

Madrid, 3rd April 2017

PRICE SENSITIVE INFORMATION
COMMUNICATED TO THE
NATIONAL SECURITIES MARKET COMMISSION

Banco Popular Español, S.A. communicates that the Board of Directors has been informed during the last days of the review that the Internal Audit department, in the ordinary course of its duties, is conducting regarding the credit portfolio and certain matters in connection with the share capital increase of May 2016.

The Board of Directors, with the previous report of the Audit Commission and taking into account the external auditors opinion, has considered that, with the information currently available to the company, the circumstances revealed do not represent, on an individual basis or taken as a whole, a significant impact in the annual accounts of the entity as of December 31, 2016 and, thus, do not justify a redrafting of the referred annual accounts. A copy of the communication received from the external auditors is attached to this document.

The summary of the main circumstances analyzed is the following (gross amounts, without taking into account tax effects):

- 1) shortfall in certain accounted provisions in connection with risks that are subject to individual provisions, that would impact the 2016 profit and loss account (and, thus, the equity) in the amount of EUR 123 million;

- 2) potential shortfall of provisions related to doubtful exposures whose collateral has been foreclosed that, statistically estimated, would amount, approximately, to EUR 160 million;
- 3) potential derecognition of collateral associated to doubtful exposures, representing an amount, net of allowances and provisions, in those risks where this issue has been identified of, approximately, EUR 145 million; further analysis may imply an additional impact, which has not been quantified, in the allowances and provisions associated to these exposures;
- 4) certain financings granted to clients may have been used for the acquisition of shares in the last share capital increase that took place in May 2016. If the link between the financing and the acquisition of shares is evidenced, the amount of these financing transactions should be deducted from the regulatory capital of the Bank; from an accounting standpoint, it will not trigger any impact on the profit and loss account or the equity of the Bank. The Bank has estimated, applying statistic methods, that such transactions amount to EUR 205 million over a total transactions that were analyzed of EUR 425 million.

The preliminary analysis suggests that most of the effect related to doubtful exposures and lack of allowances and provisions referred to in sections 2) and 3) were generated prior to 2015 fiscal year and that it has a quite small impact on the profit and loss account for fiscal year 2016; these allowances and provisions will impact the equity.

Having into consideration the information available, the impact on the profit and loss account, and the impact on the equity, including other EUR 61 million adjustments as a result of the regular auditing process, all these elements do not have a very significant impact on the financial statements of the Bank.

For capital adequacy purposes, the above elements and the provisional profit and loss estimates for the three-month period ending on March 31, 2017, the Bank calculates that the Total Capital as of March 31 will range from 11.70% to 11.85%; Total Capital for the group, considering all concepts, is 11.375%.

Considering that the ordinary General Shareholders Meeting of the Bank will take place, in second call, on April 10 and that such Meeting was called to resolve, among other issues, on the approval of the financial statements for fiscal year ending as of December 31, 2016, the Board of Directors has resolved to publicly disclose these facts. However, these facts do not amend the financial statements submitted to the approval of the General Shareholders Meeting. Having said that, the Bank will include the proper amendments, with retroactive effects, in the financial statements for the first semester of 2017.

Francisco Aparicio Valls
Director and Secretary of the Board of Directors





This version of our letter 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 letter takes precedence over this translation.

Madrid, April 3, 2017

Banco Popular Español, S.A.
C/ José Ortega y Gasset, 29
28006 Madrid

To the attention of the Chairman of the Audit Committee

Dear Sir

As auditors of Banco Popular Español, S.A., whose main consolidated figures as of December 31, 2016 are, amongst others, the following, we outline the following considerations in respect to the facts described in the Material Fact dated 3 April, which you have provided us.

- Profit (Loss) before tax: (4,888) € million
- Net Equity: 11,088 € million
- Total assets: 147,926 € million.

The Directors of the Entity are responsible for the preparation of the annual accounts and, if appropriate, their restatement. Nevertheless, assuming the accuracy of your estimations as reported in said Material Fact, the conclusion, without significant changes, of your analysis as well as our corresponding review, our evaluation as auditors of Banco Popular Español, S.A. is, that these facts, in the terms described in the aforementioned Material Fact, do not have, on an individual basis or taken as a whole, a significant impact on the Entity's annual accounts as of December 31, 2016, that would justify its restatement.

In our evaluation of the materiality in the context of a potential restatement, we have considered the applicable legislation, the information currently available on these facts and the estimates that you have made, their potential impact, distinguishing possible effects on the result of the period and on the net equity as well as the matters reported in the aforementioned Material Fact. We also agree with your proposal to include any corrections that may be considered appropriate in the financial statements for the six months period ended June 30, 2017.

Yours sincerely,

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by

Pedro Barrio Luis
Partner

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