.2015	0.000%
EUR	22.10.2010	91,700	91,700	22.10.2020	6.873%
BPE Preference International, LTD					
EUR	16.11.2000	3,654	3,654	Indefinite	0.000%
EUR	21.12.2001	2,487	2,487	Indefinite	0.000%
EUR	27.12.2002	2,197	2,197	Indefinite	0.000%
Popular Capital, S.A.					
EUR	20.10.2003	-	64,695	Indefinite	Euribor 3m+0.095%
EUR	30.06.2004	-	24,814	Indefinite	Euribor 3m+0.093%
EUR	06.03.2007	-	9,400	Indefinite	Euribor 12m+0.7025%
EUR	30.03.2009	-	5,641	Indefinite	Euribor 3m+2.585%
Pastor Participaciones Preferentes, S.A.U:					
EUR	27.07.2005	7,419	7,419	Indefinite	4.564%
EUR	02.04.2009	4,818	4,818	Indefinite	Euribor 3m+460 bps

(*) Including hedge

(**) The spread on issues of BPE Financiaciones will increase by 50 bps from year six.

The outstanding balance of these non-convertible subordinated issues, including the USD 37,024 thousand, valued at year-end exchange rate, reached 809,587 thousand euros in 2016, of which 799,013 thousand euros was held by third parties and 10,574 thousand euros by the Group.

The outstanding balance of these non-convertible subordinated issues, including the USD 48,000 thousand, valued at the 2015 year-end exchange rate, totals 979,679 thousand euros, of which 821,025 thousand euros is held by third parties and 158,654 thousand euros by the Group.

During 2015 and 2016, no purchases were made by Banco Popular Español.

Interest recognised in the income statement on subordinate financing totalled 12,640 thousand euros in 2016 and 53,072 thousand euros in 2015, thanks to the combined effect of IRS hedges.

Other financial liabilities

This heading relates to payment obligations not included in other items:

Thousands of euros	2016	2015
Debentures payable	369,771	192,131
Dividends payable	-	14
Trade payables	101,123	53,602
Factoring payables	50,802	49,159
Other *	217,846	89,356
Guarantee deposits received	44,840	44,019
Tax collection accounts	409,456	326,184
Special accounts	200,479	137,587
Financial guarantees	18,775	19,967
Clearing house	25,622	139
Other	20,471	20,697
Total	1,089,414	740,724

*This item considers transitory account movements. In 2016, the balance mainly corresponds to the restructuring plan.

35. Liabilities under insurance and reinsurance contracts

This heading includes the technical provisions of the insurance companies included within the scope of consolidation, comprising the life insurance companies: Eurovida, S.A. (Portugal) and Pastor Vida, S.A. and the non-life company Popular Seguros, S.A.

Thousands of euros	Total		Life		Non-life	
	2016	2015	2016	2015	2016	2015
Technical provisions for unearned premiums and unexpired risks	4,258	3,935	167	226	4,091	3,709
Technical mathematical provisions	361,930	361,273	361,930	361,273	-	-
Technical provisions for life insurance with investment risk borne by policyholders	2,461	2,774	2,461	2,774	-	-
Technical provisions for benefits	9,393	8,881	5,581	5,843	3,812	3,038
Technical provisions for profit-sharing and returns	6,938	6,747	6,938	6,747	-	-
Subtotal insurance companies	384,980	383,610	377,077	376,863	7,903	6,747
Commissions and fees pending accrual on technical guarantees	99,304	103,219	-	-	-	-
Total	484,284	486,829	-	-	-	-

Eurovida, S.A. (Portugal), Popular Seguros, S.A. and Pastor Vida, S.A. are wholly owned by the Group.

Also included are commissions and fees pending accrual in respect of bank guarantees and non-financial guarantees.

36. Pensions and similar commitments

Provisions for pensions and similar defined benefit obligations

The following table shows where pensions and similar commitments are reflected in the financial statements:

Thousands of euros	2016	2015
On-balance sheet commitments for:		
Post-employment benefits	3,119	(145)
Other long-term benefits - early-retired personnel	(24,889)	(40,670)
Net on-balance sheet liabilities:	**(21,770)**	**(40,815)**
Assets linked to pensions (*)	46,898	45,760
Surrender rights	164,496	167,918
Net assets (provision)	(233,165)	(254,493)

(*) Financial assets in the subsidiary Pastor Vida, S.A.

(**) At 31.12.2016, the net provision amount is broken down as follows: provision 238,404 thousand euros and other assets 5,239 thousand euros (see note 33 other assets). At 31.12.2015 the breakdown was: 261,117 thousand euros and 6,624 thousand euros (see note 33 other assets).

Set out below is a breakdown of net on-balance sheet liabilities by country as regards employee benefits:

Breakdown by country	2016	2015
Spain	(30,656)	(40,876)
Portugal	8,886	60
Total	(21,770)	(40,815)

Charges to the consolidated income statement in respect of defined benefit commitments with employees are as follows:

Thousands of euros	2016	2015
Charges to the consolidated income statement:		
Staff expenses		
Premiums for death and disability insurance (*)	(7,117)	(6,154)
Cost of current services	(17,918)	(18,889)
Interest and similar expenses	125	(13)
Provisioning expenses	(21,386)	(527)
Actuarial losses/gains on long-term employee benefits	(189)	1,096
Total charges	(46,485)	(24,487)

(*) Premiums paid under annual insurance policies covering death and disability at work

Amounts recognised in equity:

Thousands of euros	2016	2015
Impacts on Equity:		
Actuarial losses/gains on post-employment benefits	1,689	(3,144)
Asset limit	-	-
Total impact on equity	1,689	(3,144)

The main financial or actuarial assumptions used were:

	2016		2015	
Thousands of euros	**Spain**	**Portugal**	**Spain**	**Portugal**
Discount rate	0.22% - 1.50%	2.06%	0.25% - 1.91%	2.33%
Expected profitability on assets	0.22% - 1.50%	2.06%	0.25% - 1.91%	2.33%
Inflation	1.25% - -1.75%	-	1.25% - 1.75%	-
Future salary increases	1.25%	0.75%	1.25%	0.75%
Increase in Social Security pensions	0.50%	-	0.50%	-
Retirement age	60-65	65	60-65	65
Disability tables (*)	85% 1977 Ministerial Order	ERC Frankona	85% 1977 Ministerial Order	ERC Frankona
Mortality tables	PERMF-2000P	TV 88/90	PERMF-2000P	88/90
Life expectancy				
Persons retiring in 2015				
Men	22.68	16.37	22.56	16.48
Women	27.17	19.57	27.05	19.66
Persons retiring in 2035				
Men	25.01	14.92	24.09	30.26
Women	29.34	17.92	29.24	35.18

(*) Only applies to supplementary retirement income

The assumptions for each country are applicable to all the commitments on a consistent basis, irrespective of the Entity of origin.

The interest rates used to determine the present value of post-employment commitments are applied based on the duration of each commitment; the reference curve is calculated using market yields, at the reporting date, on high-credit-quality bonds issued in the same currency and for the estimated post-employment benefit payment period.

The rate curve used to value all the commitments in Spain and Portugal was built using the rate-link methodology, by reference to high-quality corporate bonds (AA or higher) in the euro zone, selected using Bloomberg as the main data source. We selected 490 euro zone issues of a minimum of 500 million euros, with maturities of up to ten years, and a minimum of 10 million euros for maturities of more than ten years. In the rate-link model, the rate curve was built on the basis of qualifying yields in the 10 to 90 percentile for each group of maturities.

In 2016, the weighted average duration of the defined benefit commitments is 9.76 years for Banks in Spain and 21 years Banks in Portugal. The following discount rate was used for the various benefits: post-employment retirement benefits: 1.50% for a duration of 10.79 years; benefits for early-retired personnel: 0.22% for a duration of 2.32 years; post-employment benefits of Banks in Portugal: 2.06% for a duration of 21 years.

In 2015, the weighted average duration of the defined benefit commitments is 10.39 years for Banks in Spain and 22 years Banks in Portugal. The following discount rate was used for the various benefits: post-employment retirement benefits: 1.91% for a duration of 10.39 years; benefits for early-retired personnel: 0.25% for a duration of 1.35 years; post-employment benefits of Banks in Portugal: 2.33% for a duration of 22 years.

The sensitivity of defined post-employment benefit commitments to changes in the main weighted assumptions corresponding to 2016 is shown below:

		Increase in assumption		**Decrease in assumption**	
	Change	**Spain**	**Portugal**	**Spain**	**Portugal**
Discount rate	0.50%	(7.83)%	(11.20)%	6.70%	12.20%
Salary growth rate	0.50%	0.78%	10.40%	(0.66)%	(9.80)%

The above sensitivity analysis is based on a change in one assumption while all other assumptions remain constant.

Post-employment defined benefit remuneration in Spain and Portugal

The amounts recognised in the balance sheet are as follows:

		2016			**2015**	
Thousands of euros	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
Present value of commitments financed	(1,590,960)	(152,950)	(1,743,910)	(1,839,189)	(163,239)	(2,002,428)
Fair value of plan assets	1,585,193	161,836	1,747,029	1,838,983	163,299	2,002,282
Net balance sheet liabilities:	**(5,767)**	**8,886**	**3,119**	**(205)**	**60**	**(145)**
Surrender rights and assets linked to pensions	46,898	161,836	208,734	45,760	163,299	209,059
Net assets (provision)	(52,665)	(152,950)	(205,615)	(45,965)	(163,239)	(209,204)

Movements in post-employment defined benefit commitments were as follows:

	2016			2015		
Thousands of euros	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
As at 1 January	(1,839,189)	(163,239)	(2,002,428)	(1,978,065)	(154,196)	(2,132,261)
Transfers and other	-	-	-	(447)	-	(447)
Cost of current services	(13,295)	(4,623)	(17,918)	(14,482)	(4,407)	(18,889)
Interest expense	(34,229)	(3,845)	(38,074)	(34,805)	(3,756)	(38,561)
Additions to Provisions for the year	(6,424)	-	(6,424)	-	-	-
Gains and losses on plan settlements/reductions	268,713	-	268,713	-	-	-
Recalculation of valuations:						
Gains/(Losses) due to changes in demographic assumptions	-	-	-	-	-	-
Gains/(Losses) due to changes in financial assumptions	(72,070)	17,174	(54,896)	42,823	(2,953)	39,870
Gains/(Losses) based on experience	(31,248)	-	(31,248)	59,717	-	59,717
Benefit payments	136,782	1,583	138,365	86,071	2,073	88,144
Acquired in a business combination	-	-	-	-	-	-
As at 31 December	(1,590,960)	(152,950)	(1,743,910)	(1,839,189)	(163,239)	(2,002,428)

Movements in post-employment defined benefit plan assets were as follows:

	2016			2015		
Thousands of euros	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
As at 1 January	1,838,983	163,299	2,002,282	1,973,418	154,305	2,127,723
Transfers and other	-	-	-	473	-	473
Interest income	34,427	3,846	38,273	34,962	3,758	38,720
Gains and losses on plan settlements/reductions	(268,713)	-	(268,713)	-	-	-
Recalculation of valuations:						
Yield on plan assets, excluding amounts included in interest (expense)/income	-	-	-	-	-	-
Gains/(Losses) due to changes in financial assumptions	-	-	-	-	-	-
Gains/(Losses) based on experience	91,559	(3,726)	87,833	(92,577)	(3,991)	(96,568)
Change in asset limit, excluding amounts included in interest expense	-	-	-	-	-	-
Contributions:						
made by the Bank	28,027	-	28,027	14,513	11,300	25,813
made by plan participants	-	-	-	-	-	-
Benefit payments	(139,090)	(1,583)	(140,673)	(91,806)	(2,073)	(93,879)
Acquired in a business combination	-	-	-	-	-	-
As at 31 December	1,585,193	161,836	1,747,029	1,838,983	163,299	2,002,282

The main categories of assets affected by the plan as a percentage of total assets are as follows:

	2016		2015	
Thousands of euros	**Spain**	**Portugal**	**Spain**	**Portugal**
Equity instruments	-	18.05%	-	29.80%
Debt instruments	5.12%	67.99%	4.57%	59.85%
Investment properties	-	3.33%	-	3.46%
Qualifying insurance policies	-	-	-	-
Cash and cash equivalents	0.41%	10.63%	0.37%	6.89%
Other (Insurance policies not linked to other products)	94.47%	-	95.06%	-
Total	100.00%	100.00%	100.00%	100.00%

Expected contributions to post-employment benefit plans for the next year, in addition to the weighted average duration of post-employment commitments are as follows:

Thousands of euros	Spain	Portugal
Expected contributions	5,543	2,701
Weighted average duration (in years)	9.76	21.00

Estimated payments on expected for post-employment benefits in next ten years are as follows:

Thousands of euros	2017	2018	2019	2020	2021	2022-2026
Probable Post-Employment benefits:						
Spain	107,513	98,179	93,715	91,618	90,140	419,790
Portugal	129	162	162	193	193	311
Total	107,642	98,341	93,877	91,811	90,333	420,101

Long-term remuneration for early-retired personnel in Spain

The amounts recognised in the balance sheet are as follows:

Thousands of euros	2016	2015
Present value of commitments financed	(35,087)	(45,066)
Fair value of plan assets	10,198	4,396
Net balance sheet liabilities:	**(24,889)**	**(40,670)**
Surrender rights	2,412	4,396
Net assets (provision)	(27,301)	(45,066)

Movements in commitments for remuneration to personnel for benefits to find during the year were as follows:

Thousands of euros	2016	2015
As at 1 January	(45,066)	(84,963)
Transfers and other	-	-
Cost of current services	-	-
Interest expense	(83)	(192)
Additions to Provisions for the year	(14,962)	(527)
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:		
Gains/(Losses) due to changes in demographic assumptions	-	-
Gains/(Losses) due to changes in financial assumptions	1,530	110
Gains/(Losses) based on experience	(1,026)	900
Benefit payments	24,520	39,606
Acquired in a business combination	-	-
As at 31 December	(35,087)	(45,066)

Movements in assets affecting the plan during the year were as follows:

Thousands of euros	2016	2015
As at 1 January	4,396	8,143
Transfers and other	-	-
Interest income	9	19
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:		
Yield on plan assets, excluding amounts included in interest (expense)/income	-	-
Gains/(Losses) due to changes in financial assumptions	-	-
Gains/(Losses) based on experience	(693)	86
Change in asset limit, excluding amounts included in interest expense	-	-
Contributions:		
made by the Bank	8,945	(181)
made by plan participants	-	-
Benefit payments	(2,459)	(3,671)
Acquired in a business combination	-	-
As at 31 December	10,198	4,396

Estimated payments on expected for post-employment benefits in next ten years are as follows:

Thousands of euros	2017	2018	2019	2020	2021	2022- 2026
Probable early-retired personnel benefits	445	432	419	405	391	1,730

37. Provisions

Provisions are present obligations arising from past events for which, at the balance sheet date, it is more likely than not that the obligation will have to be settled.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2016 and 2015:

Thousands of euros	2016	2015
Pensions and other post employment defined benefit obligations	238,404	261,117
Other long term employee benefits	-	-
Pending legal issues and tax litigation	22,749	16,359
Commitments and guarantees given	195,037	69,311
Other provisions	78,116	36,572
Total	534,306	383,359

Provisions for pensions and post-employment defined benefit obligations recognised in the consolidated balance sheet at year-end 2016 and 2015, in the amounts of 238,404 thousand euros and 261,117 thousand euros, respectively, relate basically to the successive early retirement plans approved by the Group's Banks in Spain, referred to elsewhere in these consolidated financial statements, and to the pension commitments of Banco Popular Portugal, S.A., amounting to 152,950 thousand euros in 2016 and 163,239 thousand euros in 2015. As the bank retains the risk arising from these commitments, they must be included in this balance sheet item.

In the second half of 2016, the bank communicated its intention to carry out a restructuring process to the market which would optimise the Bank's network of offices, network support structures and corporate services, with the aim of improving the Bank's profitability and efficiency.

As a consequence of said process, under the heading Other provisions, the provisions fund corresponding to the Restructuring undertaken by the Group in the fourth quarter of 2016 for an initial amount of 370,000 thousand euros was accounted for. As the derecognitions have materialised, this fund has been applied in 2016 under the item of expenditure by nature, these being:

- Provisions for early retirement, for an amount of 5,701 thousand euros. (Note 57)
- Staff expenses, for an amount of 325,191 thousand euros. (Note 57)
- Impairment losses, due to the impact of the accelerated amortisation on the decommissioned facilities, for an amount of 13,672 thousand euros. (Note 63)
- Other operating charges, due to the impact of the indemnities for leases of offices which were in force, for an amount of 1,325 thousand euros. (Note 55)
- Other general expenses, for an amount of 2,469 thousand euros. (Note 58)

At the end of 2016 a fund of restructuring provisions of 21,642 thousand euros is pending application for the expenses which will materialise in 2017.

In October 2009, Banco Popular issued and sold "Mandatorily Convertible Subordinated Notes 2009" In April 2012, these Notes were exchanged for others called "Mandatorily Convertible Notes II / 2012" In this exchange, Banco Popular improved some characteristics with respect to the original notes. These notes were converted into shares on 25 November.

The litigation about mandatorily convertible notes in shares is based on a legal problem centred on the information provided at the time of contracting and on the profile and experience of each individual customer, which should be analysed on a case-by-case basis. Based on our analysis, extensive compliance with the formal information requirements has been verified. Therefore, the Group considers that the instruments were marketed in a transparent manner, complying with the rules of contracts between consumers. In addition, at the date of preparation of the Financial Statements for 2015 and at the present date, there is no collective proceeding underway and it is not anticipated that, as indicated, the possible problem of the marketing of these financial instruments would be specific for each operation and for each client. In addition, in relation to the expiry date of the action that runs from the conversion of May 2012 and which lasts four years (article 1301 CC), on 31 December 2016 the said expiry had already materialised.. Therefore, it is considered that most of the subscribers with anticipation of a claim would have already done so and it should be considered that the Entity, given the expiry, could reasonably oppose said procedural exception against future lawsuits in these cases.

For all of this, the litigiousness is not comparable to that which exists in other contracts, nor considering the probabilities of success of the lawsuits nor the existing volume.

On this issue, on 10 August 2016, the CNMV resolution of 22 July was published in the Official State Gazette which fined the Bank one million euros for a very serious violation of art. 99 z) bis of the Securities Market Law. This sanction is based, on one hand, on the existence of methodological deficiencies in the suitability test which the Bank used during the period inspected (June to November 2011); and, on the other, the lack of accreditation of having carried out the corresponding warning in cases where the customer had not performed the required suitability test or the result of that test would have given a "not suitable" result. Without prejudice to the fact that the Bank having lodged an administrative appeal against said decision before the High Court, requesting a precautionary suspension of the execution of the fine, the content of said resolution does not consider that there may be a greater number of lawsuits from customers who subscribed to the Mandatorily convertible subordinated notes 2009. At the close of these Financial Statements the result of the appeal is unknown.

Taking into account the type of subscribers of the issuance of mandatorily convertible subordinated notes 2009, as well as the information provided by our Legal Services in relation to the number of lawsuits received and their situation, it was estimated that the necessary provisions for possible related costs for non-low-risk populations amounted to 20 million euros at 31 December 2015 and 16.8 million euros at 31 December 2016. There is no significant additional information at the current time which changes that conclusion.

Movements in the main Provisions items in 2016 and 2015 are set out below:

Thousands of euros	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total provisions
Opening balance 2015	293,653	-	31,780	121,272	23,293	469,998
Change in scope of consolidation	-	-	-	-	-	-
Net additions to provisions charged to profit and loss:						
Gross additions to provisions	239	-	4,360	29,727	53,342	87,668
Provisions released	-	-	(2,332)	(81,902)	(36,861)	(121,095)
Provisions applied	(35,936)	-	(6,997)	-	(2,253)	(45,186)
Transfers and other movements	3,161	-	(10,452)	214	(949)	(8,026)
Closing balance 2015	261,117	-	16,359	69,311	36,572	383,359
Change in scope of consolidation	-	-	-	-	-	-
Net additions to provisions charged to profit and loss:						
Gross additions to provisions	21,593	-	855	197,759	53,174	273,381
Provisions released	(18)	-	(920)	(70,130)	(8,171)	(79,239)
Provisions applied	(21,269)	-	(1,699)	-	(1,387)	(24,355)
Transfers and other movements	(23,019)	-	8,154	(1,903)	(2,072)	(18,840)
Closing balance 2016	238,404	-	22,749	195,037	78,116	534,306

Note 36 contains a breakdown of pension commitments and similar obligations.

Under Other provisions, it mainly records the provisions needed to cover possible risks for tax and legal contingencies. Regarding the latter, the Group's Legal Services receives, on a quarterly basis, a list of the open lawsuits and a rating of the estimated risk in each one according to its characteristics and its procedural situation. Based on this information, the necessary provision is determined. In the fourth quarter of 2016, an additional provision of 10.5 million euros was made to cover possible claims related to guarantees to developers related to Law 57/1968 on advance amounts in the construction and sale of houses. The remaining amount corresponds to other litigation and processes related to the Entity's own operations.

For clarity, in view of the special characteristics of pension funds and other similar obligations, movements are analysed hereunder:

Thousands of euros	2016	2015
Opening balance	261,117	293,653
Additions to provisions charged to profit and loss:	60,146	38,177
Staff expenses (Note 57)	34,151	33,605
Additions to provisions (net)	21,575	239
Interest and similar expenses	4,420	4,333
Transfer to Accumulated other comprehensive income	(1,689)	3,144
Payments to pensioners and early retirees	(21,269)	(35,936)
Change in scope of consolidation	-	-
Provisions applied and other movements	(59,901)	(37,921)
Closing balance	238,404	261,117

Equity transferred to fair value changes corresponds to actuarial differences between the Group's different banks.

Set out below are the movements in Provisions for commitments and guarantees given by type of provision.

Thousands of euros	Specific	Generic	Country Risk	Total
Opening balance 2015	120,909	-	363	121,272
Change in scope of consolidation	-	-	-	-
Additions to provisions	29,768	-	(41)	29,727
Recoveries	81,888	-	14	81,902
Other changes and transfers	213	-	1	214
Closing balance 2015	69,002	-	309	69,311
Change in scope of consolidation	-	-	-	-
Additions to provisions	170,404	27,355	-	197,759
Recoveries	66,994	3,073	63	70,130
Other changes and transfers	(1,636)	(49)	(218)	(1,903)
Closing balance 2016	170,776	24,233	28	195,037

Risks covered by provisions for commitments and guarantees given are doubtful guarantees for which provisions have been allocated pursuant to applicable laws, calculated using similar criteria to those calculated for covering the impairment of financial assets valued at their amortised cost, and are recognised under "Provisions for commitments and guarantees given" in the balance sheet.

38. Other liabilities

This heading includes liabilities not recognised in other balance sheet items.

Thousands of euros	2016	2015
Accruals	442,973	404,085
Transactions in transit	103,389	4,875
Other	240,822	177,637
Total	787,184	586,597

The balances included in “Other items” are broken down by type as follows. It will be seen that they are immaterial relative to Total Liabilities:

	% Liability		% Liability	
Thousands of euros	**2016**	**Total liabilities**	**2015**	**Total liabilities**
Transitory balances	161,366	0.15%	101,979	0.07%
Credit balances	19,712	0.01%	32,253	0.02%
Sundry creditors in Group companies	59,744	0.04%	43,405	0.03%
Total	240,822	0.16%	177,637	0.12%

Changes during the year were as follows:

Balance at 31.12.2015	177,637
Additions	250,840
Disposals	187,655
Balance at 31.12.2016	240,822

Changes during the previous year were:

Balance at 31.12.2014	214,213
Additions	160,899
Disposals	197,475
Balance at 31.12.2015	177,637

39. Equity

The Group's consolidated equity comprises own funds, Accumulated other comprehensive income and Minority interests, which are analysed and explained separately in Notes 39, 40 and 41 respectively.

The following table contains an analysis showing movements in equity during the last two years:

Thousands of euros	Share capital	Reserves	Profit or loss attributable to owners of the parent	Dividends and remuneration	Treasury shares and equity instruments	Other equity instruments	Accumulated other comprehensive income	Equity attributable to BPE Group	Minority interests	Equity
Balance as at 31 December 2014	**1,050,384**	**10,762,857**	**330,415**	**-**	**(3,458)**	**643,198**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**
Capital increase	11,891	(11,891)	-	-	-	-	-	-	-	-
Conversion of financial liabilities into capital	20,263	641,965	-	-	-	(643,198)	-	19,030		19,030
Valuation adjustments	-		-	-		-	(55,874)	(55,874)	-	(55,874)
Application of prior-year profit/(loss)	-	330,415	(330,415)	-	-	-	-	-	-	-
Dividends	-	(20,033)	-	-	-	-	-	(20,033)	-	(20,033)
Profit/(losses) on transactions with treasury shares and other	-	(889)	-	-	-	-	-	(889)	-	(889)
Actuarial gains or (-) losses on defined benefit pension plans	-	-	-	-	-	-	(32,792)	(32,792)	-	(32,792)
Equity instruments	-	-	-	-	(18,021)	-	-	(18,021)		(18,021)
Profit or loss attributable to owners of the parent	-	-	105,432		-	-	-	105,432	502	105,934
Interim dividends	-	-	-	(42,387)	-	-	-	(42,387)	-	(42,387)
Change in Group's composition and other movements (net)	-	(106,536)	-	-	-	-	-	(106,536)	(3,674)	(110,210)
Balance as at 31 December 2015	**1,082,538**	**11,595,888**	**105,432**	**(42,387)**	**(21,479)**	**-**	**(221,743)**	**12,498,249**	**16,376**	**12,514,625**
Capital increase	1,015,891	1,489,661	-	-	-	-	-	2,505,552	-	2,505,552
Conversion of financial liabilities into capital	-	-	-	-	-	-	-	-	-	-
Valuation adjustments	-	-	-	-	-	-	(35,456)	(35,456)	-	(35,456)
Application of prior-year profit/(loss)	-	63,045	(105,432)	42,387	-	-	-	-	-	-
Dividends	-	(18,551)	-	-	-	-	-	(18,551)	-	(18,551)
Profit/(losses) on transactions with treasury shares and other	-	(9,581)	-	-	-	-	-	(9,581)	-	(9,581)
Actuarial gains or (-) losses on defined benefit pension plans	-	-	-	-	-	-	(32,079)	(32,079)	-	(32,079)
Equity instruments	-	-	-	-	(168,872)	-	-	(168,872)	-	(168,872)
Profit or loss attributable to owners of the parent	-	-	(3,485,366)	-	-	-	-	(3,485,366)	5	(3,485,361)
Interim dividends	-	-	-	-	-	-	-	-	-	-
Change in Group's composition and other movements (net)	-	(178,273)	-	-	-	-	-	(178,273)	(4,391)	(182,664)
Balance as at 31 December 2016	**2,098,429**	**12,942,189**	**(3,485,366)**	**-**	**(190,351)**	**-**	**(289,278)**	**11,075,623**	**11,990**	**11,087,613**

40. Own funds

This includes shareholders' contributions, cumulative results recognised through the profit or loss account, permanent adjustments against consolidated equity due to revaluations arising from business combinations and treasury share issue or redemption costs, and actuarial losses or gains attributed to the parent company. Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2016 and 2015:

Thousands of euros	2016	2015
Share capital	2,098,429	1,082,538
Share premium	5,277,886	7,774,555
Other equity instruments	-	-
Equity instruments issued other than capital	-	-
Other equity	-	-
Reserves	7,664,303	3,821,333
Retained earnings	7,840,459	3,926,925
Revaluation reserves	1,978	2,009
Other reserves	(178,134)	(107,601)
Treasury shares (-)	(190,351)	(21,479)
Profit or loss attributable to owners of the parent	(3,485,366)	105,432
Interim dividends (-)	-	(42,387)
Total	11,364,901	12,719,992

Share capital

Capital includes all the share capital subscribed and paid up by the shareholders of Banco Popular Español, S.A.

At 31 December 2016 and 2015, share capital consisted respectively of 4,196,858 thousand fully-subscribed and paid-up shares, each with a par value of 0.50 euros, and 2,165,075 thousand fully-subscribed and paid-up shares, each with a par value of 0.50 euros.

Pursuant to the resolutions adopted by the Board of Directors on 25 May 2016 and by the Ordinary General Shareholders' Meeting held on 11 April 2016, it was agreed to increase Banco Popular's share capital through monetary contributions and with recognition of the pre-emptive subscription rights of the Company's shares for a nominal amount of 1,002,221 thousand euros through the issue and circulation of 2,004,441 thousand new ordinary shares of Banco Popular with 0.50 euros par value each, plus a unit issue premium of 0.75 euros, resulting in an issue type of 1.25 euros for each New Share, with the effective amount of the Capital Increase being 2,505,552 thousand of euros. On 21 June 2016, a Capital Increase deed was granted for 1,002,221 thousand euros through the issue of 2,004,441 thousand new shares and was registered in the Mercantile Registry of Madrid on that date. Therefore, the new share capital of Banco Popular has been set at 2,098,429 thousand euros represented by 4,196,858 thousand shares with a par value of 0.50 euros each, all belonging to a single class and series. The new shares were admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, through the Stock Market Interconnection System (Continuous Market) on 23 June 2016. The expenses of this capital increase recorded against reserves amounted to 69,015 thousand euros.

In 2016, Banco Popular Español, S.A. carried out two capital increases by way of shareholder remuneration through the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend) as well as the increase made on 21 June through a monetary contribution and with recognition of the pre-emptive right of the Company's shareholders.

A breakdown is provided below:

Thousands of euros	
Capital increase through monetary contribution	1,002,221
Issue of shares for Tailored Dividend	13,670
Total	1,015,891

In 2015, Banco Popular Español, S.A. increased capital several times as a result of the exchange of mandatorily convertible debentures and by way of shareholder remuneration through the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend). A breakdown is provided below:

Thousands of euros	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	20,263
Issue of shares for Tailored Dividend	11,891
Total	32,154

Movements in capital in 2016 and 2015 are set out below:

Thousands of euros	2016	2015
Opening balance	1,082,538	1,050,384
Issues	1,015,891	32,154
Depreciation and Amortisation	-	-
Closing balance	2,098,429	1,082,538

Appendix III contains details of the resolutions adopted as regards the capital increases adopted during the year.

All the shares of Banco Popular Español, S.A. are officially listed on the Spanish stock exchanges and are traded on the continuous market.

As at 31 December 2016 and 2015, no Banco Popular shareholder owned a direct or indirect shareholding of 10% or more. The Management Report forming part of this document provides all the information required by Article 116 bis of Law 24/1988 of 28 July, the Securities Market Act.

At 31 December 2016 and 2015, shareholdings of 10% or more in consolidated companies held by other non-Group entities, directly or through their subsidiaries, were as follows:

		% Shareholding	
Subsidiaries	**Non-Group person or entity**	**2016**	**2015**
Grupo La Toja Hoteles	Marlolan S.L.	10.00	10.00
Pastor privada investment 1 (*)	Omura Servigroup, S.L.	-	15.00
	Holders of 5% shareholdings each	-	80.00
	Holders of 40% and 20% shareholdings each	60.00	-
Pastor privada investment 3 (*)	Girbal, S.L.	-	30.00
	Holders of 5% shareholdings each	-	65.00
	Playas del Sur de Lanzarote, S.A.	33.33	-
	Private owner	33.33	-
Hercepopular S.L.	Hercesa Inmobiliaria S.A.	49.00	49.00

(*) The Bank has appointed the majority of the members of these companies' administrative bodies under shareholder agreements.

Share premium

The share premium arises from capital increases and is calculated by multiplying the number of shares issued in the capital increase by the difference between the issue price and the par value per share. Under Spanish corporate law, the share premium may be used to increase capital, there being no restriction on its use.

Movements in the share premium balance in 2016 and 2015 are set out below:

Thousands of euros	**2016**	**2015**
Opening balance	7,774,555	7,132,590
Issues	1,503,331	641,965
Other movements	(4,000,000)	-
Closing balance	5,277,886	7,774,555

During 2016 there was an increase of 1,503,331 thousand euros as a result of the capital increase made on 21 June corresponding to a unit share premium of 0.75 euros per share, resulting in an issue type of 1.25 euros per share. In December a transfer of the share premium of 4,000,000 thousand euros was made to voluntary reserves.

In 2015 the issues, which led to increases in share premiums, were a result of the exchange of mandatorily convertible debentures.

Reserves

This includes the net amount of retained earnings from previous years, used to strengthen consolidated equity when profits are appropriated, as well as permanent adjustments, equity instrument issue costs and actuarial gains or losses on pension plans.

Spanish corporate law stipulates that 10% of the profit for the year must be allocated to the legal reserve until the balance of the reserve is equal to 20% of share capital. The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it may be used only to offset losses, provided sufficient other reserves are not available for this purpose.

Spanish corporate law also requires companies to set aside restricted reserves for transactions involving treasury shares or the shares of their parent company, in amounts equal to the relevant carrying amounts of treasury shares or assets (loans for the acquisition of, or secured by, the shares). These reserves are restricted until the circumstances giving rise to their recognition cease to exist.

Set out below is a breakdown of this heading as at 31 December 2016 and 2015:

Thousands of euros	**2016**	**2015**
Reserves of Banco Popular		
Restricted reserves:		
Legal Reserve	96,983	83,365
Reserves for own equity instruments:		
For transactions with own securities	-	-
For guarantees	68,104	110,310
For loans for their acquisition	2,400	4,377
Other restricted reserves	177,085	97,062
Unrestricted reserves		
Statutory reserve	70,046	70,046
Voluntary and other reserves	10,038,557	6,010,773
Total	10,453,175	6,375,933
Consolidation reserve	(2,771,999)	(2,547,134)
Equity method reserve	(16,873)	(7,466)
Total	7,664,303	3,821,333

The variation of the reserves in the parent company in 2016 totalled 4,077,242 thousand euros as a result of:

- The results of the previous period which totalled 136,184 thousand euros, and was charged entirely to reserves.
- Remuneration to shareholders under the formula "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend), for an amount of 18,551 thousand euros by means of cash payments (reflected in the line Payments of Dividends in the Consolidated Cash Flow Statement) and through capital increases charged to reserves for an amount of 13,670 thousand euros, which led to a reduction in reserves of 32,221 thousand euros.
- Transfer of 4,000,000 thousand euros from share premium to voluntary reserves.
- Transactions with own securities, capital increase expenses and other consolidation adjustments resulted in an reduction in the parent company reserves of 26,721 thousand euros.

The variation of the reserves in the parent company in 2015 totalled 473,236 thousand euros as a result of:

- The results of the previous period totalled 476,691 thousand euros, and was charged entirely to reserves.
- Remuneration to shareholders under the formula “Dividendo Banco Popular: Un dividendo a su medida” (Banco Popular Dividend: A tailored dividend), for an amount of 20,033 thousand euros by means of cash payments and capital increases charged to reserves for an amount of 11,891 thousand euros, which led to a reduction in reserves of 31,924 thousand euros for both concepts.
- Transactions with own securities and other consolidation adjustments resulted in an increase in the parent company reserves of 28,469 thousand euros.

Movements in this heading are set out below:

Thousands of euros		**Movements in 2015**			**Movements in 2016**		
	2014	**Increases**	**Decreases**	**2015**	**Increases**	**Decreases**	**2016**
Reserves of Banco Popular Español							
Restricted reserves:							
Legal reserve	35,696	47,669	-	83,365	13,618	-	96,983
Reserves for own equity instruments							
For transactions with own securities	-	-	-	-	-	-	-
For guarantees	144,040	42,112	75,842	110,310	1	42,207	68,104
For loans for their acquisition	7,752	1,778	5,153	4,377	284	2,261	2,400
Other restricted reserves	7,040	95,053	5,031	97,062	80,054	31	177,085
Voluntary reserves:	-						
Statutory reserve	70,046	-	-	70,046	-	-	70,046
Voluntary and other reserves	5,638,154	1,410,767	1,038,148	6,010,773	5,532,354	1,504,570	10,038,557
Total	5,902,728	1,597,379	1,124,174	6,375,933	5,626,311	1,549,069	10,453,175
Reasons for changes:							
Appropriation of profit(loss) for the year		476,691	-		136,184	-	
Transfers between reserves		138,943	138,943		4,174,442	126,211	
Actuarial differences		-	-		-	-	
Other movements		-	-		-	-	
Consolidation adjustments		921,441	982,054		1,312,595	1,409,919	
Transactions with own securities		60,304	3,177		3,090	12,939	
Total		1,597,379	1,124,174		5,626,311	1,549,069	

The total balance in these reserves reflected in the consolidated balance sheets differs from the reserves carried in the individual balance sheets of Banco Popular (Note 1) due to certain adjustments and eliminations on consolidation.

The following table shows the effect of these adjustments, relating basically to intragroup dividends and transfers from reserves in consolidated companies to Banco Popular due to consolidation adjustments.

Thousands of euros	**2016**	**2015**
Amount in Banco Popular's balance sheet	6,864,265	3,381,235
Consolidation adjustments:	3,588,910	2,994,698
In respect of dividends	125,021	171,351
Others (net)	3,463,889	2,823,347
Amount in consolidated balance sheet	10,453,175	6,375,933

Set out below is a breakdown by entity of the balance of reserves/(losses) attributed to subsidiaries, joint ventures and associates as at 31 December 2016 and 2015:

Thousands of euros	**2016**	**2015**
Deposit-taking institutions:		
Banco Pastor, S.A.U.	31,510	3,000
Banco Popular Portugal, S.A.	(18,177)	(36,474)
Popular Banca Privada, S.A.	(52,517)	(66,915)
TotalBank	32,471	16,442
Financing institutions:		
Popular de Factoring, S.A.	-	43,044
Popular Factoring, S.A. (Portugal)	-	(5,599)
Holding and services companies:		
Gestora Popular, S.A.	10,615	10,723
Grupo La Toja Hoteles	(1,095)	(369)
Pastor Privada Investment 1, S.L.	-	(1)
Pastor Privada Investment 2, S.L.	(565)	(425)
Pastor Privada Investment 3, S.L.	1	(1)
Popular Bolsa S.V., S.A.	(599)	(601)
Popular Consumer Finance, S.A.	(1)	-
Popular de Participaciones Financieras, S.A.	(78)	866
Popular Gestão de Activos, S.A.	(54)	(171)
Popular Gestión Privada SGIIC, S.A.	2,541	2,541
Popular Servicios Financieros E.F.C., S.A.	7,153	3,285
Sobrinos de Jose Pastor Inversiones, S.A.	(851)	(853)
Instrumental entities:		
Aliseda, S.A.U.	(1,929,653)	(1,733,808)
Arco Organización	-	-
Bodegas Señorío de Nevada	-	-
BPE Financiaciones, S.A.	147	67
BPE Preference International, Ltd.	8	(12)

Thousands of euros	2016	2015
BPE Representações y Participações, Ltda.	12	(31)
BPP Asesores, S.A.	(1,248)	(754)
Consulteam Consultores de Gestão, Lda.	(438,318)	(458,097)
EDT FTPYME Pastor 3	(1,205)	(1,086)
FIB Realty Corporation	-	-
Finespa, S.A.	8,623	9,043
Fondo Imopopular, FEIIF	-	(5,024)
Fórum de Negocios del Sur, S.L.	-	-
Fórum de Negocios de Granada, S.L.	-	-
Fórum de Negocios de Motril, S.L.	-	-
Fundo Popular Predifundo	-	(1,343)
GC FTPYME Pastor 4	108	28
Gestión de Activos Castellana 40, S.L.	-	-
Gestora Europea de Inversiones, S.A.	(51,078)	(50,961)
Gold Leaf Title Company	861	639
Hercepopular S.L.	652	83
IM Banco Popular FPYME 1, FTA	-	-
IM Banco Popular MBS 2, FTA	5,152	5,810
IM Cédulas Grupo Banco Popular 3, FTA	16,373	(309)
IM Grupo Banco Popular Empresas 1, FTA	-	5,417
IM Grupo Banco Popular Empresas 5, FTA	-	38,548
IM Grupo Banco Popular Empresas 6, FTA	8,383	-
IM Grupo Banco Popular FPYME I, FTA	-	7,419
IM Grupo Banco Popular Empresas 7, FTA	-	-
IM Grupo Banco Popular, MBS 3, FTA	54	-
Inmobiliaria Viagracia, S.A.	110,848	109,163
Intermediacion y Servicios Tecnológicos, S.A.	550	(226)
Inversiones Inmobiliarias Alprosa, S.L.	2,501	1,984
Inversiones Inmobiliarias Canvives, S.A.U.	(434,555)	(419,022)
Inversiones Inmobiliarias Cedaceros, S.A.	(60,192)	(60,854)
Inversiones Inmobiliarias Elencia, S.A.	-	-
Inversiones Inmobiliarias Gercebio, S.A.	(10,637)	(11,565)
Inversiones Inmobiliarias Inagua S.A.	-	-
Inversiones Inmobiliarias Jeraguilas, S.A.	(16)	(39)
Inversiones Inmobiliarias Linara S.A.	-	-
Inversiones Inmobiliarias Popsol, S.A.	-	-
Inversiones Inmobiliarias Tamadaba, S.A.	(2,403)	(1,880)
Inversiones Inmobiliarias Tamdab, S.A.	-	-
Inversiones Inmobiliarias Valabia, S.A.	-	-
Isla de los Buques, S.A.	1,251	1,250
Limatesa Gestion deServicios Integrales, SL	-	-
Manberor, S.A.	(36,599)	(11)
Meglahe, S.A.	(14)	(12)

Thousands of euros	2016	2015
Pandantan, S.L.	-	-
Pastor Participaciones Preferentes, S.A.	644	425
Platja Amplaries, S.L.	-	-
Popular Arrendamento - FIIF para Arrendamento Habitacional	(6,838)	(3,185)
Popular Capital, S.A.	342	109
Popularcompras, S.L.U.	-	-
Popular de Mediacion, S.A.	(70)	(70)
Popular Español Asia Trade, LTD	-	-
Popular Operaciones, S.A.	-	-
Aliseda Participaciones Inmobiliarias, S.L.	-	-
Aliseda Real Estate, S.A.	-	-
Read Leaf Holding	(3,515)	(2,579)
Taler Real Estate, S.L.	-	-
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	12,040	11,996
Velázquez 34, S.A.	(14,306)	(11,763)
Non-financial companies:		
Cercebelo Assets, S.L.	(1,525)	(1,218)
Eurovida, S.A. (Portugal)	81,154	79,885
General de Terrenos y Edificios Servicios Integrales, S.L.	1,774	988
General de Terrenos y Edificios, S.L.	(22,344)	(19,267)
Gestora Inmobiliaria La Toja, S.A.	455	(90)
Inti Entertainment	(253)	-
La Toja S,A,	-	-
Pastor Vida, S.A.	29,268	28,809
Popular de Renting, S.A.	2,480	687
Popular Seguros, S.A.	289	2,260
Promoción Social de Viviendas, S.A.	195	199
Vilamar Gestión, S.L.	(49,770)	(35,220)
Total consolidation reserves	**(2,770,021)**	**(2,545,125)**

Joint Ventures	2016	2015
Aliseda Servicios de Gestión Inmobiliaria, S.L.	59,801	37,952
Iberalbión A.I.E.	-	-
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(11,192)	(11,187)
Inverlur Águilas II, S.L.	(34,616)	(34,608)
Primestar Servicing (RecBus-Recovery to Business, S.A.)	208	(2)
Saite, S.A.	1,985	1,287
Saite-Cobal, S.A.	(5,837)	(5,772)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago “Iberia Cards”, S.A.	5,021	4,606
WiZink Bank (Bancopopular-e, S.A.)	99,716	74,909
Wizink Gesión A.I.E.	-	-
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U.	164	(1)
Subtotal joint ventures	**115,250**	**67,184**
Associates		
Aevis Europa, S.L.	177	171
Allianz Popular, S.L.	(2,757)	41,981
Aviación Intercontinental, A.I.E	7,221	5,751
Compañía Española de Viviendas en Alquiler S.A.	1	-
Euro Automatic Cash Entidad de Pago, S.L.	(4,867)	2,114
Fotovoltaica Monteflecha, S.L.	213	200
Gestora Patrimonial c/Francisco Sancha, 12	(8,332)	1,787
Grupo Financiero Ve por Mas SA de CV	4,351	1,127
Inversiones en Resorts Mediterraneos, S.L.	(53,163)	(53,190)
Master Red Europa, S.L.	183	172
Metrovacesa, S.A.	-	(97,040)
Metrovacesa Patrimonio, S.A.	-	-
Metrovacesa Promoción y Arrendamiento, S.A.	(9,423)	-
Metrovacesa Suelo y Promoción, S.A.	(82,809)	-
Sistema 4B, S.A.	(328)	(380)
Sociedad de Procedimientos de Pago S,L,	-	-
Targo Bank, S.A.	35,734	28,295
Targoinmuebles, S.A.	(224)	(153)
Testa Residencial, S.L.U.	(12,735)	-
Trindade Fundo de Investimento Inmobiliario Fechado	(5,365)	(5,485)
Subtotal associates	**(132,123)**	**(74,650)**
Total equity method reserves	**(16,873)**	**(7,466)**

Other equity instruments

This item relates to the component of compound financial instruments having the nature of equity, own funds increases for remuneration of personnel and other shareholders' equity-type items not classified in different items in own funds.

During the last quarter of 2009, the Group issued mandatorily convertible subordinated debentures amounting to 700 million euros. The purpose of this issue was to reinforce and optimise the shareholders' equity, and it led to a significant increase in the percentage of the Group's Tier 1 capital. These debentures can be converted into shares, by virtue of the voluntary or mandatory conversion requests by owners of the securities, on 23 October 2010, 2011 and 2012, on a voluntary basis, or 23 October 2013 on a mandatory basis.

In October 2012, Banco Popular Español offered the holders of this issue (Issue I-2009) the possibility of exchanging their debentures for another issue of subordinated notes subject to similar terms and a new maturity date in November 2015 (Issue II-2012); acceptances and rejections totalled 656,511 thousand euros and 31,760 thousand euros respectively.

Pursuant to the exchange schedule, Banco Popular Español, S.A., made the voluntary conversion request of 5,018 thousand euros (4,383 thousand euros of the II-2012 issue and 635 thousand euros of the I-2009 issue), and 5,487 mandatorily convertible debentures during the 2012 and 2011 periods respectively, which were capitalised, reducing the amount of this instrument by 5,018 thousand euros and 5,487 thousand euros in each period.

The nominal interest rate on the debentures was 7% to the first anniversary of the issue and the three-month Euribor plus 4% from that date to the maturity date of the issue or conversion into shares if sooner. The fixed annual nominal remuneration rate of new Issue II/2012 is 7%, subject to the conditions relating to the non-receipt of remuneration described in the issue prospectus.

For conversion purposes, the reference price of the shares in Banco Popular Español, S.A. was set at 7.1377 euros per share and the conversion ratio of the debentures (number of Bank shares per debenture) was 140.101153 shares per debenture. Consequently, the number of shares to be acquired by the debenture holders on conversion will be calculated by multiplying shares per debenture by the number of debentures held. If this calculation gives rise to fractions of shares, such fractions will be rounded down and Banco Popular Español, S.A. will pay the fractions in cash to the debenture holder on the same date as that on which the shares are registered in the holder's name. For the purposes of this cash payment, fractions will be valued at the conversion price. Following the successive capital increases carried out in 2012, the conversion price of these issues was set at 3.64 euros per share for Issue II/2012 and 3.57 euros per share for Issue I/2009. Following the counter-split revised in 2013, the conversion price of these issues is 18.20 euros per share for issue II/2012.

In 2014, 3,333 thousand euros were converted of Issue II-2012.

In 2015 the II-2012 issue of subordinated mandatorily convertible notes was converted for 643,198 thousand euros, which resulted in a capital increase of 18,328 thousand euros and 627,232 thousand euros in the share premium.

During 2016 there has been no movement nor balance for this item.

The following table shows a breakdown of movement under this heading for 2016 and 2015:

Thousands of euros	**2016**	**2015**
Opening balance	-	643,198
Issues	-	-
Cancellations on conversion	-	(643,198)
Other movements	-	-
Closing balance	-	-

Treasury shares

This item reflects all the own equity instruments held by all the Group entities. The number of shares held by the Group totals 118,560,222 and 6,574,056 as at 31 December 2016 and 2015 respectively.

Movement in own equity instruments bought and sold in 2016 and 2015 are set out below:

Thousands of euros	
Balance at 01.01.2015	3,458
Increases	121,475
Decreases	103,454
Balance at 31.12.2015	21,479
Increases	252,296
Decreases	83,424
Balance at 31.12.2016	190,351

The average price of the cost of the treasury shares acquired was 1.692 and 3.845 euros for the 2016 and 2015 periods respectively.

Profit/(loss) for the year

The following table contains the accounting results attributable by each entity to the Group. The eliminations and adjustments shown at the end on a separate line give rise to the attributable amount, which connects the income statement to own funds.

Thousands of euros	2016	2015
Deposit-taking institutions:		
Banco Popular Español, S.A.	(3,222,318)	136,186
Banco Pastor, S.A.U.	(41,752)	39,878
Banco Popular Portugal, S.A.	9,763	13,347
Popular Banca Privada, S.A.	833	8,416
TotalBank	20,017	14,271
Financial Companies:		
Popular de Factoring, S.A.	-	7,291
Popular Factoring, S.A. (Portugal)	-	2,629
Holding and services companies:		
Gestora Popular, S.A.	(79)	4,147
Grupo La Toja Hoteles	(176)	(545)
Pastor Privada Investment 1, S.L.	1,158	-
Pastor Privada Investment 2, S.L.	(4,683)	(141)
Pastor Privada Investment 3, S.L.	240	-
Popular Bolsa S.V., S.A.	738	1,276
Popular Consumer Finance, S.A.	-	-
Popular de Participaciones Financieras, S.A.	(92)	(944)
Popular Gestão de Activos, S.A.	17	117
Popular Gestión Privada SGIIC, S.A.	422	273
Popular Servicios Financieros E.F.C., S.A.	2,156	2,932
Sobrinos de Jose Pastor Inversiones, S.A.	(45)	(34)
Instrumental companies:		
Aliseda, S.A.U.	(267,027)	(165,730)
Arco Organización	-	-
Bodegas Señorío de Nevada	-	-
BPE Financiaciones, S.A.	302	323
BPE Preference International, Ltd.	(23)	20
BPE Representações y Participações, Ltda.	43	43
BPP Asesores, S.A.	(553)	(493)
Consulteam Consultores de Gestão, Lda.	(56,075)	(46,347)
EDT FTPYME Pastor 3	(137)	(119)
FIB Realty Corporation	-	-
Finespa, S.A.	(830)	1,744
Fondo Imopopular, FEIIF	-	(974)
Fórum de Negocios del Sur, S.L.	-	-
Fórum de Negocios de Granada, S.L.	-	-
Fórum de Negocios de Motril, S.L.	-	-
Fundo Popular Predifundo	-	(124)
GC FTPYME Pastor 4	(140)	80
Gestión de Activos Castellana 40, S.L.	-	-
Gestora Europea de Inversiones, S.A.	8,952	(118)
Gold Leaf Title Company	133	222

Thousands of euros	2016	2015
Hercepopular S.L.	458	600
IM Banco Popular FPYME 1, FTA	-	-
IM Banco Popular MBS 2, FTA	(365)	(658)
IM Cédulas Grupo Banco Popular 3, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	-	(1,013)
IM Grupo Banco Popular Empresas 5, FTA	-	1,682
IM Grupo Banco Popular Empresas 6, FTA	9,972	8,383
IM Grupo Banco Popular FPYME I, FTA	-	(1,740)
IM Grupo Banco Popular Empresas 7, FTA	3,328	-
IM Grupo Banco Popular, MBS 3, FTA	913	54
Inmobiliaria Viagracia, S.A.	(4,885)	1,853
Intermediacion y Servicios Tecnológicos, S.A.	112	776
Inversiones Inmobiliarias Alprosa, S.L.	581	519
Inversiones Inmobiliarias Canvives, S.A.U.	(171,560)	(4,530)
Inversiones Inmobiliarias Cedaceros, S.A.	(1,338)	42
Inversiones Inmobiliarias Elencia, S.A.	-	-
Inversiones Inmobiliarias Gercebio, S.A.	124	927
Inversiones Inmobiliarias Inagua S.A.	-	-
Inversiones Inmobiliarias Jeraguilas, S.A.	(16,484)	23
Inversiones Inmobiliarias Linara S.A.	-	-
Inversiones Inmobiliarias Popsol, S.A.	-	-
Inversiones Inmobiliarias Tamadaba, S.A.	(3,588)	(411)
Inversiones Inmobiliarias Tamdab, S.A.	-	-
Inversiones Inmobiliarias Valabia, S.A.	-	-
Isla de los Buques, S.A.	(30)	1
Limatesa Gestion deServicios Integrales, SL	(1)	-
Manberor, S.A.	(848)	(51,647)
Meglahe, S.A.	(1)	(2)
Pandantan, S.L.	-	-
Pastor Participaciones Preferentes, S.A.	218	221
Platja Amplaries, S.L.	-	-
Popular Arrendamento - FIIF para Arrendamento Habitacional	(2,487)	(1,785)
Popular Capital, S.A.	109	232
Popularcompras, S.L.U.	-	(1)
Popular de Mediacion, S.A.	195	123
Popular Español Asia Trade, LTD	(1)	1
Popular Operaciones, S.A.	-	-
Aliseda Participaciones Inmobiliarias, S.L.	-	-
Aliseda Real Estate, S.A.	-	-
Read Leaf Holding	(354)	(1,328)
Taler Real Estate, S.L.	-	-
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	11	43
Velázquez 34, S.A.	(140)	(2,544)

Thousands of euros	2016	2015
Non-financial companies:		
Cercebelo Assets, S.L.	(95)	(308)
Eurovida, S.A. (Portugal)	8,445	11,366
General de Terrenos y Edificios Servicios Integrales, S.L.	535	785
General de Terrenos y Edificios, S.L.	(1,713)	(2,608)
Gestora Inmobiliaria La Toja, S.A.	10	545
Inti Entertainment	(600)	(253)
La Toja S,A,	-	-
Pastor Vida, S.A.	458	459
Popular de Renting, S.A.	1,383	1,793
Popular Seguros, S.A.	706	753
Promoción Social de Viviendas, S.A.	(5)	(3)
Vilamar Gestión, S.L.	6,061	(8,267)
Subtotal parent entity and subsidiaries	**(3,720,032)**	**(28,291)**

Joint Ventures	2016	2015
Aliseda Servicios de Gestión Inmobiliaria, S.L.	28,610	21,455
Iberalbión A.I.E.	-	-
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(24)	(5)
Inverlur Águilas II, S.L.	(67)	(8)
Primestar Servicing (RecBus-Recovery to Business, S.A.)	868	398
Saite, S.A.	660	639
Saite-Cobal, S.A.	(9)	(66)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	1,525	315
WiZink Bank (Bancopopular-e, S.A.)	55,050	46,540
Wizink Gesión A.I.E.	(1)	(1)
Wizink Mediador, Operador de Banca Seguros Vinculado, S.A.U.	517	175
Subtotal joint ventures	**87,129**	**69,442**
Associates		
Aevis Europa, S.L.	27	7
Allianz Popular, S.L.	42,250	39,135
Aviación Intercontinental, A.I.E	1,545	1,885
Compañía Española de Viviendas en Alquiler S.A.	831	-
Euro Automatic Cash Entidad de Pago, S.L.	13,466	6,616
Fotovoltaica Monteflecha, S.L.	27	27
Gestora Patrimonial c/Francisco Sancha, 12	16,309	130
Grupo Financiero Ve por Mas SA de CV	3,124	3,147
Inversiones en Resorts Mediterraneos, S.L.	(244)	-
Master Red Europa, S.L.	32	10
Metrovacesa, S.A.	-	(44,824)
Metrovacesa Patrimonio, S.A.	-	-

Metrovacesa Promoción y Arrendamiento, S.A.	544	-
Metrovacesa Suelo y Promoción, S.A.	43	-
Sistema 4B, S.A.	52	148
Sociedad de Procedimientos de Pago S,L,	(163)	-
Targo Bank, S.A.	(70,474)	8,576
Targoinmuebles, S.A.	(227)	(71)
Testa Residencial, S.L.U.	484	-
Trindade Fundo de Investimento Inmobiliario Fechado	80	(818)
Subtotal associates	**7,706**	**13,968**
Total	**(3,625,197)**	**55,119**
Consolidation adjustments and eliminations	**139,831**	**50,313**
Net income attributable to the Group	**(3,485,366)**	**105,432**

Dividends and remuneration

The breakdown of the dividend balance and remuneration is from the consolidated balance sheet is, once the corresponding dividends received by Banco Popular Group companies, at 31 December 2016 and 2015, is as follows:

Thousands of euros	**2016**	**2015**
Paid	-	-
By Banco Popular Español (Note 4)	-	42,387
Eliminated in the consolidation	-	-
Declared (Note 4)	-	-
Total	-	42,387

The movements of this item during these two periods were as follows:

Thousands of euros	
Balance at 01.01.2015	-
Increases	42,387
Decreases	-
Balance at 31.12.2015	42,387
Increases	-
Decreases	42,387
Balance at 31.12.2016	-

Finally, changes in own funds in the consolidated balance sheets are set out below:

Thousands of euros	
Balance at 31.12.2014	12,783,396
Treasury shares	(18,021)
Capital increase	641,929
Remuneration of and other movements in convertibles	(743,335)
Gains/(losses) on transactions with treasury shares	(889)
Consolidation and other operations (net)	(6,133)
Net profit for 2015	105,432
Announced dividends paid in 2015	(42,387)
Balance at 31.12.2015	12,719,992
Treasury shares	(168,872)
Capital increase	2,418,147
Remuneration of and other movements in convertibles	(83,564)
Gains/(losses) on transactions with treasury shares	(9,581)
Consolidation and other operations (net)	(25,855)
Net profit for 2016	(3,485,366)
Announced dividends paid in 2016	-
Balance at 31.12.2016	11,364,901

41. Accumulated other comprehensive income

This equity item includes the amounts, net of the tax effect, of the portion attributable to the Group of the adjustments to assets and liabilities temporarily recognised in shareholders' equity through the statement of comprehensive income until they are extinguished or realised, at which time they are definitively recognised in own funds through the income statement. The portion of the adjustments attributable to minority interests is recognised in a specific item.

Set out below is a breakdown of these consolidated balance sheet items at the end of the last two years:

Thousands of euros	**2016**	**2015**
Items that will not be reclassified to profit or loss	(32,079)	(32,792)
Actuarial gains or (-) losses on defined benefit pension plans	(32,079)	(32,792)
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	-	-
Other fair value changes	-	-
Items that may be reclassified to profit or loss	(257,199)	(188,951)
Hedge of net investments in foreign operations	-	-
Foreign currency translation	115,095	92,297
Hedging derivatives. Cash flow hedges	(72,728)	(92,207)
Available-for-sale financial assets	(300,217)	(191,166)
Debt instruments	(311,090)	(206,066)
Equity instruments	10,873	14,900
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	651	2,125
Total	(289,278)	(221,743)

Gross figures are set out below:

Thousands of euros	2016	2015
Items that will not be reclassified to profit or loss	(44,718)	(43,029)
Actuarial gains or (-) losses on defined benefit pension plans	(44,718)	(43,029)
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	-	-
Other fair value changes	-	-
Items that may be reclassified to profit or loss	(244,560)	(178,714)
Hedge of net investments in foreign operations	-	-
Foreign currency translation	185,541	144,684
Hedging derivatives. Cash flow hedges	(104,044)	(131,822)
Available-for-sale financial assets	(427,989)	(273,586)
Debt instruments	(443,486)	(294,798)
Equity instruments	15,497	21,212
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	651	2,125
Corporate income tax	101,281	79,885
Total	(289,278)	(221,743)

Information on other valuation adjustments includes actuarial Gains and (-) losses relating to defined benefit pension plans.

Thousands of euros	2016	2015
Opening balance	(43,029)	(46,173)
Net transfer to profit and loss	-	-
Valuation profit/(losses)	(1,689)	3,144
Closing balance	(44,718)	(43,029)

Set out below are the movements in equity valuation adjustments due to Foreign currency translation:

Thousands of euros	2016	2015
Opening balance	144,684	84,671
Net transfer to profit and loss	-	-
Valuation profit/(losses)	40,857	60,013
Closing balance	185,541	144,684

The information on cash flow hedges at year-end 2016 and 2015 includes cumulative gains and losses on the hedging instrument (see Note 26). Consequently, movements for the year reflect the recognition of results due to the change in the value of the hedged item in respect of the hedged exposure, and the relevant tax effect.

Thousands of euros	**2016**	**2015**
Opening balance	(131,822)	(33,805)
Net transfer to profit and loss	-	-
Valuation profit/(losses)	27,778	(98,017)
Closing balance	(104,044)	(131,822)

The item Available-for-sale financial assets includes changes in the value of these financial assets, net of the tax effect, before they are transferred to the income statement, in the event of their disposal or maturity, or asset impairment, should a negative value be obtained.

Movements in Accumulated other comprehensive income of available-for-sale financial assets are set out below:

Thousands of euros	**2016**	**2015**
Opening balance	(273,586)	(185,165)
Net transfer to profit and loss	(166,764)	(428,948)
Transfer to profit and loss due to financial transactions	(183,136)	(471,618)
Equity instruments	36,621	11,615
Gains	42,006	13,305
Losses	5,385	1,690
Debt instruments	146,515	460,003
Gains	1,706,615	540,718
Losses	1,560,100	80,715
Transfer to impairment losses	16,372	42,670
Valuation profit/(losses)	12,361	340,527
Equity instruments	14,534	(20,641)
Gains	44,498	19,504
Losses	29,964	40,145
Debt instruments	(2,173)	361,168
Gains	1,538,088	398,540
Losses	1,540,261	37,372
Other movements		
Closing balance	(427,989)	(273,586)

Set out below is a breakdown of corporate income tax relating to items in this heading:

Thousands of euros	**2016**	**2015**
Items that will not be reclassified to profit or loss	(12,639)	(10,237)
Actuarial gains or (-) losses on defined benefit pension plans	(12,639)	(10,237)
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	-	-
Other fair value changes	-	-
Items that may be reclassified to profit or loss	(88,642)	(69,648)
Hedge of net investments in foreign operations	-	-
Foreign currency translation	70,446	52,387
Hedging derivatives. Cash flow hedges	(31,316)	(39,615)
Available-for-sale financial assets	(127,772)	(82,420)
Non-current assets and disposal groups classified as held for sale	-	-
Shareholding in other recognised income and expenses of joint venture and associate investments	-	-
Total	(101,281)	(79,885)

Lastly, a breakdown is provided below by entity of the equity valuation adjustments resulting from the consolidation process:

Thousands of euros	**2016**	**2015**
Banco Popular Español, S.A.	(348,760)	(296,478)
Banco Popular Pastor, S.A.	936	200
BPE Representações e Participações, Ltda.	(80)	(127)
TotalBank	84,514	76,360
Inmobiliaria Viagracia, S.A.	1,678	1,678
Popular de Participaciones Financieras S.C.R. de régimen simplificado, S.A.	4,144	4,148
Banco Popular Portugal, S.A.	(43,268)	(26,651)
Popular Banca Privada, S.A.	(7,279)	1,917
BPP Asesores (PastorArgentina)	216	(34)
Eurovida, S.A. (Portugal)	(1,056)	(667)
Popular Seguros, S.A.	(29)	11
BPE Preference International Ltd.	(2)	(2)
Gold Leaf Title Company	331	279
Read Leaf Holding	16,637	14,225
Pastor Vida, S.A.	2,740	3,398
Total	(289,278)	(221,743)

42. Minority interests

This balance sheet heading reflects the portion of the Group entities' equity attributable to third parties outside the Group, including income for the year and valuation adjustments through shareholders' equity.

Set out below is a breakdown of this heading by subsidiary:

Thousands of euros	2016	2015
Arco Organización, S.L.	126	-
Bodegas Señorío de Nevada, S.L.	1,146	-
Popular Factoring (Portugal), S.A.	-	65
Urbanizadora Española, S.A.	306	306
Fondo Popular Predifundo S.A.	-	4
Grupo La Toja Hoteles	6,096	6,114
Hercepopular S.L.	3,778	3,761
Pastor Privada Investment 1, S.A.	346	4,709
Pastor Privada Investment 3, S.A.	139	1,363
Inti Entertainment S.A.	-	1
Promocion Social de Viviendas, S.A.	53	53
Total	11,990	16,376

Movements in Minority interests in 2016 and 2015 are set out below:

Thousands of euros	2016	2015
Opening balance	16,376	19,548
Net income	5	502
Dividends paid	-	-
Consolidation adjustments (net)	(4,391)	(3,674)
Closing balance	11,990	16,376

In 2016, the absorption of Popular Factoring Portugal by Banco Popular Portugal was included in consolidation adjustments, with the consequent reduction of 65 thousand euros in the minority shareholders of the company.

In the companies Popular Privada Investment 1 and Popular Privada Investment 3, as a result of the payment of dividends charged to reserves of these companies, as well as the payment made in December to minority shareholders for their shareholding, there has been a decrease in the amount attributed to minority shareholders for a total of 4,363 and 1,224 thousand euros respectively for each company.

In December, the companies Bodegas Señorío de Nevada and Arco Organización registered in the Group with a recognition of minority interests of 1,146 and 126 thousand euros respectively.

In 2015, the most significant amounts included in consolidation and other adjustments was the variation in the company Fondo Predifundo S.A. for 3,376 thousand euros as a result of capital amortisation and reduction in the minority shareholder domain.

43. Tax situation

In regards to Corporate income Tax, since 2008, Banco Popular Español, S.A. has been the parent company of the Consolidated Tax Group, the Tax Group subsidiaries being the entities that fulfil the requirements of the Tax Consolidation Regime regulations. Also, since 2016, Banco Popular Portugal has been the parent company of the Consolidated Tax Group in Portugal, with subsidiaries being those other entities which comply with the requirements of the regulations. The rest of the consolidated subsidiaries are subject to the tax legislation applicable in each case.

Similarly, with regard to Value Added Tax, the Group applies the Special Regime for Groups of Entities provided by Law 36/2006, a regime that constitutes a differentiated sector of activity. The Group of Entities is formed by Banco Popular Español, S.A., as the parent company, and by the Spanish subsidiaries that fulfil the relevant requirements and opted to form part of the VAT Group. The rest of the Group entities are subject to the tax legislation applicable in each case.

Taxes payable by each consolidated entity are recognised in the balance sheet item "Tax liabilities", as required by regulations, net of tax withholdings and prepayments.

As at 31 December 2016, all the consolidated subsidiaries are open to inspection for the main taxes to which they are subject and the periods that are not statute barred. In July 2015, a tax inspection of Banco Pastor was completed for the periods 2009 to 2011.

At 31 December 2016, tax inspections had been raised against and contested by Banco Popular Español and the absorbed entities Banco de Castilla, Banco de Vasconia, Banco de Galicia and Banco Pastor for a total of 8,381 thousand euros for corporate income tax, withholding tax and value added tax, the relevant appeals having been lodged.

In view of the provisions set up by the Group, the Directors of Banco Popular consider that any liabilities that may result from the appeals lodged against the assessments raised will not have a significant effect on the consolidated financial statements.

Due to the different interpretations that may be afforded to the tax regulations applicable to the Group's operations, there could be certain contingent tax liabilities for the years open to inspection that cannot be objectively quantified. However, in the opinion of the parent company's directors, any tax liabilities that might arise would not have a material impact on the consolidated financial statements.

On 28 November 2014 Law 27/2014 on Corporate Income Tax was published. This amendment included provisions applicable to 2014 and 2015, specifically relating to the limitation on the reversal of certain temporary differences and tax-loss carryforwards that are considered in the 2015 consolidated financial statements. On 3 December 2016, Royal Decree Law 3/2016 was published where, amongst other aspects, it modifies the limitation to 25%.

Tax benefits in the form of double taxation deductions, allowances, deductions for research and development, donations and other deductions for investments in the Canary Islands are treated as a reduction in corporate income tax each year. In order for the deductions to be effective, the requirements established by the current regulations must be complied with and those corresponding to 2016 have been fully activated.

The following table shows, for 2016 and 2015, the reconciliation of Banco Popular Español, S.A.'s reported income and the tax base of corporate income tax, and the calculations necessary to determine income tax expense, taking into account both pre-tax income and permanent differences with respect to reported income, and eliminations, additions and deductions from tax payable, as applicable under the tax consolidation regime.

2016	**Income Statement**		**Income and expenses in Equity**		**Reserves**		**TOTAL**
Balances of Income and Expenses for the year	**(3,222,318)**		**(162,819)**		**-**		**(3,385,137)**
	Increases	**Decreases**	**Increases**	**Decreases**	**Increases**	**Decreases**	
Corporate Income Tax	-	(1,218,096)	-	(69,779)	-	-	(1,287,875)
Permanent Differences	528,263	(127,017)	-	-	-	-	401,246
Temp. Dif. Arising in the year	2,312,291	(24,169)	-	-	-	-	2,288,122
Temp. Dif. Arising in prior years	39,658	(535,434)	-	-	-	-	(495,776)
SUM Increases and Decreases	**2,880,212**	**(1,904,716)**	**-**	**(69,779)**	**-**	**-**	**905,717**
Previous Tax Base							(2,479,420)
Negative Tax Base Compensation							2,318,095
TAX BASE: TAX RESULT							**(161,325)**

2015	**Income statement**		**Income and expenses in Equity**		**Reserves**		**TOTAL**
Balances of Income and Expenses for the year	**15,415**		**(93,325)**		**-**		**(77,910)**
	Increases	**Decreases**	**Increases**	**Decreases**	**Increases**	**Decreases**	
Corporate Income Tax	-	(104,761)	-	(39,997)	-	-	(144,758)
Permanent Differences	52,414	(306,665)	-	-	-	-	(254,251)
Temp. Dif. Arising in the year	1,029,744	(18,553)	-	-	-	-	1,011,191
Temp. Dif. Arising in prior years	**15,525**	**(104,039)**	**-**	**-**	**-**	**-**	**(88,514)**
SUM Increases and Decreases	**1,097,683**	**(534,018)**	**-**	**(39,997)**	**-**	**-**	**523,668**
Previous Tax Base							445,758
Negative Tax Base Compensation							(36,779)
TAX BASE: TAX RESULT							**408,979**

The same information provided in the above table is set out below for the consolidated Group as a whole.

2016	Income Statement		Income and expenses in Equity		Reserves		TOTAL
Balances of Income and Expenses for the year	**(3,485,361)**		**(152,580)**		-		**(3,637,941)**
	Increases	**Decreases**	**Increases**	**Decreases**	**Increases**	**Decreases**	
Corporate Income Tax	-	(1,403,121)	-	(65,392)	-	-	(1,468,513)
Permanent Differences Company Individuals	176,543	(3,640)	-	-	-	-	172,903
Permanent Differences Adjusted Consolidation	123,290	(59,895)	-	-	-	-	63,395
Temp. Dif. Arising in the year	1,635,738	(221,479)	-	-	-	-	1,414,259
Temp. Dif. Arising in prior years	75,806	(9,059)	-	-	-	-	66,747
SUM Increases and Decreases	**2,011,377**	**(1,697,194)**	**-**	**(65,392)**	**-**	**-**	**248,791**
Previous Tax Base							(3,389,150)
Negative Tax Base Compensation							2,850,960
TAX BASE: TAX RESULT							**(538,190)**

2015	Income Statement		Income and expenses in Equity		Reserves		TOTAL
Balances of Income and Expenses for the year	**105,934**		**(97,761)**		**-**		**8,173**
	Increases	**Decreases**	**Increases**	**Decreases**	**Increases**	**Decreases**	
Corporate Income Tax	8,250	-	-	(41,897)	-	-	(33,647)
Permanent Differences Company Individuals	23,857	(97,294)	-	-	-	-	(73,437)
Permanent Differences Adjusted Consolidation	-	(83,410)	-	-	-	-	(83,410)
Temp. Dif. Arising in the year	529,399	(233,433)	-	-	-	-	295,966
Temp. Dif. Arising in prior years	13,757	(86,511)	-	-	-	-	(72,754)
SUM Increases and Decreases	**575,263**	**(500,648)**	**-**	**(41,897)**	**-**	**-**	**32,718**
Previous Tax Base							40,891
Negative Tax Base Compensation							(109,032)
TAX BASE: TAX RESULT							**(68,141)**

Set out below is an itemised breakdown of the permanent and temporary differences reflected in the previous table:

Thousands of euros	Permanent differences			
	2016		2015	
	Increases	Decreases	Increases	Decreases
Donations	9,240	-	14,450	-
Capitalisation Reserve	-	-	-	11,500
Additions to and releases and use of other provisions	155,943	483	627	5,250
Exemption due to double taxation	-	1,917	-	79,630
Goodwill	116,700	-	-	-
Equity consolidation adjustments	-	59,895	-	83,410
Non-deductible rentals	7,123	-	7,394	-
Other	10,827	1,232	1,386	914
Total	299,833	63,535	23,857	180,704

Thousands of euros	Temporary differences			
	2016		2015	
	Increases	Decreases	Increases	Decreases
Pension funds and similar commitments	58,335	7,963	5,849	44,424
Credit loss provision	1,439,523	56,314	386,345	154,792
Depreciation and Amortisation	11,152	27,725	4,799	25,127
Goodwill	88,923	95,666	26,554	19,133
Tax impairment of investments	20,865	-	76,783	5,703
Additions to and releases and use of other provisions	81,968	29,007	26,279	54,050
Commissions, fees and financial expenses	-	1,978	-	2,658
Consolidation adjustments	-	1,910	3,720	-
Allocation of tax bases	5,890	-	-	602
Tax regime for mergers	-	9,975	-	6,549
Other adjustments	4,888	-	12,827	6,906
Total	1,711,544	230,538	543,156	319,944

Set out below is a breakdown of income tax by country for the main consolidated subsidiaries, after consolidation adjustments.

Thousands of euros	2016	2015
SPAIN		
Banco Popular Español, S.A.	(1,061,918)	12,901
Aliseda S.A.	(106,897)	(72,977)
Canvives S.A.	(77,441)	(3,496)
Rest of Consolidated Tax Group	(29,649)	16,409
Other	(124,874)	4,341
Total	(1,400,779)	(42,822)
PORTUGAL		
Banco Popular Portugal, S.A.	(17,252)	9,198
Heller Factoring Portuguesa, S.A.	-	816
Eurovida, S.A. (Portugal)	1,873	3,914
Consulteam	(448)	28,190
Other	1,127	376
Total	(14,700)	42,494
USA		
Total Bank	12,289	8,408
Other	69	170
Total	12,358	8,578
TOTAL	(1,403,121)	8,250

An analysis of the consolidated subsidiaries' corporate income tax by geographic zone and business sector is set out below:

Thousands of euros	SPAIN		PORTUGAL		USA		TOTAL	
Business sector	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Deposit-taking institutions	(1,072,979)	42,972	(17,252)	9,198	12,289	8,408	(1,077,942)	60,578
Insurance companies	198	130	2,078	4,132	-	-	2,276	4,262
Other companies	(327,998)	(85,924)	474	29,164	69	170	(327,455)	(56,590)
Total	(1,400,779)	(42,822)	(14,700)	42,494	12,358	8,578	(1,403,121)	8,250

The following table contains a breakdown of corporate income tax, distinguishing between tax expense accrued during the year (current and deferred) and other prior-year items. Deductions on the taxable base pending application in the Tax Group in 2016 is made up of those not applied due to insufficient taxable base up to 2015 and those generated in the period.

In relation to the latter, the deduction for reinvestment materialised in 2016, required by law in order to consolidate the right to apply it to part of the capital gains recorded up until 2014.

	2016			2015		
Corporate income tax on:	**P & L**	**Equity Net**	**SUM**	**P & L**	**Equity Net**	**SUM**
CIT expense accrued by current and deferred tax (including foreign taxes)	**(1,406,065)**	**(65,392)**	**(1,471,457)**	**(4,850)**	**(41,897)**	**(46,747)**
Current tax expense accrued	(112,555)	(65,392)	(177,947)	17,677	(41,897)	(24,220)
Deferred tax expense accrued	(1,293,510)	-	(1,293,510)	(34,254)	-	(34,254)
Deferred tax assets expense: Temp. Differences	(438,956)	-	(438,956)	(63,465)	-	(63,465)
Deferred tax liabilities expense: Temp. Differences	(5,346)	-	(5,346)	(3,499)	-	(3,499)
Deferred tax assets expense. Tax credits For tax-loss carryforwards and other	(849,208)	-	(849,208)	32,710	-	32,710
Income tax adjustments	2,944	-	2,944	13,100	-	13,100
Settlement, Tax Inspection and complements.	90	-	90	6,242	-	6,242
Differences on CIT expenses from previous year	(1,293)	-	(1,293)	(200)	-	(200)
Other Income tax adjustments	4,147	-	4,147	7,058	-	7,058
	(1,403,121)	**(65,392)**	**(1,468,513)**	**8,250**	**(41,897)**	**(105,420)**

At 31 December 2016 and 2015, the Group recognised corporate income tax-loss carryforwards or deductions and allowances pending offset or application in future years for which no tax credits have been recorded because the necessary requirements are not fulfilled.

Set out below is a breakdown of these corporate income tax-loss carryforwards, deductions and allowances:

Thousands of euros	**2016**		**2015**	
Item	**Amount**	**Tax rate**	**Amount**	**Tax rate**
Tax loss carry-forwards	681,880	204,564	600,714	180,214

The following tables show reconciliation of the Corporate Income Tax with the tax rate calculated based on the Group's consolidated profit/(loss) before tax, taking into account the different tax rates in Portugal and USA:

	Tax income and expenses 2016		**Tax income and expenses 2015**	
	€ thousands	**%**	**€ thousands**	**%**
Tax Income and Expenses	(5,106,454)	0.00%	(25,474)	0.00%
30% Tax Income and Expenses	(1,531,936)	30.00%	(7,642)	30.00%
-30% on Income and Expenses in Reserves and Equity	(65,392)	1.28%	(41,897)	164.47%
=30% Income and Expenses in P&L	(1,466,544)	28.72%	34,255	(134.47%)

Reconciliation with P&L expense	**€ thousands**	**%**	**€ thousands**	**%**
30% Income and Expenses in P&L	(1,466,544)	30.00%	34,255	30.00%
General tax rate on results accounted for using the equity method	(17,969)	0.37%	(25,023)	(21.91%)
General tax rate on permanent differences	88,858	(1.82%)	(22,031)	(19.29%)
Adjustments for rates other than the general rate	4,859	(0.10%)	(2,463)	(2.16%)
Settlement, Tax Inspection and complements.	91	0.00%	6,242	5.47%
Capitalisation of deductions not applied	(5,839)	0.11%	20,409	17.87%
Type of levy modification differences	(7,599)	0.16%	756	0.66%
Other Income tax adjustments	1,022	(0.02%)	(3,895)	(3.41%)
Income Tax Expense	**(1,403,121)**	**28.70%**	**8,250**	**7.23%**

Tax rates for corporate income tax or similar taxes in the main countries in which the Group operates in 2016 and 2015 are set out below:

Tax rate (%). Country	**2016**	**2015**
Spain	30.00	30.00
Portugal	26.50	26.50
USA *	38.58	37.63

*State and federal tax

44. Residual terms of the balances in the consolidated balance sheets

Set out below is a breakdown by term to maturity of certain balances in the Group's consolidated balance sheets for 2016:

Thousands of euros	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and cash balances at central banks and other demand deposits	3,278,808	-	-	-	-	-	3,278,808
Financial assets held for trading	-	15,967	12,102	411,154	516,226	1,148,400	2,103,849
Financial assets designated at fair value through profit or loss	-	-	-	-	-	553,790	553,790
Available-for-sale financial assets	-	357,438	836,163	1,737,049	1,767,234	10,686,213	15,384,097
Loans and receivables	2,026,024	10,639,672	6,799,985	16,529,486	27,841,903	35,267,076	99,104,146
Debt securities	-	11,782	8,288	53,332	95,247	433,318	601,967
Loans and advances	2,026,024	10,627,890	6,791,697	16,476,154	27,746,656	34,833,758	98,502,179
Credit Institutions	993,655	2,695,718	202,382	230,647	34,069	2,793	4,159,264
Customers	1,032,369	7,932,172	6,589,315	16,245,507	27,712,587	34,830,965	94,342,915
Held-to-maturity investments	-	-	-	-	-	4,583,511	4,583,511
Derivatives – Hedge accounting	-	518	20,663	68,710	98,994	106,334	295,219

Thousands of euros	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial liabilities held for trading	-	5,937	14,087	34,892	530,055	1,058,784	1,643,755
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	604,707	604,707
Financial liabilities measured at amortised cost	43,931,665	17,131,931	27,527,540	22,796,361	12,793,014	7,004,155	131,184,666
Deposits	44,781,830	12,824,572	26,355,039	21,908,328	6,186,811	975,074	113,031,654
Central Banks	-	-	15,987,478	-	-	-	15,987,478
Credit Institutions	2,527,831	7,221,941	1,655,857	1,309,117	1,147,487	340,996	14,203,229
Customers	42,253,999	5,602,631	8,711,704	20,599,211	5,039,324	634,078	82,840,947
Debt securities issued	-	176,612	1,378,686	1,458,148	7,256,546	6,793,606	17,063,598
Other financial liabilities	-	1,089,414	-	-	-	-	1,089,414
Derivatives – Hedge accounting	-	10,019	17,025	72,757	217,105	884,959	1,201,865

The same information is presented below for 2015:

Thousands of euros	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and cash balances at central banks and other demand deposits	5,465,713	-	-	-	-	-	5,465,713
Financial assets held for trading	13,856	12,384	289,595	32,801	11,569	925,678	1,285,883
Financial assets designated at fair value through profit or loss	-	-	-	-	-	535,319	535,319
Available-for-sale financial assets	244,461	33,568	115,621	626,180	11,813,365	12,359,960	25,193,155
Loans and receivables	987,584	7,350,465	5,888,199	15,174,961	22,572,385	53,102,697	105,076,291
Debt securities	-	-	5,528	182,320	328,046	621,067	1,136,961
Loans and advances	987,584	7,350,465	5,882,671	14,992,641	22,244,339	52,481,630	103,939,330
Credit Institutions	369,587	1,774,261	41,747	2,040,056	75,910	-	4,301,561
Customers	617,997	5,576,204	5,840,924	12,952,585	22,168,429	52,481,630	99,637,769
Held-to-maturity investments	-	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	11,796	9,454	418,911	2,907	443,068

Thousands of euros	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial liabilities held for trading	-	10,212	276,604	26,369	11,805	718,073	1,043,063
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	599,419	599,419
Financial liabilities measured at amortised cost	42,475,650	15,488,512	25,810,383	28,492,287	21,201,352	7,040,341	140,508,524
Deposits	42,475,650	14,203,296	25,617,689	25,728,716	12,599,670	1,086,781	121,711,801
Central Banks	-	-	14,204,120	-	-	-	14,204,120
Credit Institutions	710,983	8,530,005	1,464,368	5,113,027	2,754,947	598,936	19,172,266
Customers	41,764,667	5,673,291	9,949,200	20,615,689	9,844,723	487,845	88,335,415
Debt securities issued	-	544,492	192,695	2,763,572	8,601,681	5,953,560	18,055,999
Other financial liabilities	-	740,724	-	-	-	-	740,724
Derivatives – Hedge accounting	-	3,036	842,223	80,647	34,370	1,053,697	2,013,974

45. Fair value

1. Assets and liabilities not valued at fair value in the financial statements

Set out below is a breakdown of the fair value of the main balance sheet items carried at amortised cost and at acquisition cost.

The assets and liabilities reflected at amortised cost were measured by discounting future flows using a risk curve without a spread (zero coupon). This interest rate curve is generated using the rates for Spanish government debt securities, allowing the generation of pure discount factors to calculate present values accepted by the market as unbiased rates. The curve is built applying an equation that is in line with rates observed in the market and results in forward interest rates for any period or interim maturity.

Thousands of euros	2016		2015		2016	2015	2016	2015	2015	2015
Financial assets at amortised cost	**Accounting balances**	**Fair value**	**Accounting balances**	**Fair value**	**Level 1: Financial instruments traded in active markets**		**Level 2: Financial instruments whose fair value is based on market observations**		**Level 3: Financial instruments whose fair value is calculated using internal models**	
Cash and cash balances at central banks and other demand deposits	3,278,808	3,278,808	5,465,713	5,465,713	3,278,808	5,465,713	-	-	-	-
Loans and receivables	99,104,146	106,348,516	105,076,291	113,690,301	678,394	1,240,844	105,670,122	112,449,457	-	-
Credit Institutions	4,159,264	4,162,228	4,301,561	4,306,038	-	-	4,162,228	4,306,038	-	-
Customers	94,342,915	101,507,894	99,637,769	108,136,833	-	-	101,507,894	108,136,833	-	-
Debt securities	601,967	678,394	1,136,961	1,247,430	678,394	1,240,844	-	6,586	-	-
Held-to-maturity investments	4,583,511	4,806,079	-	-	4,806,079	-	-	-	-	-
Total financial assets at amortised cost	106,966,465	114,433,403	110,542,004	119,156,014	8,763,281	6,706,557	105,670,122	112,449,457	-	-

Thousands of euros	2016		2015		2016	2015	2016	2015	2016	2015
Financial liabilities measured at amortised cost	Accounting balances	Fair value	Accounting balances	Fair value	Level 1: Financial instruments traded in active markets		Level 2: Financial instruments whose fair value is based on market observations		Level 3: Financial instruments whose fair value is calculated using internal models	
Deposits from central banks	15,987,478	15,730,205	14,204,120	14,239,313	-	-	15,730,205	14,239,313	-	-
Deposits from credit institutions	14,203,229	14,596,376	19,172,266	19,820,968	-	-	14,596,376	19,820,968	-	-
Customer deposits	82,840,947	83,245,078	88,335,415	88,812,969	-	-	83,245,078	88,812,969	-	-
Debt certificates	15,024,126	15,636,255	15,989,048	16,829,753	15,636,255	16,829,753	-	-	-	-
Subordinated liabilities	2,039,472	2,405,103	2,066,951	2,580,108	2,405,103	2,580,108	-	-	-	-
Other financial liabilities	1,089,414	1,089,414	740,724	740,724	-	-	1,089,414	740,724	-	-
Total financial liabilities measured at amortised cost	131,184,666	132,702,431	140,508,524	143,023,835	18,041,358	19,409,861	114,661,073	123,613,974	-	-

2. Fair value of tangible assets and property assets

The breakdown of carrying amount and the fair value of Tangible Assets, non-current assets held for sale and Inventories is as follows:

Thousands of euros	2016		2015	
	Accounting balances	Fair value	Accounting balances	Fair value
Tangible assets	2,195,131	2,211,541	1,697,785	1,714,356
For own use	842,834	859,244	777,713	794,284
Assets assigned under operating leases	-	-	-	-
Investment property	1,352,297	1,352,297	920,072	920,072
Non-current assets held for sale	8,891,678	8,891,678	9,045,928	9,045,928
Inventories	791,762	791,762	897,315	897,315

The assets classified as non-current assets held for sale are generally measured at the lower of the carrying amount at the time they are considered such and fair value net of their estimated selling costs. In general, the carrying amount is higher than the appraised value and it is therefore necessary to record impairment losses so that the carrying amount does not exceed the fair value, considering that there is no significant investment recorded in the headings Investment property and non-current assets held for sale whose fair value is greater than their carrying amount.

The Group values property assets at the lower of first carrying amount or fair value, which is determined by the valuation of the foreclosed asset carried out on the basis of the latest appraisal value performed by an independent expert, mainly appraisal companies registered in the official register of Banco de España.

The appraisal of properties is made in accordance with that established in Banco de España circular 4/2004, modified by 3/2010. The appraisals will be made by appraisal companies approved by Banco de España and the use of appraisals of credit institutions' appraisal companies is allowed as a residual method.

The Group requests all its appraisals from appraisal companies authorised by Banco de España, following a random procedure. The aforesaid appraisals are conducted taking into account the principles established by Ministerial Order ECO/805/2003 of 27 March Article 3, including the principle of greatest and best use, according to which the value of a property which may be used for different purposes will be that which results from assigning it, within the legal and physical possibilities, to the use that is economically most advisable, or if it is capable of being built with different degrees of density, the use resulting from building it, within the legal and physical possibilities, with the density that enables the highest value to be obtained, confirming that the maximum and best use of the Land and Works in progress valued at level 3 of the reasonable value hierarchy does not differ from its present use.

Appraisal companies employ valuation techniques that are based primarily on the use of observable market data, limiting the use of unobservable or not testable data as much as possible. The valuation techniques are used in a generalised way by all appraisal companies according to the type of each property asset.

Our measurements of the reasonable value of property assets are classified in Level 2 (additional variables are used in the valuation other than the listed prices in active markets for identical assets) and in Level 3 of the fair value hierarchy (use of significant non-observable variables).

The technical valuation methods used to determine the value of foreclosed properties and asset acquisitions are:

1. Cost method (Level 3): This method is used to calculate a technical value, which is known as the replacement value. The value can be gross or net.

To calculate the gross replacement value the following investments will be added together:

- The value of land on which the building or building to renovate stands.
- The costs of building or the renovation works.
- The expenses necessary to realise the replacement.

In order to calculate the net replacement value, the physical and functional depreciation of the finished building is subtracted from the gross replacement value.

2. Comparison method (Level 2): This method is used to determine two technical values which are known as the comparison value, allowing the market value of a certain asset to be determined, and the adjusted comparison value, which can be used to determine its mortgage value.

In order to be able to use the Comparison method, the following requirements need to be complied with:

- The existence of a representative market of comparable properties.
- Have sufficient data on transactions or offers which allow, in the area under consideration, identification of suitable parameters for the homogenisation of comparables.
- Have sufficient information on at least six comparable transactions or offers which adequately reflect the current situation of that market.

The following general rules are used to calculate the comparison value:

- Establish the qualities and characteristics of the appraised property which have an influence on its value. In the case of buildings of a historic or artistic nature, in order to establish such qualities and characteristics, the particular value of the building's elements which confer this character will be taken into account.
- The segment of the comparable property market will be analysed and, based on specific information on actual transactions and firm offers appropriately corrected if necessary, current sale and purchase prices of these properties will be obtained.
- A representative sample of those which correspond to the comparables will be selected from the prices obtained subsequent to the analysis set out in the previous section, to which the necessary homogenisation will be applied.
- In the selection indicated, it is necessary to previously contrast those prices which are abnormal in order to identify and eliminate both those from transactions and offers which do not comply with the conditions required in the definition of market value of the affected goods as well as those why may include speculative elements.
- The homogenisation of the comparables with the criteria, coefficients and/or weightings which are appropriate for the property in question will be made.
- The value will be assigned to the property, net of marketing expenses, in accordance with the homogenised prices, after deduction of easements and limitations of the domain which fall on it and which have not been taken into account in the application of the previous rules.

In addition to the previously indicated rules, the following special rules shall be taken into account to determine the value:

- In the case of buildings projected, under construction or renovation, when the value for comparison is determined for the assumption of the finished building, the prices existing in the market on the appraisal date for the sale of similar finished buildings will be used. This value may be reasonably corrected in accordance with market trends for the expected period to finish the works.
- In the case of valuing rural properties using the comparison method, the homogenisation provided for in it will be based on the existing unit value per hectare in the market for the different types of land, or types of crops and/or use.

3. Present value of rentals method (Level 2): This method is used to calculate a technical value known as the updated value, and which can be used to determine the market value of a certain asset and its mortgage value.

In order to use the updated method, at least one of the following requirements need to be met:

- The existence of a rental market representative of the comparable ones. In order to presume such existence, it will be necessary to have at least six pieces of data on rental income on comparables which adequately reflect the current situation of this market and to have sufficient data on rental transactions or offers which for allow the identification of adequate parameters for homogenisation of incomes in comparables.
- The existence of a lease on the property being valued.
- The appraised property is producing or is able to produce income as property connected with an economic activity, and there must also be sufficient accounting data regarding the exploitation or adequate information about average structural ratios of the pertinent branch of activity:

4. Residual method (Level 3): The value through the residual method will be calculated by one of the following procedures:

- Analysis procedure on investments with expected values ("Dynamic" calculation procedure).
- Analysis procedure on investments with actual values ("Static" calculation procedure).
- The residual method can be applied using the dynamic procedure on the following properties:
- Urban land or land for building whether built on or not.
- Buildings projected, under construction or renovation, including halted works.

The residual method can only be applied using the static procedure to building sites and properties under renovation in which the building or renovation can start within a year, as well as with constructed sites.

This method is used to calculate a technical value known as the residual value, and which can be used to determine the market value of a certain asset and its mortgage value.

In order to be able to use the residual method, the following requirements need to be complied with:

- The existence of adequate information to determine the most likely property development to be developed under the applicable urban development scheme or, in the case of land with finished buildings, to verify compliance with that scheme.
- The existence of sufficient information on construction costs, necessary development, financial, if any, and marketing expenses which allow for the estimation of normal costs and expenses for an average developer and for the development of characteristics similar to the one to be developed.
- The existence of market information which allows for the calculation of the most likely sales prices of the elements included in the development or in the building on the dates foreseen for its marketing.
- The existence of sufficient information about returns on similar developments.

In order to be able to apply the residual method using the dynamic procedure it will be necessary to have, in addition to the requirements indicated above, the existence of information on the construction or renovation, the marketing of the property and, if applicable, urban management and execution of the urbanisation periods.

5. Automated models (Level 2): The value is determined by the use of databases with sufficient quality and depth and methodologically sound valuation methods. The level of confidence must be raised in situations in which asset prices may be experiencing significant falls.

The automated model is applicable only to revisions of value, provided the database of the entity has relevant and reliable information on the properties to be valued. The requesting entity has to ensure the quality of the model and the database used by the appointed appraisal company.

The use of these methods depends on the type of property to be appraised and the available information, more specifically:

a. Finished product:

Housing: Can be valued using automated procedures or individually using the cost method, comparison, or present value of rentals if it is or is going to be rented out. As a general principle, the automated method will only be used for properties with a unit value of less than 1 million euros.

Other finished buildings: They may be valued using the cost, comparison or present value of operating or lease rentals, if it is rented or it is intended to be used for rental. For homogeneous properties (non-singular warehouses and premises), the method can be applied through automated procedures with the same limitations as in housing.

b. Works in progress: Can be valued using the cost, comparison or dynamic residual method. The Hypothetical Value of Finished Building shall not be used:

c. Land for property development: Can be valued using the comparison or dynamic or static residual method based on the classification of the land.

d. Rural land under operation: They must be valued by the comparison and updated income method, certifying the lower of the two.

The significant non-observable variables used in the valuations classified in level 3 have not been developed by the Group but by the independent experts who perform the appraisals. Given the widespread use of appraisals, whose valuation techniques are clearly defined in property valuation regulations, the unobservable variables used reflect the assumptions commonly used by all appraisal companies, regardless of the requesting financial entity, although they will have to adapt them to the particularities of each property asset. Therefore, as they are not defined internally, it has not been considered necessary to perform sensitivity analyses.

The significant non-observable variables used by appraisal companies are based on their knowledge of the market that has been much deeper in recent years as a consequence of the obligation imposed on financial institutions to periodically update said appraisals. Their reasonability has been analysed and is within market values. Therefore, under normal market conditions, a sensitivity analysis of such variables should not have a significant impact on the fair value of the assets.

Below follows a breakdown of the fair value of the portfolio of property assets by type of valuation methods, for each asset type at 31 December 2016 and 2015:

Thousands of euros	**Type of Measurement of Fair Value**							
	2016				**2015**			
Asset Type	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Housing	-	3,722,227	-	3,722,227	-	3,798,232	-	3,798,232
Offices, premises, warehouse and others	-	2,787,801	-	2,787,801	-	2,551,936	-	2,551,936
Land	-	-	4,196,150	4,196,150	-	-	4,024,366	4,024,366
Work in progress	-	-	329,560	329,560	-	-	488,781	488,781
TOTAL	-	6,510,028	4,525,710	11,035,738	-	6,350,168	4,513,147	10,863,315

The following tables show information on the evolution in 2016 and 2015 of property assets measured at fair value calculated using unobservable variables in the market or internal models (classified at Level 3).

Thousands of euros	**ASSETS**	
	Land	**Work in progress**
Opening balance 01.01.2016	4,024,366	488,781
Movements:		
In profit and loss	(313,444)	62,984
in equity	-	-
Additions	517,941	37,836
Sales	(322,029)	(30,950)
Other variations	219,586	(219,460)
Level 1 and 2 transfers	69,730	(9,631)
Closing balance 31.12.2016	4,196,150	329,560

The movements in losses and gains correspond mainly to the impairment of non-current assets held for sale, which are included under "Gains (losses) on non-current assets held for sale not classified as discontinued operations".

Transfers with levels 1 and 2 refer to changes in the situation of the property as a consequence of the subsequent analysis carried out to verify the situation of each property.

Other variations includes, amongst others, movements within level 3 (between land and work in progress, or vice versa).

Thousands of euros	ASSETS	
	Land	Work in progress
Opening balance 01.01.2015	3,584,208	369,084
Movements:		
In profit and loss	(271,219)	(60,531)
in equity	-	-
Additions	956,049	122,604
Sales	(187,531)	(7,510)
Other variations	(63,645)	66,847
Level 1 and 2 transfers	6,504	(1,713)
Closing balance 31.12.2015	4,024,366	488,781

The movements in losses and gains correspond mainly to the impairment of non-current assets held for sale, which are included under "Gains (losses) on non-current assets held for sale not classified as discontinued operations".

Transfers with levels 1 and 2 refer to changes in the situation of the property as a consequence of the subsequent analysis carried out to verify the situation of each property.

Other variations includes, amongst others, movements within level 3 (between land and work in progress, or vice versa).

46. Guarantees granted

Set out below is a breakdown of contingent risks, which are amounts that the Group will be required to pay on behalf of third parties in the event of default by the obligors, as a result of commitments undertaken by the Group in the ordinary course of business, at 31 December 2016 and 2015:

Thousands of euros	2016	2015
Financial guarantees	1,196,783	1,199,689
Assets assigned to third-party obligations*	353,708	492,208
Documentary credits	522,802	539,397
Risks in respect of derivatives contracted with third parties	297,308	300,243
Other guarantees and sureties provided	6,136,299	6,491,294
Other guarantees granted	2,475,464	2,136,599
Total	10,982,364	11,159,430
Memorandum item: Doubtful guarantees granted	239,722	197,268

However, a significant part of these amounts will reach their maturity without any payment obligation by Banco Popular Español, S.A. or its consolidated companies having materialised, so that the aggregate balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Group.

Income obtained from guarantee instruments is registered in the "Interest income" heading and under "Fee and commission income" (for the amount referring to present value of future commissions and fees) of the income statements and are calculated applying the rate established by contract on the nominal amount of the guarantee.

* In 2016 and 2015 this balance corresponds in its entirety and mainly, with:

- The guarantee deposits required by the European Investment Bank for lending operations in the amount of 223,708 thousand euros in 2016 and 334,900 thousand euros in 2015 and

- 130,000 thousand euros of securities from the Spanish Treasury pledged and deposited as pledged assets in favour of Wizink Bank, S.A. (Previously Bancopopular-e), both in 2016 and 2015.

.

47. Contingent commitments granted

This caption refers to irrevocable commitments, basically consisting of amounts drawable by third parties that could give rise to the recognition of financial assets. The following table shows the balances at the end of the last two years.

Thousands of euros	**2016**	**2015**
Drawable by third parties	7,191,872	7,264,597
Credit institutions	516,447	363,511
General government	348,832	406,862
Private sector	6,326,593	6,494,224
Forward financial asset purchase commitments	-	-
Asset acquisition contracts	93,640	126,043
Securities subscribed but not paid	-	-
Securities placement and subscription commitments	504,488	602,390
Documents delivered to clearing houses	480,069	560,092
Other	16,578	15,626
Total	8,286,647	8,568,748

Set out below is a breakdown of amounts drawable by third parties subject to the limits stipulated in loan agreements, distinguishing between amounts immediately drawable and amounts contingent on the occurrence of future events:

Thousands of euros	**2016**	**2015**
Immediately drawable	6,450,841	6,741,686
Drawable contingent on future events	741,031	522,911
Total	7,191,872	7,264,597

With regard to amounts drawable by third parties (see previous table), credit limits by counterparty are as follows (gross amounts without valuation adjustments):

	Limit		Drawn		Drawable	
Thousands of euros	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Credit Institutions	4,671,889	4,667,911	4,155,442	4,304,400	516,447	363,511
Public administrations	5,179,916	5,734,854	4,831,084	5,327,992	348,832	406,862
Private sector	105,792,227	108,251,442	99,465,634	101,757,218	6,326,593	6,494,224
Total	115,644,032	118,654,207	108,452,160	111,389,610	7,191,872	7,264,597

48. Net Interest Income

Below sets out the net interest income at 31 December 2016 and 31 December 2015

Thousands of euros	**2016**	**2015**
Interest income	2,929,747	3,508,688
(Interest expenses)	833,159	1,257,452
Net interest income	**2,096,588**	**2,251,236**

Net interest income as of 31 December 2016 amounts to 2,096,588 thousand euros, of which 2,929,747 represents Interest income, and 833,159 represents Interest expenses. At 31 December 2015 net interest income amounted to 2,251,236 thousand euros, of which 3,508,688 represented Interest income, and 1,257,452 represented Interest expenses.

Interest income

This heading relates to interest, commissions and fees income, which is calculated by applying the effective interest rate to assets bearing implicit or explicit yields, whether or not they are carried at fair value, and corrections of income as a result of accounting hedges. Interest is carried at the gross amount, without deducting any tax withholdings at source.

This heading includes the financial income of all the consolidated subsidiaries and joint ventures engaged in lending, insurance and non-financial activities.

The following table contains an analysis of interest and similar income, including a breakdown by geographic zone.

Thousands of euros	**2016**	**2015**
Central Banks	56	338
Credit Institutions	10,376	11,719
Loans and receivables	2,549,540	3,083,173
Debt securities	319,531	406,379
Attributable to insurance contracts linked to pensions and similar items	4,544	4,320
Other	45,700	2,759
Total	**2,929,747**	**3,508,688**
of which: Spain	2,638,131	3,187,445
European Union	205,528	204,646
Other OECD countries	86,085	81,195
Other countries	3	35,402

Set out below is a breakdown of interest and commissions and fees income:

Thousands of euros	**2016**	**2015**
Interests	2,762,991	3,221,605
Commissions and fees	166,756	287,083
Total	2,929,747	3,508,688

Interest expenses

Interest expense and similar charges consist of interest and commissions and fees costs incurred, which are calculated by applying the effective interest rate to all financial liabilities bearing implicit or explicit yields, including benefits in kind, whether or not they are carried at fair value, and corrections of costs as a result of accounting hedges, and interest expense allocable to pension funds. This heading includes the financial expense of all the consolidated subsidiaries engaged in banking, insurance and non-financial activities.

Set out below is a breakdown of these charges including a breakdown by geographic zone for 2016 and 2015:

Thousands of euros	2016	2015
Central Banks	6,524	12,263
Credit Institutions	106,440	165,753
Customer funds	316,164	585,048
Debt certificates	321,997	431,947
Subordinated liabilities	53,532	53,072
Attributable to pension fund and similar items	4,420	4,333
Other	24,082	5,036
Total	**833,159**	**1,257,452**
of which: Spain	775,193	1,181,609
European Union	40,749	57,445
Other OECD countries	16,963	15,408
Other countries	254	2,990

Of the total amounts shown above, 10,589 thousand euros and 11,451 thousand euros relate to commissions and fees in 2016 and the previous year, respectively.

49. Dividend income

This income statement heading reflects dividends and remuneration on equity instruments collected from or declared by companies outside the Group's scope of consolidation. The dividends are recognised when the Group's right to receive payment is declared, irrespective of whether or not payment is delayed and provided they accrued after the shareholding was acquired.

Thousands of euros	2016	2015
Investments in associates	-	-
Investments in joint ventures	-	-
Investments in subsidiaries	-	-
Other equity instruments	10,731	13,138
Total	10,731	13,138

In 2016 the dividends received were 10,731 thousand euros compared to 13,138 thousand euros in 2015. In the cash flows statement it is included in consolidated profit/(loss) for the year, within operating activities.

50. Share of profit or (-) loss of entities accounted for using the equity method

This line in the income statement includes the profits or losses generated during the financial year by entities accounted for using the equity method

Thousands of euros	2016	2015
Associates	41,199	51,385
Joint Ventures	18,696	(3,963)
Total	59,895	47,422

51. Commissions and fees

a) Fee and commission income

Non-financial service commissions and fee income received by the Group in 2016 and 2015 are analysed below by type:

Thousands of euros	2016	2015
Provision of risks and contingent commitments	123,927	130,415
Guarantees and other contingent exposures	84,150	89,980
By availability of credit	39,777	40,435
Services inherent in asset operations:	90,913	105,778
Discounting of trade bills	12,551	15,505
Factoring operations	5,255	5,819
Other asset operations (advances and defaults)	30,938	34,149
Claims on debtor positions on credit loans	33,110	40,156
Debt renegotiation	9,059	10,149
Handling services	386,743	419,577
Collection and payment services	73,543	85,083
Collection of trade bills	5,463	6,710
Cheques	7,328	9,932
Direct debits	12,916	13,429
Means of payment	10,307	12,505
Fund transfers	37,529	42,507
Foreign currency purchase and sale	3,612	4,036
Securities purchase and sale	8,334	11,223
Administration of customers' securities portfolios	99,652	100,666
Securities portfolio	9,408	9,620
Asset management	6,150	5,045
Investment funds	76,168	77,261
Pension funds	7,926	8,740
Other financial assets	-	-
Administration of sight and savings accounts	110,341	109,028
Other	91,261	109,541
Marketing of insurance	30,363	25,197
Advice on singular operations	7,714	21,608
Other	53,184	62,736
Total	601,583	655,770

b) Fee and commission expenses

Non-financial commissions and fee expense incurred by the Group in the last two financial years are analysed below to the same level of detail:

Thousands of euros	**2016**	**2015**
Contingent risks and commitments:	298	307
Guarantees and other contingent exposures	298	307
Commitment fees and other contingent commitments	-	-
Services inherent in asset transactions:	129	137
Discounting of trade bills	-	-
Factoring operations	-	-
Other asset operations (advances and defaults)	129	137
Claims on debtor positions on credit loans	-	-
Debt renegotiation	-	-
Handling services:	62,485	60,004
Collection and payment mediation:	13,685	10,548
Collection of trade bills	257	644
Cheques	-	-
Direct debits	-	-
Means of payment	13,278	9,360
Fund transfers	150	544
Foreign currency purchase and sale	-	-
Securities purchase and sale	7,718	7,154
Administration of customers' securities portfolios:	-	-
Securities portfolio	-	-
Asset management	-	-
Investment funds	-	-
Pension funds	-	-
Other financial assets	-	-
Administration of sight and savings accounts	-	-
Other	41,082	42,302
Marketing of insurance	-	-
Advice on singular operations	-	-
Other	41,082	42,302
Total	62,912	60,448

c) Net fees and commissions

Finally, for ease of comprehension and analysis of the Group's services activity, the net amounts of commissions and fees are shown below by type:

Thousands of euros	**2016**	**2015**
Contingent risks and commitments:	123,629	130,108
Guarantees and other contingent exposures	83,852	89,673
Commitment fees and other contingent commitments	39,777	40,435
Services inherent in asset transactions:	90,784	105,641
Discounting of trade bills	12,551	15,505
Factoring operations	5,255	5,819
Other asset operations (advances and defaults)	30,809	34,012
Claims on debtor positions on credit loans	33,110	40,156
Debt renegotiation	9,059	10,149
Handling services:	324,258	359,573
Collection and payment mediation:	59,858	74,535
Collection of trade bills	5,206	6,066
Cheques	7,328	9,932
Direct debits	12,916	13,429
Means of payment	(2,971)	3,145
Fund transfers	37,379	41,963
Foreign currency purchase and sale	3,612	4,036
Securities purchase and sale	616	4,069
Administration of customers' securities portfolios:	99,652	100,666
Securities portfolio	9,408	9,620
Asset management	6,150	5,045
Investment funds	76,168	77,261
Pension funds	7,926	8,740
Other financial assets	-	-
Administration of sight and savings accounts	110,341	109,028
Other	50,179	67,239
Marketing of insurance	30,363	25,197
Advice on singular operations	7,714	21,608
Other	12,102	20,434
Total	538,671	595,322

52. Gains/losses on financial transactions (net)

This income statement heading basically reflects the amount of valuation adjustments to financial instruments generated during the year (with the exception of adjustments allocated to interest accrued under the effective interest rate method), asset impairment adjustments and gains or losses on the disposal of assets (except for gains or losses on transactions involving investments of the Group itself, its subsidiaries, joint ventures and associates, and treasury shares) and instruments classified as non-current assets or disposal groups held for sale.

The heading "Own securities repurchased" of the section "Gains and loss of derecognition of assets and liabilities not measured at fair value through profit and loss, net" includes the profit/(loss) on own debt securities and securitisation repurchased, in the amount of 13,916 thousand euros and 2,972 thousand euros in 2016 and 2015 respectively.

The accompanying table provides an itemised breakdown of this income statement heading for the last two years:

Thousands of euros	**2016**	**2015**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Notes 22 and 24).	222,873	525,193
Available-for-sale financial assets (*) (Note 22)	183,136	471,618
Loans and receivables (**) (Note 23)	25,821	50,603
Held-to-maturity investments (Note 24)	-	-
Financial liabilities measured at amortised cost (Note 34)	13,916	2,972
Other	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net (Note 20)	(2,219)	11,540
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 21).	(18,442)	(15,877)
Gains or (-) losses from hedge accounting, net (**) (Note 26)	(1,484)	(3,596)
Total	200,728	517,260

(*) The results correspond to sales of securities from the Available-for-sale financial assets portfolio. These basically relate to Spanish government debt securities which had a high appreciation during 2015 due to the improvement in sovereign risk with this figure being much lower in 2016 due to the lowest absolute level of interest rates.

(***) Relates to the management of hedges, mainly hedges of highly probable cash flows from financing for the available-for-sale financial assets portfolio, and the recognition in results of any hedge ineffectiveness.

53. Exchange differences [gain or (-) loss], net.

This heading reflects the gains or losses on the purchase and sale of foreign currency and differences resulting from the translation of monetary items denominated in foreign currencies to euros.

Thousands of euros	**2016**	**2015**
Gains	62,911	66,081
Losses	20,961	20,517
Total	41,950	45,564

54. Other operating income.

This heading relates to income from the Group's operating activities not included in other headings.

It may be broken down into:

i) Sales and revenues from provision of non-financial services: sales of goods and income from services in the ordinary course of business of the Group's non-financial companies, such as income from investment property and operating leases, excluding gains on disposal. It includes revenue from the sale of inventories.

ii) The compensating financial commissions and fees of financial costs reflect the compensation of direct costs in asset transactions that the Group would not have incurred had the transactions not been effected.

iii) Other operating income: operating income not included in the above items, such as financial commissions and fees compensating related direct costs, expenses initially recognised in the income statement by nature which are subsequently added to the value of assets, and indemnities from insurance companies.

Set out below is a breakdown of this heading for 2016 and 2015:

Thousands of euros	**2016**	**2015**
Sales and revenues from provision of non-financial services	13,711	13,933
Financial commissions and fees compensating financial costs	31,384	34,306
Other operating income:	93,404	147,982
Operating income from investment property	30,240	31,756
Capitalised expenses	26,689	34,838
Other	36,475	81,388
Total	138,499	196,221

Other operating income

The Capitalised expenses line, in the amount of 26,689 thousand euros in 2016 and 34,838 thousand euros in 2015 originates from activating internal costs incurred in the Group's IT development projects. Policy described in note 15.s.

In 2016, on the Other operating income, within the Other concepts heading, income reduced by 44,913 thousand euros compared to 2015 due to an income in the amount of 43,600 being registered in 2015 related to the signing of a new non-life insurance distribution agreement with Allianz. The signing of the new agreement meant receiving an initial and irrevocable compensation from Allianz in the amount of 52,500 thousand euros, which had two components:

- A payment for the compensation received attributable to the guarantee granted to Allianz in relation to the commitment to fulfil minimum guaranteed premiums, which implies a positive obligation to be made in the future and is therefore accrued over time. The value of the guarantee, in the absence of similar transactions of the market, has been determined using an evaluation technique based on present value, pursuant to paragraph B13 of the IFRS 13 (International Financial Reporting Standards), totalling an amount of 8,800 thousand euros, which is recorded in liabilities on the balance sheet.

- And, income in the amount of 43,600 thousand euros corresponding to the part of the compensation received similar to a down payment that is banned on signing the contract and that, therefore, is initially recognised given that it meets the requirements mentioned in the IAS18 and that no associated risk is retained with the service provided in the obligation to provide additional services, therefore treated as a negative obligation.

The contract established the payment of commissions by Allianz for the non-life insurance policies marketed and it was verified by an independent expert that these commissions are in accordance with market levels.

55. Other operating expenses

This heading contains charges relating to operating activities not included under other headings.

A breakdown of this consolidated income statement item for 2016 and 2015 is as follows:

Thousands of euros	**2016**	**2015**
Cost of sales and change in inventories	11,601	10,761
Other operating expenses:	248,784	216,613
Operating expenses in respect of investment property	28,517	33,786
Contributions to guarantee funds	112,013	105,196
Other	108,254	77,631
Total	260,385	227,374

It may be broken down into:

i) Cost of sales and change in inventories: consists of costs attributable to the sale of goods or provision of services in the ordinary course of business of the Group's non-financial companies and the cost recognised in the income statement in respect of the carrying amount of inventories sold during the year.

ii) Remainder of other operating expenses: other operating expenses not included in the above items, such as contributions to deposit guarantee (funds, national resolution and investments) and operating charges in respect of investment property, excluding losses on disposal.

Other operating expenses

The operating expenses for property investments of 28,517 thousand euros in 2016, and 33,786 thousand euros in 2015, derive from properties classified as property investments used for leasing.

"Contributions to guarantee funds" relates to both the Deposit Guarantee Fund, National Resolution Funds and the Investment Guarantee Fund, as explained in Note 13. In 2016, the ordinary contributions to the different funds were as follows: 65,649 thousand euros to the Deposit guarantee fund, 46,320 thousand euros to be National resolution fund and 44 thousand euros to the Investment guarantee fund.

In 2015 an ordinary contribution was recorded for the amount of 61,747 to the Deposit guarantee fund, 43,408 thousand euros to be National resolution fund and 41 thousand euros to the Investment guarantee fund. See Note 13.

Under "Other concepts" for 2016, 20,047 thousand euros corresponds with the first accrual of expenditure for Financial Contribution. This new expense concept arises from the Law on Corporate Income Tax provides that payers of this tax who have registered convertible deferred tax assets with the Tax Administration will be required to pay the Financial Contribution in favour of those entities which have monetisable DTAs higher than the settlement fees paid, in both cases referring to the period 2008 to 2015.

Other operating expenses also increased as a result of the expenses which materialised in the Restructuring undertaken by the Group in the fourth quarter of 2016 due to the indemnities for leases of offices which were in force, in the amount of 1,325 thousand euros (Note 37).

56. Income and expenses of assets and liabilities under reinsurance and insurance contracts

Thousands of euros	2016	2015
Income of assets under reinsurance and insurance contracts	33,501	33,241
Expenses of liabilities under reinsurance and insurance contracts	34,426	41,119

i) Income of assets under insurance and reinsurance contracts issued: insurance premiums collected and reinsurance income accrued by subsidiaries and joint ventures insurance and reinsurance companies accounted for using the equity method.

ii) Expenses of liabilities under Insurance and reinsurance contract: claims paid and other expenses directly related to insurance contracts, reinsurance premiums paid to third parties and net provisions for insurance contracts, incurred by subsidiaries that are insurance or reinsurance companies.

In 2016, there was an noteworthy improvement in the net margin of the technical insurance activity in the amount of 6,953 thousand euros compared to 2015, mainly derived from the contribution of Eurovida Portugal, S.A. In this improvement in the margin of the insurance activity in Eurovida Portugal, S.A., the most outstanding factors are as follows;

- the increase in the net direct insurance premiums of reinsurance on life-risk products,
- and the positive change compared to 2015 in the two types of provisions, the mathematical reserves for annuity products and the technical provision of guaranteed commitments.

57. Staff expenses

This income statement line comprises all remuneration accrued during the year by permanent or temporary staff, irrespective of their functions or activities, including the current service cost of pension plans and net of amounts refunded by the social security system or other social provident entities. A breakdown is as follows:

Thousands of euros	2016	2015
Salaries and bonuses to serving personnel	666,057	692,769
Social security contributions	183,756	180,378
Provisions for internal pension funds	4,692	4,468
Contributions to external pension funds	29,459	29,137
Severance payments	331,405	6,606
Training expenses	2,602	2,799
Equity instruments based payments	178	905
Other staff expenses	19,316	18,771
Total	1,237,465	935,833

Staff expenses increased as a result of the expenses which materialised in the Restructuring undertaken by the Group in the fourth quarter of 2016 due to the reduction in staff and the severance indemnity agreements, in the amount of 325,191 thousand euros and provisions for early retirement in the amount of 5,701 thousand euros (Note 37).

The following benefits in kind were allocated to certain employees of the Spanish banks:

Thousands of euros	**2016**	**2015**
Advances	3,247	3,052
Life insurance	1,804	2,102
Health insurance	118	118
Housing	1,887	1,910
Company shop	-	1,631
Total	7,056	8,813

Advances consist of those granted under Article 40 of the Collective Bargaining Agreement for the Banking Sector and are subject to a maximum limit of nine interest-free monthly payments to meet the needs addressed in that agreement. It also includes those intended for the Bank's Share Purchase.

Under this same heading "Remuneration in Kind for initiative and productivity" is recognised, which generates the award of rewards or gifts to employees.

The Life Insurance item relates to all the employees of the Group's banks in Spain.

The housing item relates to properties owned or leased by consolidated subsidiaries and used by its employees.

In 2016, the amount corresponding to the remuneration for Company shop which until 2015 was charged to Remuneration in Kind has been included in the item "Other general expenses".

The following tables provide information on the evolution of the Group's headcount by category, grouped as stipulated in the collective bargaining agreement for the Spanish banking sector, the information on the other consolidated subsidiaries having been brought into line with this, at the end of each year and as annual averages.

	Year-end		**Annual average**	
	2016	**2015**	**2016**	**2015**
Directors and senior management	75	76	70	83
Technical personnel	10,714	12,861	12,701	12,760
Clerical staff	1,159	2,142	1,907	2,185
Total	11,948	15,079	14,678	15,028

Set out below is the distribution of the Group's workforce for the last two years by gender.

	2016		2015	
	Women	Men	Women	Men
Directors and senior management	21	54	19	57
Technical personnel	4,562	6,152	4,964	7,897
Clerical staff	565	594	837	1,305
Total	5,148	6,800	5,820	9,259

Set out below is a breakdown of the Group's workforce by age group and length of service at 31 December 2016 and 2015.

Data as % in 2016			Age				
Years of service	Under 21	From 21 to 30	From 31 to 40	From 41 to 50	From 51 to 60	More than 60	Marginal distribution length of service
Under 6	-	4.01	3.53	1.48	0.15	-	9.17
6 to 10	-	0.87	23.17	2.09	0.20	-	26.33
From 11 to 20	-	-	19.18	20.04	0.81	0.02	40.05
From 21 to 30	-	-	-	10.89	8.82	0.04	19.74
From 31 to 40	-	-	-	0.11	3.63	0.02	3.76
From 41 to 50	-	-	-	-	0.82	0.12	0.94
Distribution by age group	-	4.88	45.88	34.61	14.43	0.20	100.00

Data as % in 2015			Age				
Years of service	Under 21	From 21 to 30	From 31 to 40	From 41 to 50	From 51 to 60	More than 60	Marginal distribution length of service
Under 6	-	5.02	3.50	1.22	0.11	-	9.85
6 to 10	-	0.84	18.22	1.09	0.11	-	20.26
From 11 to 20	-	-	19.78	13.10	0.57	0.05	33.50
From 21 to 30	-	-	0.01	11.05	6.15	0.08	17.29
From 31 to 40	-	-	-	0.19	8.07	2.15	10.41
From 41 to 50	-	-	-	-	5.95	2.74	8.69
Distribution by age group	-	5.86	41.51	26.65	20.96	5.02	100.00

Group employees with more than 33% disability at 31 December 2016 stood at 88 and at 31 December 2015 there were 143.

58. Other administrative expenses

This heading contains the Group's other administrative expenses, including levies and taxes on its activities, as analysed below:

Thousands of euros	2016	2015
On property, plant and equipment:	213,456	216,483
Rent	126,012	121,911
Maintenance of fixed assets	66,791	72,638
Utilities	14,187	15,971
Stationery and office supplies	6,466	5,963
IT	63,898	72,349
Communications	27,686	22,157
Advertising and publicity	17,498	21,325
Legal expenses	19,383	18,273
Technical reports	38,795	36,502
Security and fund transport services	17,831	17,076
Insurance premiums and self-insurance	4,828	6,195
Governance and control bodies	1,966	2,152
Travel and entertainment expenses	10,018	9,887
Association dues	2,308	2,084
Outsourced administrative services	70,130	71,866
Levies and taxes:	130,521	135,706
On property	11,274	18,132
Other	119,247	117,574
Contributions to foundations	7,696	13,492
Other expenses	23,777	22,307
Total	649,791	667,854

Reductions in general administrative expenses have occurred, highlighting the items of Maintenance of fixed assets, IT, Levies and taxes on property and Contributions to foundations.

Information about the means of payment to suppliers period. Additional third disposition. "Duty of disclosure" Law 15/2010 of 5 July

The final second disposition of Law 31/2014, 3 December, by which the additional third disposition of Law 15/2010, 5 July, is modified, which in turn modified Law 3/2004, 29 December, by which measures are established for combating late payment, establishes the obligation for commercial companies to publish their means of payment to suppliers in their financial statements report.

Information is provided below at 31 December for 2016 and 2015, with the breakdown indicated in the applicable law:

	2016	2015
	Days	Days
Means of payment to suppliers period*	(23.73)	(25.25)
Ratio of transactions paid*	(23.11)	(24.97)
Ratio of transactions pending payment*	(36.04)	(31.93)

	2016	2015
	Amount (euros)	Amount (euros)
Total payments made	808,064,097.08	618,497,586.59
Total payments pending	40,477,749.21	25,900,263.05

* When the data shown in parenthesis refers to a negative amount, representative of either greater clarity, on average, of the payment in relation to the maximum payment period legally provided for of 60 days, or that transactions pending payment are, on average, at a time within this maximum period.

59. Amortisation

This heading comprises the amounts charged to the income statement each year for depreciation and amortisation calculated for each asset category based on their estimated useful lives. Set out below is a breakdown of depreciation and amortisation for the past two years for each category of assets:

Thousands of euros	2016	2015
Property, Plant and Equipment	42,785	45,365
For own use	42,785	45,365
IT equipment and installations	10,090	9,463
Furniture, vehicles and other installations	26,360	29,503
Buildings	6,240	6,397
Other	95	2
Other assets leased out under operating leases	-	-
Investment property	5,757	6,427
Intangible assets	92,153	85,961
Total	140,695	137,753

60. Provisions or (-) reversal of provisions

This heading comprises additions to provisions during the year, net of recoveries of amounts provisioned in prior years, except for additions or contributions to pension funds that are included in staff expenses for the year.

Thousands of euros	**2016**	**2015**
Provisions for pension funds and similar obligations:	22,044	891
Pension funds	6,424	805
Early retirements	15,151	(566)
Payments to pensioners	469	652
Extraordinary contributions to defined contribution plans	-	-
Provisions for taxes	(65)	2,028
Provisions for contingent risks and commitments:	127,629	(52,175)
For contingent exposures	127,629	(52,175)
For contingent commitments	-	-
Other provisions	43,616	14,228
Total	193,224	(35,028)

61. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss

This heading comprises of the amounts of impairment losses on financial assets, net of recoveries of amounts provisioned in prior years, in accordance with the principles described in Note 15.h) to these consolidated financial statements.

A breakdown of these impairment losses by asset type is as follows:

Thousands of euros	**2016**	**2015**
For financial assets measured at cost	-	-
For available-for-sale financial assets	16,372	42,670
Loans and receivables	3,847,246	1,382,917
Held-to-maturity investments	-	-
Total	3,863,618	1,425,587

The increase in impairment of Loans and receivables in 2016, compared to 2015 as a result of the application of the new internal models explained in notes 3.b) and 15.e) of this Report.

62. Impairment or (-) reversal of impairment on non-financial assets

This heading relates basically to losses from the impairment of non-financial assets and equity instruments classed as Investments in joint ventures and associates, net of recoveries of amounts provisioned in prior years, which have not been classified as non-current assets and disposal groups classified as held for sale.

Set out below is a breakdown of this income statement heading for 2016 and 2015:

Thousands of euros	**2016**	**2015**
Investments joint ventures and associates	-	-
Non-financial assets	381,404	(21,648)
Tangible assets	169,463	(39,993)
Intangible assets	169,277	-
Other	42,664	18,345

The impairment of intangible assets in 2016 corresponds in its entirety to the restructuring of goodwill on the consolidation of Targobank, S.A., see note 28.

63. Gains or (-) losses on derecognition of non financial assets in joint ventures and associates, net

This heading reflects gains and losses on the sale of tangible and intangible assets or Investments in joint ventures and associates which do not fulfil the requirements to be classified as non-current assets and disposal groups classified as held for sale, as can be seen in Note 30.

A breakdown by nature of assets is set out below:

Thousands of euros	**Net**	
	2016	**2015**
Tangible assets (*)	(14,758)	504
Other concepts (**)	90,324	69,547
Investments (***)	(5,225)	57,876
Intangible assets	-	(52)
Total	70,341	127,875

(*) Expenses from tangible assets increased as a result of the expenses which materialised in the Restructuring undertaken by the Group in the fourth quarter of 2016 due to impact of accelerated amortisation on the derecognised facilities, in the amount of 13,672 thousand euros (Note 37).

(**) In 2016, Other concepts mainly includes the following capital gains;

- for the sale of the mortgage formalisation business for 67,706 thousand euros,
- 13,417 thousand euros for the sale of Banco Popular Portugal's cards business to Wizink, and
- 9,494 thousand euros for the distribution of capital gains obtained by the investee company Sistema 4b among its shareholders for the purchase of Visa EU by Visa Inc.

In 2015, the same item wholly corresponded to capital gains on the Property management business in Portugal.

(***) In 2016, the gains for Investments in joint ventures and associates include the lower capital gain from the sale of 51% of Banco Popular-e for 5,143 thousand euros.

In 2015, the Gains from Investments joint ventures and associates mainly includes the capital gains from the sale of the company Universal Pay (54,810 thousand euros), the gain from the sale of 1% of Targobank (1,080 thousand euros), and returns from the earn-out contract (originating from the non-life insurance distribution agreement signed in 2011) for an amount of 1,722 thousand euros. The other 264 thousand euros is made up of adjustments on sales contracts from previous years or divestments of small shareholdings.

64. Negative goodwill recognised in profit or loss

In 2016 and 2015, the Group did not complete any business combinations in which the cost of the business combination was lower than the fair value of the assets, liabilities and contingent liabilities acquired.

65. Gains or (-) losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

This heading reflects gains and losses on the disposal of non-current assets or disposal groups classified as held for sale, including those of associates' liabilities, but not as discontinued operations, and impairment losses on such assets, net of recoveries.

Set out below is a breakdown of this heading as at 31 December 2016 and 2015 (Note 27):

Thousands of euros	**2016**	**2015**
Profits on non-current assets held for sale	(64,623)	(88,498)
Impairment loss of non-current assets held for sale	1,253,755	245,753
Total	(1,318,378)	(334,251)

The increase in impairment losses on non-current assets held for sale in 2016, compared to 2015 as a result of the application of the new internal models explained in notes 3.b) and 15.y) of this Report.

66. Profit/(loss) attributable to minority interests (non-controlling interests)

This heading shows the profit or loss generated during the year attributable to minority shareholders and related adjustments.

The breakdown of this consolidated income statement item for the past two years is as follows:

Thousands of euros	**2016**	**2015**
Financial Companies:		
Popular Factoring, S.A.(Portugal)	-	5
Holding and services companies:		
Grupo La Toja Hoteles, S.A.	(42)	(81)
Non-financial companies:		
Inti Entertainment, A.I.E.	(1)	-
Instrumental companies:		
Hercepopular S.L.	48	577
Urbanizadora Española, S.A.	-	1
Total	**5**	**502**

67. Information on related parties

The amounts recognised in the financial statements arising from transactions with related parties other than consolidated subsidiaries, and joint ventures or associates are negligible, and there are no significant transactions on which additional information needs to be provided.

All transactions with significant shareholders, directors and executives form part of the Group's ordinary business and are carried out at arm's length.

Specifically, risks on directors and senior managers, including persons related to them, break down as follows: 25,835 thousand euros in loans and credit lines, 0 euros in finance lease and 6,694 thousand euros in guarantees. Interest rates on the loans and credit lines vary between 0.13% and 29.00% and guarantee commissions are maintained at 0.000% quarterly.

These figures for 2015 are broken down as: 136,750 thousand euros in loans and credit lines,148 thousand euros in finance lease and 18,898 thousand euros in guarantees. Interest rates on the loans and credit lines varied between 0.13% and 21.00%; finance lease ranged between 0.93% and 5.32%; and guarantee commissions were maintained at 0.000% quarterly.

Additionally, transactions with consolidated subsidiaries, subsidiaries, joint ventures and associates are carried out at arm's length and eliminated on consolidation when appropriate.

The Group has no doubtful debts with related parties.

Set out below is a breakdown by basic balance sheet and income statement heading of balances relating to transactions with significant shareholders, directors and executives of the Group companies under "Other related parties", and balances relating to transactions between Group companies, subsidiaries, joint ventures and associates.

The amounts reflected in paragraph two of this note relate to significant shareholders, directors and executives of Banco Popular and therefore differ from those shown in table as "Other related parties", which include amounts relating to other Group companies.

Transactions between related parties are detailed below:

Thousands of euros	Other Related Parties		Subsidiaries		Joint Ventures		Associates	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets								
Credit Institutions	-	-	11,872,925	14,955,301	-	15,929	1	38,280
Customers	41,667	157,171	16,985,053	16,554,416	182,747	213,682	61,658	118,539
Liabilities								
Credit Institutions	-	-	22,252,957	23,916,498	359,353	351,412	2,867	28,225
Customers	376,476	502,248	4,711,572	5,056,274	62,148	469,363	108,037	72,535
Debt securities issued	113,085	147,867	6,253,006	5,546,514	-	-	-	-
Guarantees granted	7,034	19,039	1,430,431	2,583,654	39,509	110,007	11,927	13,467
Contingent commitments granted	-	-	589,252	714,547	521,000	525,586	2,995	796
Earnings	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	452	3,618	570,214	687,544	7,617	13,446	4	45
Interest expenses	5,358	8,516	516,285	585,660	76	270	2,622	4,001
Fee and commission income	160	542	118,956	61,802	3,726	5,933	110,399	114,080
Fee and commission expenses	-	-	161,054	150,536	8,804	9,467	474	843

68. Securitisations

The following table shows the accounting situation of securitised assets:

Thousands of euros	2016	2015
Loans and receivables derecognised from the balance sheet	1,045,730	1,163,371
Mortgage assets securitised through mortgage investments	736,281	1,117,869
Mortgage assets securitised through mortgage transfer certificates	290,673	27,198
Other securitised assets	18,776	18,304
Other transfers to credit institutions	-	-
Other transfers	-	-
Memorandum item: Removed from the balance sheet before 1.1.2004	56,278	68,786
Retained in full in the balance sheet (Note 23)	4,733,385	4,244,706
Mortgage assets securitised through mortgage investments	-	-
Mortgage assets securitised through mortgage transfer certificates	1,332,582	1,686,318
Other securitised assets	3,377,098	2,511,595
Other transfers to credit institutions	23,705	46,793
Other transfers	-	-
Partly removed	-	-
Partly retained	-	-
Total	5,779,115	5,408,077

In December 2016, the IM GBP Empresas VII FT fund was formed with the issue of two series of securitisation bonds in the amount of 2,500 million euros. The Group acquired all the notes issued by the fund, as listed below:

Thousands of euros	Amount issued	Rating*
Series A	1,825,000	A
Series B	675,000	CC
Total	2,500,000	

(*)DBRS

In March 2015, with the backing of a portfolio of loans, the IM Grupo Banco Popular Empresas VI, FTA asset securitisation fund was formed, which issued bonds totalling 3,000 million euros. The Group acquired all the notes issued by the fund, as listed below:

Thousands of euros	**Amount issued**	**Rating***
Series A	2,340,000	A
Series B	660,000	CCC
Total	3,000,000	

(*)DBRS

In December 2015, with the backing of a portfolio of loans, the IM Grupo Banco Popular MBS 3, FT asset securitisation fund was formed, which issued bonds totalling 900 million euros. The Group acquired all the notes issued by the fund, as listed below:

Thousands of euros	**Amount issued**	**Rating***
Series A	702,000	A
Series B	198,000	C
Total	900,000	

(*)DBRS

In the case of securitisations that had been removed from the balance sheet as at 31 December 2016 and 2015 as a result of the risks and benefits having been transferred to third parties, there is no continuing involvement. In addition, the Group is not exposed to losses from financial assets derecognised in the accounts.

The Banco Popular Group did not recognise any gain or loss on the transfer date of the assets, since these transactions originated in the Banco Pastor Group prior to 16 February 2012, the date on which this entity was acquired, and no income or expense was recognised in 2016 or 2015 in respect of continuing involvement.

Set out below are the amounts issued by the various securitisation funds, together with the date of incorporation and outstanding balances of the securitisation notes issued as at 31 December 2016 and 2015.

Thousands of euros	Issue date	Amount issued	Outstanding nominal balance as at:	
			2016	2015
TDA 13 (1)	Dec 2000	150,300	8,097	10,465
TDA Pastor 1 (1)	Feb 2003	494,600	48,181	58,321
IM Pastor 2 (2)	Jun 2004	1,000,000	150,434	174,706
IM Pastor 3 (2)	Jun 2005	1,000,000	231,569	254,897
EDT FTPYME Pastor 3	Dec 2005	520,000	9,275	14,641
IM Pastor 4 (2)	Jun 2006	920,000	300,217	329,886
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	-	135,740
GC FTPYME Pastor 4	Nov 2006	630,000	42,440	49,935
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	-	197,240
TDA Pastor CONSUMO 1 (2)	Apr 2007	300,000	17,187	20,869
GC Pastor HIPOTECARIO 5 (2)	Jun 2007	710,500	290,044	317,615
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	416,672	458,219
IM Grupo Banco Popular Empresas V, FTA	Feb 2013	2,650,000	-	527,673
IM Grupo Banco Popular Empresas VI, FTA	Mar 2015	3,000,000	1,145,071	2,273,409
IM Grupo Banco Popular MBS 3, FT	Dec 15	900,000	857,720	900,000
IM Grupo Banco Popular Empresas VII, FT	Dec 16	2,500,000	2,500,000	-
Total			6,016,907	5,723,616

Of these securitisations some are maintained off the balance sheet:

(1) The TDA 13 fund as well as the TDA Pastor 1 fund are securitisations prior to 1 January 2004 and are therefore not consolidated by the application of the IFRS first application rule. The balance is not significant in relation to the financial statements.

(2) The other securitisations were made by Banco Pastor, an entity that was acquired by the Group in 2012, they were already de-registered on the balance sheet, of this entity, as a result of the sale to third parties of the reserve funds of these securities, which involved the transfer of risks and benefits.

Below are the details of the financial assets and liabilities that the entity has recognised (BPE and Pastor) off the balance sheet at 31 December 2016 and 2015 by securitisation funds:

	2016			2015		
	Financial assets		Liabilities	Financial assets		Liabilities
	Debt securities	Loans and Advances	Deposits	Debt securities	Loans and Advances	Deposits
TDA 13	-	-	-	566	-	-
TDA Pastor 1	-	1,994	2	-	1,993	2
IM Pastor 2	-	-	3	3,383	-	4
IM Pastor 3	6,701	192	98	7,154	192	127
IM Pastor 4	-	391	93	3,569	391	126
TDA Pastor CONSUMO 1	-	536	-	-	508	-
GC Pastor HIPOTECARIO 5	28,435	619	-	30,851	585	-
Total	35,136	3,732	196	45,523	3,669	259

The off-balance-she'd financial assets and liabilities stated previously include balances of the Group's non-consolidated structured entities. These balances are not significant within the Group. Below other tranches corresponding to each bond in the BPE portfolio at 31 December 2016:

2016	ISIN	SERIES	RATING S&P	Balance
IM Pastor 3	ES0347862007	A	B-	6,097
IM Pastor 3	ES0347862015	B	CCC	604
GC Pastor HIPOTECARIO 5	ES0332235011	A2	B-	23,773
GC Pastor HIPOTECARIO 5	ES0332235029	B	CCC-	4,662
Total				35,136

The following information is provided as of 31 December 2015:

2015	ISIN	SERIES	RATING S&P	Balance
TDA 13	ES0377977006	A	Aaa	566
IM Pastor 2	ES0347861009	A	A+	3,383
IM Pastor 3	ES0347862007	A	B+	6,565
IM Pastor 3	ES0347862015	B	B-	589
IM Pastor 4	ES0347854004	A	B+	3,569
GC Pastor HIPOTECARIO 5	ES0332235011	A2	B-	26,307
GC Pastor HIPOTECARIO 5	ES0332235029	B	CCC-	4,544
Total				45,523

Banco Popular Group does not retain risks or benefits on the bonds in the portfolio corresponding to these securitisations, as they are bonds with the highest ratings not corresponding, in any case, to the reserve fund or first losses tranche.

The majority of the note issues have been rated by the principal rating agencies: DBRS and Moody's having granted the highest credit ratings by ECB as eligible for all the notes issued except for those that are subordinated, a very small percentage of the total issued. This may be observed in the following table

Thousands of euros		**Notes with the highest rating**		**Subordinated notes**	
2016	**Notes issued**	**Amount**	**%**	**Amount**	**%**
TDA 13 Mixto	150,300	150,300	100.00%	-	0.00%
TDA Pastor 1	494,600	490,900	99.25%	3,700	0.75%
IM Pastor 2	1,000,000	993,500	99.35%	6,500	0.65%
IM Pastor 3	1,000,000	1,000,000	100.00%	-	0.00%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
IM Pastor 4	920,000	913,100	99.25%	6,900	0.75%
GC FTPYME Pastor 4	630,000	617,400	98.00%	12,600	2.00%
TDA Pastor CONSUMO 1	300,000	300,000	100.00%	-	0.00%
GC Pastor HIPOTECARIO 5	710,500	700,000	98.52%	10,500	1.48%
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Grupo Banco Popular Empresas VI, FTA	3,000,000	2,340,000	78.00%	660,000	22.00%
IM Grupo Banco Popular MBS 3, FA	900,000	702,000	78.00%	198,000	22.00%
IM Grupo Banco Popular Empresas VII, FT	2,500,000	1,825,000	73.00%	675,000	27.00%
Total	12,810,400	11,132,800	86.90%	1,677,600	13.10%

The 2015 data is shown below.

Thousands of euros		Notes with the highest rating		Subordinated notes	
2015	Notes issued	Amount	%	Amount	%
TDA 13 Mixto	150,300	150,300	100.00%	-	0.00%
TDA Pastor 1	494,600	490,900	99.25%	3,700	0.75%
IM Pastor 2	1,000,000	993,500	99.35%	6,500	0.65%
IM Pastor 3	1,000,000	1,000,000	100.00%	-	0.00%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
IM Pastor 4	920,000	913,100	99.25%	6,900	0.75%
IM Grupo Banco Popular Empresas I, FTA	1,832,400	1,800,000	98.23%	32,400	1.77%
GC FTPYME Pastor 4	630,000	617,400	98.00%	12,600	2.00%
IM Grupo Banco Popular FTPYME I, FTA	2,030,000	2,000,000	98.52%	30,000	1.48%
TDA Pastor CONSUMO 1	300,000	300,000	100.00%	-	0.00%
GC Pastor HIPOTECARIO 5	710,500	700,000	98.52%	10,500	1.48%
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Grupo Banco Popular Empresas V, FTA	2,650,000	1,987,500	75.00%	662,500	25.00%
IM Grupo Banco Popular Empresas VI, FTA	3,000,000	2,340,000	78.00%	660,000	22.00%
IM Grupo Banco Popular MBS 3, FA	900,000	702,000	78.00%	198,000	22.00%
Total	16,822,800	15,095,300	89.73%	1,727,500	10.27%

Of the nominal amount outstanding at year-end 2016 and 2015, the Group holds notes representing these issues in its portfolio. On the one hand, the notes represent the expected loss on the securitised loan portfolio, which precludes the derecognition of the securitised loans, and on the other hand the Group also retains instruments that can be pledged with Banco de España or the European Central Bank as collateral for a second liquidity line. In both cases, the nominal amount outstanding held by Group banks are eliminated in the consolidation process, the amounts as at 31 December 2016 and 2015 being as follows:

Thousands of euros	2016	2015
IM Grupo Banco Popular Empresas 1, FTA	-	74,078
IM Grupo Banco Popular FTPYME I, FTA	-	84,757
IM Banco Popular MBS 2, FTA	416,672	458,219
IM Grupo Banco Popular Empresas V, FTA	-	527,673
GC FTPYME Pastor 4	289	263
EDT FTPYME Pastor 3	602	951
IM Grupo Banco Popular Empresas VI, FTA	1,145,071	2,273,409
IM Grupo Banco Popular MBS 3, FT	857,720	900,000
IM Grupo Banco Popular Empresas VII, FT	2,500,000	-
Total	4,920,354	4,319,350

69. Risk Factors

In accordance with the accounting standards applicable to the Group (International Financial Reporting Standards, hereinafter "IFRS"), the calculation of impairment of assets and the estimate of provisions is explained in accordance with note 15 of this Report.

Identification of risk factors

At 31 March 2016 the Group identified the possibility of various uncertainty factors occurring during 2016 which the Group has considered in its continuous assessment of the internal models it uses to make its accounting estimates on various assets at various closes of 2016 These factors have already been identified in the Interim Financial Information at 31 March 2016 and were updated in the consolidated half-yearly statements at 30 June 2016. Due to their relevance, the following factors are highlighted:

a) Publication in the Official State Gazette (BOE) on 6 May 2016 of Banco de España Circular 4/2016 which is effective from 1 October 2016.

b) Worsening macroeconomic forecasts.

c) Low profitability of the financial sector driven by interest rates at historic lows and the high level of non-performing balances and non-productive assets.

d) Uncertainty surrounding the consequences the referendum held in the United Kingdom will have.

e) Political situation in Spain after the general election held on 26 June 2016.

f) Uncertainty about the progress of judicial proceedings and claims against the Group in terms of the development and the results thereof in the various courts or those which may be undertaken in the future.

The aforementioned uncertainty factors had not materialised as of 31 December 2015 nor 31 March 2016 nor 30 June 2016.

Monitoring of risk factors at 31 December 2016

a) In reference to publication in the Official State Gazette (BOE) on 6 May 2016 of Banco de España Circular 4/2016 which is effective from 1 October 2016. The purpose of this Circular has been to update Circular 4/2004 on standards of public and reserved financial information for credit institutions, especially of its Appendix IX, to adapt it to the latest developments in banking regulation, maintaining full compatibility with the IFRS accounting framework It incorporates the regulatory changes applicable and best practices identified on the basis of sectoral information and experience accumulated by Banco de España in a context of continuous evolution and refinement of the accounting of credit risk and therefore constitutes a new element to consider in the context of accounting estimates made by credit institutions based on their internal models Such information includes, among others, the discounts to apply to real estate collateral and frequency of the update of the appraisals.

   The Group has its own credit risk models to calculate expected losses, incurred losses and for determining the capital requirements for credit risk. These models take into account the parameters and guidelines set by international bodies, by the International Financial Reporting Standards, by the European Central Bank, and Banco de España. In this regard, as the importance of events which affect the variables used are produced, they are incorporated into the models and may involve significant changes in the estimates and, consequently, in the results obtained from the models.

The stated Circular 4/2016 includes changes on certain aspects which, although they were included in the Group's internal models, introduce additional guidelines and clarification to consider primarily related to the classification of certain assets, discounts to apply to guarantees depending on the classification of the operations and their type, discounts to apply to property assets and the frequency of appraisal updates.

Additionally, guidelines are given in the Circular on the assessment, monitoring and control of credit risk in the Group's internal models, among which are those below:

- The general principles for the estimation of credit risk coverage are listed: governance of the models and integration in management; efficiency and simplicity; documentation and traceability.

- It is suggested that the estimates calculated using internal models should be based on the historical losses observed by each entity which, if necessary, will be adjusted to take existing conditions and other circumstances known at the time of the estimate into account (among which, the evolution of macroeconomic variables).

- Comparison (backtesting) and reference (benchmarking) exercises will be required using all available internal and external information.

Following the Circular's publication, the Group launched a project involving various Departments in such a way that the current incurred loss model has been transformed into a collective provisions estimation internal model, a foreclosed asset impairment calculation internal model and has been completed with the sophistication of the individualised creditors analysis model which are described in detail in notes 15.h, 15.y) and 18 of this Report. Likewise, at the close of 2016, it has completed the revision of said internal models for the Internal Validation Office and has carried out a backtesting exercise with the aim of comparing the results of the model with the reality of the operations.

b) In reference to the worsening macroeconomic forecasts: At the macroeconomic level, the latest developments show a weaker global economic growth than anticipated a few months ago, whereby international organisations have revised prospects for medium-term growth downwards.

c) In reference to the low profitability of the financial sector motivated by interest rates at historical lows and the high level of non-performing loans and non-productive assets, the Group has decided to carry out am adjustment process of its workforce and its Branch Office Network, which has almost finished before the end of this year. The cost of this process has amounted to 370 million euros which has been recorded based on its nature; 330 million euros are operating expenses and 40 million euros for provisions and impairment of financial assets.

d) In reference to the referendum on the UK's membership of the EU, uncertainties remain on the consequences the result will have which saw 51.9% vote to leave the European Union. It has brought about a change of Government in the UK which will have to specify the timetable and actions required for Brexit to materialise which has indicated that it will be 'hard', that is to say, it supposes a significant rupture in the alliance which has existed between both parties until now.

e) In reference to the political situation in Spain after the general elections held on 26 June 2016, on 29 October 2016 the President of the Government was sworn in, at the second round of voting, although it will be a minority government with the need to reach timely agreements with the other political parties.

f) On 21 December 2016, the Court of Justice of the European Union issued a ruling establishing the retroactivity to the beginning of the floor clauses. The estimated impact of this contingency amounted to 229 million euros.

Taking into account the monitoring done these factors, the Group's internal models have been revised to introduce the effects the uncertainty factors have had on the variables and have led to relevant changes in accounting estimates.

Considerations of risk factors at 31 December 2016

In relation to the risk and uncertainty factors and their update as of 30 June, the Group considered that the impact of partial or full materialisation of them may have a significant effect on the accounting hedges and the impairment to register on the corresponding assets. This uncertainty scenario, together with the characteristics of the Group's exposures and the update of our impairment models, may give rise to provisions or impairment during the second half 2016 of up to 4,700 million euros which is broken down as follows:

- The estimate forecast in early 2016 for approximately 1,000 million euros of impairment losses primarily on loans and receivables and foreclosed property assets, which were estimated to be incurred throughout 2016 prior to the identification of the risk and uncertainty factors.

- Additional impairment losses amounting to 3,700 million euros which correspond to the maximum estimate of potential expected but not incurred losses at 31 June 2016 and which would be subject to the risks identified above materialising fully or partially in the second half.

Finally, at 31 December 2016, the provisions recognised with a charge to the income statement have been as follows:

- Provisioning expenses of 193 million euros. (Note 37)

- Impairment losses on financial assets of 3,864 million euros of which 946 million euros are recurrent and 2,918 millions euros non-recurrent. (Note 61)

- Impairment of property assets (inventories, investment property and non-current assets held for sale) of 1,466 million euros of which 108 million euros are ordinary and 1,358 millions euros are non-recurrent. (Note 27)

- Impairment of intangible assets (goodwill) of 169 million euros. (Note 62)

Therefore, with respect to the initial estimate of 4,700 million euros, of provisions and impairment, total provisions of 5,692 million euros have been registered resulting in a deviation of 992 million euros and explained as follows:

- Greater recurrent provisions on credit and property of 54 million euros.

- Greater non-recurrent provisions on credit and property of 703 million euros.

- Provisioning expenses for pensions, restructuring expenses and other concepts of 66 million euros.

- Impairment of Targobank's goodwill of 169 million euros as a result of losses registered in 2016 and non-compliance of its business plan.

70. Events after the reporting period

On 21 December 2016, the Bank issued a Relevant Event to the CNMV in which it reported the unanimous proposal to appoint Mr. Emilio Saracho Rodríguez de Torres as Chairman of the Board of Directors to an Extraordinary General Shareholders' Meeting to be held on 20 February as reported by the Bank in the Relevant Event issued on 18 January 2017, in which he will be appointed Executive Director.

At the Extraordinary General Meeting, in addition to the appointment of Mr. Emilio Saracho, the following points will be proposed:

- Modification of Articles of Association
- Modification of the Regulations of the General Shareholders' Meeting
- Approval of the directors' compensation policy.

Subsequent to the holding of said Extraordinary General Meeting, an Extraordinary Board of Directors is scheduled to be held were Mr. Emilio Saracho will be proposed as Chairman of the Group's Board of Directors.

On 5 January 2017, the Bank issued a Relevant Fact to the CNMV in which it reported the approval of the intra-community cross-border split common project of Banco Popular Portugal, S.A. as a spin-off company, in favour of Banco Popular Español, S.A. as beneficiary company which will involve the transformation of the subsidiary Banco Popular Portugal, S.A. to Banco Popular Branches in Portugal At the date of these Consolidated Financial Statements this operation is subject to various suspensive conditions and various administrative authorisations, and it is expected that it may be concluded in the last quarter of 2017.

Appendix I. Agents

Banco Pastor, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
ALVAREZ DOMINGUEZ, ALICIA	LEIRO	SPAIN
ALVAREZ TEIJEIRO , FRANCISCO ANTONIO	VEGADEO	SPAIN
AÑON ROIBAL, JAIME	PAIOSACO	SPAIN
ASESORIA XARPER,S.L.	BANDEIRA	SPAIN
BLANCO CORTIÑAS, RAQUEL	TRASMIRAS	SPAIN
BLANCO SECO, MARIBEL	AGOLADA	SPAIN
CARBIA GONZALEZ, JOSE MANUEL	TARAGOÑA	SPAIN
CASTRO GOMEZ, MARIA BEGOÑA	PALAS DE REI	SPAIN
CELEIRO LOPEZ, ANTONIO	TRIACASTELA	SPAIN
CELIANTON SERVICIOS FINANCIEROS SL	BALTAR	SPAIN
COTA VAZQUEZ, SERGIO	CALVOS DE RANDIN	SPAIN
DIEGUEZ DIEGUEZ, SONIA	AGUDIÑA	SPAIN
DIGON RODRIGUEZ, ANA MARIA	SAN ROMAN DE CERVANTES	SPAIN
ESCUREDO GARCIA, JOAQUINA	A VEIGA	SPAIN
FEIJOO PIÑEIRO, DAVID	CABO DE CRUZ	SPAIN
FEIJOO RIO, ELADIO	OS PEARES	SPAIN
FERNANDEZ FERNANDEZ, JULIO JUSTO	SOBRADELO	SPAIN
FERNANDEZ FERNANDEZ, MAGIN	O BOLO	SPAIN
FERNANDEZ FERNANDEZ, MATILDE	A SEARA	SPAIN
FERNANDEZ MAREY, MARIA FLOR	BARALLA	SPAIN
FRANCISCO FERNANDEZ, MARIA PRAXEDES	CORTEGADA	SPAIN
FRANCO RAMOS, S.L.	AGUIÑO	SPAIN
FRANCO RAMOS, S.L.	PALMEIRA	SPAIN
FRANCO RAMOS, S.L.	XUÑO	SPAIN
GARCIA LOPEZ, NATALIA	MERA	SPAIN
GEADA LOSADA, ANA MARIA	FERREIRA DO VALADOURO	SPAIN
GONZALEZ ANDRADE, MARIA MARTINA	ENTRIMO	SPAIN
GONZALEZ PEDROUZO, AVELINO	DACON	SPAIN
GONZALEZ VAZQUEZ, MANUEL JESUS	PONTEDEVA	SPAIN
LOPEZ CASTAÑO, MERCEDES	PARAMO	SPAIN
LOPEZ IRIARTE, JOSE MANUEL	O SEIXO	SPAIN
LOPEZ LOPEZ, MARIA ASUNCION	GUNTIN	SPAIN
LOPEZ VALEIRAS SAMPEDRO, ANTON	BARBANTES-ESTACIÓN	SPAIN
LOPEZ YAÑEZ, MARIA FE	NAVIA DE SUARNA	SPAIN
MONTERO RODRIGUEZ, DELFINA	QUINTELA DE LEIRADO	SPAIN
MOURIÑO VARELA, BEGOÑA	ANTAS DE ULLA	SPAIN
NIETO MAROÑO, MONTSERRAT	CALO	SPAIN
NOGUEROL RODRIGUEZ, ANDRES	O IRIXO	SPAIN

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
PARDO VAZQUEZ, MARIA ESTELA	PARGA	SPAIN
PERALTA CORDERI, JAIME	A SAINZA	SPAIN
PEREIRO LOPEZ, MARIA	O INCIO	SPAIN
PEREZ CARBALLO, JULIO	VILAR DO BARRIO	SPAIN
PEREZ CORRAL, MARIA CARMEN	SAN AMARO	SPAIN
PEREZ OBREGON, SONIA	OIMBRA	SPAIN
PIÑEIRO MARTA SL	CORISTANCO	SPAIN
PIÑEIRO MARTA, PABLO	CAION	SPAIN
RAMOS GARCIA, MARIA JESUS	MACEDA	SPAIN
RAPADO ASESORES, S.L.	FORCAREI	SPAIN
REY PORTOS, DIEGO	PONTECARREIRA	SPAIN
RIVAS FERNANDEZ, MARIA	XUNQUEIRA DE AMBIA	SPAIN
RIVERA GALDO, JOSE	MAÑON	SPAIN
RODRIGUEZ ALVAREZ, BORJA	SAN CLODIO	SPAIN
RODRÍGUEZ FERNÁNDEZ, MARIA DEL CARMEN	CASTROVERDE	SPAIN
RODRIGUEZ LOPEZ, EDITA	PARADELA	SPAIN
RODRIGUEZ SOTELO, CESAR	SARREAUS	SPAIN
RODRIGUEZ TEIXEIRA, SONIA	VILARDEVÓS	SPAIN
ROMERO FORMOSO, FATIMA	ESTEIRO	SPAIN
ROMERO GATO, LAURA	XERMADE	SPAIN
SANTOS GERPE MARIA, MARIA SONIA	CAMARIÑAS	SPAIN
SOBREDO SIGUEIRO, JOSE MANUEL	PONTEVEA	SPAIN
SOMOZA DE LA FUENTE, JULIO	A POBRA DE BROLLÓN	SPAIN
TOURIS FERNANDEZ, MANUEL	A BAÑA	SPAIN
VARELA RIVERA, JULIO	PORTOMARÍN	SPAIN
VAZQUEZ BERTOA, JOSE MANUEL	A SILVA	SPAIN
VAZQUEZ DORADO, SUSANA	A FORXA	SPAIN
VAZQUEZ FERNANDEZ, DIEGO	CASTROCALDELAS	SPAIN
VAZQUEZ RODRIGUEZ, VANESA	BAAMONDE	SPAIN
VEIGA ROCANDIO, RUBEN	A PONTENOVA	SPAIN
XIAMA BANDE, S.L.	BANDE	SPAIN

Popular Banca Privada, S.A. Agents

Name or Company Name	CITY/TOWN	GEOGRAPHICAL SCOPE
ABOMAR GESTION	VALLADOLID	SPAIN
ALAS GUILLEN, JESUS IGNACIO	ARAGON	SPAIN
ALAS NEVOT Y VIGIL INVERSIONES SCI	ARAGON	SPAIN
ALEJANDRO ARRAEZ & ASOCIADOS SA	MADRID	SPAIN
ALMENAS TRADER SL	MADRID	SPAIN
ARCONES GARCIA, ROCIO	MADRID	SPAIN
ARION 90 SA	MADRID	SPAIN
ASEFARMA SL	MADRID	SPAIN
ASEMVAL HUESCA SL	ARAGON	SPAIN
ASESORES FINANCIEROS DE CORDOBA SL	ANDALUCÍA	SPAIN
ASESORIA GORDONIZ SAL	PAÍS VASCO	SPAIN
ASESORIA LABORAL FISCAL Y CONTABLE ALE S		SPAIN
ASSESSOR CONSULTORIA I SERVEIS EMPRESARI	CATALUÑA	SPAIN
ASSESSORS FINANCERS GIRONA SL	CATALUÑA	SPAIN
ASTURAGENTES SL	PRINCIPADO DE ASTURIAS	SPAIN
AYCU SL	ARAGON	SPAIN
BARRACHINA FERRER S CIVIL	ARAGON	SPAIN
BATLLE SALAMERO, MARIO	ARAGON	SPAIN
BOADA GUASCH, JOSE	BARCELONA	SPAIN
BOFARULL MOLLO, MARIA	BARCELONA	SPAIN
BPB PATRIMONIAL SL	BARCELONA	SPAIN
BUFETE SEVERINO MARTINEZ IZQUIERDO SL	MADRID	SPAIN
CASADO DE AMEZUA BUESA, GABRIEL	MADRID	SPAIN
CASAS VILA, XAVIER	CATALUÑA	SPAIN
COMPONENTES ELECTRONICOS ANGEL SAENZ SA	PAÍS VASCO	SPAIN
CONSULTIA CORREDURIA DE SEGUROS E INVERS	PAÍS VASCO	SPAIN
DE MIGUEL SANZ, MARTA	MADRID	SPAIN
DEFERRE CONSULTING SL	VALLADOLID	SPAIN
ENDOR INVERSIONES SL	MADRID	SPAIN
ESCARPENTER HERNANDEZ, JAVIER	CATALUÑA	SPAIN
EURO RESAL SL	MADRID	SPAIN
FERNANDEZ PEREZ, CARLOS	MADRID	SPAIN
GLOBAL ADVICE CONSULTORES FINANCIEROS SL	MADRID	SPAIN
GLOBALTRAMIT GESTION DOCUMENTAL SL	CATALUÑA	SPAIN
GRONIOS INTERMEDIARIOS FINANCIEROS SL	ZARAGOZA	SPAIN
HEREDIA ARMADA, ALFONSO MARIA ASUNCION	PRINCIPADO DE ASTURIAS	SPAIN
IBERMEDIACION SL CORREDURIA DE SEGUROS	ARAGON	SPAIN
INDOCTRO CAPITAL	MADRID	SPAIN
JAIBERG 2016 SL	BILBAO	SPAIN

Name or Company Name	CITY/TOWN	GEOGRAPHICAL SCOPE
KIOSTRO SL	CATALUÑA	SPAIN
KOTET SERVICIOS PATRIMONIALES SL	PAMPLONA	SPAIN
LINCE GESTION PATRIMONIAL SL	MADRID	SPAIN
LOREZABAL SL	NAVARRA	SPAIN
MARKETRENT ABP SL	BARCELONA	SPAIN
METODO NODUS SL	ZARAGOZA	SPAIN
MIGUEZ MARTIN, SERGIO	MADRID	SPAIN
MORCOB TECH SL	MADRID	SPAIN
NORFINANCE SL	PAÍS VASCO	SPAIN
NYALAND CONSULTORES SL	BARCELONA	SPAIN
ORTEMESA SA	CATALUÑA	SPAIN
PONCE BUJ, CARLOS	COMUNIDAD VALENCIANA	SPAIN
REPARAZ ABAITUA, GONZALO	PAMPLONA	SPAIN
RODRIGUEZ RUIZ BELLOSO, FRANCISCO JAVIER	ARAGON	SPAIN
RODRIGUEZ SANCHO, MARCOS	COMUNIDAD VALENCIANA	SPAIN
SABARI LLOBET, JOSEP MARIA	CATALUÑA	SPAIN
SAN MIGUEL PRIETO ASESORES SRL	VALLADOLID	SPAIN
SANCHEZ CASAS ECONOMISTAS Y ABOGADOS SL	NAVARRA	SPAIN
SEGARRA BARGUES, VICENTE MIGUEL	COMUNIDAD VALENCIANA	SPAIN
SERVISA SA	COMUNIDAD VALENCIANA	SPAIN
SOCAIRE INVESTIMENTOS SL	PONTEVEDRA	SPAIN
SOCIEDAD DE GESTIONES DE PATRIMONIO 10 S	MADRID	SPAIN
TIHISTA BADOSTAIN, MARIA ROSARIO	NAVARRA	SPAIN
TORRENTBO BERTRAL, ENRIQUE	CATALUÑA	SPAIN
TORRES SANCHEZ, JOSE ANTONIO	ARAGON	SPAIN
VAL IBÁÑEZ, MARIANO	ARAGON	SPAIN
ZALBA BEISTI, RAQUEL	NAVARRA	SPAIN
TORRENTBO BERTRAL, ENRIQUE	CATALUÑA	SPAIN
TORRES SANCHEZ, JOSE ANTONIO	ARAGON	SPAIN
VAL IBÁÑEZ, MARIANO	ARAGON	SPAIN
VIGIL FERNANDEZ, FRANCISCO JOSE	ARAGON	SPAIN
ZALBA BEISTI, RAQUEL	NAVARRA	SPAIN

Agentes de Banco Popular Español, S.A.

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
FERNÁNDEZ BLANCO, PATRICIA	CABOALLES DE ABAJO	SPAIN
ARIAS ESCUREDO, JULIO	PUENTE DOMINGO FLOREZ	SPAIN
LOPEZ RODRIGUEZ, CRISTINA	TORMALEO	SPAIN

Appendix II Information on capital increase authorisation at 31 December 2016

The General Shareholders' Meeting of Banco Popular Español, S.A., held in Madrid on 11 April 2016, approved the following resolutions regarding increases in the share capital:

To delegate to the Board of Directors, under the provisions of Article 297.1.a) of the Corporate Enterprises Act, the power to increase the capital by an amount of five hundred million euros (500,000,000 euros), to be completed within a maximum period of one year.

To authorise the Board of Directors, in accordance with articles 297.1.b), 311 and 506 of the Corporate Enterprises Act, to increase the share capital within a maximum period of three years, one or more times and up to half of the share capital, with the right to exclude the pre-emptive rights and to redraft the final article of the Articles of Association.

Four share capital increases through the issue of shares without a premium and charged against voluntary reserves to be used to remunerate the shareholders, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price.

Appendix III - Annual Banking Report

Article 87 of Law 10/2014 of 26 June

This information has been prepared in compliance with the provisions of Article 87 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions published on 27 June 2014 in the Official State Gazette, which transposes Article 89 of Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013, relating to access to credit institutions' activity and prudential supervision of credit institutions and investment undertakings, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In accordance with this legislation, credit institutions will be obliged to publish, specifying by country where they are established, the following information on a consolidated basis relating to the last approved accounting period.

Company name, nature and geographical location of the activity.

Banco Popular Español, S.A. was incorporated on 14 July 1926, and its registered address is Velázquez 34, Madrid. It is a private law company, whose corporate object, as established by Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

It is registered with the Madrid Trade & Companies Registry, Volume 174, Folio 44, sheet 5,458, entry 1.

In addition, for the operations which it performs directly, the Bank is head of a group of subsidiaries, that engage in various business activities and which compose, together with it, the Banco Popular Group.

The consolidated Group mainly carries on its operations in Spain. However, presently it carries out its activities in other countries, the most significant being:

- Portugal

- USA

Business volume and number of full-time employees.

This heading shows the information relating to business volume and the number of employees per country at the close of 2016 on a consolidated basis:

Data at 31 December 2016		
(Data in thousands of euros)	**BUSINESS VOLUME**	**NUMBER OF EMPLOYEES**
Spain	2,546,989	10,671
Portugal	202,402	967
USA	76,361	310
TOTAL	2,825,752	11,948

For the purposes of this report, gross income is considered business volume, as this income is defined and presented in the consolidated income statement which forms part of the Group's consolidated financial statements.

The business volume data by country shown in the table above was obtained from the statutory accounting records relating to 2016 of the Group's companies with the corresponding geographical location.

The employee data was obtained from the workforce of each company/country at the close of 2016.

Gross profit/(loss) before tax and income tax

Data at 31 December 2016		
(Data in thousands of euros)	**GROSS PROFIT BEFORE TAX**	**INCOME TAX ON CONSOLIDATED BASE**
Spain	(4,864,291)	(1,398,720)
Portugal (*)	(55,085)	(15,497)
USA(**)	30,894	11,096
TOTAL	(4,888,482)	(1,403,121)

(*) Banking activity in Portugal generated a gross profit/(loss) before tax of -4,963 thousand euros.

(**) Banking activity in the USA generated a gross profit/(loss) before tax of 31,115 thousand euros.

This information corresponds to the aggregated information of the individual financial statements of the entities that operate in each geographical location showing the consolidation adjustments required to obtain the Group's consolidated financial statements.

In relation to the information about income taxes the information is shown corresponding to the Tax Cost at the end of 2016 on a consolidated basis.

During 2016 Banco Popular Group did not receive public assistance for the purpose of promoting the development of banking activity that is significant. This statement is made for the purposes of the provisions of article 89 of the European Parliament and Council 2013/36/EU Directive, 26 June (related to access to credit entity activity and prudential supervision of credit entities and investment entities) and its implementation into Spanish legislation by means of Law 10/2014, Organisation, Supervision and Solvency of Credit Institutions, 26 June.

At 31 December 2016, the yield on the Group's assets was (2.25%).

Appendix IV - Effect of regulatory change on the presentation of the Consolidated Balance Sheet and Income Statement

CONSOLIDATED BALANCE SHEET - (1)

ASSETS					
ANNUAL REPORT FORMAT DECEMBER 2015			NEW ANNUAL REPORT FORMAT DECEMBER 2015		
	31.12.2015			31.12.2015	
Cash and balances with central banks	3,523,007	(1)	Cash and cash balances at central banks and other demand deposits	5,465,713	(1)
Held for trading	1,285,883		Financial assets held for trading	1,285,883	
Loans and advances to credit institutions	-		Derivatives	1,243,389	
Loans and advances to customers	-		Equity instruments	21,523	
Debt securities	20,971		Debt securities	20,971	
Other equity instruments	21523		Loans and advances	-	
Trading derivatives	1,243,389		Central Banks	-	(4)
Memorandum item: Loaned or pledged	-		Credit Institutions	-	
Other financial assets at fair value through profit and loss	535,319		Customers	-	
Loans and advances to credit institutions	-		Memorandum item: loaned or delivered as collateral with right of sale or pledge	-	
Loans and advances to customers	-		Financial assets designated at fair value through profit or loss	535,319	
Debt securities	313,869		Equity instruments	221,450	
Other equity instruments	221,450		Debt securities	313,869	
Memorandum item: Loaned or pledged	-		Loans and advances	-	
Available-for-sale financial assets	25,193,155		Central Banks	-	(4)
Debt securities	24,746,646		Credit Institutions	-	
Other equity instruments	446,509		Customers	-	
Memorandum item: Loaned or pledged	11,376,677		Memorandum item: loaned or delivered as collateral with right of sale or pledge	-	
Loans and receivables	107,018,997	(1)	Available-for-sale financial assets	25,193,155	
Loans and advances to credit institutions	6,244,267		Equity instruments	446,509	
Loans and advances to customers	99,637,769		Debt securities	24,746,646	
Debt securities	1,136,961		Memorandum item: loaned or delivered as collateral with right of sale or pledge	11,376,677	
Memorandum item: Loaned or pledged	17,172,868		Loans and receivables	105,076,291	(1)
Held-to-maturity portfolio	-		Debt securities	1,136,961	
Memorandum item: Loaned or pledged	-		Loans and advances	103,939,330	
Adjustments to financial assets in respect of macro-hedges	233,228		Central Banks	-	(4)
Hedging derivatives	443,068		Credit Institutions	4,301,561	(1)
Non-current assets held for sale	9,045,928	(2)	Customers	99,637,769	
Investments	1,794,009		Memorandum item: loaned or delivered as collateral with right of sale or pledge	17,172,868	
Associates	1,139,450		Held-to-maturity investments	-	
Joint Ventures	654,559		Memorandum item: loaned or delivered as collateral with right of sale or pledge	-	
Insurance contracts linked to pensions	167,918	(3)	Derivatives – Hedge accounting	443,068	
Reinsurance assets	17,524		Fair value changes of the hedged items in portfolio hedge of interest rate risk	233,228	
Tangible assets	1,697,785		Investments in subsidiaries, joint ventures and associates	1,794,009	
Property, Plant and Equipment	777,713		Joint Ventures	654,559	
For own use	777,713		Associates	1,139,450	
Assets assigned under operating leases	-		Assets under insurance and reinsurance contracts	17,524	
Investment property	920,072		Tangible assets	1,697,785	
Memorandum item: Acquired under finance leases	-		Property, Plant and Equipment	777,713	
Intangible assets	2,571,879		For own use	777,713	
Goodwill	2,072,901		Assets assigned under operating leases	-	
Other intangible assets	498,978		Investment property	920,072	
Tax assets	3,604,163		Of which assets assigned under operating leases	-	(4)
Current	160,173		Memorandum item: Acquired under finance leases	-	
Deferred	3,443,990		Intangible assets	2,571,879	
Other assets	1,518,010	(3)	Goodwill	2,072,901	
Inventories	897,315		Other intangible assets	498,978	
Other	620,695		Tax assets	3,604,163	
TOTAL ASSETS	**158,649,873**		Current tax assets	160,173	
			Deferred tax assets	3,443,990	
			Other assets	1,685,928	(3)
			Insurance contracts linked to pensions	167,918	(3)
			Inventories	897,315	
			Other assets	620,695	
			Non-current assets and disposal groups classified as held for sale	9,045,928	(2)
			TOTAL ASSETS	**158,649,873**	

CONSOLIDATED BALANCE SHEET - (2)

LIABILITIES					
LIABILITIES	**31.12. 2015**		**LIABILITIES**	**31.12.2015**	
Held for trading	1,043,063		Financial liabilities held for trading	1,043,063	
Deposits from central banks	-		Derivatives	1,043,063	
Deposits from credit institutions	-		Short positions	-	
Customer deposits	-		Deposits	-	
Debt certificates	-		Central Banks	-	
Trading derivatives	1,043,063		Credit Institutions	-	
Short positions	-		Customers	-	
Other financial liabilities	-		Debt securities issued	-	
Other financial liabilities designated at fair value through profit or loss	599,419		Other financial liabilities	-	
Deposits from central banks	-		Financial liabilities designated at fair value through profit or loss	599,419	
Deposits from credit institutions	-		Deposits	-	
Customer deposits	-		Central Banks	-	**(4)**
Debt certificates	-		Credit Institutions	-	
Subordinated liabilities	-		Customers	-	
Other financial liabilities	599,419		Debt securities issued	-	
Financial liabilities measured at amortised cost	140,508,524		Other financial liabilities	599,419	
Deposits from central banks	14,204,120		Memorandum item: subordinated liabilities	-	**(4)**
Deposits from credit institutions	19,172,266		Financial liabilities measured at amortised cost	140,508,524	
Customer deposits	88,335,415		Deposits	121,711,801	
Debt certificates	15,989,048	**(5)**	Central Banks	14,204,120	
Subordinated liabilities	2,066,951	**(5)**	Credit Institutions	19,172,266	
Other financial liabilities	740,724		Customers	88,335,415	
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-		Debt securities issued	18,055,999	**(5)**
Hedging derivatives	2,013,974		Other financial liabilities	740,724	
Liabilities associated with non-current assets held for sale	-		Memorandum item: subordinated liabilities	2,066,951	**(5)**
Liabilities under insurance contracts	486,829		Derivatives – Hedge accounting	2,013,974	
Provisions	383,359		Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	
Provisions for pensions and similar liabilities	261,117		Liabilities under insurance and reinsurance contracts	486,829	
Provisions for taxes and other tax contingencies	16,359		Provisions	383,359	
Provisions for contingent risks and commitments	69,311		Pensions and other post employment defined benefit obligations	261,117	
Other provisions	36,572		Other long term employee benefits	-	**(4)**
Tax liabilities	513,483		Pending legal issues and tax litigation	16,359	
Current	45,575		Commitments and guarantees given	69,311	
Deferred	467,908		Other provisions	36,572	
Other liabilities	586,597		Tax liabilities	513,483	
TOTAL LIABILITIES	**146,135,248**		Current tax liabilities	45,575	
			Deferred tax liabilities	467,908	
			Share capital repayable on demand	-	**(4)**
			Other liabilities	586,597	
			Liabilities included in disposal groups classified as held for sale	-	**(4)**
			TOTAL LIABILITIES	**146,135,248**	

(1) Reclassified 1,942,706 thousand euros from Loans and receivables, previously Loans and advances to Cash and cash balances with central banks and other demand deposits, previously Cash and balances with central banks, for the demand balances in Credit Institutions.
(2) Change of location within the Assets of the item Non-current assets and disposal groups classified as held for sale, previously Non-current assets held for sale.
(3) Removal of the item Insurance contracts linked to pensions, which is included under Other assets.
(4) New breakdowns
(5) Reclassification of the item Subordinated Liabilities added in 2016 to the item Debt securities issued

CONSOLIDATED BALANCE SHEET - (3)

EQUITY					
ANNUAL REPORT FORMAT DECEMBER 2015			NEW ANNUAL REPORT FORMAT DECEMBER 2015		
	31.12.2015			31.12.2015	
Own funds	12,719,992		Own funds	12,719,992	
Share capital	1,082,538		Share capital	1,082,538	
Issued	1,082,538		Paid up capital	1,082,538	
Minus: Uncalled capital (-)	-		Unpaid capital which has been called up	-	
Share premium	7,774,555		*Memorandum item: uncalled capital*	-	(3)
Reserves	3,821,333	(1)	Share premium	7,774,555	
Accumulated reserves (losses)	3,828,799		Equity instruments issued other than capital	-	(3)
Reserves (losses) of entities accounted for using the equity method	(7,466)		Equity component of compound financial instruments	-	(3)
Other equity instruments	-		Other equity instruments issued	-	(3)
From compound financial instruments	-		Other equity	-	
Other	-		Retained earnings	3,926,925	(1)
Less: Treasury shares	(21,479)		Revaluation reserves	2,009	(1)
Profit (loss) attributed to the parent company	105,432		Other reserves	(107,601)	(1)
Less: Dividends and remuneration	(42,387)		Accumulated reserves or losses on investments in joint ventures and associates	(7,466)	
Valuation adjustments	(221,743)	(2)	Other	(100,135)	(3)
Available-for-sale financial assets	(191,166)	(2)	(-) Treasury shares	(21,479)	
Cash flow hedges	(92,207)	(2)	Profit or loss attributable to owners of the parent	105,432	
Hedge of net investments in foreign operations	-	(2)	(-) Interim dividends	(42,387)	
Exchange differences	92,297	(2)	Accumulated other comprehensive income	(221,743)	(2)
Non-current assets held for sale	-	(2)	Items that will not be reclassified to profit or loss	(32,792)	(2)
Entities accounted for using the equity method	2,125	(2)	Actuarial gains or (-) losses on defined benefit pension plans	(32,792)	(2)
Other valuation adjustments	(32,792)	(2)	Non-current assets and disposal groups classified as held for sale	-	(2)
Minority interests	16,376		Share of other recognised income and expense of investments in joint ventures and associates	-	(2)
Valuation adjustments	-		Other fair value changes	-	(2)
Other	16,376		Items that may be reclassified to profit or loss	(188,951)	(2)
TOTAL EQUITY	**12,514,625**		Hedge of net investments in foreign operations [effective portion]	-	(2)
TOTAL EQUITY AND TOTAL LIABILITIES	**158,649,873**		Foreign currency translation	92,297	(2)
			Hedging derivatives. Cash flow hedges [effective portion]	(92,207)	(2)
MEMORANDUM ITEM			Available-for-sale financial assets	(191,166)	(2)
Contingent exposures	11,159,430		Debt instruments	(206,066)	(2)
Contingent commitments	8,568,748		Equity instruments	14,900	(2)
			Non-current assets and disposal groups classified as held for sale	-	(2)
			Share of other recognised income and expense of investments in joint ventures and associates	2,125	(2)
			Minority interests	16,376	
			Accumulated other comprehensive income	-	
			Other items	16,376	
			TOTAL EQUITY	**12,514,625**	
			TOTAL EQUITY AND TOTAL LIABILITIES	**158,649,873**	
			MEMORANDUM ITEM		
			Guarantees granted	11,159,430	
			Contingent commitments granted	8,568,748	

(1) Breakdown of the previous item Reserves into three items: Retained earnings, Revaluation reserves and Other reserves.

(2) The item Valuation adjustments is now named Accumulated other comprehensive income and has been broken down into two items: Items that will not be reclassified to profit or loss and Items that may be reclassified to profit or loss.

(3) New breakdowns

CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT					
ANNUAL REPORT FORMAT DECEMBER 2015			**NEW ANNUAL REPORT FORMAT DECEMBER 2015**		
	31.12.2015			**31.12.2015**	
Interest and similar income	3,508,688		Interest income	3,508,688	
Interest and similar expenses	1,257,452		(Interest expenses)	1,257,452	
NET INTEREST INCOME	**2,251,236**		(Expenses on share capital repayable on demand)	-	**(4)**
Return on equity instruments	13,138		**A) NET INTEREST INCOME**	**2,251,236**	
Share of profit or (-) loss of entities accounted for using the equity method	47,422		Dividend income	13,138	
Fee and commission income	655,770		Share of profit or (-) loss of entities accounted for using the equity method	47,422	
Fee and commission expenses	60,448		Fee and commission income	655,770	
Net gains (losses) on financial assets and liabilities	517,260	**(1)**	(Fee and commission expenses)	60,448	
Held for trading	11,540		Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	525,193	**(1)**
Other financial instruments at fair value through profit and loss	(15,877)		Gains or (-) losses on financial assets and liabilities held for trading, net	11,540	**(1)**
Financial instruments not at fair value through profit and loss	525,193		Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net.	(15,877)	**(1)**
Other	(3,596)		Gains or (-) losses from hedge accounting, net	(3,596)	**(1)**
Exchange differences (net)	45,564		Exchange differences [gain or (-) loss], net.	45,564	
Other operating income	229,462	**(2)**	Other operating income.	196,221	**(2)**
Income from insurance and reinsurance contracts issued	33,241		(Other operating expenses).	227,374	**(3)**
Sales and revenues from provision of non-financial services	13,933		Assets under insurance and reinsurance contracts income	33,241	**(2)**
Other operating income	182,288		(Liabilities under insurance and reinsurance contracts expenses)	41,119	**(3)**
Other operating charges	268,493	**(3)**	**B) TOTAL OPERATING INCOME**	**3,430,911**	
Insurance and reinsurance contract expenses	41,119		(Administrative expenses)	1,603,687	
Change in inventories	10,761		(Staff expenses)	935,833	
Remainder of other operating charges	216,613		(Other administrative expenses)	667,854	
GROSS INCOME	**3,430,911**		(Amortisation)	137,753	
Administrative expenses	1,603,687		(Provisions or (-) reversal of provisions)	(35,028)	
Staff expenses	935,833		(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	1,425,587	
Other general administrative expenses	667,854		(Financial assets measured at cost)	-	
Amortisation	137,753		(Available-for-sale financial assets)	42,670	
Provisions (net)	(35,028)		(Loans and receivables)	1,382,917	
Impairment losses on financial assets (net)	1,425,587		(Held to maturity investments)	-	
Loans and receivables	1,382,917		**C) NET OPERATING INCOME**	**298,912**	
Other financial instruments not at fair value through profit and loss	42,670		(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	
NET OPERATING INCOME	**298,912**		(Impairment or (-) reversal of impairment on non-financial assets)	(21,648)	
Impairment losses on other assets (net)	(21,648)		(Tangible assets)	(39,993)	**(4)**
Goodwill and other intangible assets	-		(Intangible assets)	-	**(4)**
Other assets	(21,648)		(Others)	18,345	**(4)**
Gains (losses) on disposal of assets not classified as non-current held for sale	127,875		Gains or (-) losses on derecognition of non financial assets, net	127,875	
Negative difference on business combinations	-		Of which, investments in subsidiaries, joint ventures and associates	57,876	**(4)**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	(334,251)		Negative goodwill recognised in profit or loss	-	**(4)**
PROFIT/(LOSS) BEFORE TAX	**114,184**		Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(334,251)	
Income tax	8,250		**D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS**	**114,184**	
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**105,934**		(Tax expense or (-) income related to profit or loss from continuing operations)	8,250	
Profit (loss) from discontinued operations (net)	-		**E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS**	**105,934**	
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**105,934**		Profit or (-) loss after tax from discontinued operations	-	
Profit/(loss) attributable to the parent company	105,432		**F) PROFIT/(LOSS) FOR THE YEAR**	**105,934**	
Profit/(loss) attributable to minority interests	502		Attributable to minority interests [Non-controlling interest]	502	
BASIC EARNINGS PER SHARE	**0.050**		Attributable to owners of the parent	105,432	
DILUTED EARNINGS PER SHARE	**0.049**				
			EARNINGS PER SHARE	**Amount in euros**	
			Basic	**0.050**	
			Diluted	**0.049**	

(1) Breakdown of previous item Gains/losses on financial transactions (net) into four new items: Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net, Gains or (-) losses on financial assets and liabilities held for trading, net, Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net and Gains or (-) losses from hedge accounting, net.
(2) Breakdown of previous item Other operating products into two new items: Other operating income and income from assets under reinsurance and insurance contracts
(3) Breakdown of previous item Other operating charges into two new items: Other operating expenses and expenses from liabilities under reinsurance and insurance contracts
(4) New breakdowns

Popular

FORMAL STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors of Banco Popular Español S.A. formally declare that, insofar as they are aware, the 2016 individual and consolidated financial statements prepared at the meeting held on 20 February 2017, and produced in accordance with the applicable accounting principles, offer a true and fair view of the equity, the financial position and the results of Banco Popular Español S.A. and of the companies understood in the consolidation when taken as a whole, and that the individual and consolidated management reports for 2016 include a true and fair analysis of the evolution and results of the company and of the situation of Banco Popular Español S.A. and the companies understood in the consolidation when taken as a whole, together with the description of the main risks and uncertainties faced.

In Madrid, 20 February 2017

Mr Ángel Carlos Ron Güimil (Chairman)	Mr Pedro Larena Landeta (Chief Executive Officer)	Mr Roberto Higuera Montejo (Vice-chairman)
Mr José María Arias Mosquera (Vice-chairman)	Banque Fedérative du Crédit Mutuel (Mr François Martin)	Ms Reyes Calderón Cuadrado
Mr José Ramón Estévez Puerto	Ms Ana María Molins López-Rodó	Mr Jorge Oroviogoicoechea Ortega
Mr Vicente Pérez Jaime	Ms Helena Revoredo Delvecchio	Mr Jaime Ruiz Sacristán
Sindicatura de Accionistas BPE, S.A. (Mr José Francisco Mateu Isturiz)	Mr Vicente Tardío Barutel	Mr Francisco Aparicio Valls (Director - Secretary)

Popular

FORMULATION OF FINANCIAL STATEMENTS AND MANAGEMENT REPORTS

Pursuant to that required of current commercial legislation and, in particular, article 253.2 of the Corporate Enterprises Act and article 366 of the Mercantile Registry Regulations, the members of the Board of Directors sign the individual financial statements and management report of Banco Popular Español, S.A. and of its consolidated group for 2016. This document forms an essential and inseparable part of them.

In Madrid, 20 February 2017

Mr Ángel Carlos Ron Güimil (Chairman)	Mr Pedro Larena Landeta (Chief Executive Officer)	Mr Roberto Higuera Montejo (Vice-chairman)
Mr José M.Arias Mosquera (Vice-chairman)	Banque Fedérative du Crédit Mutuel (Mr François Martin)	Ms Reyes Calderón Cuadrado
Mr José Ramón Estévez Puerto	Ms Ana María Molins López-Rodó	Mr Jorge Oroviogoicoechea Ortega
Mr Vicente Pérez Jaime	Ms Helena Revoredo Delvecchio	Mr Jaime Ruiz Sacristán
Sindicatura de Accionistas BPE, S.A. (Mr José Francisco Mateu Isturiz)	Mr Vicente Tardío Barutel	Mr Francisco Aparicio Valls (Director - Secretary)

Popular

FRANCISCO JAVIER LLEO FERNANDEZ, WITH NATIONAL I.D. 5.387.238-V, AS DEPUTY OF THE BOARD OF DIRECTORS OF BANCO POPULAR ESPAÑOL S.A., AN ENTITY DOMICILED IN MADRID, C/ VELÁZQUEZ, No. 34, ESQUINA A GOYA, Nº 35, WITH TAX No. A28000727, AND INSCRIBED IN THE MERCANTILE REGISTER OF MADRID, VOLUME 174, FOLIO 44, PAGE No. H5458, 1st INSCRIPTION.

C E R T I F I E S:

That the Financial Statements and the Management Report of Banco Popular Español and of its Consolidated group, are endorsed by me on each one of its pages, and that those correspond to those approved by the Directors as an integral part of the Financial Report approved by the Board of Directors.

And for that as stated, the current certificate is issued in Madrid on 22 February 2016.

Deputy of the Board of Directors
Francisco Javier Lleó Fernández

Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE ANNUAL CORPORATE GOVERNANCE REPORT

To the Board of Directors of Banco Popular Español, S.A.:

We have carried out our work to provide limited assurance on the Annual Corporate Governance Report of Banco Popular Español, S.A. for the year ended 31 December 2015, prepared in accordance with Article 540 of the Spanish Companies Act, Order ECC/461/2013, dated 20 March, which establishes, among other matters, the minimum content and structure of annual corporate governance reports, and the Circular 5/2013, dated 12 June, of the National Securities and Market Commission (CNMV), which provides, among other matters, standard annual corporate governance reports for listed companies, in the wording afforded by Circular 7/2015, of 22 December, of the CNMV.

Regarding the content of section G) of the Annual Corporate Governance Report and with respect to those recommendations of the Unified Code which Banco Popular Español, S.A. has not implemented, the Entity's directors have explained these matters to us as they consider appropriate. Given their nature, in these cases, our work has consisted solely of checking that the statements contained in the Report do not contradict the evidence obtained by applying the procedures performed in our review. Value judgements on the reasonableness of the Directors' explanations do not come within the scope of this assurance report.

Responsibility of the Directors

The preparation and contents of Banco Popular Español, S.A.'s Annual Corporate Governance Report are the responsibility of its Directors, that are also responsible for implementing and maintaining the internal control considered necessary to ensure that the Annual Corporate Governance Report is free from material misstatement due to fraud or error.

The Directors of Banco Popular Español, S.A. are also responsible for defining, implementing and maintaining the management systems from which the necessary information is obtained to prepare the Annual Corporate Governance Report.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures carried out and on the evidence that we have obtained. We have carried out our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised), "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Therefore the assurance provided is also less. Therefore, this report may in no event be understood as an audit report in the terms provided in current audit legislation in Spain.

For the purposes of this engagement, the procedures carried out are based on our professional judgement and included the following, among others:

- Reading and understanding of the information prepared by the Company and included in its Annual Corporate Governance Report 2015 and evaluation of whether such information covers all the contents required by Article 540 of the Spanish Companies Act, Order ECC/461/2013, of 20 March and the Circular 5/2013, of 12 June, of the (National Securities Market Commission), in the wording afforded by Circular 7/2015, of 22 December, of the CNMV.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

- Reading of legal documentation, minutes of General Shareholders' Meetings and Board Meetings, individual and consolidated annual accounts for 2015 and various internal and external communications to verify that the information contained in the Annual Corporate Annual Governance Report is adequate.

- Interviews with Banco Popular Español, S.A. staff, including Management and other bodies responsible for the Entity's different areas of governance reviewed in the Report.

- Analysis of the procedures used to compile and validate the data and information presented in the Annual Corporate Governance Report.

- Verification, through sample review testing, of the quantitative information included in the Annual Corporate Governance Report and its adequate compilation using data provided by Banco Popular Español, S.A.'s management and, if appropriate, the figures included in the individual and consolidated annual accounts for 2015 provided by the Management of Banco Popular Español, S.A.

- Obtaining of the letter of representation related to the work performed, duly signed by the person responsible for preparing and providing the information contained in the Annual Corporate Governance Report.

Our Independence and Quality Control

We have complied with the requirement of independence and other requirements of the Code of Ethics for Accountants issued by the International Ethics Standard Board for Accountants (IESBA), based on the main principles of integrity, professional competence and due care, confidentiality and professional conduct.

PwC applies International Standard on Quality Control (ISQC 1) and consequently, our firm has a global quality control system which includes policies and procedures on the compliance of ethical requirements, professional standards and applicable statutory requirements.

Limited Assurance Conclusion

As a result of the procedures carried out and evidence obtained, nothing has come to our attention that causes us to believe that the Annual Corporate Governance Report of Banco Popular Español, S.A. for the year ended 31 December 2015, contains significant errors or has not been prepared, in all material respects, in accordance with Article 540 of the Spanish Companies Act, Order ECC/461/2013, of 20 March and the Circular 5/2013 of 12 June, in the wording afforded by Circular 7/2015, of 22 December, of the CNMV.

Use and Distribution

Our limited assurance report is issued solely for the Directors of Banco Popular Español, S.A. in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the Board of Directors of Banco Popular Español, S.A.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Mª Luz Castilla

February 23, 2017

Auditor report referring to information on the Internal Control System on Financial Reporting (ICSFR) of Banco Popular Group

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON THE "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)" OF THE BANCO POPULAR ESPAÑOL, S.A. FOR 2016

To the Board of Directors of Banco Popular Español, S.A.:

In accordance with the request from the Board of Directors of Banco Popular Español, S.A. ("the Bank") and our engagement letter dated February 6, 2017 we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in section F. Internal Control and Risk Management System in relation to the financial information reporting process (ICSFR) of the Annual Corporate Governance Report for the Bank for 2016, which includes a summary of the Bank's internal control procedures relating to the annual financial report.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Bank in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Bank's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Bank's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Bank's annual financial information for the 2016 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

In addition, as this special engagement is not an audit of financial statements and is not subject to the Auditing Act we do not express an audit opinion under the terms of the aforementioned legislation.

The procedures applied are as follows:

1. Reading and understanding the information prepared by the Bank in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Bank.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Bank´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Bank, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pedro Barrio Luis

February 24, 2017