2016
ANNUAL CORPORATE GOVERNANCE REPORT

Popular

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	-