2015

ANNUAL REPORT

Popular

ANNUAL
REPORT
2015

Popular

Table of Contents

Chairman’s Letter

2015 was a very positive year for the Spanish economy and for Banco Popular Group. We attained our commercial objectives, improved our market shares and increased our liquidity and solvency ratios; in doing so, we demonstrated that our bank applies a very consistent approach, anchored in a clearly differentiated and forward-looking business model.

This business model is centred on the most profitable production segments, which has enabled Banco Popular Group to lead the SME segment, with a market share of 16.7%, as shown by the Supervisory Review and Evaluation Process carried out by the European Banking Authority. Furthermore, over the course of the year, we increased the total amount of credit granted by more than 7%, to €23,411 million. Our commercial strength is based on care and concern for our business customers, after many years of working with entrepreneurs, understanding their requirements and providing them with solutions as quickly as possible. In 2015, we transferred this knowledge to the self-employed and individual banking segments, through our Tenemos un plan ("we have a plan") scheme, a comprehensive commercial offering that includes both financial and non-financial benefits.

All these efforts, made within the framework of the prudent management that characterises the Bank, has enabled us to resume the payment of the dividend in cash and to strengthen the Bank's solvency in 2015. Furthermore, in February, Banco Popular Group became the first Spanish Bank to meet the additional tier 1 capital requirements (AT1) set by the European Central Bank.

This solid capital position made it possible for us to strengthen our liquidity. This past year, we issued debt at historically low rates. This support from institutional investors is attributable to their understanding of our business model, given its repeated ability to generate profits in the medium and long term.

All these financial, commercial and corporate strengths have been reflected in the strengthening of our brand, which has been extended to all areas and implemented in our different applications. A renewed brand which reflects an outstanding legacy and looks towards a future that will be even better.

2016 will be a year marked by volatility. After having overcome the worst recession in history, at the cost of great efforts and huge sacrifices, and a profound crisis that went beyond the purely economic, this year is taking shape right from the start as one that will be marked by instability and a clear increase in risks.

Against this backdrop, our bank's role is very clear: to make it possible for companies to take risks, acting as a catalyst for new projects and providing entrepreneurs with the financing that they need to implement them, just as we have always done, even in the worst years of the crisis.

Ángel
Chairman

El secreto del éxito está en la persistencia en el propósito.

"The secret of success is constancy of purpose."

Benjamin Disraeli, speech, 24 June 1870

General Information

Banco Popular Español, S.A ("Banco Popular", or "Bank") was founded on 14 July 1926, and is registered in the Madrid Companies Register in volume 174, folio 44, page 5,458, 1st entry. The Bank is a member of the Deposit Guarantee Fund for banking entities. 2015 was its 89th year of existence. The head office is located at Velázquez 34, 28001 Madrid.

The financial accounting and statistical data provided herein were prepared with the utmost objectivity, detail, reporting clarity and consistency over time, from the internal accounting data of the Banco Popular Group (hereinafter, also "Popular" or "Group"). As of 1 January 2005, it became compulsory to prepare consolidated financial statements in conformity with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) for entities with shares listed on a regulated market in any EU member state, pursuant to Regulation 1606/2002 of the European Parliament and of the Council dated 19 July 2002.

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

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

In addition to the Annual Report and its accompanying documents, Banco Popular issues quarterly financial reports on its operations, including a detailed analysis of variations in assets, liabilities, earnings and profitability in each quarter. All the information is available at the Banco Popular Shareholders' Office (José Ortega y Gasset 29, 28006 Madrid. Tel. 91-520 72 65. Fax 91-577 92 09. E-mail: accionista@bancopopular.es). The Banco Popular website may also be consulted: http://www. bancopopular.es.

1 Popular Identity

1st Bank by SME market share(*)

(*) Source: European Banking Authority. Transparency exercise, data as at June 2015

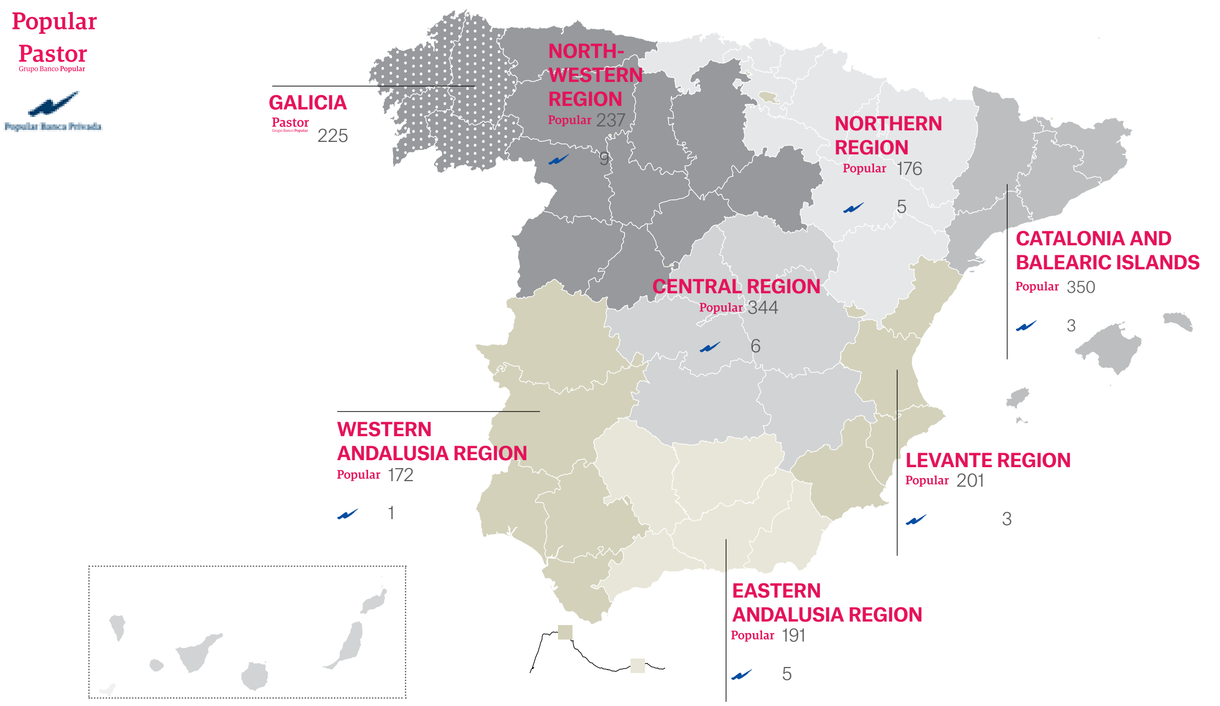
1 parent bank
Banco Popular Español

6 banks
Banco Pastor, Popular Banca Privada, Banco Popular Portugal, Totalbank (Florida), bancopopular-e (49%)*, Targobank (48.98%)*

1 financial group
Ve por Más (25%)*

(*) Percentage shareholding

Figure 1: Banco Popular Group's national presence – 2015



- The division of the various Regional Offices applies only to the offices of Banco Popular. This same division has been used for the remaining entities, although their offices do not report to the Territorial Offices under which they are grouped.
- All of the branch offices of Banco Pastor are exclusively located in the Autonomous Region of Galicia.
- The Canary Islands belong to the Central Region, while Ceuta and Melilla belong to Western and Eastern Andalusia respectively.

15,079
employees (1)
13,480 in Spain
1,599 abroad

4.8 million
clients in 16 countries:
Europe, Asia, America and Africa

2,124
offices (2)
1,936 in Spain
188 abroad

Figure 2: Banco Popular Group's international presence – 2015

(1) These figures do not include the employees that Targobank (48.98% owned by Banco Popular) or bancopopular-e (49% owned) have in Spain.
(2) These figures do not include branches that Targobank has in Spain. Nor does it include bancopopular-e branches, as it has no physical branch office network.

History

Popular was established in 1926 under the name: Banco Popular de los Previsores del Porvenir. It was founded with a capital of ten million pesetas.

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

The Bank thus opened its doors for the first time on 14 October of that year, in an official ceremony attended by H.M. Alfonso XIII and the Spanish Government in full.

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

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

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

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

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

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

1929
Listing on the Madrid Stock Market

1947
Change in name to Banco Popular Español

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

1988
Strategic alliance with Allianz

2000
Development of the asset management business

2003
Acquisition of Banco Nacional de Crédito in Portugal

2007
Acquisition of Totalbank (Florida)

2010
Creation of Targobank

2012
Acquisition of Banco Pastor

2013
Strategic alliance with Bx+
Setting up of JV with Kennedy Wilson & Värde Partners for real estate business management

2014
Acquisition of up to 100% of Popular Banca Privada
Acquisition of the Citibank retail and card business in Spain
Setting up of JV with Värde Partners for the cards business

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

At the same time, specific companies were set up to move into new business segments (*renting, for example*) and to boost the development of other activities under way (private banking and asset management). It also began to expand into Portugal by opening branches.

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

In January 2015, it presented its reinforced brand. A brand that symbolises a prudent and firm evolution, and which reflects the Bank's identity and what it aspires to. A direct, intense brand with a criterion which instils attitudes and spaces, reinforcing its bond with people. A trademark which reflects an outstanding legacy and looks towards a future which will be even better.

Over the course of the last year, Banco Popular Group has made progress with the reinforcement of the brand, extending it to all areas and implementing it in the various applications. It has thus become a faithful reflection of a way of doing things, a way of being.

It is thanks to this approach that today, Popular is a more agile, flexible, competitive bank, in short, a bank that is much stronger and with a very clear future and long-term project in mind. Something which is reflected in its brand undertaking: Progressing and helping its customers to progress. Helping companies, people and society to progress.

Figure 3: Evolution of the logo over time

1947 1960 1996 2008 2012

Popular

2015

Organisational structure

Figure 4: Banco Popular Board of Directors – 2015

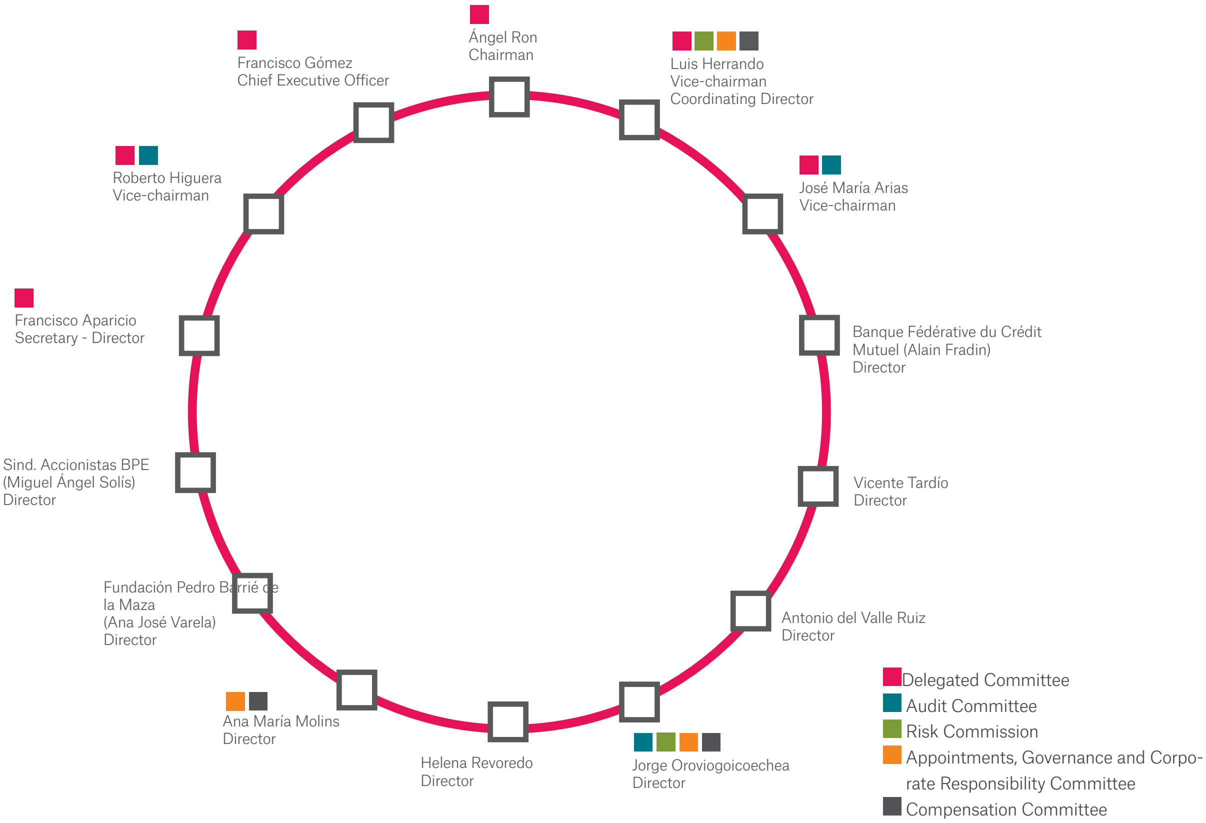


Table 1: Management Committee – 2015

CEO	Francisco Gómez
Business and Customers	José Ramón Alonso
Audit	Jesús Arellano
Communications, Brand and Corporate Relations	Carlos Balado
Secretary to Committee	Susana de Medrano
Investee and JV Management	Rafael de Mena
Technical General Secretary	Miguel Ángel Moral
Comptroller & Accounting Office	Javier Moreno
Chairman's Office	Alberto Muñoz
Retail Banking	Antonio Pujol
Technical Resources	Fernando Rodríguez
Risk Management	José María Sagardoy
Finance Management	Francisco Sancha

Table 2: Commercial Network – 2015

Catalonia and Spain	Antonio Pérez
León - Zamora - Palencia	Luis Ortiz
Valladolid - Burgos - Soria	Ana Coral Gutiérrez
Salamanca - Ávila - Segovia	Joaquín Caamaño
Asturias	Carlos Durán
Galicia - Banco Popular	José María Arce
Catalonia and Spain	Pablo Fernando Merino
Aragón - La Rioja	Jesús Manuel Taboada
Navarra	Javier Barra
Vizcaya - Cantabria	Ángel Escudero
Guipúzcoa- Álava- Vizcaya	José Luis Cabero
Catalonia and Spain	Carlos Velázquez
Canary Islands	José María Torres
Castilla-La Mancha	Alfonso Marín
Madrid Capital Centre	Jesús María González
Community of Madrid (East)	Vicente Rubio
Madrid Capital North	Santiago Martín
Community of Madrid (North-East)	Javier Hernández
Madrid Capital South	Armando Martínez
Community of Madrid (South)	Carlos Marino Pérez
Catalonia and Balearic Islands	Alfonso Ruspira
Barcelona Capital North	Alberto de Blas
Barcelona Province North (Granollers)	Luis Ángel Aldecoa
Barcelona Capital South	José Prieto
Barcelona Province South (Terrassa)	Salvador Guiral
Lleida - Tarragona (Lleida)	Francisco Subirana
Girona	Juan Doménech
Balearic Islands	Celia Torrebadella
Levante Region	Francisco José Baonza
Alicante	Luis Miguel Pernas
Murcia	José Miguel Regueira
Valencia North - Castellón	Juan María Torres
Valencia South	Berenguer Galín
Eastern Andalusia Region	Manuel Quero
Málaga	José Antonio Rego
Granada - Almería	Jaime Lobo
Córdoba - Jaén	Francisco Javier Lumbreras
Western Andalusia Region	Luis Marín
Cádiz	Nicolas Suárez-Cantón
Huelva - Badajoz - Cáceres	Antonio Silva
Seville South	José Manuel Martínez
Seville North	Juan Carlos Gil
Banco Pastor	José Manuel Hevia
Vigo	Aníbal García
Ourense - Lugo	Juan Manuel Naveiro
A Coruña	Antonio Deán
Santiago	Luis Álvarez

Banks outside Spain	
Totalbank	Jorge Rossell
Banco Popular Portugal	Carlos Alvares
Banks in Spain	
Popular Banca Privada	Carmen Ortiz
Other units	
Commercial Banking Management	José Ángel Amor
Origination and Medium- and Long-Term Issues	Santiago Armada
Models and Capital	José María Arroyo
Investor Relations	Diego Barrón
Planning Office	Carlos Berastáin
International Banking	Pablo de la Torre
Strategy and Research	Jorge de Velasco
Institutional Relations and Supranational Bodies	Juan Echanojáuregui
Risk Admissions	Carlos Fernández
Wholesale and Corporate Banking	Miguel Angel Franco
Real Estate Business and Portfolio Management	Rafael Galán
Industrial and Financial Holdings	Francisco García Nieto
Corporate Responsibility	Beatriz Gómez-Escalonilla
Customer care	Antonio González
International Advisory Board	Jacobo González-Robatto
Shareholders' Office	Sara López
Customer Banking	Miguel Ángel Luna
International Business Monitoring	Luis Mohedano
Corporate Information Centre	Isabel Moreno
Human Resources	Rafael Muñoz
Restructuring and Default	Alberto Marchante
Compliance	Juan Antonio Montero
Social Responsibility and Fundación GBP	Raúl Moreno
Legal and Compliance Services	Tomás Pereira
Real Estate holdings and E. Com	José Manuel Piñeiro
Holdings Strategy and Operations	Susana Quintás
International Business Development	Telesforo Veiga
Control of Risks	María Raga
Regulatory Compliance Management	Juan José Rubio
Deputy Comptroller	José Manuel Sáenz María Villanueva
Treasury	Mónica Sánchez
Corporate Development	Samuel Serrano
Deputy Secretary and Regulation Division	Francisco Javier Zapata
Specialist Companies	
Popular de Factoring	César Araujo
Popular de Mediación	Ángel Blázquez
Popular Bolsa	Carlos Ramos
Eurovida Portugal	Francisco Valério

This chapter provides details of the Group's most significant aspects. Chapter 1 of the Integrated Report for 2015 provides further details of the entity's organisational structure.

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

The Group is formed by a parent bank (Banco Popular Español) and six banks, four of which operate in Spain (Banco Pastor, Popular Banca Privada, Targobank and bancopopular-e, the last two with stakes of 48.98% and 49% respectively), one in Portugal (Banco Popular Portugal), one in the United States (Totalbank) and a financial group in Mexico (Ve por Más, hereinafter also referred to as "Bx+") in which Popular holds a 25% stake. Furthermore, among others, the Group has securitisation vehicles, real-estate companies and two insurance companies (Pastor Vida and Eurovida Portugal). Lastly, the Group has other subsidiaries and maintains interests in other companies that complement the banking business.

At 31 December 2015, Banco Popular has a total of 14 representative and 3 collaboration offices in 14 countries and has concluded agreements with several financial institutions in order to promote foreign trade.

2015 saw the sale of the property asset management business and other assets in Portugal to Recovery to Business, S.A. (hereinafter "Recbus"), in which Banco Popular has a 20% interest. This transaction was aimed at maximising the profitability of the property business management in Portugal by harnessing the experience of a partner specialising in optimising the management of property assets, default recovery and impaired asset management.

Furthermore, the agreement entered into with UnionPay International, China's leading credit card issuer, is worth highlighting. This agreement came about through Popular Payments. In addition, Banco Popular and ING Direct entered into an agreement allowing the latter's clients to use Banco Popular's 2,700 ATMs without having to pay commissions.

In December 2015, the 50% stake held by Banco Popular in Universalpay Entidad de Pago, S.L., (a joint venture created in 2013 to manage the payment services business via point of sale terminals in retail outlets) was sold to EVO Payments International.

Finally, also in December 2015, Targobank, S.A. and Targoinmuebles, S.A. were derecognised as Joint Ventures and recognised as Associates. This change is based on the loss of control as a result of Crédit Mutuel exercising its purchase option and asking to acquire an additional 1% in Targobank, S.A., which was accepted by the Group. Thus, Crédit Mutuel now has control over the entity as it holds a 51% stake in the company; furthermore, as it now has the right to appoint an additional director, it will now have a majority on the Governing Body.

Figure 5: Structure of Banco Popular Group by company – 2015

BANKS

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

OTHER FINANCIAL INSTITUTIONS

- Popular de Factoring
- Popular Factoring (Portugal)
- Popular Gestión Privada
- Popular Bolsa S.V
- Popular Servicios Financieros

Popular

OTHER GROUP COMPANIES (*)

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

OTHER ASSOCIATES (*)

- Targobank
- bancopopular-e
- Ve por Más
- Allianz Popular
- Aliseda S.G.I.
- Recbus
- Iberia Cards
- Euro Automatic Cash

(*) Main companies

CORPORATE GOVERNANCE

Banco Popular's corporate culture, which is firmly rooted in a tradition which has developed from years of experience, has created its own corporate governance model that establishes the proper structure and operation of the governing bodies, safeguarding the interests of all stakeholders and maximising the financial value of the company in a sustained manner.

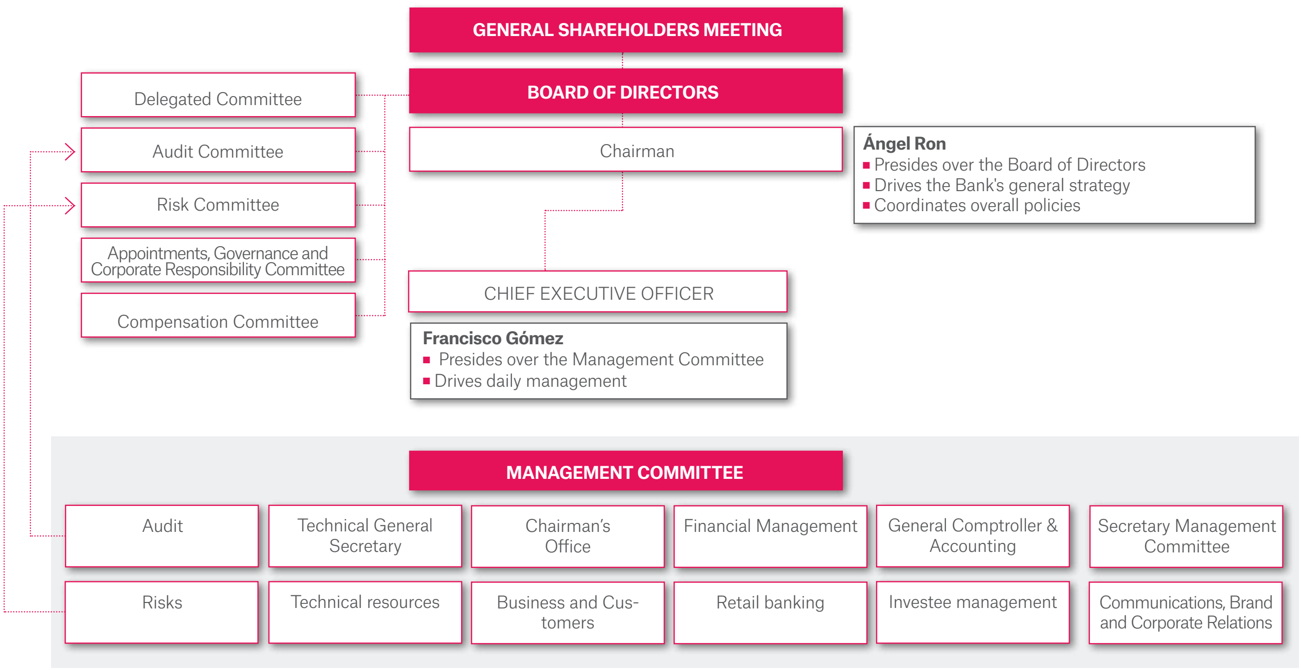
This is a corporate governance model that integrates good practices and is constantly being adapted to improvements through relevant recommendations. This creates a strong management model based on transparency and the ethical management of the business and accountability through internal and external control and verification mechanisms.

For further details, please refer to Chapter 2 "Corporate Governance" of the Integrated Report for 2015.

Corporate governance bodies and mechanisms

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

Figure 6: Governing Bodies at Banco Popular - 2015



General Shareholders' Meeting

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

In 2015, a single General Shareholders' Meeting was held, which could be attended in person by shareholders owning at least 200 shares. (The law allows this minimum to be set as high as 1,000 shares). Shareholders with fewer than the minimum number of shares had the option of appointing a proxy, even if this person was not a shareholder, and of remotely exercising their voting and representation rights.

The Board of Directors

In 2015, the Board of Directors was reduced from 15 to 14 members. They include 3 executive Directors (21%) and a large majority of external Directors (11 members who represent 79%) who do not form part of the management team. External Directors are divided into 6 proprietary Directors and 5 independent Directors.

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

The Board of Directors consists of 14 members, 36% of whom are younger than 55, 43% of whom are between the age of 56 and 70 and the remaining 21% of whom are older than 71. 79% are men and 21% are women, while 21% are companies and 79% individuals. Also, 7% of them are nationals of countries other than Spain.

In order to guarantee compliance with the duties belonging to the Board of Directors, five committees have been created and delegated with the responsibility to permanently monitor areas that are particularly relevant to the good governance of the Bank. These committees are as follows:

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

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

Figure 7: Governance Structure of the Board of Directors - 2015

BOARD OF DIRECTORS

Delegated Committee

EXECUTIVE BODY

MAIN DUTIES:

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

Audit Committee

CONSULTATIVE BODY

MAIN DUTIES:

- Supervision of financial information..
- Propose the appointment of the external auditor.
- Supervise the efficacy of Risk Control and Internal Audit.
- Monitor compliance with legal requirements.
- Detect and manage possible conflicts of interests that may arise between the Group's Entities.

Risk Commission

CONSULTATIVE BODY

MAIN DUTIES:

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

Appointments, Governance and Corporate Responsibility Committee

CONSULTATIVE BODY

MAIN DUTIES:

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

Compensation Committee

CONSULTATIVE BODY

MAIN DUTIES:

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

Evaluation

The Board of Directors has implemented self-control guidelines and examines the quality and efficiency of its own operations and those of its Committees on an annual basis, as well as the performance of the Chairman of the Board and the CEO.

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

In 2015, in line with the continuous assessment of the Board and Senior Management, the Board of Directors, with the involvement of the Appointments, Governance and Corporate Responsibility Committee, continued to apply and oversee the policy for assessing Directors, General Managers and similar positions, the persons responsible for internal control functions and other key posts relating to the daily management of the banking activity. All of this was undertaken in accordance with the provisions of Article 25.1 of the 2014 Law on the Organisation, Supervision and Solvency of Credit Institutions (hereinafter "LOSSEC") and Commission Delegated Regulation (EU) No. 604/2014, of 4 March. This policy is intended to establish the internal procedures and policies at Banco Popular to select and evaluate candidates for positions that are considered to be essential to its activity.

In this sense, in 2015 Banco Popular evaluated the suitability of the Board of Directors and its members. Pursuant to the 2014 reform of LOSSEC, the incompatibilities of Directors and senior managers of the Bank with regard to the positions held in companies different to Banco Popular Group have been reviewed.

Training

In order to continue furthering the ongoing training of Board Members, training modules on various subjects can be accessed on the Directors' website, such as the Prevention of Money Laundering, the Personal Information Protection Act, Corporate Responsibility training and Regulatory Compliance, or modules on general corporate matters for new members of the Board. In addition to the foregoing, Directors attended face-to-face training sessions on such subjects as *Asset Quality Review* (AQR) and *Stress Tests*; the New Code of Good Governance for listed companies; *Recovery Plan*; ECB Supervision: scope and procedure; Digital Banking; Investee management; New trends in investor protection: fundamental aspects of the banking business; Models and Capital and New trends in financial products.

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

Compensation

In 2015, and following the amendment to the Corporate Enterprises Act to improve corporate governance introduced by Law No. 31/2014, of 3 December, the Board of Directors, at the initiative of the Compensation Committee, proposed updating Banco Popular's Compensation Policy to the Ordinary General Shareholders' Meeting held on 13 April 2015; the proposal involved paying compensation for performance of the post of Director while maintaining the compensation system for Directors in executive roles.

Banco Popular's Compensation Policy for 2015 to 2018, approved on 13 April 2015 by 98.43% of the votes, distinguishes between the compensation system that applies to Directors in their capacity as directors and the system that applies to executive Directors. Directors' compensation consisted of a fixed amount of €120,000 for all members of the Board of Directors.

The Compensation Policy includes approval of a system of bonuses payable in Banco Popular shares for 2015 to members of the Bank's management team, including executive Directors and members of Senior Management.

This system of medium- and long-term bonuses provides for payments being made gradually over the course of several years, in order to align them with the creation of long-term value and the risk timeline. When calculating variable compensation, the professional performance of the persons concerned, the attainment of previously established objectives and their alignment with prudent risk management, as well as the result of the offices concerned and the entire Group's business, are all taken into account. In 2015, the Group included sustainability indicators based on ESG criteria (environmental, social and good governance) in the calculation of bonuses payable to Directors and Senior Management.

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

Executive Management

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

The CEO is supported by the Management Committee, which he chairs, and which consists of 1 general manager, 6 deputy general managers and 5 assistant general managers. All of the 13 members of the Management Committee are Spanish nationals, 8% of them are women, and the average age is 51 years. The various members of the Management Committee belong to the following areas:

- Chairman's Office
- Secretary Management Committee
- Risks
- Comptroller & Accounting Office
- Finance Management
- Business and Customers
- Technical General Secretary
- Retail Banking
- Audit
- Technical Resources
- Investee Management
- Communications, Brand and Corporate Relations

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

Operating principles

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

Good corporate governance practices

In 2015 Banco Popular has continued to consolidate its good corporate governance practices in accordance with its policy of continually adapting to meet the highest good governance standards. In this regard, it is worth noting that the Bank complies with 97% of the recommendations set out in the New Code of Good Governance.

Over the course of the year, the following resolutions were adopted:

- **Change to the name of the Appointments Committee** The importance of corporate responsibility in the company is an increasingly well-established reality, which requires appropriate attention from corporate governance systems of listed companies.

  Given the importance of matters relating to corporate governance and Corporate Responsibility, principle 23 of the New Code of Good Governance recommends the identification and allocation of specific functions in this area to a specialist committee, with a view to promoting a more in-depth and committed management of these matters. In this regard, the name of the Appointments Committee, which already had powers to propose the establishment of Corporate Responsibility strategy in addition to running checks on compliance, has been changed to the Appointments, Governance and Corporate Responsibility Committee in order to bring it into line with its good practices in this area.

- ***Viva voce* information to shareholders at the Ordinary General Shareholders' Meeting.** This communication complements the written dissemination of the *Annual Corporate Governance Report* by the Chairman of the Board of Directors. It focuses on the most significant aspects of the Bank's corporate governance and, in particular, changes that have taken place since the previous Ordinary General Shareholders' Meeting.

- **Approval by the Board of Directors of a Policy regarding Communication and Contact with shareholders, institutional investors and voting advisers.** The Policy fully complies with standards regarding market abuse and gives equal treatment to shareholders in the same position. This Policy was published on the Bank's corporate website, including information regarding the way in which it has been put into practice and identifying contact persons or those responsible for its implementation.

- **Approval by the Board of Directors of a specific and verifiable Policy for Selecting Directors.** This Policy ensures that proposals for the appointment or re-election of Directors are based on a prior analysis of the Board of Directors' needs, promoting diversity in terms of knowledge, experience and gender. Furthermore, it establishes that the result of the prior analysis of the Board of Directors' needs must be included in the explanatory report issued by the Appointments, Governance and Corporate Responsibility Committee, which is to be published when calling the General Shareholders' Meeting to which the appointment or re-election of each Director is to be submitted for ratification. Additionally, it promotes the objective that by 2020 the number of female Directors should represent at least 30% of the total number of members of the Board of Directors and establishes that the Appointments, Governance and Corporate Responsibility Committee will annually check compliance and include information accordingly in the *Annual Corporate Governance Report*.

- **Strengthening of the Knowledge Refreshment and Training Programme.** Offered to members of the Board of Directors, irrespective of the knowledge required of Directors for the performance of their duties. These training courses are delivered in a classroom setting on a regular basis as part of workshops organised prior to sessions of the Board of Directors; as part of these courses, content relating to various issues is addressed in response to the current financial climate or regulatory requirements. Furthermore, training is supported by additional materials that remain accessible to members of the Board via the Directors' Portal.

- **Strengthening the effective functioning of the Board of Directors.** This initiative is implemented by means of preparing and submitting a timetable including dates and topics to be addressed: the periodic assessment of the functioning of the Board and its Committees; diversity in the composition of the Board and the performance of its Chairman and of the Bank's CEO; ensuring that the Board of Directors devotes sufficient discussion time to strategic matters; and the review of knowledge refreshment programmes for Directors.

- **Approval of the Compensation Policy for members of the Board of Directors.** The policy was approved by the Ordinary General Shareholders' Meeting held on 13 April 2015, by 98.43% of the votes, and at the proposal of the Board of Directors, in accordance with the provisions of Article 529 nineteen and the transitory provision of Law No. 31/2014, of 3 December amending the Corporate Enterprises Act to improve corporate governance. Furthermore, this Policy has been revised by the Compensation Committee and the Risk Commission.

Compliance and control systems

Supervision and external control

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

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

In 2015 no sanctions were received deriving from any failure to comply with regulations governing competition and monopoly practices.

Compliance and internal control systems

Banco Popular Group sees Internal Control as a transversal process driven by the Board of Directors and involving the entire organisation. It has been designed in integrated form to identify, control and manage all risks to which the Group is exposed, in order to provide a reasonable level of security in terms of attaining the corporate objectives established, and follows the "three lines of defence" model:

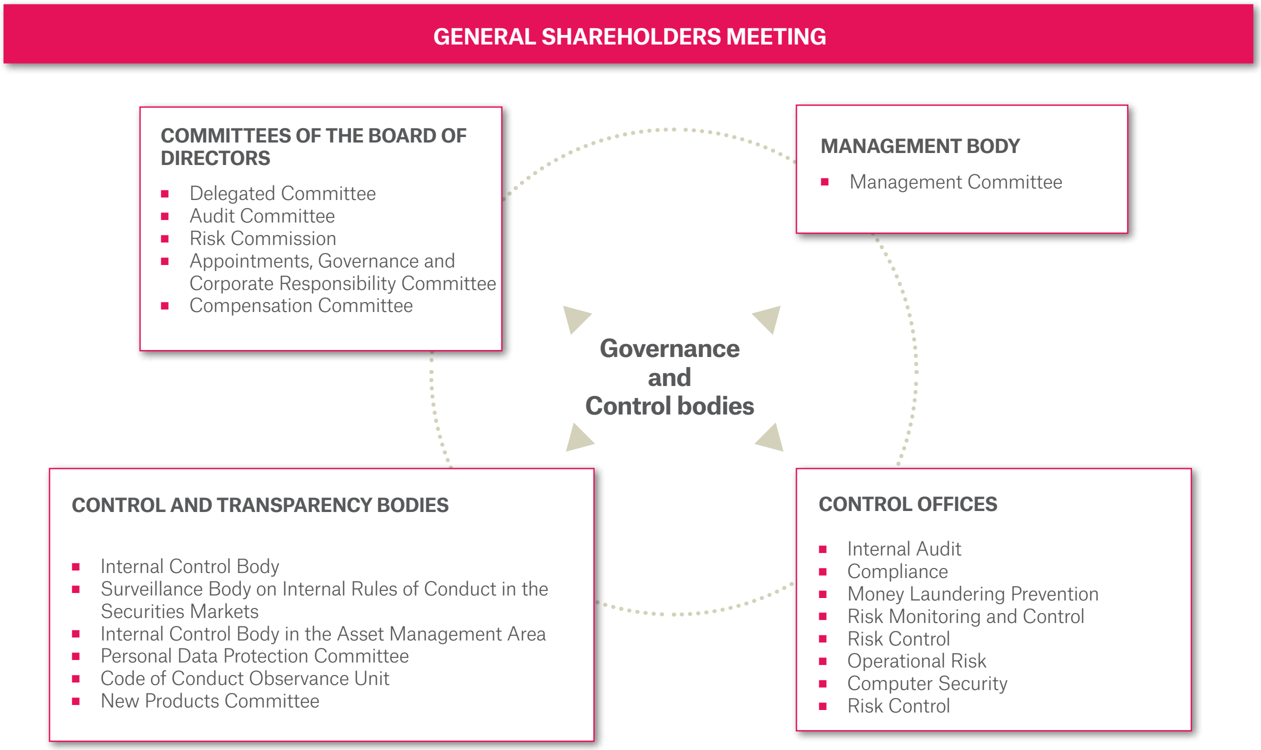
The first line of defence comprises branches, operational centres and the units tasked with risk control and management duties. All units are responsible for managing daily operations within their field and are tasked with the effective maintenance of internal controls and with the execution and permanent control of risk procedures.

The second line of defence has a transversal scope of responsibility. It comprises the following units:

- Risk Management/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 comprises Internal Audit, an overall, transversal supervisory unit reporting directly to the Audit Committee, providing this department with a particular level of independence.

Figure 8: Main governance and control bodies - 2015



Risk monitoring and control

Banco Popular manages risk in a prudent, disciplined and diversified manner, promoting a system of internal governance that encourages the prudent control and management of risks and the qualification of the Bank's professionals. In this regard, it has established a risk policy aimed at achieving a Medium-Low risk profile, thus ensuring that the Group undertakes its commercial activities and anchors its business expectations within the established risk limits and objectives at all times. As a result of its business model, the main risks to which the Group is exposed are credit and liquidity risk.

Regulatory compliance

Regulatory Compliance are responsible for evaluating the control mechanisms over regulatory risks that affect all of the activities and businesses carried out by the Group. It is performed on a cross-disciplinary basis and under the principle of independence, without taking part in management decisions or the procedures for the activities it supervises. Its main duties include:

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

In the Regulatory Compliance Division, particularly noteworthy are the initiatives in the field of Money Laundering Prevention, Data Protection, Corporate Conduct and the Stock Market, inter alia.

- **Prevention of money laundering.** Banco Popular works with the competent authorities, analysing and reporting, if appropriate, any transactions that present indications of being related to such activities to SEPBLAC. Banco Popular also internally distributes the measures established against money laundering, including an intranet section that provides information and regulations regarding this topic. The documentation includes the *Manual on the Prevention of Money Laundering and the Financing of Terrorism*, which provides details of both obligations and procedures aimed at preventing the use of Group companies and, in general, of the financial system for money laundering purposes. In 2015, a mandatory training course was delivered to 100% of the workforce on this topic via the CONOCE+ training platform. In 2015, Banco Popular was not subject to any penalty with respect to the prevention of money laundering.

  The Internal Control Body (OCI) is responsible for applying the prevention of money laundering policies and procedures. With the support of the Money Laundering Prevention Office, which carries out the tasks of due diligence, safeguarding of documents, internal control, risk assessment and management, the Internal Control Body oversees and ensures the functioning and updating of the systems, as well as the correct application of procedures for the prevention of money laundering and the financing of terrorism.

- **Data protection.** In order to efficiently protect information by means of a preventive, reactive and dynamic approach, the Group has adopted internal action rules referred to as the *Information Systems Security Policy.* As the culmination of this policy, which was designed to minimise non-compliance risks and ensure the coordination between the various affected areas, this Committee meets regularly to analyse, ensure and verify that all of the guidelines established by the Ley Orgánica de Protección de Datos (LOPD) (Organic Law on Data Protection) are being met.

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

- **Corporate Conduct.** In 2011, Banco Popular rolled out an overall corporate conduct programme to establish an analysis of risks in this area, together with the implementation of measures and controls to validate compliance. This programme, which is included in the Code of Conduct (recently updated to adapt to the Criminal Code reform), establishes the principles, general rules and action guidelines, as well as their practical application.

  With a view to ensuring compliance with the Code of Conduct, the Observance Unit is tasked with supervising and establishing lines of action regarding *Corporate Defence* and coordinating the Whistleblower's Channel.

  This channel is the system through which management, Senior Management and employees in general may confidentially report to the Supervisory Unit any violations of the Code of Conduct on the part of any employee or entity subject to compliance. In 2015, the Code of Conduct Observance Unit devised a Use Policy for the Whistleblower's Channel, which established end-to-end procedures to be followed. In 2015, no complaints were received through this Channel.

  A Suppliers' Code is also in place which is intended to ensure that suppliers carry out their business activity in compliance with the stipulations of the Global Compact. Since 2005, Banco Popular has maintained its commitment

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

Internal Audit

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

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

In 2015, 54.24% of the total number of branches and 10.1% of all companies were audited: 1,152 out of a total of 2,124 and 10 out of a total of 99, respectively. In addition, 136 audits were performed on Central Services, 7 on liquidity risk, market risk and interest rate risk, as well as 76 Risks and IT audits. Through the latter, the Bank supervised aspects such as internal credit risk and operational risk models, inter alia.

Application of the Group's Information Security Policy.

The complexity associated with the use of new technologies, information systems and compliance with the legal requirements in force call for the implementation of clear, concise guidelines that define the steps to be followed in terms of handling information. To this end, Group General Management considered it necessary to improve its strategic position in terms of system security by approving a Corporate Information Security Policy.

The objective of this Policy is to efficiently protect information by taking a preventive, detective, reactive and dynamic approach. The guidelines set out have been defined pursuant to the UNE-ISO/IEC-27002 standard that establishes an internationally recognised framework of reference for security. This security framework is based on a set of security processes, rules, procedures and tools implemented to protect information assets.

With a view to safeguarding business continuity, the Group has implemented a procedure to ensure the recovery of critical processes in the event of disaster, reducing downtime to acceptable levels from a business perspective by appropriately combining both preventive and recovery controls of an organisational, technological and procedural nature.

This policy's scope of application encompasses all offices, units, areas, departments, employees and subcontracted staff accessing the information systems of all Group companies, in addition to external partner entities. Furthermore, the policy applies to all information systems, regardless of the technology that supports them.

2 Banco Popular Group financial highlights

Total on-balance sheet assets

158,649,873

(thousands of euros)

Gross lending to customers (ex repos)

100,581,139

(thousands of euros)

Retail funds

85,420,921

(thousands of euros)

Net operating income (pre-provision profit)

1,689,471

(thousands of euros)

Non-performing loan coverage (*)

42.50%

(data in%, change in p.p.)
(*) without write-offs

CET 1 ratio (%)

13.11%

(data in%, change in p.p.)

	31.12.2015	31.12.2014	CHANGE%
BUSINESS VOLUME			
Total assets managed	179,431,235	179,170,945	0.1
Total on-balance sheet assets	158,649,873	161,456,478	(1.7)
Own funds	12,719,992	12,783,396	(0.5)
Retail funds	85,420,921	82,904,641	3.0
Gross lending to customers	107,085,210	108,379,386	(1.2)
SOLVENCY			
CET 1 ratio (%)	13.11	11.50	
Tier 1 ratio (%)	13.11	11.50	
Total capital ratio (%)	13.83	11.96	
Fully loaded Basel III leverage ratio (%)[1]	6.07	5.54	
RISK MANAGEMENT			
Total risks	142,582,977	146,378,216	(2.6)
Non-performing loans	18,339,525	20,172,032	(9.1)
Credit loss allowances	7,793,422	8,357,863	(6.8)
Non-performing loans ratio (%)	12.86	13.78	
% coverage of non-performing and written-off balances	55.16	53.28	
% coverage of non-performing and not written-off balances	42.50	41.43	
% coverage with guarantees (%)[2]	103.17	99.62	
EARNINGS			
Net interest income	2,251,236	2,331,391	(3.4)
Gross margin	3,430,911	3,876,033	(11.5)
Net operating income (pre-provision profit)	1,689,471	2,005,218	(15.8)
Profit/(loss) before tax	114,184	372,991	(69.4)
Consolidated profit for the year	105,934	329,901	(67.9)
Profit attributable to the Parent company	105,432	330,415	(68.1)
PROFITABILITY AND EFFICIENCY			
Average total assets	158,337,221	153,737,631	3.0
Average risk weighted assets (ARWA)	78,880,371	82,915,639	(4.9)
Average equity	12,727,360	12,493,493	1.9
ROA (%)	0.07	0.21	
RORWA (%)	0.13	0.40	
ROTE (%)	1.17	3.61	
Operating efficiency (%)	46.74	44.54	
DETAILS PER SHARE			
Final number of shares diluted (thousands)	2,165,075	2,140,887	1.1
Average number of shares (thousands)	2,152,184	2,115,205	1.7
Share closing market price (euros)	3.04	4.16	(26.9)
Market capitalisation	6,588,323	8,906,090	(26.0)
Share book value (euros)	5.88	5.98	(1.7)
Earnings per share (euros) [3]	0.049	0.157	(68.7)
Price/Book value	0.52	0.70	
Price/Earnings (annualised)	61.87	26.48	
OTHER DATA			
Number of shareholders	270,114	272,237	(0.8)
Employees	15,079	15,321	(1.6)
Spain:	13,480	13,501	(0.2)
Men	8,318	8,430	(1.3)
Women	5,162	5,071	1.8
Abroad:	1,599	1,820	(12.1)
Men	941	1,106	(14.9)
Women	658	714	(7.8)
Branches:	2,124	2,140	(0.7)
Spain	1,936	1,946	(0.5)
Abroad	188	194	(3.1)
Number of ATMs	2,554	2,672	(4.4)

1. Fully loaded Basel III Leverage ratio in accordance with CRR.

2. Risk coverage ratio including the value of guarantees after application of the discounts defined in Appendix IX of Banco de España Circular 4/2004.

3. Calculated using the average number of diluted shares.

The Group's consolidated financial statements at 31 December 2015 were prepared in accordance with the accounting principles and methods established by the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which are the same as those used to prepare the audited financial statements presented in the Annual Report for 2014.

Table 3: Consolidated Balance Sheet

Data in thousands of euros	31.12.2015	31.12.2014	CHANGE%
ASSETS			
Cash and balances with central banks	3,523,007	1,192,814	195.4
Financial assets held for trading	1,285,883	1,689,644	(23.9)
Other financial assets designated at fair value through profit or loss	535,319	510,799	4.8
Available-for-sale financial assets	25,193,155	29,765,352	(15.4)
Loans and receivables	107,018,997	107,827,616	(0.7)
Held-to-maturity investments	-	-	-
Fair Value changes of the hedged items in portfolio hedges of interest rate risk	233,228	261,023	(10.6)
Hedging derivatives	443,068	441,156	0.4
Non-current assets held for sale	9,045,928	8,201,378	10.3
Investments	1,794,009	1,870,785	(4.1)
Insurance contracts linked to pensions	167,918	162,654	3.2
Reinsurance assets	17,524	16,921	3.6
Tangible assets	1,697,785	1,711,224	(0.8)
Intangible assets	2,571,879	2,492,675	3.2
Tax assets	3,604,163	3,618,098	(0.4)
Other assets	1,518,010	1,694,339	(10.4)
Total assets	**158,649,873**	**161,456,478**	**(1.7)**
LIABILITIES			
Financial liabillities held for trading	1,043,063	1,397,389	(25.4)
Other financial liabilities designated at fair value through profit or loss	599,419	649,354	(7.7)
Financial liabilities at amortised cost	140,508,524	142,227,778	(1.2)
Fair Value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-
Hedging derivatives	2,013,974	2,161,074	(6.8)
Liabilities associated with non-current assets held for sale	-	-	-
Liabilities under insurance contracts	486,829	483,784	0.6
Provisions	383,359	469,998	(18.4)
Tax liabilities	513,483	718,459	(28.5)
Other liabilities	586,597	678,775	(13.6)
Total liabilities	**146,135,248**	**148,786,611**	**(1.8)**
EQUITY			
Shareholders´Equity	12,719,992	12,783,396	(0.5)
Valuation adjustments	(221,743)	(133,077)	66.6
Non-controlling interests	16,376	19,548	(16.2)
Total Equity	12,514,625	12,669,867	(1.2)
Total equity and liabilities	**158,649,873**	**161,456,478**	**(1.7)**
Memorandum items			
Contingent risks	**11,159,430**	**12,554,148**	**(11.1)**
Contingent commitments	8,568,748	8,855,239	(3.2)

Table 4: Consolidated Results

Data in thousands of euros	31.12.2015	31.12.2014	CHANGE%
Interest and similar income	3,508,688	4,167,234	(15.8)
Interest and similar expenses	1,257,452	1,835,843	(31.5)
NET INTEREST INCOME	2,251,236	2,331,391	(3.4)
Return on equity instruments	13,138	14,389	(8.7)
Share of profit/(loss) of entities accounted for using the equity method	47,422	33,392	42.0
Fee and commission income	655,770	739,400	(11.3)
Fee and commission expense	60,448	84,693	(28.6)
Net gains/(losses) on financial assets and liabilities	517,260	820,609	(37.0)
Financial instruments held for trading	11,540	32,219	(64.2)
Other financial instruments at fair value through profit and loss	(15,877)	(24,668)	(35.6)
Financial instruments not at fair value through profit and loss	525,193	786,429	(33.2)
Other	(3,596)	26,629	(113.5)
Exchange differences (net)	45,564	47,232	(3.5)
Other operating income	229,462	342,480	(33.0)
Financial commissions and fees compensating direct costs	34,306	27,443	25.0
Income from insurance and reinsurance contracts issued	33,241	134,152	(75.2)
Sales and income from provision of non-financial services	13,933	18,543	(24.9)
Rest of other operating income	147,982	162,342	(8.8)
Other operating expenses	268,493	368,167	(27.1)
Insurance and reinsurance contract expenses	41,119	135,859	(69.7)
Change in inventories	10,761	16,326	(34.1)
Rest of other operating charges	216,613	215,982	0.3
GROSS INCOME	**3,430,911**	**3,876,033**	**(11.5)**
Administration costs	1,603,687	1,726,285	(7.1)
Personnel expenses	935,833	946,235	(1.1)
Other general administration expenses	667,854	780,050	(14.4)
Depreciation and Amortisation	137,753	144,530	(4.7)
Tangible assets	51,792	61,216	(15.4)
Intangible assets	85,961	83,314	3.2
NET OPERATING INCOME (pre-provision profit)	**1,689,471**	**2,005,218**	**(15.7)**
Provisioning expense (net)	(35,028)	(44,706)	(21.6)
Pensions	891	13,691	(93.5)
Contingent risks	(52,175)	(51,346)	1.6
Other	16,256	(7,051)	(330.5)
Impairment losses on financial assets (net)	1,425,587	1,708,832	(16.6)
Loans and receivables	1,382,917	1,690,832	(18.2)
Of specific provisions	1,511,605	1,905,195	(20.7)
Other	42,670	18,000	137.1
NET OPERATING INCOME	**298,912**	**341,092**	**(12.4)**
Impairment losses on non-financial assets (net)	(21,648)	(30,318)	(28.6)
Goodwill and other intangible assets	-	-	-
Other assets	(21,648)	(30,318)	(28.6)
Gain /(loss) on the disposal of assets not classified as non-current assets held for sale	127,875	498,039	(74.3)
Results of non-current assets held for sale (net)	(334,251)	(496,458)	(32.7)
PROFIT/(LOSS) BEFORE TAX	**114,184**	**372,991**	**(69.4)**
Income tax	8,250	43,090	(80.9)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**105,934**	**329,901**	**(67.9)**
Profit (loss) from discontinued operations (net)	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**105,934**	**329,901**	**(67.9)**
Profit/(Loss) attributable to non-controlling interests	502	(514)	(197.7)
PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY	**105,432**	**330,415**	**(68.1)**
BASIC EARNINGS PER SHARE	0.050	0.230	
DILUTED EARNINGS PER SHARE	0.049	0.226	

3 Banco Popular Group in 2015

The Bank continues to gain market share and strengthened its position as leader in the SME segment

Commercial activities progressed well in 2015. There were further signs of recovery in lending, particularly profitable lending, which with cumulative growth of 0.7% for the year confirmed the change in trend seen in previous quarters. Business activity performed well over the course of the year, especially in the SME and self-employed sectors, where new lending volumes were 13% higher than in 2014..

A similar trend was seen in lending to individuals, which performed very positively, growing by 30.5% year-on-year. In contrast, lending to property developers fell by 12.4% in 2015, continuing the process of reducing exposure to the real estate sector.

On the liabilities side, the strong growth in customer resources is worth noting; they increased by €2,516 million over the course of the year. Current accounts in particular performed well, growing by 30.9% during the year. Furthermore, off-balance sheet resources grew by 17.3% in 2015, mutual funds standing out with growth of 21%.

Our share of the lending market grew by 21 basis points year-on-year to 7.64% in November and our market share in customer deposits grew by 29 basis points in the same period to 6.0%.

The reduction in non-performing assets continues

In 2015, the volume of non-performing assets showed a total cumulative decrease of €1,373 million. The positive trend in non-performing loans has been one of the fundamental aspects explaining the evolution of non-performing assets. The NPL ratio has continued its downward trend and in 2015 there was a cumulative fall of 92 basis points compared with 2014, to 12.86%. The balance of non-performing loans has fallen by €1,833 million in the past twelve months. These results underscore the management efforts made in this regard, the downward trend that began in the previous year and of course the improvement in the economic climate.

Furthermore, we achieved strong real estate sales, with a total amount of €2,110 million over the course of the year, 5.5% up on the €2,000 million set as the target for the year.

Following the significant efforts in terms of provisions in recent years, this past year provisions (net of recoveries on write-offs) fell, with a total of €1,615 million being set aside in 2015, 22.3% down on 2014. This figure includes an extraordinary provision of €350 million made by the Bank to cover the impairment deriving from the potential withdrawal of interest rate floor clauses with retroactive effects up to May 2013.

At the end of 2015, credit coverage stood at 42.50% and when considering total risks subject to provisions, including real estate, total coverage of these risks amounted to 13.4%.

Strong commercial activity and high recurring income generation

Net interest income amounted to €2,251 million over the course of 2015. This figure, measured against average total assets, remains amongst the highest in the sector thanks to SME-oriented growth, the gradual reduction in the cost of customer deposits and the dynamism of the commercial activity.

The reduction in deposit interest rates has continued, with the annual cost of term deposits averaging 1.10% in 2015. The average cost of new deposits over the course of the year came to 0.47%, 63 basis points below the overall portfolio cost. The customer spread was 2.55%.

Fees dropped by 9.1% compared with 2014, totalling €595 million. This performance is partly explained by the corporate transaction carried out regarding the card business in 2014.

Net gains/losses from financial assets and liabilities and other income made a positive contribution to the income statement, with a total of €584 million for the year. The contribution to the Deposit Guarantee Fund and the National Resolution Fund (created this past year) was recognised at the end of the year as a single payment for a total amount of €105.2 million.

Personnel and general expenses fell in 2015 by 7.1% compared with 2014. Personnel expenses fell by 1.1%, while general expenses decreased by 14.4%, thanks to various cost rationalisation and containment initiatives.

Net operating income, one of the main indicators of the Bank's strength, maintained its high recurrency, reaching €1,689 million for the year. Without taking into account gains/losses from financial assets and liabilities and non-recurring items, operating income increased by 8.4% in 2015. The efficiency ratio was 46.74%, 220 basis points higher than in 2014.

In the second quarter of 2015, a capital gain of €69.5 million deriving from the sale of the lending and property assets servicing in Portugal was recognised. Among the capital gains recognised in the last quarter of 2015, the following are worth particular note: a net amount of €51.5 million on the sale of the Group's 50% stake in Universalpay Entidad de Pago to EVO Payments; and €43.6 million resulting from a new agreement regarding the distribution of non-life insurance entered into with Allianz. Furthermore, it is recalled that the income statement for the third quarter of 2014 included the acquisition of Citibank's card and retail business in Spain.

Without taking into account the impact of the non-recurring provision of €350 million, net profit for 2015 came to €350 million, 6.1% up on 2014.

Sound and improved liquidity and capital position

Solvency ratios have improved and maintain a solid position. Thus, our Common Equity Tier 1 (phased in) ratio stood at 13.11% in December, 160 basis points higher than at the end of 2014, maintaining a comfortable capital buffer above the regulatory minimum. At the same time fully-loaded CET 1 *pro forma* came to 10.86% and the fully-loaded leverage ratio according to CRR *pro forma* was 6.07%.

4 Macroeconomic environment

1. Introduction

The year 2015 was marked by strong growth in Spanish GDP, in addition to a general improvement in the main macroeconomic variables. GDP in Spain posted four consecutive quarters of growth, reaching 3.2% for the year. The 11.8 percentage point reduction in the year-on-year unemployment rate to 20.9% in December 2015 is also worth mention, thus maintaining the downward trend started in 2013, although current levels are still higher than most other developed countries.

Since the second quarter, growth prospects for the world economy have been revised downwards, mainly due to the impact of China's slowdown on world trade and commodity prices. Latin America has been particularly affected by the weight of commodity exports on its economies, with Brazil's entry into recession worth special mention. Furthermore, the US Federal Reserve's decision to postpone an interest rate increase until December resulted in volatility in the financial markets over the course of the year. The 2015 drop in oil prices (-34%) kept inflation negative in every month of the year with the exception of June, July and December, reaching its lowest level in January, when the year-on-year variation was -1.3%.

Positive growth was been maintained in the Eurozone, although over the last few quarters recovery has tapered off slightly. Specifically, GDP grew by 0.5% in the first quarter, 0.4% in the second, 0.3% in the third and an estimated 0.4% in the fourth.

In the European context, the European Central Bank's expectations of a period of low inflation (decisive in monetary policy decisions) proved accurate, and in December the decision was taken to extend the asset acquisition programme until March 2017 or until inflation reaches the target of 2%, as well as reducing the deposit facility rate by 10 basis points to -0.3%.

Spanish sovereign debt rates remained low throughout 2015, mainly due to the accommodative monetary policy applied by the European Central Bank. All these events, together with improved expectations regarding the Spanish economic situation, were reflected in the evolution of the risk premium, which ended the year at 114 basis points.

The divergence between the monetary policy applied by the US Federal Reserve and that of the European Central Bank drove the euro down against the dollar, the exchange rate ending the year at 1.09 USD-EUR.

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

2. Production

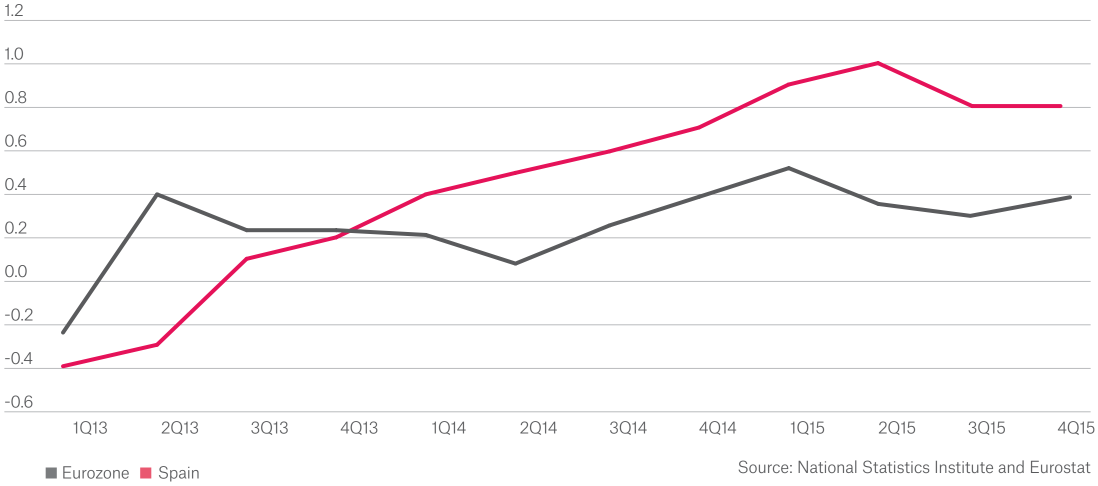
Gross Domestic Product performed positively in year-on-year terms, with growth of 0.9% in the first quarter, 1.0% in the second, and 0.8% in the third and fourth quarters. Overall, the economy grew at a rate of 3.2% year-on-year in 2015.

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

With regard to external demand in Spain, the year was marked by an increasing growth in both exports and imports, more particularly the latter. In YoY terms, the third quarter saw an increase of 5.6% in the export of goods and services, while imports increased by 7.7%. Thus, the contribution of net external demand to annual growth in quarterly GDP was -0.5% in the third quarter, four tenths lower than recorded in the previous quarter (-0.1%).

In the Eurozone, growth remained positive, although lower than the historical trend. Specifically, GDP grew by 0.5% in the first quarter, 0.4% in the second, 0.3% in the third and an estimated 0.4% in the fourth quarter; in total, GDP grew by 1.6% in 2015 according to the latest estimates of the European Commission. Furthermore, foreign trade increased in the third quarter, with a QoQ increase in exports of 0.2% compared with 0.9% in imports.

Figure 9: Quarterly evolution of real Gross Domestic Product in Spain and the Eurozone



Source: National Statistics Institute and Eurostat

3. Employment, salaries and costs

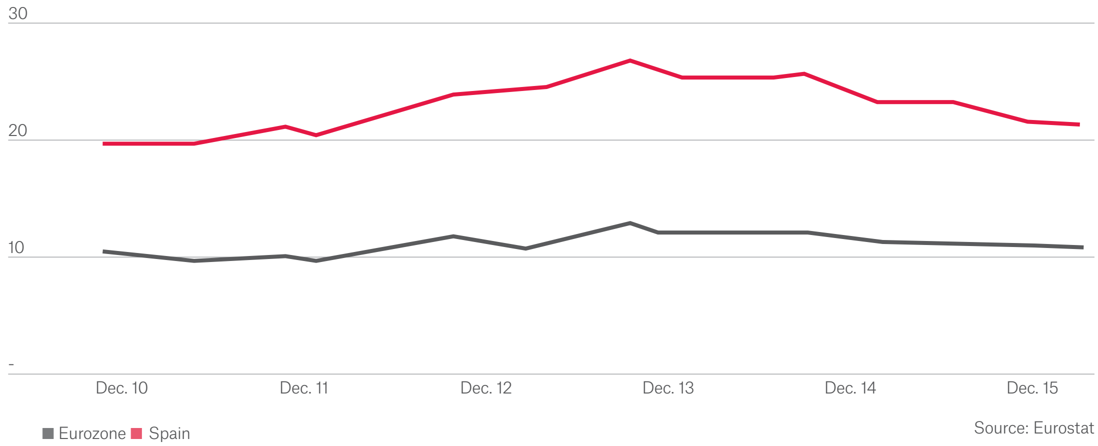
The downward trend in the unemployment rate continued in 2015. Since peaking in the first quarter of 2013 at 26.9%, the rate had fallen to 20.9% by the fourth quarter of 2015. While the trend is indeed positive, the unemployment rate is still higher than in the great majority of advanced economies.

Remuneration per employee continued to grow, although steadily, during 2015, with YoY growth of 0.7% in the first quarter, 0.4% in the second and 0.3% in the third quarter (figures corrected for seasonal and calendar effects).

In terms of the labour cost, 2015 represented a turning point. While in 2014 the year-on-year change was negative in all quarters, 2015 saw a slight improvement, with cumulative growth up until the third quarter of 0.1%.

In the Eurozone, the unemployment rate in the fourth quarter stood at 10.7%, its lowest level for almost four years.

Figure 10: Evolution of the unemployment rate in Spain and the Eurozone - 2010/2015



Source: Eurostat

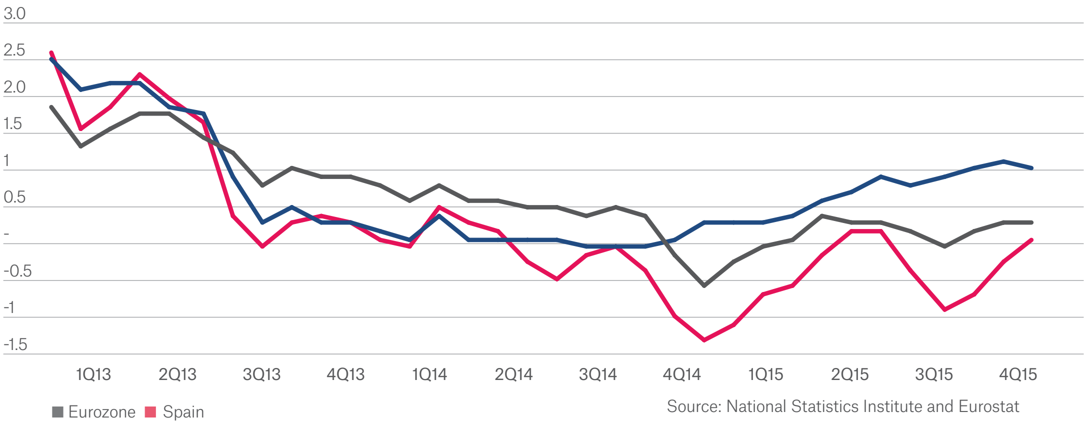
4. Prices

The CPI continued its downward trend in 2015, falling every month except June and July, reaching its lowest level in January, when the year-on-year variation in the general index was -1.3%. The trend in the Eurozone as a whole was also negative, although somewhat less so than in Spain.

However, the negative trend in prices is basically due to the effect of changes in energy prices (-34% in 2015 and -65% cumulative since 2014). Accordingly, based on the core inflation (which excludes energy prices and unprocessed foodstuffs), prices remained positive at around 0.2% in January to 0.9% in October.

In any case, the low price levels led to new measures being taken by the European Central Bank, which decided in December to extend the asset acquisition programme until March 2017 or until inflation reaches the target of 2%, as well as reducing the deposit facility rate by 10 basis points to -0.3%.

Figure 11: Evolution of CPI in Spain and in the Eurozone



Source: National Statistics Institute and Eurostat

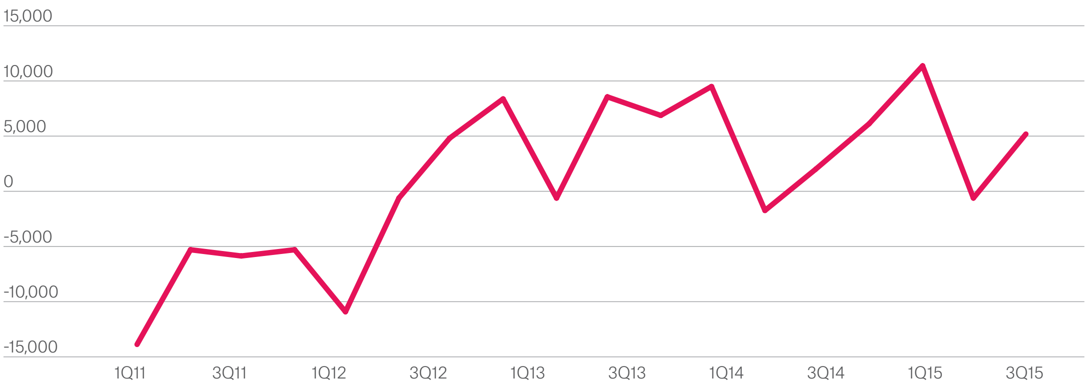
5. Public accounts and net lending of the economy

The deficit objectives for Spain as agreed with the European Commission are 4.2% for 2015 and 2.8% for 2016; according to estimates made by the International Monetary Fund and the Commission itself, these targets might not be met. According to the latest information available, in November 2015, the deficit was 3.87%.

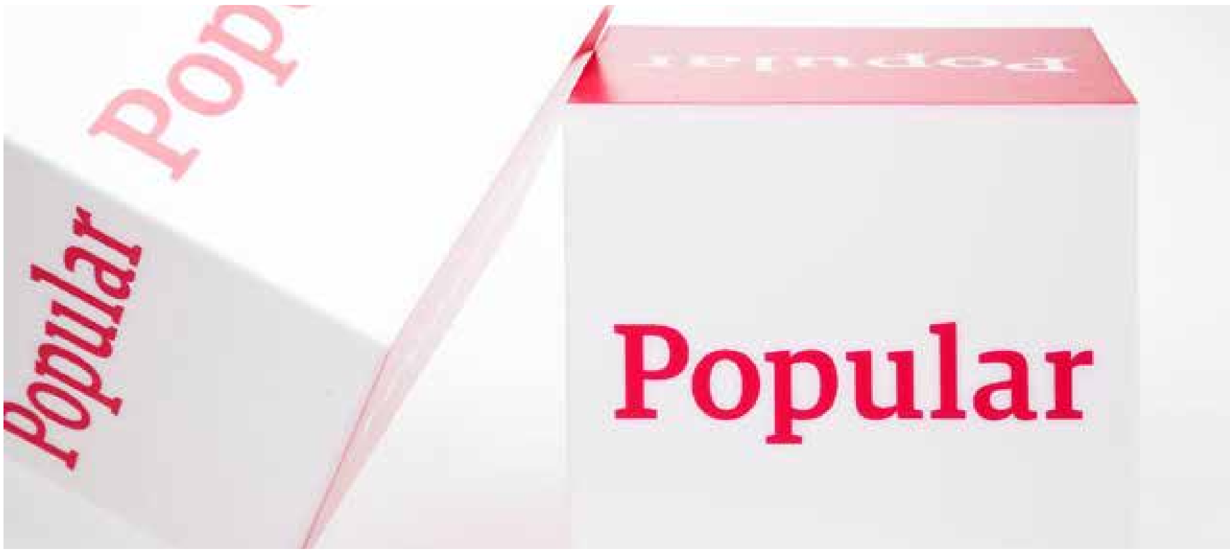
In terms of the indebtedness of public administrations, this indicator has grown in recent years (85.4% at the end of 2012, 93.7% at the end of 2013 and 99.3% at the end of 2014), ending November 2015 at a historic maximum (99.8%), above the year-end target.

The net lending of the nation as a whole evolved positively over the course of the year, even though it was lower than in previous years, as shown in the following graph. With the exception of the first quarter, when the economy recorded a net borrowing of €888 million, the economy recorded net lending in the following quarters (2Q: €4,893 million, Q3: €8,092 million. (Figure 12).

Figure 12: Evolution of the net lending (+) or net borrowing (-) of the nation



Source: National Statistics Institute



6. Financial trends

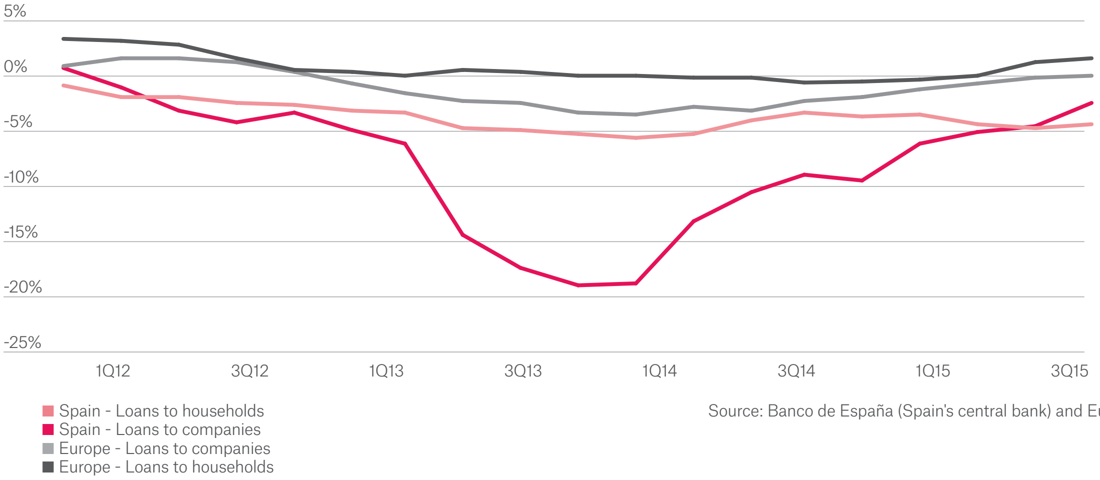
In 2015, deleveraging moderated, with a year-on-year fall in borrowing of -3.3% in November 2015 (compared with -5.8% in November 2014) and a month-on-month fall of -0.5%. Lending to corporates and SME has moderated its fall in recent quarters; as a result, the year-on-year variation stood at -2.4% in September, while the reduction in lending to households stood at -4.4%.

However, cumulative new lending in 2015 (January to November) increased relative to the same period of the previous year. New lending to corporates of less than one million euros increased by 13.7%, housing loans by 35.3% and consumer lending by 18.1%.

Non-performing loans reached their maximum level of 13.6% in December 2013. Since then the non-performing loans ratio has declined progressively to 10.4% in November 2015.

The credit trend in the Eurozone is positive. Lending to corporates and SME increased by 0.9% year-on-year in November while lending to households grew by 1.9%.

Figure 13: Recent evolution of private sector lending



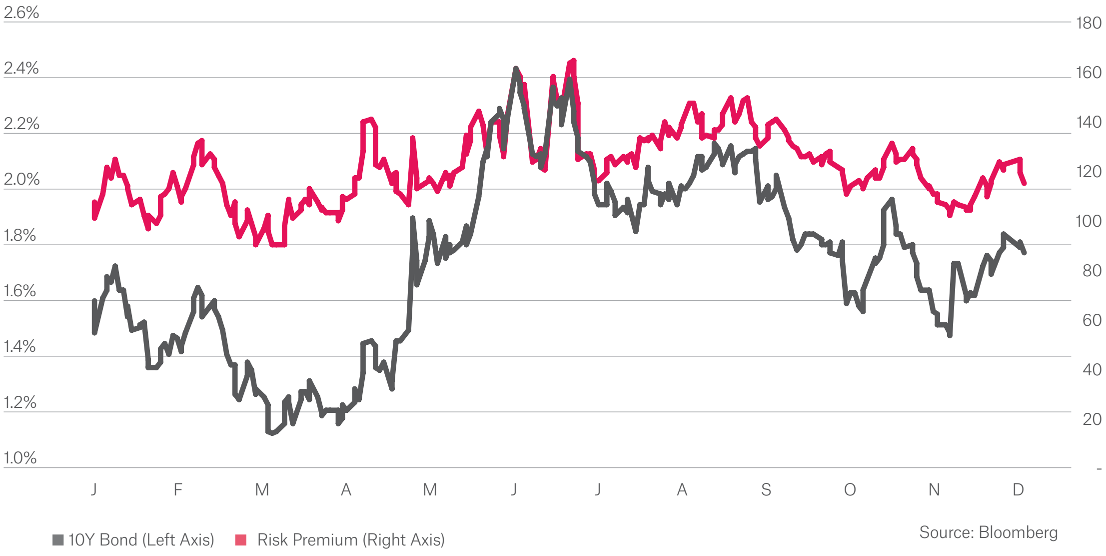
Source: Banco de España (Spain's central bank) and European Central Bank

Spanish sovereign debt rates remained low throughout 2015, mainly due to the accommodative monetary policy applied by the European Central Bank and confidence in the Spanish economy. Volatility in financial markets has been high, with 10-year Spanish bonds standing at 1.14% in March and 2.41% in June. In December, they stood at similar levels to those at the start of the year, around 1.77%.

This set of events together with improved expectations regarding the Spanish economic situation, have been reflected in the evolution of the risk premium. At the end of the year, this indicator stood at 114 basis points. (Figure 14)

Movements in the US debt market were determined by the expected increase in interest rates. At the beginning of the year, the yield on ten-year US bonds stood at 2.17%, whereas at year-end it stood at 2.27%; bonds peaked in June, when the rate stood at 2.48%.

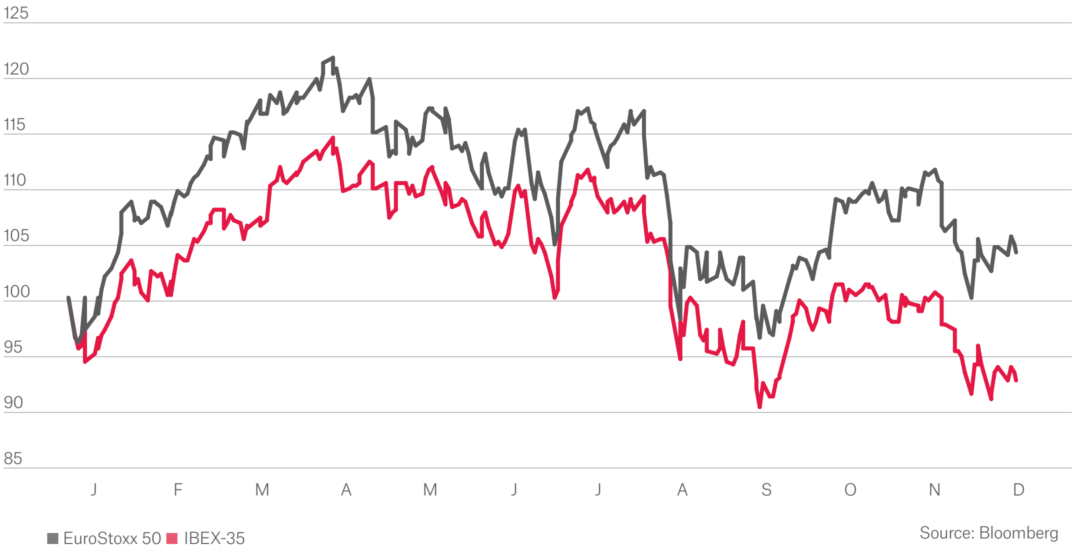
Figure 14: Evolution of the 10-year Spanish bond and the risk premium in 2015



Source: Bloomberg

2015 was marked by high levels of volatility in equity markets. At year-end, the IBEX-35 index showed a year-on-year fall of 7.8%, whereas the EuroStoxx 50 appreciated by 4.1%.

Figure 15: Evolution of the Euro Stoxx 50 and IBEX-35 indices in 2015 (base 100 = 1 January 2015)



Source: Bloomberg

Meanwhile the dollar strengthened against the euro during the year due to different growth expectations and the divergence of monetary policies. Thus the EUR-USD exchange rate opened the year at 1.21 and closed at 1.09, representing a negative change of 10.3%.

Figure 16: Evolution of the euro-US dollar exchange rate

Source: Bloomberg

7. Outlook

The major institutions' outlook for 2016 are, in general terms, optimistic for Spain and moderately positive for the Eurozone as a whole.

In Spain, it is expected that growth in 2016 will be slightly down on the levels recorded in 2015. For 2016, the main international institutions forecast growth of around 2.7%: IMF (2.7%); European Commission (2.7%) and the OECD (2.7%). These figures coincide with the consensus of the main Spanish institutions: Banco de España (2.8%) and the Government (3.0%). The unemployment rate is expected to continue the decline that started in 2013. The consensus forecast sees it falling to 20.4% in 2016, which is still much higher than that of most developed countries. As for inflation, the consensus estimate if for average annual CPI in 2016 of 1.0%.

With regard to the 2016 outlook for the Eurozone, the forecasts of the main international institutions are as follows: growth of 1.7% (European Commission 1.8%, IMF 1.7%); unemployment rate of 10.6% (European Commission 10.6%, IMF 10.5%) and inflation of 1.0% (European Commission 1.0%, IMF 1.0%).

5 The Banco Popular model

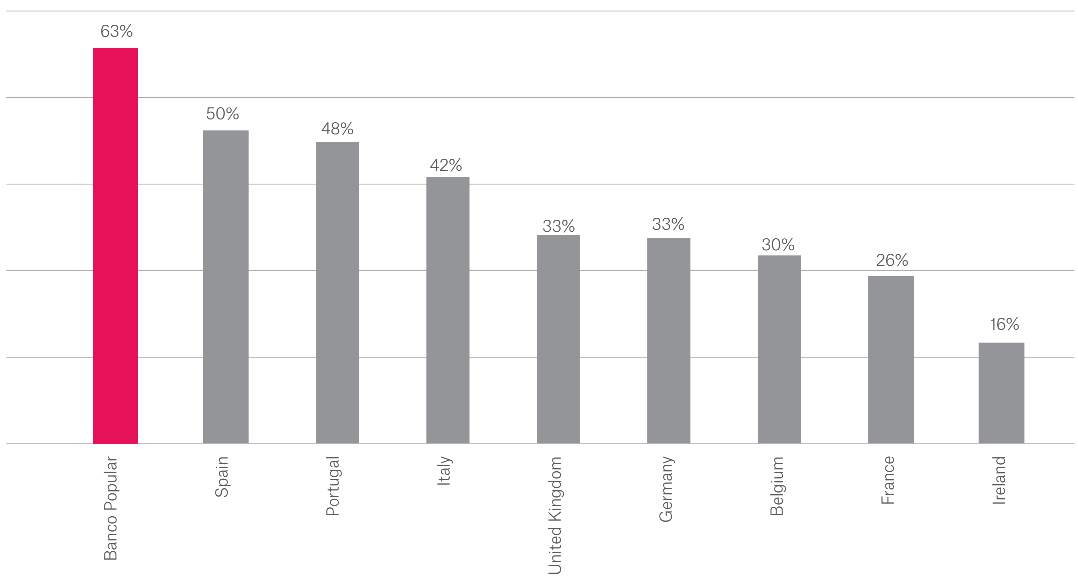
Since the 1990s, Banco Popular has been the paradigm of traditional Spanish banking thanks to its reputation for high levels of solvency and profitability and a conservative business model refined over the course of the last 85 years. The bank has always focused on maintaining its independence and the values and principles that govern its business model.

The firm defence of its strategy together with the capacity to adapt to changes in the environment have made Banco Popular one of the four oldest banks in Spain and it has endowed its business model with differentiating characteristics that make it impossible to replicate and which are summarised in seven pillars:

1. Banco Popular is a purely retail bank

The Bank engages almost exclusively in commercial banking activities. Historically, the Bank has focused its activity on financing, management of savings and financial services for individuals, families and businesses. It is a leading commercial banking institution in Spain, with 63% of its business coming from loans and advances to customers, a level higher than the European average including the Spanish sector (50% on average).

Figure 17: Banco Popular is a purely retail bank (Loans and advances to clients over total assets).

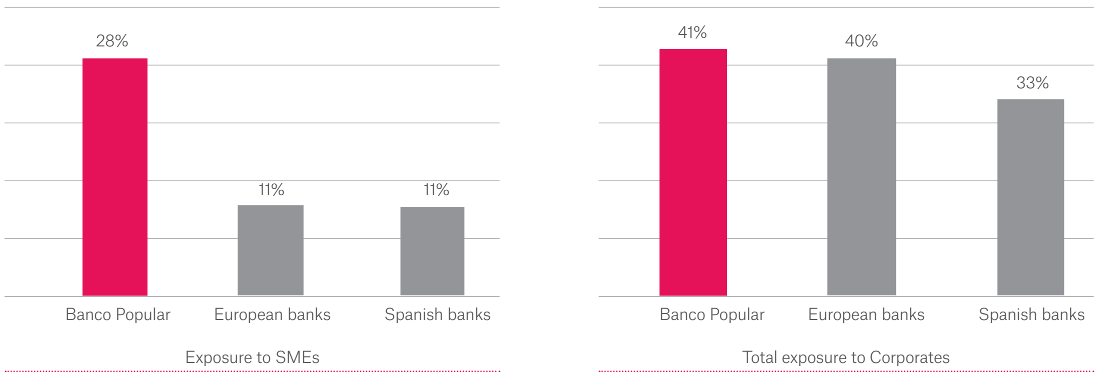


Source: ECB. Data as at November 2015, except Banco Popular as at December 2015.

2. Banco Popular is the Spanish specialist SME bank

The Bank has historically been committed to developing the productive systems of the economies in which it is present by financing their SMEs and corporates. The Bank is convinced that economic recovery in Spain depends largely on the financing of self-employed persons and small and medium-sized Spanish businesses. Accordingly, growth in loans to SMEs and self-employed persons was one of the priorities in 2015 and it will continue to be so in the future.

Figure 18: Banco Popular´s specialisation in SMEs and corporates (% of EAD on SMEs or total corporates without EAD of commercial banking)



Source: European Banking Authority. Transparency exercise as at June 2015

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

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

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

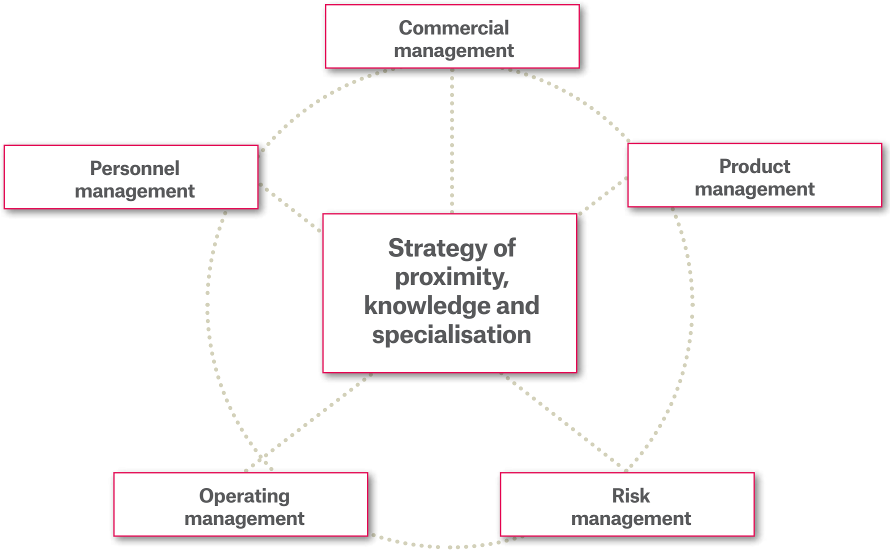
iii. **Management of customer oriented products.** Banco Popular's products are designed to cover 100% of the needs of SMEs and self-employed persons, and they are always geared towards completely satisfying their financial requirements. Banco Popular provides "*tailor-made*" solutions for its customers,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

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

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

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

Figure 19: Key components of the management model for SMEs and self-employed persons

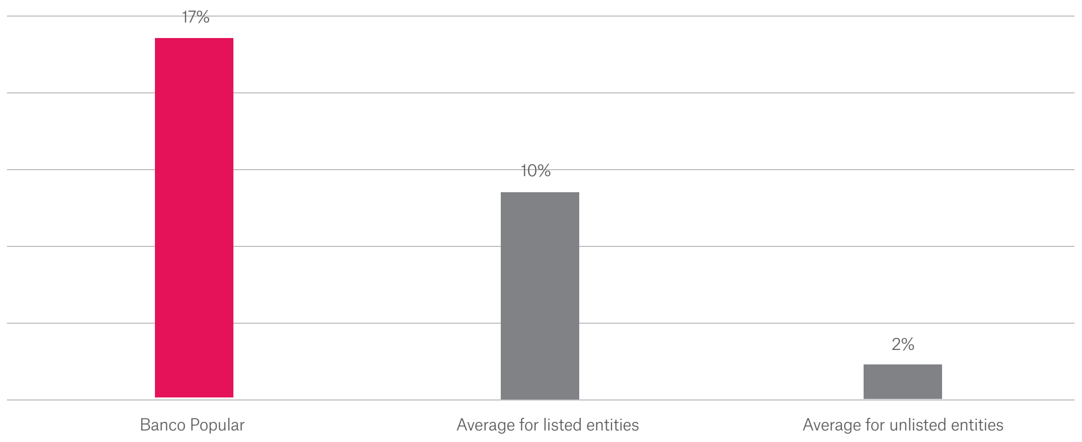


As a result, Banco Popular has developed strong competitive advantages in the SME and self-employed segment with a leading market share, focusing on transactional products, strong customer loyalty and the productivity of the commercial network.

Leadership in SMEs is shown in the business figures.

- More than €35,000 million in financing for SMEs in Spain.
- More than a million self-employed and SMEs customers.
- One of every four SMEs is a customer of Banco Popular.
- High level of specialisation, through 2,124 branches and more than 1,000 company managers throughout Spain.

Figure 20: Estimate of SME market share in Spain (%)



Source: European Banking Authority. Transparency exercise as at June 2015

3. Banco Popular is a customer-oriented bank

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

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

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

Customers are the reason behind all Banco Popular's activities, and it is they who impose changes in the organisation. The Bank has always made efforts to attain a **flexible, decentralised and horizontal organisational structure that allows it to stay close to the customer** and to be constantly aware of the financial needs that must be resolved, making quick responses and the resolution of any consultations that a customer may make a priority. Attaining this goal has involved extensive development of internal and external information and communication systems. The operating management of the business model consists of three parts:

i. **Specialised centres:** to support the branch office network, the Bank has specialised units such as the Business Centres, which carry out all appropriate action for the identification, contacting and capturing of new customers.

ii. **Multichannel banking:** this is one of the main operating environments at Banco Popular. The multi-channel approach to relationships with customers is primarily intended to evolve and to create environments that are capable of providing responses to customers with changing interaction needs marked by immediacy, the need for information, customization and security.

iii. **Management of queries and support for the Commercial Network**: quick and efficient responses to queries at branch level requires a firm commitment to provide a service that ensures the proper functioning of branches and improves customer service quality in the event of any anomaly or query.

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

To this end, the sales and marketing policy for the range of products and services is defined, adjusted to comply with the law and with market needs and offering customers commercial propositions that add value. The commercial system organises the activities carried out in the channels, ensuring the effectiveness of contacts by means of appropriate commercial tools that facilitate management and make the business more dynamic.

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

4. Leader in efficiency

The culture of efficiency imbues the entire organisation, making it historically one of Europe's most efficient banks. With an operating income in excess of €1,689 million, the cost to income ratio reached 46.74% in 2015.

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

5. Prudent, disciplined and diversified risk management

Since its beginnings Banco Popular has promoted behaviour and decision-taking systems based mainly on **best practices in terms of risk management and control processes**, the **strategy of proximity to and knowledge of the customer** and the expertise of the **professionals forming the Bank**. This prudence allows the Bank permanently to evaluate the negative consequences of each decision, analysing all available information in order to make the best decision and maintain high liquidity and solvency levels. This behaviour style has led the bank to concentrate its business in known areas, carefully managing credit, to be conservative even when frequently swimming against the tide and to put the obvious into practice: the continuing need for discipline and risk diversification.

The Board of Directors of Banco Popular has approved the Risk Appetite Framework, with the corresponding structures in terms of hierarchical limits and metrics for the different risks to which the Bank is exposed. Furthermore, the Bank's risk management model is well organised in terms of the corresponding functions and responsibilities divided into hierarchical structures. In this regard, the independence of the Risks Director from the different business areas of the Bank is worth particular mention. Banco Popular performs regular stress tests and incorporates the results into its management framework, which features three lines of defence:

i. **First line of defence:** comprising the Bank's different business units, by means of implementing the internal controls and processes to ensure prudent risk management.

ii. **Second line of defence:** cuts across the entire organisation; its main components are: Risk Management, Compliance, Internal Control and the Management Committee's different advisory committees (Capital Committee, ALCO Committee, Operational Risk Committee and New Products Committee).

iii. **Third line of defence:** responsibility lies with the Internal Audit Department, which is tasked with revising and assessing the efficiency of management, control and governance processes.

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

6. Strategic alliances to develop specialised businesses

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

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

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

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

Also in 2013 Banco Popular created a new company together with Värde Partners - Kennedy Wilson, specialists in the real estate market, to manage Banco Popular's real estate business, thus allowing the Bank to benefit from its partners' extensive experience in managing this type of assets and maximising the profitability of this business.

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

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

7. Contribution to economic and social growth and development

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

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

Based on 2013 information, Banco Popular contributes 0.4% of Spanish GDP, equivalent to €4,120 million through its direct corporate activities. This is equivalent to or even more than the contribution of entire other industries, such as the paper industry or the air transport sector. Furthermore, in terms of GDP, Banco Popular contributed indirectly to the Spanish economy by means of the more than €27,000 million in financing provided to its customers (equivalent to 2.6% of Spain's GDP).

Concerning employment, also based on 2013 information, through its activities Banco Popular sustains the employment of more than 36,000 employees, 15,613 of whom work directly for the Group (around 0.21% of national employment); in comparison, this figure is higher than those employed in the air transport or research and development sectors. When considering the impact generated by its lending activities, job creation amounts to almost 620,000 positions, 3.6% of total employment in Spain.

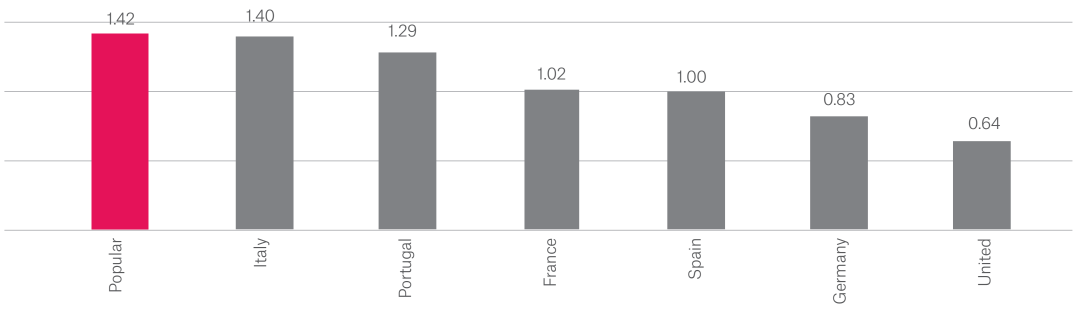
In terms of contributions to society, Banco Popular ranks third amongst IBEX banks in terms of the number of female Directors, it has increased its investment in environmental projects by 300% since 2010 and social investment is equivalent to 2% of the amount dedicated by Caritas in Spain. Finally, in terms of the environment, Banco Popular is one of the three financial institutions in Spain to have received LEED Gold certification and is the first Spanish financial institution and the first IBEX-35 company to gain certification for offsetting all its direct emissions.

Banco Popular's strategy, and the seven pillars of its business model, are endorsed by the figures.

Its retail business model, oriented toward small and medium-sized businesses, associations, self-employed persons and Spanish families, has enabled it to become **the leading commercial bank in Spain**. It has also enabled it to build a **set of differentiating strengths** that place Banco Popular in a privileged position within the European financial system.

a) Better levels of profitability than European domestic banks

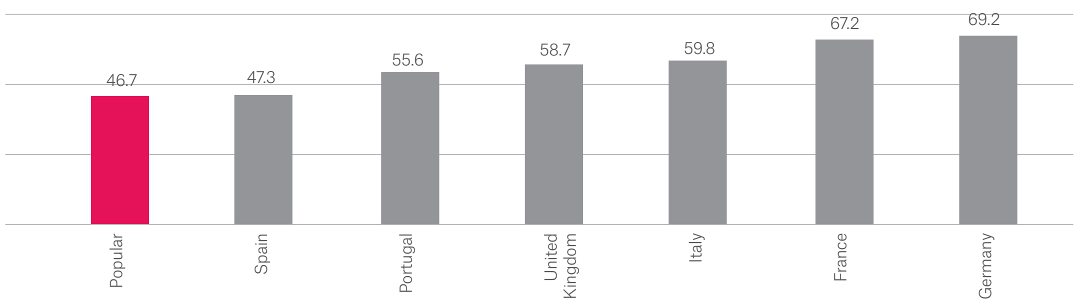
Figure 21: Ratio of net interest income to average total assets in%



Source: ECB. Data as at June 2015. Banco de España, as at September 2015. Banco Popular, as at December 2015.

b) Leader in cost to income ratio in Europe, not just in Spain

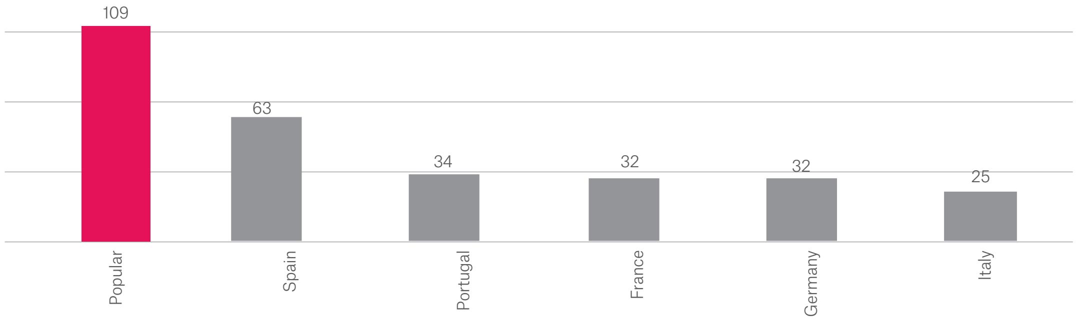
Figure 22: Cost to income ratio



(Operating costs/gross income in%). Banco Popular figures as at December 2015, others as at June 2015
Source: European Central Bank.

Greater strengthening of solvency during the last part of the crisis

Figure 23: Evolution of the CET 1 ratio between December 2014 and June 2015 (bps)



Source: European Central Bank.

6 Main consolidated results

Table 5: Accumulated Profit and Loss account (data in thousands of euros)

	12M-15	12M-14	DIFF. 12M-15 VS. 12M-14	DIFF. 12M-15 VS. 12M-14 (%)
Net interest income	**2,251,236**	**2,331,391**	**(80,155)**	**(3.4)**
Fees and commissions	595,322	654,707	(59,385)	(9.1)
Gains/(losses) on financial assets/liabilities and other income	584,353	889,935	(305,582)	(34.3)
Gross income	**3,430,911**	**3,876,033**	**(445,122)**	**(11.5)**
Administration expenses and depreciation and amortisation	1,741,440	1,870,815	(129,375)	(6.9)
Net operating income	**1,689,471**	**2,005,218**	**(315,747)**	**(15.7)**
Net Impairment losses	1,614,664	2,078,279	(463,615)	(22.3)
Loans and receivables and others	1,518,826	1,878,284	(359,458)	(19.1)
Real estate assets and goodwill	224,105	414,153	(190,048)	(45.9)
Write-offs recovery	(128,267)	(214,158)	85,891	(40.1)
Gains	39,377	446,052	(406,675)	(91.2)
Profit/(loss) before tax	**114,184**	**372,991**	**(258,807)**	**(69.4)**
Net attributable profit	**105,432**	**330,415**	**(224,983)**	**(68.1)**

Banco Popular's net profit in 2015 reached €105 million, maintaining its leadership in both net interest income and customers, with provisions of over €1,500 million in the year.

1. Net interest income

In 2015, the Bank obtained a net interest income (the difference between financial revenues and costs) totalling €2,251 million, which is the largest amongst similar institutions in Spain in terms of return on average total assets (ATA) (Net interest income, excluding Investment portfolio, on ATA 1.56% versus the average of 1.12%).

The behaviour of the net interest income is analysed below, making a distinction between:

- Trend of assets
- Trend of liabilities
- Trend of margins

Trend of assets

In 2015, balance sheet assets amounted to €158,650 million, a decrease of 1.7% with respect to the close of the previous year. Below the most relevant parts are highlighted:

Loans and receivables

Loans and receivables, before valuation adjustments, stood at €114,469 million; maintaining the 2014 levels (-1.00% with respect to the previous year) and representing 72.15% of total assets.

Table 6: Gross loans and receivables to credit institutions and loans and advances to customers (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)
Total loans and receivables	**114,469,276**	**115,626,259**	**(1.0)**
Loans and receivables to credit institutions	6,247,105	5,052,132	23.7
Loans and advances to customers	107,085,210	108,379,386	(1.2)
Loans and advances to Public Administrations	5,327,992	6,065,612	(12.2)
Loans and advances to other private sectors	101,757,218	102,313,774	(0.5)
Resident sectors	90,373,136	91,504,540	(1.2)
Non-resident sectors	11,187,135	10,569,817	5.8
Other financial assets	196,947	239,417	(17.7)
Debt securities*	1,136,961	2,194,741	(48.2)

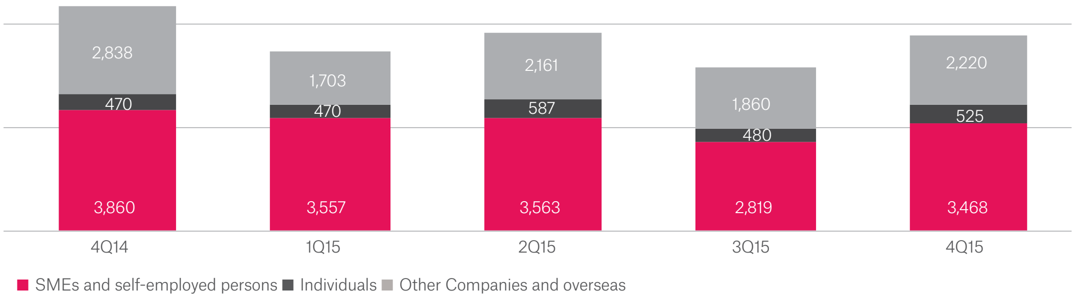
* Details in the securities portfolio section

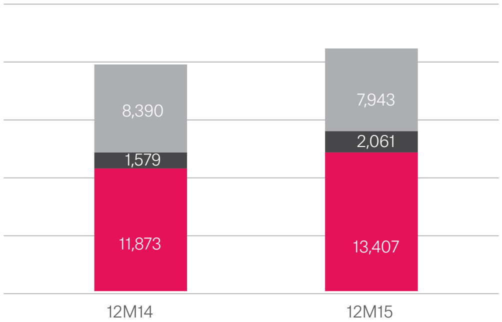
Loans and advances to customers saw a slight reduction (-1.2%, table 6), amounting to €107,085 million at the end of December 2015. However, the Bank's credit market share is 21 basis points higher than that achieved in the previous year (7.64%[1] vs. 7.43%) which shows the Group's good performance in comparative terms.

Also, we would highlight the increase in new lending during the year, particularly in the SME and self-employed persons segments, pointing towards a greater dynamism in demand for credit.

1. Figures at November 2015

Figure 24: New production credit trend (Amounts in millions of euros)





As shown in table 7, ex-repo gross loans and advances to customers stood at €100,581 million at the end of 2015. 32.3% of loans and advances is aimed at companies, mainly SMEs and self-employed, and 67.7% at individuals. The distribution of customer loans and advances remained very similar to that seen in the previous year.

Table 7: Lending to customers (gross) (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)	Weight 15 (%)	Weight 14 (%)
Commercial loans	4,140,855	3,709,669	11.6	3.9	3.4
Secured loans	38,648,708	38,914,915	(0.7)	36.1	35.9
Mortgages	37,701,706	38,096,706	(1.0)	35.2	35.2
Other	947,002	818,209	15.7	0.9	0.8
Asset repos	6,504,071	6,586,483	(1.3)	6.1	6.1
Term and other loans	37,411,824	37,041,050	1.0	34.9	34.2
Finance leases	2,237,495	2,203,596	1.5	2.1	2.0
Doubtful assets	18,142,257	19,923,673	(8.9)	16.9	18.4
Subtotal: Gross loans excl. repos	**100,581,139**	**101,792,903**	**(1.2)**	**93.9**	**93.9**
Total	**107,085,210**	**108,379,386**	**(1.2)**	**100.0**	**100.0**

35.2% of loans and advances to customers relate to mortgage lending which fell by 1.00% in 2015 compared to 2014.

The mortgage portfolio has high-quality collateral. Specifically, the LTV[2] ratio of the individuals mortgage portfolio is 61.21%[3]. To this must be added the fact that the affordability rate of the active portfolio of personal mortgage loans is 26.36%, lower than the 35% estimated to be prudent.

At the close of 2015, the NPL ratio stood at 12.86%, a 92 basis point reduction in the year.

Securities portfolio

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

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

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

Table 8: Securities portfolio (Amounts in thousands of euros)

	HELD FOR TRADING PORTFOLIO	OTHER FINANCIAL ASSETS AT FAIR VALUE CHANGES IN P&L	AVAILABLE FOR SALE ASSETS	LOANS AND RECEIVABLES PORTFOLIO	TOTAL
B. Popular Español	-	-	21,459,625	1,136,961	22,596,586
Totalbank	-	-	488,775	-	488,775
B. Popular Portugal	-	-	1,867,202	-	1,867,202
Popular Banca Privada	-	-	431,068	-	431,068
TOTAL BANK GROUP	-	-	**24,246,670**	**1,136,961**	**25,383,631**
TOTAL NON-BANK GROUP	**20,971**	**313,869**	**499,976**	-	**834,816**
CONSOLIDATED TOTAL	**20,971**	**313,869**	**24,746,646**	**1,136,961**	**26,218,447**

Table 9: Maturity breakdown (Amounts in thousands of euros)

	0-1 YEARS	1-5 YEARS	5-10 YEARS	>10 YEARS	TOTAL
Held-for-trading portfolio	3,094	4,034	10,935	2,908	20,971
Other financial assets at fair value through P&L	41,106	174,488	93,814	4,461	313,869
Available-for-sale assets	794,680	12,274,242	8,872,280	2,805,444	24,746,646
Loan portfolio	213,793	420,480	455,468	47,220	1,136,961
Total	**1,052,673**	**12,873,244**	**9,432,497**	**2,860,033**	**26,218,447**

2. "*Loan to Value*", loan amount with respect to the value of the property.

3. Business in Spain.

Asset Yield

The average yield on assets was 2.22%, a 49 basis point reduction with respect to 2014. This fall is basically due to the fact that the loan portfolio continues to be repriced downwards, amongst other causes, as a result of the fall in interest rates. However, this decrease has been accompanied by a reduction in the cost of funding, which, together with the active management of prices and in particular of spreads, partially offsets this impact on net interest income. As will be shown later, the customer spread declined by 6 bps compared with 2014.

Most of the €3,509 million in interest and similar income derives from secured loans (€1,299 million, mainly mortgages, €1,258 million) and term and other loans, generating income of €1,233 million. These two items represent 72.15% of interest and yields in the year.

The return on profitable assets mainly derives from private sector loan activity, which represents 84.00% of the total (table 10). The weight of credit institutions contribution fell to 0.3%, basically generated by the Group's Treasury. Securities operations mean 11.6%, mainly fixed income investment. The weight of the income from Public Administrations is 3.9% and 0.2% originates from other profitable assets.

Table 10: Interest and similar income in 2015 (Amounts in thousands of euros)

	Total 2015	Weight (%)	Total 2014	Weight (%)
Credit institutions	**12,057**	**0.3**	**21,474**	**0.5**
Public Administrations	**135,747**	**3.9**	**146,579**	**3.5**
Private sector	**2,947,426**	**84.0**	**3,495,383**	**83.9**
Commercial loans	165,022	4.7	207,197	5.0
Secured loans	1,299,085	37.0	1,529,525	36.7
Mortgage loans	1,257,789	35.8	1,477,067	35.4
Other	41,296	1.2	52,458	1.3
Term and other loans	1,232,586	35.1	1,527,719	36.7
Finance leases	96,534	2.8	104,600	2.5
Doubtful assets	154,199	4.4	126,342	3.0
Debt securities	**406,379**	**11.6**	**491,962**	**11.8**
Other profitable assets	**7,079**	**0.2**	**11,836**	**0.3**
TOTAL	**3,508,688**	**100.0**	**4,167,234**	**100.0**

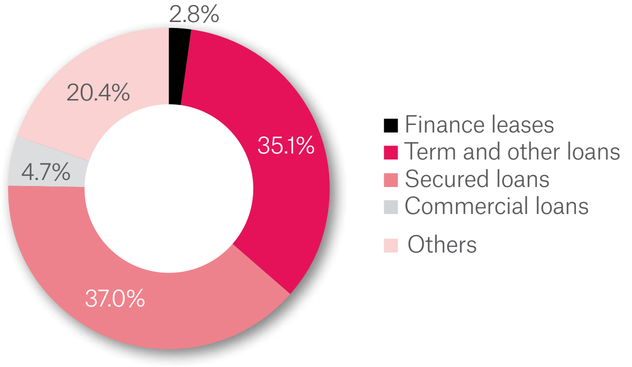
As can be seen in table 11, 89.5% of the Group's net interest income derived from activities with customers in Spain. Portugal represents 7.6% while the remaining 2.9% relates to the TotalBank business in the US.

Table 11: Distribution of net interest income by country (Amounts in millions of euros)

	2015	Weight (%)
Spain	2,015	89.5
Portugal	170	7.6
USA	66	2.9
Total	**2,251**	**100.0**

The origin of income by type of operation with customers is set out in Figure 25, in which Term loans and Secured loans represent more than 72.1% of the total.

Figure 25: Origin of income by type of transaction with customers



Trend of liabilities

At the close of 2015, balance sheet resources amounted to €140,509 million (Table 12), representing a 1.2% decrease. Customer deposits fell by 8.0% to €88,335 million at year-end. The Bank maintains a comfortable liquidity position, ending 2015 with an LTD ratio[4] of 109.0%.

Table 12: Funds managed (net) (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)
Deposits from central banks	**14,204,120**	**9,993,427**	**42.1**
Deposits from credit institutions	**19,172,266**	**17,624,123**	**8.8**
Customer deposits	**88,335,415**	**96,036,196**	**(8.0)**
Retail deposits and Public Administrations	83,406,355	87,060,203	(4.2)
Public Administrations	10,845,109	17,402,066	(37.7)
Other private sectors	72,498,678	69,298,057	4.6
Resident sectors	*63,714,521*	*60,675,099*	*5.0*
Non-resident	*8,784,157*	*8,622,958*	*1.9*
Valuation adjustments	62,568	360,080	(82.6)
Deposits with central counterparties	4,929,060	8,975,993	(45.1)
Marketable debt securities	**15,989,048**	**15,962,018**	**0.2**
Unadjusted marketable debt securities	15,798,519	15,809,274	(0.1)
Bonds and other securities outstanding	*15,043,679*	*15,017,325*	*0.2*
Commercial paper	*754,840*	*791,949*	*(4.7)*
Valuation adjustments	190,529	152,744	24.7
Subordinated liabilities	**2,066,951**	**1,424,645**	**45.1**
Other financial liabilities	**740,724**	**1,187,369**	**(37.6)**
Total on-balance sheet funds	**140,508,524**	**142,227,778**	**(1.2)**

4. *Loan to Deposits* ratio: ratio of loans to deposits.

As shown in table 13, retail deposits and Public Administrations decreased by 9.1% relative to 2014, bringing market share to 6.0%, an increase of 29 bps compared with the fourth quarter of 2014.

Table 13: Customer funds (Amounts in thousands of euros)

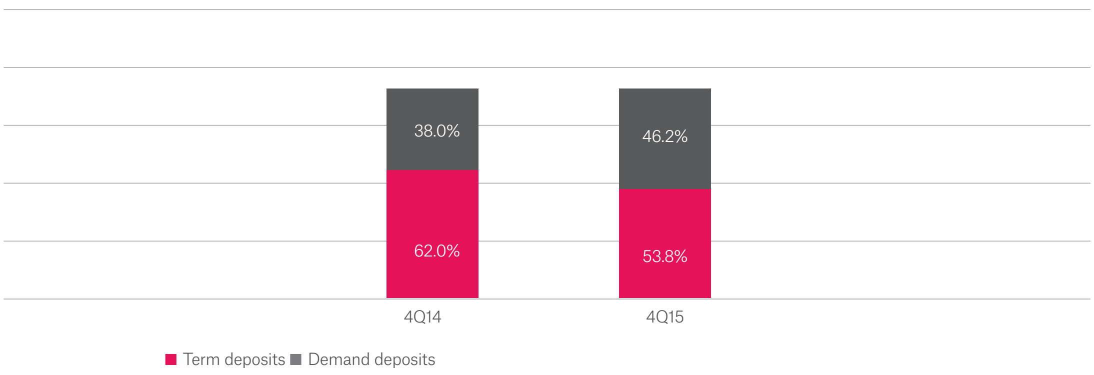
	31.12.2015	31.12.2014	Change (%)
Demand deposits (excl. Treasury) and Other accounts	35,953,703	27,475,977	30.9
Term deposits	41,882,347	44,838,593	(6.6)
Asset repos	1,244,737	14,385,553	(91.3)
Valuation adjustments	62,568	360,080	(82.6)
Subtotal customer deposits and Public Administrations	**79,143,355**	**87,060,203**	**(9.1)**
Retail commercial paper	128,742	311,639	(58.7)
Mediation loans [1]	6,362,208	8,745,164	(27.2)
Securitisation sold to third parties	237,507	343,387	(30.8)
Marketable securities distributed through the commercial network[2]	467,662	468,197	(0.1)
Tax collection accounts	326,184	361,604	(9.8)
Asset repos	(1,244,737)	(14,385,553)	(91.3)
Total Retail Funds	**85,420,921**	**82,904,641**	**3.0**

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

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

With regard to the behaviour of traditional liability products, the transfer from term deposits to demand deposits (excl. Treasury, ICO and EIB funding) is worth particular mention, with the latter continuing to gain weight and having increased by 30.9% in the year.

Figure 26: Evolution of the demand and term deposits distribution (%)



All these movements resulted in a slight increase in Total Customer Resources of 3.00% compared to 2015.

As mentioned earlier, the LTD ratio stood at 109.0% at year end. This ratio measures the relationship between customer lending net of provisions and customer deposits and other commercial financing items for loans (mediated loans, securitisations sold to third parties, inter alia) and, therefore, shows the Bank's capacity to finance its loans without resource to wholesale funding.

Cost of funding

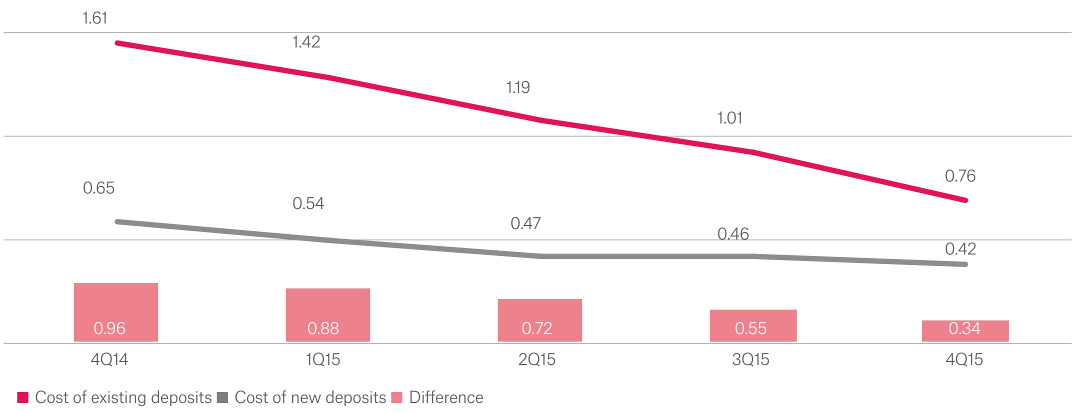
Financial costs have been reduced significantly in 2015, specifically by 31.5% with respect to 2014. In terms of distribution by sector and origin of products, table 14 shows that 43.4% of the costs stem from transactions with customers, lower than the previous year driven by the transfer between term deposits and demand deposits as previously commented and mainly by the significant reduction in the cost of new production through an active management of the prices offered.

Table 14: Interest and similar expenses in 2015 (Amounts in thousands of euros)

	Total 2015	Weight (%)	Total 2014	Weight (%)	Change (%)
Credit institutions	**178,016**	**14.2**	**288,772**	**15.7**	**(38.4)**
Public Administrations	**37,172**	**3.0**	**70,980**	**3.9**	**(47.6)**
Private sector	**545,921**	**43.4**	**913,741**	**49.8**	**(40.3)**
Current accounts	42,112	3.3	55,785	3.0	(24.5)
Savings accounts	2,975	0.2	6,793	0.4	(56.2)
Term deposits	498,896	39.7	844,498	46.0	(40.9)
Asset repos	44	-	4,043	0.2	(98.9)
Other accounts	1,894	0.2	2,622	0.1	(27.8)
Deposits with central counterparties	**1,955**	**0.2**	**9,824**	**0.5**	**(80.1)**
Marketable securities	**485,019**	**38.6**	**541,564**	**29.5**	**(10.4)**
Bonds	424,341	33.7	474,317	25.8	(10.5)
Commercial paper and bills of exchange	7,606	0.6	19,759	1.1	(61.5)
Subordinated debt and preferred shares	53,072	4.2	47,488	2.6	11.8
Other funds	**9,369**	**0.7**	**10,962**	**0.6**	**(14.5)**
Total	**1,257,452**	**100.0**	**1,835,843**	**100.0**	**(31.5)**

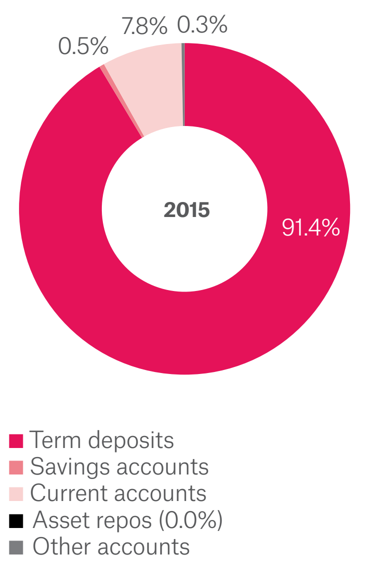
The cost of term deposits' new production remained low, closing 2015 at 0.45%, representing a decrease of 12 bps compared with the December 2014 rate. This contributed to the term deposits portfolio rate at the end of 2015 standing at 0.71%, 86 bps lower than at the close of 2014. Figure 27 shows the evolution of term deposits' quarterly cost.

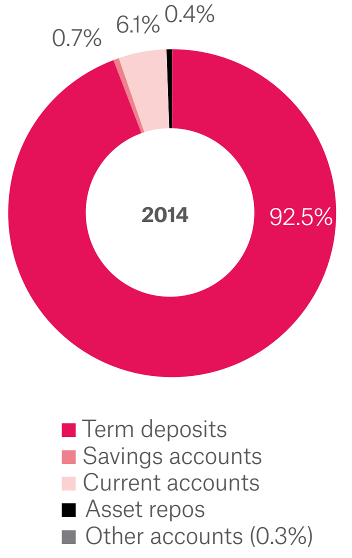
Figure 27: Evolution of the cost of term deposits (quarterly average in%)



As can be seen in Figure 28, 91.4% of the €546 million relates to term deposits, while the contribution of demand deposits increased slightly.

Figure 28: Origin of the costs by transaction type in the private sector





Spreads performance

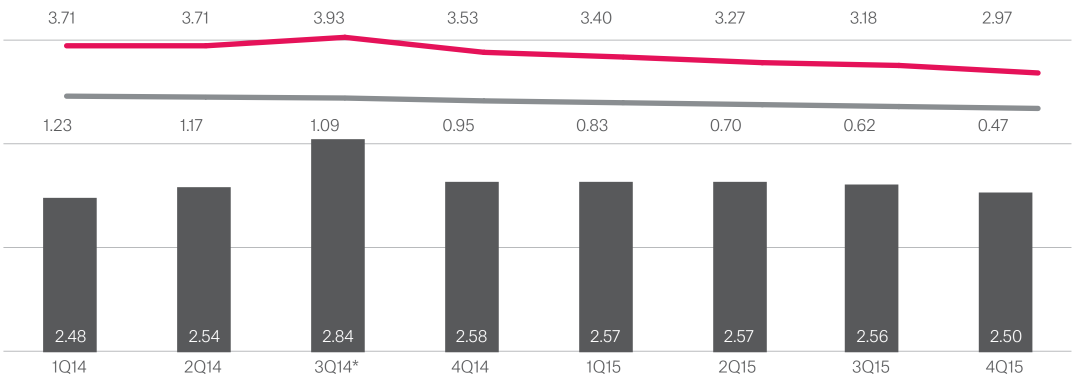
The customer spread decreased by 6 bps in comparisson with to 2014, to 2.55%, mainly as a result of low interest rates, which is driving down the profitability of lending and despite the reduction in the cost of term deposits. In this regard, it is noted out that the profitability of lending stood at 3.21% at the end of 2015.

Table 15: Yields and costs (Amounts in thousands of euros)

	31.12.2015				31.12.2014			
	Average balance	**Weight (%)**	**Products or costs**	**Rates (%)**	**Average balance**	**Weight (%)**	**Products or costs**	**Rates (%)**
Financial intermediaries	6,161,276	3.89	12,057	0.20	5,745,952	3.74	21,474	0.37
Loans to customers (a)	96,195,082	60.75	3,083,173	3.21	97,905,118	63.68	3,641,962	3.72
Securities portfolio	32,070,958	20.25	406,379	1.27	27,973,562	18.20	491,962	1.76
Other assets	23,909,905	15.11	7,079	0.03	22,112,999	14.38	11,836	0.05
Total assets (b)	**158,337,221**	**100.00**	**3,508,688**	**2.22**	**153,737,631**	**100.00**	**4,167,234**	**2.71**
Financial intermediaries	32,217,689	20.35	178,016	0.55	27,537,755	17.91	288,772	1.05
Customer funds: (c)	89,249,214	56.36	587,652	0.66	90,257,838	58.70	1,003,731	1.11
Current accounts	27,250,806	17.21	63,019	0.23	19,271,754	12.54	80,305	0.42
Savings and time deposits	58,552,755	36.98	520,074	0.89	65,622,336	42.68	904,416	1.38
Deposits with clearing houses	3,296,505	2.08	1,955	0.06	4,988,495	3.24	9,824	0.20
Retail commercial paper	149,148	0.09	2,604	1.75	375,253	0.24	9,186	2.45
Marketable securities and other	18,083,004	11.42	482,415	2.67	17,116,962	11.14	532,378	3.11
Other interest-bearing liabilities	313,230	0.20	9,369	2.99	333,593	0.22	10,962	3.29
Other funds	5,746,724	3.63	-	-	5,997,990	3.90	-	-
Equity	12,727,360	8.04	-	-	12,493,493	8.13	-	-
Total resources (d)	**158,337,221**	**100.00**	**1,257,452**	**0.80**	**153,737,631**	**100.00**	**1,835,843**	**1.19**
Customer spread (a-c)				*2.55*				*2.61*
Net interest margin (b-d)				*1.42*				*1.52*

The positive quarter on quarter performance of customer spread since 2014 can be seen below:

Figure 29: Evolution of profitability and customer cost (including promissory notes) (%), No singular operations



*3Q14 figures were affected by the card business transaction

Net interest income totalled €2,251 million, a fall of 3.4% compared to 2014. Two opposing factors contributed to this outcome: on the one hand, the volume component and, more specifically, the growth in profitable investment, had a positive impact over the course of the year; on the other and in a negative way, prices were mainly influenced by competition and low interest rates, which mainly affected retail business assets. The evolution of net interest income by business area is discussed in more detail in Chapter 7 of this document.

Table 16: Causal analysis of variations in interest rates (Amounts in thousands of euros)

Volume	*Spread*	Market rates	VAR. SPREAD 2015 vs. 2014
53,023	(186,044)	52,866	(80,155)

2. Gross income

Gross income amounted to €3,431 million for the year ended 31 December 2015, 11.5% down on 2014.

Net fees and commissions

Net fees and commissions decreased by 9.1% compared to 2014, reaching €595 million. There was a 13.8% fall in 2014 attributable to the sale of businesses (POS terminals, ATMs, cards), which distorts year-on-year comparison. In recent years, the Group has established joint ventures with specialist partners in different products to improve the profitability of each segment; in particular, the deconsolidation of the cards business took place in the last quarter of 2014. From an accounting standpoint, companies established with specialised partners to boost businesses are accounted for using the equity method, so that the revenues disappear from the fees and commissions line and are shown instead as a net balance in results by the equity method heading.

Table 17: Net fees and commissions (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)	Weight 15 (%)	Weight 14 (%)
Banking services	**575,247**	**632,850**	**(9.1)**	**96.6**	**96.7**
Portfolio management commissions	100,666	100,734	(0.1)	16.9	15.4
Securities portfolio	9,620	23,200	(58.5)	1.6	3.5
Asset management	5,045	3,848	31.1	0.8	0.6
Investment funds	77,261	64,185	20.4	13.0	9.8
Pension plans	8,740	9,501	(8.0)	1.5	1.5
Other banking services	471,436	476,913	(1.1)	79.2	72.8
Securities and foreign currency purchases and sales	8,105	11,762	(31.1)	1.4	1.8
Demand accounts administration	109,028	105,251	3.6	18.3	16.1
Provision of collateral and other guarantees	130,108	133,278	(2.4)	21.9	20.4
Asset transaction services	35,261	39,202	(10.1)	5.9	6.0
Collection and payment handling	71,390	75,724	(5.7)	12.0	11.6
Other	117,544	111,696	5.2	19.7	17.1
Means of payment	3,145	55,203	(94.3)	0.5	8.4
Defaults	**20,075**	**21,857**	**(8.2)**	**3.4**	**3.3**
Total	**595,322**	**654,707**	**(9.1)**	**100.0**	**100.0**

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

At the close of 2015, the assets sold by the Group through investment funds amounted to €11,493 million, up by 21% compared with the €9,499 million sold in 2014.

According to Inverco, the two main asset management unit of the Bank, Popular Gestión Privada and Allianz Popular Asset Management, managed, at the end of 2015, assets amounting to €10,846 million, which compared to €9,561 million in 2014 represents a 13.4% increase.

Table 18 shows the distribution by type of product from the classification made by Inverco for greater comparability with sector data.

Table 18: Assets and variation in Spanish investment funds by type (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Var: total	Var. (%)	Weight (%)
Fixed income	3,983,172	5,371,247	(1,388,075)	(25.8)	36.7
Mixed funds	3,488,778	1,174,605	2,314,173	197.0	32.2
Equity instruments	852,277	556,617	295,660	53.1	7.9
Guaranteed funds	1,509,126	1,775,616	(266,490)	(15.0)	13.9
Global funds	234,769	197,674	37,095	18.8	2.2
Other	777,676	485,058	292,618	60.3	7.2
Total funds	**10,845,798**	**9,560,817**	**1,284,981**	**13.4**	**100.0**

Last year, there was a €1,388 million decrease in fixed income funds due to the fall in returns on such assets. On the other hand, there was a significant increase (€2,314 million) in mixed funds, the relative weight of which almost tripled (32.2% vs. 12.3%). Increased investor appetite for mixed funds, to the detriment of fixed income funds (although less pronounced than movements in the sector), is due to the search by investors for assets with access to higher profitability with a moderate risk profile given the current situation of low interest rates and low yields offered by term deposits.

Gains/(losses) on financial transactions

The contribution of gains on financial transactions to gross income fell by 37% compared with the previous year. This is attributable to tactical management of the debt securities portfolio, which, in 2014, allowed the anticipation of some results, generating gains from financial transactions 78% higher than the previous year (2013).

Other products and operating expenses

As for Other operating income and expenses, there was a net decrease of €13.3 million compared with 2014.

The decrease in income from insurance and reinsurance contracts issued in business volume compared with 2014 is worth special mention, falling from €134,152 thousand in 2014 to €33,241 thousand in 2015. This is due to the change in commercialization strategy of Eurovida Portugal, S.A. to focus on Unit link products while ending the marketing of products belonging to the guaranteed insurance contract segment (such as Eurovida Poupança Futuro and Eurovida Poupança Segura, which were marketed in 2014). Concerning operating expenses, the similar impact on the cost of insurance and reinsurance contracts deriving from the aforementioned change in strategy is also worth note, resulting in a drop from €135,859 thousand in 2014 to €41,119 thousand in 2015.

3. Net operating income

Table 19: Breaks down the Personnel and General administrative expenses (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)
Personnel expenses	**935,833**	**946,235**	**(1.1)**
Wages and salaries	692,769	701,415	(1.2)
Social security contributions	180,378	184,200	(2.1)
Other personnel expenses	29,081	30,047	(3.2)
Pensions	33,605	30,573	9.9
General administrative expenses	**667,854**	**780,050**	**(14.4)**
Rents and common services	137,882	141,034	(2.2)
Communications	22,157	31,175	(28.9)
Maintenance of premises and equipment	72,638	77,331	(6.1)
IT and outsourced services	144,215	220,083	(34.5)
Stationery and office supplies	5,963	6,482	(8.0)
Technical reports and legal expenses	54,775	66,599	(17.8)
Advertising and publicity	21,325	34,083	(37.4)
Insurance	6,195	7,248	(14.5)
Security and fund transport services	17,076	19,792	(13.7)
Travel	9,887	10,462	(5.5)
Property, VAT and other taxes	135,706	120,699	12.4
Other general administrative expenses	40,035	45,062	(11.2)
Total	**1,603,687**	**1,726,285**	**(7.1)**

Personnel expenses remained practically stable, falling by just 1.1% with respect to 2014. During the last quarter of 2014 the early retirement plan at Central Services affected 104 people.

Administrative expenses came to €668 million (a reduction of 14.4% compared to 2014), influenced by the reduction in communication, advertising and outsourced services costs incurred in 2014 to carry out corporate transactions, the asset quality review performed during the stress tests and other costs associated with unprofitable assets which were generated the previous year.

Thus, the cost to income ratio for 2015 came to 46.74%.

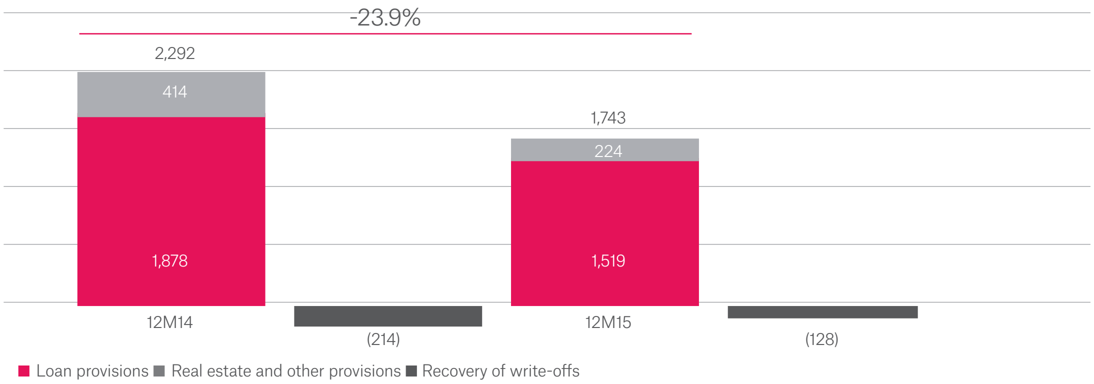
Depreciation and amortisation fell by 4.7% over the previous year, reaching €138 million at the end of the year.

As a result of the above, operating income for 2015 came to €1,689 million, 15.7% less than in 2014.

4. Consolidated profit/(loss) for the year

Regarding provisions, in the year €1,743 million were allocated to this concept, representing a decrease of 23.9% over last year. Provisions on real estate were significantly reduced by €190 million or 45.9% compared to 2014, and credit provisions were down by €359 million. Provisions net of recoveries on write-offs amounted to €1,615 million at the close of 2015.

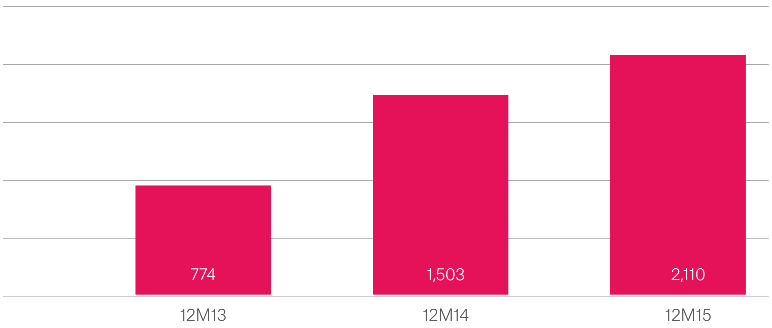
Figure 30: Provisions for loans and real estate (Amounts in millions of euros)



Significant efforts were also made in 2015 to generate capital gains (recurring and non-recurring); in 2015, a total of €127 million of non-recurring capital gains were generated, basically deriving from corporate transactions, among which the creation of a company to manage real estate assets in Portugal (Recbus Portugal, €69.5 million) and the sale of 50% of Universal Pay (€54.8 million) are worth particular mention.

Finally, we note the excellent performance of the real estate sales, which increased by 40% compared with the previous year. Sales were made at prices similar to the book value (i.e. without losses) thanks to the provisions in place.

Figure 31: Sale of real estate (millions of euros)



5. Attributable profit

Profit attributable to the Group, excluding the contribution of non-controlling interests, was €105 million, 68.1% lower than 2014.

The proposed distribution of the result for 2015 that the Banco Popular's Board of Directors will submit to the General Shareholders' Meeting for approval, and the distribution of the profit for 2014 that was approved at the General Shareholders' Meeting on 13 April 2015, may be consulted in Note 4 to the Financial Statements.

Table 20: Information per share and return

	31.12.2015	31.12.2014
Profit attributable to the Parent company	105,432	330,415
Earnings per share	0.049	0.157
ROA (%)	0.07	0.21
RORWA (%)	0.13	0.40

7 Activity by business line

The methodology applied in the segmentation by business area and, in particular, the criteria for assigning profits to the various activities that have been segmented are set out in Note 7 to the Financial Statements. Since 2012 the most appropriate subdivision to illustrate the management carried out by the Group has been considered to be the following: Commercial Banking, Asset Management and Insurance, Real Estate and Institutional and Capital Markets Area.

Segmentation by geographical area

From a geographical point of view, the Group's primary business is carried out in Spain, which accounts for 92.0% of Total consolidated Assets and 92.3% of the Gross Margin. Table 21 provides details of the contribution of each geographic area and business to the various results and balance sheet figures, very similar to the previous year.

Table 21: Segmentation by geographical area (data in%)

	Spain[1]		Portugal		USA	
	2015	2014	2015	2014	2015	2014
Total assets	92.0%	92.1%	6.4%	6.6%	1.6%	1.3%
Net interest income	89.5%	90.3%	7.6%	7.2%	2.9%	2.5%
Gross income	92.3%	92.9%	5.6%	5.4%	2.1%	1.7%

[1] Includes the remainder of companies in other geographical areas with little significant impact.

As may be observed in Table 22, in 2015 the optimisation of the number of employees and the branch office network has continued. It shows that 89.4% of employees carry out their activity in Spain. With regard to offices, 91.1% are in Spain.

Table 22: Employees and branch offices by geographical area

	Spain		Portugal		USA		Consolidated total	
	2015	2014	2015	2014	2015	2014	2015	2014
Number of employees	13,480	13,501	1,267	1,402	332	418	15,079	15,321
Number of branch offices	1,936	1,946	169	173	19	21	2,124	2,140

Commercial banking in Spain

In Spain the business is mainly carried out through Banco Popular and, in Galicia, also through Banco Pastor. In both entities the main activity is commercial banking and a distinction may be made between individual and corporate customers. Furthermore, the Group has two specialist banks: Popular Banca Privada (private banking) and bancopopular-e (cards, 49% equity holding).

Commercial banking abroad

The commercial banking business in Portugal is conducted mainly through the Banco Popular Portugal subsidiary and is also focused on retail banking, primarily for SMEs. The total assets at the Portuguese bank totalled €9,138 million, of which €6,175 million relates to gross customer loans. For 2014 the latter item increased by 5.7%. Customer deposits stood at €5,016 million, an increase of 23.9% compared with the close of 2014.

Banco Popular Portugal has experienced a slight reduction in net interest income, falling by 1.99% due primarily to lower prices for contracting loans and receivables, although lower cost of customer funds through the pricing management is noteworthy.

Gross margin at the close of 2015 reduced 12.3% with regard to the previous year, reaching €162 million.

Net operating income was down on the previous year. Personnel expenses fell slightly (by 0.8% relative to 2014) and general costs were reduced by 4.32%. For provisions for loan impairment, there has been a decrease of €8 million compared to the year before. The property assets management business was sold, generating income of €48.6 million. This leads to a pre-tax profit €21.5 million compared to a loss of €5.4 million the previous year.

The commercial banking business in the United States is carried out through Totalbank, an entity that was acquired at the end of 2007, and which operates in the State of Florida. At the end of the year this bank had 19 branch offices and 332 employees. Its total assets amounted to €2,407 million (which is a 17.9% increase compared with 2014) of which €1,784 million relates to gross credit to customers (19.57% higher than the year before). When referring to customer deposits, these have increased 22.17% compared to December.

The Bank achieved a pre-tax profit of €21.9 million in 2015.

Segmentation by business area

Compared with 2014 (Table 23) the weights of the asset structure were maintained, which is not the case for the results contributed by the various areas.

Table 23: Segmentation by business area (%)

	COMMERCIAL BANKING		ASSET MANAGEMENT AND INSURANCE		REAL ESTATE AREA		INSTITUTIONAL AND MARKETS	
	Weight 2015 (%)	Weight 2014 (%)	Weight 2015 (%)	Weight 2014 (%)	Weight 2015 (%)	Weight 2014 (%)	Weight 2015 (%)	Weight 2014 (%)
Net interest income	107.3	109.3	1.9	1.8	(17.4)	(16.1)	8.3	5.0
Gross income	91.6	82.1	2.0	3.1	(14.6)	(9.7)	20.9	24.6
Operating income before provisions	113.2	85.7	2.5	4.6	(41.6)	(23.8)	25.9	33.5
Profit/(loss) on operating activities*	190.3	23.5	17.0	25.2	(239.6)	(139.9)	132.3	191.2
Profit/(loss) before tax	548.8	153.9	44.4	23.0	(841.0)	(241.9)	347.8	164.9
Total assets	**62.3**	**60.6**	**1.1**	**0.9**	**7.6**	**6.6**	**29.0**	**31.9**

* The weights in the segments show their positive or negative contribution.

Commercial Banking represents 62.3% of Total Assets and generates 548.8% of Profit before taxes, which is a reflection of the commercial bank's profile as it is focused almost exclusively on the Group's typical banking services. The second most important area is Institutional and Markets, both in terms of relative weight compared with Total Assets (29.0%), and to the contribution made to profits, which this year had a weighting of 347.8%.

The real estate area has a negative contribution of 841.0% of the Group's result as this segment is responsible for the provisions for property impairment. The least significant segment in absolute terms from the point of view of total assets (1.1%) is Asset Management and Insurance, which nonetheless recorded positive results for the year, equivalent to 44.4% of consolidated Profit before taxes.

Commercial Banking

The Group's primary activity focuses on providing financial services to approximately 4.8 million customers, companies and families through its extensive branch office network, constituting the foundations of the business: typical investment activities, capturing resources, assuming off-balance sheet risks and providing all types of financial services.

Table 24: Results of the commercial banking activity (Amounts in thousands of euros)

	31.12.2015	31.12.2014	%
Net interest income	2,414,846	2,548,583	(5.2%)
Net fees and commissions	562,899	622,610	(9.6%)
± Other financial transactions	-	43,639	(100.0%)
± Other operating results	164,272	(32,579)	(604.2%)
Gross income	3,142,017	3,182,253	(1.3%)
Operating expenses	1,228,710	1,462,967	(16.0%)
Operating profit before provisions	1,913,307	1,719,286	11.3%
Impairment losses and other provisions (net)	1,344,592	1,639,121	(18.0%)
Profit/(loss) on operating activities	568,715	80,165	609.4%
Impairment losses on non-financial assets	-	-	0.0%
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	57,876	493,938	0.0%
± Profit/(loss) on non-current assets for sale not classified discontinued operations	-	-	0.0%
Profit/(loss) before tax	626,591	574,103	9.1%

Gross income decreased by just 1.3%.

Thanks to the decrease in costs and impairment losses, a pre-tax profit of €626.6 million was posted, 9.1% more than the previous year.

The categories into which this segment is subdivided are described below:

a) Banking for Private Individuals

Banking for private individuals manages 78% of the Group's total customers. The segment is broken down into Óptima, banking for private individuals and mass banking.

Óptima is made up of those customers with funds greater than 150 thousand euros. The difference between banking for private individuals and mass banking lies in the level of personalised service and degree of association.

Noteworthy within banking for private individuals is the weight of the specific groups of customers on which the Group's business strategy focuses because they require a higher level of service. These are homogeneous groups of customers, generally in the same profession.

b) Banking for businesses

Banking for businesses manages 22% of the Group's total customers. This segment consists of the public sector, large companies, SMEs, self-employed persons and retail traders, and non-commercial undertakings.

A large company is defined as a company with total assets of over €100 million and revenues of over €100 million.

The SME category comprises medium-sized companies with assets and revenues of between €10 million and €100 million, small companies with assets and revenues of between €1 million and €10 million, and micro companies with assets and revenues of less than €1 million. In addition a distinction is made between self-employed individuals and retail traders, and other companies, the segment in which legal entities such as associations, sports clubs, etc. are included.

Asset management and insurance

The Asset Management and Insurance business unit covers the distribution of investment funds, pension plans and insurance in Spain through Allianz Popular Holding, S.L., in which Banco Popular holds a 40% stake. This holding company is formed by three companies specific to each activity: Allianz Popular Vida, Compañía de Seguros y Reaseguros S.A; Allianz Popular Pensiones, E.G.F.P., S.A.; and Allianz Popular Asset Management, S.G.I.I.C., S.A. It also includes the distribution of non-life insurance by Allianz through Popular de Mediación, S.L., wholly owned by the Group. This also includes the activity of Popular Banca Privada, wholly owned by the Group.

Table 25 shows the performance of this area in 2015 compared with 2014.

Table 25: Results of the asset management and insurance activity (Amounts in thousands of euros)

	31.12.2015	31.12.2014	%
Net interest income	41,823	42,862	(2.4%)
Net fees and commissions	33,520	32,087	4.5%
± Other financial transactions	(4,092)	47,126	(108.7%)
± Other operating results	(1,157)	(3,410)	0.0%
Gross income	70,094	118,665	(40.9%)
Operating expenses	28,138	26,865	4.7%
Operating profit before provisions	41,956	91,800	(54.3%)
Impairment losses and other provisions (net)	(8,765)	5,825	(250.5%)
Profit/(loss) on operating activities	50,721	85,975	(41.0%)
Impairment losses on non-financial assets	1	19	(94.7%)
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	-	57	(100.0%)
± Profit/(loss) on non-current assets for sale not classified discontinued operations	-	(83)	0.0%
Profit/(loss) before tax	50,720	85,930	(41.0%)

Gross income decreased, as no gains were generated by financial assets and liabilities. Even so, the unit contributed €50.7 million the consolidated profit before tax, which represents a decrease of €35.2 million compared with 2014.

2015, like 2014, was a year of keen competition in the sector due to the low prices applied to traditional bank deposits.

a) Management of collective investment institutions

At year-end, the assets managed or marketed by the Group in collective investment institutions in Spain amounted to €11,463 million, which represents an increase of 21.0%, compared to €9,499 million at the end of 2014. The number of participants is 368,378, up from 328,149 registered participants in the previous year.

As regards the composition of the portfolios, the past year was marked as far as the Group is concerned by an increase in fixed-income and global funds (profiled funds) to the detriment of more conservative monetary funds due to the fact that investors seek higher yields given the low interest rate situation for traditional deposits.

b) Management of individual and group pension plans

This activity is mainly carried out through Allianz Popular Pensiones, E.G.F.P. S.A. The activity in Portugal is performed by Eurovida, a wholly owned subsidiary of Banco Popular.

The assets managed by Allianz Popular Pensiones at the end of 2015 reached €5,485 million, representing an increase of 2.24% compared to €5,365 million at the end of December 2014.

The assets managed in individual schemes at 31 December 2015 totalled €4,198 million, with €1,234 million in occupational plans and €53 million in associated schemes.

c) Private Banking

The Group also offers its services to high net worth customers through its specialised bank Popular Banca Privada. Following the integration of the bancopopular-e private banking business in 2015, this unit now has around 6,900 customers with a business volume of almost €7,700 million.

The Bank has its own branch offices located in the main Spanish cities, through which it provides its services to both customers from the Group's network as well as direct customers.

Popular Banca Privada is geared towards providing advice and management services to clients with a high economic level, with assets under management or advisory of at least €300,000. The broad range of investment products and services offered are managed by a team of experts in markets, tax, legal, real estate, corporate finance issues and other non-conventional investments. This provides coverage to customer asset needs and allows them to optimise their returns and the tax impact of their decisions.

At the end of 2015 the Group held a 100% stake in its capital and voting rights. Popular Banca Privada is the only independent bank belonging to a major Spanish financial group that specialises in the professional management of this group of customers.

The integration of the bancopopular-e private banking business and organic growth have facilitated a growth in managed equity of €1,700 million. As at 31 December 2015, Popular Banca Privada had 6,873 specific customers, 1,484 more than in 2014, and managed assets (understood to be total resources and customer investments) totalling €7,676 million, which is 28% more than at the end of 2014.

In 2014, significant non-recurring income was obtained thanks to Gains on Financial Transactions generated by the sale of part of the Fixed-Income portfolio. If we exclude this significant impact, income grew by 8% year-on-year in 2015.

Excluding these capital gains from 2014 once again, operating income amounted to €13.2 million, up by 22% on 2014. Using the same criteria of comparison, profit before tax grew by €8.1 million to €12.8 million.

d) Insurance

The bancassurance business unit focuses on provident and protection products including life insurance policies, both those used as a means of savings and those linked to loan transactions, and non-life insurance, mainly home, health and motor insurance, and those linked to retirement. The products offered are adapted to each of the Bank's various businesses and customer segments, whether individuals, companies or institutions.

Allianz Popular Vida and Eurovida Portugal are the Group's two primary life insurance companies. The former, as previously indicated, is owned by Allianz Popular Holding, while Eurovida Portugal is wholly owned by the Group. The latter company distributes non-life Allianz insurance through its branch offices and Popular de Mediación, which is wholly owned by Banco Popular.

The non-life insurance business in Portugal is managed by Popular Seguros. Popular de Mediación also operates as an associated bancassurance partner. Both are 100% owned by the Group.

Real estate area

The real estate activity was segregated from the rest of the activities in order to offer a more precise view of the business and to adapt to the Bank's management framework. This area includes the Group's real estate business as well as the real estate assets belonging to Group banks that are managed in an integrated manner in the interests of an orderly disposal of the property assets.

Table 26: Results of the real estate area (Amounts in thousands of euros)

	31.12.2015	31.12.2014	%
Net interest income	(391,617)	(376,256)	4.1%
Net fees and commissions	(1,097)	10	(11070.0%)
± Other financial transactions	(564)	(594)	(5.1%)
± Other operating results	(105,959)	16	0.0%
Gross income	(499,237)	(376,824)	32.5%
Operating expenses	203,550	100,362	102.8%
Operating profit before provisions	(702,787)	(477,186)	47.3%
Impairment losses and other provisions (net)	13,338	-	0.0%
Profit/(loss) on operating activities	(716,125)	(477,186)	50.1%
Impairment losses on non-financial assets	(21,649)	(34,435)	0.0%
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	68,412	21,411	219.5%
± Profit/(loss) on non-current assets for sale not classified as discontinued operations	(334,251)	(480,775)	(30.5%)
Profit/(loss) before tax	(960,315)	(902,115)	6.5%

Operating income before provisions came to a negative €703 million, as a result of the high cost of financing assets and of operating costs.

Consolidated pre-tax loss came to €960 million, 6.5% more than in the previous year.

Institutional and markets activity

This heading includes the rest of the activities carried out, among which the following are notable: asset and liability transactions with credit institutions, the trading and available-for-sale financial asset portfolios, asset and liability hedge derivatives, held-to-maturity investment and shareholding portfolio, pension-related asset and liability balances, and raising of funds through issues on wholesale markets.

Table 27: Results of the institutional and markets activity (Amounts in thousands of euros)

	31.12.2015	31.12.2014	%
Net interest income	186,184	116,202	60.2%
Net fees and commissions	-	-	0.0%
± Other financial transactions	521,916	825,451	(36.8%)
± Other operating results	9,937	10,286	0.0%
Gross income	718,037	951,939	(24.6%)
Operating expenses	281,042	280,621	0.2%
Operating profit before provisions	436,995	671,318	(34.9%)
Impairment losses and other provisions (net)	41,394	19,180	115.8%
Profit/(loss) on operating activities	395,601	652,138	(39.3%)
Impairment losses on non-financial assets	-	4,098	0.0%
± Gain/(loss) on the disposal of assets not classified as non-current assets for sale	1,587	(17,367)	0.0%
± Profit/(loss) on non-current assets for sale not classified discontinued operations	-	(15,600)	(100.0%)
Profit/(loss) before tax	397,188	615,073	(35.4%)

The Bank's activity in this area focused on the tactical management of its fixed-income portfolio, were we would highlight the results of financial transactions, although down by 36.8% compared with 2015.

Profit before tax for 2015 came to €397 million, a decrease of 35.4% compared with 2014.

8 Solvency

Regulatory capital, returns on capital and equity

On 1 January 2014, the new Europe-wide solvency regulations came into force. These regulations comprise one Directive (Directive 2013/36/EU, CRD IV) and one Regulation (Regulation 575/2013/EU, CRR), which represent the Europe-wide implementation of the Basel Committee on Banking Supervision recommendations known as Basel III. Both instruments replace Directives 2006/48/EC of 14 June on the exercise of and access to the activities of credit institutions and 2006/49/EC of 14 June on capital adequacy of investment firms and credit institutions of the European Parliament and of the Council. The Directive must be adopted by Member States, whereas the Regulation is directly applicable.

The national adoption of this new European Directive came about following the publication of Law No. 10/2014 of 26 June on the Organisation, Supervision and Solvency of Credit Institutions and Royal Decree No. 84/2015 of 13 February, which enacted Law No. 10/2014. This law and its subsequent enactment revoke Law No. 13/1985, of 25 May on investment ratios, equity and reporting obligations of financial intermediaries and Royal Decree No. 216/2008, of 15 February on the equity of financial institutions, in addition to a number of articles in Banco de España Circular 3/2008, of 22 May.

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

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

Prior to assuming full responsibility for supervision, with effect from 4 November 2014, the ECB carried out a comprehensive assessment of institutions with a view to ensuring greater balance sheet transparency.

Banco Popular passed this assessment with a comfortable capital buffer. It has achieved this result without needing to resort to public funding, making the Bank one of the most solvent institutions in the Eurozone, a bank whose strength has been tried and tested and which can cope with very extreme economic situations.

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

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

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

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

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

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

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

The main figures relating to the Group's solvency in 2015, as published in the results for the year, are as follows:

Table 28: Solvency

Amounts in thousands of euros	**31.12.2015**
Capital	8,831,237
Reserves	3,949,370
Non-controlling interests	9,502
Ordinary capital deductions	(2,815,361)
Ordinary Tier 1 capital	**9,974,748**
CET 1 ratio (%)	**13.11**
MCNs	
Convertible perpetual debt	1,336,580
Additional capital deductions	(1,336,580)
Tier 1 capital	**9,974,748**
Tier 1 ratio (%)	**13.11**
Own funds	**10,520,872**
Total capital ratio (%)	**13.83**
Fully loaded Basel III leverage ratio (%)[1]	**6.07**
Total risk-weighted assets*	**76,087,403**
of which due to credit risk	70,107,156
of which due to operational risk	5,420,782
of which due to market risk	559,465

1. Fully loaded Basel III *Leverage ratio* in accordance with CRR pro forma

* Strictly includes the Pillar I requirements

Among the measures taken in 2015 to strengthen capital ratios, the following are worth particular mention:

- The conversion into shares of €645.8 million of the MCN II/2012 issue, which will be counted in full as ordinary tier 1 capital (CET1).
- The issuance of €750 million which will be counted as AT1 (additional tier 1 capital), which has made it possible to strengthen solvency levels and ensure coverage of AT1 equal to 1.5% of RWAs as required by the regulations. Furthermore, it is a high-trigger issuance with the consequent positive impacts on stress tests.

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

The following portfolios have already been validated by the supervisor:

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

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

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

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

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

During 2015, pursuant to the CRR, we updated all calculation parameters used in each of the portfolios for the requirements of which advanced methods are used, taking factors which occurred during the year into account.

As regards the results of the Supervisory Review and Evaluation Process (SREP), the European Central Bank has established that Banco Popular must comply with the minimum phased-in ordinary tier 1 capital of 10.25%. This ratio includes both Pillar 1 (4.5%) and Pillar 2 requirements, including capital conservation buffers (5.75%). In this regard, it is worth noting that Banco de España has not deemed it necessary for Banco Popular to maintain an additional buffer during 2016, even though it was included in the “Other Systematically Important Institutions” group. Banco Popular Group has a sufficient buffer in excess of the minimum regulatory requirements, without affecting the current Group policy concerning the distribution of dividends or coupon payment.

Accordingly, the Group ended this past year in a privileged position and in the best conditions to take advantage of the opportunities for growth that arise in the future.

9 Risk management

Banco Popular manages risk in a prudent, disciplined and diversified manner, promoting internal governance that encourages the prudent control and management of risks and the qualification of the Bank's professionals, establishing a risk policy aimed at achieving a Medium-Low risk profile, thus ensuring that the Group undertakes its commercial activities and maintains its business expectations within the established risk limits and objectives at all times.

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

The following principles govern its risk management:

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

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

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

Risk Culture

Banco Popular develops its business model in line with values consistent with the risk appetite defined by the Board of Directors. These principles make up a risk culture that helps to ensure that any risk or activity affecting the Bank is identified, escalated, measured and mitigated in a timely manner. In this context, policies, procedures and processes aligned with the risk appetite are in place; these are then cascaded throughout the organisation.

The implementation of a solid risk culture is driven by 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.
- Training of personnel on their responsibilities in the field of risks, specifying who responds to which types of risk, as opposed to risk management's corresponding exclusively to risk specialists or control functions. Responsibility for daily management of the risk appetite and compliance with policies, procedures and controls will fall to the business units.
- A risk appetite that is included in processes and systems.
- Remuneration and career plans that encourage attitudes and skills suited to the risk appetite management objectives.

Governance

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

Board of Directors

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

- Establishing the Risk Appetite Framework (RAF) subject to advice from the Risk Commission, including limits and objectives.
- Ensuring that the Risk Appetite Framework is consistent with the short- and medium-term strategy and capital planning.
- Verifying that the risk culture is appropriately disseminated throughout the Group.
- Ensuring that compensation policies are consistent with the established risk appetite.
- Reviewing the Group's risk profile, comparing it with the limits and objectives established for each specific risk, including those of a qualitative nature.
- Ensuring that resources are available in sufficient quantity and quality for the correct performance of the risk function.
- Ensuring that mechanisms are in place to enable the Management Committee to take appropriate action in order to manage the Bank's risk effectively and, when necessary, mitigate significant risk exposures, particularly those close to or in excess of risk limits.

Board of Directors' Risk Commission

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

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

Audit Committee

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

Appointments, Governance and Corporate Responsibility Committee

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

Compensation Committee

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

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

Management Committee

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

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

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

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

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

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

Risk Committee

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

Risk Management

Department responsible for the management, supervision and control of the Group's risks. It supervises the risks, objectives and limits set out in the Risk Appetite Framework, reporting to the Management Committee and the Risk Commission.

Risk Management analyses risks assumed by the Bank and oversees compliance with risk policies and limits authorised by the different links in the risk chain.

Risk Appetite

In December 2014 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.

It is a flexible framework to identify and define the risks to which the Group is exposed and establishes:

- 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 objective is to maintain a medium-low risk profile by controlling risks to which the Group is exposed as a result of its business model.

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

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

The appetite level defined determines the risk strategy, with policies being established that make it possible to maintain or attain a residual risk profile in accordance with the objective; the inherent and residual risk levels are assessed on a periodic basis.

The profile of the various financial (credit, operational, interest rate, market and business) and non-financial (reputational and compliance) risk categories determines the capital objective. In turn, the planning and stress test process ensures that the risk profile is maintained in accordance with the established appetite and that the capital objective is met.

The proper definition and control of the risk appetite are the key elements that make it possible reasonably to ensure the capital objectives.

In addition to the first level or Risk Appetite Framework metrics in place for all risks and Capital, each risk is managed with additional or second-level metrics, monitoring of which ensures that the risk profile is maintained within tolerance levels, the Risk Appetite Framework thus being integrated into management.

General Control Model

Banco Popular Group considers Internal Control as a cross-cutting process driven by the Board of Directors, which encompasses the entire organisation. It has been comprehensively designed to identify, control and manage all risks to which it is exposed, in order to provide a reasonable level of security in terms of obtaining the corporate objectives established, and follows the "three lines of defence" model:

- The **first line of defence** comprises branches, operational centres and units that are tasked with risk control and management duties. 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 scope of responsibility comprising the following units:
    - Risk Management/Risk Control
    - Regulatory Compliance
    - Internal Control Body/Money Laundering Preventio
    - The Management Committee’s advisory committees: the Capital Committee, the ALCO Committee and the Operational Risk Committee perform control functions in their respective areas and therefore also act as a second line of defence.
- The **third line of defence** comprises Internal Audit, the overall, transversal supervisory unit that reporting directly to the Audit Committee, providing this department with a particular level of independence.

Second line of defence

Risk Management

Risk Management assumes the greatest level of responsibility in terms of risk management within the second line of defence. Its objective is to analyse the risks assumed by the Bank, ensuring compliance with the risk policies and limits authorised in the various links of the risk chain, as well as dynamically suggesting risk policies and developing the required rules and procedures.

Risk Control

The Risk Control unit was created in December 2014 in order to provide Banco Popular Group with a global risk control area reporting to Risk Management; it acts as the second line of defence, independent of the first line and linked to the business units and the third line of defence, which corresponds to Internal Auditing.

Its main responsibilities are:

- Overseeing compliance with risk policies, limits and objectives.
- Supervising Banco Popular Group risks by means of identifying, measuring and monitoring the Group's exposure.
- Informing Risk Management about the evolution of the risk profile as regards the risk appetite established in the Risk Appetite Framework, following the protocol of action defined in the event that alert limits or limits of default are reached.
- Establishing risk reporting processes consistent with the Risk Appetite Framework.
- Ensuring the quality and suitability of risk measurement techniques and the MIS (Management Information System), used to compare and monitor the risk profile in terms of the risk appetite.

- Making recommendations regarding the effectiveness of controls.
- Proposing measures to be taken when alert limits or limits of default are exceeded under the Risk Appetite Framework.
- Encouraging the dissemination of the Risk Appetite Framework and the risk culture throughout the organisation.

Regulatory Compliance

The regulatory compliance function is the responsibility of the Compliance Office, which forms part of the Regulatory Compliance Department and reports to the Secretary of the Board of Directors.

This office is tasked with supervising and monitoring the efficiency of the procedures and measures established to detect any risk of non-compliance with the obligations deriving from the law, regulations, codes of conduct or good practice standards concerning its areas of action, reporting any shortcomings and corrective measures. Furthermore, it promotes training and awareness raising amongst personnel and the culture of compliance at Banco Popular Group entities.

The Deputy Secretariat to the Board and Regulation Division advises and assists the Board of Directors and its Committees. Furthermore, it provides legal and regulatory advice to Regulatory Compliance Management.

Internal Control Body

Its objective is to control the correct workings of the Group's mechanisms for the prevention of money laundering prevention and the financing of terrorism.

The Prevention of Money Laundering (AML) Office, which falls under the Regulatory Compliance Department, reports to the Secretary of the Board of Directors.

Management Committee's Advisory Committees

- **Capital Committee:** responsible for monitoring capital planning, the impact of corporate transactions and self-assessment exercises in stress scenarios. It advises the Management Committee on the establishment of the capital objective and on ensuring consistency between risk appetite and capital planning It monitors the evolution of the risk profile relative to the appetite established in the Risk Appetite Framework.
- **ALCO Committee:** advises the Management Committee on setting the interest rate and liquidity risk appetite, and their consistency with the Group's business plans and strategy. It monitors the evolution of the risk profile relative to the appetite established in the Risk Appetite Framework.
- **Operational Risk Committee:** advises the Management Committee on establishing the operational risk appetite. It monitors the evolution of the risk profile relative to the appetite established in the Risk Appetite Framework.
- **New Products Committee:** advises the Management Committee on the different risks posed by the sale of new products, ensuring consistency between these risks and the Risk Appetite Framework.

The main management characteristics concerning each type of risk to which the Group is exposed are listed below.

BUSINESS RISK

Also included under this heading is business risk, defined as the possibility that the gross income may prove insufficient to cover fixed costs owing to changes in volumes of balance sheet items and fee revenues, generated in turn by changes in economic conditions. In this sense, reference is made to the possibility that the Group will not reach profitability targets, which can ultimately affect the capital ratios.

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

The Group maintains a leading position in terms of customer spread and profitability of lending which, in part, is attributable to its strategic focus on self-employed persons and SMEs. This business model allows:

- To maintain demonstrably recurring revenues, with less reliance than its peers on non-recurring income in operating profit. This is achieved thanks to the Bank's main activity being commercial banking, establishing long-term relationships with customers, which provide a base of very stable results.
- To be the leader in the sector in terms of profitability of lending, with a customer spread consistently above that of its competitors. This is possible because the Group is the Spanish bank specialist for SMEs. The increased presence in this segment allows the Bank to operate with higher margins while at the same time maintaining sector diversification in the markets in which it operates.
- To operate with a recurring efficiency ratio that is better than the average among similar institutions, giving the Bank greater resistance to periods of crisis with reduced revenue.

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

CREDIT RISK

Credit risk is the risk of impairment of credit quality or of default due to changes in the capacity or intention of the counterparty to comply with its obligations, resulting in a loss.

Banco Popular focuses on retail banking and, in particular, business with companies, the self-employed and individuals; as a result, its business model is geared to credit risk.

Management of this risk is characterised by a cautious approval policy, with a strict system of discretionary powers and limits, by taking security to mitigate the risk, and by an appropriate level of provisioning.

The basic principles and identifying traits on which the Group's credit risk management is based, in addition to those provided in the Risk Appetite Framework, are listed below:

- Priority of risk policies aimed at ensuring the Group’s stability, its viability in the short, medium and long term, and optimising the risk-return ratio.
- Involvement of Senior Management.
- Strict compliance with all aspects of current legislation, with particular attention to the monitoring of the instructions in force on the Prevention of Money Laundering and the Financing of Terrorism.
- Profitable and quality lending, commitment to profitable, balanced and sustainable growth overall and for returns commensurate with the risk on each individual borrower.
- Periodic reporting to Senior Management.
- Application of limits in approving risks,

- Diversification of the risk attached to lending, setting or complying with the limits granted to borrowers, sectors and distribution by maturities.
- Flexibility of the target-oriented organisational structure.
- Segregation of risk and sales areas.
- Rapid response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to rigour.
- Systematisation and automation of processes.
- Terms negotiated individually with customers based on their overall relationship with the Bank, the risk assumed and the return it offers.
- Rigorous assessment and documentation of the risk and the security.
- Integration of internal risk management, scoring and rating models within daily management.
- Management of risk and limits granted by customer or business grouping of interrelated customers where applicable.
- Taking of security to mitigate risk.
- Involvement of risk analysts in risk measurement and monitoring.
- Formal system of discretionary powers forming an integral part of the risk approval procedure.
- Differentiated analysis and treatment of refinancing and debt restructuring transactions.
- Monitoring of risk from inception to settlement.
- Use of ratings and policies in risk monitoring.
- Recovery process oriented towards management efficiency.

In addition to the Risk Appetite Framework, the Group has a Risk Policies Manual, authorised by the Board of Directors, which establishes the functions and responsibilities of the different areas and the basis for developing the means required to estimate, analyse, control and manage risks, particularly as regards credit risk, since this is the area of greatest activity and exposure, in order to permanently optimise the risk/return trade-off and attain the objectives set in the aforementioned Risk Appetite Framework.

It also has a Credit Risk Procedures Manual, authorised by the Management Committee, which describes the Group's credit risk analysis model, sets out the rules applicable to its management and control and serves as a training and dissemination instrument.

Risk management

The Group has a specialist unit, set up in December 2014 and reporting to Risk Management, which is responsible for supervising risk management policies, discretionary powers and the needs deriving from the coming into force of the Single Supervisory Mechanism. It monitors the evolution of credit risk, and also performs outstanding work in coordinating and collaborating with other areas of the Group,mainly Models and Capital, Business and Commercial, with a view to using and integrating credit risk management models and Basel regulations as part of management activities. Furthermore, the unit has a team of analysts that studies both individual and restructuring operations and corporate transactions.

In 2015, significant efforts were made to disseminate the corporate risk culture throughout the organisation, to implement the Risk Appetite Framework and to adapt credit risk policies and procedures to the risk appetite established.

Risk Admissions

Credit risk approval is undertaken by the Risk Admissions office and the offices reporting to this unit (Retail Risks, Risks on Businesses and Public Administrations and Risks on Financial Institutions and Markets), in addition to risk departments located in the different business units (Territorial Divisions, Regional Divisions, Specialist Offices, etc.). This unit reports directly to Risk Management.

The function of these offices and departments is to manage and analyse the taking on of risk based on the management principles, policies and operational and communication processes defined in the Risk Appetite Framework, the Risks Policies Manual and the Credit Risk Procedures Manual.

Risks are analysed and managed taking account of total exposure to the customer and to the economic group to which the customer belongs.

In carrying out its duties, this unit has an IT support that is unique to the risk proposal cycle (from request through to resolution), which makes it possible to include all internal and external information needed for analysis. This IT support is the electronic proposal and is unique to each separate operation.

This IT support also includes:

- The automated discretionary power system at the different decision-making levels (from the branch to Central Services)
- The results of rating/scoring models applied to the different segments.
- The scoring and policies set out by Risk Monitoring and Control for those involved and unusual circumstances that may arise (in the Group, in the system or in external sources such as the RAI (register of unpaids) or the credit bureau).
- Pricing information.

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

System of Discretionary Powers

The Banco Popular Group has a system of discretionary powers in place for approving risk operations, whereby the various hierarchical levels of the organisation are delegated differing degrees of authority to approve transactions, depending on the amount of the risk, the probability of default as determined by internal credit risk models, the amount and nature of the risk, the purpose of financing, the term of the transaction, the sector in which the borrower operates and profitability. The system is automated and forms an integral part of the risk admission and analysis process.

The Risk Committee, comprising Group executives sitting on the Management Committee and chaired by the Risk Director, analyses and approves operations that exceed the powers delegated by the Board to the Risk Director and submits risks that exceed the limits of its discretionary powers to the Delegated Committee of the Board of Directors.

Structure of limits

The Group has designed a structure of credit limits in order to control exposures to credit risk and their concentration and to achieve appropriate diversification of its portfolio, by addressing the following aspects:

- Concentration of risk by borrower. Limits are set for the maximum exposure to Groups or individual customers, for amounts of individual transactions and for the Group's share in the financing of a customer or customer Group. Potential exceptions to these limits are managed directly by the Board of Directors or its Delegated Committee as the maximum decision-taking body within the Banco Popular Group's system of powers.
- Sectoral concentration of risks. The Group analyses and assesses different sectors of activity, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.
- Concentration of risks by segment, factor for which thresholds are defined in terms of a maximum percentage of risk to be assumed with respect to the large company segment.
- Concentration of risks by products, with special emphasis on transactions secured by mortgages, property developments and financing in foreign currency.
- Concentration of risks depending on geographical distribution, periodically analysing approved risk levels in the various geographical areas.

Credit Rating Models

The Group has internal credit risk rating and scoring models. For the retail segment (individuals and micro-enterprises), credit scoring models adapted to each kind of product are used. For the companies segment, an internal rating is calculated based on the analysis of variables representative of their economic and financial position and of the business sector in which they operate. The Group has replica models for the large companies and financial institutions segments. Finally, project finance transactions are rated in accordance with the qualitative analysis suggested by the Basel Committee, slightly adapted for type of financing and situation.

These models are actively used as part of credit risk management, from the approval of operations, where they are a fundamental input in decision making, through price setting and the delegation of discretionary powers, to monitoring portfolios and segments, via reports on the evolution of the credit quality of the active portfolio and new operations and lastly in the recovery process, assigning priorities depending on expected losses.

At 31 December 2015, Banco Popular has authorised the use of these advanced models for the calculation of Capital requirements for large, small and medium-sized companies, financial institutions and retail mortgages portfolios and also, on this date, using the project finance model under the "IRB - Slotting Method" approach. Micro, consumer and BAPOP's portfolios of small and medium companies, are under review by the ECB for their approval on the calculation of Capital requirements.

Furthermore, estimates are made regarding credit risk parameters in different scenarios, which are then included in both internal and regulatory stress tests. These stress tests are particularly important as dynamic tools for assessing risks and, therefore, the solvency and liquidity of banking institutions.

Internal Validation

The Group has an Internal Validation unit in place within its Risk Control department, whose function is to validate the internal risk measurement and management models for both regulatory and management purposes.

The opinion of the Internal Validation unit is a fundamental requirement for the approval of the internal risk rating models, and for monitoring it and making any subsequent amendments to it and assessing their usefulness and effectiveness.

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

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

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

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

Furthermore, and in accordance with best practices, the scope of the Internal Validation function as the second line of defence in the Risk Control department is progressively being expanded to the review of other internal processes, such as the stress test and the ICAAP, validating the calculation methodology for the corresponding models.

Pricing Policy

The pricing policy is a core element of the quest for optimal profitability of capital and of investment in products offered, so it must be reasonably consistent over the course of the year. However, due to changes in market characteristics, the evolution of the competition and other circumstances, product prices need to be adjusted periodically.

The main objective is a system of price management aligned with risks, making it possible to:

- discriminate on the basis of the credit quality of customers and transaction.
- use it as a guide in establishing the price of a transaction.
- encourage the acquisition of customers with better credit quality.
- promote loyalty among existing good customers.

Mitigate credit risk

Collaterals are considered a key factor in the admission risk process as an exposure mitigator. However, the criteria for risk concessions are mainly based on the borrower's capacity to repay and collaterals (whether personal guarantee, real estate or other) are considered as an exceptional way of recovery when the former has failed.

Considering the regulatory development on eligible collaterals and the sound management required, the Group monitors compliance with the regulatory requirements with a dual purpose: to ensure mitigation of the risks assumed, and to economize computable capital by reducing exposure.

Banco Popular Group, in line with best practices and with the current regulation (CBE 4/2004 and IAS 39) has defined accounting policies included in the Accounting Policies Manual, approved by the Management Committee and the Audit Committee, and updated at least on a yearly basis.

Credit Risk Monitoring and Control

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and to react to avoid situations of default. In this regard, the Group has an alerts system in place which makes it possible to anticipate eventual problematic situations and apply preventive measures in respect of current risks. Alerts are based on an analysis of a group of variables relating to transactions and to customers, that allows detecting possible anomalous behaviour deviations and on the knowledge of relevant facts that may have an impact on the evolution of risks.

Alerts are handled by specialist risk monitoring and control teams; the Risk Monitoring and Control office, as the highest decision-making body, is responsible for assigning a rating and the policy to be pursued with customers regarding risks assumed, in addition to supervising the process.

Furthermore, the Risk Monitoring and Control office is responsible for monitoring certain risks involving customers and economic groups with high volumes of assumed risk or those involved in certain incidents, and for periodic monitoring of various risk portfolios which due to their nature require control over their evolution.

Management of non-performing operations and recovery of impaired assets

For the management of non-performing balances and recovery of impaired assets, the Group has a specialist unit, the Restructuring and Default Office, which reports to Retail Banking Management Department, to which in turn the Restructuring and Default Offices of each Territorial Office report functionally and the Recoveries and Documentation Preparation Office hierarchically. 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 delinquent customers who have mortgage collateral, although the final decision rests with the Bank. Aliseda SGI manages, within authorised limits, the sale of the properties sold. Regarding restructuring, collection and recovery activities from customers relating to the real estate market, since January 2015, the Specialised Business Unit (SBU) has managed specific customers in the developers sector for whom management has not been transferred to Aliseda SGI.

The non-performing loans area structure has been modified and specialised teams have been created to handle the portfolios of different kinds of customers in order to recover delinquencies and defaults, with the targets below:

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

Items classified depending on amount of risk

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the Organisation have been defined. The recovery teams created in the Regional and Territorial Offices have specialist staff dedicated to the management of troubled debts, as well as the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own workforce for managing its assets. Customers are grouped into different types of portfolio and 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 authorised different policies and procedures for the various stages of recovery.

- Default recovery management, in which the Central Restructuring and Default Office, the restructuring teams at Regional Offices and Territorial Offices and the external provider responsible for early recovery are involved.
- Non-performing loan recovery management, divided into document preparation, legal management and recovery management by the Collection and Recovery teams of the Territorial Offices.
- Write-off recovery management

The Group has specialist platforms and applications in place to ensure appropriate management of non-performing balances, which facilitate:

- Punctual and precise monitoring of the evolution of all doubtful, defaulted and written-off risks.
- Management of contacts with customers with contracts in an irregular situation.
- Management of the steps taken with respect to a group of files at various levels of the organisation.
- Monitoring of actions taken by the different players (branch, regional, territorial and central).
- Provision of an overview of past due or items being managed, allowing drill-downs to information at the file and contract level.
- Establishing interactive communication among the various management units.
- The systematisation, automation and control of cases outsourced to partner companies.

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

Information

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

In line with Corporate Governance recommendations, reports, which are essential elements for the performance of the specific duties of Senior Management, must be of sufficient content, quality and frequency to provide appropriate knowledge of the Group's risk profile, its evolution and alignment with the objectives and limits set both in the Risk Appetite Framework and in the risk management 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 the management and control of the various risks also issue relevant information and submit it to Senior Management.

Total exposure to credit risk

As at December 2015 the Group's total exposure to credit risk amounted to €147,243 million, 4.1% down on the previous year. If we add the €7,265 million exposure of lines of credit available to third parties (13% more than in 2014), the maximum exposure figure rises to €154,508 million (-3.4% less than the €160,010 million in 2014).

As may be observed in Table 29, the Group's credit risk is fundamentally due to its primary area of business, which has a weight of 76.5% of the total. This activity mainly consists of lending to customers, which represent 90.56%, the remaining 9.44% relating to contingent risks.

Table 29: Overall exposure to credit risk (Amounts in thousands of euros)

	31.12.2015	31.12.2014	Change (%)
Commercial activity:			
Loans and advances to customers	107,085,210	108,379,386	(1.2)
Contingent risks	11,159,430	12,554,148	(11.1)
Total Commercial Activity	**118,244,640**	**120,933,534**	**(2.2)**
Market activity (including counterparty risk)	28,998,769	32,646,077	(11.2)
Total exposure	**147,243,409**	**153,579,611**	**(4.1)**
Drawable by third parties	7,264,597	6,430,379	13.0
Maximum credit risk exposure	**154,508,006**	**160,009,990**	**(3.4)**

In 2015, the global risk exposure decreased by 3.4%, mainly due to a decrease in counterparty risk in the market activity (-11.2%), which was offset by a 13% increase in lines available to third parties, together with a reduction of 11.1% in contingent risks due to a lower balance in guarantees.

In 2015, the risk relating to market activity decreased from €32,646 million in December 2014 to €28,999 million euros at the end of 2015. This decrease was mainly due to the reduction of the balance of the investment portfolio in December 2015 by the tactical management of the same.

1. Commercial activity

In the Commercial Banking activity, as shown in Table 30, 93.7% of the risk exposure is concentrated in Spain, with the remaining 6.3% outside Spain. Concerning the risk in Spain, 80.2% is related to businesses and private individuals, and the remaining 13.5% related mainly to risk with general government and asset repos.

Table 30: Commercial banking credit risk exposure (data in %)
)

	Weight (%) 2015	Weight (%) 2014
Spain	93.7	94.6
Businesses and individuals	80.2	80.5
Other risks*	13.5	14.1
Portugal	4.9	4.2
USA	1.4	1.2
Total Commercial Banking Risk	**100.0**	**100.0**

* Including repos, risks with credit institutions and public administrations

2. Market activity

The following table shows a breakdown by type of asset of the credit risk exposure due to market activity. This risk mainly arises due to the counterparty risk involving the fixed-income portfolio, representing 97.45% of the total.

Table 31: Market Activity (Amounts in thousands of euros)

	31.12.2015	31.12.2014
Fixed income	28,262,074	31,898,938
Deposits	47,375	113,271
Repos and sell/buy backs	95,513	-
FX Cash	176	1,095
Derivatives	593,631	632,773
Total	**28,998,769**	**32,646,077**

3. Drawable by third parties

With regard to drawable by third parties (see Table 32), Spain again represented the main share with 87.2%.

Table 32: Drawable by third parties (in%)

	Weight (%) 2015	Weight (%) 2014
Spain	87.2	87.9
Businesses and individuals	86.1	86.7
Credit cards and others	1.1	1.3
Portugal	9.8	9.5
USA	3.0	2.6
Total drawable by third parties	**100.0**	**100.0**

COMMERCIAL ACTIVITY

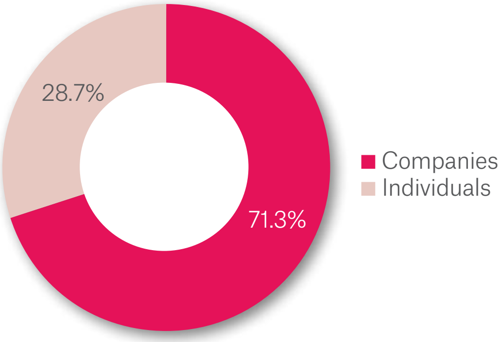
Distribution of the commercial activity risk by segments in Spain and Portugal

1. Commercial activity in Spain

As may be seen in Table 33, of the total risk in Spain 71.3% relates to business risk and the rest relates to private individuals.

Table 33: Distribution of risk in Spain (Amounts in thousands of euros).

	WEIGHT 2015	BALANCE
Companies:	71.3%	61,637,410
Individuals:	28.7%	24,798,173

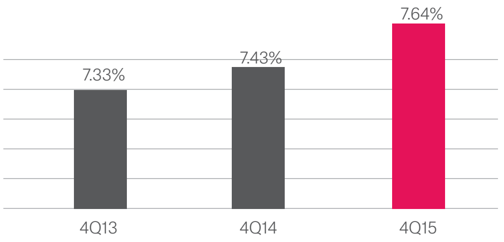


Risk with businesses

Related with the purpose of the loans granted, Figure 35 gives the breakdown of the Bank's risk with businesses in Spain. As may be observed, 71.1% of business loans are for purposes not related to construction and real estate development, and 74.0% relates to SMEs and self-employed persons (the segment in which the Group is the leader in the financial sector).

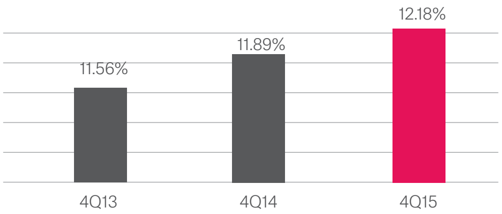
In 2015, the improving trend in the granting of credit continued, enabling us to further increase market shares in both credit and in business segments which at the end of 2015 reached 7.64% and 12.18% in loans and businesses respectively (see trend in the charts below).

Figure 33: Credit market share evolution (%)



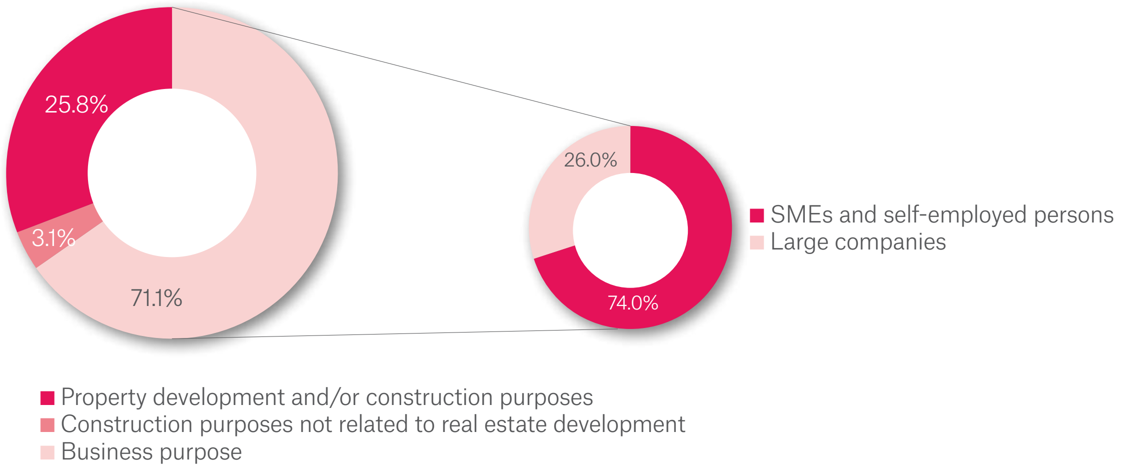
(1) Data as at November 2015
Source: Banco de España and own preparations

Figure 34: Companies market share evolution (%)



Source: Banco de España and own preparations

Figure 35: Distribution of risk with businesses in Spain



Banco Popular maintains 42.0% of its company financing portfolio backed by some kind of guarantee, mostly mortgage guarantees (80.75%). The following graph shows a comparison with 2014. There were no significant changes.

Figure 36: Distribution of businesses in Spain by product and type of guarantee (%)

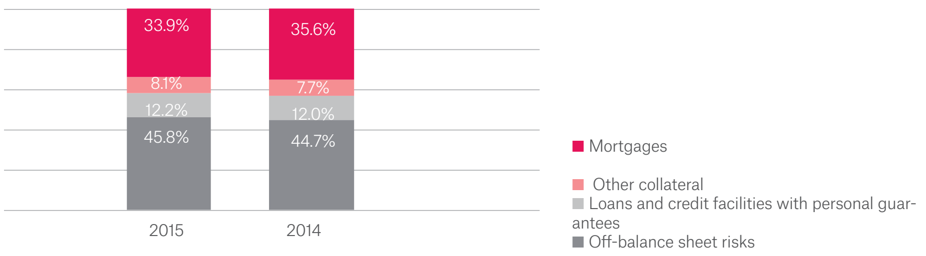


Table 34 shows information regarding credit in Spain for the purposes of property development and/or construction and includes distressed assets and the relevant coverage. It is noteworthy that credit for construction and real estate development has been reduced by more than €2,259 million, from €18,151 million in December 2014 to €15,891 million at the end of 2015, and likewise there has been a reduction in doubtful debts (€9,488 million in 2015 vs. €10,888 million in 2014) and substandard (€1,356 million in 2015 vs. €2,173 million in 2014). This exposure has a total specific coverage of €3,957 million.

Table 34: Financing for property construction and development purposes and its coverage (data in thousands of euros)

2015	Gross amount	Surplus without collateral guarantee	Coverage	% Coverage
1. Credit recorded by Group credit institutions (Business in Spain)	**15,891,503**	**6,342,634**	**3,957,530**	**36.5%**
1.1. Of which: Doubtful	9,488,456	3,922,251	3,659,767	38.6%
1.2. Of which: Substandard	1,356,352	441,307	297,763	22.0%
Memorandum items:				
Total general coverage (total business)				
Write-offs	1,835,065			

2014	Gross amount	Surplus without collateral guarantee	Coverage	% Coverage
1. Credit recorded by Group credit institutions (Business in Spain)	**18,151,259**	**7,022,870**	**4,399,894**	**33.7%**
1.1. Of which: Doubtful	10,888,389	4,092,648	4,103,565	37.7%
1.2. Of which: Substandard	2,172,667	883,901	296,329	13.6%
Memorandum items:				
Total general coverage (total business)			0	
Write-offs	1,914,844			

In 2015, of the total credit for property development or construction purposes, €5,047 million related to performing loans and €1,356 million to loans classified as substandard which, despite this classification, were currently performing. Doubtful loans totalled €9,488 million and had coverage totalling €3,660 million euros, which is a coverage ratio of 38.6%.

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

Table 35: Breakdown of financing for property construction and development purposes and related coverage (Amounts in millions of euros)

	2015		
	Gross credit amount	Total coverage	Coverage ratio (%)
1. Unsecured	1,875	783	41.76
2. Secured	14,016	3,175	22.65
2.1. Completed buildings	6,683	1,148	17.18
2.1.1. Housing	3,220	662	20.56
2.1.2. Other	3,463	487	14.06
2.2. Buildings under construction	1,280	231	18.05
2.2.1. Housing	885	180	20.34
2.2.2. Other	396	51	12.88
2.3. Land	2,635	550	20.87
2.3.1. Developed land	2,439	509	20.87
2.3.2. Other land	196	41	20.92
2.4. Other real guarantees	3,418	1,245	36.43
Total	**15,891**	**3,958**	**24.91**

Risk with private individuals

As regards risks with private individuals, Table 36 shows the breakdown of these risks by type of product. 87.81% of the risk with private individuals is concentrated in loans with mortgage guarantees.

Table 37 presents information on financing provided to households for home purchase in Spain.

Home purchase lending to private individuals amounted to €17,519 million and the non-performing loans ratio was 4.56% as at 31 December 2015.

As Table 38 shows, these are high-quality loans, since 83.12% of them have a loan-to-value (LTV) ratio of 80% or less.

In line with the prudence that characterises the Group when it comes to extending credit, the average affordability ratio (the loan instalments as a percentage of net disposable income) in the private individuals' active mortgage portfolio remained at 26.36% in December 2015.

Table 36: Breakdown of risk of private individuals at Group banks in Spain (Amounts in millions of euros)

	Total risk	Weight (%)
Mortgage loans	**25,623**	**87.81**
For home purchase	17,531	60.1
Non-mortgage loans	**3,252**	**11.1**
Consumer	750	2.6
Loans and credit facilities	2,173	7.4
Other	329	1.1
Off-balance sheet risks	**306**	**1.0**
Derivatives	**0**	**0.0**
Total risk	**29,181**	**100.0**

Table 37: Loans for home purchase (Amounts in millions of euros)

	Gross amount	Of which: Doubtful
Home purchase loans	**17,519,167**	**799,876**
Without mortgage guarantee	10,786	0
With mortgage guarantee	17,508,381	799,876

Table 38: Breakdown of loans with mortgage guarantees to households for home purchase by percentage of LTV (latest available appraisal) (Business in Spain) (Amounts in millions of euros)

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV ≥ 100%	TOTAL
Gross amount	3,822,345	5,710,758	5,019,994	1,657,278	1,298,006	17,508,381
Of which: doubtful	124,844	155,772	296,851	131,011	91,397	799,875

2. Commercial activity in Portugal

Banco Popular Portugal's credit risk exposure at the end of 2015 stood at €7,633 million, gross lending to customers being the largest component, with a contribution of 80.9% of the total, and the rest corresponding to contingent risks.

After two consecutive years of falling loans and advances to customers, in 2015, as in 2014, this figure increased, by €335 million (5.7%) in 2015 thanks to the positive trend in mortgage lending, term loans and overdrafts and lease financing. This turnaround in the performance of credit is mainly due to commercial success, which makes it further possible to improve market shares in Portugal (which reached 2.5% in loans and 4.2% in businesses in October 2015).

Table 39: Risk exposure of Banco Popular Portugal (Amounts in thousands of euros)

	Balances		Change		Weight (%)	
	2015	2014	Total	%	2015	2014
Gross lending to customers	6,174,790	5,840,023	334,767	5.7	80.9	92.0
Commercial paper	97,795	111,317	(13,522)	(12.1)	1.3	1.8
Mortgage loans	1,849,187	1,833,166	16,021	0.9	24.2	28.9
Other term loans	3,059,103	2,808,308	250,795	8.9	40.1	44.3
Finance leases	333,650	327,429	6,221	1.9	4.4	5.2
Overdrafts and other	468,295	444,698	23,597	5.3	6.1	7.0
Doubtful assets	365,803	313,924	51,879	16.5	4.8	4.9
Other financial assets	957	1,181	(224)	(19.0)	-	-
Contingent risks	1,458,288	506,109	952,179	188.1	19.1	8.0
Closing balance	**7,633,078**	**6,346,132**	**1,286,946**	**20.3**	**100,0**	**100.0**

Foreclosed assets

Table 40 shows a breakdown of the property portfolio in Spain, acquired or foreclosed. The book value of these assets at 31 December 2015 was €10,121 million and they were covered by provisions of €6,012 million.

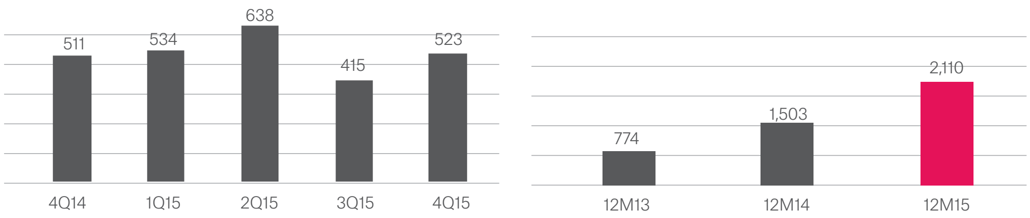
Table 40: Foreclosed assets held by Group institutions (business in Spain) (Amounts in thousands of euros)

	Book Value	Coverage
1. Real estate assets from financing for construction and property development	**6,891,135**	**4,548,690**
1.1 Completed buildings	**3,106,670**	**1,248,588**
1.1.1. Housing	1,934,853	807,431
1.1.2 Other	1,171,817	441,157
1.2 Buildings under construction	**264,020**	**134,645**
1.2.1. Housing	233,100	116,050
1.2.2 Other	30,920	18,595
1.3 Land	**3,520,445**	**3,165,457**
1.3.1. Developed land	1,615,769	1,196,589
1.3.2 Other land	1,904,676	1,968,868
2. Real estate assets from home purchase mortgage loans to households	**1,023,892**	**413,105**
3. Rest of foreclosed property assets	**2,041,307**	**685,800**
4. Equity instruments, investments and financing provided to non-consolidated companies holding these assets	**165,000**	**364,000**
Total	**10,121,334**	**6,011,595**

To manage these assets, the Group has i) a real estate company, Aliseda ii) the Bank's branch office network, iii) commercial agreements with real estate networks and iv) a specialised business Department which since January 2013 has been responsible for managing properties, helping us to attain strong management and sales capabilities. Additionally, Popular created a new company with Värde Partners - Kennedy Wilson in 2013, specialists in the real estate market, for the management of the real estate business of Banco Popular, thus benefiting from the extensive experience in managing such assets of their partners and so making the most of managing this business.

Thanks to these efforts, the sale of properties continues to accelerate, and Q4 2015 closed at €523 million, 2.3% up on the same quarter of the previous year. In total in 2015, 10,955 units were sold (30% more than in 2014), reaching a book value of €2,110 million (40% up on 2014).

Figure 37: Sale of real estate assets[1]



(1) Excludes sales from the balance sheet of the developer

The coverage of the foreclosed assets and other equity instruments was 37.3% in December 2015.

Analysis of credit risk quality

For the analysis of credit risk, troubled assets are classified according to several criteria: i) assets in default due to a failure to comply with the repayment schedule, ii) assets of doubtful collection due to the deficient financial situation of the borrower, iii) assets in litigation due to the existence of disputes that make their recovery uncertain and iv) other assets that present weaknesses that make it advisable, in accordance with prudent criteria, to classify them although there are no objective reasons for classification. In the following section these four components are grouped under the general name of delinquent borrowers or borrowers in difficulty. Those risks that have not been recovered after a certain amount of time and for which nearly full provision has been made, in accordance with regulations, are classified as bad debts and are eliminated from the balance sheet. Regardless of whether they have been written off for accounting purposes, the Bank maintains its collection rights against the debtor and continues to pursue repayment.

Substandard risk groups together all debt instruments and contingent risks that are monitored more regularly based on certain circumstances, and as they are currently performing they do not comply with the criteria for individually classifying them as doubtful or defaults. This category includes, among others, transactions with customers that belongs to groups in difficulty (such as residents of a certain geographical area within Spain, or those belonging to a specific economic sector when it is advisable to monitor them regularly due to their situation).

To cover credit risk, the Bank has a specific provision for non-performing loans in accordance with a regulatory established calendar and, in the case of the doubtful, disputed or substandard balances, based on a reasonable estimate of their recoverability.

The downward trend in new NPLs has brought down the NPL ratio for the eighth consecutive quarter, to 12.86%, consolidating the reduction that has been occurring in recent months. The net change in non-performing and doubtful assets remains negative for the fourth consecutive quarter at year-end, reflecting an improved underlying trend for arrears in 2015.

As shown in Table 41, net new NPLs fell by €833 million, from €308 million in December 2014 to (€525) million at the end of 2015. This improvement is due to a significant reduction in new NPLs (€1,892 million), which more than offsets the decrease in recoveries, which reached €4,627 million (€541 million less than the figure for 2014).

Table 41: Risk management. Evolution of non-performing loan balances (Amounts in thousands of euros)

			Change	
	31.12.2015	**31.12.2014**	**Total**	**%**
Balance at 1 January	20,172,032	21,216,003	(1,043,971)	(4.9)
Increases	3,776,371	5,668,199	(1,891,828)	(33.4)
Recoveries	4,626,577	5,167,325	(540,748)	(10.5)
Other changes	324,719	(192,904)	517,623	>
Net change	(525,487)	307,970	(833,457)	>
% Increase	(2.6)	1.5		
Depreciation and Amortisation	(1,307,020)	(1,351,941)	44,921	(3.3)
Closing balance	**18,339,525**	**20,172,032**	**(1,832,507)**	**(9.1)**

As at 31 December 2015 the balance of risks in distress or non-performing loans totalled €18,340 million, representing a €1,833 million decrease during the year (see Table 41). This development is the result, on one hand, of the gross entry of non-performing borrower risks totalling €3,776 million and recoveries totalling €4,627 million and, on the other hand, write-offs totalling €1,307 million, against which provisions had already been set aside for €1,268 million.

As can be seen in the following graph, of the €18,340 million in non-performing loans at the end of 2015, €2,741 million related to subjective doubtful loans (with no objective reason to be classified as defaulted and performing in 100% of cases) in anticipation of their possibly becoming delinquent.

Total risk amounted to €142,583 million euros (down by 2.6% on 2014, see Table 42) with an NPL rate of 12.86% at the end of 2015 compared with 13.78% in 2014. Additionally, it is noteworthy that 1.92% of the total corresponds to the above doubtful cases.

Figure 38: Non-performing loans rate and balance compared to doubtful items (Amounts in millions of euros)

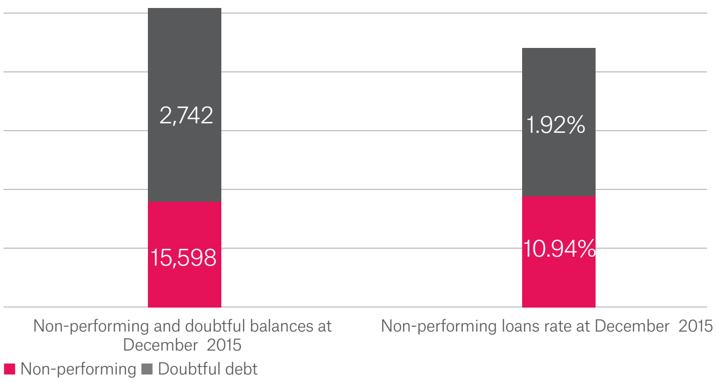


Table 42: Risk quality measurements (Amounts in thousands of euros)

			Change	
	31.12.2015	31.12.2014	Total	%
Total risks (in thousands of euros)	142,582,977	146,378,216	(3,795,239)	(2.6)
Non performing ratio (Non-performing loans/ Total risks) (%)	12.86	13.78	(0.92)	

The following two tables show the development of the Group's credit loss provisions. In Table 43 the various components that affected the change in the credit loss provisions in 2015 may be observed, and Table 44 contains a breakdown by type of fund: specific, generic, and risk country.

Table 43: Risk management. Performance of credit loss provisions (Amounts in thousands of euros)

			Change	
	31.12.2015	31.12.2014	Total	%
Balance at 1 January	8,357,863	8,525,999	(168,136)	(2.0)
Annual provision			-	-
Net additions to provisions	1,420,527	1,849,600	(429,073)	(23.2)
Other changes	(717,060)	(670,234)	(46,826)	7.0
Doubtful balances written-off	(1,267,908)	(1,347,502)	79,594	(5.9)
Closing balance	**7,793,422**	**8,357,863**	**(564,441)**	**(6.8)**
Provisions of which are substandard	414,848	732,671	(317,823)	(43.4)

Table 44: Risk management. Performance of credit loss provisions by type (Amounts in thousands of euros)

	Specific	Generic	Risk country	Total
Opening balance	**8,356,587**	**-**	**1,276**	**8,357,863**
Net additions to provisions	1,421,003	-	(476)	1,420,527
Write-offs	1,267,908	-	-	1,267,908
Other changes and transfers	(717,076)	-	16	(717,060)
Balance at the end of the year	**7,792,606**	**-**	**816**	**7,793,422**

Charges to the income statement due to the impairment in 2015 and 2014 of financial and non-financial assets are summarised below:

Table 45: Risk management. Additions to provisions for asset impairment (Amounts in thousands of euros)

			Change	
	31.12.2015	31.12.2014	Total	%
Financial assets	1,390,559	1,664,126	(273,567)	(16.4)
For credit risk and additions to provisions	1,347,889	1,646,126	(298,237)	(18.1)
Of which: recovery of write-offs	128,267	214,158	(85,891)	(40.1)
For investments	42,670	18,000	24,670	>
Non-financial assets & buildings	224,105	414,153	(190,048)	(45.9)
Total	**1,614,664**	**2,078,279**	**(463,615)**	**(22.3)**

As can be seen from the above table, in 2015 there was a reduction of 22.3% in the total amount of impairment, mainly due to positive developments in the impairment of non-financial assets and property, which fell by €190 million (-45.9%), from €414 million in 2014 to €224 million in 2015.

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

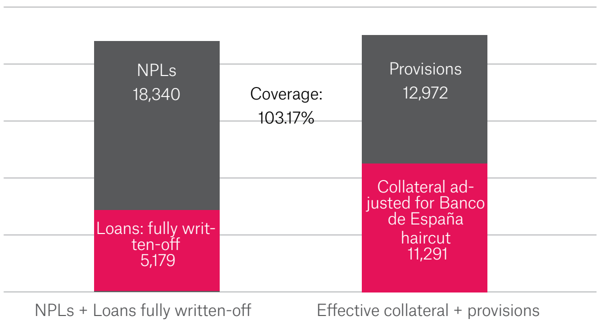
Table 46: Risk management. Coverage by type of non-performing loan (Amounts in thousands of euros)

	31.12.2015
Non-performing loans without mortgage or collateral guarantee	4,748,892
Non-performing loans with mortgage or collateral guarantee	13,590,633
Value of guarantees (including regulatory discounts)	11,290,887
Total non-performing loans	18,339,525
Loans fully written-off	5,178,892
Non-performing loans + Loans fully written-off	23,518,417
Total value of guarantees [1]	11,290,887
Credit loss provisions	7,793,422
Credit loss provisions including written-off balances	12,972,314
Coverage of non-performing loans and written-off balances (%)	55.16
Coverage of non-performing loans without written-off balances (%)	42.50
Coverage with guarantees (%)	103.17

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

Figure 39 reflects an analysis of the coverage from guarantees and from provisions. As can be seen, the coverage rate for doubtful and written-off loans, including guarantees (with the applicable regulatory discounts) is 103.17%, which allows 2016 to be taken on with a very healthy balance sheet.

Figure 39: Analysis of coverage (Amounts in millions of euros)



Credit and Counterparty Risk in Capital Market Activities

As part of the capital market activities engaged in Treasury and fixed income portfolio management, transactions with inherent credit risk are carried out. This risk can be broken down into two categories:

- Counterparty risk: This refers to a counterparty's ability or intention to comply with its financial obligations assumed during the contract's lifetime and until the maturity of the transaction.
- Issuer Risk: This represents the risk of the issuer's insolvency as a result of changes in its economic/financial strength, as a result of which it is unable to meet the obligations deriving from the securities issued.

The risk associated with Capital Markets Activity forms part of the Banco Popular Group's Risk Appetite Framework.

To attain this objective, operations are subject to risk management and control policies approved by the Board of Directors, establishing first level limits and additional limits, in addition to the methods for measuring risk and applying mitigation techniques. The individual limits of each counterparty, which support risk maintenance with the first level limits, are approved by the Risk Committee.

Monitoring, measurement and control of capital markets activity risk is tasked to different parts of the Group. The business unit assuming the risk, as the first line of defence, ensures that the risks deriving from its operations are within the policies and limits established by the Group. The Risk Control unit, as the second line of defence, ensures that the risks assumed by the business unit are measured and controlled within the established limits and policies, periodically reporting to the Risk Commission on compliance with these limits and policies.

Measurement and control of counterparty and issuer risk is divided into two strands: Measurement of issuer/counterparty credit quality and measurement of the exposure.

The credit quality of public sector issuers and counterparties is analysed applying expert criteria, whereas for financial institution and large company issuers/counterparties the Bank has a rating calculated by an internal rating model authorised by the supervisor, which estimates the probability of default.

Exposure is measured using an internal methodology based on its current value plus a potential risk which also includes the application of risk mitigation techniques, as a result of the loss compensation agreements entered into with the corresponding collateral exchange appendices with counterparties (ISDA+CSA, CMOF+Appendix III). These agreements make it possible to carry out netting based on the market value of the transactions covered by them and to cover the debit balance with collateral.

RISK COUNTRY

Country risk is an additional component of implicit credit risk in all cross-border transactions. It is attributable to the possible inability of a debtor to meet its payment obligations in a foreign currency to foreign lenders due to macroeconomic or political circumstances or natural disasters.

Risks included under this heading include sovereign (risk of default on debt issued by the State or State-guaranteed entities) and transfer risk (risk of a country's being unable to meet its payment obligations due to insufficient currency reserves). Risks associated with foreign direct investment include confiscation, expropriation and nationalisation risk, transfer risk in the repatriation of dividends or divestments, risk of breach of contract and risk of war, political conflict or natural disasters.

Banco de España rules require that these risks should be provisioned based on the estimated risk for each country. No provisions need to be allocated for risks involving countries classed in groups 1 and 2. Country types for each risk group are defined in Banco de España Circular No. 4/2004. Group 1 includes transactions with final beneficiaries residing in the European Union, Norway, Switzerland, Iceland, the US, Canada, Japan, Australia and New Zealand. Group 2 covers countries classified as having good credit quality which are not included in Group 1 (China, Saudi Arabia, Chile, etc.).

Risk can be mitigated by applying country risk coverage policies from national and international export credit agencies (CESCE, COFACE, KUKI, etc.) or private insurers. Other mitigation techniques include cash deposits and guarantees issued by well-known solvent institutions.

Country risk management at the Group follows principles of maximum caution and profitability, seeking to strengthen the commercial relationship with our customers.

At year-end, the Group's overall country risk amounted to €178.6 million, four times the figure at the end of 2014 (€43.8 million). These figures are not significant in relation to the Group's total risks, of which they represented 0.13% in 2015 and 0.03% in 2014.

Provisions made for country risk amounted to €0.8 million, 19.76% less than last year, so the balance of the provision established represented a coverage of country risk of 0.46% compared with 2.32% last year. Table 47 shows the evolution of country risk in the last two years, broken down by countries according to their degree of difficulty, the relevant provisions and their comparison with the total risks. Table 48 shows the distribution of this risk by balance sheet items: credit institutions, lending and contingent liabilities with their coverage.

Table 47: Country risk and provisions recorded (Amounts in thousands of euros)

	2015		2014	
	Balances	**Coverage**	**Balances**	**Coverage**
Country				
No appreciable risk	175,114	-	42,121	-
Substandard risk	2,990	314	754	86
Doubtful risk	448	502	949	931
Total	**178,552**	**816**	**43,824**	**1,017**
Coverage (%)		0.46		2.32
Memorandum item:				
Total risks		142,582,977		146,378,216
Country risk/Total risks (%)		0.13		0.03

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

	2015		2014		COVERAGE (%)	
	BALANCES	COVERAGE	BALANCES	COVERAGE	2015	2014
Credit institutions	-	-	-	-	-	-
Customer credits	130,881	507	33,677	912	0.39	2.71
Contingent liabilities	47,671	309	10,147	105	0.65	1.04
Total	**178,552**	**816**	**43,824**	**1,017**	**0.46**	**2.32**

INTEREST RATE RISK

Structural balance sheet risk is the risk of loss of economic value and net interest income arising as a consequence of fluctuations in interest rates and their impact on the various sensitive on- and off-balance sheet items (excluding the trading activities), including hedging derivatives.

Term structure of banking book instruments causes structural interest rate risk since rate resets occur at different tenors and sensitive assets and liabilities presents asymmetry in their maturity profiles.

As regards the nature of this risk, it is important to distinguish appropriately between the structural aspect of the risk, on which this section focuses, and the market aspect associated with interest rate risk. The latter materialises only due to changes in the value of the trading activities deriving from movements in interest rates, for which the policies for managing and controlling are covered in the Market Risk section.

Concerning the structural aspect of interest rate risk, it is important to bear in mind that fluctuations in rates involve two sources of risk:

- Uncertainty regarding reinvestment rates (maturity/rollover) throughout the life of an asset/liability.
- Fluctuations in the market value of Banco Popular's assets, liabilities and equity.

The Group manages these two aspects at an aggregate level for all financial institutions in the Group.

Interest rate risk management is instrumented mainly through derivatives. The policy is to hedge as near perfectly as possible, and for this reason preference is given to contracting individual transactions, although macro-hedging transactions are also entered into.

The corporate risk culture implanted in Banco Popular in terms of interest rate risk management requires the adoption of a series of principles that steer the management, measurement and control of this risk, included in the Risk Appetite Framework approved by the Board of Directors.

The ALCO Committee controls the evolution of the net interest income and economic value against interest rate risks in different scenarios and establishes short- and medium-term policies for the management of prices, durations and magnitudes of sources and applications.

Finance Management applies the guidelines established by the ALCO Committee as part of the interest rate risk management, calculates both the internal and regulatory metrics and controls compliance with limits. This information is submitted on a monthly basis to the ALCO.

Risk Management validates risk measurement methodologies, controls compliance with set limits and the effectiveness of the implemented controls. Furthermore, it applies its own controls to this risk and periodically reports to the Risk Commission.

In relation to the control of the sensitivity of the net interest income and economic value to changes in interest rates, the Bank assesses the impact of adverse movements, monitoring the maturity and repricing gap in the consolidated balance sheet, broken down by interest rate sensitive and non-interest rate sensitive items..

The economic value is calculated as the sum of the fair value of the net interest rate sensitive assets and liabilities. and the net carrying value of assets and liabilities that are not sensitive to interest rates. The fair value of the interest rate sensitive items is obtained by calculating the present value, based on the interest rate curve in the interbank market at the reference rate, the future flows of principal and interest relating to all interest rate sensitive items.

The Bank participated in the Quantitative Impact Study exercise in June 2015, which was requested for the first time for interest rate risk.

Table 49: Maturity and repricing gap in the consolidated balance sheet at 31 December 2015 (Amounts in millions of euros)

Popular	Total	Not sensitive	Total Sensitive	1 month	2 months	3 months	From 3 to 6 months	6 months to 1 year	More than 1 year
Loans and receivables	**107,019**	**12,128**	**94,891**	**18,132**	**8,789**	**14,506**	**21,436**	**23,686**	**8,342**
Deposits with credit institutions	6,244	1,295	4,949	4,687	-	79	2	10	171
Loans and advances to customers	99,638	9,696	89,942	13,445	8,789	14,427	21,434	23,676	8,171
Other assets and valuation adjustments	1,137	1,137	-	-	-	-	-	-	-
Securities market	**27,248**	**2,284**	**24,964**	**180**	**40**	**131**	**161**	**748**	**23,704**
Other assets	**24,383**	**24,383**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**158,650**	**38,795**	**119,855**	**18,312**	**8,829**	**14,637**	**21,597**	**24,434**	**32,046**
Financial liabilities at amortised cost	**140,508**	**30,541**	**109,967**	**24,407**	**11,651**	**6,238**	**13,203**	**16,914**	**37,554**
Deposits from credit institutions	33,376	895	32,481	10,126	931	1,109	1,003	930	18,382
Customer deposits	88,335	28,812	59,523	13,367	10,407	3,691	10,283	13,429	8,346
Marketable debt securities	15,989	93	15,896	914	313	1,273	1,917	2,077	9,402
Subordinated and preference liabilities	2,067	-	2,067	-	-	165	-	478	1,424
Valuation adjustments	741	741	-	-	-	-	-	-	-
Other liabilities	**5,627**	**2,916**	**2,711**	**769**	**909**	**708**	**270**	**55**	**-**
Equity	**12,515**	**12,515**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**158,650**	**45,972**	**112,678**	**25,176**	**12,560**	**6,946**	**13,473**	**16,969**	**37,555**
Off-balance sheet transactions		**-**	**-**	**6,612**	**55**	**1,967**	**1,824**	**3,233**	**(13,690)**
Gap		**(7,177)**	**7,177**	**(252)**	**(3,676)**	**9,658**	**9,948**	**10,698**	**(19,199)**
Accumulated gap		**-**	**-**	**(252)**	**(3,928)**	**5,730**	**15,678**	**26,376**	**7,177**

At the end of 2015, the investment portfolio reached €21,097 million (nominal). As can be seen in the following table, the portfolio is distributed between available-for-sale investments, 96% and loans, 4%. Compared with the preceding year, the total volume of the Investment Portfolio fell by 14%. The average portfolio maturity is 5.11 years, which represents an increase relative to the previous year (4.54 years), due to the fact that sales during the year had an average residual maturity of 6 years whereas that of purchases was 10 years.

The total duration of the investment portfolio at 31.12.2015 was 0.68 years, 0.52 years less than the year before (1.20 years).

Table 50: Investment Portfolio (amounts in millions of euros)

	Nominal	Relative weight
Available-for-sale portfolio	20,255	96%
Loan portfolio	842	4%
Total Investment Portfolio	21,097	100%

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

Figure 40: Composition of the available-for-sale portfolio

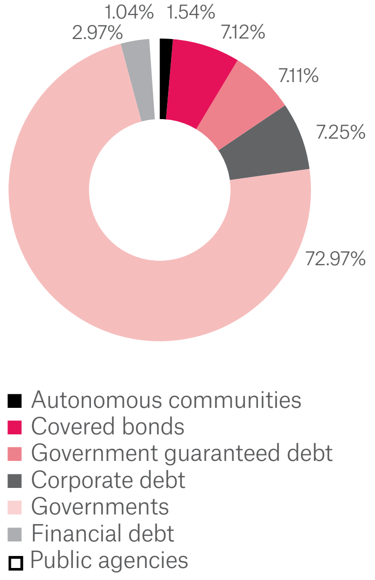
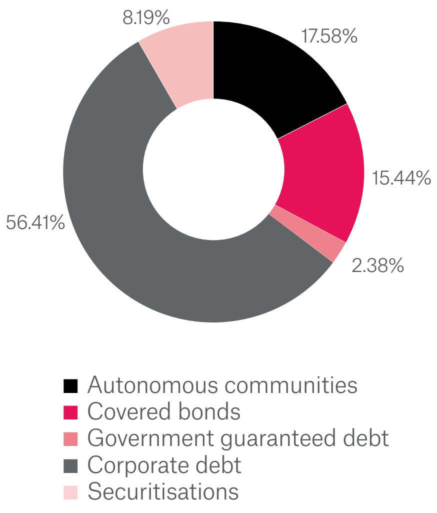


Figure 41: Composition of the loan portfolio



MARKET RISK

Market risk comprises the risk of loss for the Bank deriving from adverse movements in risk factors that determine the market value of financial instruments that form part of the trading book. Thus, this risk arises due to adverse variations in interest rates, exchange rates, share prices or commodity prices, credit spreads or volatility affecting these variations resulting from Treasury decisions.

It also includes the liquidity risk linked to these positions, i.e. the impossibility of unwinding positions in the market within a short period of time without a significant fall in value. To this end, an evaluation is made of positions over a time span coinciding with the estimated time horizon required to close their inherent risk.

The Corporate risk culture implanted in Banco Popular in terms of market risk management requires the adoption of a series of principles, an operating framework, inherent to the approval of the Risk Appetite Framework (RAF) approved by the Board of Directors, which sets standards for the management, measurement and control of market risk incurred by Banco Popular as a result of its trading activity on the financial markets.

Finance Management is tasked with measuring and supervising compliance with market risk limits. Furthermore, it calculates risk positions at least once a day, comparing them with the limits in place.

Risk Control for its part carries out transversal controls on this risk at appropriate intervals and periodically reports on its evolution to the Risk Commission.

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

For the purpose of controlling the market risk of the trading activity, it undertakes daily monitoring of contracted operations, calculation of the impact of market trends on positions, quantification of the assumed market risk, regulatory capital adecuacy and monitoring of compliance with limits.

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

To complete the VaR historical simulation figures, complementary limits are calculated in terms of position and sensitivity, as well as Treasury Stop Loss limits. In addition, the trading book is subjected to scenarios of sharp changes in market variables (stress testing).

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

In 2015, the average VaR of the Treasury trading activity was €0.799 million. As shown in the graph, the largest upturns occurred in the months of January and October. The increase in VaR during October is attributable to a greater position taken in equity swaps along with the upward trend in the quoted price of one of the underlying assets involved in the operation.

Figure 42: Evolution of Banco Popular Group's VaR (data in millions of euros)

Table 51 includes a calculation of the average VaR attributable to the various Treasury trading activities: Money Market and Asset Trading Book, which includes interest rate risk and exchange rate risk; Equities, which includes share price risk and volatility risk; Structured Derivatives, which includes interest rate risk and volatility risk, and Investments, which includes share price risk and volatility risk. It may be observed that the risk is concentrated mainly on interest rate risk produced by the Asset Trading Book.

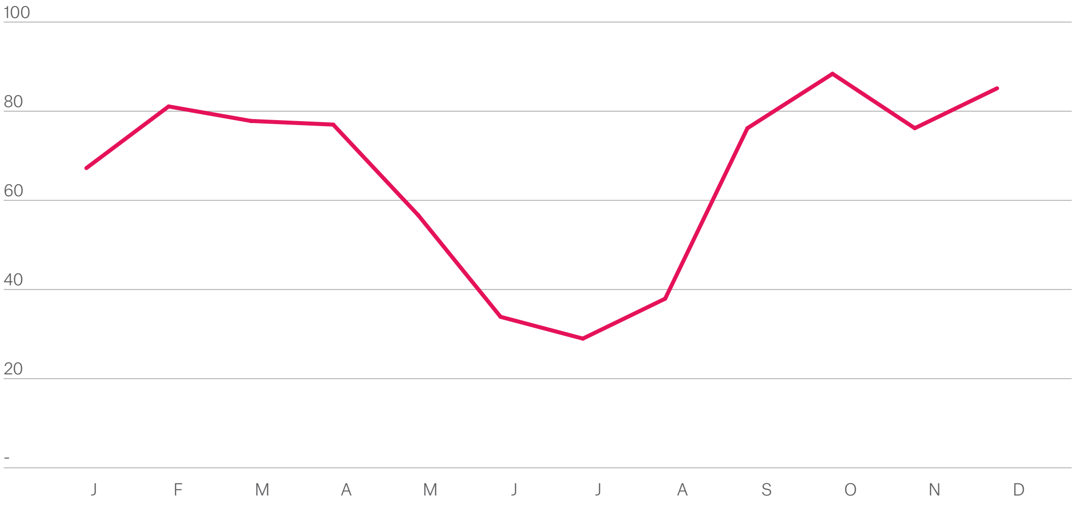
Table 51: Average VaR 2015 (data in thousands of euros)

	Money Market	Asset Trading	Equity Instruments	Structured derivatives	Financial investments	Equity Swaps	Aggregate VaR
Average VaR 2015	88.21	41.67	105.69	39.73	85.93	595.14	799.47

The aggregate risk presents substantial earnings for diversification of 65.60% on average, as a result of the correlation between the prices of equities and the yield curves, as well as the proper management of specific portfolios.

In the chart below you can see the trend during 2015 of earnings per diversification:

Figure 43: Increased profit by portfolio diversification in Treasury Office Trading



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

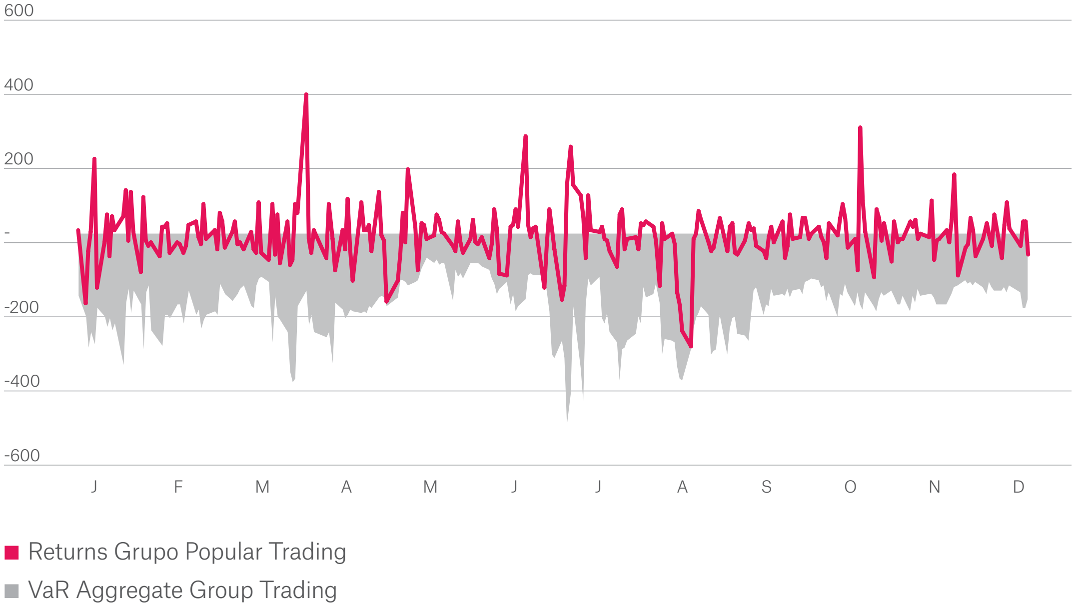
To verify the adequacy of the risk estimates and the consistency of the VaR model, daily results are compared against the loss estimated by the VaR, which is called Backtesting. Following the recommendations of the regulator and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

- Clean Backtesting: relates the daily results of transactions outstanding at the close of the previous session to the one-day estimated VaR calculated using the outstanding positions at the close of the preceding session. This exercise is the most suitable for the self-evaluation of the methodology used to measure market risk.
- Complementary or dirty backtesting: evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on live transactions at the close of the previous session. This makes it possible to evaluate the importance of the intra-day trading in the generation of earnings and in the estimation of the total portfolio risk.

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

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

Figure 44: Banco Popular Group's Clean Backtesting (Amounts in thousands of euros)



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

- Analysis of theoretical scenarios (systemic stress): calculates the change in value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 97% of the total VaR. To include the possible combinations of the various movements in risk factors, nine joint scenarios are analysed on a monthly basis and the three scenarios that are the most harmful in the analysis are reported daily.

To exemplify the above remarks, in the case of the maximum risk figure produced in October (€2,096.99 thousand), the contribution by risk factor was:

Table 52: Contribution of risk factors to the VaR figure

Volatility (Equity, Swap, Cap)	0.48%
Equity instrument Prices	97.96%
Interest Rate	1.53%

LIQUIDITY RISK

Liquidity risk reflects the possibility of a credit institution encountering difficulties in having available or being able to access liquid resources in a sufficient amount and at an appropriate cost so as to be able to meet its payment obligations at all times.

This risk, common to all financial institutions, arises from the imbalance between the different maturities of assets and liabilities needed to engage in banking activities.

From the start of the global financial crisis, the Group has considered it essential to reduce its reliance on capital markets and to lengthen funding terms.

In recent years, the governance model has been strengthened by the inclusion of liquidity risk in a more overall approach to the Group's risks in the form of the Risk Appetite Framework. This framework responds to the demands of regulators and market participants resulting from the financial crisis to strengthen financial institutions' risk control and management systems.

Thus, with a view to considering all possible cases in terms of liquidity risk management, the governance and operating framework includes policies and procedures that are differentiated depending on the liquidity situation, with a view to ensuring that this risk is measured, monitored and managed appropriately at all times.

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

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 is the area responsible for managing liquidity and controlling liquidity risk as the first line of defence; This department is responsible for supervising and reporting metrics relating to funding dependency and liquidity buffers on a daily basis; it informs the ALCO on a monthly basis regarding these issues and those relating to the evolution of the balance sheet structure, sources of funding and survival horizons in extreme stress scenarios.
- Risk Management via the Risk Control unit, represents the second line of defence and is tasked with analysing risks assumed by the Bank; its objective is to analyse the risks assumed by the Bank, ensuring compliance with the policies and limits authorised in the different links of the risk chain, as well as dynamically suggesting other policies and developing the required rules and procedures.
- Audit Management is the third line of defence. It is directly accountable to the Board of Director's Audit Committee, through which it reports to the Board of Directors. As part of its functions, it is responsible for reviewing compliance with the Group's internal regulations and assessing the effectiveness of management, control and governance processes applicable to all Risks, including Liquidity Risk, ensuring that they are correctly implemented.

In order to maintain a balanced and prudent balance sheet funding structure, the Group has a Funding Plan that is revised at least once a year and whenever systemic or internal circumstances make revision advisable.

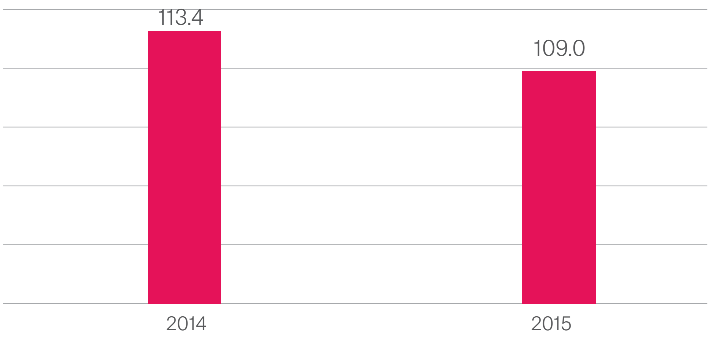
The Funding Plan seeks to establish the volume and composition of wholesale funding for the following financial year, broken down by quarter. The objectives of satisfying financial commitments entered into, funding the balance sheet for the Funding Plan, and fulfilling the established risk appetite metrics are met through the consideration of the different sources of financing available, both in terms of duration and costs.

The Funding Plan is updated and its evolution analysed on a monthly basis in terms of expected maturities, costs and market opportunities, adjustments are being made to the strategy as and when necessary.

It is worth noting that a Liquidity Contingency Plan is in place, which sets out a range of standardised procedures to be followed by Banco Popular in situations that could entail an impediment to the continuation of the Bank's activities or, in extreme cases, place its survival at risk.

As at 31 December 2015, the commercial gap was €7,713 million, giving a loan to deposit (LTD) ratio of 109.0%. The €3,379 million improvement in the commercial gap seen over the course of the year, as shown in figure 45, is mainly attributable to the increase in demand deposits, albeit partly offset by a decrease in term deposits and mediation loans (ICO and EIB funding).

Figure 45: Loan to deposit ratio (%)



In terms of the breakdown of the commercial gap, in 2015, the Group's retail funding increased by €2,516 million to €85,421 million, accounting for 63% of all funding of the Group, excluding equity, with the following breakdown: (i) 57.4% demand deposits, term deposits and commercial paper, (ii) 4.7% ICO and EIB mediation loans and (iii) 0.8% other operations.

Retail funding is showing great stability in this part of the economic cycle in which demand and term deposits have increased concurrently since 31 December 2014 by €5,522 million, demonstrating our customers' loyalty.

On the other hand, wholesale funding, representing 14% of the Group's funding, increased by €322 million. Retail funding is diversified into a broad variety of instruments, notably covered bonds, which represent 57% of this heading. In 2015, Banco Popular took advantage of issue opportunities that existed in the wholesale markets, placing €4,743 million over the course of the year, of which (i) €3,404 million in covered bonds, (ii) €589 million in senior debt and (iii) €750 million in an issue computable as AT1 (additional tier 1 capital), which made it possible to strengthen solvency levels and cover AT1 (1.5% of RWAs) as required by the regulations.

The reduction in the investment portfolio and the improvement in the commercial gap in 2015 resulted in a change in the structure of funding, reducing the weight of secured funding in repos (and other market issuances). This type of transaction accounts for 13% of total funding at €17,758 million during the year. Since 2010, the Bank has been a member of the three main European counterparty clearing houses, LCH London, Paris and Eurex Repo, together with other international banks. This operation is part of the Group's strategy to diversify its funding sources and reduce costs, while increasing liquidity sources guaranteed by liquid assets other than the ECB. The counterparty clearing houses act as guarantors for the transactions carried out between financial entities, allowing risks to be minimised.

Lastly, funding from the European Central Bank (ECB) stood at €14,192 million, which represents 10% of the Group's total funding. This amount is related to the extraordinary measures approved by the European Central Bank in order to support financing of the real economy through the private sector. Since 2014, Banco Popular has taken part in the targeted longer-term refinancing operations (TLTROs) organised by the European Central Bank. These auctions have made it possible to raise funding through to September 2018 at a competitive cost.

The funding structure and trends can been seen in figure 46 and table 53.

Figure 46: Structure of borrowed funds

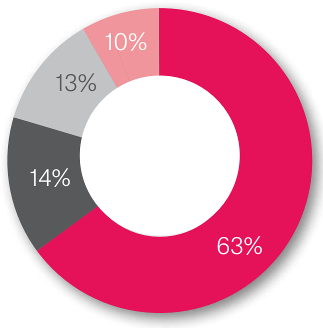


Table 53: Funding trend sources for Banco Popular Group (Amounts in millions of euros)

				Weight (%)		
	DEC-15	DEC-14	CHANGE (%)	DEC-15	DEC-14	CHANGE.
Retail financing	**85,421**	**82,905**	**3.03**	**62.89**	**58.57**	**2,516**
Demand deposits	35,954	27,476	30.86	26.47	19.41	8,478
Time deposits	41,882	44,839	(6.59)	30.83	31.68	(2,956)
Retail commercial paper	129	312	(58.69)	0.10	0.22	(183)
Intermediation credits [1]	6,362	8,745	(27.25)	4.68	6.18	(2,383)
Other operations [2]	1,094	1,533	(28.65)	0.81	1.08	(439)
Wholesale financing	**18,460**	**18,138**	**1.78**	**13.59**	**12.81**	**322**
Interbank deposits and commercial paper	4,474	4,681	(4.44)	3.29	3.31	(208)
Senior debt	1,874	2,188	(14.34)	1.38	1.55	(314)
Mortgage covered bonds	10,513	10,316	1.91	7.74	7.29	197
Convertibles, convertible perpetual debt and subordinated debt	1,599	953	67.86	1.18	0.67	647
Clearing houses and other market repos	**17,758**	**30,510**	**(41.80)**	**13.07**	**21.56**	**(12,752)**
European Central Bank	**14,192**	**9,992**	**42.03**	**10.45**	**7.06**	**4,200**
TOTAL	**135,831**	**141,545**	**(4.04)**	**100.00**	**100.00**	**(5,714)**

1. ICO and EIB funding directly received with the purpose of company credits.
2. includes convertible notes, convertible perpetual debt, and subordinated debt distributed through the commercial network, securitisations sold to third parties and collection accounts.

The Liquidity Gap at the end of 2015 can be seen below. This gap is based on contractual maturities not discounted to present value.

To calculate the current gap, and in accordance with the recommendations set out in IFRS 7, for the first time the "demand" or "sight" category now includes (i) the balances of demand customer deposits and (ii) the balances immediately available to third parties. The latter balances are basically credit facilities with limits granted that are unwithdrawn by borrowers as at reporting date.

In previous years, customer sight deposits were reported under the "no maturity" column of the Liquidity Gap, while contingent commitments were not taken into consideration. In this regard, we would point out that the 2014 Liquidity Gap has been recalculated under these same criteria to make the information comparable.

As a mitigating measure, the balance of available eligible assets at each moment in time is included in the calculation of the gap. This balance comprises (i) the Group's Counterbalancing Capacity (ii) the recovery of assets by maturity of repos sold (net of repos purchased) and (iii) the renewal of covered bonds in the market.

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

Table 54: Liquidity gap (Amounts in millions of euros)

POPULAR	On demand	Up to 3 months	Between 3 and 6 months	Between 6 and 36 months	Between 36 and 60 months	More than 60 months	Total maturities	No maturity	TOTAL
Loans and advances to customers		9,344	4,992	24,334	12,416	45,216	96,302	11,203	107,505
Money market and repos		10,270	623	1,179	1,503	898	14,473	2,082	16,555
Debt securities		200	148	4,931	8,649	12,593	26,521	2,172	28,693
Other assets								22,337	22,337
TOTAL ASSETS		**19,814**	**5,763**	**30,444**	**22,568**	**58,707**	**137,296**	**37,794**	**175,090**
Customer deposits	38,775	13,602	7,805	19,681	384	166	80,413	533	80,946
Repos, ICO, Treasury and other		17,545	1,507	17,707	1,314	1,330	39,403	897	40,300
Negotiable securities and subordinated liabilities		726	1,108	7,048	4,435	5,686	19,003	93	19,096
Other liabilities								6,041	6,041
Equity								12,515	12,515
TOTAL LIABILITIES	**38,775**	**31,873**	**10,420**	**44,436**	**6,133**	**7,182**	**138,819**	**20,079**	**158,898**
GAP	**(38,775)**	**(12,059)**	**(4,657)**	**(13,992)**	**16,435**	**51,525**	**(1,523)**	**17,715**	**16,192**
Derivatives		(73)	(99)	(1,319)	(1,587)	(1,447)			
Available liquid assets		23,063	23,734	43,545	46,917	50,071			
Commitments drawable by third parties	(6,742)								
ADJUSTED GAP	**(45,517)**	**10,931**	**18,978**	**28,234**	**61,765**	**100,149**			

To evaluate the adequacy of the available effective liquid assets, Banco Popular carries out stress tests that assume the non-renewal of all the maturities of wholesale funding sources. As may be observed in table 43, current liquid assets easily cover all maturities in 2016. To cover this trend, at year-end, the Group has available eligible assets, known as Counterbalancing Capacity, with which it could obtain funding of €13,637 million. The Counterbalancing Capacity comprises eligible assets for both European Central Bank discount operations and for use as collateral in operations with financial institutions and customers.

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

Table 55: Extreme scenario of the non-renewal of due and payable liabilities

POPULAR	MAR-16	JUN-16	SEP-16	DIC-16	TOTAL
MATURITIES					
Interbank deposits (net)	1,327	282	163	51	1,823
Institutional commercial paper and ECP	525	46	24	50	645
Senior debt	-	719	-	-	719
Covered mortgage & territorial bonds	-	200	-	1,869	2,069
Wholesale subordinated debt	-	-	-	-	-
Wholesale convertible perpetual debt	-	-	-	-	-
TOTAL MATURITIES	**1,852**	**1,247**	**187**	**1,970**	**5,256**
SOURCES OF LIQUIDITY					
Available liquid assets	13,637	-	-	-	13,637
TOTAL SOURCES OF LIQUIDITY	**13,637**	-	-	-	**13,637**
Liquidity surplus	**11,785**	**10,538**	**10,351**	**8,381**	

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

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

Liquidity Coverage Ratio

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

Although credit institutions must maintain a minimum LCR of 100%, compliance with this metric will be staggered from an initial level of 60% applicable from 1 October 2015 increasing progressively to 100% in 2018. The Group's consolidated LCR at December 2015 was 179%.

OPERATIONAL RISK

The Banco Popular Group has adopted as its definition of operational risk the one established in the Basel II Capital Accord (2004): "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events". This definition includes legal risk but it excludes strategic and reputational risks.

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

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

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

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

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

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

The Board of Directors of Banco Popular Group approved the use of the Standard Method provided for in BIS II regulations to calculate the minimum capital requirements for operational risk; however, the foundations are being laid to evolve towards an advanced model approach in the future.

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

Finally, Banco Popular Group actively participates in the Spanish Operational Risk Consortium (CERO), a forum which promotes the exchange of experiences and operational risk management criteria and on which practically all institutions in Spain are represented.

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

- **Identification Phase:** Preparation and maintenance of an overall risk and control map that captures all material operational risk exposures. The Group has qualitative tools that are used to prepare the Group's risk and control maps, which are reviewed and updated regularly, to measure the frequency and impact of operational risk and to assist in establishing action plans and improving controls and hedges in the areas of highest exposure, as well as the analysis by the Business Continuity Office of the necessary contingency plans to ensure the continuity of the Bank's operations.

- **Evaluation Phase:** Regular evaluation of residual or net risk through a self-evaluation of the Bank's risks and points of control, whether business or support related, in order to identify the residual risk to which the Bank is exposed.

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

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

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

  Self-assessment of risks: The Bank has a tool that brings together the risks and controls identified by the Bank and whereby the corresponding valuations are carried out (as indicated in the Evaluation Phase)

Periodic reports on exposure to operational risk are produced for Senior Management, including the values of the metrics defined in the Risk Appetite Framework. Furthermore, an information process is in place by means of which departments receive data on the management of operational risk in their area, enabling them to carry out actions accordingly.

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

- **Measurement Phase:** Calculation of equity requirements for operational risk. As indicated previously, Banco Popular Group has chosen to apply the Standard Method provided for by Basel II to calculate operational risk capital; the corresponding methodology was approved by Senior Management.

This management model is regularly reviewed by the Group's audit area.

The first of the following two figures shows the number of operational risk events in 2015 broken down by event categories as established by Basel II. Similarly, the second figure shows the distribution of net loss by operational risk in 2015 within those event categories.

Figure 47: Number of events (%)

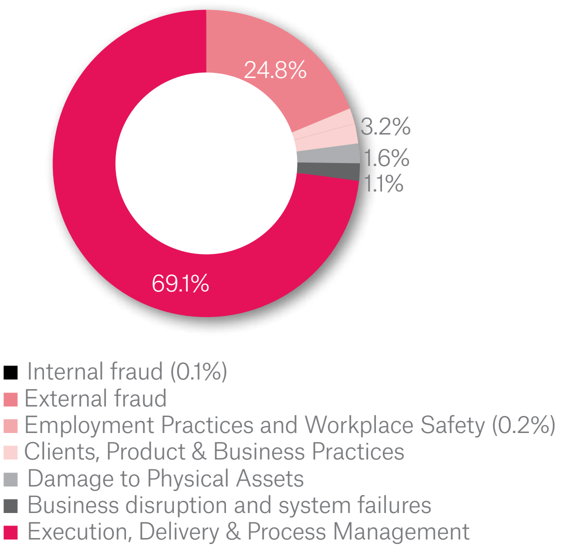
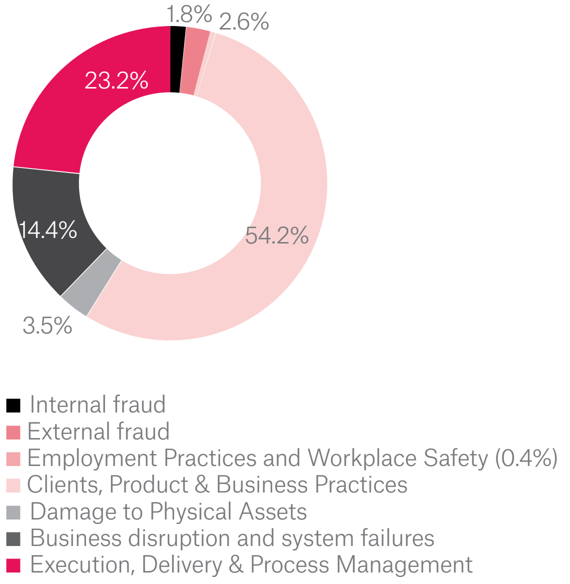


Figure 48: Net loss (%)



In terms of number of events, the most noteworthy category is "Process execution, delivery and management", attributable to the significant number of recurring losses it contains. On the other hand, the highest net loss comes under the "Customers, products and business practices" category, due to the events related to the sale of certain products a number of years ago. In this regard, it is worth noting that the New Products Committee was created in 2012 to review the characteristics and risks associated with products designed and developed before they are placed on the market.

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 faith in its integrity and competence on the part of customers, shareholders, employees and public opinion in general; this type of risk can adversely affect capital, earnings and development of the business constituting the Bank's activities.

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

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

COMPLIANCE RISK

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

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

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

Regulatory Compliance Management reports hierarchically to the General Secretariat and functionally to the Audit Committee of the Bank's Board of Directors. The Money Laundering Prevention Office, the Compliance Office, the Public Administration 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 takes care of prevention by investigating and analysing operations and transactions suspected of being related to the laundering of funds from unlawful activities or the financing of terrorism, pursuant to the regulations in force on this matter, reporting any operations or transactions with characteristics possibly indicative of being associated with such activities.

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 relating to the Bank's trading activities 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 Division.

The Public Administrations Response Office handles all communications (letters, requests for information, attachment orders and other notices) addressed to Group entities by public authorities (Courts, Tax Authority, Social Security Fund, Local Authorities, Property Registers, Police, 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).

To perform Compliance related functions, as established by the Board of Directors, the following instruments are in place:

- Articles of Association and Regulatory Compliance Policy.
- Compliance Procedures Manual and specific procedures manual.

The Articles of Association and Policy have been approved by the Board of Directors and the Procedures Manual by the Audit Committee.

In terms of the Prevention of Money Laundering and the Financing of Terrorism, Banco Popular Group has implemented the following documents, authorised by the Internal Control Body (ICB):

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

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

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

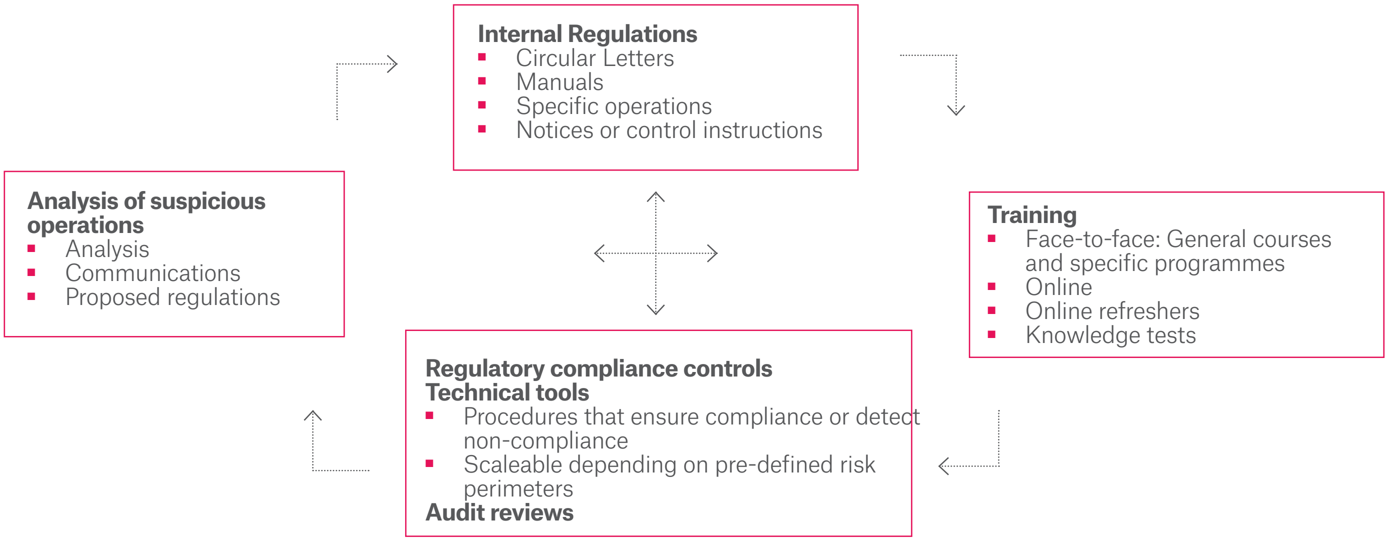
The Compliance Office manages and controls compliance risk, including regulatory risk regarding the standards and regulations within its scope of activities, under the following items:

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

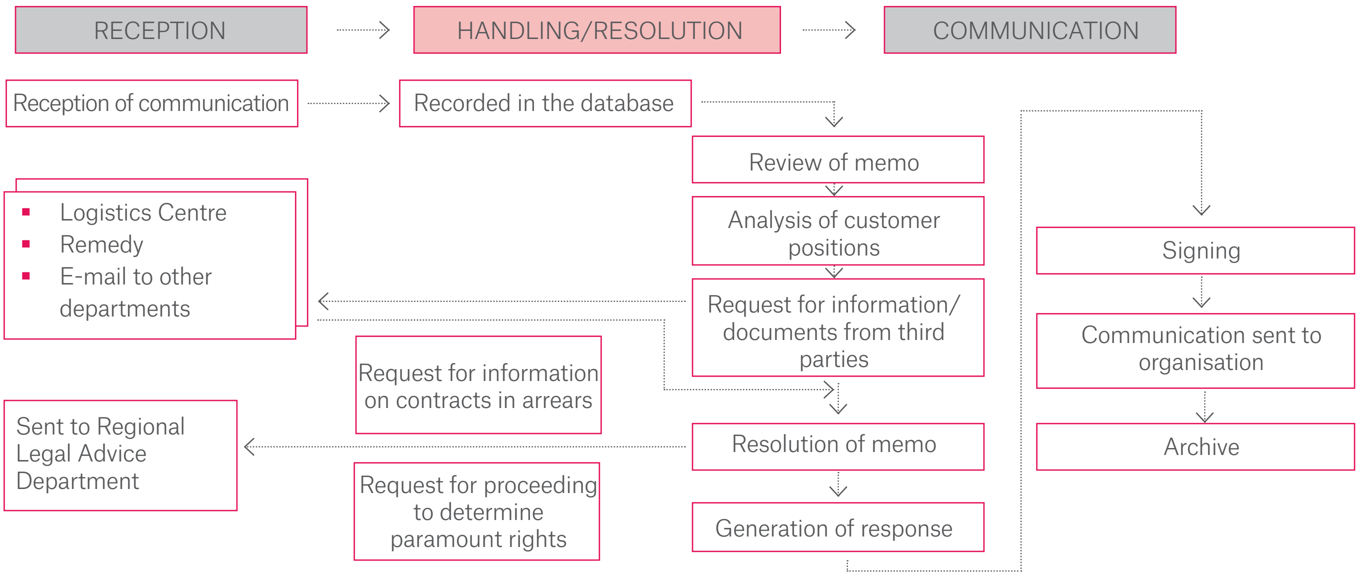
An IT tool is in place at the Office for the Prevention of Money Laundering to review customers and operations, with alerts for operations suspected of being involved in money laundering or the financing of terrorism (NORKOM).

Specific tools are also available to manage cross checks, the production of the Monthly Declaration of Transactions and the handling of files generated as a result of alerts submitted by the sources of information. A procedure regarding the Financial Ownership File is currently in its test phase.

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



The Public Administration Response Office manages and/or coordinates responses to notices addressed to the entities forming the Group. The process is as follows:



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

In 2015, the Regulatory Compliance department rearranged its organisational structure, creating the Regulatory Compliance Division, with the aforementioned offices reporting to said division.

The main Milestones for 2015 in the Regulatory Compliance department were:

Compliance Office

- Creation of the Risks and Controls Map and the Compliance Control Table.
- Development of the Corporate Defence model for the prevention of criminal risks.
- Adaptation of the Group to EU Directives MiFID II/MFIR, MAD and MAR.
- Supervision of updates to the Group's policies and procedures in its scope of activities.
- Analysis of market abuse alerts and support to the ICC surveillance body.
- Updates to the Compliance Procedures and Manual.

Office for the Prevention of Money Laundering

- Action plan to improve the efficiency of procedures that ensure compliance with the Customer Acceptance Policy, including updates to internal regulations, improvements to the NORKOM tool and IT developments to ensure the correct application of due diligence measures.
- A SEPBLAC inspection was carried out, which sought to check compliance in terms of transactions involving banknotes and coins, with the formal identification obligation and the duty to preserve the identification documents of those involved and the formal completion of transactions.
- Face-to-face training initiative for all Territorial internal auditors. Furthermore, all employees were asked to complete an online training course before 10 December 2015.
- Collaboration with the external expert who revised the procedures implemented in the Group for the prevention of money laundering and the financing of terrorism.

Public Administrations Response Office

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

Customer Service Department

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

REGULATORY RISK

Since the onset of the financial crisis in 2008, the global financial system has been undergoing an unprecedented process of regulatory reform, 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 multidimensional and has several objectives, including the following initiatives which have already been defined:

1. Basel III strengthens banks' solvency. In Europe, it has been is transposed through the Capital Requirements Directive (CRD IV).

2. The regulation for systemic banks minimises the probability of bankruptcy and mitigates their impact on the system.

3. The new resolution framework defines harmonised and predictable rules which favour an orderly resolution of bankrupt banks. This has been reflected Europe-wide in the EU Bank Recovery and Resolution Directive (BRRD).

4. The reform of the financial derivatives market increases transparency and security of the global markets mainly by encouraging the settlement of financial derivative contracts by central clearing houses and increasing reporting requirements. In Europe, this has been transposed through the Markets in Financial Instruments Directive (MiFID II).

5. Following the revision of the Principles for Financial Market Infrastructures (PFMI), infrastructure supporting global markets will be subject to stricter supervision. In that sense, market infrastructures are more robust and are more prepared to face financial shocks.

6. The European framework will also strengthen customer protection with the technical development of the Markets in Financial Instruments Directive (MiFID II) which, among other measures, strengthens information 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 implies a substantive change in the European institutional architecture.

In this context, Banco Popular, along with other significant banks, has been subject to individual supervision by the European Central Bank since November 2014. Previously, these banks had undergone a European asset quality assessment exercise and stress tests with stringent scenarios, which Banco Popular passed successfully. As a result, European banks have been recapitalised after a deep and independent evaluation process, helping to dispel uncertainty about the health of the European financial system and strengthen confidence in banking.

Moreover, significant banks are subject to the Single Resolution Mechanism effective January 2016 and started to fund their respective national resolution funds in January 2015. From this date a process of progressive pooling will begin until national resolution funds are fully integrated into a Single Fund in 2024. Banco Popular, as well as other significant banks will have to meet the new requirements defined by the Single Resolution Authority. These requirements will strengthen the resolution ability of entities and increase the liability of their creditors.

The European Deposit Insurance Scheme (EDIS) is aimed at banks belonging to the Single Resolution Mechanism (SRM), although it will be open to the participation of other states. The "Single Resolution and Deposit Insurance Board", which belongs to the SRM, will be tasked with managing the scheme. Individual contributions will be in proportion to the risk level of each bank and the deposit guarantee remains fixed at €100,000.

The implementation of the European Deposit Insurance Scheme (EDIS) consists of three stages:

1. Phase I, Reinsurance 2017 - 2020: the resources of national deposit guarantee funds must first be exhausted before resorting to the EDIS if necessary.

2. Phase II: Coinsurance 2020 - 2024: mutualisation will follow a progressive timetable, with the provision of an additional 20% each year.

3. Phase III: Insurer 2024 and after: the EDIS must be capable of insuring 100% of deposits.

The European Commission has prioritised the creation of an integrated European Capital Markets Union for 2019; to this end, an action plan that sets out the timeframe for initiatives through to 2017 has been created. In 2017, the European Commission will assess progress and define actions to be taken through to 2019.

The action plan consists of six initiatives:

1. Ensuring financing for innovation, new companies and unlisted companies. For example, crowdfunding measures, availability of information on SMEs, etc.

2. Promote access of SMEs to public markets. For example, modernising the prospectus issuance directive, mitigating access barriers, etc.

3. Investing in long-term projects, infrastructures and sustainable investment. For example, revising the CRR, estimating and eliminating barriers established by the regulations, etc.

4. Promoting retail and institutional investment.

5. Increasing the ability of the banking sector to finance the economy. For example, revising regulations to promote financing offered by the banks to SMEs, etc.

6. Encouraging cross-border investment.

Furthermore, a series of measures have been proposed:

1. Proposed regulation to identify simple, transparent and standardised securitisations and amendments to the CRR to apply preferential treatment.

2. Proposal seeking to identify and mitigate inconsistencies, unnecessary regulatory burdens and barriers to growth in the regulation as a whole.

3. Proposal regarding the possibility of establishing a Europe-wide framework for mortgage covered bonds.

4. Proposed regulation of venture capital funds.

5. Amendments to the Solvency II Directive to encourage long-term investment.

We are at a key stage of the regulatory reform process, in which the design phase is coming to an end and the implementation phase is beginning.

However, significant regulatory pressure will remain in 2016.

1. Evolution of capital requirements (sometimes referred to as Basel IV). Among others, this will include debate about greater consistency and better reflection of risks in capital models. In this regard, the regulators will propose measures to limit inconsistencies in the calculation of risk-weighted assets. Capital requirements will also be developed for the “Interest Rate Risk in the Banking Book” (IRRBB) in addition to regulations designed to change the way in which sovereign debt is treated.

2. In 2015, international organisations agreed on the global framework to impose a number of bail-in requirements on globally systematic banks (TLAC). In Europe, all banks will be subject to an equivalent requirement (MREL).

3. The authorities are monitoring the risks associated with new trends in regulation which could create incentives for evasion and regulatory arbitrage, exacerbate shadow banking or encourage further fragmentation of the financial system.

4. In Europe, the regulatory focus will be on restrictions to banking activities - a ban and separation of the riskiest trading activities. In principle, this initiative would mainly affect universal banks with significant investment activities.

5. At the same time, eleven Member States, including Spain, are negotiating the introduction of a tax on financial transactions under enhanced cooperation.

6. Furthermore, banks must make progress in terms of the uptake in changes to provisioning regulations (IFRS 9). Additionally, in Spain, Banco de España has published a consultation on the amendment to provisioning regulations in Annex IX of the accounting circular, which will come into force after the consultation period (scheduled to end on 19 February 2016); this is currently expected to take place in its current wording in June 2016.

7. Costs will increase as a result of the increase in consumer protection in line with MiFID II.

8. Stress tests will be subject to stricter methodologies. Among others, they will include exchange rate risk, behaviour risk, valuation adjustments in sovereign debt, etc.

9. Furthermore, there is uncertainty regarding legal decisions that may affect the financial sector, for example, judgements on floor clauses (both nationally and internationally, given that in addition to judgements already laid down by the Courts, other procedures are still ongoing) - evictions, payment in kind (dation), second chance act.

10. Finally, the change in the composition of Parliament may pose additional regulatory risks, depending on how the legislative term evolves.

Moreover, the phase of economic recovery has begun and requires regulation to be calibrated in order to meet the financing needs of the real economy, especially in Europe. In this respect, regulators are encouraging financing to SMEs, the engine of economic growth, and avoiding excessively penalising certain financial instruments, such as simple and transparent securitisations. The European authorities are expected to take into account the needs of the current economic environment and to adjust the regulation accordingly in the coming months.

Implementation of the legislation

Banco Popular has the organisational structures, procedures and systems needed to comply with the applicable laws and anticipate new regulations, thereby minimising the impact on its business.

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

Additionally, the Bank maintains regular contacts with the supervisors and regulators in all of the markets where it does business. It thus ensures an understanding and strict compliance with all applicable regulations and it cooperates with regulators so that new legislation will contribute to driving the development of economic activity and ensuring financial stability.

Finally, regulatory anticipation and monitoring is framed within the Bank’s Corporate Governance processes.

10 Banco Popular's rating

While 2014 was marked by the stability of financial institution's ratings, 2015 has seen a conservative improvement in the opinion of ratings agencies regarding the credit´s fundamentals figures of the banking sector. Among the factors quoted by ratings agencies as having underpinned this progress are: on the one hand, the strength of the economic recovery and the improvement in growth prospects; and, on the other, regulatory developments that have resulted in stricter requirements and a bolstered supervisory process.

Throughout 2015, ratings agencies, like the majority of economic agents, gradually upgraded their growth outlook for the Spanish economy, positioning the country at the head of the Eurozone and developed countries. Thus, the effective economic policy measures taken in response to crisis, the structural reforms undertaken and the ECB's monetary policy have improved financing conditions and led to a return in confidence, laying the foundations for sustained economic recovery. In 2015, the successive reviews of Spanish ratings ended the year on an unequivocally positive note that can be seen in a number of confirmations, a ratings increase and a positive outlook in terms of ratings by the four main agencies.

As if part of a virtuous cycle, economic improvement has facilitated the recovery of the financial sector, which, in turn, no longer represents a contingent risk for sovereign exposure. Over the course of the year, all the agencies reflected the improvement in the outlook for the financial sector, which is now positive or stable following years in negative terrain.

Thus, the pace of asset quality recovery has accelerated, driven by the favourable macroeconomic climate. Agencies emphasise that Spanish banks have adequate buffers with which to absorb losses following balance-sheet clean-ups, recapitalisations and increased provisions in recent years. Nevertheless, the climate of low interest rates, deleveraging, competitive pressure on asset prices and the high volume of unprofitable assets will continue to drag down banking returns and become the focus of rating agencies' attention in the coming quarters. Finally, ratings and outlooks also take into account the fact that the activity of financial institutions has been directly affected by the new supervisory mechanism and growing regulatory requirements.

Although rating agencies agree in highlighting the benefits of the new regulations and their contribution to reinforcing financial stability (primarily due to the improvement in solvency, financing and liquidity position and greater transparency in terms of asset quality), they also believe that bank lenders are now more exposed to potential losses and will not benefit from State support. In this regard, the revision of the sovereign support that was built into the ratings of financial institutions dominated the agenda in 2015.

This long-anticipated revision assumes a reduction in the willingness of governments to rescue financial institutions in the context of the new European regulations on the recovery and resolution of credit institutions (BRRD) which seeks to reduce the impact of a possible bail-out on taxpayers. As a result, agencies take the approach that long-term ratings (comparable with senior debt ratings and deposit ratings) should match individual strength ratings, excluding all forms of extraordinary State support. However, certain agencies have implemented methodological changes which, in some cases, partially compensate for the withdrawal of sovereign support in order to reflect the potential benefit that a bail-in by subordinated creditors and the establishment of subordinated buffers catalysed by regulatory requirements (MREL, TLAC, etc.) would have for senior debt ratings. A good example of these are LGF (*Loss Given Failure*) and ALAC (*Additional Loss Absorption Capacity*) published by Moody's and Standard and Poor's respectively.

In any case, it is important to remember that the negative impact that the aforementioned withdrawal of support would have on ratings has affected the entire European financial system, and has less to do with the recent evolution of institutions at an individual level. In fact, 2015 represented a turning point in terms of the evolution of Banco Popular's ratings. During this period, we saw an improvement in the agencies' opinion regarding Popular's fundamentals, which has helped to eliminate the pre-existing pressure associated with factors inherent to the Bank. And so, whereas at the end of 2014, the four ratings agencies remained unconvinced regarding the outlook, barely one year later this improvement is reflected in an increase in individual strength ratings, with two agencies deeming the outlook positive and the remaining two considering it stable.

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

Table 56: Ratings assigned by the various rating agencies

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

DBRS: The ratings assigned to Banco Popular by DBRS at 31 December 2015 were BBB (*high*) for the long-term and R1 (*low*) for the short-term. On 29 September 2015, DBRS concluded its process of revising Europe-wide government support. As a result, the agencies removed all support notches included in ratings, aligning long-term ratings with individual strength ratings. In terms of Banco Popular 's rating, this activity, in spite of our performance, resulted in our long-term rating being downgraded one notch to BBB (*high*). However, the agency's vision of the Bank's individual strength has improved, as can be seen in the shift in the rating's outlook from negative to stable.

DBRS stresses that Banco Popular is making consistent progress in re-establishing recurring profitability while at the same time the clean-up undertaken appears to be returning to more normal levels as a result of a stabilisation in asset quality. Furthermore, it takes a very positive view of the improvement in financing, liquidity and capital positions, in addition to credit growth and the competitive strength of Banco Popular in the SME sector in the current climate of economic recovery.

DBRS has also rated Banco Pastor and Banco Popular Portugal, BBB (*high*), and BBB (*low*) respectively. Both entities are considered strategically important.

Furthermore, the agency has assigned an AA rating to the mortgage covered bonds issued by Banco Popular and Banco Pastor and a BBB rating (*high*) to Banco Popular Portugal bonds. Following the three-notches improvement in the rating of these instruments at the end of 2014, these ratings were confirmed in 2015.

FITCH RATINGS: Fitch's rating of Banco Popular's long- and short-term debt at 31 December 2015 is BB- and B, respectively. Over the course of the year, ratings were negatively affected by the withdrawal of government support, although there was an improvement in Banco Popular's fundamentals. Thus, on 19 May 2015 Fitch announced the withdrawal of support worldwide, resulting in a downgrading of Banco Popular's ratings by two notches to BB-. The outlook assigned to this rating is positive due to favourable developments in terms of capital and asset quality, which may result in an improvement in ratings in the medium term. As part of its analysis, Fitch also highlighted the strength of our SME franchise, which provides a solid base of recurring returns, in addition to the solid financing and liquidity position.

Fitch does not rate Banco Popular mortgage covered bonds.

MOODY'S: Moody's ratings of Banco Popular's deposits and long-term debt at 31 December 2015 are Ba1 and Ba2 respectively. The short-term rating on the same date was NP. Over the course of the year, ratings improved, compensating the negative pressure that threatened ratings at the start of the year. On 17 June 2015 Moody's completed its review of support to coincide with the entry into force of its new banks methodology and the update of its financial institution analysis. As a result, Banco Popular's deposit rating improved by two notches to Ba1 and senior debt by one notch to Ba2, with the outlook of both deemed stable. This improvement demonstrates the level of protection enjoyed by depositors and senior creditors, our systemic importance and the favourable trends in the Bank's fundamentals. In this regard, Banco Popular's rating is supported by the strength of its SME franchise, adequate levels of capital and a liquidity profile that has improved considerably. It is worth noting that Moody's is the only agency to preserve a certain level of government support in ratings in the belief that, although limited, the European resolution system leaves clear space for States to take action in the event of a financial crisis at systemic institutions.

Furthermore, this year, the rating of Banco Popular's mortgage covered bonds improved five notches to Aa2. As a result of this rating, our bonds can be classed as liquid assets of the highest quality; this rating has a very positive impact on the market's opinion of this instrument.

STANDARD & POOR'S: The ratings granted at 31 December 2015 to Banco Popular Español by Standard & Poor's are B+ for the long-term and B for the short-term. Although long-term ratings remained unchanged in 2015, during this period there was a significant two-notch improvement in Banco Popular's individual strength rating, making it possible to offset the negative impact of the withdrawal of support. The improved perception of Banco Popular's fundamentals became clear over the course of the year. In February, Standard and Poor's improved Banco Popular's individual strength rating by one notch to B, thanks to the strengthening of the Bank's solvency and improved outlook in terms of its capacity to organically generate capital. Shortly afterwards, in April, the outlook was upgraded from negative to stable before the strength rating was improved once again in December in line with the long-term rating to B+. This increase is a testament to Banco Popular's success in maintaining its solid and profitable SME franchise. Furthermore, on the same date, the agency changed the outlook to positive. These rating actions represent a turning point relative to previous analysis and respond to the strengthening of the Bank demonstrated by the positive trends in profitability, solvency (including the strengthening following AT1 and improved outlook for organic generation of capital), management of troubled asset and financing and liquidity.

As regards mortgage covered bonds, in 2015 we saw an improvement in ratings (one notch in February and two notches in December 2015), bringing Banco Popular's bonds to A.

11 Shareholders

Shareholding structure

As at 31 December 2015 Banco Popular had 270,114 shareholders, compared with 272,237 at the end of December the year before, which is a decrease of 2,123 in one year.

Table 57 presents a breakdown of share ownership and of the percentages of holding in the common stock of the Bank at the end of the last financial year.

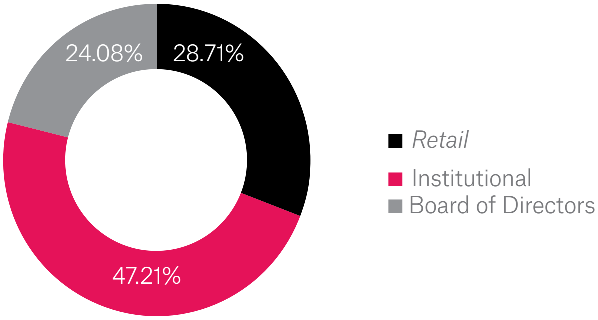
Table 57: Distribution of shareholders - 2015

	Number of Sharehold-ers	Weight (%)	Share Capital (%)
fewer than 1,000 shares	167,563	62,03	2,15
from 1,001 to 4,000 shares	66,716	24,70	6,17
from 4,001 to 10,000 shares	22,197	8,22	6,29
from 10,001 to 20,000 shares	7,909	2,93	4,97
from 20,001 to 40,000 shares	3,382	1.25	4,24
from 40,001 to 200,000 shares	1,978	0.73	6,81
from 200,001 to 400,000 shares	159	0.06	1.99
from 400,001 to 800,000 shares	84	0.03	2.18
more than 800,000 shares	126	0.05	65,20
TOTAL	270,114	100	100

Table 58 shows that 94.95% of the Bank's shareholders have less than 10,000 shares. Shareholders with more than 800,000 shares control 65.20% of share capital.

Figure 49 shows the distribution of the Bank's Share Capital at 31 December 2015. In 2015, the free float stood at 75.92%. The Board has a 24.08% stake in the share capital. Institutional investors hold 47.21%, made up of 43.52% non-residents and 3.69% residents. Retail investors hold 28.71%, of which residents make up 28.41%.

Figure 49: Distribution of capital - 2015



Shareholders that are also Group employees number 11,603, 4.30% of total shareholders, and hold an aggregate stake of 1.1% in share capital.

The Bank's Board of Directors controls 521.5 million shares, 24.08% of the share capital, including shares owned directly or indirectly by the Directors and by parties habitually represented by them.

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

Table 58: Shares controlled by the Board of Directors at the year-end

Directors	Direct	%	Indirect	%	Represent-ed[1]	%	Total	%
Aparicio Valls, Francisco	299,911	0.014	283,251	0.013	1,558,620	0,072	583,162	0.027
Arias Mosquera, José María	217,281	0,010	-	0.000	994	0.000	217,281	0,010
Del Valle Ruiz, Antonio	1,903,381	0,088	-	0.000	89,116,127	4,116	1,903,381	0,088
Banque Fédérative du Crédit Mutuel	85,407,479	3,945	-	0.000	-	0.000	85,407,479	3,945
Fundación Pedro Barrié de la Maza	55,861,081	2,580	-	0.000	-	0.000	55,861,081	2,580
Gómez Martín, Francisco	48,766	0,002	14,885	0,001	2,253	0.000	63,651	0,003
Herrando Prat de la Riba, Luis	3,311	0.000	30,529	0,001	1,491,041	0,069	33,840	0,002
Higuera Montejo, Roberto	102,517	0,005	-	0.000	-	0.000	102,517	0,005
Molins López-Rodó, Ana María	887	0.000	-	0.000	1,147,918	0,053	887	0.000
Oroviogoicoechea Ortega, Jorge	1,632	0.000	-	0.000	-	0.000	1,632	0.000
Revoredo Delveccio, Helena Irene	-	0.000	2,310,455	0,107	-	0.000	2,310,455	0,107
Ron Güimil, Angel	98,090	0,005	-	0.000	3,100,402	0,143	98,090	0,005
Sindicatura de Accionistas de BPE	13,104,417	0,605	195,933,691	9,050	-	0.000	209,038,108	9,655
Tardío Barutel, Vicente	14,483	0,001	-	0.000	72,515,501	3,349	14,483	0,001
Total: (direct and indirect)	157,063,236	7,254	198,572,811	9,172	165,832,454	7,659	355,636,047	16,426
Voting rights habitually represented[1]							165,832,454	7,659
Total shares							**521,468,501**	**24,085**

(1) Shares represented: Shares usually represented by certain members of the Board of Directors amount to 7.659% of share capital, broken down as follows: 4.116% of the group of Mexican shareholders, represented by Mr. Antonio del Valle; 3.349% of the Allianz group, represented by Mr. Vicente Tardío; and 0.194% corresponding to various families represented by several Directors.

Share Capital

The following table gives the breakdown of the changes in share capital during the course of 2015, indicating the type of transaction:

Table 59: Share Capital - 2015

	Transaction		Share Capital
Date [1]	**Type**	**No. of shares**	**No. of shares**
31.12.14			**2,100,768,976**
23.01.15	Notes conversion (MCN IV/2012)	3,866,975	2,104,635,951
05.02.15	3rd dividend charged to 2014	7,502,133	2,112,138,084
17.03.15	Notes conversion (MCN II/2012)	29,620	2,112,167,704
06.05.15	4th additional dividend 2014	6,622,974	2,118,790,678
22.06.15	Notes conversion (MCN II/2012)	538,174	2,119,328,852
21.09.15	Notes conversion (MCN II/2012)	74,657	2,119,403,509
02.10.15	2nd dividend charged to 2015	9,658,743	2,129,062,252
07.12.15	Notes conversion (MCN II/2012)	36,013,245	2,165,075,497
31.12.15			**2,165,075,497**

[1] Date on which shares were registered

After these transactions, the share capital of Banco Popular was €1,082,537,748.50 at the end of 2015 represented by 2,165,075,497 shares represented by book entries and with a par value of €0.50 each.

The shares are listed on the four Spanish Stock Exchanges and are traded on the Spanish computerised trading system. Banco Popular shares are included in the Madrid Stock Exchange General Index (IGBM), with a weight of 1.092% of the total and in the IBEX-35 index, with a weight of 1.354% at the end of the year.

Share performance

The close of 2015 has seen a mixed balance in equity markets on both sides of the Atlantic.

In Europe, the performance of Italian and German stock exchanges is worth particular mention, increasing by 12.66% and 9.56% respectively. Eurostoxx also closed on a positive note, up by 3.85%, as did the Stoxx-50, by 3.21%. However, the UK stock market and IBEX-35 both ended the year in the red, down by 4.93% and 7.15% respectively.

On the other side of the Atlantic, the NASDAQ was up 5.73%, while the SPX-500 was slightly down, by 0.73%, and the Dow Jones by 2.23%. As regards Asian markets, the Nikkei was up by 9.07% while the Hang Seng was down by 7.16%.

A variety of different factors affected the markets over the course of the past year. In the first half of the year, Greece was much in the news, until agreement on a third rescue package was reached, due to uncertainties over the country's political and economic future.

In the second half of the year, the focus shifted to the signs of an economic slowdown in emerging nations, the consequent impact on the evolution of oil prices, which reached a 7-year low in December, and the possible impact on global economic growth.

Another factor affecting stock market performance was monetary policy, on both sides of the Atlantic. At the end of the year, the European Central Bank took the decision to lower deposit interest rates and extend the asset acquisition programme; this decision did not provoke a positive reaction from the markets as it did not surpass expectations. For its part, the Federal Reserve took the decision to raise interest rates in the US based on the positive macroeconomic outlook.

Against this backdrop, the European financial sector, SX7P, ended 2015 down by 3.25%, while the average among Spanish banks was a fall of 18.88% over the same period.

Banco Popular closed the year with a price of €3.043 per share, down by 26.85%.

The breakdown of the main stock market data regarding Banco Popular is set out below:

Table 60: Indicators of interest

	31.12.2015	31.12.2014
Shareholders and listed price		
Number of shareholders	270,114	272,237
Number of outstanding shares (thousands)	2,165,075	2,100,769
Closing listed price (euros) [1]	3,043	4.160
Undiluted market capitalisation (in thousands of euros) [2]	6,588,325	8,739,199
Maximum price during the year (euros) [1]	4,849	5.918
Minimum price during the year (euros) [1]	3,009	4.082
Trading volume		
Average daily trading (thousands of shares)	15,362	18,315
Average daily trading (thousands of euros)	61,864	90,210
Market ratios		
Book value per share (euros) [3]	5.88	5.98
Price/Earnings (annualised)	61.87	26.48
Price/Book value	0.52	0.70

(1) Closing listed price
(2) Calculated on the shares in circulation
(3) The calculation includes the amount of mandatory convertible shares and diluted shares

Banco Popular's market capitalisation at 31 December 2015 stood at €6,588 million.

Trading in Banco Popular shares during the year continues to reflect their high liquidity. The shares were traded in 256 market sessions, with an average daily trading volume of 15,362 thousand shares.

Dividend policy

Banco Popular's Board of Directors agreed, during 2015, to the distribution of the following dividends:

Table 61: Paid dividends at 2014 (amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
3rd Interim dividend	29.01.2015	09.01.2015	1x236	0,01800	0,01400
4th Final dividend	06.05.2015	15.04.2015	1x263	0,01800	0,01400

Table 62: Paid dividends at 2015 (Amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
1st Interim dividend	16.07.2015	15.07.2015	Not applicable	0,02000	0,01600
2nd Interim dividend	30.09.2015	10.09.2015	1x181	0,02000	0,01600

The first dividend charged to 2015 was paid out in cash.

Other dividends were paid out under the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A tailored dividend) programme, offering shareholders the choice between receiving newly-issued shares or a cash amount equivalent to the dividend in each respective period.

At the start of 2016, the payment of a 3rd interim dividend for 2015 with the following characteristics was announced:

Table 63: Paid dividends at 2015 (Amounts in euros)

Type	Payment date	Ex coupon date	Exchange ratio	Gross amount	Net amount
3rd Interim dividend	25.01.2016	05.01.2016	1x154	0,02000	0,01600

12 Treasury shares

Banco Popular's operations involving treasury shares in 2015 have adjusted to the recommendations made in this respect by the CNMV.

Banco Popular's treasury share portfolio is intended to provide adequate liquidity and depth for investors when trading its shares, as well as to minimise any imbalances between supply and demand in the market. It also seeks to avoid price variations that are not due to market trends.

The starting treasury shares balance was 0.04% of share capital. In 2015 the maximum amount of treasury shares held by the group totalled 0.32% of share capital on 14/01/2015, while at 31 December 2015 Banco Popular held treasury shares totalling 0.30% of share capital. The average balance throughout the year was 0.08% of share capital.

Operations with treasury shares did not have any impact on the Bank's net profit as they are directly recognised in reserves. The change in the treasury share balance had an additive effect in 2015 totalling 0.26% in earnings per share, calculated based on the year-end share capital, and involved of 2,165.1 million shares.

To obtain more detailed information regarding the treasury share policy, the registration document is available to the public at the CNMV.

(http://www.cnmv.es/Portal/Consultas/DerechosVoto/Autocartera.aspx?qS={6a777eda-c172-419b-8401-22c5bff808c2}).

Table 64: Variations in the treasury share portfolio in 2015

	No. of shares	Par Value (in euros)	Average price (in euros)	% of Share Capital
Balance at 31 March 2015	-	-	-	0.000%
Balance at 30 June 2015	-	-	-	0.000%
Balance at 30 September 2015	4,882,770	2,441,385	3.612	0.230%
Balance at 31 December 2015	6,574,056	3,287,028	3.6722	0.300%

13 Events after the reporting period

The following significant event has occurred since year-end:

On 4 January 2016, the third capital increase charged against 2014 reserves was approved and its conditions were reported to the market. On 20 January 2016, the period for negotiating allocation rights for the third capital increase ended. This led to a bonus capital increase of €5,366,090.50 (through the issue of 10,732,181 new shares each with a nominal value of €0.50) with 76.34% of the shareholders holding free allocation rights having chosen to receive new shares. The remaining 23.66% free allocation rights holders exercised the irrevocable commitment to acquire rights assumed by the Bank, whereby it acquired 512,319,435 rights for a total gross amount of €10,246,388.70. The Bank renounced the free allocation rights acquired in this way.

14 Environment

In accordance with Note 12 of the Financial Statements, the Entity considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results. In addition, Annex 3 "Environmental Dimension" in the Integrated Report for 2015 provides details of the environmental policy followed by Banco Popular Group, which is summarised below.

The Environmental Committee, which reports directly to the Board of Directors through its Appointments, Governance and Corporate Responsibility Committee, is responsible for establishing the objectives in this area each year and for ensuring that they are met, performing the task of promoting and supervising the environmental management of the Bank's activities.

In 2013, the implementation of the 2014-2020 Eco-efficiency Plan was approved, pursuant to the principles set out in the Group's environmental policy. The goal of the Eco-efficiency Plan is to reduce the Entity's environmental footprint by reducing energy consumption and ensuring optimum waste management, thus establishing the Bank as a company committed to its surroundings.

Internal environmental dimension

The internal environmental dimension of the Corporate Responsibility Master Plan, Horizon 2020, establishes lines of action to be pursued in order to reduce the Bank's environmental impact. To this end, the Bank's initiatives in 2015 focused mainly on three areas: resource consumption, waste management and emissions produced.

Energy

The 9% reduction in internal electricity consumption in 2015 was due, among others, to the following:

- **Single buildings.** The 1,700 employees who work in the Abelias building, 12.1% of the Bank's employees in Spain, have seen improvements in their workstations, leading to greater comfort and less energy consumption. In addition, the own energy generation system installed in the building has entailed production of 162 GJ.

  Edificio Abelias achieved LEED Gold certification in 2013 as a sustainable building that complies with the most innovative energy efficiency measures. Pursuant to the Group's commitment to promoting sustainable buildings, the future construction in Madrid of Edificio Luca de Tena, which will have twice the capacity of Edificio Abelias, complies with the LEED Gold certification process. Under this regulatory framework, in 2015 construction work continued causing the least possible impact on the environment and meeting deadlines. The inauguration of the new headquarters is planned for 2017.

  In the headquarters of Banco Popular Portugal several initiatives to achieve lower energy consumption have also been developed. These actions resulted in a saving of 2,385,515 kW compared with 2014, 21% less, avoiding the emission of 1,293 tonnes of CO_2.

- **Lighting systems.** The LED lighting systems located in the Bank's various single buildings and offices, in addition to the installation of building automation systems have managed to reduce electricity consumption. In addition, reflective vinyl or low solar radiation glass was used to improve the quality of each workstation.

- **Efficient office equipment.** In 2015, equipment was introduced into various branches and single buildings to manage energy consumption more efficiently. Thus, air conditioning units have been installed with a heat exchange efficiency of 60%.

The energy initiatives are supplemented with a firm commitment to renewable energy given that 100% of the electricity consumed in Spain is from renewable sources. In the case of Portugal, 72.3% of the electricity consumed in branches and 39.5% consumed in buildings comes from renewable energy sources.

Paper

The Group puts various initiatives into practice at its facilities in Spain in order to reduce its paper and cardboard consumption. Of note in 2015 were the following:

- Reduction in weight of paper consumed
- Fewer envelopes sent to customers due to combination of documents
- Use of multi-use envelopes
- Centralised printing and employee awareness
- Responsible procurement: recycled paper (81%)
- Recycling of used paper

Emissions

Total direct and indirect emissions in 2015 amounted to 12,222 tonnes of CO_2, 2.5% down from 2014. The steps that made this reduction possible were the following:

- Acquisition of green energy
- Reduction in employee travel by using conference calls and car-sharing
- Less paper consumption
- Offsetting of emissions generated

Other

Other smaller scale initiatives to reduce our environmental impact have also been implemented involving water, toner and used plastic consumption in addition to waste management.

External environmental dimension

Employee training and awareness

During 2015, all training actions provided for in the *Eco-efficiency Plan 2014-2020* were carried out; the objective of these initiatives was to increase employee awareness regarding environmental matters.

All training modules form part of a course delivered to the entire workforce, as part of which the Group's environmental objectives are explained:

- Reporting on actions taken by the Entity as part of its Eco-efficiency Plan
- Awareness raising regarding the impact of our habits on the environment
- Recommending behaviour to minimise said impact
- Highlighting the importance that the actions of individual employees can have in reducing the Group's environmental impact

The contents of each module comprise an informational video, texts specific to each subject and a 10-question test to assess the knowledge of employees after the module has been delivered.

Environmental initiatives

Banco Popular works together with agencies and bodies that assess and evaluate the Bank's activity in the environmental sphere. By way of example, the Bank is a signatory to the Carbon Disclosure Project (CDP).

For the third consecutive year Banco Popular offset 100% of its direct CO_2 emissions in Spain

In 2015, Banco Popular once again offset 100% of its direct CO_2 emissions in Spain, as it did in 2013 and 2014; thus, the Bank is neutral in terms of emissions deriving from scopes 1 and 2.

As a result of its continuing commitment to the environment, the Group once again implemented the two activities that have enabled it to achieve this: firstly, all electricity purchased and consumed in Spain came from renewable sources and, secondly, Popular offset 100% of its direct CO_2 emissions generated in Spain.

Emissions were offset by contributing to the REDD Project – Conservación de Madre de Dios, which is carried out in the Peruvian Amazon and serves a dual purpose: reducing the deforestation suffered by this extensive region of South America and contributing to the sustainable development of the rural producers and indigenous communities that live in the project's area of influence. As a result, Banco Popular obtained the ZeroCO_2 label promoted by the Ecology and Development Foundation (ECODES) for the third consecutive year.

15 Personnel management

This section is developed upon in Annex 2 Social Dimension of the Integrated Report for 2015. Below, the most relevant aspects of human capital management and social commitment development can be found.

Internal social dimension: human capital

The mission of Human Resources is to align the policies intended to manage human capital at the Bank with the entity's corporate strategy. To do so, it attempts to attract personnel with suitable potential and to contribute to their development through training and teamwork experience in order to provide maximum value to the organisation. Employees at the Group acquire a sufficient level of knowledge to assume responsibility from their first years of employment, acquiring a high degree of autonomy in their daily work and committing to projects and attaining results.

Selection and hiring

The Selection office exercises its duties based on a model of selection by competency with maximum respect for the principle of non-discrimination and equal opportunities. To this end, in 2015 the Group was not involved in any incident involving discrimination in any setting.

Furthermore, in 2015 initiatives have been taken to directly hire individuals with disabilities. Of which the following are worth particular mention:

- **Participation in "Por Talento" through the "Convenio Inserta" programme.** This programme comprises a series of measures aimed at increasing the employment possibilities and education of persons with disabilities. "Convenio Inserta" is promoted by the ONCE Foundation and is co-funded by the European Social Fund.
- **Publication of different job vacancies on employment noticeboards.** Those published on Fundosa and disjob, employment websites, aimed at persons with disabilities, are worth particular mention.
- **Inclusion of persons with disabilities in highly qualified positions** To this end, an agreement was reached with Fundación Seeliger y Conde as part of which, from the second half of 2015, a channel has been established for professional profiles to be submitted for inclusion in various selection processes.

In 2015, the Group had 15,079 employees. Therefore, and despite the economic backdrop, the Bank continues doing its utmost to retain staffing levels, deriving in large part from the decline in headcount resulting from non-traumatic processes, such as retirement, early retirement and employees transferred as a result of corporate operations.

Due to its commitment to people, Banco Popular has retained the Group's human capital to the greatest possible extent, managing to be one of the financial institutions that has not carried out any redundancy plans or lay-offs since the beginning of the financial crisis, despite having taken on part of Citibank España's and Banco Pastor's staff.

Personnel management

People management makes it possible to maintain close contact with all employees thanks to a decentralised structure (with HR heads in each Regional, Territorial and Central Services Office), a constant communication system through interviews and tools in addition to specific plans designed to allow employees to manage their relationship with the bank in a flexible manner.

Management interviews make it possible to improve knowledge of the workforce, identify talent and manage alerts detected.

Diversity is a key value in the Group’s human resource management system. Accordingly, the “Somos Diversidad” (We are Diversity) initiative has continued and is intended to reflect the commitment acquired through its integration as an element that makes the values, capabilities and differences of each employee the Bank’s main asset. Accordingly four lines of action have been defined: gender equality, support for disabilities, different generations and diverse nationalities.

Equal treatment and opportunities for men and women constitutes a fundamental principle that cannot be waived and its application is reflected in all of the Group’s policies and actions. To this end, the Equality Plan was enacted in 2008 comprising 52 initiatives such as the creation of an Equality Committee responsible for ensuring compliance with the plan and evaluating its development.

The criteria for promotions are professional in nature and are based on the merits and capabilities demonstrated by the employee. Most executives are employees that have developed their professional careers within the Group and due to their merits, and as a result of the continuous training and teamwork experience, have been promoted in their professional careers.

Since 2011, the “Impulsando Talento” programme has strengthened the creation of a pool of future executives in specialised areas that are identified and linked to both the Bank’s development project as well as to its corporate values. This programme is intended for recent university graduates with postgraduate degrees and no professional experience, originating from various universities and business schools with excellent academic records and a high level of language skills. These individuals start their careers with the Bank after undergoing a more demanding selection process than normal.

Furthermore, Banco Popular has a Skills-based Performance Evaluation model, which represents an important communication tool oriented towards knowing individuals, their concerns and access to career development. This system makes it possible to assess the performance of each employee, adjusting their contribution to the organisation's objectives and thus setting remuneration levels.

Compensation

The compensation policy is aligned with the business strategy and its objective is to better compensate each employee in the most equitable and competitive manner. The compensation system that is applied to all Group banks and companies in Spain coincides with the concept of total compensation, which clearly exceeds the concept of a salary.

In addition to compensation and the various variable components, monetary compensation for employees is supplemented by a series of social and financial benefits that translate into in-kind compensation. There is also an intangible portion that is offered within the compensation plan and it operates as a source for attracting and retaining talent: development and environment.

Banco Popular considers that compensation is an important part of all of the items that retain employees at the bank and keep them highly committed, but it is not the key factor to obtaining employee commitment.

Social benefits

There is a Group Employee and Family Guide to Social Benefits that is updated and revised regularly indicating each benefit provided by Banco Popular.

They are benefits that an employee may easily translate into financial savings and which in many cases significantly increase their monetary compensation. These types of measures are some of the best valued benefits by employees.

Participation (relationships with trade unions)

Everyone has the right to freedom of association and affiliation is a right of every person. Banco Popular Group is aware of the respect that its employees deserve and it provides the elements that are necessary for them to exercise their employee rights in all countries in which it operates.

Safety and health

The Occupational Risk Prevention Service manages all issues relating to the identification of these risk at work centres, employee training, monitoring of health issues and the preparation of emergency and evacuation plans.

In 2013 the Occupational Risk Prevention Plan 2013-2018 was approved and is intended to include all actions relating to this area within a framework defined by the Group's preventive policy.

This policy is supplemented by the creation of a Prevention Management Manual, which includes working procedures and operating instructions relating to the prevention of occupational risks. All new employees are provided with a copy of this manual, which is also available on the Employee Portal.

In 2015 the efforts to implement the various emergency and evacuation teams at our buildings continued with relevant training and the required evacuation simulations. This is intended to accustom employees to using emergency exits and teach them the appropriate conduct which, in an emergency, will allow them to quickly evacuate the premises in an orderly fashion, and to verify the application of the emergency plans and the proper operation of available measures.

The Group carries out various types of action to monitor occupational health and accident prevention.

.

External social dimension: social investment

With regard to social investment, Banco Popular believes its work consists of contributing to the development of viable projects as part of its financial and technical operation, aimed at repairing the business fabric and providing access to education to people who could not otherwise afford it, given that they will be the ones to pick up the baton of future economic development.

The Bank invests in non-profit organisations and foundations of recognised prestige in the beneficiaries' local areas with a view to ensuring its social initiatives and the effectiveness of its contribution benefit reach as many people as possible. Banco Popular's social initiatives are channelled pursuant to the principle of not promoting any one initiative, but assisting those that promote them. The Bank is most active where it directly pursues its activities and where assistance with development is most needed, regardless of whether commercial relationships exist with the benefiting area.

The Banco Popular Foundation

The Banco Popular Foundation channels and organises the Bank's social initiatives with total separation from its commercial activity and in the manner that the Bank considers they should be carried out: without promoting any initiative but helping those who promote it. It only acts upon request, as a last resort and without publicity. Accordingly, it does not consider acts of sponsorship or patronage and does not sustain any initiative or activity on an ongoing basis, seeking to avoid reliance on systematic assistance.

Finally, it is worth mentioning that since 2010 Banco Popular has had an extensive volunteer programme through which it encourages its professionals to participate, in person or online, in charitable initiatives organised by both the Bank and by the main NGOs and noteworthy associations from the third sector.

16 Research and Development

The Group continues to be committed to research, development and technological innovation activities. Over the course of 2015 it invested a total of €148 million in both new projects and the development of projects started in prior years.

The main projects implemented in 2015 are structured around the following aspects:

- Development of management applications
- Risk management models
- Improvements to customer knowledge and reporting systems
- New infrastructure management model
- Integration of new business and management models
- New information systems to ensure regulatory compliance

Among the projects undertaken in 2015, three strategic projects are worth particular mention; the aim of these initiatives is to improve information on both customers and the banking transactions they conduct, in addition to improving corporate reporting and information.

- **Customer Platform Project.** In 2015, work continued on Phase II of the project, as part of which the customer service interfaces of channels previously not addressed were incorporated into a new multi-channel interface providing a full and shared online view of the customer's situation and transactions completed or pending with them. Investment in 2015 totalled €15.1 million.

- **SICYF Project** Adapting and improving the existing accounting and management information systems to meet Banco Popular Group's new challenges and needs. It aims to do so by designing and developing a new information architecture that provides quality information (that is reliable, relevant and timely) in order to ensure success in the decision-making process and efficiency and control in the generation and exploitation of information which is critical to the Bank. This new architecture encompasses the implementation of new developments that amend all the Bank's applications and processes; as a result, the overall functioning of the bank's activities will be significantly different. Investment in 2015 totalled €8.7 million.

- **RIM** The RIM or Regulatory Information Model project seeks to renew the technology employed in the regulatory reporting model pursuant to the Group's corporate guidelines and in line with the principles set out in regulatory guidelines, in addition to automating and integrating report generation systems required under the new CIRBE, COREP, FINREP and Asset Encumbrance regulations. Investment in 2015 totalled €10.4 million.

Glossary of terms

Average Equity	The arithmetical average over the past 12 months of book equity, excluding profits.
Average Total Assets	Calculated as the simple average of total assets in two consecutive annual balance sheets for a financial institution.
Average Total Risk-Weighted Assets (ARWA)	Sum of the value assigned to the assets of the bank or financial institution that are subject to risks and deriving from the multiplication of the carrying value of each asset by the respective risk weighting coefficient.
Bail-In	Tool set out in BRRD by means of which a resolution authority exercises powers in terms of amortisation and conversion of an institution's liabilities.
Basic Earnings per Share	Basic earnings per share are calculated by dividing the net results attributable to the Group for the year by the weighted average number of shares in that year, excluding, average treasury shares held by the Group during that year.
Basis Point	1/100 of one percent, i.e. 0.01%. Used to indicate changes in interest rates (basis points are added or subtracted from the rate of reference).
BIS ratio	Ratio that serves as an indicator of an institution's solvency, which measures the relationship between total shareholders' equity and total risk-weighted assets pursuant to CRR criteria.
Bonus issue or scrip issue	Increase of capital charged to company reserves, either in part or in full.
BRRD	European Directive regarding the restructuring and resolution of credit institutions, establishing a Europe-wide regulatory framework, providing authorities with a series of instruments and procedures to take quick action in good time concerning institutions experiencing strength or feasibility issues. Reflected in the Spanish legal system under Law No. 11/2015.
Capital Buffers	Additional ordinary tier 1 capital that must be held by institutions to comply with their duty to maintain a capital conservation buffer and, where applicable, a countercyclical capital buffer, a buffer for global systemic institutions, a buffer for other systemically important institutions and a buffer against systemic risks.
CCF (Credit Conversion Factor)	Percentage applied to off-balance-sheet operations (with the exception of derivatives) to calculate exposure at default (EAD).
CET1 ratio	Ratio between ordinary Tier 1 capital and risk-weighted assets.
Contingent Risks	Includes the accounts in which transactions are recorded for which the company has assumed credit risk that, depending on future events, may become direct loans and generate obligations with respect to third parties (off-balance sheet risks and guarantees).
Convertible Perpetual Debt	Hybrid debt and capital bonds, with perpetual maturity, as part of which coupon payments are contingent upon the attainment of distributable profit.
Convertibles	Hybrid debt and capital bonds as part of which coupon payments are discretionary. These bonds may be converted into new issue shares on a mandatory basis or, where applicable, a contingent basis.
Coverage Ratio	Proportion to which provisions cover the transactions classified as doubtful and in default.
CRR (Regulation No. 575/2013) CRDIV (Directive 2013/36/EU)	CRR is a mandatory Regulation, whereas CRD IV is a Directive that must be transposed by the different national legal systems prior to its implementation. In Spain, the Directive has been implemented via Law No. 10/2014 and Royal Decree No. 84/2015, which enacts said Law. Both represent the legal framework that governs banking activities, supervision and prudential rules applicable to credit institutions and investment firms in order to establish a shared regulatory framework and strengthen the solvency of European financial institutions.
Credit Loss Provisions	Concept that includes both the amount of value adjustments due to reversible losses applied to short and long term loans, as well as the amounts used to cover losses that are expected to arise on the loans.
Customer Spread	This is the difference between the average rate that a bank pays for customer deposits and the average rate that it receives for customer loans.
Diluted Earnings per Share	Calculated in a manner similar to basic earnings per share but the weighted d average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end. It is a measure used to analyse balance sheets with respect to earnings per share over a certain period of time.

Dividend	The portion of net profit that is distributed among shareholders based on the resolution adopted by shareholders at a General Meeting.
Doubtful Assets	Assets whose owner is insolvent or the assets of an owner whose outstanding balances on their non-performing/write-offs transactions exceed 20% of its outstanding receivables exposure.
Duration	In general terms, indicates the average life of a fixed-income security (calculated by discounting expected cash flows, weighted based on the amount and the time remaining until receipt). It also serves as an instrument to measure the sensitivity of a bond price to changes in interest rates (thus offering a measurement of risk). Duration also indicates at what time in the life of a bond it may be sold to neutralise the risk of interest rate changes, i.e. at that date there is no interest rate risk.
EAD (Exposure at Default)	The maximum amount that could be lost as part of an operation for a specific time horizon.
Economic Cycle	Long-term change in the economic activity of a country measured by macroeconomic indexes. The cycle is called expansive when there is economic growth and recessive when activity contracts and production and employment falls.
Eligible Equity	This primarily consists of those equity items that may be immediately used without restriction to cover risks or losses as soon as they arise, and they are characterised by their stability and permanence over the long-term.
EURIBOR	The reference rate published daily indicating the average interest rate at which financial institutions offer money on the euro interbank market.
Expected Loss (EL)	The average amount that the Bank estimates will be lost in each operation. Calculated as the result of PD x LGD x EAD.
Foreclosed Assets	Foreclosed assets are assets received from borrowers, or other debtors, to cover, either in full or in part, the financial assets that represent receivables from said debtors, regardless of the way in which the property is acquired.
Government Debt Securities	Fixed-income securities issued by a State, other territorial entities (Autonomous Regions, etc.) and public entities (ICO).
Gross income	Net interest income plus: net commissions, dividends received for equity consolidated companies, results from net financial activities, differences on exchange and other operating income and expenses.
Impaired Financial Assets	A financial asset is deemed to be impaired and its carrying value is adjusted in the accounts to reflect the effect of that impairment, when there is objective evidence that there has either been a negative impact on the future cash flows that were estimated at the time of recognition, in the case of loans or debt instruments, or the carrying value cannot be recovered in the case of capital instruments.
Investee Companies	A company is understood to be an associate when it is not a group company in accordance with the definition, but a company or one or more of its group companies exercises significant influence over that investee company due to holding a stake intended to contribute to its activity and when it creates a lasting association.
Leverage ratio according to CRR	Ratio that serves to complement the solvency ratio linking Tier 1 resources to the institution's total exposure, calculated using CRR criteria.
LGD (Loss Given Default)	Percentage of a contract estimated as non-recoverable once it enters in arrears.
Loan to Deposits Ratio (LtD)	This ratio shows the relationship between financing granted to customers and resources gathered from customers.
Loan To Value (LTV)	In mortgage transactions, the amount of the loan with respect to the appraised value of the property serving as collateral.
Market Capitalisation	The value that the market attributes to a company, expressed as the product of the number of shares outstanding by listed price.
Maximum Distributable Amount (MDA)	Limits on the distribution of ordinary tier 1 capital to prevent possible non-compliance with capital requirements. Institutions perform this calculation based on the provisions of Law No. 10/2014 on organisation, supervision and solvency, for cases in which either they fail to meet the combined capital buffer requirement or as a consequence of a distribution of common equity tier 1 fail to meet the combined buffer requirement.
MCNs	Subordinated notes mandatorily convertible into shares at their maturity.
Mortgage Covered Bonds	Fixed-income securities issued by credit institutions that are secured overall by mortgage loan portfolios held by the issuing entity. The volume of issued bonds cannot exceed 80% of the overall value of the eligible loans in the mortgage portfolio, in accordance with the definition provided by the Mortgage Market Act.
MREL	New solvency ratio that seeks to measure loss absorbing capacity during a resolution process. It may be demanded by the resolution authority, which will set the figure depending on two elements: (i) the applicable resolution strategy included in the Resolution Plan and (ii) resolution barriers identified.

Net interest income	Difference between interest income and interest expenses. This is mainly the difference between what is received for loans and what is paid for deposits.
Net Operating Income	Ordinary income less operating expenses (personnel costs, other overhead and depreciation). It is the best reflection of the evolution of the bank's business.
Non-Controlling Interests	Net amount of the equity of subsidiaries attributable to shareholders outside of the Group (i.e. the amount that is not directly or indirectly attributable to the parent company).
Non-Performing Loans	Problematic assets whose overdue principal or interest has been outstanding for more than 90 days.
Non-Performing Loans Ratio	Ratio of the sum of doubtful transactions and defaults and balances subject to credit risk.
Operating Efficiency Ratio	Ratio of operating expenses (personnel costs and other overhead)/gross income (all income obtained by the bank).
Ordinary Tier 1 Capital	High-quality capital according to the CRR. Consists mainly of capital and reserves, net of the corresponding filters and deductions.
Own Funds	The contributions made by owners or shareholders, the amounts generated by the company's activity that have not been distributed and those contributed by third parties without any repayment requirement. In accounting terms this item consists of share capital, reserves, profits pending application, profit for the year and non-repayable subsidies.
Phase-In/Fully Loaded	Phase-in is the transitory implementation period in which institutions may progressively adapt to full compliance with the requirements set out in CRR and CRD IV. On the other hand, Fully loaded is understood as the full application of this regulations (CRR, CRD IV).
Price/Earnings	Proportion between the listed price for a share and the Diluted earnings per share. Conceptually, it expresses the value placed by the market on the company's capacity to generate profits.
Probability of Default (PD)	Defined as the probability, in percentage terms, that a contract or company will fail to meet its credit obligations and enter into default.
Receivership	Procedure for resolving current or imminent insolvency situations affecting a company or an individual in cases in which the party is not able to comply with obligations. The objective is to satisfy creditors without complete liquidation. The situation may be invoked by the borrower or any creditor.
Return on Assets (ROA)	The ratio of consolidated results/total average assets. This ratio indicates the yield that is being obtained on the bank's assets.
Return on Risk-Weighted Assets (RORWA)	Ratio of a Bank's net profit/average risk-weighted assets.
Return On Tangible Equity (ROTE)	The ratio of net profits attributable to the Group divided by tangible equity. This ratio is a measure of the profitability obtained by shareholders in terms of the funds invested in the institution.
Risk Premium	The higher yield that an investor requires from an asset for accepting higher risk compared with assets considered to be risk-free (generally government debt over the term of the investment is used as a reference).
Risk-Weighted Assets (RWAs)	The amount represented by an assessment of the exposure at risk (without taking into account expected losses) in terms of transaction type and quality. Under the standard method, the calculation is made using the weighting factor provided for in the regulations (20%, 50%, 100%, etc.) and under the IRB approach, using a weighting factor that is calculated internally by each institution using regulatory formulas as part of which each institution introduces its own PD, LGD and EAD variables.
Securitisation	Financial operation by means of which credit institutions, in addition to other companies, transform credit rights with the same characteristics, into fixed income securities that can be traded on capital markets.
SRM	Single Resolution Mechanism created by the EU to standardise decisions and actions relating to banking crises and the option of resorting to the Single Resolution Fund (SRF) in the event that bails-in prove insufficient in covering the costs of the process.
SSM	Single Supervisory Mechanism that guarantees standard supervision criteria for all institutions in the EU and the stability of the financial system as a whole.
Stress Tests	Exercises carried out on a periodic basis that make it possible to predict the entity's balance sheet and results in response to adverse economic scenarios with varying likelihoods and thus predict possible changes in the economic environment and take decisions in this regard.
Subjective Doubtful Assets	Problematic assets for which there is reasonable doubt as to their collection in the terms established by contract. Includes, among others, the following situations: borrowers with financial difficulties, delays in any payment of principal and interest instalments, refinancing due to counter-party difficulties, loans to borrowers that are undergoing restructuring or settlement processes with other credit institutions.

Substandard Assets	Assets which, without meeting the individual criteria for classification as doubtful or write-off, show weaknesses that could entail losses for the bank which are higher than the coverages for impairment of the specially monitored risks.
Tier 1 ratio	Ratio between total TIER 1 capital and risk-weighted assets.
Total Capital	Includes the Ordinary Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital (T2)
Total Tier 1 capital	First-class resources according to CRR criteria. Comprising ordinary tier 1 capital (CET1) and additional tier 1 capital (AT1), encompassing, for the large part, ordinary shares, reserves and subordinated perpetual securities, under certain conditions, net of the corresponding prudential filters and deductions.
Treasury shares	Company portfolio of its own shares purchased on the market under conditions authorised by the General Shareholder's' Meeting.
Unexpected Loss (UL)	A variability measurement regarding portfolio losses, it represents potential unforeseen losses that must be covered with capital.
Write-offs	Loans for which recovery is considered remote, and which have been derecognised from assets.

Information and contact data for shareholders and customers

Shareholders and clients have numerous ways of getting in contact with Banco Popular in order to resolve any queries they may have.

In the Shareholders and Investors/Financial Information section of the corporate website, Banco Popular publishes its Management and Integrated Management Report, where all stakeholders can find relevant information on the entity; additionally, quarterly, it also publishes a report of the periodic results.

Popular contact details

GENERAL CONTACT
Tel 902 301 000
info@bancopopular.es
Monday to Friday 9 am to 9 pm

CUSTOMER SERVICE DEPARTMENT

Calle Núñez de Balboa 56, bajo A, 28001 Madrid
atenciónaclientes@bancopopular.es

SHAREHOLDERS

C/ José Ortega y Gasset, 29. 28006 Madrid
Tel.: +34 91 520 72 65
Fax: +34 91 577 92 09
accionista@bancopopular.es

SHAREHOLDERS' OFFICE

Sara López Fernández
Director

Beatriz Gallego Pérez
Eva García García
María Dolores González Morera
Ruht Iturmendi Martínez
Maria Parente de Castro

ANALYSTS AND INSTITUTIONAL INVESTORS

C/ José Ortega y Gasset, 29. 28006 Madrid
Tel.: +34 91 657 55 96 / 91 520 72 62
ir@bancopopular.es

INVESTOR RELATIONS

Diego Barrón Arbeo
Director

María de Gea de Frutos
+34 91 657 55 96
mgea@bancopopular.es
Federico Sacido Heredia
+34 91 520 72 62
fsacido@bancopopular.es

Gonzalo López Eguiguren
+34 91 657 55 67
glopez@bancopopular.es

María Eugenia Suárez Irazusta
+34 91 520 76 18
mesuarez@bancopopular.es

COMMUNICATIONS, BRAND AND CORPORATE RELATIONS DEPARTMENT

Carlos Balado García
Deputy General Manager
Director of Communications, Brand and Corporate Relations

COMMUNICATIONS MANAGEMENT TEAM

Alejandro Kowalski Bianchi
Communications Director
akowalski@bancopopular.es

Victoria González Ceregido
Director of External Communications
mvgonzalezc@bancopopular.es

Rafael Fernanz Andújar
Director of Internal Communications
rfernanz@bancopopular.es

Enrique Díaz García
Media Officer
ediaz@bancopopular.es

Juan Pujol Rodríguez
Digital Communication Officer
jpujol@bancopopular.es

CORPORATE RELATIONS MANAGEMENT TEAM

Eloy Écija Gálvez
Corporate Relations Director
eecija@bancopopular.es

BRAND, POSITIONING AND REPUTATION MANAGEMENT TEAM

Javier Fernández Arrieta
Brand, Positioning and Reputation Director
jafernandez@bancopopular.es

Annual Corporate Governance Report

A. Ownership structure

A.1 Complete the following table about the Bank's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
02-12-2015	1,082,537,748.50	2,165,075,497	2,165,075,497

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	
Baillie Gifford & Co	0	Various	65,481,220	3.133 (*)
Vanguard International Growth Fund	64,998,029	-	0	3.094 (*)
Blackrock Inc.	0	Various	64,055,900	3.009 (*)
Fidelity International Limited	0	Various	21,797,446	1.024 (*)

(*) 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
Unión Europea de Inversiones, S.A.	16-12-2015	Reduction of interest to beneath 3% of share capital

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	299,911	Fco. Aparicio y Cía	283,251	0.027
Arias, José María	217,281	-	-	0.010
Banque Fédérative du Crédit Mutuel	85,407,479	-	-	3.945
Fundación Barrié	55,861,081	-	-	2.580
Gómez, Francisco	48,766	Spouse or children	14,885	0.003
Herrando, Luis	3,311	Spouse or children	30,529	0.002
Higuera, Roberto	102,517	-	-	0.005
Molins, Ana María	887	-	-	0.000
Oroviogoicoechea, Jorge	1,632	-	-	0.000
Revoredo, Helena	0	Gubel, S.L.	2,310,455	0.107
Ron, Ángel	98,090	-	-	0.005
Sindicatura de Accionistas de BPE	13,104,417	Plurality of individual investors	195,933,691	9.655
Tardío, Vicente	14,483	-	-	0.001
Valle Ruiz, Antonio del	1,903,381		-	0.088
Total (direct and indirect)	157,063,236		198,572,811	16.426
Voting rights habitually represented (1)				(1) 7,659
Total shares				24.085

(1) Shares represented: Shares habitually represented by certain Board Members amount to 7.659% of share capital, broken down as follows: 4.116% by the group of Mexican shareholders, represented by Mr. Antonio del Valle; 3.349% by the Allianz group, represented by Mr. Vicente Tardío; and 0.194% corresponding to several families represented by various Board Members.

% of Total voting rights held by the board of directors 16.426 (**)

(**) This percentage does not include the shares habitually represented by Board Members, amounting to approximately 7.659% of the share capital. The total share capital represented by the Board of Directors amounts to 24.085%.

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 (3,321 as at 31/12/2015)	9.655%	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 stock:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
6,402,455	171,601	0.304

(*) Through:

Name or company name of direct owner of stake	Number of direct shares
Finespa, S.A.	0
Inmobiliaria Viagracia, S.A.	0
Gestora Popular, S.A.	0
Gestora Europea de Inversiones, S.A.	0
Popular Banca Privada, S.A.	163,084
Eurovida Portugal, S.A.	8,517
Total	171,601

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
At 27/01/2015	2,838,381	0	0.135
At 10/02/2015	2,981,901	0	0.141
At 17/03/2015	0	0	0.000
At 11/05/2015	239	0	0.000
At 01/07/2015	6,928	0	0.000
At 22/09/2015	4,480,375	0	0.211
At 07/10/2015	4,894,201	0	0.230
At 11/12/2015	2,072,523	18,508	0.097

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 stock.

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 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 7 April 2014 adopted the following resolution, under point 7 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 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 10 June 2013 shall be revoked.

A.9a Estimated floating capital;

Yes

	%
Estimated floating capital	75.92%

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	
13-04-2015	6.82	48.46	0.12	4.55	59.95
07-04-2014	6.67%	50.50%	0.12%	5.49%	62.78%

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 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	11-06-2012	General Shareholders' Meeting
Arias, José María		Proprietary	Deputy chairman	11-06-2012	11-06-2012	General Shareholders' Meeting
Fundación Barrié	Ana José Varela	Proprietary	Director	11-06-2012	11-06-2012	General Shareholders' Meeting
Banque Fédérative du Crédit Mutuel	Alain Fradin	Proprietary	Director	13-04-2015	13-04-2015	Board of Directors
Gómez, Francisco		Executive	CEO	30-01-2013	10-06-2013	General Shareholders' Meeting
Herrando, Luis		Independent	Deputy chairman	21-06-2001	11-06-2012	General Shareholders' Meeting
Higuera, Roberto		Independent	Deputy chairman	30-05-2008	07-04-2014	General Shareholders' Meeting
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
Revoredo, Helena		Independent	Director	30-05-2007	11-06-2012	General Shareholders' Meeting
Ron, Ángel		Executive	Chairman	Director 14-03-2002	07-04-2014	General Shareholders' Meeting
				Chairman 19-10-2004		
Sindicatura de Accionistas de BPE	Miguel Angel de Solís	Proprietary	Director	28-06-1988	11-06-2012	General Shareholders' Meeting
Tardío, Vicente		Proprietary	Director	19-12-2007	07-04-2014	General Shareholders' Meeting
Valle Ruiz, Antonio del		Proprietary	Director	07-04-2014	07-04-2014	General Shareholders' Meeting

Total number of directors	14

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
Alain Fradin	Proprietary	13-04-2015
Unión Europea de Inversiones, S.A.	Proprietary	16-12-2015

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
Gómez, Francisco	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
Arias, José María	Fundación Barrié
Banque Fédérative du Crédit Mutuel	Crédit Mutuel
Fundación Barrié	Fundación Barrié
Sindicatura de Accionistas de BPE (Represented by Miguel Angel Solís)	Sindicatura de Accionistas de BPE
Tardío, Vicente	Grupo Allianz
Valle, Antonio del	Grupo de Inversores Mexicanos

Total number of proprietary directors	6
% of Board members	43%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of Director	Profile
Herrando, Luis	Vice-chairman of the Board. Coordinating Independent Director. Economist and PhD in Industrial Engineering. He started his professional career with Babcock & Wilcox, joining Induban (Banco Vizcaya) in 1967. He was CEO of Aurora Group (now AXA) from 1978 to 1993. He has been and is on the Boards of several companies in the fields of insurance, property and venture capital. Honorary President of the Asociación para el Progreso de la Dirección (APD) in northern Spain. Chairman of the Fundación del Instituto de Educación e Investigación and of the Fundación de la Escuela de Ingenieros de Bilbao.
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.
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	5
% of Board members	36%

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
-	-	-

Total number of other external directors	
% of Board members	

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

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			
	Year 2015	Year 2014	Year 2013	Year 2012	Year 2015	Year 2014	Year 2013	Year 2012
Executive	0	0	0	0	0.00	0.00	0.00	0.00
Proprietary	1	1	1	1	16.66	14	12.50	11.11
Independent	2	2	2	2	40	40	40	33.33
Other external	0	0	0	0	0.00	0.00	0.00	0.00
Total	3	3	3	3	21.42	20	17.64	15

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 2012 Ana José Varela joined the Board as the representative of the Barrié Foundation.

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 21.42% of all Board Members; this percentage is an increase on 2014 and is also higher than the Spanish and European 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 satisfies 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.

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 by 6.42%, with a view to the number of female Directors 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
Alain Fradin	Now the physical representative of the Director Banque Fédérative du Crédit Mutuel.
Unión Europea de Inversiones, S.A.	Reduction of proprietary Directors

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
Gómez Martín, Francisco	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
Gómez, Francisco	Allianz Popular, S.A. Targobank, S.A. Grupo Financiero Bx+, S.A. Banco Bx+, S.A.	Director Director Director Director	No No No No
Herrando, Luis	Popular Banca Privada, S.A. Aliseda, S.A.	Non-executive chairman Director	No No
Higuera, Roberto	Popular de Mediación, S.A. Popular de Factoring, E.F.C., S.A. Bancopopular-e	Chairman Chairman Director	No 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

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)	4,750 (*)
Portion of directors' current cumulative pension rights (€ thousands)	42,695
Portion of directors' old cumulative pension rights (€ thousands)	34,001

(*) This amount includes the remuneration perceived by the former Director Unión Europea de Inversiones, S.A. during the months of the exercise of 2015 in which he exercised his position. This amount totaled 120 thousand euros.

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
José Ramón Alonso Lobo	Business and Customers Management
Jesús Arellano Escobar	General Audit Management
Carlos Balado García	Communications, Brand and Corporate Relations Management
Jacobo González-Robatto Fernández	International Advisory Board
Rafael de Mena Arenas	Investee and JV Management
Susana de Medrano Boix	Head of the CEO's Office
Miguel Angel Moral Graci	Technical General Secretary
Javier Moreno Navarro	Comptroller's Office
Alberto Muñoz Fernández	Chairman's Office
Antonio Pujol González	Retail Banking Management
Fernando Rodríguez Baquero	Technical Resources Management
José María Sagardoy Llonis	Risk Management
Francisco Sancha Bermejo	Finance Management

Total remuneration of senior management (in € thousands)	6,157

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. Chairman of Allianz Mexico, S.A. Compañía de Seguros 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 2015, amendments were made to the following articles of the Board Regulations: Article 2, regarding interpretation; Articles 5, 6, 7, 9, 11, 12, 14, 15, 16, 17, 18 and 21 regarding the Board of Directors; Article 23, regarding the Delegated Committee; Article 24, regarding the Audit Committee;Article 25 regarding the renaming of the Appointments, Governance and Corporate Responsibility Committee, and Article 30 regarding shareholder relations.

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 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 Stock 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 of Director's operations;

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 carrying out personal interviews with directors, in addition to activity reports for the various Committees of the Board of Directors.

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.

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 State whether there are specific requirements, other than those relating to directors, for being appointed Chairman of the Board; if so, explain them.

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.

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	12
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	27
Number of Audit Committee meetings	14
Number of Appointments, Governance and Corporate Responsibility Committee meetings	16
Number of Compensation Committee meetings	12
Number of Risk Commission	13

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	12
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 Comptroller Office is responsible for the drafting and presentation of all the financial documentation which appears in the Financial Statements. The Comptroller's Office, 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	Comptroller's Office

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.

Articles 24 and 33 of the Board Regulations identify the mechanisms established to preserve the independence of the external auditor. The relationship between the Board of Directors and the external auditor is channelled through the Audit Committee, which is the competent body for:

a) Proposing to the Board of Directors for submission to the General Shareholders' Meeting the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor.

b) Supervising fulfilment of the audit contract, endeavouring to ensure that the auditors' opinion on the financial statements and the main contents of the audit report are drafted clearly and accurately.

c) Receiving regular information from the external auditor regarding the audit plan and the results of its management, evaluating the results of each audit and verifying that senior management take into account the auditor's recommendations, as well as mediating in any case of discrepancy between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

d) Liaising with the external auditors to receive information about any issues potentially jeopardising the external auditor's independence and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.

e) Receiving annually written confirmation from the auditors about their independence in respect of the entity and the information about any additional services they render. The Committee will issue an annual opinion on the independence of the Auditors prior to the Auditor's Report being issued.

f) Endeavouring to ensure that the financial statements that the Board of Directors submits to the General Meeting do not contain any reservations or qualifications in the Audit Report and, when such reservations or qualifications cannot be avoided, ensuring that both the Chairman of the Committee and the auditors provide clear explanations to the public and, in particular, to shareholders of the content and scope of the discrepancies and of these reservations or qualifications.

Furthermore, to ensure the independence of the external auditor:

a) Any change in the auditor will be reported as a Significant Event to the Spanish National Securities Market Commission, indicating the existence of any disagreements with the outgoing auditor and their subject matter;

b) The Committee will ensure that the Bank and the auditor respect current regulations regarding the rendering of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

c) Should the external auditor resign, the Audit Committee will examine the reasons for such resignation.

Similarly, no services other than audit services are to be contracted with the external auditor, so as not to jeopardise such auditor's independence.

In any event, the Committee must be provided, on an annual basis, with a written statement from the auditors confirming their independence of the entity or entities related to it either directly or indirectly, as well as information on any additional services provided, of any type, to these entities by said auditors, or by persons or entities related to them in accordance with the provisions of Royal Decree 1/2011 of 1 July approving the recast text of the Auditing Act.

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

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.

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.

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 General Directorate of Finance.

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)	625	867	867
Fees for non-audit work / Total amount invoiced by audit firm (%)	40.55%	30.50%	30.50%

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	34	34

	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
Gómez, Francisco	Director	Executive
Arias, José Maria	Director	Proprietary
Herrando, Luis	Director	Independent
Higuera, Roberto	Director	Independent
Aparicio, Francisco	Secretary	Executive

% executive directors	50
% proprietary directors	16.67
% independent directors	33.33
% 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 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 fourteen Directors, three of whom are executive directors, six are proprietary and five are independent. The Delegated Committee comprises six members: three executive, one proprietary 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 Proprietary 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 (36%).

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 Maria	Director	Proprietary
Oroviogoicoechea, Jorge	Director	Independent

% proprietary directors	33.33
% independent directors	66.67
% 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 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 majority of the members of the Audit Committee must be non-executive Directors, from among whom a Chairman will be chosen.The majority of members will be independent, incluiding 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) Supervise the process of preparation and presentation of the financial information and its completeness and verifying that all periodic information released to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervising this information and reporting to the Board of Directors prior to the Board's adopting any relevant decisions and before they are published.

b) Inform the General Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.

c) Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfilment of the audit contract, ensuring that the auditor's opinion on the financial statements and the main contents of the auditor's report are drafted clearly and accurately.

d) Supervise the internal audit's services and, in this respect, ensure its independence and efficacy; propose the selection, appointment, re-election and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management take into consideration the conclusions and recommendations set out in its reports.

e) Serve as a channel of communication between the Board of Directors and the auditors and receive regular information from the external auditor regarding the audit plan and the results of its management, evaluate the results of each audit and verify that senior management take into account the auditor's recommendations, as well as mediating in any case of disagreement between these parties and with the auditor with respect to the principles and standards applied when preparing the financial statements.

f) Liaise with the external auditors to receive information about any issues potentially jeopardising 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 audit legislation and technical auditing standards.

To ensure independence:

1. Any change in the auditor will be reported as a Significant Event to the Spanish National Securities Market Commission, indicating any disagreements with the outgoing auditor and their subject matter;

2. The Committee will ensure that the Bank and the auditor respect current regulations regarding the provision of services other than audit, limits to the concentration of the Auditor's business and, in general, any other regulation established to ensure the independence of auditors;

3. In the event that the external auditor withdraws from the mandate, the Committee will examine the circumstances giving rise to this situation.

In any event, the Committee must be provided, on an annual basis, with written confirmation from the auditors confirming their independence from the entity or entities related to it either directly or indirectly, as well as information on any additional services provided, of any type, to these entities by said auditors, or by persons or entities related to them in accordance with the Consolidated Law on Auditing approved by Royal Legislative Decree 1/2011 of 1 July .

The Committee is required to issue annually, prior to the issue of the audit report, a report expressing its opinion as to the auditors' independence. This report, where appropriate, is required to comment upon the provision of additional services, as referred to in the previous section.

g) Endeavour to ensure that the financial statements that the Board of Directors submits to the General Shareholders' Meeting do not contain any reservations or qualifications in the Audit Report, and that if such reservations or qualifications cannot be avoided, both the Chairman of the Committee and the auditors clearly explain to the public and, in particular, to shareholders, the content and scope of the discrepancies and of these reservations or qualifications.

h) Supervise the efficacy of the Bank's internal control and risk management systems, including tax risks, so that the main risks are identified, managed and appropriately reported. Discuss any significant weaknesses in the internal control systems detected during the audit with the auditors.

i) Review the accounts for the Bank, supervise compliance with legal requirements and the proper application of generally accepted accounting principles and the adequate definition of the scope of consolidation. Monitor the operation of internal financial control procedures and the use of manuals adopted by the Bank, check compliance therewith and review the appointment and replacement of those responsible.

j) 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.

k) 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.

l) Detect and manage conflicts of interest that may arise between Group entities.

m) Inform the Board of Directors, prior to the adoption of the relevant decisions, of the creation or acquisition of shares in special purpose vehicles or any entities domiciled in countries or territories classified as tax havens, as well as of any other transactions or operations of a similar nature that could jeopardise the transparency of the Banco Popular Group due to their complexity.

n) Evaluate its operation on an annual basis and present the Board of Directors with a report on the activities carried out during the year.

ñ) All others established by Law or in the Board 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	3

APPOINTMENTS, GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

Name	Position	Category
Herrando, Luis	Chairman	Independent
Oroviogoicoechea, Jorge	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.

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 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 proposals for the appointment and re-election of members of senior management and of the surveillance body stipulated in the Internal Conduct Regulations in the sphere of securities markets.

i) Examining any suggestions for appointments, governance and corporate responsibility 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 its Regulations.

k) Reviewing, on an annual basis, the classification of each Director 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) Detecting 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 or senior managers and the Bank, ensuring fulfilment of the obligations of discretion and impartiality and of the duties of confidentiality, diligence and loyalty of the directors as well as any such issues that may arise between significant shareholders and the Bank.

s) Informing the Board of Directors of related party transactions, prior to its taking any decisions in this respect.

t) Proposing the Annual Corporate Governance Report to the Board of Directors.

u) Proposing and verifying compliance with the Group's Corporate Social Responsibility Policy and the preparation of the Annual Corporate Social Responsibility Report.

v) Supervising compliance with the Board Regulations and, in general, with the internal codes of conduct and the rules of Bank governance, and making any necessary proposals for improvement.

w) Evaluating the Board of Directors on an annual basis, as well as the Chairman and the Bank's CEO.

x) 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, a report will be submitted to the Board of Directors

y) Coordinating the development of a training programme for the Directors and keeping it 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 the Board Regulations.

COMPENSATION COMMITTEE

Name	Position	Category
Herrando, Luis	Chairman	Independent
Oroviogoicoechea, Jorge	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
Herrando, Luis	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 2015 Number %		Financial year 2014 Number %		Financial year 2013 Number %		Financial year 2012 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	1	33.33%	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, 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. The Appointments, Governance and Corporate Responsibility Committee has been divided into two Committees: "Appointments, Governance and Corporate Responsibility" and "Compensation".

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)
-	-	-	-	-

As regards significant shareholders, transactions of this kind carried out by Banco Popular during 2015 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)
-	-	-	-	-

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 2015 was €1,919 thousand, of which €1,702 thousand corresponded to credits and loans and €217 thousand to guarantees. The interest rate of these credits and loans varied between 0.13% and 0.901%.

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.

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)
BP Preference International Ltd.	Debt securities	8,338

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 Group entities 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 manages risk in a prudent, disciplined and diversified manner, promoting internal governance that encourages the prudent control and management of risks and the qualification of professionals at the entity. In this regard, it has established a risk policy aimed at achieving a Medium-Low risk profile, thus guaranteeing that the Group undertakes its trade activities and business expectations within the established risk limits and objectives at all times.

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 advances 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 in line with values consistent with the risk appetite set out by the Board of Directors. These principles make up a risk culture that helps to ensure that any risk or activity affecting the Bank is identified, escalated, measured and mitigated in a timely manner. In this context, policies, procedures and processes aligned with the risk appetite are in place; these are then cascaded throughout the organisation.

The implementation of a solid risk culture is driven by 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. Responsibility for daily management of the risk appetite and respect for policies, procedures and controls will fall to 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 for risks in line with best market practices, as part of which the different governing bodies are assigned clear responsibilities in terms of risks, from the design and approval of the risk strategy through 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.
- Verifying that the risk culture is appropriately disseminated throughout the Group.

- Ensuring that remuneration policies are consistent with the established risk appetite.
- Reviewing 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.

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 Management.

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 Management 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.
- 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 Management 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.

Risk Management

Department responsible for the management, supervision and control of the Group's risks. It supervises risks, objectives and limits set out in the Risk Appetite Framework, keeping the Management Committee and Risk Comission informed in respect thereof. Risk Management analyses risks assumed by the entity, supervises compliance with risk policies and limits authorised by the different links in the risk chain.

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 by , a governing instrument that contributes to an effective and comprehensive management of the Group's risk appetite.

It is a flexible framework that identifies and defines the risks to which the Group is exposed and establishes:

- 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 objective is to maintain a medium-low risk profile by controlling risks to which the Group is exposed based on its business model.

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

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

The appetite level defined determines the risk strategy, with policies being established that make it possible to maintain or obtain a residual risk profile pursuant to the objective in place; the inherent and residual risk levels are assessed on a periodic basis.

The profile of the different financial (credit, operational, interest rate, market and business) and non-financial (reputational and compliance) risk categories determines the capital objective. In turn, the planning and stress test process ensures that the risk profile is preserved pursuant to the established appetite and that the capital objective is met.

The proper definition and control of the risk appetite are key elements that make it possible to reasonably guarantee the capital objectives.

In addition to the first level metrics or the Risk Appetite Framework metrics in place for all risks and Capital, each risk is managed by applying additional metrics or second-level metrics; it is by monitoring these metrics that the risk profile is maintained within tolerance levels, thus including the Risk Appetite Framework within management activities.

Business risk

This risk is defined as the possibility that the gross margin may prove insufficient to cover fixed costs owing to changes in volumes of balance sheet items and fee revenues, generated in turn by changes in economic conditions. In this regard, it refers to the possibility that the Group is unable to meet its profitability objectives, which may eventually affect its capital ratios.

Credit risk

Credit risk is defined as being associated to the impairment of credit quality or default due to changes in the capacity or intention of the counterparty to comply with its obligations, leading to a loss. For the most part, Banco Popular focuses on retail banking and, in particular, business with companies, the self-employed and individuals; as a result, its business model is centred around credit risk. Management of this type of risk is characterised by a responsible lending policy with a strict system of attributions and limits by means of the acquisition of guarantees that mitigate said risk, and by an adequate level of coverage.

Risk management

A specialist unit at the Group, established in December 2014 and independent from Risk Management, is responsible for supervising risk management policies, attributions and the needs arising from the implementation of the Single Supervisory Mechanism. It monitors the evolution of credit risk and its work to coordinate and work in collaboration with other departments at the Group is particularly noteworthy; said departments include Models and Capital, Business and Commercial, with a view to using and integrating credit risk management models and Basel regulations as part of management activities. Furthermore, the unit has a team of analysts that studies both individual and restructuring operations and corporate operations.

Risk admission

Credit risk admission is undertaken by the Risk admissions office and the offices reporting to this unit (Retail Risks, Risks with Businesses and Public Authorities and Risks with Financial and Market Institutions), in addition to risk departments located in the different business units (Territorial Departments, Regional Departments, Specialist Offices, etc.). This unit reports directly to Risk Management.

These offices and departments serve to manage and analyse risk assumption based on management principles, the operational and communication policies and processes defined as part of the Risk Appetite Framework, the Risks Policies Manual and the Credit Risk Procedures Manual. Analysis and management activities are undertaken taking into consideration total exposure of the customer and the economic group to which it belongs.

Monitoring of Credit Risk

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms for the special surveillance of their progress and to react to avoid situations of default. The Group has an alerts system in place that makes it possible to anticipate problematic situations and apply preventive measures in respect of current risks. Alerts are triggered in response to the analysis of a series of variables concerning operations and customers, which make it possible to detect possible deviations in performance, in addition to knowledge on relevant facts that may affect the evolution of risks.

Alerts are handled by specialist risk monitoring teams, with the Risk Monitoring and control office serving as the ultimate decision-making body and is tasked with assigning a score and policy to be followed with customers in terms of risks assumed, in addition to supervising the process.

Furthermore, the Risk Monitoring and control office monitors certain risks involving customers and economic groups with high volumes of assumed risk, or those involved in certain incidents; furthermore, this unit undertakes periodic monitoring of various risk portfolios for which, given their nature, their evolution must be controlled.

Management of non-performing balances and recovery of impaired assets

To manage items in default and to recover impaired assets, the Group has a General Retail Banking Department to which the Restructuring and Default 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 supplier is responsible for the early recovery of items in accordance with the Restructuring and Default guidelines.

Since January 2014, Aliseda Sociedad de Gestión Inmobiliaria is involved in the collection and recovery management activities for customers in default for whom a mortgage security is in place, although the final decision lies with the Bank. Aliseda SGI manages the sale of foreclosed properties within authorised limits. As of January 2015, the Specialised Business Unit (SBU) manages specific customers in the developers sector for which management responsibilities have not been transferred to Aliseda SGI in terms of restructuring activities, collection and recovery of customers related to the real estate market.

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 delinquencies and defaults; 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 matters deemed delinquent 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 their assets. Customers are grouped into different types of portfolio and assigned based on the risk amount. Also, the process to prepare the documentation for litigation in cases in which it has not been possible to restructure the transaction has been centralised.

The Group has authorised different policies and procedures for the different stages of the recovery process: 1) Recovery of defaults management, process in which the Central Restructuring and Defaults 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 specialist platforms and applications in place for the adequate management of non-performing balances, which facilitate:

- 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 Activities

As part of market activities engaged in by the Treasury and the fixed-income portfolio management department, operations are undertaken with inherent credit risk. Said risk can be broken down into two categories: 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 insolvency risk as a result of changes in its economic/financial strength, as a result of which it is unable to meet the obligations associated with the securities issued.

Market Activity risk forms part of the Risk Appetite Framework at Banco Popular Group.

Country risk

Country risk is an additional component of implicit credit risk in all cross-border transactions. It is attributable to the possible inability of a debtor to meet its payment obligations in a foreign currency to foreign lenders due to macroeconomic or political circumstances or natural disasters.

Risks included under this heading include sovereign (risk of default on credits issued by the State or entities underwritten thereby) and transfer risk (risk that a country is unable to meet its payment obligations as it does not have sufficient currency reserves). Risks associated with direct foreign investment include confiscation, expropriation and nationalisation risk, transfer risk in the repatriation of dividends or divestments, risk of breach of contract and risk of war, political conflict or natural disasters.

Market risk

Market risk comprises the risk of loss for the Bank deriving from adverse movements in risk factors that determine the market value of financial instruments that form part of the held-for-trading portfolio. Thus, this risk arises due to adverse variations in interest rates, exchange rates, share prices or the prices of raw materials, credit spreads or volatility affecting said differences resulting from decisions made by the Treasury.

It also includes the liquidity risk linked to these positions. This is understood to refer to the impossibility of clearing positions in the market without a significant drop in value within a short period of time. To this end, an evaluation is made of positions over a time span coinciding with the estimated time horizon required for closure of inherent risk.

Corporate risk culture implemented at Banco Popular in terms of market risk management calls for the assumption of a series of principles, an operating framework, inherent to the approval of the Risk Appetite Framework (RAF) approved by the Board of Directors which sets standards for the management, measurement and control of market risk incurred by Banco Popular as a result of its trade operations on 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, common to all financial institutions, is attributable to the imbalance deriving from the different maturities of assets and liabilities needed to engage in banking activities.
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 Management, 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.

As regards the nature of this risk, it is important to adequately distinguish between the structural aspect of the risk, on which this section focuses, and the market aspect associated to interest rate risk. The latter only occurs as part of changes in the value of the held-for-trading portfolio, which are attributable to movements in interest rates; the policies for managing and controlling such aspects are covered in the Market Risk section.

Concerning the structural aspect of interest rate risk, it is important to note that fluctuations in rates involve 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 these two aspects at an aggregate level for all financial institutions at the Group. Interest rate risk management is carried out mainly with derivatives. The policy involves applying hedges that are as perfect as possible; as a result, preference is given to contracting individual operations, although macro-hedging operations are also entered into.

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.

This risk affects the entire Organisation and may be attributable to the generation of other risks or significant instances of non-compliance, from an economic or reputational perspective, which may arise from laws and regulations, codes of conduct and good practice standards Legal, economic-financial, operational, ethical, social and environmental factors are all influenced by reputational risk and could cause a loss of confidence in the institution. Mitigating this risk concerns the entire organisation and everyone in it. Banco Popular Group controls this risk globally, including all the Group's integrated entities.

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 Group entities 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

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.

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 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 committee, iii) the management committee and their respective advisory committees on risk (the Capital commission, the ALCO committee, the operational risk committee and the new products committee), iv) risks management 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 Group companies.

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.

Banco Popular Group considers Internal Control as a cross-cutting process driven by the Board of Directors, which encompasses the entire organisation. It has been comprehensively designed to identify, control and manage all risks to which it is exposed, in order to provide a reasonable level of security in terms of obtaining the corporate objectives established, and follows the "three lines of defence" model.

- The first line of defence comprises branches, operational centres and units that are tasked with risk control and management duties. 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 assumes responsibility for cross-cutting aspects, divided amongst the following units:
  - Risk Management - Risk Control
  - Regulatory Compliance
  - Internal Control Body/Money laundering prevention
  - 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 comprises Internal Audit, the global, cross-cutting supervision unit that directly reports to the Audit Committee, providing this department with a particular level of independence.

Second line of defence

Risk Management

Risk Management assumes the greatest level of responsibility in terms of risk management within the second line of defence. Its objective is to analyse the risks assumed by the Bank, ensuring compliance with the risk policies and limits authorised in the different links of the risk chain, as well as dynamically suggesting risk policies and developing the required rules and procedures.

Risk Control

The Risk Control unit was created in December 2014 in order to provide Banco Popular Group with a global risk control area reporting to Risk Management; it acts as the second line of defence, independent from the first line and linked to the business units and the third line of defence, which corresponds to Internal Auditing.

Its main responsibilities are:

- Overseeing compliance with risk policies, limits and objectives.
- Supervising Banco Popular Group risks by means of identifying, measuring and monitoring the Group's exposure.
- Informing Risk Management about the evolution of the risk profile as regards the risk appetite established in the Risk Appetite Framework, following the protocol of action defined in the event that alert limits or limits of default are met.
- Establishing risk information processes consistent with the Risk Appetite Framework.
- Ensuring the quality and suitability of risk measurement techniques and the MIS (Management Information System), used to compare and monitor the risk profile in terms of the risk appetite.
- Making recommendations regarding the effectiveness of controls.
- Proposing measures to be taken when alert limits or limits of default are exceeded under the Risk Appetite Framework.
- Encouraging the dissemination of the Risk Appetite Framework and the risk culture throughout the organisation.

Regulatory Compliance

The regulatory compliance function is the responsibility of the Compliance Office, which forms part of the Regulatory Compliance Department and reports to the Secretary of the Board of Directors.

This office is tasked with supervising and monitoring the efficiency of the procedures and measures established to detect any risk of default in terms of the obligations provided by the law, regulations, codes of conduct or good practice standards concerning its respective areas, reporting any shortcomings or appropriate corrective measures to the Audit Committee. Furthermore, it advises and assists the Board of Directors and the Management Committee as regards regulatory compliance and promotes training and awareness raising amongst staff and the culture of compliance at Group entities.

Internal Control Body

Its objective is to check the correct operation of the Group’s anti-money laundering and financing of terrorism policies.

Money Laundering Prevention Office

The Money Laundering Prevention Office, which reports to the Regulatory Compliance Department, reports to the Secretary of the Board of Directors.

F. Internal control and risk management systems in relation to the financial information reporting process

Description of the main characteristics of the internal control and risk management systems with regard to financial reporting (internal control systems on financial reporting).

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 adequate and effective internal control systems on financial reporting; (ii) its implementation; (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 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 (internal control systems on financial reporting) and ensuring that they work properly and effectively.

Lastly, the Group's Financial Management collaborates on the design and implementation of risk management and control systems, and the Comptroller's 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 Indicate which departments and/or mechanisms,

- **are responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority and the appropriate distribution of tasks and functions and (iii) ensuring that there are procedures in place for 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: Comptroller's Office and Finance Management.

The Comptroller's Office, the main area responsible for preparing the financial information that is presented to the markets, and the Department of Financial 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. It is 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 (“Parties Applicable”), notwithstanding the fact that some of these parties are also bound by the Internal Conduct Regulations 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 monitoring, compliance with and suitability of the Code of Conduct, in addition to other responsibilities.

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 Group, through its Training Portal, offers its employees a training course which covers the provisions set out in the Code of Conduct. This self-educational resource is permanently available to all Bank professionals and may be freely accessed by them at any time.

- **A reporting system which allows employees to report financial and / or accounting irregularities, breaches of the Code of Conduct and irregular activities within the organisation to the Audit Committee.**

Banco Popular Group has a reporting system where employees can confidentially report violations of the Code of Conduct, financial and / or accounting irregularities, and irregular or fraudulent activities within the organisation to the Oversight Unit.

Communications received via this Channel are handled and analysed confidentially by the Oversight Unit of the Reporting System. In the event that 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 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.

For the proper functioning of this Channel, an application ad hoc with direct access to the Intranet of the Bank has been implemented.

- **Training programmes and periodic refresher courses for the personnel involved in preparing and reviewing financial information and evaluating the internal control systems 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 (Comptroller, 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”, “Risk Appetite in Financial and Market Institutions”, “ALM and interest rate hedging in Banking”, “Basel III Seminars”, “Specialisation in Financial Futures and Options” and “Financial Risk Management”.

  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 instructors are highly skilled individuals, some of whom are part of the Group and others who are prestigious consultants and members of academia. The MBA associated with this programme recognises the effort and excellence of the participants. Furthermore, 65 members of Corporate Audit and Control have been certified, and an additional 23 participated during 2015 in the Expert Course in Internal Auditing at Credit Institutions programme imparted by the Cecabank Training School (ESCA), with four members of the same Department also certified as Certified Information System Auditors (CISA).

  Lastly, the Group (represented by the Comptroller), 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 Comptroller's office, 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. However, the Comptroller evaluates the need to add new risks to those already identified whenever any of the following occurs: (i) when previously unidentified circumstances bring to light possible errors in the financial information or (ii) when there are substantial changes in the Group's operations.

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 internal control systems on financial reporting 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 and forecasts.

According to article 5.1 of the Rules, the Board of Directors is charged with "adopting and performing any and all actions and measures as may be required to ensure the Bank's transparency to the financial markets and approving the Annual Corporate Governance Report; promoting the correct formation of the Bank's share prices; overseeing, via the Audit Committee, regular public financial reporting and submitting any information and carrying out any tasks which might be necessary due to the Bank's status as a publicly listed Bank."

The procedures for reviewing and authorising the financial information reported by the Group to the markets begin with a review by the Comptroller's office and Corporate Finance. Following this, the six-monthly financial reports, the individual accounts, the consolidated annual accounts and the Directors' Report are reviewed by the Audit Committee as the step immediately prior to their formulation by the Board of Directors (as stipulated in article 5.1 of the Rules). 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 financial information, in addition to the integrity thereof, and the submission of recommendations and proposals to management, with a view to safeguarding its integrity.

b) Checking to make sure that all periodic information reported to the markets is prepared according to accounting principles applicable to annual accounts, overseeing the information and reporting to the Board of Director prior to decisions being taken by the Board and being made public.

c) Performing regular reviews of the Bank's internal control and risk management systems, so that the main risks are identified, managed and adequately reported. 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 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 refer to: the assessment of impairment in credit and property assetsassets; the value of goodwill; the useful life and impairment losses on tangible and intangible assets; the value of certain non-traded shares; corporate income tax; the calculation of post-employment liabilities and commitments assumed; the addition and write-off of assets and liabilities; and the integrity and accuracy of the consolidation scope.

It should also be noted that the Group has a general policy in place for making judgements, estimates and forecasts which takes all of the pertinent aspects into account (type, importance, item, frequency of review, supporting studies) as well as the persons responsible for preparing and reviewing them.

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 Comptroller 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:

- o Logical security: controlling access to data, programmes and information security.
- o Design and development of transversal applications and infrastructures that support the group's business applications.
- o Software maintenance and quality validation in computer programme development.
- o Managing the supply of services and communications, performance control and scheduled tasks.
- o 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 an effect on appraised values (property assets appraisals, actuarial calculations and, to a lesser extent, the assignment of values to certain financial assets).

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 Reporting and communication.

State whether the following exists and, if so, describe the main characteristics:

F.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 in the Management Committee and in the Audit Committee, and which describes the accounting policies defined by the Comptroller's Office, 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.

The Regulatory Office (which reports to the Deputy General Comptroller), is tasked with:

- 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.).
- Reviewing the 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 Comptroller's Office on 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 the financial statements.

Specifically, the Technical Accounting Office is responsible (directly reporting to the Deputy General Comptroller) for:

- 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.

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 systems on financial reporting.

In the Group, the process of preparing and consolidating the financial information is centralised in the Consolidation Office, which report to the Comptroller.

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 internal control systems on financial reporting. Also describe the scope of the evaluation of the internal control systems 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.a of the Board Regulations, the functions of the Audit Committee include: "Supervising the process of preparation and presentation of the financial information and its completeness and verifying that all periodic information released to markets is prepared in accordance with professional practices and principles applicable to financial statements, supervising this information and reporting to the Board of Directors prior to the Board's adopting any relevant decisions and before they are published".

Furthermore, the Internal Auditing Statute approved by the Audit Committee in October 2012, establishes the following, inter alias:

- Internal Audit is the unit that performs supervisory, control, evaluation and advisory functions which, through the General Management of the Audit Area, reports to the Audit Committee of the Banco Popular Group, which carries out an independent and objective activity of supervision and consultation, designed to add value to and improve the Group's operations. This is the third line of defence of the Group, which helps to fulfil its objectives by providing a systematic and disciplined approach to analyse 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 the efficiency of the risk management, control and governance processes, verifying that all relevant risks faced by the Banco Popular 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 internal control systems on financial reporting.

Article 24.4.d of the Board Regulations states that the functions of the Audit Committee shall include the following: "Supervise the internal audit's services and, in this respect, ensure its independence and efficacy; propose the selection, appointment, re-election and removal of the person responsible for internal audit; propose its budget; receive periodic information regarding its activities; and verify that senior management take into consideration the conclusions and recommendations set out in its reports".

Within the framework of the Three-Year internal control systems on financial reporting Supervision Plan (Plan) approved by the Audit Committee for the 2015-2017 year, Internal Audit has carried out testing on the areas or processes which are considered to be relevant for the Group, comprising all such areas or processes 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. General IT controls have also been audited.

The scope of the evaluation conducted in 2015 included the following reviews:

i. Critical Closure, Consolidation and Judgements and Estimates processes.
ii. Other Processes included in the three-year internal control systems on financial reporting Supervision Plan for 2015: Loans, Credits, Deposits, Advances, Guarantees and Provisions Process for Legal Contingencies. General IT controls have also been audited.

Furthermore, it is worth noting that in 2015, the metrics used by the Bank to measure tax risk were revised; in addition, as part of the critical closure process review, it has been established that the Tax Management department calculates the different taxes, escalating them to Accounting, which then books the figures submitted by Tax Management.

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 review conducted by Internal Audit did not reveal any significant weaknesses.

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 during the year. Also, state whether there is an action plan for correcting or mitigating any weaknesses encountered.

According to article 24.4.c of the Board Regulations, the functions of the Audit Committee include: "Propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of external auditors, the conditions of hiring, the scope of the professional mandate and, when appropriate, the revocation or non-renewal of such mandate and replacement of the auditor. Supervise the fulfilment of the audit contract, ensuring that the auditor's opinion on the financial statements and the main contents of the auditor's report are drafted clearly and accurately".

The Internal Audit Statute 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, Internal Audit shall draft an IAP monitoring report with details of the tasks carried out during the period which is the object of the report, its conclusions and the improvement recommendations made.

- Internal Audit shall monitor the recommended improvements as far as their implementation and/or compliance by the different bodies, companies and offices of the Group responsible for them.

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 (annual accounts, six-monthly accounts and interim quarterly reports),
ii. discusses any weakness observed in the internal control systems for financial reporting and proposes 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 internal control systems on financial reporting 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 2015 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.

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 remuneration 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 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 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 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 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 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 nomination committee's explanatory report, to be published when the general 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 capital, independent directors should occupy, at least, a third of board places.

Compliant **Explain**

As at 31 December 2015, the Board of Directors comprised fourteen directors, of which five, who represent 36 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 nomination 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**

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 nomination 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 nomination 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 nomination 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 nomination 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 an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

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 proprietary.

The percentage of independent directors on the Board of Directors and the Delegated Committee is 33.33%.

38. The board should be kept fully informed of the business transacted and decisions made by the executive 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 nomination and remuneration committee – or of the nomination committee and remuneration 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 nomination and remuneration committees.

Compliant **Explain** **Not applicable**

49. The nomination 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 nomination committee to propose candidates that it might consider suitable.

Compliant **Partially compliant** **Explain**

50. The remuneration 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 remuneration policy set by the company.

c) Periodically review the remuneration 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 remuneration 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. This condition, however, will not apply to 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 group entities 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, the Board of Directors at Banco Popular Español approved the subscription of the Bank 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 23 February 2016.

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, abstained, absent)	Explain the reasons
-	-	-

Report of the independent auditors

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Banco Popular Español, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Banco Popular Español, S.A. (Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The Parent Company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Banco Popular Español, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Banco Popular Español, S.A. and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2015 contains the explanations which the Parent Company´s Directors consider appropriate regarding Banco Popular Español, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Banco Popular Español, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José María Sanz Olmeda

February 11, 2016

Reporting responsibility

The Bank's Senior Management, as the technical and executive body of Banco Popular pursuant to Article 26 of the Bank's Articles of Association, is responsible for the preparation and presentation of all the financial information shown in the following pages. In the Management's opinion, this information offers a true and fair view of the Bank's financial position, and the operational and accounting processes applied comply with current legal and administrative regulations and with the instructions and recommendations of the Banco de España and the European Central Bank in its role as the single banking supervisor.

To this end, certain procedures, which are periodically reviewed and optimised, have been implemented to ensure that a uniform accounting record is kept of all transactions by means of an appropriate system of internal controls.

These procedures include monthly management controls at all decision-making levels, the scrutiny and approval of transactions in the framework of a formal system of functional delegation, ongoing professional training of the staff and the issuance and updating of manuals and operating standards. Also, the professional independence of the related control bodies is formally established in the organisation.

The financial statements, which have been audited by PricewaterhouseCoopers, include such explanations and details as are considered necessary for a clear understanding. For a thorough understanding of the financial statements, reference should be made to the events and major results impacting them, which are described in the Directors' Report contained in the preceding pages of this document.

Consolidated balance sheets at 31 December 2015 and 2014

(€ thousands)

ASSETS	Notes	At 31/12/2015	At 31/12/2014
Cash and balances with central banks	**19**	**3,523,007**	**1,192,814**
Financial assets held for trading	**20**	**1,285,883**	**1,689,644**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities		20,971	40,339
Other equity instruments		21,523	163,923
Trading derivatives		1,243,389	1,485,382
Memorandum item: Loaned or pledged		-	-
Other financial assets designated at fair value through profit or loss	**21**	**535,319**	**510,799**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities		313,869	351,544
Other equity instruments		221,450	159,255
Memorandum item: Loaned or pledged		-	-
Available-for-sale financial assets	**22**	**25,193,155**	**29,765,352**
Debt securities		24,746,646	29,363,902
Other equity instruments		446,509	401,450
Memorandum item: Loaned or pledged		11,376,677	20,171,376
Loans and receivables	**23**	**107,018,997**	**107,827,616**
Loans and advances to credit institutions		6,244,267	5,049,952
Loans and advances to customers		99,637,769	100,582,923
Debt securities		1,136,961	2,194,741
Memorandum item: Loaned or pledged		17,172,868	9,975,241
Held-to-maturity investments	**24**	**-**	**-**
Memorandum item: Loaned or pledged		-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**25**	**233,228**	**261,023**
Hedging derivatives	**26**	**443,068**	**441,156**
Non-current assets held for sale	**27**	**9,045,928**	**8,201,378**
Investments	**28**	**1,794,009**	**1,870,785**
Associates		1,139,450	874,540
Joint ventures		654,559	996,245
Insurance contracts linked to pensions	**29**	**167,918**	**162,654**
Reinsurance assets	**30**	**17,524**	**16,921**
Tangible assets	**31**	**1,697,785**	**1,711,224**
Property, plant and equipment		777,713	757,169
For own use		777,713	746,830
Assets assigned under operating leases		-	10,339
Investment property		920,072	954,055
Memorandum item: Acquired under finance leases		-	-
Intangible assets	**32**	**2,571,879**	**2,492,675**
Goodwill		2,072,901	2,058,470
Other intangible assets		498,978	434,205
Tax assets	**33**	**3,604,163**	**3,618,098**
Current		160,173	181,610
Deferred		3,443,990	3,436,488
Other assets	**34**	**1,518,010**	**1,694,339**
Inventories		897,315	881,084
Other		620,695	813,255
TOTAL ASSETS		**158,649,873**	**161,456,478**

LIABILITIES	Notes	At 31/12/2015	At 31/12/2014
Financial liabilities held for trading	**20**	**1,043,063**	**1,397,389**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Debt certificates		-	-
Trading derivatives		1,043,063	1,397,389
Short positions		-	-
Other financial liabilities		-	-
Other financial liabilities designated at fair value through profit or loss	**21**	**599,419**	**649,354**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Debt certificates		-	-
Subordinated liabilities		-	-
Other financial liabilities		599,419	649,354
Financial liabilities at amortised cost	**35**	**140,508,524**	**142,227,778**
Deposits from central banks		14,204,120	9,993,427
Deposits from credit institutions		19,172,266	17,624,123
Customer deposits		88,335,415	96,036,196
Debt certificates		15,989,048	15,962,018
Subordinated liabilities		2,066,951	1,424,645
Other financial liabilities		740,724	1,187,369
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**25**	**-**	**-**
Hedging derivatives	**26**	**2,013,974**	**2,161,074**
Liabilities associated with non-current assets held for sale		-	-
Liabilities under insurance contracts	**36**	**486,829**	**483,784**
Provisions	**37 and 38**	**383,359**	**469,998**
Provisions for pensions and similar liabilities		261,117	293,653
Provisions for taxes and other tax contingencies		16,359	31,780
Provisions for contingent risks and commitments		69,311	121,272
Other provisions		36,572	23,293
Tax liabilities	**33**	**513,483**	**718,459**
Current		45,575	97,047
Deferred		467,908	621,412
Other liabilities	**39**	**586,597**	**678,775**
TOTAL LIABILITIES		**146,135,248**	**148,786,611**

Equity	Notes	At 31/12/2015	At 31/12/2014
Shareholders' Equity	**41**	**12,719,992**	**12,783,396**
Common Stock		1,082,538	1,050,384
Issued		1,082,538	1,050,384
Minus: Uncalled capital (-)		-	-
Share premium		7,774,555	7,132,590
Reserves		3,821,333	3,630,267
Accumulated reserves (losses)		3,828,799	3,643,812
Reserves (losses) of equity method companies		(7,466)	(13,545)
Other equity instruments		-	643,198
From compound financial instruments		-	-
Other equity instruments		-	643,198
Minus: Treasury shares		(21,479)	(3,458)
Profit (loss) attributed to the parent company		105,432	330,415
Minus: Dividends and remuneration		(42,387)	-
Valuation adjustments	**42**	**(221,743)**	**(133,077)**
Available-for-sale financial assets		(191,166)	(129,641)
Cash flow hedges		(92,207)	(23,580)
Hedges of net investment in foreign operations		-	-
Exchange differences		92,297	54,710
Non-current assets held for sale		-	-
Entities accounted for using the equity method		2,125	(667)
Other valuation adjustments		(32,792)	(33,899)
Non-controlling interests	**43**	**16,376**	**19,548**
Valuation adjustments		-	-
Remainder		16,376	19,548
TOTAL EQUITY	**40**	**12,514,625**	**12,669,867**
TOTAL EQUITY AND LIABILITIES		**158,649,873**	**161,456,478**
MEMORANDUM ITEM			
Contingent risks	**47**	**11,159,430**	**12,554,148**
Contingent commitments	**48**	**8,568,748**	**8,855,239**

Consolidated profit and loss statements for the years ended 31 December 2015 and 2014

(€ thousands)

	Notes	At 31/12/2015	At 31/12/2014
Interest and similar income	**49**	**3,508,688**	**4,167,234**
Interest and similar expenses	**50**	**1,257,452**	**1,835,843**
NET INTEREST INCOME		**2,251,236**	**2,331,391**
Return on equity instruments	**51**	**13,138**	**14,389**
Share of profits (losses) of entities accounted for using the equity method	**52**	**47,422**	**33,392**
Fee and commission income	**53**	**655,770**	**739,400**
Fee and commission expenses	**53**	**60,448**	**84,693**
Net gains (losses) on financial assets and liabilities	**54**	**517,260**	**820,609**
Financial instruments held for trading		11,540	32,219
Other financial instruments at fair value through profit and loss		(15,877)	(24,668)
Financial instruments not at fair value through profit and loss		525,193	786,429
Other		(3,596)	26,629
Exchange differences (net)	**55**	**45,564**	**47,232**
Other operating income	**56**	**229,462**	**342,480**
Income from insurance and reinsurance contracts issued		33,241	134,152
Sales and income from provision of non-financial services		13,933	18,543
Remainder of other operating income		182,288	189,785
Other operating expenses	**57**	**268,493**	**368,167**
Insurance and reinsurance contract expenses		41,119	135,859
Change in inventories		10,761	16,326
Rest of other operating expenses		216,613	215,982
GROSS INCOME		**3,430,911**	**3,876,033**
Administration Costs		**1,603,687**	**1,726,285**
Personnel expenses	58	935,833	946,235
Other general administrative expenses	59	667,854	780,050
Depreciation and amortisation	**60**	**137,753**	**144,530**
Provisioning expense (net)	**61**	**(35,028)**	**(44,706)**
Impairment losses on financial assets (net)	**62**	**1,425,587**	**1,708,832**
Loans and receivables		1,382,917	1,690,832
Other financial instruments not at fair value through profit and loss		42,670	18,000
NET OPERATING INCOME		**298,912**	**341,092**
Impairment losses on other assets (net)	**63**	**(21,648)**	**(30,318)**
Goodwill and other intangible assets		-	-
Other assets		(21,648)	(30,318)
Gains (losses) on disposal of assets not classified as non-current held for sale	**64**	**127,875**	**498,039**
Negative difference on business combinations	**65**	**-**	**-**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**66**	**(334,251)**	**(496,458)**
PROFIT/(LOSS) BEFORE TAX		**114,184**	**372,991**
Income tax		**8,250**	**43,090**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**105,934**	**329,901**
Profit (loss) from discontinued operations (net)		**-**	**-**
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**105,934**	**329,901**
Profit attributable to the parent company		105,432	330,415
Profit attributable to non-controlling interests	**67**	502	(514)
BASIC EARNINGS PER SHARE	**5**	**0.050**	**0.159**
DILUTED EARNINGS PER SHARE	**5**	**0.049**	**0.157**

Consolidated statements of recognised income and expense for the years ended 31 December 2015 and 2014

(€ thousands)

	At 31/12/2015	At 31/12/2014
A) CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**105,934**	**329,901**
B) OTHER RECOGNISED NET INCOME	**(88,666)**	**213,848**
B.1) Items that will not be reclassified to profit or loss	**1,107**	**(21,199)**
1. Actuarial profit /(loss) in defined benefit pension plans	3,144	(28,837)
2. Non-current assets held for sale	-	-
3. Entities accounted for using the equity method	-	-
4. Income tax relating to items that will not be reclassified to profit or loss	(2,037)	7,638
B.2) Items that may be reclassified to profit or loss	**(89,773)**	**235,047**
1. Available-for-sale financial assets	(88,421)	325,039
1.1. Valuation gains/(losses)	340,527	1,027,008
1.2. Amounts transferred to profit and loss account	428,948	701,969
1.3. Other reclassifications	-	-
2. Cash flow hedges	(98,017)	(44,522)
2.1. Valuation gains/(losses)	(98,017)	(44,522)
2.2. Amounts transferred to profit and loss account	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-
2.4. Other reclassifications	-	-
3. Hedges of net investment in foreign operations	-	-
3.1. Valuation gains/(losses)	-	-
3.2. Amounts transferred to profit and loss account	-	-
3.3. Other reclassifications	-	-
4. Exchange differences	60,013	59,055
4.1. Valuation gains/(losses)	60,013	59,055
4.2. Amounts transferred to profit and loss account	-	-
4.3. Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1. Valuation gains/(losses)	-	-
5.2. Amounts transferred to profit and loss account	-	-
5.3. Other reclassifications	-	-
7. Entities accounted for using the equity method	2,792	(667)
7.1. Valuation gains/(losses)	2,792	(667)
7.2. Amounts transferred to profit and loss account	-	-
7.3. Other reclassifications	-	-
8. Other comprehensive income	-	-
9. Income tax relating to items that may be reclassified to profit or loss	33,860	(103,858)
C) TOTAL RECOGNISED INCOME AND EXPENSES (A+B)	**17,268**	**543,749**
C.1) Attributed to the parent company	**16,766**	**547,407**
C.2) Attributed to non-controlling interests	**502**	**(3,658)**

Consolidated statements of changes in equity for the years ended 31 December 2015 and 2014

(€ thousands)

	SHAREHOLDERS' EQUITY								
	Common Stock	**Share premium**	**Accumulated Reserves (Losses)**	**Reserves (Losses) of equity Method companies**	**Other equity instruments**	**Minus: Treasury shares**	**Profit (loss) Attributed to the parent company**	**Minus: dividends and remuneration**	**Total shareholders' equity**
Beginning balance at 01/01/2015	**1,050,384**	**7,132,590**	**3,643,812**	**(13,545)**	**643,198**	**3,458**	**330,415**	-	**12,783,396**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**1,050,384**	**7,132,590**	**3,643,812**	**(13,545)**	**643,198**	**3,458**	**330,415**	-	**12,783,396**
Total recognised income and expense	-	-	-	-	-	-	**105,432**	-	**105,432**
Other changes in equity	**32,154**	**641,965**	**184,987**	**6,079**	**(643,198)**	**18,021**	**(330,415)**	42,387	**(168,836)**
Common stock increase	11,891	-	(11,891)	-	-	-	-	-	-
Common stock decrease	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	20,263	641,965	-	-	(643,198)	-	-	-	19,030
Increases in other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	20,033	-	-	-	-	(42,387)	62,420
Transactions involving own equity instruments (net)	-	-	(889)	-	-	18,021	-	-	(18,910)
Transfers between equity items	-	-	324,336	6,079	-	-	(330,415)	-	-
Increase/decrease due to business combinations	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(106,536)	-	-	-	-	-	(106,536)
Ending balance at 31/12/2015	**1,082,538**	**7,774,555**	**3,828,799**	**(7,466)**	**-**	**21,479**	**105,432**	**42,387**	**12,719,992**

	SHAREHOLDERS' EQUITY								
	Common Stock	**Share premium**	**Accumulated Reserves (Losses)**	**Reserves (Losses) of equity Method companies**	**Other equity instruments**	**Minus: Treasury shares**	**Profit (loss) Attributed to the parent company**	**Minus: dividends and remuneration**	**Total shareholders' equity**
Beginning balance at 01/01/2014	**948,276**	**6,405,111**	**3,575,697**	**(52,648)**	**646,531**	**39**	**251,543**	-	**11,774,471**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**948,276**	**6,405,111**	**3,575,697**	**(52,648)**	**646,531**	**39**	**251,543**	-	**11,774,471**
Total recognised income and expense	-	-	-	-	-	-	**330,415**	-	**330,415**
Other changes in equity	**102,108**	**727,479**	**68,115**	**39,103**	**(3,333)**	**3,419**	**(251,543)**	-	**678,510**
Common stock increase	11,043	-	(11,043)	-	-	-	-	-	-
Common stock decrease	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	91,065	727,479	-	-	(3,333)	-	-	-	815,211
Increases in other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	16,408	-	-	-	-	-	16,408
Transactions involving own equity instruments (net)	-	-	2,599	-	-	3,419	-	-	(820)
Transfers between equity items	-	-	212,440	39,103	-	-	(251,543)	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(119,473)	-	-	-	-	-	(119,473)
Ending balance at 31/12/2014	**1,050,384**	**7,132,590**	**3,643,812**	**(13,545)**	**643,198**	**3,458**	**330,415**	**-**	**12,783,396**

Consolidated statements of changes in equity for the years ended 31 December 2015 and 2014

(€ thousands)

	SHAREHOLDERS' EQUITY				
	Total shareholders' equity	**Valuation adjustments**	**Total**	**Non-controlling interests**	**Equity**
Beginning balance at 01/01/2015	**12,783,396**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**
Adjustments due to changes in accounting policy	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**12,783,396**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**
Total recognised income and expense	**105,432**	**(88,666)**	**16,766**	**502**	**17,268**
Other changes in equity	**(168,836)**	**-**	**(168,836)**	**(3,674)**	**(172,510)**
Common stock increases	-	-	-	-	-
Common stock decreases	-	-	-	-	-
Conversion of financial liabilities into equity	19,030	-	19,030	-	19,030
Increases in other equity instruments	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	62,420	-	62,420	-	62,420
Transactions involving own equity instruments (net)	(18,910)		(18,910)		(18,910)
Transfers between equity items	-	-	-	-	-
Increases/(decreases) due to business combinations	-				
Payments with equity instruments	-	-	-	-	-
Other increases/(decreases) in equity	(106,536)	-	(106,536)	(3,674)	(110,210)
Ending balance at 31/12/2015	**12,719,992**	**(221,743)**	**12,498,249**	**16,376**	**12,514,625**

	SHAREHOLDERS' EQUITY				
	Total shareholders' equity	**Valuation adjustments**	**Total**	**Non-controlling interests**	**Equity**
Beginning balance at 01/01/2014	**11,774,471**	**(350,069)**	**11,424,402**	**51,377**	**11,475,779**
Adjustments due to changes in accounting policy	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-
Adjusted beginning balance	**11,774,471**	**(350,069)**	**11,424,402**	**51,377**	**11,475,779**
Total recognised income and expense	**330,415**	**216,992**	**547,407**	**(3,658)**	**543,749**
Other changes in equity	**678,510**	**-**	**678,510**	**(28,171)**	**650,339**
Common stock increase	-	-	-	-	-
Common stock decreases	-	-	-	-	-
Conversion of financial liabilities into equity	815,211	-	815,211	-	815,211
Increases in other equity instruments	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
Distribution of dividends	16,408	-	16,408	-	16,408
Transactions involving own equity instruments (net)	(820)	-	(820)	-	(820)
Transfers between equity items	-	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-
Other increases/(decreases) in equity	(119,473)	-	(119,473)	(28,171)	(147,644)
Ending balance at 31/12/2014	**12,783,396**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**

Consolidated cash flow statements for the years ended 31 December 2015 and 2014

(€ thousands)

	At 31/12/2015	At 31/12/2014
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,257,571**	**(2,375,424)**
1. Consolidated profit/(loss) for the year	105,934	329,901
2. Adjustments to obtain cash flows from operating activities	1,342,078	2,552,247
2.1 Depreciation and amortisation	137,753	144,530
2.2 Other adjustments	1,204,325	2,407,717
3. Net increase/decrease in operating assets	(1,846,157)	17,476,760
3.1 Financial assets held for trading	(161,768)	(250,719)
3.2 Other financial assets designated at fair value through profit and loss	24,520	147,119
3.3 Available-for-sale financial assets	(4,467,738)	13,367,742
3.4 Loans and receivables	2,592,544	4,396,813
3.5 Other operating assets	166,285	(184,195)
4. Net increase/decrease in operating liabilities	(2,208,886)	12,176,619
4.1 Financial liabilities held for trading	-	-
4.2 Other financial liabilities designated at fair value through profit or loss	(49,935)	47,987
4.3 Financial liabilities at amortised cost	(2,093,024)	12,851,390
4.4 Other operating liabilities	(65,927)	(722,758)
5. Collections/payments for income tax	172,288	42,569
B) CASH FLOWS FROM INVESTING ACTIVITIES	**601,350**	**963,780**
6. Payments	238,068	260,978
6.1 Tangible assets	72,903	41,764
6.2 Intangible assets	165,165	118,439
6.3 Investments	-	100,775
6.4 Subsidiaries and other business units	-	-
6.5 Non-current assets and associated liabilities held for sale	-	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	839,418	1,224,758
7.1 Tangible assets	146,027	107,443
7.2 Intangible assets	-	-
7.3 Investments	90,258	645,723
7.4 Subsidiaries and other business units	69,547	49,245
7.5 Non-current assets and associated liabilities held for sale	533,586	422,347
7.6 Held-to-maturity investments	-	-
7.7 Other collections related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**471,266**	**(222,281)**
8. Payments	327,214	415,297
8.1 Dividends	62,420	16,408
8.2 Subordinated liabilities	-	83,705
8.3 Amortisation of own equity instruments	-	-
8.4 Treasury Stock acquisition	121,475	196,435
8.5 Other payments related to financing activities	143,319	118,749
9. Collections	798,480	193,016
9.1 Subordinated liabilities	695,026	-
9.2 Amortisation of own equity instruments	-	-
9.3 Treasury Stock acquisition	103,454	193,016
9.4 Other payments related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	**2,330,187**	**(1,633,925)**
F) CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,192,799**	**2,826,724**
G) CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**3,522,986**	**1,192,799**
MEMORANDUM ITEM	**-**	**-**
COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR	**-**	**-**
1.1 Cash	472,868	451,251
1.2 Balance of cash equivalent in central banks	3,050,118	741,548
1.3 Other financial assets	-	-
1.4 Minus: Bank overdraft refundable on demand	-	-
Total cash or cash equivalents at end of the year	3,522,986	1,192,799
of which: held by consolidated subsidiaries but not available for the Group.	-	-

Notes to the consolidated financial statements for the year ended 31 December 2015

1. Nature of the institution

Banco Popular was incorporated on 14 July 1926, and its registered address is at Velázquez 34, Madrid. Banco Popular Español, S.A. is a private law company whose object, according to Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain. The shares of Banco Popular are listed on the four Spanish stock exchanges and are traded on the continuous market. Prior to 4 October 2013 it was also listed on the Euronext Exchange in Lisbon, this being the date on which its request to be voluntarily excluded from listings on said market became effective. The Group has also issued fixed income securities (Euronotes, preferred shares, mortgage covered bonds, securitisation bonds, subordinated bonds, etc.) which are listed on the following markets: AIAF Fixed Income Market, London Stock Exchange, Frankfurt Stock Exchange, Luxembourg Stock Exchange, Euronext Amsterdam, Euronext Lisbon and Irish Stock Exchange. Banco Popular is the parent company of a group of companies forming the Banco Popular Group. Accordingly, Banco Popular is obliged to prepare, in addition to its own individual financial statements, which are also submitted to obligatory audit, consolidated financial statements of the Group which include, as appropriate, the related investments in subsidiaries. jointly-controlled companies and the investments in associates. The companies forming the Group engage basically in financial activities and the holding and administration of property assets derived from that financial activity. The term "Banco Popular" in these consolidated financial statements refers exclusively to the parent company of the Group.

In 2015, the Group continued developing its banking activities through banks established in Spain, Portugal and the USA. The business of managing property assets and other assets in Portugal was sold off and the company, RecBus-Recovery to Business, S.A., in which the Group holds a 20% stake, was founded. Furthermore, the Group sold its 50% share Universalpay, Entidad de Pago, S.L. Conversely, the Group lost its control in Targobank, S.A. and Targoinmuebles, S.A. (Note 8).

In 2014, the card and retail business of Citibank España, S.A. was acquired and integrated into Bancopopular-e, S.A. Subsequently, 51% of Bancopopular-e, S.A. was sold to a shareholder with experience in the card management business (Note 8).

At 31 December 2015 total assets, shareholders' equity and profits for the year of Banco Popular Español, S.A. account for 94%, 96% y 129%, respectively, of the same items in the Group (94%, 96% and 144%, respectively, at 31 December 2014).

a) Individual balance sheets at 31 December 2015 and 2014

(€ thousands)

ASSETS	2015	2014
Cash and balances with central banks	**3,270,982**	**935,613**
Financial assets held for trading	**1,376,555**	**1,658,231**
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Debt securities	-	-
Other equity instruments	15,600	131,547
Trading derivatives	1,360,955	1,526,684
Memorandum item: Loaned or pledged	-	-
Other financial assets at fair value through profit and loss	-	**-**
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Debt securities	-	-
Other equity instruments	-	-
Memorandum item: Loaned or pledged	-	-
Available-for-sale financial assets	**23,087,336**	**28,152,766**
Debt securities	22,862,355	27,953,004
Other equity instruments	224,981	199,762
Memorandum item: Loaned or pledged	11,346,304	20,171,376
Loans and receivables	**107,433,775**	**107,510,877**
Loans and advances to credit institutions	9,336,295	7,046,925
Loans and advances to customers	96,803,485	98,112,177
Debt securities	1,293,995	2,351,775
Memorandum item: Loaned or pledged	27,245,625	30,396,207
Held-to-maturity investments	-	**-**
Memorandum item: Loaned or pledged	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**233,228**	**261,023**
Hedging derivatives	**464,416**	**501,293**
Non-current assets held for sale	**3,238,704**	**2,675,631**
Investments	**3,237,435**	**3,269,776**
Associates	453,438	403,267
Joint ventures	270,514	458,942
Group companies	2,513,483	2,407,567
Insurance contracts linked to pensions	**50,156**	**55,226**
Tangible assets	**335,390**	**331,235**
Property, plant and equipment	265,993	258,559
For own use	265,993	258,559
Assets assigned under operating leases	-	-
Investment property	69,397	72,676
Memorandum item: Acquired under finance leases	-	-
Intangible assets	**1,994,079**	**1,917,137**
Goodwill	1,601,065	1,601,066
Other intangible assets	393,014	316,071
Tax assets	**3,741,854**	**3,321,386**
Current	138,452	167,183
Deferred	3,603,402	3,154,203
Other assets	**313,693**	**442,352**
Inventories		-
Other	313,693	442,352
TOTAL ASSETS	**148,777,603**	**151,032,546**

LIABILITIES	2015	2014
Financial instruments held for trading	**1,157,417**	**1,312,348**
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates	-	-
Trading derivatives	1,157,417	1,312,348
Short positions	-	-
Other financial liabilities	-	-
Other financial liabilities designated at fair value through profit or loss	-	-
Deposits from central banks	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Debt certificates	-	-
Subordinated liabilities	-	-
Other financial liabilities	-	-
Financial liabilities at amortised cost	**132,395,278**	**133,952,414**
Deposits from central banks	14,204,120	8,293,422
Deposits from credit institutions	25,547,612	24,215,774
Customer deposits	77,175,653	86,471,521
Debt certificates	12,893,720	12,551,955
Subordinated liabilities	2,067,490	1,432,020
Other financial liabilities	506,683	987,722
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives	**1,832,246**	**2,094,864**
Liabilities associated with non-current assets held for sale	-	-
Provisions	**268,863**	**354,731**
Provisions for pensions and similar liabilities	97,111	138,550
Provisions for taxes and other tax contingencies	15,667	28,731
Provisions for contingent risks and commitments	136,085	186,581
Other provisions	20,000	869
Tax liabilities	**484,938**	**556,606**
Current	120,601	81,689
Deferred	364,337	474,917
Other liabilities	**584,498**	**611,137**
TOTAL LIABILITIES	**136,723,240**	**138,882,100**

EQUITY	2015	2014
Shareholders' Equity	**12,309,162**	**12,336,671**
Common Stock	1,082,538	1,050,384
Issued	1,082,538	1,050,384
Minus: Uncalled capital (-)	-	-
Share premium	7,774,555	7,132,590
Reserves	3,379,226	3,034,593
Other equity instruments	-	645,870
From compound financial instruments	-	-
Non-voting equity units and associated funds	-	-
Other equity instruments	-	645,870
Less: Treasury shares	20,954	3,458
Profit (loss) attributed to the parent company	136,184	476,692
Less: Dividends and remuneration	42,387	-
Valuation adjustments	**(254,799)**	**(186,225)**
Available-for-sale financial assets	(157,776)	(150,871)
Cash flow hedges	(91,653)	(22,893)
Hedges of net investment in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	(5,370)	(12,461)
TOTAL EQUITY	**12,054,363**	**12,150,446**
TOTAL EQUITY AND LIABILITIES	**148,777,603**	**151,032,546**
MEMORANDUM ITEM		
Contingent risks	**11,815,434**	**13,235,684**
Contingent commitments	**7,347,250**	**7,657,478**

b) Individual profit and loss statements for the years ended 31 December 2015 and 2014
(€ thousands)

	2015	2014
Interest and similar income	**3,175,750**	**3,671,436**
Interest and similar expenses	**1,315,940**	**1,862,974**
NET INTEREST INCOME	**1,859,810**	**1,808,462**
Return on equity instruments	**231,594**	**84,883**
Fee and commission income	**546,126**	**576,132**
Fee and commission expenses	**29,499**	**39,225**
Net gains (losses) on financial assets and liabilities	**516,349**	**810,096**
Financial instruments held for trading	10,985	38,728
Other financial instruments at fair value through profit and loss	-	-
Financial instruments not at fair value through profit and loss	498,981	743,814
Other	6,383	27,554
Exchange differences (net)	**37,608**	**39,350**
Other operating income	**143,719**	**136,451**
Other operating expenses	**138,546**	**149,528**
GROSS INCOME	**3,167,161**	**3,266,621**
Administration Costs	**1,228,471**	**1,311,739**
Personnel expenses	724,859	720,656
Other general administrative expenses	503,612	591,083
Depreciation and amortisation	**105,075**	**110,745**
Provisioning expense (net)	**(31,440)**	**(51,162)**
Impairment losses on financial assets (net)	**1,513,626**	**1,126,749**
Loans and receivables	1,480,580	1,117,389
Other financial instruments not at fair value through profit and loss	33,046	9,360
NET OPERATING INCOME	**351,429**	**768,550**
Impairment losses on other assets (net)	**131,927**	**81,418**
Gains (losses) on disposal of assets not classified as non-current held for sale	**63,804**	**327,961**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**(212,545)**	**(387,635)**
PROFIT/(LOSS) BEFORE TAX	**70,761**	**627,458**
Income tax	**(65,423)**	**150,766**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**136,184**	**476,692**
Profit (loss) from discontinued operations (net)	-	-
PROFIT/(LOSS) FOR THE YEAR	**136,184**	**476,692**
BASIC EARNINGS PER SHARE	**0.064**	**0.230**
DILUTED EARNINGS PER SHARE	**0.063**	**0.226**

c) Individual statements of recognised income and expense for the years ended 31 December 2015 and 2014

(€ thousands)

	2015	2014
PROFIT/(LOSS) FOR THE YEAR	**136,184**	**476,692**
OTHER RECOGNISED NET INCOME	**(68,574)**	**113,586**
B.1) Items that will not be reclassified to profit or loss	**7,091**	**(7,082)**
Actuarial profit /(loss) in defined benefit pension plans	10,130	(10,117)
Non-current assets held for sale	-	-
Income tax relating to items that will not be reclassified to profit or loss	(3,039)	3,035
B.2) Items that may be reclassified to profit and loss	**(75,665)**	**120,668**
Available-for-sale financial assets	**(9,864)**	**215,804**
Valuation gains/(losses)	438,804	935,910
Amounts transferred to profit and loss account	448,668	(720,106)
Other reclassifications	-	-
Cash flow hedges	**(98,229)**	**(43,421)**
Valuation gains/(losses)	(98,229)	(43,421)
Amounts transferred to profit and loss account	-	-
Amounts transferred at initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedges of net investment in foreign operations	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Exchange differences	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Non-current assets held for sale	**-**	**-**
Valuation gains/(losses)	-	-
Amounts transferred to profit and loss account	-	-
Other reclassifications	-	-
Other comprehensive income	**-**	**-**
Income tax	**32,428**	**(51,715)**
TOTAL RECOGNISED INCOME AND EXPENSE	**67,610**	**590,278**

d) Individual statements of changes equity for the years ended 31 December 2015 and 2014

(€ thousands)

	SHAREHOLDERS' EQUITY									
	Common Stock	**Share premium**	**Accumulated Reserves (Losses)**	**Other equity instru-ments**	**Minus: Treas-ury shares**	**Profit (loss) Attributed to the parent company**	**Minus: divi-dends and remuner-ation**	**Total sharehold-ers' equity**	**Valuation adjust-ments**	**Total**
Beginning balance at 01/01/2015	**1,050,384**	**7,132,590**	**3,034,593**	**645,870**	**3,458**	**476,692**	**-**	**12,336,671**	**(186,225)**	**12,150,446**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**1,050,384**	**7,132,590**	**3,034,593**	**645,870**	**3,458**	**476,692**	**-**	**12,336,671**	**(186,225)**	**12,150,446**
Total recognised income and expense	-	-	-	-	-	**136,184**		**136,184**	**(68,574)**	**67,610**
Other changes in equity	**32,154**	**641,965**	**344,633**	**(645,870)**	**17,496**	**(476,692)**	**42,387**	**(163,693)**	**-**	**(163,693)**
Common stock increases	11,892	-	-	-	-	-	-	11,892		11,892
Common stock decreases	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	20,262	641,965	-	(645,870)	-	-	-	16,357	-	16,357
Increases in other equity instruments	-	-	-	-	-	--	-	-		-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	(42,387)	42,387		42,387
Transactions involving own equity instruments (net)			(7,926)	-	17,496	-	-	(25,422)	-	(25,422)
Transfers between equity items	-	-	491,692	-	-	(476,692)	-	15,000	-	15,000
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(139,133)	-	-	-	-	(139,133)	-	(139,133)
Ending balance at 31/12/2015	**1,082,538**	**7,774,555**	**3,379,226**	-	**20,954**	**136,184**	**42,387**	**12,309,162**	**(254,799)**	**12,054,363**

SHAREHOLDERS' EQUITY										
	Common Stock	Share premium	Accumulated Reserves (Losses)	Other equity instru-ments	Minus: Trea-sury shares	Profit (loss) Attributed to the parent company	Minus: dividends and remune ration	Total sharehold-ers' equity	Valuation adjust-ments	Total
Beginning balance at 01/01/2014	**948,276**	**6,405,111**	**2,861,297**	**649,167**	**-**	**281,426**	**-**	**11,145,277**	**(299,811)**	**10,845,466**
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-
Adjusted beginning balance	**948,276**	**6,405,111**	**2,861,297**	**649,167**	**-**	**281,426**	**-**	**11,145,277**	**(299,811)**	**10,845,466**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**476,692**	**-**	**476,692**	**113,586**	**590,278**
Other changes in equity	**102,108**	**727,479**	**173,296**	**(3,297)**	**3,458**	**(281,426)**	**-**	**714,702**	**-**	**714,702**
Common stock increases	94,117	648,649	-	-	-	-	-	742,766	-	742,766
Common stock decreases	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	7,991	78,830	-	(3,297)	-	-	-	83,524	-	83,524
Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-
Transactions involving own equity instruments (net)	-	-	(18,771)	-	3,458	-	-	(22,229)	-	(22,229)
Transfers between equity items	-	-	281,426	-	-	(281,426)	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-
Payments with equity instruments	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	(89,359)	-	-	-	-	(89,359)	-	(89,359)
Ending balance at 31/12/2014	**1,050,384**	**7,132,590**	**3,034,593**	**645,870**	**3,458**	**476,692**	**-**	**12,336,671**	**(186,225)**	**12,150,446**

e) Individual cash flow statements for the years ended 31 December 2015 and 2014

(€ thousands)

	2015	2014
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,537,492**	**(1,759,951)**
1. Consolidated profit/(loss) for the year	**136,184**	**476,692**
2. Adjustments to arrive at cash flow from operating activities	**1,536,287**	**2,316,828**
2.1 Depreciation and amortisation	105,075	110,745
2.2 Other adjustments	1,431,212	2,206,083
3. Net increase/decrease in operating assets	**(1,136,926)**	**17,092,792**
3.1 Financial instruments held for trading	(115,947)	412,063
3.2 Other financial assets at fair value through profit and loss	-	-
3.3 Available-for-sale financial assets	(4,956,554)	11,658,573
3.4 Loans and receivables	4,106,429	5,235,287
3.5 Other operating assets	(170,854)	(213,131)
4. Net increase/decrease in operating liabilities	**(1,206,482)**	**12,388,555**
4.1 Financial instruments held for trading	-	419,167
4.2 Other financial liabilities designated at fair value through profit or loss	-	-
4.3 Financial liabilities at amortised cost	(656,090)	12,156,777
4.4 Other operating liabilities	(550,392)	(187,389)
5. Collections/payments for income tax	**(65,423)**	**150,766**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**238,767**	**670,201**
6. Payments	**289,523**	**111,344**
6.1 Tangible assets	38,455	13,425
6.2 Intangible assets	71,658	97,919
6.3 Investments	-	-
6.4 Subsidiaries and other business units	-	-
6.5 Non-current assets and associated liabilities held for sale	179,410	-
6.6 Held-to-maturity investments	-	-
6.7 Other payments related to investing activities	-	-
7. Collections	**528,290**	**781,545**
7.1 Tangible assets	28,990	2,929
7.2 Intangible assets	-	-
7.3 Investments	96,849	778,616
7.4 Subsidiaries and other business units	-	-
7.5 Non-current assets and associated liabilities held for sale	402,451	-
7.6 Held-to-maturity investments	-	-
7.7 Other collections related to investing activities		-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**559,110**	**(98,681)**
8. Payments	**204,792**	**317,176**
8.1 Dividends	42,387	42,476
8.2 Subordinated liabilities	-	100,303
8.3 Amortisation of own equity instruments	-	-
8.4 Treasury Stock acquisition	115,256	174,397
8.5 Other payments related to financing activities	47,149	-
9. Collections	**763,902**	**218,495**
9.1 Subordinated liabilities	641,352	-
9.2 Issue of own equity instruments	28,249	47,556
9.3 Disposal of own equity instruments	94,301	170,939
9.4 Other payments related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**2,335,369**	**(1,188,431)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**935,613**	**2,124,044**
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**3,270,982**	**935,613**
MEMORANDUM ITEM		-
COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR		-
1.1 Cash	386,369	361,656
1.2 Balance of cash equivalent in central banks	2,884,613	573,957
1.3 Other financial assets		-
1.4 Minus: Bank overdraft refundable on demand	-	-
Total cash or cash equivalents at end of the year	**3,270,982**	**935,613**

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The accompanying consolidated financial statements of the Banco Popular Group are presented in accordance with International Financial Reporting Standards adopted by the European Union (IFRS - EU). In order to adapt the accounting system of Spanish credit institutions to the aforementioned regulations, Banco de España issued Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions, expressly stating that its purpose was to modify the accounting system of such entities with the adaptation to the accounting environment arising from the adoption of the International Financial Reporting Standards by the European Union, in order to make this Circular fully compatible with regard to the underlying conceptual framework. Circular 4/2004 has been obligatorily applicable since 1 January 2005, to the individual financial statements of Spanish credit institutions.

International Financial Reporting Standards are a set of standards changing over time in order to adapt to the economic and financial reality.

As of 22 January 2016, the Banco de España has issued a Draft Circular that updates Annex IX of Circular 4/2004 of 22 December on public and confidential financial reporting rules and financial statement formats, and Circular 1/2013 of 24 May on the Risk Information Centre. This draft is currently in the public consultation stage until 19 February 2016. As of the date of the preparation of these consolidated financial statements, the Group is awaiting the final version of said Circular, at which point it will begin its analysis on the adaptation of its policies, procedures and controls with regard to the new requirements specified by the Circular.

Compulsory standards, amendments and interpretations for the Group on all financial years beginning on or after 1 January 2015.

Annual Improvements to IFRS, 2011–2013 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2011-2013 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 1 January 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 3, “Business Combinations”: Scope exceptions for joint ventures.
- IFRS 13, "Fair value measurement": Scope of “portfolio exception” available in IFRS 13.
- IAS 40, “Investment property” Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The application of these amendments has not had any effect on these consolidated financial statements of the Group.

Standards, amendments and interpretation yet to enter into force but may be adopted in advance for financial years beginning on or after 1 January 2015.

Annual Improvements to IFRS, 2010-2012 Cycle: In December 2013, the IASB published the Annual Improvements to IFRS for the 2010-2012 Cycle. The amendments included in these Annual Improvements generally apply to annual periods beginning on or after 01 February 2015, although early adoption is allowed. The most relevant amendments refer to:

- IFRS 2, "Share-based payments" Definition of "vesting condition".
- IFRS 3, “Business Combinations”: Accounting for a contingent consideration in a business combination.
- IFRS 8, "Operating segments" Information to be disclosed on aggregation of operating segments and reconciliation of the total of the reportable segments’ assets to the entity’s assets.
- IFRS 13, "Fair value measurement": Guidance related to the measurement of short-term receivables and payments at invoice amount when the effect of the discount is not material.

- IAS 16, "Property, plant and equipment", and IAS 38, "Intangible assets": Revaluation method—proportionate restatement of accumulated depreciation and amortisation.
- IAS 24, "Related Party Disclosures": Entity providing KMP services as a related party.

With its analysis still on-going, adaptation is not expected to have significant impact on the Group and early adoption is not considered necessary.

IAS 19 (Amendment) "Defined benefit plans: Employee contributions": IAS 19 (revised in 2011) distinguishes between employee contributions relating to the service provided and those not linked to the service. This amendment applies to financial years beginning on or after 1 February 2015 and is retrospective in application. Early adoption is allowed.

This amendment is not expected to have an impact on the Group's consolidated financial statements, as it does not affect the defined benefit plans of the Bank.

Improvement Project, 2012-2014 Cycle: The amendments relate to IFRS 5, IFRS 7, IAS 19 and IAS 34, and apply to the annual periods beginning on or after 1 July 2016, subject to adoption by the EU. The most relevant amendments refer to:

- IFRS 5, "Non-current assets held for sale and discontinued operations": Changes in disposal methods.
- IFRS 7 "Financial Instruments: Disclosures": Continuing involvement in administrative contracts.
- IAS 19, "Employee benefits": Determining the discount rate for post-employment benefit obligations.
- ·IAS 34, "Interim financial reporting": Disclosure of information elsewhere in the interim financial report.

These amendments are not expected to have a significant impact on the Group's consolidated financial statements.

IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of acceptable methods of depreciation and amortisation"

These amendments will not have a significant impact on the Group's consolidated financial statements.

Standards, amendments and interpretations to current standards that cannot be adopted early or that have not been adopted by the European Union.

- IFRS 14, "Regulatory Deferral Accounts".
- IFRS 11 (Amendment) "Accounting for acquisition of interests in joint operations": Requires application of the principals of business combination accounting to an investor who acquires an interest in a joint operation that constitutes a business.
- IFRS 15, "Revenue from contracts with customers": In May 2014, the IASB and the FASB jointly issued a convergent standard in relation to recognition of revenue from contracts with customers.
- IAS 27 (Amendment), "Equity method in separate financial statements": IAS 27 is amended to re-establish the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- ·IFRS 10 (Amendment) and IAS 28 (Amendment) "Sales or contributions of assets between an investor and its associate/joint venture": These amendments clarify the accounting requirements for sales or contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business".

These new standards and amendments are not expected to have a significant impact on the Group's consolidated financial statements.

IAS 1 (Amendment) "Disclosure initiative": Amendments to IAS 1 encourage companies to apply professional judgement in determining what information to disclose in the financial statements.

The amendments to IAS 1 can be applied immediately, and are mandatory for annual periods beginning on or after 1 January 2016.

IFRS 9 "Financial Instruments": It will replace IAS 39 in the future. IFRS 9, whose final version was published in July 2014, establishes important differences in relation to the current standard; the most relevant are:

- IFRS 9 maintains but simplifies the mixed valuation model and sets out three main valuation categories for financial assets: amortised cost, fair value through profit and loss, and fair value through other comprehensive income. The classification depends on the business model of the entity and the characteristics of the contractual cash flow of the financial asset. Equity instruments will be valued at fair value through profit and loss with the irrevocable option at initial recognition to submit variations at a non-recyclable fair value through other comprehensive income, i.e. such variations will not be made through profit and loss upon sale of the instrument, provided said instrument is not held for trading. If the instrument is held for trading, the variations in the fair value will be directly presented in profit and loss.

As for financial liabilities, there are no changes to their classification and valuation, except in relation to liabilities under fair value through profit and loss whereby changes attributable to the credit risk will be presented in "other comprehensive income".

- Under IFRS 9, there is a new impairment loss model, the expected credit loss model, which replaces the incurred losses of IAS 39. It establishes three categories at the moment of classifying risks and the need to cover its expected losses: The first category encompasses the healthy or low risks, for which expected losses for 12 months are calculated; the second category relates to risks that have had a significant increase in risk, for which the expected losses over the instrument's lifetime are calculated; the third category comprises credit-impaired assets, on which the expected lifetime losses are applied and the accrued interest on the book value is calculated.

This change, in addition to being technically complex, requires an extensive accounting analysis which may lead to operational repercussions and the adaptation of systems.

- IFRS 9 relaxes the requirements on the effectiveness of hedging in attempting to align accounting treatment with financial risk management. Under IAS 39, a hedge must by highly effective in both its prospective and retrospective aspects. IFRS 9 replaces this obligation and requires a financial connection between the hedged item and the hedging instrument as well as the hedged ratio be the same as the entity actually uses in its risk management. Contemporaneous documentation remains necessary but is different from what was prepared under IAS 39.
- Extensive information is required, including reconciliation between the opening and closing amounts of the provision for expected credit losses, hypotheses and data, as well as reconciliation on the transition from the original IAS 39 categories to the new IFRS 9 categories.

IFRS 9 will take effect for financial years beginning on or after 1 January 2018, although early adoption is allowed. The EU has yet to adopt it. IFRS 9 will apply retroactively but does not require that comparative figures be restated. If an entity opts for early adoption of IFRS 9, it will have to apply all requirements from that moment. Entities that apply the standard prior to 1 February 2015 retain the option of a phased introduction of the standard.

As of this date, the Group is analysing all future effects of the adoption of this standard and, a priori, it is not possible to provide a reasonable estimate as to its financial impact until the completion of the analysis.

- With regard to the classification of the financial assets under the new categories, we consider it will have a certain impact on the balance sheet, depending on the characteristics of the cash flows rather than on the business model. The assets will be considered at fair value through profit and loss instead of at amortised cost as they currently are, taking into account that it will not be necessary to calculate the expected losses of the products considered in said portfolio.

- The greatest impact, which we consider of importance, is in relation to the new system of calculating provisions for expected losses rather than incurred losses. The BPE Group has identified three sub-projects and is attempting to profit from the contributions of already completed work:
  - o Automatic identification of triggers for determining the existence of significant risk increases, currently in progress.
  - o Individual analysis of major recognised triggers. Continue increasing the amount of analysed exposure under individual analysis and the automation of such analyses.
  - o Calculation of expected loss for collective models, which the Group intends to conduct in 2016.

IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) "Investment entities: Applying the consolidation exception": These amendments clarify features on the application of the requirement on investment entities to value subsidiaries at fair value instead of consolidating them. They take effect for financial years beginning on or after 1 January 2016, although early adoption is allowed.

The Group assessed these amendments and do not expect any impact on the consolidated financial statements.

IFRS 16 "Leases": On January 2016, the IASB published a new standard on leases, repealing IAS 17 "Leases"; it was the result of a joint project with the FASB.

Under IFRS-IASB, IFRS 16 is compulsory from 1 January 2019, with the option of early adoption but only if IFRS 15 "Revenue from contracts with customers" is applied at the same time. The EU has yet to adopt IFRS 16.

The Group is analysing the possible impact of this standard on the Group's consolidated financial statements, in the event it is adopted by the European Union. We foresee that it will affect approximately 88% of our fixed installations as they are currently under lease, whether it is a regular lease or on sale and lease-back. Therefore, we believe that it will have a significant upward effect within the PP&E section of the balance sheet, although the impact will not be so great on the consolidated balance sheet as a whole.

IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses": This amendment clarifies how to account for deferred tax assets relating to investments in debt instruments that are recognised at fair value.

The amendment will take effect for financial years beginning on or after 1 January 2017, although early adoption is allowed. As a general rule, it will apply retrospectively. Nonetheless, on the date of the amendment's initial application, there is the option to recognise the change to the shareholders' equity for the comparative period in the opening balance of the retained earnings.

If it is adopted by the European Union, the application of this standard is not likely to have a significant impact on the Group.

In 2014 standards and interpretations issued by the International Standards Accounting Board came into effect, which amended the following standards:

Interpretation of IFRIC 21 - "Levies". In 2014, the EU adopted Regulation (EC) 634/2014, which reflects IFRIC 21 on Levies, applicable and effective from the 01/01/2015, although it allowed early adoption. The Group opted for its early adoption.

It is an interpretation of IAS 37 "Provisions, contingent liabilities and contingent assets", which establishes that the levy should be recorded when the implicit obligation arises, regardless of the time of its settlement.

Note 3.a) explains its effect on the Group.

In this context, the following standards and amendments were approved by the IASB on 1 January 2013 and adopted by Regulation (EU) 1254/2012 of 11 December of the European Parliament and of the Council, setting mandatory adoption for 1 January 2014:

- IFRS 10 "Consolidated financial statements". The definition of control is widened, requiring the analysis of the facts and specific circumstances of each possible Group entity.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IFRS 11 "Joint arrangements". Among the changes made, for joint ventures, the choice between proportionate consolidation and the equity method of consolidation is no longer permitted, with the latter being applied.

  Reference is made to the impact of having to apply the IFRS 11 standard to the consolidated balance sheet and the consolidated income statement for the Group in Note 2d). The impact was not considered significant in relation to the financial statements of the Group.

- IFRS 12 "Disclosure of interests in other entities". This presents in a single standard all reporting requirements related to investments in subsidiaries, joint ventures, associates and unconsolidated structured entities.

  Its adoption has not had a significant impact on the Group's consolidated financial statements.

Furthermore, during 2014, the following standards and amendments came into force:

- IAS 27 (Amendment), "Separate financial statements". Owing to inclusion of part of this standard in new IFRS 10.
  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IAS 28 (Amendment) "Investments in associates and joint ventures". Updated to include references to joint ventures in agreement with the new IFRS 11.
  Its adoption has not had a significant impact on the Group's consolidated financial statements.

- IAS 32 (Amendment) "Offsetting financial assets and financial liabilities", issued by the IASB in December 2011, amends the Implementation Guidance for point 42 of the standard to clarify a number of requirements in order to offset financial assets against financial liabilities in the balance sheet.

  The content of this clarification has not required any amendments to the treatment of Banco Popular Group's transactions.

- IAS 36 (Amendment) "Impairment of assets", refers to the information to be disclosed regarding the recoverable amount for impaired assets where the recoverable amount is based on the fair value minus the costs of selling or disposing of such assets by another means.
  This amendment had no impact on the 2014 consolidated financial statements.

- IAS 39 (Amendment) "Financial instruments - Novation of derivatives and continuation of hedge accounting", which introduces an exemption of limited scope on the disruption in hedge accounting when a derivative that has been designated as a hedge instrument is novated to a central counterparty clearing house.

  The Group did not carry out any transaction that involved a change in a balancing entry since implementation of the amendment and, therefore, there was no impact on these consolidated financial statements.

Consequently, the included consolidated financial statements were prepared from the accounting records of the entities of the Group and in accordance with the provisions of the IFRS-EU, whereby they present a fair and true image of the Group's consolidated shareholders' equity and consolidated financial situation as of 31 December 2015 and 2014, as well as of its consolidated operation results, changes in the consolidated equity and the consolidated cash flows for said financial years.

There is no obligatory principle, accounting standard or valuation policy having a material effect that has not been applied in preparing these financial statements. A summary of the most significant accounting principles, standards and valuation procedures that have been used in these consolidated financial statements is provided in Note 15. These consolidated financial statements comply in full with the provisions of EU-IFRS and do not contain any relevant deviations from the requirements of Circular Letter 4/2004 and subsequent updates thereof.

b) Preparation and responsibility for information

Banco Popular Group's consolidated financial statements for 2015 were prepared by the Directors of Banco Popular at the meeting of the Board of Directors of 10 February 2016 and have yet to be approved by its General Shareholders' Meeting. They are expected to be approved without significant changes. The information contained in these consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A. Except as otherwise mentioned, such information is presented in thousands of euros.

c) Consolidation principles

During the 2015 financial year, there was no significant change to standards that affected the scope of consolidation of the Group.

The entry into force in 2014 of IFRS 10, IFRS 11 and IFRS 12 did not result in changes to the scope of consolidation as the Group held no stake for which the implementation of the new criteria on determining the existence of control would have led to its inclusion in the Group's scope, although it led to changes in the consolidation method because certain subsidiaries were then consolidated by the equity method instead of the proportionate consolidation method. The effect of this change is not significant in the consolidated financial statements.

The Group was defined in accordance with IFRS-EU and Banco de España Circular 4/2004, of 22 December, which adapts that legislation to Spanish credit institutions and Spanish legislation. Investee Companies are all the subsidiary companies, joint ventures and associates.

Subsidiaries

Investee companies that constitute a decision-making unit with Banco Popular, which are those over which the Bank has, directly or indirectly through another or other investee companies, capacity to exercise control, are subsidiaries.

Companies are only considered to exert control when they meet the following requirements:

a) exertion of power over the investee

b) exposure, or right, to variable returns as a result of their involvement in the investee

c) ability to use their power over the investee to influence the investor's amount of income

Royal Decree Law 4/2014 of 8 March 2014 extended through 2014 the applicability of the provisions of section 1 of Additional Provision 1 of Royal Decree Law 10/2008 of 12 December in relation to the calculation of losses from the impairment of property assets in the event of the mandatory reduction of share capital in public limited companies and the dissolution of public and private limited companies. The above provisions were renewed for 2013 under Royal Decree Law 3/2013 of 22 February.

Although Royal Decree Law 4/2014 was in force on 31 December 2014, there was no corresponding renewal for the 2015 financial year. The Group shall adopt the relevant measures to ensure that the various companies suitably fulfil the provisions of the Corporate Enterprises Act.

On the level of individual financial statements, the necessary adjustments of 575,069 thousand euros were made to investments in subsidiaries which were eliminated in the consolidated process. To reconstruct the shareholders' equity of subsidiaries, finance transactions to existing subsidiaries were converted into equity loans for the amount of 2,387,800 thousand euros.

2015

In March 2015, with the backing of a portfolio of loans, the asset securitisation fund, IM Grupo Banco Popular Empresas VI, was formed, which issued bonds totalling 3,000 million euros. Popularcompras, S.L.U. and Limatesa Gestión de Servicios Integrales, S.L. were incorporated in July and October respectively. Both instrumental companies are wholly owned by Banco Popular Español. In December, with the backing of a portfolio of loans, the asset securitisation fund, IM Grupo Banco Popular MBS 3, FTA, was formed, which issued bonds totalling 900 million euros.

With regard to disposals in July, the asset securitisation funds, IM Banco Popular FPYME I FTA and IM Grupo Banco Popular FTPYME II FTA, were liquidated following the amortisation of their issued bonds.

In October, the instrumental company, Inmobiliaria Viagracia, S.A., absorbed the instrumental companies, Centro de Análisis y Reclamaciones de Incumplimientos, S.A., Naviera Islas Cíes, S.L. and Naviera Cañada,S.L. as well as the holding and services companies, Pastor Privada Eólica 2 S.L. and Pastor Privada Eólica 3 S.L., following the acquisition of 100% of shares in those companies by Banco Popular Español. Likewise in November, Aliseda SAU took over the company, Residencial Valdemar, in which Banco Popular Español had held a 100% stake.

2014

In April 2014, the subsidiary Fundo Popular Predifundo was included in the scope of consolidation; Banco Popular Group holds a 62.62% stake in this real-estate fund located in Portugal, with a portfolio value of 8,346 thousand euros.

In June 2014, pursuant to the agreement to purchase the card and retail business of Citibank España, 100% of Citi Mediador, A.I.E., Citi Recovery, S.A.U.and securitisation vehicle IM Tarjetas 1, F.T.A. were acquired by Bancopopular-e S.A. The first two changed their name to Popular-e Cobros A.I.E and the second to Popular-e Operador de Banca Seguros Vinculado, S.A.U.

On 30 September 2014, the final agreement for the sale of 51% of Bancopopular-e, S.A. was signed, including the aforementioned companies (Popular-E Cobros A.I.E., Popular-e Operador de Banca Seguros Vinculado, S.A.U. and securitisation vehicle IM Tarjetas 1, FTA). Prior to this date, both Bancopopular-e, S.A. and its companies had been considered subsidiaries and consolidated within the Banco Popular Group under the full consolidation method. From September 2014, Bancopopular-e S.A. became a joint venture, as did its subsidiaries and are now accounted for using the equity method.

In December 2014, 51% of Hercepopular, S.L. a real estate company, was purchased for a sum of €3,231 thousand.

As regards derecognition, the bonds vehicle IM Cédulas Grupo Banco Popular 1, F.T.A. was liquidated on account of its legal maturity in February, as was IM Cédulas Grupo Banco Popular 5 F.T.A. in May. In June, the real estate company Finisterre, S.A. was derecognised from the scope of consolidation due to its sale. Furthermore, in June, due to the sale of rights to future receivables from marketing pensions plans and home insurance, prior to the conversion of the instrumental company Popular Cards S.A. into Inversiones Colina S.A., its sale was completed, with the Group retaining 1% of its capital. In July, PBP Cartera Premium S.I.C.A.V. S.A. was derecognised from the scope of consolidation due to its sale.

Subsidiary companies were consolidated using the proportionate consolidation method. Consequently all material balances and transactions between these companies and the other companies in the Group have been eliminated in consolidation. Similarly, third-party holdings in the Group's shareholders' equity are presented under Non-controlling Interests on the consolidated balance sheet and the part of results for the year attributable to them is presented under Results attributable to non-controlling interests in the consolidated income statement.

The results of the entities acquired by the Group during the year are consolidated taking into account only those results for the period between the date of acquisition and year end. Similarly, the results generated by the entities sold by the Group in the year are consolidated taking into account only those results for the period running from the beginning of the year to the date of sale.

The financial statements of the companies added to the Group's consolidation related in all cases to 31 December 2015 and 2014, respectively.

The information on investments in subsidiaries as of 31 December 2015 and 2014, is as follows:

At 31 December 2015	**Address**		**Activity**
Deposit-taking institutions:			
Banco Pastor, S.A.U.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financial Companies:			
Popular de Factoring, S.A.	María de Molina, 39	Madrid	Factoring
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Popular Servicios Financieros E.F.C., S.A.	Canton Pequeño,1	La Coruña	Finance special purpose entity
Sobrinos de José Pastor Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Instrumental companies:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
BPE Preference International, Ltd.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Consulteam Consultores de Gestão, Lda.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
EDT FTPYME Pastor 3	Lagasca, 120	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Fundo Popular Predifundo	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Service instrumental
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity
Hercepopular S.L.	Plaza de Europa, 3	Guadalajara	Real estate development
IM Banco Popular MBS 2, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 5, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 6, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME I, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund

At 31 December 2015	Address		Activity
IM Grupo Banco Popular MBS 3, FTA	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Angeles, Getafe	Madrid	Service instrumental
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Limatesa Gestión de Servicios Integrales, S.L.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popularcompras, S.L.U.	J. Ortega y Gasset, 29	Madrid	Internet retail trade
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance brokerage
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Gestora Inmobiliaria La Toja, S.A.	Isla de la Toja	Pontevedra	Real estate development
Inti Entertainment	Santo Tomás de Villanueva, 2A	Santa Cruz Tenerife	Cinematography
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Deposit-taking institutions:							
Banco Pastor, S.A.U.	100.00	-	100.00	605,946	11,579,539	618,950	39,878
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	9,138,108	755,415	13,347
Popular Banca Privada, S.A.	92.50	7.50	100.00	62,989	969,323	71,722	8,416
TotalBank	100.00	-	100.00	266,377	2,406,927	233,835	14,271
Financial Companies:							
Popular de Factoring, S.A.	100.00	-	100.00	45,818	761,766	96,112	7,291
Popular Factoring, S.A. (Portugal)	99.83	-	99.83	36,840	154,624	36,906	2,634
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	2,282	20,611	5,563	4,147
Grupo La Toja Hoteles	90.00	-	90.00	58,455	66,984	64,670	(606)
Pastor Privada Investment 1, S.L.	-	5.00	5.00	247	4,956	4,956	-
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	11,883	(533)	(141)
Pastor Privada Investment 3, S.L.	-	5.00	5.00	72	1,434	1,434	-
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	8,126	6,775	1,276
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	42,960	36,629	(944)
Popular Gestão de Activos, S.A.	100.00	-	100.00	1,623	1,739	1,623	117
Popular Gestión Privada SGIIC, S.A.	-	100.00	100.00	4,006	9,204	7,221	273
Popular Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,846	255,274	23,381	2,932
Sobrinos de José Pastor Inversiones, S.A.	100.00	-	100.00	-	18,404	(16,140)	(34)
Instrumental companies:							
Aliseda, S.A.	100.00	-	100.00	-	4,712,783	(1,018,540)	(165,730)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,105,008	490	323
BPE Preference International, Ltd.	100.00	-	100.00	52	8,435	72	20
BPE Representações y Participações, Ltda.	100.00	-	100.00	120	242	290	43
BPP Asesores S.A.	77.30	22.70	100.00	172	195	(573)	(493)
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	-	693,095	(299,214)	(46,347)
EDT FTPYME Pastor 3	100.00	-	100.00	-	39,711	(1,205)	(119)
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finespa, S.A.	4.19	95.81	100.00	8,058	10,795	10,261	1,744
Fondo Imopopular, FEIIF	90.00	10.00	100.00	20,976	23,033	20,162	(974)
Fundo Popular Predifundo	-	99.96	99.96	7,713	10,944	7,628	(124)
GC FTPYME Pastor 4	100.00	-	100.00	-	71,143	108	80
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	15,051	(25,357)	(118)
Gold Leaf Title Company	-	100.00	100.00	256	1,396	1,117	222
Hercepopular S.L.	-	51.00	51.00	2,840	110,037	7,675	1,177
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	532,927	5,152	(658)
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,222,475	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	192,605	4,404	(1,013)
IM Grupo Banco Popular Empresas 5, FTA	100.00	-	100.00	-	854,385	40,230	1,682
IM Grupo Banco Popular Empresas 6, FTA	100.00	-	100.00	-	2,393,337	8,383	8,383
IM Grupo Banco Popular FT PYME I, FTA	100.00	-	100.00	-	276,391	5,679	(1,740)
IM Grupo Banco Popular MBS 3, FTA	100.00	-	100.00	-	928,905	54	54
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,843	115,714	109,520	1,853
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	1,203	4,497	1,753	776
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,566	322,340	88,214	519
Inversiones Inmobiliarias Canvives, S.A.	100.00	-	100.00	157,977	2,925,713	161,935	(4,530)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	82,437	(24,566)	42
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	19,101	(10,578)	927
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	27,519	(10,982)	23
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	-	61,352	(3,191)	(411)
Isla de los Buques, S.A.	99.98	0.02	100.00	61	375,070	1,312	1

At 31 December 2015	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Limatesa Gestión de Servicios Integrales, S.L.	100.00	-	100.00	2	3	3	-
Manberor, S.A.	-	100.00	100.00	-	37,846	(89,099)	(51,647)
Meglahe, S.A.	-	100.00	100.00	49	47	47	(2)
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	13,269	864	221
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.42	15.58	100.00	51,485	51,079	50,836	(1,785)
Popular Capital, S.A.	90.00	10.00	100.00	90	108,856	431	232
Popularcompras, S.L.U.	100.00	-	100.00	2	2	2	(1)
Popular de Mediación, S.A.	100.00	-	100.00	2,210	5,410	2,208	123
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	18	1	1
Read Leaf Holding	100.00	-	100.00	59,818	74,061	59,818	(1,328)
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,553	13,540	44
Velázquez 34, S.A.	97.80	2.20	100.00	-	46,038	(14,247)	(2,544)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	3,326	(721)	(308)
Eurovida, S.A. (Portugal)	84.07	15.94	100.00	87,040	992,572	103,760	11,366
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	6,360	2,049	785
General de Terrenos y Edificios, S.L.	100.00	-	100.00	14,029	47,565	13,905	(2,608)
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	2,193	1,979	545
Inti Entertainment	-	99.89	99.89	850	612	598	(253)
La Toja, S.A.	-	-	-	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	13,290	178,857	38,805	459
Popular de Renting, S.A.	100.00	-	100.00	3,005	72,400	5,485	1,793
Popular Seguros, S.A.	-	100.00	100.00	7,500	18,480	10,513	753
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	651	651	(3)
Vilamar Gestión, S.L.	-	100.00	100.00	-	166,217	(17,957)	(8,267)

* For subsidiaries with their own funds in negative figures, the existing bank financing was converted into equity loans.

At 31 December 2014	Address		Activity
Deposit-taking institutions:			
Banco Pastor, S.A.U.	Cantón Pequeño, 1	La Coruña	Banking
Banco Popular Portugal, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Banking
Popular Banca Privada, S.A.	J. Ortega y Gasset, 29	Madrid	Banking
TotalBank	2720 Coral Way	Miami	Banking
Financial Companies:			
Popular de Factoring, S.A.	María de Molina, 39	Madrid	Factoring
Popular Factoring, S.A. (Portugal)	Rua Castilho, 39	Lisbon	Factoring
Holding and services companies:			
Gestora Popular, S.A.	J. Ortega y Gasset, 29	Madrid	Portfolio and holding company
Grupo La Toja Hoteles	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Eólica 2, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Eólica 3, S.L.	J. Ortega y Gasset, 29	Madrid	Wind energy
Pastor Privada Investment 1, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 2, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Pastor Privada Investment 3, S.L.	Cantón Pequeño, 1	La Coruña	Holding company
Popular Bolsa S.V., S.A.	Josefa Valcárcel, 36	Madrid	Stockbroker
Popular de Participaciones Financieras, S.A.	J. Ortega y Gasset, 29	Madrid	Venture capital company
Popular Gestão de Activos, S.A.	Rua Ramalho Ortigao, 51	Lisbon	Investment fund management
Popular Gestión Privada SGIIC, S.A.	J. Ortega y Gasset, 29	Madrid	Investment fund management
Popular Servicios Financieros E.F.C., S.A.	Canton Pequeño,1	La Coruña	Finance special purpose entity
Sobrinos de José Pastor Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Holding company
Instrumental companies:			
Aliseda, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
BPE Financiaciones, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity

At 31 December 2014	**Address**		**Activity**
BPE Preference International, Ltd.	Ugland House	George Town	Finance special purpose entity
BPE Representações y Participações, Ltda.	Al Santos, 2326	São Paulo	Finance special purpose entity
BPP Asesores S.A.	Lavalle, 643	Buenos Aires	Finance special purpose entity
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	J. Ortega y Gasset, 29	Madrid	Debt collection
Consulteam Consultores de Gestão, Lda.	Rua Tomás Ribeiro, 50	Lisbon	Real estate
EDT FTPYME Pastor 3	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Fib Realty Corporation	2720 Coral Way	Miami	Dormant
Finespa, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Fondo Imopopular, FEIIF	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Fundo Popular Predifundo	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
GC FTPYME Pastor 4	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Gestora Europea de Inversiones, S.A.	J. Ortega y Gasset, 29	Madrid	Service instrumental
Gold Leaf Title Company	2720 Coral Way	Miami	Finance special purpose entity
Hercepopular S.L.	Plaza de Europa, 3	Guadalajara	Real estate development
IM Banco Popular FPYME 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Banco Popular MBS 2, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Cédulas Grupo Banco Popular 3, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 1, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular Empresas 5, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME I, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
IM Grupo Banco Popular FT PYME II, FTA	Pz. Pablo Ruiz Picasso, s/n.	Madrid	Asset securitisation fund
Inmobiliaria Viagracia, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Intermediación y Servicios Tecnológicos, S.A.	Torneros 9 P.I. Los Angeles, Getafe	Madrid	Service instrumental
Inversiones Inmobiliarias Alprosa, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Canvives, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Cedaceros, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Gercebio, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Inversiones Inmobiliarias Jeráguilas, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Inversiones Inmobiliarias Tamadaba, S.A.	Prof. Agustin Miralles Carlo, s/n	Las Palmas	Real estate development
Isla de los Buques, S.A.	J . Ortega y Gasset, 29	Madrid	Finance special purpose entity
Manberor, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Meglahe, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate development
Naviera Cañada, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Naviera Islas Cies, S.L.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Pastor Participaciones Preferentes, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular Arrendamento - FIIF para Arrendamento Habitacional	Rua Ramalho Ortigao, 51	Lisbon	Investment property fund
Popular Capital, S.A.	J. Ortega y Gasset, 29	Madrid	Finance special purpose entity
Popular de Mediación, S.A.	J. Ortega y Gasset, 29	Madrid	Insurance brokerage
Popular Español Asia Trade, Ltd.	13/F Tim Mei Avenue	Hong Kong	Finance special purpose entity
Read Leaf Holding	2720 Coral Way	Miami	Real estate
Residencial Valdemar, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Total Sunset Inc.	2720 Coral Way	Miami	Dormant
Urbanizadora Española, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Velázquez 34, S.A.	J. Ortega y Gasset, 29	Madrid	Real estate
Non-financial companies:			
Cercebelo Assets, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate
Eurovida, S.A. (Portugal)	Avenida da República, 57	Lisbon	Insurance
General de Terrenos y Edificios Servicios Integrales, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
General de Terrenos y Edificios, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development
Gestora Inmobiliaria La Toja, S.A.	Aldea Comercial, 1ª Planta - Isla de la Toja	Pontevedra	Real estate development
Inti Entertainment	Santo Tomás de Villanueva, 2A	Santa Cruz Tenerife	Cinematography
La Toja, S.A.	Cantón Pequeño, 1	La Coruña	Hotels
Pastor Vida, S.A.	Paseo de Recoletos, 19	Madrid	Insurance
Popular de Renting, S.A.	Velázquez, 34	Madrid	Renting
Popular Seguros, S.A.	Avenida da República, 57	Lisbon	Insurance
Promoción Social de Viviendas, S.A.	J. Ortega y Gasset, 29	Madrid	Asset holding
Vilamar Gestión, S.L.	J. Ortega y Gasset, 29	Madrid	Real estate development

At 31 December 2014	% of voting rights					Own funds	
	Direct	Indirect	Total	Carrying amount	Assets	Total	Of which, earnings
Deposit-taking institutions:							
Banco Pastor, S.A.U.	100.00	-	100.00	605,946	12,279,567	617,533	21,873
Banco Popular Portugal, S.A.	100.00	-	100.00	880,448	8,528,987	742,067	2,282
Popular Banca Privada, S.A.	92.50	7.50	100.00	62,988	807,958	85,608	19,639
TotalBank	100.00	-	100.00	266,377	2,055,534	219,564	8,584
Financial Companies:							
Popular de Factoring, S.A.	100.00	-	100.00	45,818	646,163	111,019	10,154
Popular Factoring, S.A. (Portugal)	99.83	-	99.83	36,826	142,211	36,916	2,938
Holding and services companies:							
Gestora Popular, S.A.	35.00	65.00	100.00	1,377	16,317	1,415	(201)
Grupo La Toja Hoteles	90.67	-	90.67	68,940	78,313	76,231	4,569
Pastor Privada Eólica 2, S.L.	-	100.00	100.00	3	3	3	-
Pastor Privada Eólica 3, S.L.	-	100.00	100.00	3	3	3	-
Pastor Privada Investment 1, S.L.	-	5.00	5.00	267	5,322	5,322	-
Pastor Privada Investment 2, S.L.	100.00	-	100.00	-	15,323	(393)	(177)
Pastor Privada Investment 3, S.L.	-	5.00	5.00	79	1,535	1,535	-
Popular Bolsa S.V., S.A.	100.00	-	100.00	6,100	10,621	8,771	1,674
Popular de Participaciones Financieras, S.A.	100.00	-	100.00	36,000	46,594	41,474	(3,034)
Popular Gestão de Activos, S.A.	100.00	-	100.00	2,129	2,797	2,403	290
Popular Gestión Privada SGIIC, S.A.	-	100.00	100.00	4,006	8,856	7,033	85
Popular Servicios Financieros E.F.C., S.A.	100.00	-	100.00	21,847	250,511	29,345	2,887
Sobrinos de José Pastor Inversiones, S.A.	100.00	-	100.00	-	37,176	(16,106)	(5,045)
Instrumental companies:							
Aliseda, S.A.	100.00	-	100.00	-	4,882,483	(865,184)	(146,701)
BPE Financiaciones, S.A.	90.00	10.00	100.00	100	2,558,446	9,068	650
BPE Preference International, Ltd.	100.00	-	100.00	38	8,415	52	-
BPE Representações y Participações, Ltda.	100.00	-	100.00	120	260	247	45
BPP Asesores S.A.	77.30	22.70	100.00	172	57	(79)	(399)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	100.00	-	100.00	59	59	59	-
Consulteam Consultores de Gestão, Lda.	86.28	13.72	100.00	-	806,852	(252,867)	(59,801)
EDT FTPYME Pastor 3	100.00	-	100.00	-	42,195	(1,086)	(1,149)
Fib Realty Corporation	-	100.00	100.00	-	-	-	-
Finespa, S.A.	4.19	95.81	100.00	8,058	10,025	9,845	401
Fondo Imopopular, FEIIF	90.00	10.00	100.00	21,755	25,385	21,139	(1,490)
Fundo Popular Predifundo	-	72.62	72.62	8,346	12,798	11,523	(822)
GC FTPYME Pastor 4	100.00	-	100.00	-	80,331	28	10
Gestora Europea de Inversiones, S.A.	99.90	0.10	100.00	-	27,044	(25,239)	(167)
Gold Leaf Title Company	-	100.00	100.00	256	1,048	895	216
Hercepopular S.L.	-	51.00	51.00	3,231	112,196	6,335	-
IM Banco Popular FPYME 1, FTA	100.00	-	100.00	-	136,552	5,270	(2,847)
IM Banco Popular MBS 2, FTA	100.00	-	100.00	-	564,866	5,810	126
IM Cédulas Grupo Banco Popular 3, FTA	100.00	-	100.00	-	2,218,561	-	-
IM Grupo Banco Popular Empresas 1, FTA	100.00	-	100.00	-	254,170	5,417	(1,554)
IM Grupo Banco Popular Empresas 5, FTA	100.00	-	100.00	-	1,507,138	38,548	15,096
IM Grupo Banco Popular FT PYME I,FTA	100.00	-	100.00	-	341,318	7,419	305
IM Grupo Banco Popular FT PYME II, FTA	100.00	-	100.00	-	221,369	11,882	(740)
Inmobiliaria Viagracia, S.A.	100.00	-	100.00	23,230	109,139	107,484	1,273
Intermediación y Servicios Tecnológicos, S.A.	99.50	0.50	100.00	842	3,063	1,085	(404)
Inversiones Inmobiliarias Alprosa, S.L.	68.25	31.75	100.00	64,567	280,522	88,595	446
Inversiones Inmobiliarias Canvives, S.A.	100.00	-	100.00	-	2,566,888	(11,098)	(51,966)
Inversiones Inmobiliarias Cedaceros, S.A.	-	100.00	100.00	-	82,585	(24,607)	(614)

At 31 December 2014	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Inversiones Inmobiliarias Gercebio, S.A.	-	100.00	100.00	-	21,285	(11,504)	(1,891)
Inversiones Inmobiliarias Jeráguilas, S.A.	-	100.00	100.00	-	27,496	(11,004)	(1)
Inversiones Inmobiliarias Tamadaba, S.A.	100.00	-	100.00	-	55,180	(2,802)	1,273
Isla de los Buques, S.A.	99.98	0.02	100.00	61	433,747	1,311	11
Manberor, S.A.	-	100.00	100.00	1	89,494	(37,452)	(2)
Meglahe, S.A.	-	100.00	100.00	51	49	49	(1)
Naviera Cañada, S.L.	100.00	-	100.00	-	6	(2)	(2)
Naviera Islas Cies, S.L.	100.00	-	100.00	114	117	117	(18)
Pastor Participaciones Preferentes, S.A.	100.00	-	100.00	217	13,255	643	212
Popular Arrendamento - FIIF para Arrendamento Habitacional	84.42	15.58	100.00	52,886	52,740	52,620	(1,886)
Popular Capital, S.A.	90.00	10.00	100.00	90	146,637	33,741	306
Popular de Mediación, S.A.	100.00	-	100.00	2,262	5,663	2,290	205
Popular Español Asia Trade, Ltd.	100.00	-	100.00	-	13	-	-
Read Leaf Holding	100.00	-	100.00	58,141	66,712	60,136	1,446
Residencial Valdemar, S.L.	-	100.00	100.00	(1)	20,538	(11,928)	2,230
Total Sunset Inc.	-	100.00	100.00	-	-	-	-
Urbanizadora Española, S.A.	7.19	90.55	97.74	11,472	13,523	13,494	72
Velázquez 34, S.A.	97.80	2.20	100.00	-	66,978	(11,703)	(4,181)
Non-financial companies:							
Cercebelo Assets, S.L.	100.00	-	100.00	-	886	(403)	(10)
Eurovida, S.A. (Portugal)	84.07	15.94	100.00	85,715	1,046,133	102,398	13,318
General de Terrenos y Edificios Servicios Integrales, S.L.	-	100.00	100.00	5	7,701	1,263	368
General de Terrenos y Edificios, S.L.	100.00	-	100.00	16,626	48,683	16,660	(1,542)
Gestora Inmobiliaria La Toja, S.A.	89.71	10.29	100.00	894	1,575	1,435	(33)
Inti Entertainment	-	99.89	99.89	850	2,217	851	-
La Toja, S.A.	-	-	-	-	-	-	-
Pastor Vida, S.A.	100.00	-	100.00	67,290	238,790	92,424	1,055
Popular de Renting, S.A.	100.00	-	100.00	3,005	78,408	15,292	1,533
Popular Seguros, S.A.	-	100.00	100.00	7,500	17,225	9,763	626
Promoción Social de Viviendas, S.A.	-	91.84	91.84	554	655	654	(2)
Vilamar Gestión, S.L.	-	100.00	100.00	1	191,181	(10,125)	(5,737)

Joint ventures

Joint ventures are contractual agreements whereby two or more members undertake an economic activity that is subject to joint control, and in which the parties in joint control hold rights over the net assets thereof. A member of a joint venture shall recognise its share in that venture as an investment and shall account for the investment using the equity method pursuant to IAS 28 - "Investments in associates and joint ventures".

These companies are consolidated through the equity method.

2015

In February 2015, the Portugal-based company, Recbus - Recovery To Business S.A., was formed and Banco Popular Español held 100% of its shares. On 30 June, 80% of the those shares were placed for sale as part of the selling off of the business of property assets and other asset management in Portugal; this operation is described in Note 8 – Business combinations and other corporate transactions with subsidiaries, joint ventures and associates.

In November 2015, Targobank, S.A. and Targoinmuebles, S.A. were removed from Joint Ventures and added to Associates. This change occurred due to the loss of control resulting from Credit Mutuel exercising its purchase option by requesting the acquisition of 1% in Targobank, S.A., which was accepted by the Group. In this way, Credit Mutuel gained control as its stake rose to 51% and, in addition to the right to appoint an additional director, obtained a majority in the executive body of the company.

2014

On 30 September 2014, an agreement was signed to sell 51% de Bancopoular-e, S.A., (including its subsidiaries Popular-e Cobros A.I.E., Popular-e Operador de Banca Seguros Vinculado, S.A.U, and the securitisation vehicle IM Tarjetas 1, FTA), to that date both Bancopopular-e, S.A. and its companies had been considered subsidiaries and were consolidated within the Group under the full consolidation method. From September, Bancopopular-e, S.A. and its subsidiaries became a joint venture and were consolidated under the equity method.

In December 2014, property development company Platja Amplaries, S.L. was derecognised from the scope of consolidation on account of its sale

The accounting information of these companies used for consolidation was related in all cases to 31 December 2015 and 2014, respectively.

The figures in the table showing assets and shareholders' equity refer to the total for the company, regardless of the percentage included in the consolidation process.

Joint ventures at the end of 2015 were as follows:

At 31 December 2015	Address		Activity
Joint ventures			
Aliseda Servicios de Gestión Inmobiliaria, S.L.	Paseo de la Castellana, 280	Madrid	Property management
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
IM Tarjetas 1, F.T.A.	Príncipe de Vergara, 131	Madrid	Asset securitisation fund
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Popular-e Cobros A.I.E.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
RecBus-Recovery to Business, S.A.	Rua do Comercio, 85	Lisbon	Property management
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment

At 31 December 2015	% of voting rights					Own funds	
	Direct	Indirect	Total	Carrying amount	Assets	Total	Of which, earnings
Joint ventures							
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	44,286	690,067	212,500	54,117
Bancopopular-e, S.A.	49.00	-	49.00	211,995	3,329,106	639,747	100,306
IM Tarjetas 1, F.T.A.	-	49.00	49.00	-	1,000,885	-	-
Inverlur Águilas I, S.L.	-	50.00	50.00	-	513	459	(9)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,561	1,463	(15)
Popular-e Cobros A.I.E.	-	49.00	49.00	9	7,091	16	(2)
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	-	49.00	49.00	621	3,061	1,624	464
RecBus-Recovery to Business, S.A.	20.00	-	20.00	5,013	93,702	27,368	1,990
Saite, S.A.	50.00	-	50.00	4,266	24,928	12,387	1,279
Saite-Cobal, S.A.	-	50.00	50.00	-	6,799	(9,796)	(131)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	63,722	23,086	742

The following is important information on the most relevant joint ventures, stated in thousands of euros.

At 31/12/2015	Joint ventures	
	Aliseda SGI	Bancopopular-e
(a) Dividends obtained from the joint venture or associate	-	21,854
(b) Summarised financial information:		
(i) Current assets	66,197	2,944,064
(i) Non-current assets	623,001	402,766
(iii) Current liabilities	140,696	2,427,246
(iii) Non-current liabilities	333,982	280,914
(v) Ordinary revenues	245,991	143,624
(vi) Profit/loss for the year from continued operations	56,138	100,305
(vii) Profit/loss after taxes from discontinued operations	-	-
(viii) Other comprehensive income	4,855	(204)
(ix) Overall profit/loss	60,993	100,101

At 31/12/2015	Joint ventures	
	Aliseda SGI	Bancopopular-e
(a) Cash and cash equivalents included in paragraph B12(b)(i) of IFRS 12	32,838	54,644
(b) Current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iii) of IFRS 12	102,726	2,412,711
(b) Non-current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iv) of IFRS 12	333,982	204,171
(d) Depreciation and amortisation	50,759	33,554
(e) Interest income	180	335,780
(f) Interest expenses	40,903	20,330
(g) Income or expenses from capital gains tax	22,090	43,315

At 31/12/2015	Joint ventures	
	Aliseda SGI	Bancopopular-e
(i) Shareholders' Equity attributable to the parent company	104,125	312,949
Company shareholders' equity	212,500	638,671
Share attributable to the parent company (%)	49.00	49.00
(ii) Share value in consolidated statement (Note 28)	103,692	520,025
(iii) Difference (i) - (ii)	(433)	207,076
Goodwill under equity method (Note 28)	-	208,963
Adjustment to consolidation reserves	4,630	723
Adjustment contribution to consolidated profit/loss	(5,063)	(2,610)

The following is information on insignificant joint ventures:

At 31/12/2015	Joint ventures
(a) Aggregate carrying amount	30,842
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continued operations	2,225
(ii) Profit/loss after taxes from discontinued operations	2,225
(iii) Other comprehensive income	-
(iv) Overall profit/loss	2,225

The table below sets out information concerning joint ventures for 2014:

At 31/12/2014	Address		Activity
Joint ventures			
Aliseda Servicios de Gestión Inmobiliaria, S.L.	J. Ortega y Gasset, 29	Madrid	Property management
Bancopopular-e, S.A.	Velázquez, 34	Madrid	Banking
IM Tarjetas 1, F.T.A.	Plaza Pablo Ruiz Picasso, 1	Madrid	Asset securitisation fund
Inverlur Águilas I, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Inverlur Águilas II, S.L.	Av. Libertad, 3	San Sebastián	Real estate development
Popular-e Cobros A.I.E.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	Av. Europa, 19. Alcobendas	Madrid	Finance special purpose entity
Saite, S.A.	Cantón Pequeño, 1	A Coruña	Concession operator
Saite-Cobal, S.A.	Plaza de Ángel Carbajo, 6	Madrid	Real estate development
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	J. Ortega y Gasset, 22	Madrid	Means of payment
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Real estate development

At 31/12/2014	% of voting rights			Carrying amount	Assets	Own funds	
	Direct	Indirect	Total			Total	Of which, earnings
Joint ventures							
Aliseda Servicios de Gestión Inmobiliaria, S.L.	49.00	-	49.00	108,774	805,629	299,441	77,899
Bancopopular-e, S.A.	49.00	-	49.00	211,995	2,582,227	589,363	55,445
IM Tarjetas 1, F.T.A.	-	49.00	49.00	-	1,169,273	-	-
Inverlur Águilas I, S.L.	-	50.00	50.00	-	510	468	(9)
Inverlur Águilas II, S.L.	-	50.00	50.00	-	1,548	1,480	(14)
Popular-e Cobros A.I.E.	-	49.00	49.00	9	6,005	16	(2)
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	-	49.00	49.00	621	3,407	1,160	4,357
Saite, S.A.	50.00	-	50.00	4,267	25,599	11,180	778
Saite-Cobal, S.A.	-	50.00	50.00	-	7,702	(9,664)	(2,336)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago "Iberia Cards", S.A.	42.50	-	42.50	4,890	51,267	22,345	575
Targobank, S.A.	50.00	-	50.00	129,016	2,359,180	315,493	16,210
Targoinmuebles, S.A.	-	50.00	50.00	225	1,898	138	(281)

The following is information on the most relevant joint ventures, stated in thousands of euros.

At 31/12/2014	Joint ventures		
	Aliseda SGI	Bancopopular-e	TargoBank
(a) Dividends obtained from the joint venture or associate	-	21,500	-
(b) Summarised financial information:	125,897	2,403,937	2,320,189
(i) Current assets	679,732	414,784	38,989
(i) Non-current assets	56,485	2,176,857	2,026,529
(iii) Current liabilities	454,557	58,025	13,556
(iii) Non-current liabilities	249,633	71,578	25,864
(v) Ordinary revenues	77,900	50,123	16,207
(vi) Profit/loss for the year from continued operations	-	-	-
(vii) Profit/loss after taxes from discontinued operations	(4,855)	(204)	1,429
(viii) Other comprehensive income	73,045	49,919	17,636
(ix) Overall profit/loss	60,993	100,101	

At 31/12/2014	Joint ventures		
	Aliseda SGI	Bancopopular-e	TargoBank
(a) Cash and cash equivalents included in paragraph B12(b)(i) of IFRS 12	38,407	133,620	77,278
(b) Current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iii) of IFRS 12	9,251	2,130,890	2,007,920
(b) Non-current financial liabilities (excluding trade and other payables as well as provisions) contain in paragraph B12(b)(iv) of IFRS 12	454,557	15,315	935
(d) Depreciation and amortisation	39,403	8,644	1,757
(e) Interest income	321	191,941	100,662
(f) Interest expenses	42,585	17,191	25,567
(g) Income or expenses from capital gains tax	32,994	21,290	6,896

At 31/12/2014	Joint ventures		
	Aliseda SGI	Bancopopular-e	TargoBank
(i) Shareholders' Equity attributable to the parent company	144,347	288,698	159,547
Company shareholders' equity	294,586	589,179	319,093
Share attributable to the parent company (%)	49.00	49.00	50.00
(ii) Share value in consolidated statement (Note 28)	144,347	495,773	331,836
(iii) Difference (i) - (ii)	-	207,075	172,289
Goodwill under equity method (Note 28)	-	208,963	172,875
Adjustment to consolidation reserves	-	(1,888)	(438)
Adjustment contribution to consolidated profit/loss	-	-	(148)

The information for insignificant associates is as follows:

At 31/12/2014	Joint ventures
(a) Aggregate carrying amount	24,289
(b) Aggregate amount represented by the following variables:	
(i) Profit/loss for the year from continued operations	2,399
(ii) Profit/loss after taxes from discontinued operations	2,399
(iii) Other comprehensive income	-
(iv) Overall profit/loss	2,399

Associates

Associates are investee companies in which the Group exercises significant influence. This significant influence generally, although not exclusively, takes the form of a shareholding, held directly or indirectly through another or other Investee companies, of 20% or more of the investee company's voting rights. Associates were consolidated under the equity method. Therefore investments in associates were valued at the fraction represented by the Group's holding in their capital net of dividends received from them and other balance sheet eliminations. The results on transactions with an associate are eliminated in the proportion to the Group's holding therein. If losses cause an associate to have negative equity for accounting purposes, in the Group's consolidated balance sheet, it is presented with a zero value unless the Group has the obligation to support it financially.

2015

In April 2015, Banco Popular Español sold its stakes of 49% and 40.9% which were held respectively in Puertos Futuros, S.L. and Amarres Deportivos, S.L.; these last two companies were involved in the business of operating sports marinas. Accordingly, they are no longer associates in the Banco Popular Group. The company, Universalpay S.A., was likewise sold in December and removed from the list of associates. Elsewhere, Targobank S.A. and Targoinmuebles S.A., previously joint ventures, were registered as associates due to the loss of control and ownership that occurred in December of this year when Credit Mutuel exercised its option to purchase and requested the acquisition of 1% in Targobank, S.A., which the Group accepted. In this way, Credit Mutuel gained control as its stake rose to 51% and, in addition to the right to appoint an additional director, obtained a majority in the executive body of the company.

Metrovacesa, S.A. increased its share capital in April 2015 through the capitalisation of shareholder loans. Because Banco Popular did not participate in the capital raising, its stake was diluted by 4.64% and now stands at 8%. As in previous years, Banco Popular Group is deemed to hold significant influence according to IAS 28.7, even though its stake is below 20%, because it has a member on the board of directors which is made up of 8 directors and it participates in the policy-setting processes. On 29 December 2015, the General Shareholders' Meeting of Metrovacesa, S.A. approved a cash contribution and non-cash contribution. Both contributions were fully made in January 2016 and the Group's stake rose to 9.14%.

The Group raised its stake in Inversiones en Resorts Mediterráneos, S.L. from 20.98% in 2014 to 43.28% in 2015, following the Group's participation in the share capital increase of the company which diluted the shares of the other shareholders.

2014

In January 2014, the associate Sistema 4B S.A. was liquidated on account of its segregation into four companies (Sistema 4B S.L., Aevis Europa S.L., Master Red Europa S.L., and Gestora Patrimonial c/ Francisco Sancha, 12 S.L.) that proportionally assumed its assets and liabilities, with Banco Popular Group retaining the same interest and investment percentages.

In February 2014, Euro Automatic Cash Entidad de Pago S.L. was incorporated under the agreement with Euro Information, a subsidiary of Crédit Mutuel CIC, to jointly develop the ATM business in Spain, under its control.

An additional step in the Group's geographical diversification strategy was taken in September 2014 with the purchase of a 24.99% stake in the Mexican financial group Ve Por Más S.A. de C.V. for a portfolio value of €101.551 million, following the agreements reached in December 2013 and the fulfilment of the conditions precedent related to the transaction in 2014.

In May 2014, Nuevo Agora Centro de Estudios, S.L. was sold, as were Ronáutica Marinas Internacional, S.A. and Inversiones Área Sur S.L. in December.

In 2014, the Group increased its interests in Metrovacesa, S.A. by 0.67% and held a 12.64% stake.

Even though the Group's stake does not reach 20%, we believe that we exercise significant influence pursuant to IAS 28.7. Specifically, this conclusion is on account of the following:

- Presence on the Board (one director on a Board with fewer members than in 2012, since from mid-2013 the number of directors was reduced from nine to eight).
- Participation in policy making processes.
- Relatively important transactions between the investor and the investee.

Relevant information on associates as of 31 December 2015 is as follows:

At 31 December 2015	Address		Activity
Associates			
Aevis Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Allianz Popular, S.L.	Tarragona, 109	Barcelona	Insurance
Aviación Intercontinental, A.I.E	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Euro Automatic Cash Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Gestora Patrimonial c/Francisco Sancha, 12	Francisco Sancha, 12	Madrid	Means of payment
Grupo Financiero Ve por Más S.A. de CV.	Paseo de la Reforma, 365. Cuauhtemoc DF	Mexico	Financial services
Inversiones en Resorts Mediterráneos, S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate development
Master Red Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Real estate development
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Targobank, S.A.	Claudio Coello, 123	Madrid	Banking
Targoinmuebles, S.A.	Claudio Coello, 123	Madrid	Real estate development
Trindade Fundo de Investimento Imobiliario Fechado	Av. da República, 35	Lisbon	Real estate development

At 31 December 2015	% of voting rights					Own funds	
	Direct	Indirect	Total	Carrying amount	Assets	Total	Of which, earnings
Associates							
Associates							
Aevis Europa, S.L.	27.54	-	27.54	92	28,325	977	24
Allianz Popular, S.L.	40.00	-	40.00	11,062	1,020,489	230,444	97,837
Aviación Intercontinental, A.I.E	35.00	-	35.00	19,210	237,230	76,704	5,385
Euro Automatic Cash Entidad de Pago, S.L.	50.00	-	50.00	30,144	102,869	77,745	13,231
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	319	24,551	13,038	677
Gestora Patrimonial c/ Francisco Sancha, 12	27.54	-	27.54	1,443	24,229	12,199	471
Grupo Financiero Ve por Más S.A. de CV.	24.99	-	24.99	100,775	2,228,828	245,257	12,594
Inversiones en Resorts Mediterráneos, S.L.	-	43.28	43.28	-	1,080	(3,134)	-
Master Red Europa, S.L.	27.54	-	27.54	92	39,638	997	36
Metrovacesa, S.A.	8.00	-	8.00	165,071		2,250,788	(560,375)
Sistema 4B, S.A.	27.54	-	27.54	306	19,007	1,619	538
Targobank, S.A.	48.98	-	48.98	126,373	2,547,426	333,298	17,808
Targoinmuebles, S.A.	-	48.96	48.96	220	3,066	(9)	(146)
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	21,084	45,405	40,295	(1,636)

The following is important information on the most relevant associates, stated in thousands of euros.

At 31/12/2015			Associates	
		TargoBank	Allianz Popular	Metrovacesa
(a)	Dividends obtained from the joint venture or associate	-	33,420	-
(b)	Summarised financial information:			
(i)	Current assets	2,476,785	1,874,091	3,914,114
(ii)	Non-current assets	70,641	92,189	855,739
(iii)	Current liabilities	2,201,304	1,578,863	2,063,433
(iv)	Non-current liabilities	11,208	132,071	855,133
(v)	Ordinary revenues	24,160	136,019	57,288
(vi)	Profit/loss for the year from continued operations	17,808	181,301	(69,322)
(vii)	Profit/loss after taxes from discontinued operations	-	-	-
(viii)	Other comprehensive income	(1,986)	-	-
(ix)	Overall profit/loss	15,822	181,301	(69,322)

At 31/12/2015		Associates	
	TargoBank	Allianz Popular	Metrovacesa
(i) Shareholders' Equity attributable to the parent company	164,027	92,178	165,037
Company shareholders' equity	334,915	230,444	
Share attributable to the parent company (%)	48.98	40.00	
(ii) Share value in consolidated statement (Note 28)	332,501	439,001	165,037
(iii) Difference (i) - (ii)	168,474	346,823	-
Goodwill under equity method (Note 28)	169,277	346,823	-
Adjustment to consolidation reserves	(657)	-	-
Adjustment contribution to consolidated profit/loss	(146)	-	-
Overall profit/loss	15,822	181,301	(69,322)

(1) Valuation of shareholders' equity in Metrovacesa according to NNAV

The information for insignificant associates is as follows:

At 31/12/2015		Associates
(a)	Aggregate carrying amount	202,911
(b)	Aggregate amount represented by the following variables:	
(i)	Profit/loss for the year from continued operations	31,174
(ii)	Profit/loss after taxes from discontinued operations	31,174
(iii)	Other comprehensive income	7,441
(iv)	Overall total profit/loss	38,615

The table below sets out information on associates for 2014:

At 31 December 2014	Address		Activity
Associates			
Aevis Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Allianz Popular, S.L.	Pº Castellana, 39	Madrid	Insurance
Amarres Deportivos, S.L.	Av. Av. Jaume III, 11	Palma de Mallorca	Operation of marinas
Aviación Intercontinental, A.I.E	Av. Cantabria s/n. B. del Monte	Madrid	Finance special purpose entity
Euro Automatic Cash Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity
Fotovoltaica Monteflecha, S.L.	Curtidores, 2	Palencia	Photovoltaic energy
Gestora Patrimonial c/Francisco Sancha, 12	Francisco Sancha, 12	Madrid	Means of payment
Grupo Financiero Ve por Más S.A. de CV.	Paseo de la Reforma, 365. Cuauhtemoc DF	Mexico	Financial services
Inversiones en Resorts Mediterráneos, S.L.	Av. Teniente Montesinos, 10	Murcia	Real estate development
Master Red Europa, S.L.	Francisco Sancha, 12	Madrid	Means of payment
Metrovacesa, S.A.	Quintanavides, 13	Madrid	Real estate development
Puertos Futuros, S.L.	Cantón Pequeño, 1	A Coruña	Operation of marinas
Sistema 4B, S.A.	Francisco Sancha, 12	Madrid	Means of payment
Trindade Fundo de Investimento Imobiliario Fechado	Av. da República, 35	Lisbon	Real estate development
Universal Pay Entidad de Pago, S.L.	Abelias, 1	Madrid	Payment entity

At 31 December 2014	% of voting rights					Own funds	
	Direct	Indirect	Total	Carrying amount	Assets	Total	Of which, earnings
Associates							
Aevis Europa, S.L.	27.54	-	27.54	92	1,095	949	2
Allianz Popular, S.L.	40.00	-	40.00	11,063	1,054,590	216,112	91,686
Amarres Deportivos, S.L.	-	40.90	40.90	-	32,268	(437)	-
Aviación Intercontinental, A.I.E	35.00	-	35.00	19,210	247,641	73,616	5,460
Euro Automatic Cash Entidad de Pago, S.L.	50.00	-	50.00	30,144	92,893	73,661	13,373
Fotovoltaica Monteflecha, S.L.	-	4.05	4.05	342	30,652	12,930	608
Gestora Patrimonial c/ Francisco Sancha, 12	27.54	-	27.54	1,443	20,662	18,706	435
Grupo Financiero Ve por Más S.A. de CV.	24.99	-	24.99	100,775	1,771,950	231,506	3,105
Inversiones en Resorts Mediterráneos, S.L.	-	20.98	20.98	-	578,052	(624,366)	-
Master Red Europa, S.L.	27.54	-	27.54	92	1,045	963	10
Metrovacesa, S.A.	12.64	-	12.64	202,355	5,202,700	1,719,470	(404,829)
Puertos Futuros, S.L.	-	49.00	49.00	-	143	143	(4)
Sistema 4B, S.A.	27.54	-	27.54	337	151,425	1,118	274
Trindade Fundo de Investimento Imobiliario Fechado	-	50.00	50.00	21,420	50,255	44,089	(140)
Universal Pay Entidad de Pago, S.L.	50.00	-	50.00	36,508	100,098	78,153	4,672

At 31/12/2014		Associates	
		Allianz Popular	Metrovacesa
(a)	Dividends obtained from the joint venture or associate	50,180	-
(b)	Summarised financial information:		
	(i) Current assets	1,533,619	898,659
	(ii) Non-current assets	95,699	4,159,549
	(iii) Current liabilities	1,330,906	971,746
	(iv) Non-current liabilities	165,753	2,920,286
	(v) Ordinary revenues	33,620	61,796
	(vi) Profit/loss for the year from continued operations	91,657	(186,366)
	(vii) Profit/loss after taxes from discontinued operations	-	-
	(viii) Other comprehensive income	21,583	80,466
	(ix) Overall profit/loss	113,240	(105,900)

At 31/12/2014		Associates	
		Allianz Popular	Metrovacesa (1)
(i)	Shareholders' Equity Attributable To The Parent Company	86,445	202,349
	Company shareholders' equity	216,112	-
	Share attributable to the parent company (%)	40.00	-
(ii)	Share value in consolidated statement (Note 28)	433,268	202,349
(iii)	Difference (i) - (ii)	346,823	-
	Goodwill under equity method (Note 28)	346,823	-
	Adjustment to consolidation reserves		
	Adjustment contribution to consolidated profit/loss		

(1) Valuation of shareholders' equity in Metrovacesa according to NNAV

The information for insignificant associates is as follows:

At 31/12/2014		Associates
(a)	Aggregate carrying amount	238,923
(b)	Aggregate amount represented by the following variables:	
	(i) Profit/loss for the year from continued operations	27,795
	(ii) Profit/loss after taxes from discontinued operations	27,795
	(iii) Other comprehensive income	-
	(iv) Overall total profit/loss	27,795

The best information available on the associate has been used since the associates' financial statements on 31 December is not always available on the close of the Group's consolidated financial statements, in this case on 31 December 2015. In the case of Trindade Fundo de Investimento Inmobiliario Fechado, Inversiones en Resorts Mediterráneos S.L., Fotovoltaica Monteflecha, S.L., and Grupo Financiero Ve por Más S.A. de CV, their statements at 30 November 2015 were used, whereas for the rest of the associates the financial reports at 31 December 2015 were used.

In 2014, the financial statements at 31 December of all associates were used except for the companies Sistema 4B, S.L., Aevis Europa, S.L., Master Red Europa,S.L., Gestora Patrimonial c/Francisco Sancha, 12, S.L., Trindade Fundo de Investimento Inmobiliario Fechado and Fotovoltaica Monteflecha, S.L., for which the statements at 30 November 2014 were used.

d) Comparability

The balance sheet, income statement, statement of changes in shareholders' equity and cash flow statement models used in the consolidated annual financial statements are those provided for in the Spanish National Securities Market Commission Circular 1/2008 and Banco de España Circular 4/2004.

As explained in Note 2.a), IFRS 11 "Joint arrangements" came into force on 1 January 2014. Amongst the changes made, the option of consolidating joint ventures, which was a possibility under the standard, either by means of proportionate consolidation or the equity method is no longer permitted as the proportionate consolidation option is no longer available.

With respect to contributions to the Deposit Guarantee Fund, as mentioned in Note 3.a), and the entry into force of IFRS 11 mentioned in the previous paragraph, and in order to provide comparative information on the same basis, a restatement of the comparative figures for 2013 was carried out in the 2014 annual report's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and notes.

Annex V provides quantitative information regarding the impact of these changes to these standards and accounting income statementprinciples in which the published consolidated balance sheet at 31 December 2013 and the consolidated at 31 December 2013 are compared and figures restated.

There were no amendments to standards in 2015 which affected the comparability of the Group's financial information.

3. Treatment of accounting estimates, changes in accounting principles and error correction

The information contained in the consolidated financial statements is the responsibility of the Directors of Banco Popular Español, S.A.

Estimates have been used, where appropriate, in these consolidated financial statements, in the measurement of certain assets, liabilities, revenues, expenses and commitments. These estimates have been made by the Senior Management of the Bank and investee companies and ratified by the Directors. These estimates mainly relate to:

- Impairment losses of certain assets (Note 15.h).
- The actuarial assumptions used in calculating the liabilities and commitments for post-employment compensation (Note 15.p).
- The useful life adopted for items of tangible assets and intangible assets and the measurement of goodwill on consolidation (Notes 15.r and s).
- Fair value of certain unlisted assets (Note 46).
- The reversal period of timing differences for the purposes of their valuation (Note 33).
- Income derived from corporate transactions (Note 8).
- Estimates on provisions for legal risks and other risks (Note 15.V)

In the above notes, the criteria and methodology including, depending on the circumstances, sensitivity analysis in the relative estimates regarding the valuation of goodwill and pension obligations are described.

Since such estimates have been calculated on the basis of the best information available at 31 December 2015 concerning the items involved, events may arise in the future that make it necessary to change them in forthcoming financial years. Any such modification will, in any event, be made prospectively, recognising the effects of the change in estimate in the relevant consolidated income statement.

When applying the entity's accounting principles, management has made several judgements, other than those relating to estimates, which may have a significant impact on the amounts recognised in the financial statements. Specifically, management has made professional judgements to determine:

- if certain financial assets are held-to-maturity portfolio;
- when all the significant risks and rewards of ownership of financial assets and leased assets have been substantially transferred to other entities;
- if, owing to their economic substance, certain asset sales are financing arrangements and therefore do not generate ordinary revenue; and
- if the economic substance of the relationship between the Group and a special purpose entity indicates that the latter is controlled by the Group.

a) Changes in accounting principles and error correction

No changes were made to the Group's accounting principles during the 2015 financial year.

IFRS 11 "Joint arrangements" came into force on 1 January 2014. Amongst the changes made, the option of consolidating joint ventures, which was a possibility under the standard, either by means of proportionate consolidation or the equity method is no longer permitted as the proportionate consolidation option is no longer available. This change in standard has not resulted in a significant impact on balance sheet or results.

On 13 June 2014, the European Commission issued Regulation 634/2014 where IFRIC 21 interpretation is adopted in relation to the criteria for determining the accrual of taxes based on the time the obligation of payment thereof arises. The adoption of IFRIC 21 by the European Commission was followed by a clarification by the Banco de España and the Spanish National Security Market Commission in the last quarter of 2014 of the sectorial interpretation of that regulatory reference with respect to annual ordinary contributions to the Deposit Guarantee Fund, and extraordinary contributions to it, as laid down by Royal Decree-Law 6/2013. This revised interpretation was shared by the Group and the applicable accounting principles were changed; the change is expressed as follows:

- Expenses for ordinary contributions accrue to the extent the Group provides its services to customers. At year-end, the balance sheet reflects a liability for the contribution, which is paid out in the first month of the following year. The above accounting policy meant recognising the expense for the contribution in the year of its payout.
- The expense for the extraordinary contribution under Royal Decree-Law 6/2013 accrues upon the entry into force of the aforementioned Royal Decree-Law (24 March 2013), as such contribution does not depend on the future activity of the group, and is instead recognised as a liability in full at such date. The above accounting policy involved recognising the expense for the contribution as payouts are made.

The implementation of this interpretation involved:

The recognition of commitments corresponding to 2013 and settled in 2014, which have been handled as a change in accounting principle pursuant to Rule 8ª of Banco de España Circular 4/2004 and IAS 8, resulting in the restatement of 2013 Income and Reserves with the following changes:

€ thousands	**Published**	**Adjustment**	**Restated**
Deposit Guarantee Fund Contribution	120,866	105,367	226,233
Tax effect	-	(31,611)	-
Impact on Net Results in 2013	-	**73,756**	-
Adjustment in reserves on 1 January 2013	-	77,267	-
Total impact on Reserves at the end of 2013	-	**151,023**	-

For the amount payable in the year 2015, the amount recognised at 31 December 2014 was based on the Spanish legislation and interpretation of the rules.

b) Changes in accounting estimates

As was the case in 2014, in 2015 there have been no changes to accounting estimates.

4. Shareholder payment arrangements and distribution of results for the year

In 2015, the payment to shareholders was based on two elements:

- Continue with the flexible payment system "Banco Popular Dividend. A dividend made to measure" which gives shareholders the option of choosing between receiving payment in cash by selling the rights obtained in each increase or receiving newly issued shares charged to voluntary reserves.
- Cash payment of the first interim dividend against the profits for 2015.

These two elements emerged from the existing resolutions of the Annual General Meetings of 2014 and 2015:

On 7 April 2014, the General Shareholders' Meeting approved four increases in share capital through the issue of shares without a premium, charged against voluntary reserves to be used to remunerate shareholders under the “Banco Popular Dividend: A custom dividend” scheme, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price. In 2015, two share capital increases, which did not occur the previous year, were carried out:

- On 8 January 2015, the third capital increase charged against 2013 reserves was approved and its conditions were reported to the market. On 26 January 2015, the period for negotiating allocation rights for the third capital increase ended. This led to the a capital increase of €3,751,066.50 (through the issue of 7,502,133 new shares each with a nominal value of €0.50) with 84.28% of the shareholders holding free allocation rights having chosen to receive new shares. The remaining 15.72% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 330,265,254 rights for a gross total of €5,944,774.57. Banco Popular refused the gratuitous allocation rights thus acquired.
- On 14 April 2015, the fourth capital increase charged against 2013 reserves was approved and its conditions were reported to the market. On 30 April 2015, the period for negotiating allocation rights for the third capital increase ended. This led to a capital increase of €3,311,487 (through the issue of 6,622,974 new shares each with a nominal value of €0.50) with 82.47% of the shareholders holding free allocation rights choosing to receive new shares. The remaining 17.53% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 370,325,285 rights for a gross total of €6,665,855.13. Banco Popular refused the gratuitous allocation rights thus acquired.

On 13 April 2015, the General Shareholders' Meeting approved four increases in the share capital through the issue of shares without a premium, charged against voluntary reserves, which would be used to remunerate shareholders under the “Banco Popular Dividend: A custom dividend” scheme, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price. It was further approved that the payment to shareholders could be made in cash and charged to the voluntary reserves originating from undistributed profits or through shares coming from treasury shares charged to the share premium. In 2015, the following occurred:

- On 8 September 2015, the first capital increase charged against 2014 reserves was approved and its conditions were reported to the market. On 25 September 2015, the period for negotiating gratuitous allocation rights ended. This resulted in an increase in paid-in capital of €4,829,371.50 (by means of issuing 9,658,743 new shares at a nominal value of €0.50 each) with 82.49% of shareholders holding free allocation rights choosing to receive new shares. The remaining 17.51% shareholders with free allocation rights chose to accept Banco Popular's irrevocable commitment to purchase rights, by which Banco Popular acquired 371,096,189 rights for a gross total of €7,421,923.78. Banco Popular refused the gratuitous allocation rights thus acquired.

Moreover, on 25 June 2015 the Board of Directors approved the cash payment of the first interim dividend against 2015 profits at a gross sum of €0.02 per share; this decision was communicated to the market. On 16 July 2015, this payment was made, which equalled an outlay of 42,387 thousand euros.

The proposed distribution of the result for 2015 that the Board of Directors of Banco Popular Español, S.A. will submit to the General Meeting for approval, and the distribution of the profit for 2014 that was approved at the General Shareholders' Meeting on 13 April 2015, is as follows, with amounts stated in euros:

Data in euros	**2015**	**2014**
Profit/loss for the year	136,183,929.67	476,692,434.60
Distribution:		
Interim dividends	42,386,577.04	-
Return on subordinated equity instruments	-	10,533,898.33
Statutory reserve	13,618,392.97	47,669,243.46
Voluntary reserves and other	80,053,269.90	80,053,269.90
Profit/Loss distributed	125,689.76	338,436,022.91
	136,183,929.67	476,692,434.60

5. Earnings per share

The basic earnings per share are calculated by dividing the year's net profit attributable to the Group by the weighted average number of shares in circulation for that year, excluding the average number of treasury shares held during said period.

	2015	**2014**
Net profit/(loss) for the year (€ thousands)	105,432	330,415
Weighted average number of shares less treasury shares (thousand)	2,119,172	2,075,088
Basic earnings per share (euros)	0.050	0.159

Diluted earnings per share are calculated in a manner similar to basic earnings per share but the weighted average number of shares is adjusted to take into account the potential dilution effect of stock options, warrants and convertible debt in effect at the year end.

As of 31 December 2015, there were no instruments with potential dilution effects. During the given year the two issuances existing on 31 December 2014, issue IV/2012 and issue II/2012, were redeemed in January and November respectively.

At 31 December 2014, the only instruments with potential dilution effects were mandatory-convertible subordinated bonds and debentures; they were the two issues relating to 2012.

	2015	**2014**
Net profit/(loss) for the year (€ thousands)	105,432	330,415
Financial costs of mandatory convertible issues	289	1,354
Adjusted profit/(loss)	105,721	331,769
Weighted average number of shares less treasury shares (thousand)	2,119,172	2,075,088
Average number of shares owing to bond conversion	33,012	40,117
Adjusted total average number of shares to calculate diluted earnings (units)	2,152,184	2,115,205
Diluted earnings per share (euros)	0.049	0.157

6. Minimum own funds

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

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

This statute and Royal Decree, aside from transposing the European rules, consolidate the principal regulations of organisation and activity of credit institutions, thereby becoming a single national text regulating this subject.

This new regulation requires institutions to hold capital of a better quality and at a higher level, it also increases deductions and reviews the requirements of specific assets. The requirements stipulated by previous regulations are increased with the implementation of capital buffers, as well as specific requirements with regard to liquidity and leverage.

The application of capital buffers follows a phased implementation schedule established in the CCR, with the exception of the O-SII buffer and systemic buffer which apply for the first time in 2016.

With regard to the results of the Supervisory Review and Evaluation Process (SREP), the European Central Bank requires Popular to comply with a minimum Phase-in Common Equity Tier 1 capital of 10.25% This ratio consists of both the Pillar 1 requirements (4.5%) and those of Pillar 2 including the capital conservation buffers (5.75%). In this context, it is important to note that the Banco de España does not consider it necessary for Popular to hold any additional buffer during 2016, despite being included in the group of "Other Systemically Important Institutions". The Banco Popular Group has sufficient margins over the mandated requirements, thus the current policy on dividend distribution or coupon payments is not affected.

At 31 December 2015, the Group has stable solvency ratios as reflected in its Common Equity Tier 1 ratio of 13.11%, compared with 11.5% in December 2014. It should be highlighted that the Group achieved this capital ratio through its own means, with a business model principally connected to companies, eschewing State aid and following the integration of Banco Pastor and the card business of Citibank in Spain. It should also be noted that the Group has not transferred property assets to SAREB.

Part Two, Title I of Regulation 575/2013 sets out the rules for determining the amount of own funds of credit institution's groups and categorises the elements of own funds in Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital (T2).

As regards the structure of each Tier of capital, their component elements, generally speaking, are as follows:

Common Equity Tier 1 capital (CET1)

- Share capital;
- Reserves made up of: Share premiums derived from instruments included in Common Equity Tier 1 capital, undistributed profits and other accumulated (total) comprehensive income and other disclosed reserves;
- Non-controlling interests (ordinary shares issued by consolidated subsidiaries of the bank and held by third parties) that meet the criteria for inclusion in CET1;
- The prudential filters: Securitised assets, cash flow hedges and changes in the value of own liabilities, credit risk adjustments (CVAs), and unrealised gains and losses measured at fair value.
- Deductions from CET1 items:

    - Goodwill and other intangible assets
    - Deferred tax assets that rely on future profitability (tax-loss carryforwards and DTAs)
    - Deficits in provisions for expected losses
    - Equity instruments holdings in financial sector entities in the case of significant or insignificant investment.
    - Reciprocal holdings of equity instruments in financial sector entities
    - Defined benefit pension fund assets
    - Qualifying holdings outside the financial sector, securitisation positions, free deliveries, positions in a basket and equity exposure, as an alternative to a risk weighting of 1,250%.
    - Excess AT1 deduction

Additional Tier 1 capital (AT1):

- Instruments, issued by the bank and by consolidated subsidiaries of the bank that are held by third parties, which meet the criteria for inclusion in the Additional Tier 1 capital (and not included in Common Equity Tier 1 capital) and the resulting share premiums less AT1 deductions.
- The deduction of AT1 items basically consists of the direct, indirect and synthetic holdings by an institution of its own AT1 instruments or those of other financial sector entities.

Tier 2 capital:

- Instruments, issued by the bank and by consolidated subsidiaries of the bank that are held by third parties, which meet the criteria for inclusion in the Tier 2 capital (and not included in Common Equity Tier 1 capital) and the resulting share premiums.
- The book balance of the generic provision representing standard portfolios (1.25% limit of the general RWAs) and the excess provisions calculated according to the Internal Rating-Based approach and their expected losses (0.6% limit of the IRB RWAs).
- T2 deductions consist of the direct, indirect and synthetic holdings by an institution of its own Tier 2 capital instruments or those of other financial sector entities.

One of the major developments of the new solvency framework pursued by the Basel principles is the greater convergence between the capital requirements demanded of entities and the risk levels actually assumed by those entities. This aspect is all the more important in the case of entities that are authorised to use their own risk-measurement models, a process in which Banco Popular Group is involved.

Additionally, the Internal Capital Adequacy Assessment Process (ICAAP) requires entities to perform a comprehensive assessment of the assumed risk levels and of the adequacy of its capital levels for confronting possible unexpected losses resulting from those risks.

This process is set out in:

- The Internal Capital Adequacy Assessment Report (ICAAR), which is approved every year by the Board of Directors
- Periodic review, at least every quarter, of the annual Capital Planning including actual new information on risk assessments and changes to the capital base, along with stress tests.

Part Seven of Regulation 575/2013 stipulates the rules for determining the institutions' leverage ratio according to CRR; which is calculated as the Tier 1 capital of the institution divided by the exposure measurement for this ratio and it is expressed as a percentage.

On the basis of Article 499.3, during the transition period from 1 January 2014 until 31 March 2017, the institution will calculate the leverage ratio according to CRR at the end of the quarter and will use Tier 1 capital subject to the adjustments allowed under transitional provisions as established by Article 499.1.b) of the Regulation.

In December 2015, the phase-in leverage ratio of the institution according to CRR was 6.28%, above the minimum levels established by the Basel Committee on Banking Supervision (3% of Tier 1 capital over the total balance).

At 31 December 2015, the eligible equity for the Group and the relevant capital requirements were as follows:

€ thousands	**2015**	**2014**
Ordinary Tier 1 capital (CET1)	9,974,748	9,191,139
Tier 1 capital	9,974,748	9,191,139
Tier 2 capital	546,124	366,092
Total eligible equity	10,520,872	9,557,230
Total minimum capital requirement (*)	6,086,992	6,395,159

* Strictly includes the Pillar I requirements

7. Segment reporting

Segment reporting is the basis for analysing and monitoring Banco Popular Group's activities. In 2012 the business segments were redefined and grouped into four business areas. This structure remains in effect in 2014 and 2015, and is described below:

- Commercial Banking: this encompasses the activities conducted by the branch office network for typical lending transactions, fund-raising, acceptance of off-balance sheet risks and the supply of financial services of all kinds, including factoring and renting. In addition, it has been assigned the goodwill associated with commercial banking.
- Asset Management and Insurance: this comprises asset management activities and the administration of undertakings for collective investment (investment fund management, portfolios and pension funds) and the activities conducted in life and general insurance by the Portuguese entities Popular de Seguros, S.A. and Eurovida, S.A, as well as the insurance operations carried out in Spain through Allianz Popular, S.L. in which the Group has a 40% interest.
- Real Estate Area: this comprises the activities of the Group's real estate companies and the real estate activities of the Group's banks, which are managed on an integrated basis to allow for the orderly disposal of property assets.
- Institutional and Market Area: this reflects the other activities performed, including most notably asset and liability transactions with credit institutions, the financial instruments of banking entities held for trading, available-for-sale financial assets, asset and liability hedging derivatives, held-to-maturity investment portfolio and investments, asset and liability balances arising from pensions, raising of funds in wholesale markets by issuances of euronotes, subordinated debt and capital having the nature of a financial liability and convertible instruments.

Since what is involved is transversal information that in most cases is drawn from one or several of the Group entities in the corresponding segment, aggregation of the whole leads to the consolidated financial statements. For greater clarity, the liability side of the balance sheet includes a separate caption called "Net intra-segment financing", obviously with a zero balance, although some segments present a contra natura sign in order to place all of them at the same level and maintain the total figure in the consolidated balance sheet.

In order to determine results for each business segment in 2015 and 2014, the following criteria were used:

- Internal transfer prices: the average balances of net funding is assigned an interest rate based on market benchmarks to which a differential is added.
- Operating expenses: direct and indirect expenses are allocated to each segment based on the related activity assigned.
- Own funds: these are assigned to each segment on the basis of the risks incurred, calculating the requirements arising from its activity per the supervisory body for each business (Banco de España for commercial banking, Spanish National Securities Market Commission (CNMV) for the asset management business and the Directorate General for Insurance for the Insurance business, all for the business activities in Spain) and that of their equivalent supervisory bodies in the Portuguese market. Having established the appropriate requirements, these are allocated in proportion to the Group's structure i.e. according to capital, reserves, subordinated debt financing and issues of capital having the nature of a financial liability together with the pertinent associated costs. The excess of own funds over the minimum levels required is allocated, like any that cannot be included in other segments, to institutional activities.

Results by business area at 31 December 2015 are as follows:

€ thousands			**2015**		
	Banking Commercial	**Asset Management And Insurance**	**Area Real Estate**	**Institutional and Market**	**Consolidated**
Net interest income	**2,414,846**	**41,823**	**(391,617)**	**186,184**	**2,251,236**
Net commissions and fees	562,899	33,520	(1,097)	-	595,322
± Other financial transactions	-	(4,092)	(564)	521,916	517,260
± Other operating income/(expense)	164,272	(1,157)	(105,959)	9,937	67,093
Gross Income	**3,142,017**	**70,094**	**(499,237)**	**718,037**	**3,430,911**
Operating costs	1,228,710	28,138	203,550	281,042	1,741,440
Operating income before provisions	**1,913,307**	**41,956**	**(702,787)**	**436,995**	**1,689,471**
Provisioning expenses	(52,083)	(10,099)	4,881	22,273	(35,028)
Contingent risks	(52,083)	(92)	-	-	(52,175)
Other Provisions	-	(10,007)	4,881	22,273	17,147
Impairment losses on financial assets	1,396,675	1,334	8,457	19,121	1,425,587
Loans and receivables	1,382,435	482	-	-	1,382,917
Other financial instruments not measured at f. value	14,240	852	8,457	19,121	42,670
Net operating income	**568,715**	**50,721**	**(716,125)**	**395,601**	**298,912**
Impairment losses on non-financial assets	-	1	(21,649)	-	(21,648)
Goodwill and other intangibles	-	-	-	-	-
Other assets	-	1	(21,649)	-	(21,648)
Impairment - Investments	-	-	-	-	-
Impairment - Tangible assets	-	1	(39,994)	-	(39,993)
Impairment - Inventories	-	-	18,345	-	18,345
Profit/(losses) on disposal of assets not classified as non-current	57,876	-	68,412	1,587	127,875
Profit/(losses) on non-current assets held for sale not classified as discontinued oper.	-	-	(334,251)	-	(334,251)
Gains	-	-	383,518	-	383,518
Losses	-	-	472,016	-	472,016
Losses on impairment of Non-current assets held for sale	-	-	245,753	-	245,753
Profit/(loss) before tax	**626,591**	**50,720**	**(960,315)**	**397,188**	**114,184**
Income tax	151,723	14,202	(268,888)	111,213	8,250
Consolidated Result	**474,868**	**36,518**	**(691,427)**	**285,975**	**105,934**

The breakdown of the Group's consolidated ordinary income by segment of activity at 31 December 2015 is as follows:

€ thousands	Ordinary revenues from external customers	Ordinary intra-segment revenues	Total ordinary revenues
SEGMENTS	At 31/12/2015	At 31/12/2015	At 31/12/2015
Commercial Banking	3,939,019	-	3,939,019
Asset management and insurance	112,865	12,914	125,779
Real Estate Area	32,228	280	32,508
Institutional and capital markets	840,206	679,530	1,519,736
(-) Adjustments and elimination of ordinary revenues	-	(692,724)	(692,724)
TOTAL	**4,924,318**	**-**	**4,924,318**

The balance sheet by business area at 31 December 2015 is as follows:

€ thousands	2015				
	Banking Commercial	Asset Management and Insurance	Area Real Estate	Institutional and Market	Consolidated
Assets					
Cash and balances with central banks	468,807	4,044	17	3,050,139	3,523,007
Financial instruments held for trading	-	20,971	5,382	1,259,530	1,285,883
Other financial assets designated at fair value through profit or loss	-	535,319	-	-	535,319
Available-for-sale financial assets	1,179,600	956,822	102,752	22,953,981	25,193,155
Loans and receivables	93,076,893	99,984	2,889	13,839,231	107,018,997
Held-to-maturity investment portfolio	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	233,228	233,228
Hedging derivatives	-	49,574	-	393,494	443,068
Non-current assets held for sale	-	-	9,045,928	-	9,045,928
Investments	1,450,281	-	303,541	40,187	1,794,009
Insurance contracts linked to pensions	-	-	-	167,918	167,918
Reinsurance assets	-	17,524	-	-	17,524
Tangible assets	584,808	836	995,484	116,657	1,697,785
Intangible assets	2,072,901	321	1,378	497,279	2,571,879
Tax assets	-	25,884	474,180	3,104,099	3,604,163
Accruals	-	14,644	60,791	166,686	242,121
Other assets	-	3,295	1,044,210	228,384	1,275,889
Total assets	**98,833,290**	**1,729,218**	**12,036,552**	**46,050,813**	**158,649,873**
Liabilities					
Financial instruments held for trading	-	-	-	1,043,063	1,043,063
Other financial liabilities designated at fair value through profit or loss	-	599,419	-	-	599,419
Financial liabilities at amortised cost	84,709,025	819,925	82,035	54,897,539	140,508,524
Hedging derivatives	-	63,709	-	1,950,265	2,013,974
Liabilities under insurance contracts	-	486,829	-	-	486,829
Provisions for exposures	69,311	166	16,071	297,811	383,359
Tax liabilities	-	25,006	11,403	477,074	513,483
Accruals	-	7,180	8,412	388,493	404,085
Other liabilities	-	14,444	14,252	153,816	182,512
Net intra-group financing	4,429,038	(310,803)	9,779,457	(13,897,692)	-
Shareholders' equity	9,625,916	23,343	2,124,922	740,444	12,514,625
Total shareholders' equity and liabilities	**98,833,290**	**1,729,218**	**12,036,552**	**46,050,813**	**158,649,873**

Results by business area at 31 December 2014 are as follows:

€ thousands	2014				
	Banking Commercial	Asset Management and Insurance	Area Real Estate	Institutional and Market	Consolidated
Net interest income	**2,548,583**	**42,862**	**(376,256)**	**116,202**	**2,331,391**
Net commissions and fees	622,610	32,087	10	-	654,707
± Other financial transactions	43,639	47,126	(594)	825,451	915,622
± Other operating income/(expense)	(32,579)	(3,410)	16	10,286	(25,687)
Gross Income	**3,182,253**	**118,665**	**(376,824)**	**951,939**	**3,876,033**
Operating costs	1,462,967	26,865	100,362	280,621	1,870,815
Operating income before provisions	**1,719,286**	**91,800**	**(477,186)**	**671,318**	**2,005,218**
Provisioning expenses	(51,396)	3,982	-	2,708	(44,706)
Contingent risks	(51,396)	50	-	-	(51,346)
Other Provisions	-	3,932	-	2,708	6,640
Impairment losses on financial assets	1,690,517	1,843	-	16,472	1,708,832
Loans and receivables	1,690,517	315	-	-	1,690,832
Other financial instruments not measured at f. value	-	1,528	-	16,472	18,000
Net operating income	**80,165**	**85,975**	**(477,186)**	**652,138**	**341,092**
Impairment losses on non-financial assets	-	19	(34,435)	4,098	(30,318)
Goodwill and other intangibles	-	-	-	-	-
Other assets	-	19	(34,435)	4,098	(30,318)
Impairment - Investments	-	-	-	4,099	4,099
Impairment - Tangible assets	-	19	6,335	(1)	6,353
Impairment - Inventories	-	-	(40,770)	-	(40,770)
Profit/(losses) on disposal of assets not classified as non-current	493,938	57	21,411	(17,367)	498,039
Profit/(losses) on non-current assets held for sale not classified as discontinued oper.	-	(83)	(480,775)	(15,600)	(496,458)
Gains	-	-	299,399	1,833	301,232
Losses	-	-	345,516	7,703	353,219
Losses on impairment of Non-current assets held for sale	-	83	434,658	9,730	444,471
Profit/(loss) before tax	**574,103**	**85,930**	**(902,115)**	**615,073**	**372,991**
Income tax	99,402	24,060	(252,592)	172,220	43,090
Consolidated Result	**474,701**	**61,870**	**(649,523)**	**442,853**	**329,901**

The breakdown of the Group's consolidated ordinary income by segment of activity at 31 December 2014 is as follows:

€ thousands	**Ordinary revenues from external customers**	**Ordinary intra-segment revenues**	**Total ordinary revenues**
SEGMENTS	At 31/12/2014	At 31/12/2014	At 31/12/2014
Commercial Banking	4,378,123	-	4,378,123
Asset management and insurance	232,867	32,458	265,325
Real Estate Area	20,447	229	20,676
Institutional and capital markets	1,452,675	306,369	1,759,044
(-) Adjustments and elimination of ordinary revenues between segments	-	(339,056)	(339,056)
TOTAL	**6,084,112**	**-**	**6,084,112**

The balance sheet by business area at 31 December 2014 is as follows:

€ thousands			**2014**		
	Banking Commercial	**Asset Management and Insurance**	**Area Real Estate**	**Institutional and Market**	**Consolidated**
Assets					
Cash and balances with central banks	447,459	3,780	12	741,563	1,192,814
Financial instruments held for trading	-	40,339	-	1,649,305	1,689,644
Other financial assets designated at fair value through profit or loss	-	510,799	-	-	510,799
Available-for-sale financial assets	-	572,561	823	29,191,968	29,765,352
Loans and receivables	94,304,654	132,680	1,074	13,389,208	107,827,616
Held-to-maturity investment portfolio	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk		-	-	261,023	261,023
Hedging derivatives	-	41,398	-	399,758	441,156
Non-current assets held for sale	-	661	7,712,590	488,127	8,201,378
Investments	-	86,445	144,347	1,639,993	1,870,785
Insurance contracts linked to pensions	-	7	-	162,647	162,654
Reinsurance assets	-	16,921	-	-	16,921
Tangible assets	568,774	953	1,005,285	136,212	1,711,224
Intangible assets	2,490,658	406	1,611	-	2,492,675
Tax assets	-	30,247	750,419	2,837,432	3,618,098
Accruals	-	7,847	103,934	181,758	293,539
Other assets	-	4,253	957,544	439,003	1,400,800
Total assets	**97,811,545**	**1,449,297**	**10,677,639**	**51,517,997**	**161,456,478**
Liabilities					
Financial instruments held for trading	-	-	-	1,397,389	1,397,389
Other financial liabilities designated at fair value through profit or loss	-	649,354	-	-	649,354
Financial liabilities at amortised cost	88,199,939	657,257	118,307	53,252,275	142,227,778
Hedging derivatives	-	63,672	-	2,097,402	2,161,074
Liabilities under insurance contracts	-	483,784	-	-	483,784
Provisions for exposures	121,175	10,308	1,402	337,113	469,998
Tax liabilities	-	24,390	39,906	654,163	718,459
Accruals	-	8,313	17,790	383,313	409,416
Other liabilities	-	12,456	41,413	215,490	269,359
Net intra-group financing	419,462	(776,196)	9,389,446	(9,032,713)	-
Shareholders' equity	**9,070,969**	**315,959**	**1,069,375**	**2,213,565**	**12,669,867**
Total shareholders' equity and liabilities	**97,811,545**	**1,449,297**	**10,677,639**	**51,517,997**	**161,456,478**

The distribution of interest and similar income by geographical area for the consolidated Group at 31 December 2015 and 2014 is detailed below.

€ thousands		Consolidated group	
	At 31/12/2015	At 31/12/2014	Var %
Domestic market	3,199,945	3,813,987	(16.1)
Exports:			
a) European Union	227,545	282,340	(19.4)
b) OECD countries	81,198	70,903	14.5
c) Other	-	4	(100.0)
TOTAL	3,508,688	4,167,234	(15.8)

The breakdown of total assets by geographical area for the consolidated Group at 31 December 2015 and 2014 is detailed below.

€ thousands		Consolidated group	
	At 31/12/2015	At 31/12/2014	Var %
Domestic market	145,878,030	149,201,439	(2.2)
Exports:			
a) European Union	10,239,295	10,081,468	1.6
b) OECD countries	2,532,529	2,173,553	16.5
c) Other	19	18	5.6
TOTAL	158,649,873	161,456,478	(1.7)

8. Business combinations and other corporate transactions with subsidiaries, joint ventures and associates

A business combination is an event involving the acquisition of the assets and the assuming of the liabilities that make up a business over which control is acquired and which is administered and managed in order to obtain a return.

The Group carried out the following corporate transactions in 2015:

Sale of the business unit of managing property assets and other assets in Portugal

On 9 June 2015, Banco Popular Portugal and Consulteam, which are 100% owned by the Group, agreed to sell the business unit of property asset management and the particular debt of the bank relating to real estate to the company, Recbus – Recovery to business, S.A. (hereinafter, Recbus), which would develop that business. Quarteira, S.a.R.L., a company controlled by investment funds managed by Carval Investors LLC which itself is a subsidiary of the Cargill Group, holds an 80% stake in Recbus. The remaining 20% is held by Banco Popular Español (hereinafter, BPE).

Through this transaction, the Group pursues a double objective: on the one hand, exploit fully the property management business in Portugal by benefiting from the knowledge and experience of a partner specialised in optimising property asset management, the recovery of debts and the management of impaired assets; on the other hand, remove the management of this business so as to concentrate Banco Popular Portugal on traditional commercial banking which is directed at savings' management and financial services for individuals, families and businesses, especially SMEs.

The sales agreement included the transfer of all necessary means, including personnel and tangible assets, from the sellers to Recbus for the independent development of the property management and debt recovery activities. This sale was carried out by the Banco Popular Group with the objective of maximising the sale price of property assets and maximising the recovery of debt related to the real estate sector.

The sale was implemented through the following contracts: Investment Agreement, Sales Agreement for the Business Unit of Managing Property Assets and Other Assets, Agreement for the Provision of Services, Agreement for the Provision of Transitional Services and a Shareholders' Agreement.

The Investment Agreement contained a clause with conditions precedent, which had to be fulfilled before the Agreement could become final. By 30 June 2015, the parties had fulfilled the conditions precedent and, accordingly, the Agreement was considered finalised by both parties. Payment for the sale was completed on 22 July 2015.

The sale included a contract for the provision of exclusive services which was signed by Banco Popular Portugal and Consulteam on one side and Recbus on the other; said contract is for a 10-year duration and establishes the services to be provided and their cost. An independent third party certified that the contractual prices were at market rates.

The price of the transaction amounted to €72 million. The transaction generated a capital gain for the Group of €69.5 million, which was recognised in the income statement under "Gains on disposals of assets not classified as non-current assets held for sale", after the transfer of assets worth 0.26 million euros and personnel serving in the productive unit affected by the transfer to Recbus. From that capital gain, €55.6 million originated from the sale of 80% in Recbus, while €13.9 million was the result of the revaluation of the retained 20% stake.

In compliance with accounting standard IFRS 3 "Business Combinations", the Group transferred to Recbus a group of inputs, processes, activities, products and services that in themselves generate ordinary income and profits for Recbus, after it relinquished control and transferred the risks and rewards of the business. The following transactions were performed:

- Issuance of additional capital by Recbus for the amount of €25.3 million, of which BPE and Quarteira, S.A.r.L. subscribed 20% and 80% respectively.
- Shareholders' loan to Recbus equalling €25.4 million provided by BPE and Quarteira, S.A.r.L. in the respective proportions of 20% and 80%.
- Recbus received long-term financing from Banco Popular Portugal for the amount of €21.8 million, granted at market rates.

While BPE retains a 20% share, a change of control occurred within Recbus since the new shareholder, Quarteira, S.A.r.L., holds the major share of 80%.

The Shareholders' Agreement (SHA) includes specific call and put options in the event of a substantial breach of obligations or under other very restrictive events, as summarised in the following table:

Option	Underlying asset	Holder	Counterparty	Exercise price	Market value calculation	Exercise period	Conditions for exercising the option
Call	Recbus shares	BPE	Quarteira, S.a.R.L.	Market value	Market value of the Recbus shares on the date of exercising the option with 30% penalty.	From the date of the transaction's conclusion	Gross breach of obligations Change of control in Recbus if acquired by a competitor of the Group.
Put	Recbus shares	Quarteira, S.a.R.L.	BPE	Market value	Market value of the Recbus shares on the date of exercising the option with 30% penalty. No penalty if due to a detrimental change in Portuguese regulations,	From the date of the transaction's conclusion	Gross breach of obligations Change of control in the Group. Detrimental changes in the Portuguese regulations.
Put	Recbus shares	BPE	Quarteira, S.a.R.L.	Market value	Market value of the Recbus shares on the date of exercising the option.	From the date of the transaction's conclusion	If the other options are exercised and the Group acquires the business but not the shares of Recbus.

In a conducted analysis which considered both the retained 20% share in Recbus and the long-term financing granted to Recbus by the Group, a significant proportion of risks and benefits was transferred. With regard to the financing, it is carried out at market rates and under the same criteria applied to lending operations. The Agreement sets out that, at no time, the risk held by BPE, including its stake in the share capital and the granted financing, should exceed 44% of the equity and liabilities of Recbus.

In relation to the accounting treatment of the retained 20% share in Recbus based on IFRS 10 and 11, and taking into account the Shareholders' Agreement on decision-making with respect to specific reserved matters for the General Shareholders' Meeting and the Board of Directors, there will be joint control of Recbus for the first two years:

a) The Shareholders' Agreement (SHA) specified matters reserved for the decision of the General Shareholders' Meeting or the Board of Directors, which require an 85% majority in favour. Among those reserved matters, the following are highlighted:

- Changes to the corporate governance model affecting the Board of Directors or the Articles of Association.
- Capital increases or reductions, except where necessary to comply with the agreement, regulatory requirements or any other applicable provision under law.
- Changes to the nature of the company's business.
- Any proposal to wind-up or liquidate the company.

b) The Board of Directors comprises 9 members (7 appointed by the Purchaser and 2 appointed by BPE). Decisions by the Board will be taken by simple majority of those present or represented at the Board's meeting, except in the case of reserved matters where, for the first two years, a favourable vote of the members appointed by the shareholders will be necessary and said favourable vote must represent at least 85% of the company's share capital; some such matters are as follows:

- Approval or amendment to the annual budget or business plan.
- Decisions that cause an increase in costs incurred in the management of properties or in the management of loans.

With regard to the types of joint arrangements contemplated by IFRS 11.4 and 11.7, there is joint control by both investors and, considering the rights and obligations resulting from the different arrangements, the existing joint arrangement corresponds to a joint venture.

Sale of 50% stake in Universalpay, Entidad de Pago, S.L.

On 24 December 2015, the Group agreed to sell its 50% stake in Universalpay, Entidad de Pago, S.L. (hereinafter, Universalpay) to EVO Payments International (hereinafter, EVO Payments), so that the latter would hold 100% of Universalpay.

Universalpay was incorporated in October 2013 as a result of a December 2012 agreement between the Group and EVO Payments regarding the sale of the purchase-service business. In said company, the Group held 50% of its shares, which it agreed to sell, while EVO Payments held the other 50% and also had control of the company.

The conclusion of the sales agreement entailed the effective transfer of all risks and benefits held by the Group in the company, thus allowing the disposal of asset since it was not subject to any conditions precedent. The sale amounted to 94,403 thousand euros, 99% of which was received in cash by 30 December 2015 while the remaining 1% will be received on the date of the technology migration. The agreement includes subsequent adjustment to the sales price which will probably be of little importance.

In relation to the governing body of Universalpay, it was agreed that the directors appointed by the Group would be removed.

Prior to the sale, a cash dividend of 4,970 thousand euros was received but it did not have any effect on the Group's Income Statement.

As a result of this sale, the Group recorded a capital gain of 54,810 thousand euros which was recognised in the Group's Income Statement under "Gains (losses) on disposals of assets not classified as non-current assets held for sale".

A summary of the information required by IAS 7.40 for the above-mentioned corporate transactions of 2015 is given below:

			€ thousands
		Sale of the business unit of managing property assets and other assets in Portugal	**Sale of 50% stake in Universalpay**
a.	Total consideration paid (-) or received (+)	72,003	94,403
b.	Percentage in cash and cash equivalents	100%	99%
c.	Cash or cash equivalent amount in subsidiaries or other businesses in which control is gained (+) or lost (-)	-	-
d.	Amount of assets and liabilities, excluding cash, in which control is gained (+) or lost (-)	-	-
	ASSETS	31,648	(36,383)
	Financial instruments held for trading	-	-
	Other financial assets designated at fair value through profit or loss	-	-
	Available-for-sale financial assets	-	-
	Loans and receivables	26,828	
	Held-to-maturity investment portfolio	-	-
	Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-
	Hedging derivatives	-	-
	Non-current assets held for sale	-	-
	Investments	5,076	(36,383)
	Insurance contracts linked to pensions	-	-
	Reinsurance assets	-	-
	Tangible assets	(256)	-
	Intangible assets	-	-
	Tax assets	-	-
	Other assets	-	-
	LIABILITIES		
	Financial instruments held for trading	-	-
	Other financial liabilities designated at fair value through profit or loss	-	-
	Financial liabilities at amortised cost	-	-
	Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-
	Hedging derivatives	-	-
	Liabilities associated with non-current assets held for sale	-	-
	Liabilities under insurance contracts	-	-
	Provisions	-	-
	Tax liabilities	-	-
	Other liabilities	-	-
	Memorandum item	-	-
	Contingent risks	-	-
	Contingent commitments	-	-

The most important corporate transactions that took place in 2014 were as follows:

Acquisition of 40% of Popular Banca Privada from Dexia

On 7 January 2014, Banco Popular Español, S.A. purchased Dexia S.A.´s stake in Popular Banca Privada S.A.

The purchase, which consists of all Dexia S.A.´s shares in Popular Banca Privada S.A., was closed at a price of €49.2 million. As a result, the bank owns 100% of its private banking subsidiary, created in 2001 as a joint venture between Banco Popular Español S.A. (60%) and Dexia Banquet International à Luxembourg (40%).

With 100% control in Popular Banca Privada S.A., it is possible to optimise synergies with the Group, which will undoubtedly have a positive impact on increasing the quality of solutions offered to clients.
Following this transaction, Popular Banca Privada S.A. became the only independent bank to belong to a large Spanish financial group specialising in the professional management of high-equity clients.

Agreement with BP-Paribas Securities Services

On 30 April 2014, the Bank agreed to the sale of the depository and custodial business for its investment funds, pension plans, SICAVs and EPSVs in Spain to BP-Paribas Securities Services.

Having received the relevant administrative authorisations, the transaction was closed on 30 June 2014 for €50 million received in cash plus a variable earn-out upon reaching the established levels of income and commissions and income. The capital gain, amounting to €49.25 million, was recorded under the consolidated income statement under the heading "Gains on disposals of assets not classified as non-current assets held for sale".

Clause 8 of this agreement included specific conditions precedent that had to be fulfilled before the transfer of the depository business could become final.

On the date of the transaction's conclusion, both parties declared that they had completely fulfilled the conditions precedent. The Agreement for the Transfer of the Depositary Business was recorded in a notarial instrument and declared fully effective in all its rights and obligations pertaining to the parties. On that date, BNP Paribas Securities Services paid the purchase price of €50 million via bank transfer.

Therefore, on 30 June 2014, the amount received was no longer subject to any conditions precedent nor was it conditional on the occurrence of benchmarks subsequent to that date.

The earn-out agreed between the parties refers to the additional annual payments by BNP Paribas Securities Services, under the following conditions:

- If the average commissions applied to the investment funds and pension funds exceed 110% of the business plan, BNP Paribas Securities Services will share the excess (35% until the commissions reach 120% and 70% on the excess over 120%). This earn-out will only apply if the income is above the business plan.
- If the euro-currency income from the investment funds and pension funds exceeds 150% of the business plan, BNP Paribas Securities Services will pay 30% of the income excess.

In calculating the capital gain of €49.25 million the earn-out was disregarded since it is a variable future payment that will only become due in the event of a significant improvement in the income envisaged by the business plan. In any event, the updated value of the earn-out is considered to be an irrelevant additional income for the purposes of the Group's consolidated income statement that forms part of its financial statements for the financial year ending 31 December 2014.

The capital gain of €49.25 million was determined as the difference between the received price of €50 million minus the 0.75 million euros for expenses resulting from the sale.

The variable earn-out does not entail management by the Group, since the earn-out corresponds to factors deriving from the development of the business (volumes, changes to values on which the commissions are charged) and those deriving from its effective management which is wholly conducted by BNP Paribas Securities Services (processes, means, personnel).

The depositary business included:

- The safekeeping and administration of securities (settlement, collection of dividends/coupons, application and recovery of withholdings, customer tax reporting and other services attached to custodianship).
- Depository control includes the supervision and control of the correct calculation of the NAVE by the management company of the deposited institutions, compliance with investment policies, restrictions on investment and compliance with legal coefficients, etc.

These tasks were carried out by an independent unit at the bank with in-house staff qualified in the activity and certain fixed assets, which were transferred on the date of the sale to the purchaser as an integral part of the production unit affected by the sale. This transfer allowed the Purchaser to independently conduct the business and to take all decisions that would optimise the operational, accounting and tax efficiency of the transaction, whereas the Group would no longer be involved in the current management of the sold business.

All of the institutional assets deposited at Banco Popular Español, S.A. relate to institutions marketed by the bank's commercial network and managed by Allianz Popular S.A. and Group companies. There are no third-party assets deposited.

The transaction comprised the sale of 100% of the business, with none of the income or costs attached to the business being retained. Accordingly, its risks and benefits were transferred to BP Paribas Securities Services.

Furthermore, the agreement included a 10-year exclusivity clause in favour of BNP for all collective investment institutions marketed by the Group, whereby the Group must neither directly or indirectly offer the Depositary Service to its customers nor promote any other company other than BNP Paribas Securities Services as the Deposit-taking Institution; the Group also undertakes to promote or facilitate the appointment of BNP Paribas Securities Services as the Deposit-taking Institution in future schemes promoted by Banco Popular. Therefore, this is a protective clause for the Purchaser but does not entail any effect on the transfer of risks and benefits pertaining to the depositary business, which was completely sold.

Agreement between Bancopopular-e, S.A. and Citibank España, S.A., with subsequent sale of 51% of Bancopopular-e, S.A.

On 23 June 2014, Bancopopular-e S.A. (E-com) signed an agreement for the acquisition of the retail and credit card business of Citibank España S.A. The purchase agreement was signed and finalised on 22 September 2014.

As a result of this agreement, the Group acquired a portfolio of approximately 1.2 million customer accounts, 1.1 million cards, 45 offices and approximately 950 employees who were incorporated into Bancopopular-e, S.A.

The transaction strengthens the Group's position as the 4th largest financial entity in the means of payment business in Spain, with a total of approximately 5 million cards in circulation. It is a widely diversified business in Spain, both geographically and by type of customer, combining a sales model based on direct distribution and active management of customer relationships. Similarly, the acquisition of this business gave the Group access to new distribution channels and placed it as leader in the highly profitable area of revolving credit.

In addition, the retail business acquired in the transaction has a portfolio of products and services that are distributed through 45 branch offices in Spain, with particular focus on marketing investment funds, structured bonds, pension plans and securities intermediation services.

The purchase price paid to Citibank Spain, S.A. amounted to 241,497 thousand euros. Assets amounting to 1,789,221 thousand euros and liabilities amounting to 1,789,221 thousand euros were acquired.

On 30 September 2014, the bank executed the final agreement with Värde Partners for the sale of 51% of Bancopopular-e, S.A., amounting to 510,000 thousand euros, which resulted in the Group recording a capital gain of 210,307 thousand euros. Also, with the revaluation of the retained interest, a capital gain amounting to 208,963 thousand euros was recognised.

The finalisation of the sale was conditional on obtaining the following administrative authorisations:

a) Non-opposition from the Banco de España in relation to the purchase of the 51% stake in Bancopopular-e by Värde. This authorisation was obtained on 24 November 2014.
b) Authorisation from the European Union Competition Authority. This authorisation was obtained on 10 December 2014.

Given that finalisation and payment of the sale occurred on 18 December 2014, the two conditions precedent were fulfilled in advance. On that date, €510 million in cash was received via bank transfer and that amount was not subject to any later event.

In accordance with the regulations applicable to the consideration of the sales transaction of the stake in E-com (which was based on IFRS-EU) and considering the documentation of the transaction, the major aspects of the sale were as follows:

The income from the sale of the 51% stake had to be recorded since there was a significant transfer of risks and benefits.

The transaction involves the transfer by BPE to Värde of the risks and benefits corresponding to 51% of the transferred business. In connection with the transfer of significant risks and benefits, the analysis included the following elements:

Call and put options contracted under the sale, which either have a price for exercising the option that equals the market value on the date of the option's exercise, thereby not hindering the effective transfer of the risks and benefits associated with the flows of E-com on the date of its sale; or, are protective in nature on the occasion of a breach of obligations by a party.

The call and put options are:

Option	Underlying asset	Holder	Counterparty	Exercise price	Market value calculation	Exercise period	Conditions for exercising the option
Call	E-com shares	Seller	Purchaser	Market value	Initial price offered in the share offer	From 18/12/2017	▪ If E-com decides to go public. ▪ Right to buy between 2% and 10% of the shares.
Call	E-com shares	Seller	Purchaser	Market value	Clause 12.3 of the SHA (1)	From 31/12/2017 to 31/12/2019 and from 31/12/2020	▪ The legal tender of Spain is still the euro. ▪ The pre-tax profit is not 15% lower than the business plan
Put	E-com shares	Purchaser	Seller	Market value	Clause 12.3 of the SHA (1)	From 31/12/2019 to 31/12/2020	▪ Change of control in BPE. ▪ BPE purchases a relevant card business.
Call	E-com shares	Seller	Purchaser	Market value minus 25%	Clause 12.3 of the SHA (1)	A breach occurs.	▪ The purchaser breaches its major obligations.
Put	E-com shares	Purchaser	Seller	Market value plus 25%	Clause 12.3 of the SHA (1)	A breach occurs.	▪ The seller breaches its major obligations.

(1) For the calculation of the market value, each shareholder will appoint an international investment bank from a list of at least four. If the difference between the market value calculated by each of the experts is equal or less than 10%, the market value will be deemed to be the average of the two values. Otherwise, a third independent expert will be appointed. On the basis of the existing valuations by the first two experts and the third expert, the fair value will be determined by obtaining the average of the valuations proposed by the first and third experts or the average of the valuations suggested by the second and third experts.

All situations established for exercising the call and put options stated in the above table represent the protective rights of the option-holder and do not imply the possibility of exercising them in the absence of the mentioned circumstances, which were considered remote as of the date of the transaction. The option price will be the market value on the date the option is exercised as determined by independent third parties, except in the case of the last two options shown in the above table where a penalty of 25% will be applied to the market price against the party in breach. As a result, the transfer of risks and benefits associated with the sale of the 51% stake is not affected.

i. The Group granted a €500 million line of credit to Bancopopular-e for 5 years under market rates. This line of credit was not used at any time by Bancopopular-e since the close date, 18 December 2014, nor was it used in 2015.

At the time of the transaction, the Bank had a loan to deposits ratio lower than 90% which means that the card business is fully funded by customer deposits.

Based on that established in Bancopopular-e's Business Plan, the Entity could look to be financed in the coming years by attracting new deposits through online banking, which offset the fall in deposits from the business acquired from Citibank España.

Additionally, the line of credit was not aimed at financing the business, but addressing specific liquidity problems that could occur, and based on the Business Plan that need is not expected. In this sense, therefore, the line of credit granted had no impact on the transfer of risks and benefits of the shareholding sold nor did it affect the conclusion on the effective transfer of risks and benefits in the transaction.

    - An implication of BPE is not maintained in the normal management of the assets sold to a anyone associated with the property. In this regard it is noteworthy that based on the agreements signed, none of the Partners maintain any involvement in the capital of the balancing entry.
    - Reliability assessment of revenue and cost and likely obtaining the benefits derived from the transaction The irrevocable compensation received at the beginning is not linked to any future event.

- The involvement of BPE in E-com gave control based on the various agreements between BPE, E-com and Värde. In particular, the shareholders' agreement (SHA), which required that decisions about the relevant activities should have been unanimous in practice. This supposed that:

    - BPE retained control of 100% of Bancopopular-e S.A., but now losing that control over it through this transaction, therefore, the percentage retained from participation in E-com books should have been recorded at fair value at the date of the transaction, recording the difference between the previous carrying value and fair value as profit or loss in the consolidated income statement for the BPE Group.
    - BPE recognised its interest in the whole of the E-com business as an investment, and accounted for this investment using the equity method in accordance with IAS 28 "Investments in associates and joint ventures" in its consolidated financial statements.

In accordance with applicable regulation for the consideration of the sales transaction of the Bancopopular-e, S.A. shareholding (which is based on IFRS-EU "Appendix B.3 - Application Guide" of IFRS 10), considering the agreements in the transaction framework, the most important aspects are:

a) The shareholders' agreement (SHA) included certain matters reserved in the decisions to be taken by the General Shareholders' Meeting or by the Board of Directors which required at least 75% to vote in favour. Among those reserved matters, the following are highlighted:

- Appointment and replacement of Directors different to those stipulated in the SHA.
- Capital increases or reductions, except where necessary to comply with the agreement, regulatory requirements or any other applicable provision under law.
- Cancel the preferential subscription rights on the capital increase, in whole or in part.
- Changes to the nature of the company's business.
- Transformation, merger, assignment of all assets and liabilities, transfer of the Company's registered office abroad.
- Any proposal to wind-up or liquidate the company.

b) The Board of Directors consists of 8 members (4 appointed by Värde, 3 by BPE and 1 independent director appointed at the proposal of Värde). The Chairman shall be appointed at the proposal of Värde and the Secretary at the proposal of BPE. If Banco de España require the appointment of another Independent Director, Banco Popular will replace one of the three Directors which it has appointed and will propose an additional Independent Director.

c) The decisions taken by the Board shall be by absolute majority of the attendees present or represented at the Board meeting except in so-called Key Decisions (KD) in which the favourable vote of the members appointed by shareholders and representing at least 75% of the Company's share capital is required, among which are:

- Approval or amendment to the annual budget or business plan.
- Measure which imply the redeployment of personnel whenever it would affect more than 10% of the workforce.
- Hiring and firing of members of the Company's Management.

Therefore, as noted, the SHA which regulates the structure of decision-making bodies in relation to the Management of the relevant activities are made, requires that, in practice, decisions be taken unanimously. Consequently, we conclude that Värde and BPE jointly control E-com.

With regard to the types of joint ventures referred to in IFRS 11.4 to IFRS 11.7, there is joint control by both investors and, taking into account the rights and obligations arising from the agreements, the existing joint agreement between Värde and BPE corresponds to a joint venture.

Sale of rights to receivables from marketing pensions and insurance

On the 30th of June 2014, the Group reached an agreement with a number of qualified investors to sell the fee and commission income from marketing insurance products of the Fund Manager and Allianz-Popular insurance company, which is 40%-owned by the Bank:

These fees and commissions are receivable by the Bank from the outstanding household insurance and pension plan portfolios in run-off, in addition to the ordinary and extraordinary contributions from clients with pension plans taken out prior to 1 July 2014.

To this end, the Bank sold the future receivables from the fees and commissions described above to a newly created company, Inversiones Financieras Colina, S.A. (IF), in which it retains a 1% stake.

The purpose of completing this transaction is primarily to enable the Bank to maximise the return on the efforts already made in marketing these products, in addition to transferring the risks and benefits arising from the performance of the existing portfolio, the balance of which is the source of the future fees and commissions, with the investors assuming the risks associated with the performance of the outstanding portfolios in run-off.

The agreement will remain in force as long as the sold rights subsist, without prejudice to the existence of purchase options for the Bank and a sale option for the investors from the fifth year, at market value, with the primary purpose of setting up periodic liquidity mechanisms for the investors, without affecting the effective transfer of risks and benefits.

The terms of the transaction were determined on market terms, as they were freely agreed between independent parties to the contract of assignment of future receivables dated 14 July 2014; on one hand, Banco Popular Español, S.A. and other financial institutions of the Group, acting as sellers of these receivables, and on the other Financieras Colina, S.L.

The Group has a report from an independent expert who conducted a review of the valuation and concluded that the valuation method is a generally accepted method, which reviewed the internal consistency of the formulae and calculations contained in the valuation study and reviewed the suitability of the calculations made in the preparation of projections and did not detect any significant aspect.

There are no precedent, adjudicative nor administrative authorisation conditions which affected the transaction, but that the transfer of the receivables as well as sub-participation agreements, establish simple rights and obligations, not subject to any condition.

The capital gain recorded under the heading "Other operating income. Other concepts" of this transaction amounted to 96.704 million euros and is obtained from the amount received of 105.370 million euros minus the following amounts: 2.828 million euros corresponding to the current value of future expenses incurred 1.489 million euros for the cost of the transaction (consultants, lawyers, etc.) and 4.349 million euros for the current estimated value of future fees for extraordinary contributions to pension plans whose receivables were sold.

From the analysis of the applicable rules for consideration of the sales transaction of the Assigned Rights we could draw the following major conclusions:

- The sale of the Assigned Rights does not constitute a transfer of a business. Being a portfolio in run-off, the application of any processes such as marketing activities that generate such rights that are already made is not required, and we believe that the Assigned Rights does not meet the definition of business established in IFRS 3.
- The recognition of revenue derived from the sale of future receivables (Rights loan) could be performed because:

    - There had been a significant transfer of risks and benefits: The transaction involves the transfer of risks and benefits by BPE to IFC, derived from a decrease in the insurance portfolio or decrease in assets under management in the case of pension funds in exchange for an irrevocable down payment and the risks of non-payment of premiums by policyholders of insurance contracts. In connection with the transfer of significant risks and benefits, the analysis included the following elements:

        i. The put and call options contracted in connection with the transaction have an exercise price equivalent to fair value at their different exercise dates, i.e. the fair value of the receivables remaining at those exercise dates.

The agreed options are as follows:

Option	Underlying asset	Holder	Counterparty	Exercise price	Market value calculation	Exercise period	Conditions for exercising the option
Call	Future receivables	BPE	IFC	Market value	Market value of future receivables on exercise date (1)	01.07.2019 and, subsequently, every 2 years.	Without conditions
Put	Sub-participation rights	Each of the Investors	BPE	Market value	Market value of sub-participation rights on exercise date (2)	01.07.2019 and, subsequently, every 2 years.	Without conditions
Call	Sub-participation rights	BPE	Each of the Investors	Market value	Market value of sub-participation rights on exercise date (2)	01.07.2019 and, subsequently, every 2 years.	Without conditions
Put	Shares and Rights of sub-participation	Each of the Investors	BPE	Market value	Market value of sub-participation rights at exercise date (2) with a penalty of 25% against exercising the option.	From the date of signing the agreement.	Change in control in BPE or significant reduction in BPE's shareholding in Allianz Popular Holding to below 20%.

(1) The market value will be determined following a method similar to that applied for determining the initial value of these rights, which functioned as their assignment price in the assignment contract. That is, the calculation method will consist of: (i) determining an estimate of the accrual of future fees' flows and (ii) the flows being discounted at the time of valuation (option exercise date) using a market interest rate. If the parties fail to agree on the market value, it will be determined by an independent expert using the above method.

(2) The market value will be determined following a method similar to that applied for determining the initial value of these future rights, which functioned as their initial price. That is, the calculation method will consist of: (i) determining an estimate of the accrual of future fees' flows in the remaining rights that are expected to change the remaining rights which integrate the assets of Inversiones Financieras Colina, S.L at the option exercise date (ii) the flows being discounted at the time of the valuation using a market interest rate at that date, based on market benchmarks for investment of similar term and level of risk. If the parties fail to agree on the market value, it will be determined by an independent expert using the above method.

Neither of these options affect the effective transfer of risks and benefits nor breach of the condition mentioned in paragraph 14.d) of IAS 18 in which it is probable that the economic benefits associated with the transaction will flow to the entity, them having an exercise price equivalent to the market value of the respective underlying assets at the option exercise date. Therefore, they have not led to any barrier to the actual transfer of risks and benefits associated with the flows of future receivables assigned.

The transaction involves the transfer of risks and benefits by Banco Popular Español, S.A., derived from a decrease in the insurance portfolio or assets under management in the case of pension funds as well as the risks of non-payment of premiums by policyholders of insurance contracts.

The clause concerns the commitment to not actively promote those of its customers who have signed either of the financial products produced by the mediation committees who were the originators of credit rights assigned replacing such products for alternatives also distributed by Banco Popular Español, S.A. and which have a legal and tax configuration equivalent to the first having a protective nature for the buyer. To this end, it is understood that active promotion occurs when this replacement occurs and the Bank has made, within the two months prior to the replacement, specific commercial activities with respect to that client and in relation to alternative products, intended to suggest, advise or invite the client to replace some products for others.

Keep in mind that the receivables rights correspond to a closed portfolio (in run-off), which is not open to new insurance contracts and pension plans and, therefore, is not associated with continuity in new operations, but will decrease through the natural maturity of the contracts which make up the portfolio. Therefore, the establishment of that commitment of the Bank represents a protective safeguard clause logically in favour of investors to avoid a reduction of the portfolio due to action of the Bank to the detriment of investors.

Therefore, this commitment is not a barrier to the effective transfer of risks and benefits in the transaction, but offers protection for investors, ensuring that no irregular competitive situations occur by the Bank which adversely affects their interests.

- An implication of BPE is not maintained in the normal management of the assets sold to a anyone associated with the property. Collecting regular premiums on an existing insurance portfolio with customers and which are already sold does not require a significant involvement by the seller. Similarly, the marketing fee that the management of pension funds regularly gives BPE for the assets held in the pension plans for clients attracted through the network, does not require significant involvement by BPE. For future costs of management or administration of the sales of 'run-off' portfolios, a fair value of such services is estimated, and a liability for that amount is acknowledged, so that the income from these concepts is recognised as incurred costs associated with the provision of those services. In the case of extraordinary contributions to pension plans this liability additionally includes estimating the fair value of marketing services thereof.
- Reliability in assessing the amount of income. The amount of revenue responds to the future benefit of the portfolio. These were estimated reliably since it was a prescribed initial payment calculated based on a business plan approved by the parties on the closing date of the transaction.
- Likely getting the benefits of the transaction. The initial consideration is irrevocable proof of the existence of economic benefits associated with the transaction.
- Reliable assessment of the costs incurred in the transaction: relevant costs that the Bank has to incur to generate future income were not identified, with the exception of those mentioned above, which gave rise to liabilities and deferred income above so that these are accruals as incurred in the future costs.

The involvement of BPE in IFC does not give control over it and therefore not consolidated within the Banco Popular Group based mainly on the following considerations:

- IFC is owned by a Single Director who was initially appointed by the Bank (sole shareholder of Inversiones Financieras Colina, S.L.) in deed dated 18 June 2014, i.e., prior to the completion of the transaction.

  Subsequently, dated 14 July 2014, and now Banco Popular Español, S.A. being the minority shareholder of Inversiones Financieras Colina, S.L. with a shareholding of 1%, the same person was ratified in the position of Sole Director by the General Board of Inversiones Financieras Colina, S.L. with all members, representing 100% of share capital, voting in favour.

Therefore, the current position of Sole Director does not come from an appointment that has been made with the votes of Banco Popular Español, S.A, so that a situation of control by the Bank doesn't exist, since the conditions of Article 42 of the Commercial Code are not met, nor a linked situation with the Bank.

- The participation of BPE in IFC will be 1% in both the share capital and accounts in sub-participation, which is not considered to have power to direct the relevant activities of IFC and further exposure to variability of IFC returns is not significant given the percentages of participation.

The financial liabilities and shareholders' equity of Inversiones Financieras Colina (IFC) is structured as follows:

- The capital represents 0.11% of total liabilities plus shareholders' equity. In this capital investors hold 99%, while Banco Popular Español holds 1%
- The financial liabilities represent 99.89% of total liabilities plus shareholders' equity. These liabilities has been implemented through sub-participations which were subscribed by 99% of investors and 1% by Banco Popular Español.

Returns derived from participation in the sub-participation accounts as well as in the capital of IFC are exposed to the variability of returns derived from the credit rights assigned. All distributions of flows will be pari passu among all participants, so that Investors are significantly more exposed to variable returns from IFC as they hold 99% of the shares compared to the 1% which BPE holds.

With regard to financing grated by Banco Popular to investors; it was limited to 48% of the total contribution made to IFC by investors through sub-participations. The acquisition of IFC shares was not financed. Financing is granted under market conditions and the risk assessment of borrowers' solvency each was assessed, considering that the repayment of the financing is not linked to the performance of the investment in IFC but to the investors and their personal guarantee; therefore, the repayment depends on the financial worth of each borrower.

The nature of credit risk to which BPE is exposed derived from the financing granted to investors is, therefore, different from the nature of market risk (fall of the portfolio) and credit risk (default by insurance holders) arising from the receivables which have been assigned to IFC.

Therefore, the transfer of risks and benefits is not affected by the granting of financing.

In the analysis of the transfer of risks and benefits it was assessed that BPE holds 1% of IFC and also that investors had financed 48% so adding both together, BPE had a maximum of 49%.

The shareholders of Inversiones Financieras Colina, S.A. are not considered as linked to Banco Popular Español, S.A. Currently, in addition to this shareholding, two other partners not linked with the Bank exist, who have a percentage share in the capital of Inversiones Financieras Colina, S.A of 56.30% and 42.70%, respectively.

The Sole Director belongs to the workforce of Banco Popular Español, S.A., although is not a Director nor a member of its Senior Management, and does not share in the capital of the investing entities nor in the capital of Banco Popular, they neither have a link with the associated persons for the purposes of compliance with the provisions of Article 229 of the Redefined Text of the Corporate Enterprises Act.

Agreement with Grupo Financiero Ve Por Más S.A. de C.V. (GAB+)

Agreement reached on 11 December 2013, as part of which the Group acquired a 24.9% shareholding in the Mexican Financial Group BX+, which materialised in the first half of 2014, once the relevant supervisory and regulatory authorisations were obtained in Spain and Mexico, classified as an associate at 31st of December 2014.

On 9 September 2014, the Bank took up the holding and as a result features on the entity's highest governing body and leads the teams in charge of implementing the new BX+ Growth Plan.

As part of this strategic alliance, the Bank seeks to triple the size of BX+ in the next five years, developing a new support market for SMEs and families in Mexico and Latin America.

In turn, majority shareholders of BX+ invested €450 million in Banco Popular Español, S.A., around 6% of its share capital.

The acquisition was completed following a €97.1 million capital increase. This transaction has resulted in the Bank's own funds being further underpinned.

The capital gains before taxes generated from the transactions mentioned can be found below. Figures have been divided between the direct sale of the business to investors and the revaluation of the interest retained by the Group:

		Capital gains recorded		
€ thousands	**Business value**	**Total**	**Of which: For Sale to investors**	**Of which: Revaluation of shareholding retained (*)**
Depositary Business	50,000	49,245	49,245	-
Sale of future receivables	105,370	96,704	96,704	-
Sale of 51% of Bancopopular-e	1,000,000	419,270	210,307	208,963

(*) The amount of 208,963 thousand euros included in the table as a capital gain received in the retained interest corresponds to the adjustment to fair value of 49% of Bancopopular-e, S.A. owned by the Group at 31 December 2014. (Note 28).

	€ thousands	Acquisition of 40% of Popular Banca Privada	Sale of 100% of the Deposit business	Sale of 51% of Bancopopular-e	Sale of 100% of rights to receivables from marketing pensions and insurance	Acquisition of 24.9% of Grupo Financiero Bx+
a.	Total consideration paid (-) or received (+)	(49,200)	50,000	510,000	104,000	(97,100)
b.	Percentage in cash and cash equivalents	100%	100%	100%	100%	100%
c.	Cash or cash equivalent amount in subsidiaries or other businesses in which control is gained (+) or lost (-)	1,278	-	(5,395)	-	21,186
d.	Amount of assets and liabilities, excluding cash, in which control is gained (+) or lost (-)	-	-	-	-	
	ASSETS	471,713	-	(1,421,362)	-	436,930
	Financial instruments held for trading		-		-	95,040
	Other financial assets designated at fair value through profit or loss		-		-	
	Available-for-sale financial assets	167,344	-	(510)	-	100,673
	Loans and receivables	142,630	-	(1,224,507)	-	223,793
	Held-to-maturity investment portfolio	128,034	-		-	
	Fair value changes of the hedged items in portfolio hedges of interest rate risk		-	-	-	
	Hedging derivatives	18,750	-	-	-	
	Non-current assets held for sale	298	-	(1,233)	-	816
	Investments	1,602	-	(655)	-	26
	Insurance contracts linked to pensions		-		-	
	Reinsurance assets		-		-	
	Tangible assets	415	-	(359)	-	9,737
	Intangible assets	16	-	(178,217)	-	
	Tax assets	1,135	-	(7,763)	-	4
	Other assets	11,489	-	(8,118)	-	6,841
	LIABILITIES	442,691	-	(1,132,284)	-	397,894
	Financial instruments held for trading	-	-	-	-	18
	Other financial liabilities designated at fair value through profit or loss	-	-	-	-	-
	Financial liabilities at amortised cost	405,652	-	(1,097,633)	-	394,263
	Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-
	Hedging derivatives	20,868				
	Liabilities associated with non-current assets held for sale	-	-	-	-	-
	Liabilities under insurance contracts	28	-	(29)	-	-
	Provisions	2,529	-	(1,426)	-	-
	Tax liabilities	1,770	-	(7,994)	-	-
	Other liabilities	11,844	-	(25,202)	-	3,613
	Memorandum item					
	Contingent risks	3,084	-	(19,623)	-	-
	Contingent commitments	2,788	-	(2,956,862)	-	-
	Third-party balances Deposit Business	-	(13,865,499)	-	-	-
	Rights to receivables from marketing of insurance and pensions	-	-	-	(105,370)	-

9. Discontinued operations

In 2015 and 2014 the Group recorded no transactions of this kind.

10. Remuneration of the directors and senior management of Banco Popular Español, S.A.

1. Directors' remuneration

At the General Shareholders' Meeting held on 13 April 2015 the Compensation Policy of Banco Popular's Directors for the years 2015-2018 was approved in compliance with the criteria of i) maximum transparency in the information made available to shareholders; ii) strict observance of prudence when it comes to risk-taking and; iii) alignment with the best standards of corporate governance.

The policy distinguishes between the remuneration of directors in their capacity as such and remuneration of directors performing executive duties, deciding from 2015 onward to reward the performance of the position of Director and maintaining the salary of Directors who carry out executive functions.

In accordance with that established in the Compensation Policy, information concerning the remuneration accrued in 2015 (and in 2014) of the members of the Board of Directors of Banco Popular Español, S.A. at 31 December 2015 is set out below. No director received any amount due to their belonging to other consolidated group companies.

Thousands of euros **Direct Risks**	**2015**	**Statutory fees**	**REMUNERATION**						**TOTAL**
			FIXED REMUNERATION		**BONUSES**				
					Immediately payable		**Deferred**		
			Fixed	**Individual performance bonus**	**In cash**	**In shares**	**In cash**	**In shares**	
	Francisco Aparicio		645	125					770
-	José María Arias	-	120	-	-	-	-	-	120
-	Antonio del Valle	-	120	-	-	-	-	-	120
-	Banque Fédérative du Crédit Mutuel	-	120	-	-	-	-	-	120
966	Fundación Barrié de la Maza	-	120	-	-	-	-	-	120
136	Francisco Gómez Martín		820	250					1,070
-	Luis Herrando	-	120	-	-	-	-	-	120
-	Roberto Higuera	-	120	-	-	-	-	-	120
-	Ana María Molins	-	120	-	-	-	-	-	120
-	Jorge Oroviogoicoechea Ortega		120	-	-	-	-	-	120
-	Helena Revoredo	-	120	-	-	-	-	-	120
814	Angel Ron	-	1,220	250					1,470
-	Sindicatura de Accionistas	-	120	-	-	-	-	-	120
3	Vicente Tardío	-	120	-	-	-	-	-	120
1,919	**TOTAL**	-	4,005	625					4,630 (*)

(*) This amount does not include the remuneration received by the former director Unión Europea de Inversiones, S.A. during the months of the 2015 in which they held that office, which totalled 120 thousand euros.

Thousands of euros **Direct Risks**	**2014**	**Statutory fees**	**REMUNERATION**						
			FIXED REMUNERATION		**BONUSES**				**TOTAL**
					Immediately payable		**Deferred**		
			Fixed	**Individual performance bonus**	**In cash**	**In shares**	**In cash**	**In shares**	
1	Francisco Aparicio	-	500	125	61	61	61	61	869
-	José María Arias	-	-	-	-	-	-	-	-
	Antonio del Valle								
-	Alain Fradin	-	-	-	-	-	-	-	-
1,947	Fundación Barrié de la Maza	-	-	-	-	-	-	-	-
431	Francisco Gómez Martín		675	225	88	88	88	88	1,252
-	Luis Herrando	-	-	-	-	-	-	-	-
-	Roberto Higuera	-	-	-	-	-	-	-	-
-	Ana María Molins	-	-	-	-	-	-	-	-
-	Jorge Oroviogoicoechea Ortega		-	-	-	-	-	-	-
-	Helena Revoredo	-	-	-	-	-	-	-	-
878	Angel Ron	-	1,060	250	128	128	128	128	1,822
-	Sindicatura de Accionistas	-	-	-	-	-	-	-	-
11	Vicente Tardío	-	-	-	-	-	-	-	-
43,893	Unión Europea de Inversiones, SA	-	-	-	-	-	-	-	-
47,161	TOTAL	-	2,235	600	277	277	277	277	3,943

Annual bonuses for 2015

The executive Directors received no amounts whatsoever under the Bonuses System approved at the General Shareholders' Meeting of 13 April 2015, since the conditions for collection were not met at year-end 2015.

Annual bonuses for 2014

As regards the 2014 bonuses reflected in the table above, on 7 April 2014 the shareholders, in a General Shareholders' Meeting, approved a Bonus Scheme for executive Directors and members of senior management, with the following specific conditions:

1. At least 50% of the total annual bonuses are to be paid in Banco Popular stock.

2. 50% of total bonuses, both the part paid in cash and the part paid in stock, was paid during the first quarter of 2015, deferring the remaining 50% to be paid in thirds over financial years 2016, 2017 and 2018.

3. The shares delivered are unavailable for one year from delivery. This restriction is applicable to the net amount of the shares after discounting the part required to pay tax on the shares received.

4. There are scenarios which can decrease or prevent, as the case may be, the collection of the deferred bonuses outstanding payment.

As regards the Annual Bonuses Scheme for 2014, during the first quarter of 2016 the executive Directors will receive the first payment of one third of 50% of the Annual Bonuses, both in cash and in stock, which were deferred for payment in the subsequent three financial years (2016, 2017 and 2018) for the following amounts: 42 thousand euros and 10,216 shares in the case of Mr. Ron; 29 thousand euros and 7,018 shares in the case of Mr. Gómez; and 20 thousand euros and 4,874 shares in the case of Mr. Aparicio.

Annual bonuses for 2013

As regards the 2013 bonuses, on 10 June 2013 the shareholders, in a General Shareholders' Meeting, approved a Bonus System for executive Directors and members of senior management, with the following specific conditions:

1. At least 50% of the total annual bonuses are to be paid in Banco Popular stock.

2. 50% of total bonuses, both the part paid in cash and the part paid in stock, was paid during the first quarter of 2014, deferring the remaining 50% to be paid in thirds over financial years 2015, 2016 and 2017.

3. The shares delivered are unavailable for one year from delivery. This restriction is applicable to the net amount of the shares after discounting the part required to pay tax on the shares received.

4. There are scenarios which can decrease or prevent, as the case may be, the collection of the deferred bonuses outstanding payment.

As regards the Annual Bonuses Scheme for 2013, during the first quarter of 2016 the executive Directors will receive the first payment of one third of 50% of the Annual Bonuses, both in cash and in stock, which were deferred for payment in the subsequent three financial years (2015, 2016 and 2017) for the following amounts: 23 thousand euros and 4,851 shares in the case of Mr. Ron; 13 thousand euros and 2,752 shares in the case of Mr. Gómez; and 11 thousand euros and 2,304 shares in the case of Mr. Aparicio.

Long-term Bonus Plan

On 10 June 2013, the General Shareholders' Meeting approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 for the members of the executive team, including executive Directors and senior management members.

The Plan is based on the assignment to the beneficiaries of a number of units per cycle, with a duration of four years each, in financial years 2013, 2014, 2015 and 2016, which will form the basis for calculating the Banco Popular shares to be delivered to the Plan's beneficiaries in 2017, 2018, 2019 and 2020, if appropriate and provided that the objectives laid down in the Plan are met.

With respect to units pre-assigned to executive directors for the first (2013-2016) and second cycle (2014-2017) of the Long-term Bonus Plan, they were respectively 1,933,702 units (386,740), with the adjustment resulting from the reverse split carried out in June 2013- (reported as a Relevant Act to the CNMV on 10 June 2013) and 435,084 -calculating the adjustment resulting from the reverse split carried out in June 2013- (and reported as a Relevant Act to the CNMV on 24 April 2014).

Under the Plan, in 2015, the directors, Messrs. Ron, Gómez and Aparicio, were pre-assigned 207,182; 145,794; and 99,754 units respectively, - a total of 452,730, with the adjustment resulting from the reverse split carried out in June 2013- (and reported as a Relevant Act to the CNMV on 29 April 2015) corresponding to the third cycle (2015-2018) of the four that make up the Long-term Bonus Plan, and will be quantified in shares and delivered, where appropriate, in 2019.

The Director and Vice-Chairman José María Arias Mosquera, by virtue of the agreements adopted in the past by Banco Pastor and in effect prior to its integration in Banco Popular, received 1,091 thousand euros in 2015 for his early retirement as Executive Chairman of Banco Pastor and resignation from its Board, which was charged to provisions established by Banco Pastor prior to its integration in Banco Popular. In 2014 he received 1,091 thousand euros under the same agreement.

The Long-term Bonus Plan in shares did not produce any accrual in 2015 or 2014. The units assigned are indicated in note 15.x. In any case, the number of shares awarded will be determined at the end of each cycle depending on the degree of achievement of the strategic objectives that have been set.

Long-Term Savings Arrangements

The cost payable by the Bank in 2015 for the coverage of the pension commitments of the directors who are beneficiaries, Messrs. Ron, Gómez and Aparicio, amounts to 214, 51 and 360 thousand euros, respectively, amounting to a total of 626 thousand euros. In 2014, this amount totalled 2,792 thousand euros. In addition, they are beneficiaries of life and medical insurance premiums totalling 16 thousand euros.

The vested rights and technical mathematical provisions linked to the pensionable rights of the current directors Messrs. Ron, Gómez, Aparicio, Higuera and Arias amount to 8,182, 5,698, 4,284, 9,329 and 15,202 thousand euros respectively, totalling 42,695 thousand euros which, together with the 34,001 thousand euros pertaining to other former directors, amounts to a total of 76,696 thousand euros as at 31 December 2015 (75,901 thousand euros at 31 December 2014).

2. Remuneration of Senior Management.

Annual remuneration for 2015

Remuneration relating to the thirteen members of senior management for 2015, excluding directors, totals 4,799 thousand euros

The senior management received no amounts whatsoever under the Bonus System approved at the General Shareholders' Meeting of 13 April 2015, since the conditions for collection were not met at year-end 2015.

On the other hand, the aggregate amount for these persons with respect to benefits in kind (basically, housing, life and health insurance premiums and the tax allocation of advances, delivery of shares and company store purchases) is 373 thousand euros.

Annual remuneration for 2014

Remuneration relating to the thirteen members of senior management in 2014, excluding directors, totalled 6,072 thousand euros. This amount breaks down to 4,622 thousand euros in fixed remuneration and 1,450 thousand euros in bonuses, under the Bonus System for 2014 approved by the General Shareholders' Meeting held on 7 April 2014.

As regards the deferral calendar set out in the Annual Bonus Scheme for 2014, during the first quarter of 2016 the members of senior management will receive the first payment of one third of 50% of the Annual Bonuses, both in cash and in shares, which were deferred for payment in the subsequent three financial years (2016, 2017 and 2018) for a total sum of 121 thousand euros and 28,987 shares.

The aggregate amount for these persons with respect to benefits in kind (basically life and health insurance premiums and the tax allocation of advances and the company store purchases) was 160 thousand euros.

Annual bonuses for 2013

Remuneration relating to the twelve members of senior management in 2013, excluding directors, totalled 4,947 thousand euros. This amount breaks down to 4,250 thousand euros in fixed remuneration and 697 thousand euros in bonuses, under the Bonus System for 2014 approved by the General Shareholders' Meeting held on 10 June 2013.

As regards the deferral calendar set out in the Bonus System for 2013, during the first quarter of 2016 the members of senior management (currently thirteen) will receive the second payment of one third of 50% of the Annual Bonuses, both in cash and in shares, which were deferred for payment in the subsequent three financial years (2015, 2016 and 2017) for a total sum of 61 thousand euros and 13,083 shares.

The aggregate amount for these persons with respect to benefits in kind (basically life and health insurance premiums and the tax allocation of advances and the company store purchases) was 82 thousand euros.

Long-term Bonus Plan

In regard to the Long-term Bonus Plan approved by the General Shareholders' Meeting held on 10 June 2013 mentioned before, in 2015 members of senior management were pre-assigned, in aggregate, a total of 622,154 units - in the case of the thirteen members of the Management Committee, and a total of 985,583 units- in the case of other members of the so-called "identified group"- all calculated in accordance with the adjustment resulting from the reverse split carried out in June 2013- (and reported as a Relevant Act to the CNMV on April 29, 2015) corresponding to the third cycle of the four that make up the aforementioned Long-term Bonus Plan, and will be quantified in stock and delivered, where appropriate, in 2019.

Long-Term Savings Arrangements

The cost payable by the Bank in 2015 for the coverage of pension commitments in favour of senior management members totals 1,531 thousand euros. In 2014, for the managers then identified, the amount concerned was 2,297 thousand euros.

The vested rights and technical mathematical provisions linked to the pensionable rights of these managers amount to 16,221 thousand euros at 31 December 2015. At 31 December 2014, the amount was 14,684 thousand euros.

The credits and loans from the Entity to this group amounted to 4,182 thousand euros and those granted to parties related to them to 1,208 thousand euros. Demand and term deposits amounted to 2,878 thousand euros and those of their related parties to 2,739 thousand euros.

11. Agency contracts

The list of agents of Banks Popular, S.A., Banco Pastor, S.A. and Popular Banca Privada, S.A., as at 31 December 2015, as required for reporting purposes by Royal Decree 1245/1995 of 14 July, is shown in Annex II to these consolidated financial statements.

12. Environmental impact

The Group considers that it has taken appropriate action in relation to the protection and improvement of the environment and the minimisation, where appropriate, of the environmental impact. Even so, given the activities in which the Group is engaged, it has no liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant in relation to its assets, financial position or results. Therefore, as at 31 December 2015 the accompanying consolidated financial statements do not include specific disclosures in these notes regarding environmental issues. Appendix III of the integrated report details the Bank’s actions in relation to the environment.

13. Guarantee Fund and National Resolution Fund

The contributions to the Deposit Guarantee Fund (Spain, Portugal and USA), in the case of credit institutions, and to the Investment Guarantee Fund created in 2001 by Royal Decree 948/2001 of 3 August, on indemnity systems for investors, for securities companies and agencies and contributions to the National Resolution Fund, are recognised in Other operating charges (Note 57) in the consolidated income statement.

In 2014, the EU adopted Regulation (EC) 634/2014, which reflects IFRIC 21 on Levies; applicable and effective from the 1/1/2015, although it provides for its early adoption. Said interpretation establishes that the levy should be accounted when the implicit obligation arises, regardless of the time of its settlement. Therefore, the accounting of the contributions to these funds in 2015 was carried out by applying this interpretation.

In the 2014 financial year, the ordinary contribution to deposits at 31 December 2014 is already registered and charged against the result of 2014. The other corresponding commitments at the end of 2013, settled in 2014, were handled as a change in accounting principles pursuant to Rule 8 of Banco de España Circular 4/2004 and IAS 8; as a result, the amount settled at the beginning of 2014, concerning the amount accrued to 31/12/2013, were reflected in 2014 Reserves, and thus in the Income Statement for 2013.

Deposit Guarantee Fund

In June 2015 the Law 11/2015 of 18 June on recovery and resolution of credit institutions was approved which, in its tenth final Provision amends Royal Decree Law 16/2011 of 14 October, creating the Deposit Guarantee Fund; and which also performes a partial transposition of the European Directive on Deposit Guarantees to the Spanish legal system.

Royal Decree 1012/2015, of 6 November, which develops Law 11/2015, amends RD 2606/1996 of 20 December on deposit guarantee funds of credit institutions.

The new legislation has introduced a new method for calculating contributions. The entities' contributions will be calculated based on a formula whose outcome depends on:

- The basis for calculating the amount of deposits guaranteed by each entity. Its determination will be made based on the provisions of Banco de España Circular 8/2015, of 18 December. It is a significant decrease compared to the calculation basis previously used.
- The contribution rate set of all the member entities. Established dividing the sum of the contributions of the member entities (determined by the Deposit Guarantee Fund) and the sum of deposits guaranteed by each of the entities (reported by them).
- Adjusted by the risk profile of each member entity. Whose methodology will be established by the Banco de España in accordance with Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee systems. This methodology will take, as a minimum, indicators of capital, liquidity and financing and asset quality into account.

For the 2015 contributions, and pending the approval by the Banco de España of the methodology for risk adjustment for each entity, on 2 December 2015 the Deposit Guarantee Fund sent a letter to entities to inform that the Fund's Management Committee had determined that for 2015 contributions to the various parts of the fund must be calculated as follows:

- Deposit guarantee part, 1.6 per thousand of the calculation basis.
- Deposit assurance part of the DGF, 2 per thousand of the calculation basis.

The ordinary contribution to the Fund in 2014 was set at an annual payment calculated as 2 per thousand of the calculation base established for that date.

The expense relating to annual contributions to the Deposit Guarantee Fund by the consolidated Banks of the Group operating in Spain, Portugal and USA and consolidated companies subject to the Investment Guarantee Fund totalled an overall amount of 61,788 and 116,002 thousand euros in 2015 and 2014.

The contribution to the Investment Guarantee Fund by the consolidated companies to which that legislation is applicable amounted to 41 and 39 thousand euros in 2015 and 2014, respectively.

Banco Popular Portugal made annual and extraordinary contributions to the Deposit Guarantee Fund in Portugal and Investor Indemnity System. Additionally, in accordance with Portuguese legislation, other contingent commitments continue to be recorded in suspense accounts amounting to 5,314 thousand euros accumulated for possible future risks which the Fund may be required to cover.

National Resolution Fund

Law 11/2015, of 18 June, together with its regulation developed through Royal Decree 1012/2015, of 6 November, undertakes the transposition into Spanish law of Directive 2014/59/EU of 15 May (BRRD). In this regulation a new framework for the resolution of credit institutions and investment service companies is established, which is in turn one of the standards contributing to the creation of the Single Resolution Mechanism (SRM), as established by Regulation (EU) No. 806/2014 of 15 July and a Single Resolution Fund (SRF).

One of the pillars of the new resolution framework is the creation of resolution funds as financing instruments with which the resolution authorities will have to effectively undertake the various resolution measures in place. In order to finance these funds, on one hand the BRRD determines that each Member State should ensure the establishment of financing mechanisms for national resolution procedures in its territory, establishing their legal status, financing, use, and other regulatory provisions thereof. In Spain it has been approved by Law 11/2015 and its developing RD.

On the other hand, in financing the SRF funds raised by national resolution mechanisms can be used, referring to an agreement on the treatment of transfers and mutualisation of the fund. Therefore, an agreement was signed on 21 May 2014 which determines how to transfer national compartmentalisation contributions to the SRF and its progressive mutualisation for the creation of a 100% European resolution fund. This agreement has been signed in Spain, with publication in the Official Gazette on 18 December 2015.

Nationally, Law 11/2015 regulates the creation of the National Resolution Fund (NRF), whose funding, before 31 December 2024, must meet 1% of the amount of deposits guaranteed by the contributions of credit institutions and investment service companies established in Spain, obligatorily starting from the year 2015. In order to achieve this level, the FROB as executive resolution authority, and therefore manager of the NRF, will communicate and collect, at least annually, regular contributions from the entities.

In calculating the contribution of each entity the following criteria must be met, as established by Delegate Regulation (EU) 2015/63 of the Commission on 21 October 2014:

a) The proportion that each of them represents over the total aggregate of the following concept: total liabilities of the entity, excluding shareholders' equity and guaranteed amount of deposits ("Adjusted Liabilities ").

b) Contributions will be adjusted to the risk profile of each entity considering, among others, indicators on capital, liquidity and financing, importance of the institution within the financial system and other risk indicators.

For 2015, the first year of contribution to the Resolution Fund, the FROB has sent letters to entities communicating the amount corresponding to each in order to meet the annual ordinary contribution to the NRF.

Calculations have been made by the FROB on the basis of the information provided by the competent supervisory authority, and taking 31 December 2013 as the reference date thereof.

At a European level, the amounts collected by the NRF, and according to Law 11/2015 which incorporates the provisions of Regulation (EU) 806/2014 and the Agreement on the transfer and mutualisation, the NRF will transfer the part belonging to it to the Single Resolution Fund (SRF) prior to 31 January 2016.

The expense for the annual contributions to the Resolution Funds by the consolidated Banks of the Group operating in Spain and Portugal supposes 43,408 thousand euros in 2015.

14. Audit fees

The fees accrued by PricewaterhouseCoopers Auditores, S.L. for the audit of the individual and consolidated financial statements for 2015 of the parent entity and subsidiaries amounted to 1,976 thousand euros while the fees accrued for other services (including regulatory and regulation-related services) amounted to 407 thousand euros. The amounts recorded for these items in 2014 were 1,922 and 499 thousand euros, respectively. Fees for tax advisory services received in 2015 amounted to 50 thousand euros while fees for other services totalled 410 thousand euros. Fees for these services in 2014 totalled 37 and 1,833 thousand euros, respectively.

The audit fees accrued in 2015 by other auditors of Group companies for audit and other services totalled 148 and 7,096 thousand euros, respectively. The amounts recorded for these items in 2014 were 107 and 14 thousand euros, respectively.

15. Accounting principles and valuation methods used

The most significant accounting standards and measurement rules used in the preparation of these consolidated financial statements, in addition to those listed in Note 2 a) "Basis of Presentation" to the consolidated financial statements, are described below:

a) Going concern principle

In preparing the consolidated financial statements, it was considered that the companies included in the Group will continue to operate for the foreseeable future. Accordingly, the application of accounting standards is not intended to determine the value of consolidated shareholders' equity for the purposes of their total or partial sale, nor the amount resulting in the event of their liquidation.

b) Accrual principle

Except in connection, where appropriate, with the consolidated cash flow statements, the accompanying consolidated financial statements were prepared on the basis of the actual flows of goods and services, regardless of their payment or collection dates.

c) Other general principles

The consolidated financial statements have been prepared based on the fair value approach, except for historical cost or amortised cost when applicable (land and buildings or financial assets and liabilities). The preparation of the consolidated financial statements requires that certain accounting estimates be made. In addition, Management is required to exercise judgement in applying the Group's accounting policies. Such estimates may affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amount of revenues and expenses in the consolidated financial statements. Although estimates are based on the best information available to Management about the present and foreseeable circumstances, final outcomes may be at variance with these estimates.

d) Financial derivatives

Financial derivatives are instruments the value of which changes in response to changes in an observable market variable, sometimes called the underlying asset, such as an interest rate, a foreign exchange rate, the price of a financial instrument or a market index, including credit ratings; they do not require any initial investment, or if they do it is much smaller than would be required for other similar financial instruments, and they are generally settled at a future date.

Financial derivatives are instruments that can have a high leverage and generate gains or losses with a minimum investment, or may under certain conditions enable all or part of the credit and/or market risks associated with balances and transactions to be offset, using interest rates, certain indices, the prices of some securities, cross exchange rates of various currencies or other similar references as underlying elements. The Group uses financial derivatives traded on organised markets or traded bilaterally with counterparties on the over-the-counter (OTC) market.

Financial derivatives are used to trade with customers when they so request, to manage the risks associated with the group's own exposures (hedging derivatives), or to take advantage of changes in their prices. Financial derivatives that have not been designated as accounting hedges are considered to be trading derivatives. To be designated as a hedging instrument, a financial derivative must satisfy the following conditions:

i) It must cover exposure to changes in the values of assets and liabilities caused by interest rate and/or exchange rate transactions (fair value hedge); exposure to changes in the estimated cash flows from financial assets and liabilities and from commitments and transactions forecast as highly probable (cash flow hedge); or the exposure associated with net investments in foreign operations (hedge of the net investment in a foreign operation).

ii) It must effectively eliminate a risk that is inherent in the hedged item or position over the expected term of the hedge. It must therefore be prospectively effective, be effective at the time of arrangement of the hedge in normal conditions and be effective retrospectively, with sufficient evidence that the effectiveness of the hedge will be maintained throughout the life of the element or position hedged.

iii) Fulfilment of the requirements for accounting treatment of the hedge is evidenced by the performance of tests to make it possible to consider the hedge as highly effective at inception, through prospective tests, and throughout the life of the transaction by means of retrospective tests to confirm the effectiveness of the hedge made, by observing that the results arising from variations in the value of the hedging derivative have fluctuated within a variation range from 80% to 125% with respect to the variation in value of the item hedged; this tolerance interval is that admitted by accounting standards.

Adequate documentary evidence must be provided that the arrangement of the contract for the financial derivative took place specifically in order to hedge certain risks or transactions and showing how it was intended to achieve and measure that effective hedge, provided that this is consistent with how the Group manages its own risks.

Hedges may be applied to individual elements or balances (micro hedges) or to portfolios of financial assets and liabilities (macro hedges). In the latter case, the set of financial assets or liabilities to be hedged must share a common type of risk, this requirement being understood to be fulfilled when the sensitivity of the individual elements hedged to interest rate changes is similar. Financial derivatives aim to hedge, when interest rate expectations so advise, the risk existing as a result of mis-matches in the re-pricing of balance sheet assets and liabilities, by using instruments that make it possible to compare the dates of rate revisions on both sides of the balance sheet or to convert fixed rate elements to variable rate elements or vice versa, in such a way that interest rate variations affect the asset and liability items equally.

It should be noted that in 2012, and on the date of the takeover of Banco Pastor, S.A. a valuation was carried out of the acquired bank's assets and liabilities and the relevant fair value adjustments were recognised.

Financial derivatives embedded in other financial instruments or other primary contracts are recognised separately as derivatives when their risks and other characteristics are not closely related to those of the primary contracts and the primary contracts are not classified as Financial instruments held for trading or as other financial assets or liabilities at fair value through profit or loss.

Finally, hybrid financial instruments, although separable for accounting purposes, are not individually transferable.

e) Financial assets

Financial assets are classified in the consolidated balance sheet as follows:

i) Cash and balances with central banks, relating to the cash balances and debtor balances held at Banco de España and other central banks.

ii) Financial instruments held for trading, including the financial assets which have been acquired for selling in the short term, form part of a portfolio of financial instruments identified and managed jointly for which recent actions have been performed in order to obtain short-term gains, or are derivatives which do not comply with the definition of financial guarantee contract and which have not been designated as accounting hedge instruments. This item also includes derivatives that are used as economic hedges of other derivatives.

iii) Other financial assets at fair value through profit or loss: this includes financial assets which, not forming part of the financial instruments held for trading, are classified as hybrid financial assets and are valued in full at fair value, irrespective of whether the embedded derivative is separated or not, and those managed jointly with liability under insurance contract valued at fair value or with financial derivatives whose purpose and effect are to materially reduce their exposure to variations in fair value, or are managed jointly with financial liabilities and derivatives in order to materially reduce the overall exposure to interest rate risk.

iv) Available-for-sale financial assets, which are debt securities not classified as held-to-maturity portfolio, such as other financial assets at fair value through profit or loss, loans and receivables, financial instruments held for trading and equity instruments of companies that are not subsidiaries or joint venture companies or associates and have not been included in the categories of financial instruments held for trading, non-current assets held for sale and other assets at fair value through profit and loss.

v) Loans and receivables, which includes financial assets that are not traded on an active market and are not required to be valued at fair value, whose cash flows are of a determined or determinable amount, and in which all the disbursement made by the Group will be recovered, excluding reasons attributable to the debtor's solvency. This category comprises investments associated with normal bank lending and includes amounts loaned to customers and not yet repaid; deposits placed with other financial institutions, regardless of the legal arrangements under which the funds were provided, financial guarantees and unquoted debt securities; and any debts incurred by purchasers of goods or services forming part of the group's business.

vi) Held-to-maturity investment portfolio, which relate to debt securities traded on an active market having fixed maturities and identified or identifiable cash flows, which the Group has decided to hold to amortisation based essentially on its positive intention and financial capacity to do so.

vii) Adjustments to financial assets for macro-hedges, corresponding to the balancing entry for amounts credited to the consolidated income statement arising in the valuation of the portfolios of financial instruments of which the interest rate risk is effectively hedged by fair value hedge derivatives.

viii) Hedging derivatives that include the positive fair value of the financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

ix) Non-current assets held for sale which relate to the value of the assets, of any nature, which are very likely to be sold in the conditions in which said assets were currently found, within one year following the date of their inclusion under this category. Therefore, the recovery of the carrying amount of these items, which may be of a financial or non-financial nature, will presumably occur through the price obtained upon their disposal. Also included are property, equity instruments or other non-current assets foreclosed by the Group in full or partial fulfilment of the payment obligations of its debtors.

x) Investments, including equity instruments in associates and joint ventures.

xi) Pension-linked insurance contracts corresponding to the rights to be reimbursed by insurance companies for part or all of the disbursement required to settle a defined-benefit obligation when the insurance policies fail to meet the conditions to qualify as a Plan asset.

xii) Reinsurance assets, which include the amounts that the Group is entitled to receive arising from its reinsurance contracts with third parties and, specifically, the participation of reinsurance in the technical provisions set up by the insurance companies included in the Group as subsidiaries.

Generally financial assets are initially carried at fair value, which, unless otherwise evidenced, will be the transaction price. They are subsequently valued at each accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except for credits, loans and receivables, the held-to-maturity investment portfolio, equity instruments whose fair value may not be determined in a sufficiently objective manner and financial derivatives for which the underlying assets are equity instruments and which are settled through the delivery of the same.

ii) The fair value of a financial asset on a given date is defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value of an asset is the price being quoted for the asset on an active market where the market is organised, transparent and of reasonable depth. Where there is no market price for a particular financial asset, its fair value is estimated based on that established in recent transactions involving similar instruments and, failing that, on sufficiently tested valuation models such as discounting of flows, multiples, etc. Also to be borne in mind are the specific peculiarities of the assets to be valued and, particularly, the various types of risk associated with the financial asset.

iii) The fair value of listed financial derivatives in an active market and included in the Held for trading Portfolio is their daily quoted price and, if for exceptional reasons, their price cannot be set on that given date, it is measured using, like OTC derivatives, sufficiently proven methods such as *Black-Scholes* or Monte Carlo.

The fundamental hypothesis used in the valuation of derivatives is based on the principle of Risk-neutral, ensuring that differential equations solved are expressed by keeping the price of risk factors such as martingale under the choice of appropriate measure or tenure (underlying price, Forwards types, Forwards FX., etc.).

iv) Loans and receivables and the held-to-maturity investment portfolio are valued at their amortised cost, using the effective interest rate method to establish this cost . Amortised cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the income statement, using the effective interest rate method, of the difference between the initial cost and the related repayment value at maturity, minus any reduction of value for impairment directly recognised as a decrease in the amount of the asset or through a value adjustment account. In the event that they are hedged through fair value hedges, those variations in fair value related to the risk or risks hedged through such hedging transactions are recorded.

The effective interest rate is the rate which exactly matches the value of a financial instrument with the estimated cash flows over the expected life of the instrument, based on contractual conditions, such as early amortisation options, but excluding future credit risk losses. For fixed interest rate financial instruments the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, where appropriate, commissions which, by their nature, can be equated to an interest rate.

For financial instruments at variable interest rates, the effective interest rate coincides with the rate of return valid for all concepts until the first revision of the interest rate reference that is to take place.

v) Investments in the capital of other companies whose fair value cannot be determined with sufficient objectivity and the financial derivatives whose underlying asset are such instruments and which are settled by delivery thereof, are carried at their cost, adjusted, if appropriate, by the losses for impairment which may have occurred.

vi) Valuation methodologies. Financial instruments and in particular derivatives require frequent and accurate measurement for management, risk, regulatory and accounting reasons.

There are basically two types of valuation: *Mark-to-Market* and *Mark-to-Model.*

Mark-to-Market: The *Mark-to-Market* valuation methodology is based on the ability to assign instrument market prices identical to those included in the Bank's portfolio.

These market prices may derive from the quoted prices of market makers within financial reporting systems, operations carried out on trading platforms, clearing houses or organised markets.

Their accuracy and validity depend on the number of quotes and transactions carried out on the instrument, with the update frequency of degree of liquidity being the same. This means that only simple, standardised financial instruments belonging to active markets can be measured correctly using a *Mark-to-Market* method (sovereign bonds, financial futures, etc.).

This methodology corresponds to the revaluation group, or level 1 (market prices), in international accounting standards.

Mark-to-Model: The *Mark-to-Model* methodology has to be applied in all cases where, due to liquidity, exotic characteristics, etc., it is not feasible to assign a market valuation (*Mark-to-Market*) to financial instruments.

This methodology assumes a reasonable behaviour, usually framed within standard market models, of the basic underlying financial instrument and on that basis it will infer an accurate valuation for more complex instruments. It may be said that a valuation by model is a sophisticated way to interpolate the value of a financial instrument that is not listed on a stock exchange, from the quoted prices of those that are.

In general, these standard market models (e.g. stochastic trends resolved by the Monte Carlo method) could be interpreted as an assignment of values and probabilities to each of the possible scenarios for the financial instrument, which, when combined, generate its valuation. The most common models in the market are usually free of internal and external arbitrage.

This approach corresponds to the revaluation groups or levels 2 and 3 (valuation based on market parameters and valuation based on unobservable parameters, respectively) within the international accounting standards.

The sophistication of the models used in the Banco Popular Group depends on the degree of complexity of the instrument to be measured and the optimisation of computational performance versus accuracy in the measurement, i.e. to calculate on a daily basis the revaluation of all operations of the Banco Popular Group as accurately as possible.

Valuation of equity products

Financial instruments linked to equity are mostly valued by the *Mark-to-Model method*. Listed shares, futures and equity options traded on organised markets with standard features could be excluded from this generalisation.

The Equity valuation models commonly used in the market are usually found in a Black valuation framework (this is a free arbitration lognormal evolution model of the underlying stock) and, for its calibration and adjustment, take into account inputs related to market interest rates in the currency of the share price (so-called without risk), the volatility of the share based on its and *strike*, the estimated market dividends (consensus of analysts, *dividend swaps*, etc.).

The models currently developed in Banco Popular for equity include Monte Carlo flat volatility calculators, stochastic simulation processes of local volatility and analytical solutions where possible (*Black-Scholes* formula for *plain vanilla* options and application of absence of arbitrage opportunity for instruments without *pay-off* asymmetries).

The Group continued to apply the same approach to the analysis of impairment of investments in equity instruments: it is considered that there is evidence of impairment when, after initial recognition, the combined effect of several events occur which supposes that their carrying value cannot be recovered.

Among other criteria, a fall in value over a period of one and a half years or a significant fall (40% or more) in listed price (used in all cases) is considered objective evidence of impairment.

Valuation of interest rate, fixed income and credit products

The bond market (fixed income) is broad and varied and therefore it is relatively common to find liquid quotes for identical instruments that are to be measured (*Mark-to-Market* methodology). In the absence of quoted prices or if they are illiquid, it is necessary to develop a *Mark-to-Model* valuation.

If the fixed income instruments are sufficiently homogeneous (senior debt, mortgage covered bonds, etc) it is possible to obtain the necessary inputs for the *Mark-to-Model* valuation based on market prices. In the worst-case scenario, usually linked to hybrid and equity instruments, there are no observable parameters in the market and no widely distributed models and therefore a *Mark-to-Model* valuation must be performed based on reasonable financial assumptions and models that combine credit and interest rates.

The valuation of most interest rate derivatives is performed using standard market models and with the usage of inputs with the highest liquidity possible. In this case, it is not the prices that are quoted directly but but the parameters to be used in a model accepted by all (as in the case of calculating Cap volatilities rather than their prices because they are assumed to be equivalent since the entire market uses the Black-*Scholes*-Merton model). For exotic interest rate instruments more sophisticated models are needed which, although claiming to be the most commonly used, need stronger assumptions concerning the dynamics of the core assets and which involve parameters that are less observable on the market because these exotic instruments are less liquid. Some examples of these sophisticated models are the Libor Market Model (interest rate stochastic dynamics model) or the SABR (stochastic dynamic model of interest rate volatilities). Any of these models must coincide for *plain vanilla* products with market prices, free from internal arbitrage and with appropriate inputs (market), and free of external arbitrage.

The valuation of derivatives includes carrying amount adjustment for underlying credit risk (CVA-DVA) in accordance with IFRS 13.

For the calculation of this adjustment, internally developed mathematical models are applied which involve the combination of three factors:

- EAD (*Exposure at Default*): measures, by simulating different market variables, the future exposure that the Bank has in each derivative at any time until maturity. The calculation takes into account the guarantees posted by counterparties.
- PD (*Probability of Default*): measures the likelihood that a counterparty will default on its payment obligations, applying the PDs of the Bank's internal models.
- LGD (*Loss Given Default*): Measures the post-recovery net loss in the event of default, applying a 60% rate in line with market standards.

The models that the Bank has developed and which are used in accordance with the needs of the product are the absence of arbitrage opportunity model for the simplest products, the Black implied volatility model for *plain vanilla* interest rate options and the Libor Market Model with implied volatility for exotic interest rate products..

Valuation of foreign exchange derivatives

The different types of foreign exchange derivatives can be measured using the methods described above.

This allows us to obtain prices for foreign exchange futures directly on financial information platforms, which means that the applicable method would be *Mark-to-Market*.

On the other hand, we can get the prices Forward not directly quoted, without model, with absence of arbitrage opportunity in a *Mark-to-Model* methodology also within this group we could include the *plain vanilla* valuation of options, since although they require a model (*Black-Scholes*), this model is widespread and extracts all the market parameters.

The most exotic structures also come under the *Mark-to-Model* methodology, since it is necessary to develop a theoretical framework within accepted market standards, although sometimes with certain unobservable parameters, to carry out the valuations. This theoretical framework broadens depending on the complexity of the derivative, and in most cases, Monte Carlo simulation methods are necessary. An important factor for effecting valuations within a theoretical framework is the quality and accuracy of the inputs used to develop the model. In general for these products, the inputs used in said models are quoted, for example volatility.

The models currently developed in the Bank for foreign exchange derivatives include Monte Carlo flat volatility calculators, stochastic simulation processes of local volatility and analytical solutions where possible (*Black-Scholes* formula for *plain vanilla* options and application of absence of arbitrage opportunity for instruments without *pay-off* asymmetries).

Valuation of commodity products

The *commodities* market is very diverse with a variety of different products and trading in a wide variety of markets (LME, NYMEX, IPE, etc.), although it is true that the Bank's operations in this area are currently rather limited, and low-volume, particularly in comparison with other types of business.

For *commodities* instruments which are indexes or futures on organised markets, valuations can be obtained directly using the *Mark-to-Market* method, as these are fairly liquid markets, particularly as regards short-term transactions.

For products where the *Mark-to-Market* method is not appropriate, the *Mark-to-Model* method may be employed, which is used in the market to carry out the relevant valuations.

Apart from *commodities* a number of variables which differ from those we are accustomed to must be taken into account in the commodities market. These include storage costs, convenience yield and lease rate. These variables are not directly quoted on the market but are estimated on the basis of the prices of other instruments.

The models currently developed in Banco Popular for commodities are analytical solutions for the application of the absence of arbitrage opportunities.

Among the securities included in Level 3, it is not considered that a reasonable variation in some assumption could entail a significant change in fair value.

Regarding financial instruments in non-active markets classified in Level 2 of the fair value hierarchy, these are assets in which few transactions are carried out, so the market price does not adequately reflect the fair value and therefore the *Mark-to-model* method is used.

Changes in the carrying amount of financial assets are generally recognised with a balancing entry in the consolidated income statement, differentiating between those arising from the accrual of interest and similar items, which are recognised under Interest and similar income, and those arising from other causes, which are recognised at their net amount under Gains or losses on financial transactions in the consolidated income statement, or under Impairment losses on financial assets (net) if this should be the reason for the change in value. However, changes in the carrying amounts of instruments included under Available-for-sale financial assets are temporarily recognised under Valuation adjustments in Consolidated shareholders' equity, net of the tax effect, unless they arise from exchange differences. The amounts included under the Valuation adjustments heading continue to form part of consolidated shareholders' equity until the asset giving rise to them is removed from the consolidated balance sheet, or in the case of negative adjustments, when impairment is considered irreversible, at which time they are charged to the consolidated income statement.

Similarly, changes in the carrying amount of items included under Non-current assets held for sale and meeting certain requirements are recognised with a balancing entry in Valuation adjustments in Consolidated shareholders' equity.

For financial assets designated as hedged items and accounting hedges, valuation differences are recognised taking account of the following criteria:

i) For fair value hedges, the changes in both the hedging instruments and the hedged items, as regards the type of risk hedged are recognised directly in the consolidated income statement under Gains/ losses on financial transactions.

ii) The valuation differences relating to the ineffective portion of cash flow hedges and of net investments in foreign operations are recognised directly in the consolidated income statement under Gains/ losses on financial transactions.

iii) In cash flow hedges, valuation differences arising in the effective portion of the hedging instruments are recognised temporarily under Valuation adjustments in Consolidated shareholders' equity, net of the tax effect.

iv) In hedges of a net investment in a foreign operation, the valuation differences arising in the effective portion of the hedge elements are recorded temporarily in the Consolidated shareholders' equity valuation adjustments caption, net of the tax effect.

In the latter two cases, the valuation differences are not recognised in profit and loss until the losses or gains on the hedged item are recognised in the consolidated income statement or until the maturity of the hedged item.

With regard to hedges applied, there remain the individually applied micro-hedging transactions in respect of deposit-capturing campaigns in place at reporting date, the characteristics of which, as regards start date, term and remuneration offered to each depositor, were identical. treatment. In order to justify this accounting treatment, we contracted a derivative corresponding to the total of the specific campaign to be hedged, with flows receivable, from the financial derivative, similar to those payable to all the depositors and distributed in proportion to their balances.

f) Financial liabilities

Financial liabilities are classified in the consolidated balance sheet as follows:

i) Financial instruments held for trading, including the financial liabilities acquired for realisation at short term, form part of a portfolio of financial instruments that are identified and managed jointly for which recent actions have been performed in order to obtain short-term gains or are derivatives not designated as accounting hedge instruments, or arise from outright sales of financial assets acquired temporarily or received on loan.

ii) Other financial liabilities designated at fair value through profit or loss, corresponding to those which, not forming part of the financial instruments held for trading, are by nature hybrid financial instruments and it is decided to include in this category, irrespective of whether or not the embedded derivative is separated, or those which are managed jointly with financial assets at fair value through profit or loss.

iii) Financial liabilities at amortised cost that relate to financial liabilities that cannot be included in other captions of the consolidated balance sheet and which relate to the Group's typical fund-raising activities, regardless of how they are arranged and their maturity.

iv) Fair value changes of the hedged items in portfolio hedges of interest rate risk relating to the balancing entry of the amounts credited to the consolidated income statement resulting from the valuation of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedge derivatives.

v) Hedging derivatives that include the negative valuations of financial derivatives acquired or issued by the Group that have been designated as accounting hedges.

vi) Liabilities associated with non-current assets held for sale, corresponding to the credit balances on non-current assets held for sale.

vii) Liabilities related to insurance contracts refer to the technical provisions recorded by the Group to cover claims associated with insurance contracts which are in effect at year-end and the fair value of the amounts pending receipt from technical guarantees.

Financial liabilities are recorded at amortised cost, as defined for financial assets in Note 15.e, except in the following cases:

i) The financial liabilities included in the captions of Financial instruments held for trading, Other financial liabilities designated at fair value through profit or loss and Financial liabilities at fair value through changes in shareholders' equity, which are valued at fair value, as defined for financial assets in Note 15.e. Financial liabilities hedged by fair value hedges are adjusted, and the changes in their fair value with respect to the risk hedged are recognised in Gains/losses on financial transactions in the income statement.

ii) Financial derivatives whose underlying element is equity instruments the fair value of which cannot be determined with sufficient objectivity and are settled by delivery thereof are valued at cost.

Changes in the carrying amount of financial liabilities are generally recognised with the balancing entry in the consolidated income statement, differentiating between those arising from the accrual of interest and similar expenses, which are recognised under Interest and similar expenses, and those which relate to other causes, which are recognised at their net amount under Gains/losses on financial transactions in the consolidated income statement. In the case of financial liabilities designated as hedged items and accounting hedges, valuation differences are recognised having regard to the criteria indicated for financial assets in Note 15.e

g) Transfers and removals from the consolidated balance sheet of financial instruments

Transfers of financial instruments are recorded having regard to whether or not the risks and benefits associated with the financial instruments transferred are retained, on the basis of the following criteria:

i) If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales with agreement for repurchase at fair value at the repurchase date, sales of financial assets with a purchase option acquired or sale option issued deeply out of the money, securitisations of assets in which the assignor does not retain subordinated financing and does not grant any kind of credit enhancement to the new owners, etc., the financial instrument transferred is removed from the consolidated balance sheet with simultaneous recognition of any right or obligation retained or created as a result of the transfer.

ii) If all the risks and benefits associated with the financial instrument transferred are retained, as in sales of financial assets under repos for a fixed price or the selling price plus interest, security loan contracts in which the borrower is required to return the same or similar assets, etc., the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior the transfer. Nonetheless, the associated financial liability is recognised for accounting purposes in an amount equal to the price received, which is subsequently measured at amortised cost. In order to reflect the net financing received under liabilities, entities should present financial instruments (securitisation bonds) acquired from the entity to which the financial assets have been transferred by deducting the associated financial liability.

Also, the Group includes in its scope of consolidation, by the full or proportionate consolidation method, as appropriate, the securitisation vehicles to which the assets were transferred. In consolidation the related eliminations were therefore made between the associated financial liability by the companies which individually recognised the transfer and the financial assets recorded for accounting purposes by the special-purpose vehicle. Also eliminated was the interest income and interest expense arising from the aforementioned assets and liabilities eliminated in consolidation. Consequently, the consolidated balance sheet reflects the original assets not derecognised and recognition is given to the liabilities issued by the securitisation vehicle which are held by third parties outside the Group.

Notes 35 and 69 to these consolidated financial statements offer more information on the Group's securitisations.

If the risks and rewards associated with the financial instrument transferred are not substantially transferred or retained, as in sales of financial assets with an option to purchase acquired or an option to sell issued which are not deeply in or out of the money, the securitisations in which the transferor assumes subordinated financing or another kind of credit improvement for a portion of the asset transferred, a distinction is made between the following cases:

- If the Group does not retain control of the financial instrument transferred, it is removed from the consolidated balance sheet and recognition is given to any right retained or obligation created as a result of the transfer.
- If the Group does retain control of the financial instrument transferred, it continues to recognise it in the consolidated balance sheet at an amount equal to its exposure to changes of value that it may experience and recognises a financial liability associated with the financial asset transferred. The net amount of the asset transferred and of the associated liability will be the amortised cost of the rights and obligations retained if the asset transferred is measured by its amortised cost, or the fair value of the rights and obligations retained if the asset transferred is measured at its fair value.

Therefore, financial assets are only removed from the consolidated balance sheet when the cash flows they generate are extinguished or when the implicit risks and benefits have been substantially transferred to third parties.

Similarly, financial liabilities are only written off the consolidated balance sheet when the obligations they generated are extinguished or acquired with the intention of cancelling or resale.

h) Financial asset impairment

The carrying amount of financial assets is generally adjusted with a charge to the consolidated income statement when there is objective evidence that an impairment loss has arisen, which occurs:

i) In the case of debt instruments, i.e. loans and debt securities, if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows. Possible events pointing to objective evidence of impairment include:

a) When the party obliged to pay has entered into or may enter into receivership or has significant financial difficulties.
b) When the contractual conditions have been breached, for example by non-payment of principal or interest on the agreed date.
c) When the obligor of the payment has been granted financing or the debt has been restructured on account of financial difficulties.
d) When there is data that provides evidence of a quantifiable diminution in the future cash flows from a group of debt instruments.

ii) In the case of equity instruments, if after their initial recognition an event occurs or the combined effect arises of several events indicating that it will not be possible to recover their carrying amount. Evidence of impairment exists when any of the following cases arises:

a) The issuer has entered, or is likely to enter into receivership or has significant financial difficulties.
b) There have been significant changes in the issuer's economic environment which may have adverse effects on recovery of the investment.
c) The fair value of the instrument suffers a significant or prolonged decrease below the carrying amount.

A fall in value over a period of one and a half years or a significant fall (40% or more) in listed price is considered objective evidence of impairment.

As a general rule, the carrying amount of financial instruments is adjusted for impairment against the consolidated income statement for the period in which such impairment is detected and recoveries of previously recognised impairment losses, if any, are recognised in the consolidated income statement for the period in which such impairment is eliminated or reduced. If the recovery of any amount recognised for impairment is considered remote, the amount is eliminated from the consolidated balance sheet, although the Group may take the necessary action to attempt to achieve collection for as long as its rights have not definitively been extinguished due to prescription, cancellation or other reasons.

In the case of debt instruments valued at amortised cost, the amount of the losses incurred for impairment is equal to the negative difference between their carrying amount and the present value of their estimated future cash flows. In the case of listed debt instruments, market value is used provided that this is sufficiently reliable to be considered representative of the value that might be recovered by the Group.

The estimated future cash flows of a debt instrument are all the amounts of principal and interest which the Group estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the consolidated financial statements which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regard is had to the flows which would be obtained from their realisation , less the amount of the costs necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original effective interest rate of the instrument, if the contractual rate is fixed; if the contractual rate is floating, the discount rate used is the effective interest rate at the date of the consolidated financial statements determined in accordance with the contract conditions.

Debt instruments not measured at fair value with changes in profit and loss, contingent risks and contingent commitments are classified on the basis of the insolvency risk attributable to the customer or to the transaction in the following categories: standard risk, substandard risk, doubtful risk due to customer non-performing balances, doubtful risk for reasons other than customer arrears and write-off risk.

Covering losses of financial assets is expected, provided they are supported by objective evidence. Specific and generic coverage for insolvency risk attributable to the client and specific coverage for country risk is made.

Debt instruments, for which exist impairment indicators are analysed to determine the credit risk to which the Group is exposed and to estimate the impairment provision required.

Specific coverage includes impairment of assets individually identified as impaired either individually or collectively by analysis using a statistical approach taking into account the date of seniority of the defaulted amounts, the guarantees provided and the economic situation of the customer and, where appropriate, of the guarantors. This estimate is generally based on non-performing balances schedules which are based in turn on the experience of the Group and the information it has of the sector and, in particular, for those which are doubtful for reasons other than non-performing balances and certain significant situations through individual analysis.

Provisions associated with a performing portfolio through two estimation criteria are calculated with the highest being accounted for. Corrections of collective value losses incurred but not reported based on the inherent loss incurred according to the nature of each estimated risk based on statistical procedures and pending assignment to specific operations and a collective assessment as a reference of the estimated loss incurred.

The group loss model incurred takes into account the following aspects:

- In order to carry out a collective assessment of impairment, financial assets are grouped together on the basis of similarities in credit risk characteristics, indicating the debtor's capacity to pay all amounts in accordance with the terms of the contract. The characteristics chosen are those relevant in estimating future cash flows by groups of assets and are indicative of debtors' capacity to pay all amounts due under the terms of the contract being assessed. The Group uses classification models with variables indicating debtors' payment capacity based on historical experience.

- In order to assess impairment of a group of financial assets collectively, cash flows are estimated based on experience of historical losses for assets with similar risk characteristics to those of the group.

The experience of historical losses is adjusted based on observable data, in order to reflect the effect of current conditions which did not affect the period from which the historical experience was drawn, and to eliminate the effects of the conditions of the historical period which do not currently exist. The Group uses a methodology which estimates impairment losses by linking the Group's historical default and severity data with other observable data such as macro-economic variables which reflect only the current situation.

- When historical loss rates are used to estimate future cash flows, the information on such rates is applied to the groups that have been defined in a manner consistent with that in which it was applied to the groups for which the historical rates have been observed. Therefore the method enables each group to be associated with information on past loss experience with groups of assets with similar credit risk characteristics and also with relevant observable data reflecting current conditions. In this respect, in the methodology used by the Group, parameters of loss incurred are estimated for historical internal data, segmenting the loan portfolio on the basis of the characteristics of the assets that it comprises.

In this respect, using the information base provided by its internal models used to calculate regulatory capital under Basel, the Group has constructed a methodology to calculate the loss incurred, using the risk parameters PD (probability of default), LGD (loss given default - severity) and EAD (exposure at default).

In order to comply with the criteria for estimating impairment losses specified by IAS 39, the Group estimates the risk parameters of the model with the following specifications:

Probability of default (PD): When determining the loss incurred, the Group estimates a probability of default based on internal historical data in such a way as strictly to reflect the current situation (loss incurred) with respect to both the status of payments by borrowers included in the group and the local or national economic conditions where there is a correlation with default on assets in the group. The Group estimates PD “point in time” at the valuation reference date, projecting the historical probabilities of default observed through econometric models with the relevant explanatory macro-economic variables.

This estimate of the probability of default is similar to that defined under Basel (capital framework agreement) as “PD point in time”, agreeing with the present time in the economic cycle since it uses the default frequencies observed in the most recent periods.

Conversely, the parameter used to estimate regulatory capital requirements for credit risk under the IRB, the PD Through-the-Cycle (PD TTC), is an average estimate which, since it is estimated in an economic cycle context, incorporates both the historical and future effects of macro-economic variables and their link to default in each portfolio.

A population of the transactions and customers classified as normal has been identified that do not meet the criteria to be classified as doubtful. However, they present weaknesses that may result in losses. The calculation of "PD point in time" has been distinguished for the two samples in order to reflect in the calculation the situation of greater credit impairment of the population with indications.

LGD - loss given default (severity): For the purposes of estimating impairment losses, loss given default is also estimated so as strictly to reflect the current situation (loss incurred) of recoverability of future flows from assets.

In order to determine an severity adjusted to the definition of the incurred loss, reflecting the current situation, the Group has determined that the observed historical severities are projected by econometric models dependent on explanatory macro-economic variables of the same.

The models chosen, start from a common position using the models utilised in the EBA 2014 stress test within the Comprehensive Assessment led by the European Central Bank (ECB).

The methodology developed by the Group to arrive at the loss incurred involves the following stages, in sequential order: determining the scope of application; segmentation; exposure reconciliation; estimate of parameters of loss incurred; calculation of the loss incurred.

The results obtained from the calculation of loss incurred with the methodology described above show an amount of provisions which do not differ significantly from that estimated in the Banco de España Circular 4/2004.

Similarly, debt instruments not carried at fair value through profit and loss and contingent risks, irrespective of the customer, are analysed to determine the credit risk owing to the country-risk. Country risk is the risk associated with customers resident in a given country due to circumstances other than normal commercial risk.

The amount of impairment losses incurred on debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between acquisition cost, net of any amortisation of the principal, and fair value less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence that the fall in fair value is due to impairment, the latent capital losses recognised directly in Valuation Adjustments in Consolidated shareholders' equity, net of the tax effect, are immediately recognised in the consolidated income statement. If all or part of the impairment losses are subsequently recovered, the amount recognised for debt securities, in the consolidated income statement for the recovery period, and for equity instruments, under the heading Valuation adjustments in Consolidated net shareholders' equity.

In the case of debt and equity instruments classified under Non-current assets held for sale, the losses previously recognised in Consolidated shareholders' equity are considered to have been realised and are recognised in the consolidated income statement at their classification date.

Impairment losses on equity instruments carried at acquisition cost are accounted for as the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of profitability for other similar securities. Such impairment losses are recognised in the consolidated income statement for the period in which they arise and directly reduce the cost of the financial asset. The amount involved may not be recovered except in the event of their sale.

For investments in associates, the Group estimates impairment losses by comparing their recoverable amount with their carrying amount. Such impairment losses are recognised in the consolidated income statement for the period in which they arise, and any subsequent recoveries are recognised in the consolidated income statement for the relevant period.

i) Valuation of accounts in foreign currency

The presentation currency of the consolidated financial statements is the euro, which is also the functional currency of Banco Popular Español, S.A. Therefore all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The equivalent value in euro of assets, liabilities and contingent risks denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2015 and 2014 is as follows:

€ thousands	**2015**	**2014**
ASSETS		
Cash and balances with central banks	36,614	50,534
Financial instruments held for trading	-	-
Available-for-sale financial assets	525,394	430,920
Loans and receivables	4,563,215	3,998,170
Held-to-maturity investment portfolio	-	-
Hedging derivatives	-	-
Non-current assets held for sale	1,180	7,013
Investments	96,779	97,324
Tangible assets	26,362	23,904
Intangible assets	16,693	15,250
Other assets	42,178	51,730
Total assets	5,308,415	4,674,845
LIABILITIES		
Financial liabilities at amortised cost	4,446,337	4,280,125
Other liabilities	9,070	27,853
Total liabilities	4,455,407	4,307,978
Contingent risks	695,397	741,367

The Notes concerning the most significant captions of the consolidated balance sheet set out detailed information on the basis of the principal currencies in which foreign currency balances are denominated. These Notes are 22, 23 and 35 which correspond to Available-for-sale financial assets, Loans and receivables and Financial liabilities at amortised cost, respectively. A summary of the currencies other than the euro in which the Group carries out most of its transactions is as follows:

€ thousands	**Assets**		**Liabilities**	
Currencies	**2015**	**2014**	**2015**	**2014**
USD	3,965,925	3,247,568	4,138,670	3,878,593
GBP	112,952	98,357	132,507	128,210
CHF	291,518	290,881	21,061	20,981
JPY	680,485	687,435	5,924	38,959

According to these data, the USD and the Yen are the principle currencies apart from the euro with which the Group's assets operate and accounts for 85.69 per cent of the foreign currency at 31 December 2015 and 84.17 per cent at 31 December 2014. These percentages referring to liabilities applying the USD and GBP as major currencies representing 95.87 per cent of the foreign currency at the end of 2015 and 93.01 per cent in December 2014.

On initial recognition, receivables and payables denominated in foreign currencies are converted to the functional currency using the spot exchange rate on the date of recognition, understood as the exchange rate for immediate delivery. Subsequent to initial recognition, the following rules are applied for translation of balances denominated in foreign currency to euro:

i) Monetary assets and liabilities are converted at the closing exchange rate, defined as the average spot exchange rate on the date referred to in the financial statements published by the European Central Bank.

ii) Non-monetary items valued at historical cost are translated at the exchange rate prevailing on the date of acquisition.

iii) Non-monetary items valued at fair value are translated at the exchange rate prevailing on the date on which the fair value is determined.

iv) Revenues and expenses are translated at the exchange rate on the transaction date. However, an average exchange rate for the period may be used for all transactions during the period, unless there have been significant variations. Depreciation and amortisation are translated at the exchange rate applied to the asset concerned.

Exchange differences arising on the conversion of debit and credit balances denominated in foreign currency are generally recognised in the consolidated income statement. However, in the case of exchange differences arising on non-monetary items measured at fair value for which adjustments to fair value are recognised under Valuation adjustments in Consolidated shareholders' equity, the exchange rate component of the revaluation of the non-monetary item is disclosed.

At the investee companies whose functional currency is other than the euro, the balances in their financial statements are translated to euros as follows:

i) Assets and liabilities are translated at the year-end exchange rate.

ii) Revenues and expenses and treasury flows are translated at the average exchange rates during the year.

iii) Shareholders' Equity is translated at historical exchange rates.

Exchange differences arising on translation of the financial statements of investee companies whose functional currency is other than the euro are recognised under Valuation adjustments in Consolidated shareholders' equity.

None of the functional currencies of the investee companies relate to economies classified as highly inflationary by currently established criteria. Consequently, at the accounting close of 2015 and 2014, it was not necessary to adjust the financial statements of any investee company to correct them for the effects of inflation.

j) Offset of balances

Debit and credit balances arising from transactions which contractually or by force of law provide for possible offset, and where the intention is to settle them at their net amount or to realise the asset and pay the liability simultaneously, are presented in the consolidated balance sheet at their net amount.

Balance offsetting is basically concentrated in reciprocal accounts with credit institutions. The following table shows the starting total amount for the Group’s credit institutions and the offsets of balances of 227,879 thousand euros in 2015 and 55,166 thousand euros in 2014. The intragroup eliminations leading to the balances in the consolidated balance sheet are made from the total net balances at individual level of the companies.

€ thousands	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Accounting balances	350,161	578,041	191,388	246,554
Offsets	(227,879)	(227,879)	(55,166)	(55,166)
Net balances	122,282	350,162	136,222	191,388
Eliminations	(33,507)	(33,374)	(59,685)	(59,686)
Consolidated	88,775	316,788	76,537	131,702

k) Recognition of revenues and expenses

Interest and similar income and interest and similar charges are generally recognised for accounting purposes on the basis of their accrual period and by applying the effective interest rate method. Dividends received from other companies are recognised as revenues when the right to receive them arises.

Financial services fee and commission expenses or income, however contractually denominated, are classified in the following categories, which determine their allocation in the income statement:

i) Financial fees and commissions are those which are an integral part of the effective cost or yield of a financial transaction and are allocated to the consolidated income statement in two stages: first, recognition is given in the consolidated income statement to the portion of the fee or commission compensating direct costs, and second, the remainder is accrued over the expected term of the transaction as an adjustment to the effective cost or yield thereof.

The amount of these commissions and fees is disclosed in Notes 49 and 50.

ii) Non-financial commissions and fees are those arising from the provision of services and can be of two kinds:

- Those arising from the provision of a service over a period of time, which are recognised in the consolidated income statement over the period of the service.
- Those arising from the provision of a service in a single act. These commissions and fees are accrued and recognised in the consolidated income statement when the single act is carried out.

Commissions and fees received and expense and similar items are generally recognised in the consolidated income statement, in accordance with the following criteria:

i) Those linked to financial assets and liabilities carried at fair value through profit or loss are recognised at the time of collection.
ii) Those relating to transactions or services taking place over a period of time are recognised during the period of such transactions or services.
iii) Those relating to a transaction or service performed in a single act are recognised when such act takes place.

Non-financial fees received and paid are recognised on an accruals basis. Receipts and payments deferred over time are recognised in the accounts at the amount resulting from discounting the projected cash flows to present value at market rates.

l) Asset Exchanges

Swaps of tangible and intangible assets are acquisitions of such assets in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets, except for foreclosed assets which are treated in accordance with the rules for Non-current assets held for sale.

The asset received in an asset swap is recognised at the fair value of the asset delivered plus, if appropriate, any monetary consideration given in exchange, unless there is clearer evidence of the fair value of the asset received.

m) Securities lending agreements

Securities loans are transactions in which the borrower receives full ownership of securities merely by paying certain commissions and fees, with the commitment to return to the lender securities of the same class as those received upon maturity of the contract.

Securities lending agreements in which the borrower is obliged to return the same assets or substantially identical assets or other similar assets with an identical fair value are considered as transactions in which the risks and benefits connected with ownership of the asset are substantially retained by the lender. The lending entity maintains them in portfolio, because they do not meet the conditions for removal from the balance sheet, and the borrowing entity does not reflect them in its balance sheets.

n) Financial guarantees

Contracts under which the Group is required to pay specific amounts to reimburse the creditor for the loss incurred when a specific debtor fails to comply with a payment obligation under the contract terms are considered financial guarantees, irrespective of their legal form, which may be a guarantee, a financial guarantee, an insurance contract or a credit derivative, among others.

Financial guarantees are carried at fair value, which will be the premium received plus the present value of the cash flows to be received over the term of the contract.

The classification of a financial guarantee contract as doubtful entails its reclassification to Provisions for contingent risks and commitments.

For calculation of impairment loss, financial guarantees are classified on the basis of the risk of insolvency attributable to the customer or to the transaction and, if appropriate, the need is estimated for recording provisions for them using criteria similar to those indicated in Note 15.h. for debt instruments valued at amortised cost, based on estimates of the amounts considered to be non-recoverable.

ñ) Leases

Leases are presented on the basis of the economic substance of the transaction, irrespective of its legal form, and are classified at inception as finance or operating leases.

i) A lease is considered financial leasing when substantially all the risks and rewards inherent in ownership of the leased asset are transferred.

When the Group acts as lessor of an asset, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value, usually the price of the purchase option price at the end of the lease, is recognised as financing provided to third parties. It is therefore included under Loans and receivables in the consolidated balance sheet, in accordance with the nature of the lessee.

This amount, the gross investment in the lease, is the sum of: the minimum payments to be received for the financial leasing plus any unguaranteed residual value that pertains to the debtor.

The detail of the reconciliation of these items in relation to the operations of the Group's credit institutions is as follows:

€ thousands	2015	2014
Present value of the minimum payments to be received	2,026,865	1,998,671
Residual values not guaranteed	210,630	204,924
Gross investment in financial leasing	2,237,495	2,203,595

The distribution by period of the gross investment and present value of the minimum payments to be received is as follows:

€ thousands	Gross investment		Present value of minimum payments to be received	
	2015	2014	2015	2014
Up to 1 year	488,761	464,499	469,716	448,972
From 1 to 5 years	1,208,166	1,143,458	1,108,954	1,062,305
More than 5 years	540,568	595,638	448,195	487,394
Total	2,237,495	2,203,595	2,026,865	1,998,671

The value adjustments covering bad debts relating to the minimum payments under leases amounted to 56,779 thousand euros in 2015 and 70,126 thousand euros in 2014.

Conversely, if the Group were to act as lessee, the cost of the assets leased would be recognised in the consolidated balance sheet in accordance with the nature of the leased asset and at the same time a liability would be recognised for the same amount, which would be the lower of the fair value of the asset leased or the sum of the present values of the amounts payable to the lessor plus, if appropriate, the exercise price of the purchase option. These assets would be depreciated by methods similar to those used for all the tangible assets for own use. The Group has not entered into finance leases as the lessee with third parties in 2015 or 2014.

The financial revenues and expenses arising from these contracts are credited and charged, respectively, to the consolidated income statement so that the return remains constant over the term of the contracts

ii) Lease contracts not considered to be finance leases are classified as operating leases. The basic conditions that must be fulfilled to treat a lease as such are as follows:

- There must be no purchase option at the maturity of the lease period, or any such option must allow the lessee to purchase the asset at its fair value.
- At lease inception, the present value of the future lease payments must be considerably lower than the leased asset's fair value.
- The lease period must not encompass virtually all the useful life of the leased assets.

When the Group acts as lessor of an asset, the acquisition cost of the leased assets is reflected in tangible assets. These assets are depreciated in accordance with the policies applied for similar tangible assets, based on their estimated useful life, and the initial direct revenues and costs allocable to the lease contracts are recognised on a straight- line basis in the consolidated income statement.

When the Group is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight line basis in the consolidated income statement.

As a result of the property divestment process which was started in 2008, the Group acts as lessee of various properties under sale and lease-back arrangements, described in more detail in Note 31.

o) Assets managed

Assets managed by the Group which are owned by third parties are not included on the consolidated balance sheet. Commissions and fees generated by this activity are recognised under Fee and commission income in the consolidated income statement.

The detail by nature of these assets marketed and managed by the Group is as follows:

€ thousands	2015	2014
Investment funds	11,493,462	9,499,195
Asset management	1,683,649	1,088,738
Pension plans	5,314,996	5,231,493
Insurance premiums	2,289,255	1,895,041
Total	20,781,362	17,714,467

p) Personnel expenses – post-employment remuneration

Post-employment benefits are defined as benefits paid to employees after the end of their period of employment. Post-employment benefits, including those covered by internal or external pension funds, are classified as defined contribution plans or defined benefit plans, based on the conditions of these obligations, taking into account all the commitments undertaken within and outside the terms formally agreed with the employees.

The liability recognised for defined benefit plans is the present value of the liability at the balance sheet date less the fair value of the assets allocated to the plan. The liabilities for defined benefits are calculated annually by independent actuaries using the projected unit credit method.

Plan assets are those with which the liabilities will be settled directly, including insurance policies, which meet the following conditions:

a) They are not owned by the Group but by a legally separate, non-related third party.
b) They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.
c) They cannot be returned to the Group unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the Bank relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.
d) They are not non-transferable financial instruments issued by the Group.

The assets contracted with Pastor Vida in cover of commitments to personnel are not plan assets, since they were contracted with a party related to the Bank, and they are recognised as reimbursement rights linked to employee benefits.

In the treatment of post-employment benefits the following criteria are taken into account:

- Actuarial gains and losses arising during the year due to changes in financial or actuarial assumptions or to differences between the assumptions and the actual situation are recognised immediately in the period in which they occur, directly in “Other comprehensive income”.
- Recognition of past service costs, which must be recognised immediately in the Consolidated income statement under "Personnel expenses".
- Interest cost of the liability and the expected profitability on assets allocated to defined benefit plans will be determined as a net amount calculated by applying the interest rate at the beginning of the year to the liability (asset) of the defined benefit plan.

The present value of the defined benefit obligations to personnel is determined by discounting the estimated future cash flows at rates for corporate bonds with high credit ratings that are consistent with the currency and estimated terms in which the liabilities for post-employment benefits will be settled.

The expected profitability on assets allocated to defined benefit plans and reimbursement rights is determined using the same discount rate as for calculating the present value of the liabilities.

a) Post-employment employee benefits: Banks in Spain

As at 31 December 2015 and 2014, the Group banks operating in Spain had outsourced their pension commitments towards serving and retired employees by means of defined-contribution and defined-benefit pension plans and group insurance contracts, pursuant to the terms of Royal Decree 1588/1999.

Defined contribution plans

These are defined contribution pension plans that cover retirement contingencies for employees taken on after 8 March 1980.

The contributions made each year are recognised under "Personnel expenses - Social charges" in the income statement. Any amounts not yet contributed at each year end are recognised, if any, at their present value, under "Provisions for pensions and similar obligations" under liabilities on the balance sheet.

The contributions made by the banks running the defined contribution pension plans amounted to 8,562 thousand euros in 2015 and 8,502 thousand euros in 2014.

Defined benefit plans

Post-employment defined benefit plans for the Group's serving and retired personnel are summarised below.

Serving and retired employees

Pension commitments to retired employees prior to 8 November 2001 of Banco Popular Español, S.A. were outsourced in October 1995 through insurance arranged by the banks with Allianz Compañía de Seguros y Reaseguros, S.A.

On 8 November 2001, Banco Popular Español, S.A. outsourced its defined benefit pension commitments to its serving employees by contributing the internal provisions already established to the respective defined-benefit pension plans that had been set up – which simultaneously took out insurance contracts to cover these commitments – or to insurance contracts covering the financial limit overrun.

The pension commitments for serving and retired personnel are underwritten by the insurance company Allianz, Compañía de Seguros y Reaseguros, S.A. with an irrevocable joint and several guarantee from its parent company Allianz A.G.. Contributions were fully paid in as at 31 December 2001 to cover past service costs at that date. This represented the completion of the outsourcing agreements signed in 2000 and 2001 by the Bank and employee representatives.

In the case of Banco Pastor, commitments to retired personnel prior to August 2002 were outsourced in November 1999 through insurance policies to BBVA Seguros, S.A. de Seguros y Reaseguros. In August 2002 Banco Pastor outsourced its commitments to BBVA Seguros, S.A. de Seguros y Reaseguros. Contributions were completed on 29 August 2002.

Pension plans cover defined benefit commitments for disability and death and retirement for the group of qualifying employees (those hired prior to 8 March 1980) and defined contribution commitments for the retirement of other employees (those hired after 8 March 1980).

Although the principal actuarial and financial risks relating to the benefits insured to date have been transferred to the insurance company, it cannot be concluded that they have been transferred in full, and therefore they should be regarded as defined benefit plans.

Early retirees

The Group has commitments to certain of its employees of the banks in Spain under early retirement agreements. For those commitments arranged up until December 2004, a temporary annuity insurance contract was entered into with the insurance company Allianz, S.A. which bears all the actuarial and investment risk in relation to the commitments assumed.

This insurance was designed so that the benefits periodically received from the insurance company match, in term and amount, the Group's obligations to its early retirees. These obligations consist of both income paid monthly to pre-retirees and the amounts equivalent to the special agreement that each pre-retiree has arranged with the Social Security and the amounts needed to cover benefits for non-serving employees: pension and loss of spouse and loss of parent payments and the premiums necessary to maintain adequate coverage of occupational risks until the agreed retirement age is reached.

The remainder relates to the extraordinary pre-retirement plans implemented after 2004, maintained in an internal fund. Accordingly, the Entity has established, under the Provisions heading, a provision to cover commitments to early retirees, for both salaries and other social charges, from the date of their early retirement until that of their effective retirement, and for the total amount of the necessary supplementary contributions to the pension plan until effective retirement or for risks of death of spouse and death of parent if these events were to occur previously.

Other commitments

The Group has assumed other pension and welfare commitments for personnel on retirement, such as the company store, voluntary bonus payments, Christmas gifts, etc.

b) Post-employment benefits: Banco Popular Portugal, S.A.

The Banco Popular Portugal Pension Plan is a defined benefit plan that provides for the benefits laid down by the Working Conditions Authority (ACT) governing bank employment in Portugal.

Following the publication of Decree Law no. 1-A/2011 of 3 January, workers covered by the ACT who were active at 4 January 2011, were transferred to be covered by the General Social Security Regime, with respect to the provision of retirement benefits. From that date, the defined benefit plan for workers covered by the ACT has been financed through the Pension Fund and Social Security, with respect to the provision of retirement coverage. However, coverage of responsibility for death, disability and retirement benefits, remains with the Pension Fund after 4 January 2011, in order to bring member retirement under the Pension Fund into line with the values of the current pension plan.

In accordance with Decree Law 127/2011 of 31 December, Banco Popular Portugal transferred pension liabilities payable at 31 December 2011 to the Social Security.

The liabilities transferred amounted to €6.3 million, 55% of which was paid in 2011 while the remaining 45% was paid in 2012, after an independent entity certified the value of the liabilities transferred.

q) Income tax

Spanish corporate income tax and taxes of a similar nature applicable to investee companies abroad are treated as expense and recognised under Income tax expense in the consolidated income statement, except when they arise as a consequence of a transaction recognised directly in consolidated shareholders' equity or of a business combination, in which case the deferred tax is recognised as forming part of the value of the transaction.

The income tax expense is determined by tax payable calculated with respect to the tax base for the year, taking into account the variations during that year deriving from permanent differences, deductions and credits and tax-loss carryforwards. The taxable base for the year may differ from the consolidated net income for the year per the consolidated income statement since it excludes the items of revenues or expenses that are taxable or deductible in other years and the items that are never taxable or deductible.

Tax assets: It includes the amount of all tax assets, which consists of:

(i) Current: Includes the amounts to be recovered for taxes in the next twelve months.

(ii) Deferred: Includes the amounts of taxes that are to be recovered in future years, including those arising from tax-loss carryforwards or tax deductions or tax credits to offset.

Tax liabilities: It includes the amount of all tax liabilities, except for provisions for taxes, which consists of:

(i) Current: Includes the amount to pay for the income tax on the taxable profit for the year and other taxes in the next twelve months.

(ii) Deferred: Understood as the amount of income tax to pay in future years.

Deferred tax assets and liabilities relate to the differences between the carrying amounts of the assets and liabilities in the financial statements and the related taxable bases, and are quantified by applying to the relevant temporary difference or credit the tax rate at which it is expected to be recovered or settled.

A deferred tax asset, such as prepaid tax, tax credits for deductions and allowances and a tax credit for tax-loss carryforwards, is recognised provided that the Group is likely to obtain sufficient taxable income in the future against which to realise it for which the Group makes projections on various scenarios with the aim of demonstrating its future recoverability. It is considered probable that the Group will obtain in the future sufficient taxable income when, among other cases:

i) There are deferred tax liabilities which can be cancelled in the same year as that of the realisation of the deferred tax asset or in another subsequent year in which the existing tax loss carry-forward or caused by the amount prepaid can be offset.

ii) The tax-loss carryforwards have arisen for identified reasons which are unlikely to recur.

Nonetheless, the deferred tax asset resulting from the recording of investments in subsidiaries, jointly-controlled companies or associates is only recognised when its future realisation is probable and sufficient tax income is expected to be obtained in the future against which to apply it. Nor is it recognised when an equity item which is not a business combination and that at the time of recognition did not affect the accounting or tax result is initially recognised.

According to the RDL 14/2013, of 29 November, deferred tax assets related to loan loss provisions for impairment of loans or other assets arising from possible bad debts, as well as those for allocations or contributions to social and early retirement systems will become an enforceable claim against the tax authorities, under any of the following circumstances:

a) The taxpayer posts accounting losses in its financial statements audited and approved by the relevant body. In this case, the amount of the deferred tax assets converted will be determined by the result of applying to the total figure the percentage of accounting losses for the year in relation to the sum of capital and reserves.

b) A court declares the entity to be in liquidation or insolvent.

The 2016 Law on General State Budgets introduces an amendment to the Corporate Income Tax Law for which a Financial Contribution is created which must be met by those entities which have monetised prepaid taxes greater than those satisfied net tax charges, in both cases referring to the period 2008-2015. The first accrual of expenditure for a Financial Contribution, associated with these monetised deferred tax assets will occur in 2016, and accounted for under the heading of corporate income tax expenses, with payment being made in the year 2017. This approach will be updated according to the interpretations which are finally adopted by sectors or by regulatory agencies on this subject.

Deferred tax liabilities are always recorded except when goodwill is recognised or when they arise in the recording of investments in subsidiaries and jointly-controlled companies or associates, if the Group is capable of controlling the date of reversal of the timing difference and, also, it is probable that this difference will not reverse in the foreseeable future.

A deferred tax liability is not recognised either upon initial recognition of an asset that is not a business combination and which at the time of recognition has not affected either the accounting or the tax result.

At each accounting close the recorded deferred tax assets and liabilities are reviewed in order to check that they are still current, and the appropriate corrections are made to them

r) Tangible assets

The tangible assets for own use are the property, plant and equipment of which the Group considers it will make ongoing use, and the property, plant and equipment acquired under financial leasing. They are measured at acquisition cost less the relevant accumulated amortisation and, if appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount.

Amortisation is calculated systematically by the straight line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, this land is deemed to have an indefinite life and therefore is not depreciated. The annual provisions for amortisation of tangible assets are charged to the consolidated income statement and are calculated on the basis of the following average years of estimated useful life of the various groups of items:

	Years of estimated useful life
Buildings	25-75
Furniture	4-8
Installations	4-16

At each accounting close, the Group checks for internal and external indications that the carrying amount of tangible assets exceeds the recoverable amount, understood as the higher of fair value less selling costs and value in use. In this case, the Group reduces the carrying amount of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying amount and new remaining useful life if it is necessary to re-estimate it. When there is an indication that the value of an asset has been recovered, the Group recognises the reversal of the impairment loss recognised in prior periods and adjusts future depreciation charges accordingly. The reversal of the impairment loss of an asset may in no case entail an increase in its carrying amount in excess of what it would have been if such prior year impairment losses had not been recognised.

At least at the end of each year the Group reviews the estimated useful lives of its tangible assets for own use in order to detect significant changes therein which, if they occur, are adjusted by correction of the charge for depreciation in the consolidated income statement for that year and the following years based on the new estimated useful life.

Expenses for the upkeep and maintenance of tangible assets for own use are recognised in the consolidated income statement in the year in which they occur.

The investment properties included in tangible assets correspond to the net values of the land, buildings and other structures which the Group holds for rental or for obtaining a capital gain on their sale and which are not expected to be realised in the ordinary course of business and are not dedicated to own use.

The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating lease with respect to depreciation and the estimation of their respective useful lives and the recording of impairment losses, agree with those described for tangible assets for own use.

s) Intangible assets

Intangible assets are non-monetary assets that are identifiable but have no physical appearance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be individually sold, leased or used or arise as a result of a contract or other kind of legal procedure. An intangible asset is recognised when, in addition to meeting the foregoing definition, the Group estimates that economic benefits are likely to be received from the item and its cost can be reliably estimated.

Intangible assets are initially recognised at acquisition or production cost, and are subsequently valued at cost less, where appropriate, accumulated amortisation and any impairment loss.

a) Goodwill

Goodwill is an asset that represents the future economic benefits deriving from net assets acquired in a business combination, which cannot be individually or separately identified or recognised.

It is initially measured as the algebraic sum of the consideration transferred (assets transferred less liabilities assumed) on the acquisition plus the amount of any non-controlling interest in the acquiree (minority interests) plus the fair value at the acquisition date of the interest in the acquiree's shareholders' equity held by the acquirer before obtaining control over the entity involved in the combination less the fair value at the acquisition date of the acquiree's identifiable net assets.

Positive differences between the cost of business combinations in subsidiaries, joint ventures and associates and their underlying carrying amounts, adjusted at the date of initial consolidation, are allocated as follows:

i) If they are allocable to specific assets and liabilities in the acquirees, they are recognised by increasing or decreasing the value of the assets or liabilities the fair values of which are higher or lower, respectively, than the carrying amounts at which they were recognised in their balance sheets and the accounting treatment of which is similar to that of the same assets or liabilities, respectively, of the Group.

ii) If they are assignable to specific intangible assets, they are allocated by explicit recognition in the consolidated balance sheet, provided that their fair value at the acquisition date can be reliably determined, irrespective of whether they were not previously recognised in the acquiree.

iii) The remaining non-allocable differences are recorded as goodwill, which is assigned to one or more specific cash-generating units which are expected to benefit from the synergies deriving from the business combination.

Goodwill acquired since 1 January 2004, remains valued at its acquisition cost and goodwill acquired prior to that date continues to be carried at its recognised net value as at 31 December 2003. At each accounting close the Group estimates whether there has been any impairment in the Goodwill which reduces its recoverable value to below its recognised net cost and, if so, recognises the necessary write-down with a balancing entry in the consolidated income statement. Losses for impairment of Goodwill cannot subsequently be reversed.

b) Impairment testing of goodwill

Banco Popular Group performs annual reviews to assess the existence of potential impairment of its goodwill by comparing the recoverable values with carrying amounts.

There is impairment when the carrying amount of the Cash Generating Unit (CGU) to which goodwill is assigned exceeds its recoverable amount. That value is generally calculated using the discounted cash flow method. According to this method, the value of a banking business is the present value of potential distributable dividends and depends on a series of basic variables:

- Business variables: growth of assets and liabilities, margins, impairment losses, etc. These variables are estimated from a prudent perspective, on the basis of the type of business, foreseeable macro-economic performance, etc., at all times ensuring the consistency of the assumptions with the Group's strategy in general and for each business in particular. Broadly speaking, the assumptions used envisage weak business growth in the short term and persistently high non-performing rates. For the middle years, moderate growth is projected which levels off at the end of the projected period.
- Projection period: the projection period covers the period strictly necessary for the entity to be in a position in which it can calculate a complete stable and normalised year to take as a reference to perpetuity, on a going-concern basis. This situation is characterised by fixed growth and consistent and sustainable asset performance.

They are 10-year projections calculated in a conservative manner in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates from the fifth year incorporate flat or negative growth rates versus previous years, whereas these cash flow projections for a period of 10 years comply with the stipulations in IAS 36.

Given the current economic environment, it is possible to justify a longer period than five years set by preference by the standard, taking into account the following considerations:

- Banco Popular Group since its founding more than 85 years ago has been developing a retail model that has not significantly changed, so we believe Management has the ability to project ten years, given the recurrent nature of the business.
- The current as well as future years continue to show moderate growth due to the current financial crisis, making it more appropriate to extend the projection period to allow for more specific growth rates compared with those that would be included in the expected growth rate used to calculate the terminal and standardised value of the CGU.
- This is in line with the provisions of standard practice for business valuation exercises, which recommend that the projection period should be long enough for the company to reach a stable situation from which to calculate a stable and normalised full year in order to be able to use it as a reference to perpetuity, on a going concern basis. This situation is believed to be characterised by fixed growth and consistent and sustainable asset performance. The Bank applies this valuation policy to any kind of corporate transaction and to internal analysis of its businesses
- In our models this results in two years of weak growth in lending, a few middle years of somewhat larger increases and a final stage of moderation until a nominal growth rate close to "g" growth in the last year and in perpetuity . We believe that these growth rates are prudent and are aligned with those of the sector.
- Given the experience of the Bank's management with ten-year projections, we believe that they are reliable. It is noted that the business model is sustainable and that there is sufficient historical information. The key assumptions underpinning the cash flow projections are growth in lending, the interest margin on average total assets, the cost/income ratio and the risk premium (loan provisions).

Considering the current circumstances, cash flow projections made in the ten-year period reflect more clearly and reliably the economic environment, and are justified for the reasons discussed, and thus are being made in all impairment analyses of goodwill in the Banco Popular Group.

Details are provided below of the parameters applied to the discount rate and residual value in 2014:

	BPE Commercial CGU	Pastor Commercial CGU	Targobank	Banco Popular Portugal	Totalbank
Key Assumptions					
Risk-free rate	1.60%	1.60%	1.60%	2.63%	2.52%
Beta Coefficient	1.26	1.26	1.26	1.26	1.26
Risk premium	6.00%	6.00%	6.00%	6.00%	6.96%
Cost of Capital	9.16%	9.16%	9.16%	10.19%	10.54%
"G" growth	2.50%	2.50%	2.50%	2.50%	4.00%

Details are provided below of the parameters applied to the discount rate and residual value in 2015:

	BPE Commercial CGU	Pastor Commercial CGU	Targobank	Banco Popular Portugal	Totalbank
Key Assumptions					
Risk-free rate	2.06%	2.06%	2.06%	2.34%	2.06%
Beta Coefficient	1.212	1.212	1.212	1.212	1.212
Risk premium	5.50%	5.50%	5.50%	5.50%	7.00%
Cost of Capital	8.73%	8.73%	8.73%	9.01%	10.54%
"G" growth	2.50%	2.50%	2.50%	2.50%	4.00%

In order to determine the cost of own funds, the present value of the projected flows, the following assumptions based on external sources were used in setting the discount rate:

- The risk-free rate corresponding to the long-term interest rate on risk-free financial assets. The profitability on Spanish government bonds in accordance with the EC long-term monetary policy was used to analyse the CGUs of the business in Spain (Acquisition Banco Pastor, New Banco Pastor and Targobank). For CGUs of the business in Portugal, the risk-free rate was obtained using the profitability on Portuguese bonds as 30/09/2015 and the US ten-year bond yield was used. In all cases, external sources were used.
- The beta coefficient is a factor for weighting the sensitivity of a company's profitability relative to the trend of market performance in general. It reflects the difference between the sector's inherent risk and the average risk of the stock market and thereby measures the volatility of systematic risk. The beta considered the beta for Banco Popular is calculated as the average of daily exposures over a 5-year period.
- The market risk premium represents the difference between the rate of profitability of an efficiently diversified portfolio and the risk-free asset. It reflects the inherent risk of the evaluated business, and has been estimated as the excess of the historical average profitability of the capital market over that of long-term government bonds, according to various empirical studies. In the case of business in the United States that premium has been calculated long-term (1928-2014).

The growth rate in perpetuity ("g") for Spain and Portugal, has considered a standard growth of the sector in the years immediately following the forecast period, standing at 2.5% for Spanish CGUs estimated based on the correlation between the quarterly series of nominal GDP and credit to the private sector, according to the historical Credit series of the Banco de España and statistics of nominal GDP growth provided by the National Statistics Institute. Specifically, this correlation has been considered as an estimate of the growth rate in perpetuity, taking into consideration the high correlation between the growth of the financial sector and the economy as a whole, assuming constant sustainable returns on the entities' capital, a constant evolution of the degree of leverage in the economy as a whole and continuity of legal regulatory capital requirements in terms of proportion of risk-weighted assets. And in the case of Portugal, as well as the correlation between nominal GDP and lending the intention of the company to grow its market share in the Portuguese market has been considered, which makes a growth higher than the expected national GDP. The growth rate used for the analysis of the Goodwill of Totalbank was the average GDP growth rate in the United States since 2000.

c) Other intangible assets

The remaining intangible assets may have either an indefinite useful life when, based on analyses of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which net cash flows may be expected to be generated for the Group, or a finite useful life in other cases. Intangible assets with an indefinite useful life are not amortised, although at each accounting close the Group reviews the remaining useful lives in order to ensure that they are still indefinite or, alternatively, take the relevant action. Intangible assets with a finite useful life are amortised on the basis thereof, applying methods similar to those for tangible assets.

Computer software developed by the Group is recognised as an intangible asset when it reaches its development stage, understood as one in which the intangible asset can be identified and it can be demonstrated that economic benefits in the future can be generated, and the following requirements are met:

a) The feasibility, from a technical point of view of completing the intangible asset so that it is available for future use.
b) The intention to complete and use or sell the intangible asset.
c) The ability to use or sell.
d) The manner in which the asset is likely to generate future economic benefits.
e) The availability of sufficient resources, such as technical and financial, to complete development and to use or sell the intangible asset.
f) The ability to reliably estimate the costs attributable to the development stage of the intangible asset.

The cost for which they are recognised as intangible assets includes the cost of external subcontracted services and the cost of internal resources involved in the analysis and development of such software.

In any event, the Group records for accounting purposes any loss that may have arisen in the recorded value of these assets arising from impairment with a balancing entry in the consolidated income statement. The methods for recognition of losses for impairment of these assets and, if appropriate, of recoveries of losses for impairment recorded in prior years are similar to those applied for tangible assets.

t) Inventories

Inventories are assets other than financial instruments that are held for sale in the ordinary course of business, are in the process of production, construction or development for such sale, or will be consumed in the production process or provision of services. Inventories includes land and other properties that are held for sale in the activity of property development. Inventories are valued at the lower of their cost and their net realisable value.

Being:

- Cost of inventories: comprises all costs incurred in the acquisition and processing, and other costs, direct or indirect, which they incurred to give them their present location and condition.
- Net realisable value: is the estimated selling price of inventories in the ordinary course of business, less the estimated costs of completion and those necessary to carry out their sale.

u) Insurance operations

The subsidiaries that are insurance companies credit the consolidated income statement for the premiums that they write and charge to the consolidated income statement the cost of the claims that they must meet when final settlement thereof is reached. Also, accruals are recorded at the end of each year both for the amounts credited to the consolidated income statement but unearned at the year end, and for the costs incurred but not charged to the consolidated income statement.

The principal technical provisions relating to the direct insurance activity are as follows:

i) Technical reserve for unearned premiums, relating to the rate premium collected in one year allocable to future years net of the loading for contingencies.

ii) Technical reserve for outstanding risks which supplements the technical reserve for unearned premiums by the amount by which the latter is insufficient to reflect the valuation of the risks and expenses to be covered relating to the unelapsed coverage period at year-end.

iiii) Technical reserve for benefits, which relates to the estimated valuations of the outstanding obligations arising from claims occurred before year-end. This technical reserve includes the unsettled or unpaid claims and the undeclared claims. The outstanding obligations are calculated by deducting the payments made on account and taking into consideration the internal and external expenses of settlement of the claims and, if appropriate, the additional provisions which may be necessary to cover variances in the valuations of claims requiring lengthy procedures.

iv) Technical reserve for life insurance:

- For life insurance policies whose coverage period exceed one year, mathematical technical provision is calculated as the difference between the actuarial present value of future obligations of the insurer and the policyholder or insured, based on calculating the premium accrued during the year which is constituted by the pure premium plus a charge for administration expenses as per the technical rules.
- In life insurance where the investment risk is borne by the policyholders, the technical provision is determined by the assets specifically assigned to determine the value of rights.

v) Technical provision for profit-sharing and refunds, which relates to the profit accruing to the policyholders, insured or beneficiaries of the insurance and that of premiums that must be refunded to the policyholders or insured, because of the conduct of the risk insured unless they have been individually assigned to each of the former.

The technical provisions for accepted reinsurance are calculated by methods similar to those used for direct insurance, and generally on the basis of the information provided by the ceding companies.

The technical provisions of direct insurance and of accepted reinsurance are included under Liabilities under insurance contracts in the consolidated balance sheet.

The amounts which the Group is entitled to receive for reinsurance contracts are recorded under Reinsurance assets in the consolidated balance sheet. The Group checks whether these assets are impaired and if so recognises the related loss in the consolidated income statement with a direct charge to that heading.

v) Provisions

The Group's present obligations resulting from past events are considered provisions when their nature is clearly defined at the date of the financial statements but the amount or time of settlement are not defined, and upon the maturity of which and in order to settle them the Group expects an outflow of resources which embody economic benefits. These obligations may arise as follows:

i) A legal or contractual requirement.
ii) An implicit or tacit obligation, arising from a valid expectation created by the Group for third parties for the assumption of certain kinds of responsibilities. These expectations arise when the Group publicly accepts responsibilities, and derive from past performances or business policies in the public domain.
iii) The virtually certain evolution of the regulations on certain aspects, in particular, draft legislation which the Group cannot disregard.

Provisions are booked on the basis of the probability of an event occurring. Events are classified as probable when they are more likely to occur than not; as possible, when they are less likely to occur than not; and remote, when their occurrence is extremely rare.

The Group includes in its consolidated financial statements all the material provisions with regard to which it is considered that the likelihood of having to meet the obligation is greater than not.

Provisions are quantified based on the best information available about the consequences of the event giving rise to them and are estimated at each accounting close. They are used to meet the specific obligations for which they were recognised, and are fully or partly released when these obligations cease to exist or decrease.

This balance sheet heading reflects provisions for pensions, taxes and legal contingencies, contingent risks and commitments and other provisions.

As at 31 December 2015 and 2014 various legal proceedings and claims instigated against the Group resulting from its ordinary business activities were ongoing.

Under IAS 37.92, if the Group considers that, in certain circumstances, the inclusion of breakdowns on certain provisions and contingent liabilities could significantly affect the Group in litigation with third parties in relation to the risks covered by the relevant provisions, it can elect not to disclose such information in detail.

w) Contingent assets and liabilities

Contingent assets are possible assets arising as a result of past events whose existence is conditional and must be confirmed when events outside the control of the Group occur or do not occur.

Contingent assets are not recognised in the consolidated balance sheet or in the consolidated profit and loss account. The Group discloses their existence if the increase in funds including economic benefits for this reason is probable.

Contingent liabilities are the possible obligations of the Group arising as a result of past events whose existence is conditional on the occurrence or not of one or more future events which are independent of the Group's decision. Contingent risks include the Group's present obligations the settlement of which is unlikely to give rise to a decrease in resources that embody economic benefits or the amount of which, in extremely rare cases, cannot be sufficiently reliably quantified.

x) Employee share-based remuneration

In order to bring the Bank's remuneration system into line with the requirements of Directive 2010/76/EU of 24 November 2010 on the supervision of remuneration policies and the principles of the CEBS, the last five General Shareholders' Meetings, held on 8 April 2011, 11 June 2012, 10 June 2013, 7 April 2014 and 13 April 2015, approved deferred and conditional Bonus Plans for 2011, 2012, 2013, 2014 and 2015, applicable to the executive directors, senior management and those employees who assume risks or exercise control functions. These Plans laid down specific conditions for the receipt of bonuses.

Thus, remuneration of the personnel referred to. with reference to the above-mentioned plans are detailed in Note 10 (Remuneration of Directors and Senior Management) of this Report corresponding to each of the years mentioned.

On 10 June 2013, the shareholders, in a General Shareholders' Meeting, approved a Long-Term Bonuses Plan in Banco Popular stock for years 2013 to 2016 (hereinafter "the Plan") for the members of the executive team and Senior Management (including executive directors and members of the Management Committee). This Plan is based on the allocation to the beneficiaries of a number of units, to be granted in cycles, each with a duration of four years(2013, 2014, 2015 and 2016), which will form the basis for calculating the shares to be delivered to the Plan beneficiaries in 2017, 2018, 2019 and 2020, if appropriate and provided that the objectives laid down in the Plan are met and whose characteristics are detailed in the documentation provided to shareholders at the Ordinary General Meeting of Shareholders of 2013, 2014 and 2015 and are as follows:

- The Plan will enable Beneficiaries of the remuneration to receive a number of ordinary shares of Banco Popular in the years 2017, 2018, 2019 and 2020, provided that certain strategic objectives of the Bank are met.
- Members of Banco Popular's the management team, including executive directors and members of the Management Committee of Banco Popular will be considered Beneficiaries of the Plan when it enters into force.
- The Plan consists of the allocation in 2013, 2014, 2015 and 2016 of a number of "units" to each beneficiary, which will serve as the basis for determination of, depending on the degree of compliance with certain objectives, the number of shares Banco Popular provides, where appropriate, to each Beneficiary in the years 2017, 2018, 2019 and 2020.
- The "units" will be awarded in cycles, in 2013, 2014, 2015 and 2016.

    - First grant cycle: Assignment of "units" in 2013 and, where appropriate, settlement in Banco Popular shares in 2017.
    - Second grant cycle: Assignment of "units" in 2014 and, where appropriate, settlement in Banco Popular shares in 2018.
    - Third grant cycle: Assignment of "units" in 2015 and, where appropriate, settlement in Banco Popular shares in 2019.
    - Fourth grant cycle: Assignment of "units" in 2016 and, where appropriate, settlement in Banco Popular shares in 2020.

- To determine the "units" to be assigned to each Beneficiary in each cycle the following is taken into account: (i) a reference amount, to be determined as a percentage of their fixed compensation which, in no case, will exceed 50% of the Beneficiaries fixed remuneration corresponding to each year units are allocated, and (ii) the weighted average price of Banco Popular shares corresponding to trading sessions between 15 December 2012 and 15 January 2013, adjusted for the reverse split (one new share for every five old) executed in June 2013.
- The total number of shares awarded to each Beneficiary on the settlement date of each cycle is determined according to the following formula:

    N.S. = U x DIA

    Where:

    N.S. = Number of shares in the Bank awarded to each Beneficiary at the end of each cycle.

    U = Number of "units" assigned to the Beneficiary in each cycle.

    DIA = Degree of Initiative Achievement; depending on the degree of compliance with the objectives which link each of the Plan's cycles.

These conditions may be modified within the limits of the Plan's approval by the General Shareholders' Meeting. There were no changes to these in 2014 and 2015.

Availability of shares system

For the total amount of the incentive due in each of the cycles, the Bank shall pay the cash amount necessary to enable the Beneficiary to deal with the corresponding payment of income tax or similar which may be applicable, giving each Beneficiary the "net" number shares which results.

Beneficiaries may not dispose of the shares awarded under the Plan until a year after they were awarded has elapsed.

Once this time has elapsed, Beneficiaries are freely able to dispose of the shares.

Assumptions leading to early settlement of the Plan

In the event of a takeover or change of control in the Bank, or an event or corporate transaction which, in the opinion of the Board of Directors, would significantly affect the Plan's pending settlement cycles, they will be settled in advance, taking into account the date of the event to calculate the degree of compliance of the metrics, depending on the period of time elapsed.

Should the takeover or change of control be a result of takeover bid the Plan's pending settlement cycles will be settled in cash, by reference to the price offered in the aforementioned public offering.

Requirements for obtaining shares

As a condition for receiving the corresponding shares for each cycle the Beneficiary must maintain a continuous relationship with the Bank (normal work, senior management or commercial) until the date of delivery of the shares, except in the following special circumstances: retirement, disability, death or removal of directors not motivated by a serious breach of their duties.

In the special cases where the Beneficiary may receive shares despite their relationship with the Bank having concluded, the time the Beneficiary provided services will be calculated pro rata to the duration of each cycle. The shares will be delivered on the generally date stated for Beneficiaries in each of the Plan's cycles.

In any case, and in accordance with Article 76 e 2 i of RD 216/2008, as amended by Royal Decree 771/2011, the bonuses will be paid only if it is sustainable according to the situation of Banco Popular and justified based on the results of the Bank, the business unit and the employee in question.

Clawback clause

In the event that during the three years following the liquidation of each of the Plan's cycles any of the following circumstances occur, Banco Popular may require Beneficiaries to return the shares that were delivered under this Plan or make other payments of any kind that the beneficiary is entitled to receive against such delivery. These assumptions are:

- If the Beneficiary has been penalised for breach of the code of conduct and other internal regulations, particularly those relating to risks, which resulted in its application;
- When it becomes apparent that the liquidation of each of the Plan's cycles has been produced in whole or in part based on manifestly false or severely misstated information demonstrated a posteriori, or risks incurred during the period considered or other unforeseen circumstances not assumed by the Bank arise, which have a material adverse effect on the income statement of any year of the clawback period.

The Appointments, Compensation, Corporate Governance and Conflicts of Interest Committees determine if any circumstances which must lead to the implementation of this clause occur and the shares, if any, should be returned to the Bank.

Tax and labour implications for Beneficiaries of the Plan

The tax shall be that which corresponds to each beneficiary according to current tax regulations applying to it at the time of the liquidation of the Plan, and in any case will be borne by the Beneficiary of the Plan.

The amount, if it is derived from the Plan, is not considered salary, will not be consolidated, and will not be computable for the purpose of determining pensions, allowances or other perceptions that may correspond to the Beneficiary as a result of their relationship with Banco Popular.

The strategic objectives that have been established in the Plan, aim primarily to improve the relative positioning of the Group in the long term compared to European competitors who have been selected as reference banks. In order to achieve maximum involvement and loyalty of the management team with the Group's business plan, ambitious targets to be evaluated at the end of each cycle have been set, although an annual evaluation is performed in order to quantify their accounting impact at year-end.

In response to the assignment of units made and assuming that the Plan's objectives were met 100%, shares to be potentially delivered at fair value as shown below, are calculated taking into account the share price at the assignment date:

- In the Relevant Act published 10 June 2013 the assignment of 8,417,740.77 allocation units for the first phase of the Plan was reported, which adjusted for the reverse split (one new share for every five old) would be 1,683,548.15 units having a fair value at that date of 5.3 million euros;
- In the Relevant Act published 24 April 2014 the assignment of 1,900,710 allocation units for the second phase of the Plan was reported, having a fair value at that date of 10.5 million euros;
- In the Relevant Act published 29 April 2015 the assignment of 2,060,467 allocation units for the third phase of the Plan was reported, having a fair value at that date of 9.0 million euros;

In any case, the number of shares awarded will be determined at the end of each cycle depending on the degree of achievement of the strategic objectives that have been set.

y) Non-current assets held for sale and liabilities associated with non-current assets held for sale

Non-current assets held for sale on the consolidated balance sheet include assets, irrespective of their nature, which, not forming part of operating activities, include amounts whose initial realisation or recovery period exceeds one year, but which the Group intends to dispose of within no more than one year of the date to which the consolidated financial statements refer. Among other things the carrying amount of foreclosed assets the sale of which is highly likely to take place in their current state is recognised under this heading.

In the performance of its operations, the Group has obtained assets through either the enforcement of the guarantees taken to ensure collection or the dation in payment of mortgaged properties. Note 27 sets out information on this kind of assets.

In the case of foreclosed assets classified as non-current assets held for sale the cost of acquisition will be deemed the amount recognised as the transfer value in the legal act by which the property was acquired plus all expenses directly related to the acquisition.

They are activated as the increased value of the asset (investment property, inventories or NCAHFS) expenses incurred to have ownership of the asset.

Consequently, the recovery of the carrying amount of these items, which may be of either a financial or non-financial nature, will probably be obtained through the price at which they are disposed of rather than through continuing use.

Therefore, the property and other non-current assets received by the Group in total or partial settlement of its debtors payment obligations to it are classified as non-current assets held for sale, unless the Group has decided to make continuing use of them, in which case they are classified as assets for own use or investment properties.

Liabilities associated with non-current assets held for sale includes the credit balances connected with disposal groups or discontinued operations of the Group, if any; at the end of 2015 and 2014, the Group did not have any balance of this nature.

The assets classified as non-current assets held for sale are generally measured at the lower of the carrying amount at the time they are considered such and fair value net of their estimated selling costs.

The impairment of foreclosed property is calculated by comparing the property's fair value less selling costs with its carrying amount. This fair value is determined by the valuation of the foreclosed asset drawn from the latest available appraisal value. If the carrying amount of the property is higher, impairment is recognised in the amount of the difference. The appraisal value at foreclosure is determined for the Group's policy, the appraisal being made by valuation companies not connected to the Group and registered with Banco de España.

Following the entry onto the balance sheet, the value of the foreclosed property will be reviewed with a maximum periodicity of three years, provided that in accordance with the continuous monitoring carried out, there is no indication of negative changes in the value of assets involving the need to update valuation by a shorter period.

While they continue to be classified as non-current assets held for sale, depreciable tangible assets and amortisable intangible assets are not depreciated or amortised. In the event that the carrying amount exceeds the fair value of the assets, net of selling costs, the Group adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in Gains/losses on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. In the event of any subsequent increases in the fair value of the assets, the Group reverses the losses previously recorded and increases the carrying amount of the assets up to the limit of the amount prior to their possible impairment.

Nonetheless, financial assets, deferred tax assets and insurance contract assets which form part of a disposal group or discontinued operation are not valued as described. Instead, they are valued in accordance with the principles and standards applicable to these items, as explained earlier in this Note.

The results in the year of disposal groups classified as discontinued operations are recorded under Result of discontinued operations (net) in the consolidated income statement both if the disposal group has been eliminated from assets and if it is still included in assets at year-end. Note 9 sets out further information on discontinued operations.

z) Consolidated cash flow statement

Set out below is a description of certain items used in the consolidated cash flow statement:

i) Cash flows that are inflows and outflows of cash and cash equivalents, the latter being defined as high liquidity short-term investments with low risk of alteration in value, irrespective of the portfolio in which they are classified.

ii) Operating activities are the Group's typical activities and other activities which cannot be classified as investing or financing activities and interest paid on any financing received, with some exceptions, such as financial assets included in the investments held-to-maturity investment portfolio, equity instruments classified as available for sale which are strategic investments, and subordinated financial liabilities.

For these purposes, an investment in equity instruments is considered strategic when it is made with the intention of establishing or maintaining a long-term operating relationship with the investee without significant influence being exercised.

iii) Investing activities relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents. The main lending or funding transactions that have not entailed the use of cash or equivalents relate to the purchase, dation in payment or foreclosure of assets to cancel loans in the broadest sense.

Variations caused by the purchase or sale of a set of assets or liabilities which make up a business or line of business are included under "other business units" in the individual statements, and under "subsidiaries and other units business" in the consolidated statements, according to their denomination.

iv) Financing activities are activities that result in changes in the size or composition of consolidated shareholders' equity and liabilities that are not part of operating activities, such as subordinated financial liabilities.

The bank gets the information on cash flows from operating activities using the indirect method as described below:

(i) It is part of the profit/(loss) for the year or, where applicable, the consolidated profit/(loss) for the year.

(ii) Income and expenses recognised in the income statement which are not cash flows are set as are profits or losses recognised directly in shareholders' equity for operating activities, before deducting the tax effect.

(iii) Balances for the various categories of operating assets and liabilities include all the differences between the amounts recorded on the balance sheet at the beginning and end of the period, but do not correspond to payments and receipts, except those parts qualified as cash and cash equivalents.

The balances for the items included in investing and financing activities only collect payments and receipts made in the period for the concepts to which they refer. The cash flow statement contains details of the composition of cash and cash equivalents at year end.

The consolidated cash flow statement is prepared by eliminating the payments and receipts occurring between group entities, making the necessary reclassifications.

16. Duty of loyalty of the Directors

With regard to the provisions of Article 229 of the Revised Text of the Corporate Enterprises Act, the Members of the Board of Directors of Banco Popular Español, SA have not reported any conflicts of interest with the Bank.

17. Customer service

Ministry of Economy Order 734/2004, of 11 March, stipulated, among other matters, the obligation for the customer service departments and services of financial institutions to prepare a report explaining the performance of their functions during the preceding year. The Order also required a summary of this report to be included in the notes to the institution's financial statements.

In accordance with this legal requirement, the Banco Popular Group's customer service department prepared the 2015 Activities Report, which was submitted to the Board of Directors of Banco Popular in its meeting on 10 February 2016.

This Report states that a total of 11,755 complaints, claims and enquiries were made to the Group, 22.4% down on the previous year. The number of matters settled in 2015 totalled 11,468, (of which 1,115 related to the previous year), an decrease of 39.3% on 2014.

In 2015, a Customer and Regulatory Service Department was created in Bancopopular-e and Targobank to manage their own issues.

The information for 2014 includes the figures of that year corresponding to Bancopopular-e and Targobank (2,697 presented and 2,898 cases solved) as they did not at that time have their own service and are not included in the information for 2015.

At 31 December 2015, only 662 cases had not yet been resolved. Of these, 144 were pending resolution by the Banco de España's Complaints Service, Spanish National Securities Market Commission and the General Directorate of Insurance and Pensions, with the remaining 518 pending resolution by the Customer Service Department within the legally established time frame to provide a response.

In 2015, a total of 10,782 findings have been issued, which are set out below together with comparative data for the previous year.

Findings	**2015**	**2014[1]**
In favour of the complainant	1,534	6,647
In favour of BPE Group	3,548	7,898
In favour of both parties	194	163
No findings issued	392	1,090
Agreed	1,348	1,800
Acceptances	3,766	3,229
Total	10,782	20,827

(1) 2014 including:	Bp-e	Targo
In favour of the complainant	1,318	104
In favour of BPE Group	917	248
In favour of both parties	5	2
No findings issued	40	25
Agreed	32	8
Acceptances	52	22
Total	2,364	409

Of the above matters, 1,538 were handled through the Financial Services Customer Ombudsman Offices, which issued 906 findings, as follows:

	Banco de España		CNMV		Dir. Directorate for Insurance		Total	
Findings	2015	2014[a]	2015	2014[b]	2015	2014	2015	2014[c]
In favour of the complainant	318	385	29	67	3	10	350	462
In favour of BPE Group	471	559	21	30	16	12	508	601
No findings issued	37	120	3	5	8	-	48	125
Total	826	1,064	53	102	27	22	906	1,188

(a) 2014 including:	Bp-e	Targo
In favour of the complainant	8	61
In favour of BPE Group	18	24
No findings issued	2	4
Total	28	89

(b) 2014 including:	Bp-e	Targo
In favour of the complainant		1
In favour of BPE Group		
No findings issued		
Total		1

(c) 2014 including:	Bp-e	Targo
In favour of the complainant	8	62
In favour of BPE Group	18	24
No findings issued	2	4
Total	28	90

18. Risk management

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.

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 which create an atmosphere of effective critical comments, in which decision-making processes promote different viewpoints.
- Staff trained in their responsibilities regarding risks, showing who responds to what kind of risk without risk management corresponding only to experts in risk or control functions. The responsibility for the daily management of the risk appetite and the respect of its policies, procedures and controls will be the business units.

- A risk appetite which is incorporated into the processes and systems.
- Compensation and professional career plans to encourage attitudes and skills consistent with the management of risk appetite's objectives.

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

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

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

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

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

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

In addition to top-level metrics or RAF 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 RAF in its management.

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 in their day-to-day field of operational management, and are responsible for maintaining effective internal controls and the implementation and ongoing monitoring of risk procedures.
- The second line of defence has a transversal responsibility and is made up of the following units:
    - Risk Management / Risk Control
    - Regulatory Compliance
    - Internal Control Body / Prevention of Money Laundering
    - Advisory Committees of the Management Committee: Capital Committee, ALCO Committee and Operational Risk Committee 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.

BUSINESS RISK

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

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

The Group maintains a leadership position in customer spread and credit profitability, which comes from, among others, its strategic focus on self-employed people, and small and medium-sized companies. This business model allows it to:

- Maintain a proven record of recurring income, with less reliance on extraordinary income in its operating income than its peers. This is achieved due to the fact that the Bank's core business is commercial banking, establishing long-term relationships with customers, and providing a base of very stable results.
- Be the sector leader in credit profitability, with customer margins above that of their competitors. This is possible because the Group is the Spanish bank specialising in SMEs. The increased presence in this segment allows the Bank to operate with higher margins while maintaining industry diversification in the markets in which it operates.
- Operate with a greater recurring cost-to-income ratio than the average peers, giving the Bank greater resilience to crisis periods of reduced revenue.

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

CREDIT RISK

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

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

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

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

- Priority of the risk policies aimed at guaranteeing the Group's stability and its viability in the short-, medium- and long-terms, and at maximising the risk-return relationship.
- Senior Management involvement.
- Scrupulous compliance with current legislation in every way, with particular attention paid to the monitoring of the current legislation on Prevention of Money Laundering and Terrorism Financing.
- Profitable and quality lending, opting for profitable, balanced and sustained growth overall and for returns commensurate with the risk on each individual borrower.
- Periodic information to Senior Management.
- Application of limits on the granting of risks.
- Diversification of the risk inherent to loans and receivables, setting or complying with the limits extended to borrowers, sectors and distribution by maturities.
- Flexibility of the target-oriented organisational structure.
- Separation between the risk and commercial areas.

- Nimble response in deciding on proposed transactions, as a basic differentiating instrument, without detriment to the rigour of analysis.
- Systematisation and automation of processes.
- Terms are negotiated with the customer individually based on each customer's overall relationship with the Bank, the risk assumed and the profitability it offers.
- Evaluation and rigorous documentation of the risk and the guarantees.
- Integration of the internal risk management, scoring and ratingmodels into the daily management.
- Management of the risks and limits granted for each customer or associated group of customers, when such a relationship exists.
- Incorporating guarantees to mitigate risk.
- Participation of risk analysts in risk monitoring and control.
- Formal system of discretionary powers built into the granting of risks.
- Differentiated analysis and treatment of refinancing and debt restructuring operations.
- Risk monitoring and control from origination to termination.
- Employment of qualifications and policies in risk monitoring and control.
- Recovery process oriented to efficient management.

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

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

Risk management

The Group has a specialised unit which it created in December 2014 under the Risk Management. 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.

In 2015 a significant effort has been made to disseminate the corporate risk culture throughout the organisation, to implementate the Risk Appetite Framework and to adaptate the credit risk policies and procedures to the risk appetite established.

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 Management.

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.

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

Also integrated into this computer support are:

- The discretionary powers' system is automated at all decision levels (from Branch to Central Services).
- The results of the rating/scoring models applied to different segments.
- The rating and policies laid down by Risk Monitoring and Control for those involved and the irregular situations which might present (in the group, in the System or in external sources such as RAI or Credit Bureaux).
- Pricing information.

The credit risk admission is carried out in compliance with the limits and restrictions set out in the Risk Appetite Framework and the Risk Policy Manual; it ensures sustainable business growth by optimising the profitability of resources; seeking a balance between loans and receivables and capital raised. It complies with that set by the Law on the Prevention of Money Laundering; applies the principles and requirements of "Responsible Lending"; is based on the recurrent and timely generation of resources by the borrower; and requires effective and proportional guarantees in operations to mitigate the risk assumed.

Discretionary Powers System

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

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

Limit structure

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

- Risk concentration by borrower.Limits are defined for the maximum exposure to groups or individual customers and limits for individual transactions, as well as the use of Group financing for a group or customer. Potential exceptions to these limits are managed directly by the Board of Directors or its Delegated Committee as the maximum decision-taking body within Banco Popular Group's system of discretionary powers.
- Risk concentration by sectors. The Group has analysed and evaluated different sectors of activity, assigning a degree of credit quality to each and defining thresholds in terms of the rating given.
- Risk concentration by segment, factor for which thresholds are defined in terms of a percentage of maximum risk to be assumed with respect to the Large Company segment.
- Risk concentrationby product, with a focus on mortgage operations, property development and financing in foreign currency.
- Risk concentration in terms of geographical distribution, periodically analysing the levels of risk exposure in different geographical areas.

Credit Rating Models

The Group has internal models for the analysis and measurement (rating and scoring) of credit risk. For the retail segment (individuals and micro-companies), credit scoring models adapted to each kind of product are used. For the business segment, an internal rating is calculated based on the analysis of variables representative of economic and financial position, the operation, and business sector. The Group has replica models for the large companies and financial institutions segments. Finally, project finance are classified using the qualitative analysis suggested by the Basel Committee on Banking Supervision, with minor adaptations to the type of financing and situation.

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

At 31 December 2015, Banco Popular has authorised the use of these advanced models for the calculation of Capital requirements for large, small and medium-sized companies, financial institutions and retail mortgages portfolios and also, on this date, using the project finance model under the "IRB - Slotting Method" approach. Micro, consumer and BAPOP's portfolios of small and medium companies, are under review by the ECB for their approval on the calculation of Capital requirements.

In addition, estimates of credit risk parameters under different scenarios are performed which are integrated into the internal and regulatory stress tests. These stress tests are particularly important as a tool for dynamic risk assessment and therefore the creditworthiness and solvency of banking entities.

Internal Validation

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

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

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

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

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

- Methodology: Review of the methodology used in the scoring/rating models. This makes reference to the adequacy of the statistical methodology, the assumptions and the techniques applied, which remain unchanged until the design of the models is modified.
- Documentation: Review of the quality of the documentation that supports these models.
- Data Used: Review of the quality of the data and databases used when developing the models during the rating assignment process and in estimating the risk parameters, as well as other databases used to calculate the minimum capital requirement.
- Quantitative Aspects: Review of the quantitative information provided regarding the validation and monitoring of the models. A number of measures are developed that permit the periodic evaluation of the validity and efficiency of the various parameters and models.

- Quantitative Aspects: This area has a dual objective: the review of the information generated by the models and their appropriate interpretation. Secondly, the validation of compliance with the minimum regulatory qualitative requirements, which include the Use Test, the role of the credit risk control units, the aspects relating to corporate governance and the adequacy of the internal controls.
- Technological Environment: Review of the integration into systems, the application environment and the quality of the information provided by the systems.

In addition and in accordance with the best practices, Internal Validation's function, as a second line of defence in Risk Control, is gradually extending its scope into other internal review processes such as stress tests or ICAAP, validating the methodology for calculating the related models.

Pricing Policy

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

The main objective is risk adjusted pricing management which allows:

- Discrimination based on the creditworthiness of customers and operations.
- Be oriented to set the price of an operation.
- Attract customers with the best creditworthiness.
- Foster the link with good existing customers.

Mitigation of Credit Risk

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

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

Banco Popular Group, in complying with the best market practices and with both Spanish and European regulations, such as, Circular 4/2004 and IAS 39, has defined accounting policies whose details are explained in an Accounting Policies Manual, approved by the Management Committee and the Audit Committee, which is updated at least annually.

Risk Monitoring and Control

The monitoring of approved transactions makes it possible to assess their quality at borrower level and establish mechanisms 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 balances and to recover impaired assets, the Group has a specialised Restructuring and Non-per- forming balances unit which reports to the Retail Banking Management while supervising the Restructuring and Non-perform- ing balances Offices in each of the Territorial Offices, as well as at the Documentation Preparation Office. In addition, an external provider is responsible for the early recovery of items in accordance with the Restructuring and Non-performing 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 guarantee, 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 non-performing balances area structure has been modified and specialised teams have been created to handle the portfolios of different kinds of customers in order to recover defaults and non-performing loans, with the targets below:

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

The issues are characterised based on the amount of risk.

In order to streamline and strengthen recoveries, new responsibilities for action at various levels of the Group have been defined. The recovery teams created at the Regional and Territorial Offices have a specialised workforce dedicated to the management of distressed debt, in addition to the network. These people only manage assets in difficulty corresponding to the scope of the Bank, since Aliseda has its own template for managing its assets. 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:

- Default recovery management, a process in which the Central Restructuring and Non-performing balances Unit, restructuring teams at the Regional Offices and Territorial Offices, and external suppliers who deal with early recovery are involved.
- Non-performing loans recovery management,, which is divided into the different document preparation stages , judicial management and recovery management by the Recovery and Recuperation teams of Territorial Offices.
- Write-off management.

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

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

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

Responsible lending to consumers

Pursuant to Banco de España Circular 5/2012 of 27 June on the transparency of banking services and responsibility for granting loans and the principles referred to in Annex 6 of said circular, the principles and practices for the responsible granting of credits and loans to consumers have been included in a document authorised by the Bank's Board of Directors dated 18 December 2012. To ensure compliance with said principles and criteria, the Group has implemented a range of measures and controls as part of its risk management system; these items featured in policy and procedure manuals also authorised by the Board, and in operating systems to ensure appropriate levels of management and control. These controls are based on: discretionary authorisation levels; risk limits; procedures for analysing transactions by product type, including the necessary information; evaluation of ability to pay; maximum LTV thresholds ; management and valuation of guarantees; appraisal policies; marketing and sales policies for credits and loans, including those in foreign currencies; marketing of risk hedging products; and, debt renegotiation and restructuring policies. Furthermore, controls and ongoing monitoring are employed to ensure their correct application and effectiveness.

The credit quality of the risks assumed is analysed in the following table, which shows internal ratings for credit risk exposure, including credit institutions, companies and institutions, 6.01% of which have an A or higher rating.

Rating	2015	2014
AAA	0.00%	0.14%
AA	0.00%	0.00%
A	6.01%	6.11%
BBB	19.49%	18.88%
BB	27.81%	29.45%
B	24.79%	23.30%
Remainder	21.90%	22.12%
Total	100.00%	100.00%

Set out below is an analysis of the Group's maximum exposure to credit risk in 2015 and 2014:

€ thousands	2015	2014	% change	Weight (%) 2015
Commercial activity:				
Loans and advances to customers	107,085,210	108,379,386	(1.19%)	69.31%
Contingent risks	11,159,430	12,554,148	(11.11%)	7.22%
Total commercial activity	118,244,640	120,933,534	(2.22%)	76.53%
Market activity (including counterparty risk)	28,998,769	32,646,077	(11.17%)	18.77%
Total exposure	147,243,409	153,579,611	(4.13%)	95.30%
Drawable by third parties	7,264,597	6,430,379	12.97%	4.70%
Maximum credit risk exposure	154,508,006	160,009,990	(3.44%)	100.00%

The table below sets out the risk concentration by activity and geographical area, based on the borrower's place of residence, at 31 December 2015, by subject:

€ thousands	TOTAL*	Spain	Rest of the European Union	America	Rest of the world
1 Credit institutions	14,766,509.07	8,354,538.70	5,641,728.41	559,956.41	210,285.53
2 General government	22,634,060.59	22,339,891.63	248,590.96	43,019.00	2,558.99
2.1 Central government	21,264,718.73	20,970,549.76	248,590.96	43,019.00	2,558.99
2.2 Other	1,369,341.86	1,369,341.86	0.00	0.00	0.00
3 Other financial institutions	7,445,188.30	6,563,396.45	564,115.65	10,991.76	306,684.43
4 Non-financial corporations and individual entrepreneurs	73,021,715.14	65,117,781.85	4,726,808.29	2,961,258.00	215,866.99
4.1 Construction and property development	13,862,348.00	11,927,879.00	548,289.00	1,386,158.00	22.00
4.2 Civil engineering	3,237,696.00	3,004,230.00	103,017.00	130,449.00	0.00
4.3 Other purposes	55,921,671.14	50,185,672.85	4,075,502.29	1,444,651.00	215,844.99
4.3.1 Large companies	20,528,235.26	18,640,636.35	1,213,460.91	567,529.00	106,608.99
4.3.2 SMEs and individual entrepreneurs	35,393,435.88	31,545,036.50	2,862,041.37	877,122.00	109,236.00
5 Other households and non-profit institutions serving households (ISFLSH)	29,562,387.87	26,786,321.87	2,458,477.00	92,304.00	225,285.00
5.1 Housing	21,802,906.87	19,379,769.87	2,154,715.00	63,169.00	205,253.00
5.2 Consumption	1,878,585.00	1,662,360.00	201,040.00	11,887.00	3,298.00
5.3 Other purposes	5,880,896.00	5,744,192.00	102,722.00	17,248.00	16,734.00
SUBTOTAL	147,429,861.00	129,161,930.53	13,639,720.32	3,667,529.17	960,680.96
6 Less: Asset impairment adjustments not allocated to specific loans					
7 TOTAL	147,429,861.00				

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, held-to-maturity investment portfolio, Trading derivatives, Investments and Contingent risks in the consolidated financial statements.

Regarding the total risk concentration balance in 2015, 7,861,811 thousand euros corresponded to Banco Popular Portugal, the majority of it under "Rest of the European Union", and 2,315,882 thousand euros to Totalbank, most of it under "America".

This same breakdown by Autonomous Region is as follows:

€ thousands	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria
1 Credit institutions	8,354,538.71	0.00	52,012.53	0.00	869.89	0.00	1,280,318.52
2 General government	22,339,891.63	11,323.96	26,409.63	0.00	13,798.58	35,402.40	4,128.33
2.1 Central government	20,970,549.77						
2.2 Other	1,369,341.86	11,323.96	26,409.63	0.00	13,798.58	35,402.40	4,128.33
3 Other financial institutions	6,563,396.46	1,193.80	414,908.73	285.21	0.65	1.71	715,597.95
4 Non-financial corporations and individual entrepreneurs	65,117,781.86	8,322,995.49	1,167,553.36	1,007,017.77	1,075,229.37	1,391,056.03	270,130.12
4.1 Construction and property development	11,927,879.00	2,411,506.25	318,371.43	234,626.76	91,003.47	218,396.13	25,179.41
4.2 Civil engineering	3,004,230.00	293,274.18	26,364.37	28,537.31	19,387.02	36,142.73	10,698.73
4.3 Other purposes	50,185,672.86	5,618,215.05	822,817.56	743,853.70	964,838.87	1,136,517.17	234,251.99
4.3.1 Large companies	18,640,636.35	861,337.13	246,315.97	308,899.18	128,622.15	255,755.04	48,448.11
4.3.2 SMEs and individual entrepreneurs	31,545,036.51	4,756,877.93	576,501.59	434,954.52	836,216.72	880,762.14	185,803.89
5 Other households and non-profit institutions serving households (ISFLSH)	26,786,321.88	6,006,162.62	292,764.40	568,724.04	753,433.28	872,956.17	176,797.03
5.1 Housing	19,379,769.88	4,272,230.82	215,542.82	438,556.93	561,055.53	610,414.59	131,705.61
5.2 Consumption	1,662,360.00	339,592.35	14,339.17	25,733.92	42,602.35	43,876.71	7,755.31
5.3 Other purposes	5,744,192.00	1,394,339.45	62,882.41	104,433.20	149,775.40	218,664.87	37,336.10
SUBTOTAL	129,161,930.54	14,341,675.87	1,953,648.64	1,576,027.02	1,843,331.77	2,299,416.31	2,446,971.95
6 Less: Asset impairment adjustments not allocated to specific loans	-						
7 TOTAL	129,161,930.54						

€ thousands	Castilla - La Mancha	Castilla y León	Catalonia	Extremadura	Galicia	Madrid	Murcia
1 Credit institutions	0.00	0.00	766,527.54	0.00	88.29	5,254,203.37	0.00
2 General government	0.00	67,889.64	70,166.56	0.00	25,016.05	1,057,424.95	7,958.81
2.1 Central government							
2.2 Other	0.00	67,889.64	70,166.56	0.00	25,016.05	1,057,424.95	7,958.81
3 Other financial institutions	0.00	0.00	1,654,145.83	0.00	56,334.01	3,720,866.06	0.00
4 Non-financial corporations and individual entrepreneurs	1,328,647.65	2,551,896.93	8,773,957.22	1,091,165.76	3,442,827.74	19,501,291.23	2,369,121.05
4.1 Construction and property development	304,202.00	533,908.39	901,098.10	54,617.82	671,327.06	4,150,693.96	499,016.62
4.2 Civil engineering	35,186.75	82,366.46	167,847.27	11,838.43	277,805.75	1,673,320.33	67,467.36
4.3 Other purposes	989,258.90	1,935,622.08	7,705,011.85	1,024,709.51	2,493,694.93	13,677,276.94	1,802,637.08
4.3.1 Large companies	107,817.89	307,188.79	3,489,828.85	670,938.19	17,507.13	4,849,212.01	885,545.84
4.3.2 SMEs and individual entrepreneurs	881,441.01	1,628,433.29	4,215,183.00	353,771.31	2,476,187.80	8,828,064.93	917,091.24
5 Other households and non-profit institutions serving households (ISFLSH)	847,647.60	1,672,569.42	3,896,700.76	378,709.61	2,781,264.94	4,896,700.49	598,257.45
5.1 Housing	569,369.59	1,114,873.09	2,979,251.57	253,909.82	1,878,963.32	3,707,513.50	432,713.75
5.2 Consumption	41,263.23	82,379.28	178,769.05	18,391.58	291,552.67	380,541.56	29,175.81
5.3 Other purposes	237,014.77	475,317.05	738,680.15	106,408.21	610,748.96	808,645.42	136,367.90
SUBTOTAL	2,176,295.24	4,292,355.99	15,161,497.92	1,469,875.37	6,305,531.03	34,430,486.10	2,975,337.31
6 Less: Asset impairment adjustments not allocated to specific loans							
7 TOTAL							

€ thousands	Navarra	Valencian Community	Basque Country	La Rioja	Ceuta & Melilla
1 Credit institutions	0.00	129,062.95	871,455.62	0.00	0.00
2 General government	8,268.56	21,730.44	19,823.96	0.00	0.00
2.1 Central government					
2.2 Other	8,268.56	21,730.44	19,823.96	0.00	0.00
3 Other financial institutions	0.31	52.72	8.80	0.70	0.00
4 Non-financial corporations and individual entrepreneurs	1,266,609.92	3,176,087.25	2,233,767.19	5,835,204.25	313,223.52
4.1 Construction and property development	138,119.29	719,100.38	353,201.67	299,847.48	3,662.56
4.2 Civil engineering	54,023.16	98,225.73	118,128.14	2,903.46	712.91
4.3 Other purposes	1,074,467.47	2,358,761.14	1,762,437.38	5,532,453.31	308,848.06
4.3.1 Large companies	469,557.18	822.69	348,225.98	5,382,988.14	261,626.24
4.3.2 SMEs and individual entrepreneurs	604,910.29	2,357,938.45	1,414,211.40	149,465.16	47,221.82
5 Other households and non-profit institutions serving households (ISFLSH)	265,117.73	1,904,394.69	732,285.62	96,286.47	45,549.55
5.1 Housing	184,729.21	1,412,288.71	524,781.71	63,693.39	28,175.66
5.2 Consumption	24,343.56	101,124.94	31,525.88	5,283.24	4,109.50
5.3 Other purposes	56,044.96	390,981.04	175,978.03	27,309.84	13,264.39
SUBTOTAL	1,539,996.52	5,231,328.05	3,857,341.19	5,931,491.42	358,773.07
6 Less: Asset impairment adjustments not allocated to specific loans					
7 TOTAL					

The tables below set out the risk concentration by activity and geographical area at 31 December 2014.

€ thousands	TOTAL*	Spain	Rest of the European Union	America	Rest of the world
1 Credit institutions	14,134,350	7,822,459	5,384,890	915,118	11,883
2 General government	29,242,364	28,633,431	238,998	369,136	799
2.1 Central government	26,511,860	25,902,927	238,998	369,136	799
2.2 Other	2,730,504	2,730,504	-	-	-
3 Other financial institutions	6,869,266	6,113,088	223,996	900	531,282
4 Non-financial corporations and individual entrepreneurs	75,802,602	69,154,363	4,739,812	1,849,821	58,606
4.1 Construction and property development	15,488,177	14,187,415	583,545	714,671	2,546
4.2 Civil engineering	3,202,021	2,912,263	188,074	100,381	1,303
4.3 Other purposes	57,112,404	52,054,685	3,968,193	1,034,769	54,757
4.3.1 Large companies	22,893,007	20,953,031	1,233,404	687,228	19,344
4.3.2 SMEs and individual entrepreneurs	34,219,397	31,101,654	2,734,789	347,541	35,413
5 Other households and non-profit institutions serving households (ISFLSH)	28,610,918	25,438,993	2,404,507	574,349	193,069
5.1 Housing	22,668,819	19,900,696	2,156,344	426,423	185,356
5.2 Consumption	2,508,153	2,362,085	112,351	30,102	3,615
5.3 Other purposes	3,433,946	3,176,212	135,812	117,824	4,098
SUBTOTAL	154,659,500	137,162,334	12,992,203	3,709,324	795,639
6 Less: Asset impairment adjustments not allocated to specific loans					
7 TOTAL	154,659,500				

* Includes the balance of loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, held-to-maturity investment portfolio, Trading derivatives, Investments and Contingent risks in the consolidated financial statements.

This same breakdown by Autonomous Region is as follows:

€ thousands	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria
1 Credit institutions	7,822,458	24,416	37,467	240	7	-	1,378,067
2 General government	28,633,432	366,106	39,387	42,212	73,772	62,206	67,731
2.1 Central government	25,902,928	-	-	-	-	-	-
2.2 Other	2,730,504	366,106	39,387	42,212	73,772	62,206	67,731
3 Other financial institutions	6,113,088	249,381	25	240	1	4	1,330,642
4 Non-financial corporations and individual entrepreneurs	69,154,363	9,332,690	1,301,227	1,107,409	1,176,921	1,558,751	252,348
4.1 Construction and property development	14,187,415	2,835,554	388,936	239,054	123,169	297,206	28,357
4.2 Civil engineering	2,912,263	343,947	30,251	25,927	15,955	29,481	6,679
4.3 Other purposes	52,054,685	6,153,189	882,039	842,428	1,037,797	1,232,063	217,312
4.3.1 Large companies	20,953,031	992,949	271,019	362,477	193,915	304,087	55,282
4.3.2 SMEs and individual entrepreneurs	31,101,654	5,160,240	611,020	479,951	843,883	927,977	162,030
5 Other households and non-profit institutions serving households (ISFLSH)	25,438,993	5,499,872	272,190	565,327	708,271	790,978	166,014
5.1 Housing	19,900,696	4,424,775	215,173	464,683	578,239	620,212	133,555
5.2 Consumption	2,362,085	380,420	17,480	32,430	53,803	51,443	9,374
5.3 Other purposes	3,176,212	694,678	39,536	68,213	76,229	119,323	23,085
SUBTOTAL	137,162,334	15,472,467	1,650,294	1,715,428	1,958,972	2,411,939	3,194,802
6 Less: Asset impairment adjustments not allocated to specific loans	-						
7 TOTAL	137,162,334						

€ thousands	Castilla - La Mancha	Castilla y León	Catalonia	Extremadura	Galicia	Madrid	Murcia
1 Credit institutions	-	3,855	1,095,482	-	3,855	3,747,514	-
2 General government	91,110	483,827	321,427	81,472	300,565	551,495	22,260
2.1 Central government							
2.2 Other	91,110	483,827	321,427	81,472	300,565	551,495	22,260
3 Other financial institutions	364,573	-	1,232,171	-	82	920,324	-
4 Non-financial corporations and individual entrepreneurs	1,521,501	3,026,396	9,054,319	558,321	4,606,688	24,958,666	1,873,270
4.1 Construction and property development	333,469	597,374	1,204,072	69,646	853,881	4,534,025	604,306
4.2 Civil engineering	31,019	92,456	207,121	13,014	359,659	1,483,971	64,167
4.3 Other purposes	1,157,013	2,336,566	7,643,126	475,660	3,393,148	18,940,670	1,204,797
4.3.1 Large companies	135,179	391,298	2,881,100	45,656	667,571	12,181,466	239,114
4.3.2 SMEs and individual entrepreneurs	1,021,834	1,945,267	4,762,026	430,004	2,725,576	6,759,204	965,683
5 Other households and non-profit institutions serving households (ISFLSH)	766,455	1,482,334	3,692,871	338,958	2,537,413	5,203,974	554,368
5.1 Housing	588,874	1,153,196	3,065,015	266,528	1,928,352	3,758,467	439,222
5.2 Consumption	51,734	102,994	209,787	22,495	229,151	953,246	33,770
5.3 Other purposes	125,847	226,143	418,068	49,935	379,910	492,261	81,376
SUBTOTAL	2,743,639	4,996,411	15,396,269	978,751	7,448,603	35,381,974	2,449,897
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-	-	-
7 TOTAL	-	-	-	-	-	-	-

€ thousands	Navarra	Valencian Community	Basque Country	La Rioja	Ceuta & Melilla
1 Credit institutions	-	272,123	1,259,433	-	-
2 General government	91,368	49,975	59,462	26,121	8
2.1 Central government					
2.2 Other	91,368	49,975	59,462	26,121	8
3 Other financial institutions	-	-	2,015,644	1	-
4 Non-financial corporations and individual entrepreneurs	1,082,829	3,903,038	3,273,645	518,695	47,651
4.1 Construction and property development	202,599	1,113,718	439,911	320,677	1,461
4.2 Civil engineering	23,581	87,665	91,374	2,215	3,779
4.3 Other purposes	856,649	2,701,655	2,742,360	195,803	42,411
4.3.1 Large companies	240,125	556,713	1,415,164	12,863	7,053
4.3.2 SMEs and individual entrepreneurs	616,524	2,144,942	1,327,196	182,940	35,358
5 Other households and non-profit institutions serving households (ISFLSH)	251,175	1,799,846	683,041	86,774	39,134
5.1 Housing	187,939	1,450,489	533,590	64,418	27,969
5.2 Consumption	25,047	125,202	53,053	7,170	3,486
5.3 Other purposes	38,189	224,156	96,398	15,186	7,678
SUBTOTAL	1,425,372	6,024,983	7,291,225	631,590	86,792
6 Less: Asset impairment adjustments not allocated to specific loans	-	-	-	-	-
7 TOTAL	-	-	-	-	-

Notes 23, 47 and 48 of these Financial Statements contain detailed information on this type of risk, including guarantees. In addition, the risk management section of the Directors' Report provides further comments and quantitative information, analysing credit risk, related monitoring and control, management of non-performing balances, total exposure to credit risk, risk concentration and country risk, including information by geographical segment, counterparty and available credit lines.

Credit and Counterparty Risk of Market Activity

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

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

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

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

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

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

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

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

Country Risk

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

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

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

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

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

A breakdown of the various areas of the balance sheet affected by country risk and the hedging performed by the Group at 31 December 2015 and 2014 is as follows:

€ thousands	Credit institutions		Loans and advances to customers		Contingent liabilities		Total	
2015	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**	**Balances**	**Hedging**
No appreciable risk	-	-	129,744	-	45,370	-	175,114	-
Substandard risk	-	-	790	91	2,199	223	2,989	314
Doubtful risk	-	-	347	416	102	86	449	502
Total	-	-	130,881	507	47,671	309	178,552	816
2014								
No appreciable risk	-	-	32,185	-	9,936	-	42,121	-
Substandard risk	-	-	650	71	104	15	754	86
Doubtful risk	-	-	842	841	107	90	949	931
Total	-	-	33,677	912	10,147	105	43,824	1,017

INTEREST RATE RISK

Structural interest rate risk on the balance sheet is the risk of reduction in the economic value and margin and arises from fluctuations in interest rates and their impact on the various sensitive assets and liabilities both on and off the balance sheet (excluding the held for trading portfolio), including derivatives that act as hedges.

The asymmetry in the maturity and renewal rate profiles of balance sheet sensitive assets and liabilities causes the structural interest rate risk.

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

The Group manages both dimensions aggregately for all the Group's financial institutions.

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.

Corporate risk culture within Banco Popular requires, in relation to the management of interest rate risk, the assumption of a series of principles to guide the management, measurement and control of this risk included in the Risk Appetite Framework approved by the Board of Directors.

The ALCO Committee monitors the evolution of financial margin and economic value against interest rate risk scenarios and sets the short and medium term policies to manage prices, durations and the bulk of jobs and resources.

Finance Management applies the guidelines set by the Asset and Liability Committee (ALCO) in the management of interest rate risk, calculates the internal and regulatory metrics and monitors compliance with the limits. This information is reported monthly to ALCO.

Risk Management validates the risk measurement methodologies, controls compliance with the limits and the effectiveness of the implemented controls. It also carries out its own controls this risk and regularly reports to the Risk Commission.

In relation to the control of the interest margin sensitivity and economic value to changes in interest rates, the bank assesses the impact of adverse movements, monitoring the maturities and repricing gap in the consolidated balance sheet, analysed by sensitivity and non-sensitivity to interest rates.

The economic value is calculated as the sum of the fair value of the net assets and liabilities sensitive to the interest rate and the net carrying value of assets and liabilities that are not sensitive to interest rates. The fair value of the items sensitive to interest rates is obtained as the present value based on the interest rate curve in the inter-bank market at the date of reference, for future flows of principal and interest relating to all items sensitive to interest rates.

The Bank participated in the Quantitative Impact Study (QIS) exercise in June 2015 which, for the first time, has been requested for interest rate risk.

At the year end, the effect of a 200 basis point increase in the euro interest rates, with respect to the current implicit rates, has a positive impact of 7.51% on the economic value. Additionally, a drop in interest rates of the same magnitude also promotes economic value due to the low level found in the rate curve, which is limited to 0%. The impact of rate shifts on currencies other than the euro is considered to be immaterial in view of the Group's negligible position at the year end.

As may be observed, the sensitivity of the economic value to very stressed variations in interest rates is well below the maximum thresholds permitted by current legislation.

At 31 December 2015, interest-rate sensitive assets totalled €119,885 million, compared with €112,678 million of similarly sensitive liabilities, with an aggregate positive gap of €7,177 million.

At 31 December 2014, interest-rate sensitive assets totalled €122,693 million, compared with €120,152 million of similarly sensitive liabilities, with an aggregate positive gap of €2,541 million.

Maturity and repricing gap in the consolidated balance sheet at 31 December 2015 (millions of euros):

2015	TOTAL	Not Sensitive	Sensitive	Up to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Loans and receivables	107,019	12,128	94,891	18,132	8,789	14,506	21,436	23,686	8,342
Deposits with Credit institutions	6,244	1,295	4,949	4,687	-	79	2	10	171
Loans and advances to customers	99,638	9,696	89,942	13,445	8,789	14,427	21,434	23,676	8,171
Other assets and valuation adjustments	1,137	1,137	-	-	-	-	-	-	-
Securities market	27,248	2,284	24,964	180	40	131	161	748	23,704
Other assets	24,383	24,383	-	-	-	-	-	-	-
TOTAL ASSETS	**158,650**	**38,795**	**119,855**	**18,312**	**8,829**	**14,637**	**21,597**	**24,434**	**32,046**
Financial liabilities at amortised cost	140,508	30,541	109,967	24,407	11,651	6,238	13,203	16,914	37,554
Deposits from credit institutions	33,376	895	32,481	10,126	931	1,109	1,003	930	18,382
Customer deposits	88,335	28,812	59,523	13,367	10,407	3,691	10,283	13,429	8,346
Marketable Debt Securities	15,989	93	15,896	914	313	1,273	1,917	2,077	9,402
Subordinated and preference liabilities	2,067	-	2,067	-	-	165	-	478	1,424
Valuation adjustment (+/-) (Debt Securities)	741	741	-	-	-	-	-	-	-
Other liabilities	5,627	2,916	2,711	769	909	708	270	55	-
Shareholders' equity	12,515	12,515	-	-	-	-	-	-	-
TOTAL LIABILITIES	**158,650**	**45,972**	**112,678**	**25,176**	**12,560**	**6,946**	**13,473**	**16,969**	**37,555**
Off-balance sheet transactions	**-**	**-**	**-**	**6,612**	**55**	**1,967**	**1,824**	**3,233**	**(13,690)**
Gap	**-**	**(7,177)**	**7,177**	**(252)**	**(3,676)**	**9,658**	**9,948**	**10,698**	**(19,199)**
Accumulated gap	**-**	**-**	**-**	**(252)**	**(3,928)**	**5,730**	**15,678**	**26,376**	**7,177**

2014	TOTAL	Not Sensitive	Sensitive	Up to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Loans and receivables	107,828	16,191	91,637	19,773	6,836	13,413	19,883	23,401	8,331
Deposits with Credit institutions	5,050	1,248	3,802	3,447	-	314	1	1	39
Loans and advances to customers	100,583	12,748	87,835	16,326	6,836	13,099	19,882	23,400	8,292
Other assets and valuation adjustments	2,195	2,195	-	-	-	-	-	-	-
Securities market	32,227	2,425	29,802	659	504	139	747	1,070	26,683
Other assets	21,401	20,147	1,254	353	78	129	165	137	392
TOTAL ASSETS	**161,456**	**38,763**	**122,693**	**20,785**	**7,418**	**13,681**	**20,795**	**24,608**	**35,406**
Financial liabilities at amortised cost	142,228	26,032	116,196	34,972	6,823	9,266	16,575	21,498	27,062
Deposits from credit institutions	27,707	619	27,088	10,007	1,991	953	1,238	1,859	11,040
Customer deposits	96,036	24,167	71,869	24,007	4,510	5,536	14,674	17,040	6,102
Marketable Debt Securities	15,962	148	15,814	958	322	2,542	663	2,599	8,730
Subordinated and preference liabilities	1,425	-	1,425	-	-	235	-	-	1,190
Valuation adjustment (+/-) (Debt Securities)	1,098	1,098	-	-	-	-	-	-	-
Other liabilities	6,558	2,602	3,956	3,166	271	-	493	26	-
Shareholders' equity	12,670	12,670	-	-	-	-	-	-	-
TOTAL LIABILITIES	**161,456**	**41,304**	**120,152**	**38,138**	**7,094**	**9,266**	**17,068**	**21,524**	**27,062**
Off-balance sheet transactions	-	-	-	**1,817**	**61**	**1,221**	**4,014**	**719**	**(7,832)**
Gap	-	**(2,541)**	**2,541**	**(15,536)**	**385**	**5,636**	**7,741**	**3,803**	**512**
Accumulated gap	-	-	-	**(15,536)**	**(15,151)**	**(9,515)**	**(1,774)**	**2,029**	**2,541**

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.

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

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

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

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

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

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

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

Below shows the average VaR for 2015 and 2014 (Data in thousands of euros)

€ thousands	Money market	Asset Trading	Equity	Structured derivatives	Financial investments	Equity Swaps	Aggregate VaR
Average VaR 2015	88	42	106	40	86	595	799
Average VaR 2014	63	121	91	15	82	-	213

To verify the adequacy of the risk estimates and the consistency of the VaR model, daily results are compared against the loss estimated by the VaR, which is called Backtesting. Following the recommendations of the regulator and of the Basel Supervisory Committee, two exercises are performed to validate the risk estimation model:

- Clean Backtesting: relates to the daily results from active transactions at the close of the previous session with the one-day estimated VaR, calculated using the active positions at the end of the preceding session. This exercise is the most suitable for the self-assessment of the methodology used to measure market risk.
- Complementary or dirty *backtesting*: evaluates the result obtained during the day (including any intraday trades) with the VaR amount over a horizon of one day calculated on the transactions alive at the close of the previous session. This makes it possible to evaluate the importance of the intra-day trading in the generation of earnings and in the estimation of the total portfolio risk.

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

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

- Analysis of theoretical scenarios (systematic stress) calculates the change in value of the portfolio in response to certain extreme changes in the principal risk factors. According to the composition of the Bank's portfolio, the principal risk factors are interest rate risk and equity price risk, since they account for more than 97% of the total VaR. To include the possible combinations of the various movements in risk factors, 9 joint scenarios are analysed on a monthly basis and the three scenarios that are the most aggressive in the analysis are reported daily.

Set out below is information on the consolidated balance sheet items carried at fair value, showing the valuation method used:

€ thousands	Fair value of financial instruments		Level 1: Financial instruments traded in active markets		Level 2: Financial instruments whose fair value is based on market observations		Level 3: Financial instruments whose fair value is calculated using internal models	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Assets								
Financial instruments held for trading	1,285,883	1,689,644	42,352	46,790	1,243,389	1,616,929	142	25,925
Debt securities	20,971	40,339	20,971	40,339	-	-	-	-
Equity instruments	21,523	163,923	21,381	6,451	-	131,547	142	25,925
Trading derivatives	1,243,389	1,485,382	-	-	1,243,389	1,485,382	-	-
Other financial assets designated at fair value through changes in profit or loss	535,319	510,799	534,272	462,353	84	48,446	963	-
Debt securities	313,869	351,544	312,833	348,943	84	2,601	952	-
Equity instruments	221,450	159,255	221,439	113,410	-	45,845	11	-
Available-for-sale financial assets	25,193,155	29,765,352	24,670,837	28,456,814	2,112	554,745	520,206	753,793
Debt securities	24,746,646	29,363,902	24,529,686	28,383,130	-	523,476	216,960	457,296
Equity instruments at fair value	446,509	401,450	141,151	73,684	2,112	31,269	303,246	296,497
Hedging derivatives	443,068	441,156	-	-	443,068	441,156	-	-
Liabilities								
Financial instruments held for trading	1,043,063	1,397,389	-	-	1,043,063	1,397,389	-	-
Trading derivatives	1,043,063	1,397,389	-	-	1,043,063	1,397,389	-	-
Short positions	-	-	-	-	-	-	-	-
Other financial liabilities designated at fair value through changes in profit or loss	599,419	649,354	-	-	599,419	649,354	-	-
Hedging derivatives	2,013,974	2,161,074	-	-	2,013,974	2,161,074	-	-

The bank employs a valuation methodology which establishes a fair value hierarchy in three levels explained in Note 15.e).

The following table shows the evolution of the values of each category of financial assets and liabilities measured at fair value in 2015, calculated using variables that may not be observed in the market or internal models (Level 3).

€ thousands	ASSETS			LIABILITIES	
	Financial instruments held for trading	Available-for-sale assets	Hedging derivatives	Financial instruments held for trading	Hedging derivatives
Opening balance 01/01/2015	25,925	753,792	-	-	-
Movements:	-	-	-	-	-
in profit and loss	-	-	-	-	-
in shareholders' equity	4	2,025	-	-	-
Procurement	138	17,506	-	-	-
Issues	-	-	-	-	-
Sales	-	(253,497)	-	-	-
Settlements	-	-	-	-	-
Other transfers	-	-	-	-	-
Level 1 and 2 transfers	(25,925)	-	-	-	-
Closing balance 31/12/2015	142	519,826	-	-	-

Transfers from Level 3 to Level 1 are included in the amount of (25,925) thousand euros relating to investment funds, for which the criterion of fair value hierarchy has been modified.

The amount of (253,497) thousand euros of sales of assets available for sale, corresponds mainly to the amortisation of two Iberdrola finance securities amounting to 150,000 thousand euros and Santander Consumer amounting to 80,000 thousand euros.

€ thousands	ASSETS			LIABILITIES	
	Financial instruments held for trading	Available-for-sale assets	Hedging derivatives	Financial instruments held for trading	Hedging derivatives
Opening balance 01-01-2014	-	473,161	-	-	-
Movements:	-	-	-	-	-
in profit and loss	-	-	-	-	-
in shareholders' equity	-	25,919	-	-	-
Procurement	25,925	42,608	-	-	-
Issues	-	-	-	-	-
Sales	-	-	-	-	-
Settlements	-	(21,728)	-	-	-
Other transfers	-	-	-	-	-
Level 1 and 2 transfers	-	233,832	-	-	-
Closing balance 31/12/2014	25,925	753,792	-	-	-

Includes transfers from levels 1 or 2 to level 3 amounting to €233,832 thousand, of which €176,832 thousand relates to debt securities and €57,000 thousand to equity instruments.

The purchase of level 3 securities relates to the acquisition of SAREB shares during the year.

LIQUIDITY RISK

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

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

Since the onset of the global financial crisis, Popular has considered it essential to reduce its dependence on capital markets as well as to extend financing terms.

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

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

The Group monitors and manages liquidity risk centrally at a consolidated level through the Asset and Liability Committee (ALCO), which analyses and proposes related issues for submission to the Management Committee including, among others, the management and control of liquidity risk.

The organisation and control of Liquidity Risk follows, as in the other risks, a model consisting of three lines of defence:

- Finance Management is the area responsible for managing liquidity and controlling Liquidity Risk in their capacity as first line of defence. This area has the responsibility of monitoring and reporting the level of the metrics related to financial dependence and liquidity buffers on a daily basis, and reporting monthly to the ALCO Committee on these issues and those related to the evolution of the balance sheet structure, funding sources and survival horizons under extreme stress.
- Risk Management, through the Risk Control Unit, is the second line of defence and its aim is to analyse the risks assumed by the Company, ensure compliance with policies and limits approved in the various links in the risk chain and suggest other policies dynamically, developing the necessary standards and procedures.
- Audit Management Is responsible as the third line of defence. Reporting directly to the Audit Committee of the Board of Directors, it reports to the Board of Directors through it. Among its functions is the review of compliance with the Group's internal regulations and assessing the effectiveness of management processes, control and governance of all Risks, including Liquidity Risk, verifying the correct implementation of them.

In order to maintain a prudent financial structure and balanced balance sheet, the Group has a financing plan that is reviewed at least annually and whenever themselves or systemic circumstances warrant it.

The financing plan seeks to establish the volume and composition of wholesale funding in the coming year, with a quarterly breakdown. Through consideration of the various sources of funding available - both on time and costs - the objectives of meeting the financial commitments and complying with the established risk appetite metrics are covered.

It updates and analyses the evolution of the Financing Plan monthly in terms of expected maturities, costs and market opportunities, adjusting the strategy if necessary.

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

At 31 December 2015 the Commercial Gap was €7.713 million, attaining a loan to deposit ratio of 109.0%. The improvement in the commercial gap seen in the year is 3.379 million euros, mainly due to the increase in the balance of deposits, growth mitigated by the decrease in term deposits and a reduction of intermediation credits (ICO and EIB financing).This risk, common to all financial institutions, arises from the imbalance resulting from the different maturities of assets and liabilities; products necessary to develop the banking activity.

Measurement and oversight of liquidity risk

The Group's liquidity risk is centrally controlled by means of formal procedures which are used to analyse and monitor the Group's liquidity; these include contingency plans to cope with possible variations in its liquidity arising either as a result of internal factors or due to market trends. For this purpose, periodic analyses are made of the sensitivity of liquidity in a variety of asset and liability cancellation scenarios, in periods which range from one day up to one year, in the short term, from one year to five years, in the medium term and long term, and over five years in the very long term.

Liquidity risk analysis is based on a breakdown of the consolidated balance sheet, considering the residual maturity terms of assets and liabilities; the result is These maturities are compared to arrive at the positive or negative liquidity gap in each time interval. For issues of securities, and for reasons of prudence, the shortest cancellation period is considered in all cases.

The balance sheet in question is used to simulate situations arising in different scenarios in terms of market liquidity, combined with assumptions with respect to changes in application and equity aggregates and with the use of available liquidity lines. It is possible in this way to estimate the sensitivity of the balance sheet to changes in these variables. Simulations take into account two risks: systemic risk, which would affect the entire financial system and specific risk, affecting only Banco Popular. The assumptions on which these are based differ, as do the impacts on the balance sheet and on the liquidity position.

The measures to be adopted, which are defined in the contingency plan, take into consideration the particular natures of each of these types of crisis. These simulations allow a quantification of a minimum amount of available eligible assets as a second liquidity line that ensures that the simulated scenarios can be comfortably surpassed.

In addition, the Group updates and analyses its liquidity position using the assumptions and criteria applied by regulators.

Below shows the Liquidity Gap at the close of 2015. This Gap is part of the consideration of the contractual maturities not discounted at present value.

For the calculation of the current Gap and following the recommendations set out in IFRS7, for the first time in the time period "On demand" (i) the balances of "customer demand deposits" and (ii) balances "readily available from third parties" are shown. Regarding the latter, they are primarily credit facilities with agreed limits which had not been drawn down by the borrowers at the date of presentation of the results.

In previous years the "customer demand deposits" were reported in the column "without maturity" of the Liquidity Gap, while contingent commitments were not taken into consideration. In this regard that we have calculated and shown the Liquidity Gap for 2014 under the same criteria so that the information is comparable.

As a mitigation measure in the calculation of the Gap, the balance of available eligible assets for each point in time are included. This balance is comprised of (i) the Group's Second Liquidity Line (ii) recovery of assets by maturities of repurchase agreements (net of repos) and (iii) the renewal of the market mortgage covered bonds.

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

The 2015 and 2014 liquidity gaps show the maturities of principal and interest on the Group's balance sheet:

€ millions

2015	At sight	Up to 3 months	Between 3 and 6 months	Between 6 and 36 months	Between 36 and 60 months	More than 60 months	Total maturities	Without maturity	TOTAL
Loans and advances to customers	-	9,344	4,992	24,334	12,416	45,216	96,302	**11,203**	**107,505**
Money market and repos	-	10,270	623	1,179	1,503	898	14,473	**2,082**	**16,555**
Debt securities	-	200	148	4,931	8,649	12,593	26,521	**2,172**	**28,693**
Other assets	-							**22,337**	**22,337**
TOTAL ASSETS		**19,814**	**5,763**	**30,444**	**22,568**	**58,707**	**137,296**	**37,794**	**175,090**
Customer deposits	38,775	13,602	7,805	19,681	384	166	80,413	533	80,946
Repos, ICO, Treasury and other	-	17,545	1,507	17,707	1,314	1,330	39,403	897	40,300
Negotiable securities and subordinated liabilities	-	726	1,108	7,048	4,435	5,686	19,003	93	19,096
Other liabilities	-	-	-	-	-	-	-	6,041	6,041
Shareholders' equity	-	-	-	-	-	-	-	12,515	12,515
TOTAL LIABILITIES	**38,775**	**31,873**	**10,420**	**44,436**	**6,133**	**7,182**	**138,819**	**20,079**	**158,898**
GAP	**(38,775)**	**(12,059)**	**(4,657)**	**(13,992)**	**16,435**	**51,525**	**(1,523)**	**17,715**	**15,635**
Derivatives	-	(73)	(99)	(1,319)	(1,587)	(1,447)	-	-	-
Available liquid assets	-	23,063	23,734	43,545	46,917	50,071	**-**	-	-
Commitments available to third parties	(6,742)	-	-	-			-	-	-
CORRECTED GAP	**(45,517)**	**10,931**	**18,978**	**28,234**	**61,765**	**100,149**	**-**	-	-

€ millions

2014	At sight	Up to 3 months	Between 3 and 6 months	Between 6 and 36 months	Between 36 and 60 months	More than 60 months	Total maturities	Without maturity	TOTAL
Loans and advances to customers	-	9,545	4,721	24,695	12,275	46,254	97,490	**12,525**	**110,015**
Money market and repos	-	8,525	120	258	54	3,038	11,995	**1,883**	**13,878**
Debt securities	-	762	839	6,043	12,545	10,192	30,381	**2,332**	**32,713**
Other assets	-	-	-	-	-	-	-	**21,956**	**21,956**
TOTAL ASSETS		**18,832**	**5,680**	**30,996**	**24,874**	**59,484**	**139,866**	**38,696**	**178,562**
Customer deposits	26,213	14,388	9,368	20,881	48	2	70,900	1,220	72,120
Repos, ICO, Treasury and other	-	34,833	2,370	5,023	7,258	1,854	51,338	614	51,952
Negotiable securities and subordinated liabilities	-	2,058	249	9,788	3,773	3,229	19,097	152	19,249
Other liabilities	-	-	-	-	-	-	-	7,298	7,298
Shareholders' equity	-	-	-	-	-	-	-	12,670	12,670
TOTAL LIABILITIES	**26,213**	**51,279**	**11,987**	**35,692**	**11,079**	**5,085**	**141,335**	**21,954**	**163,289**
GAP	**(26,213)**	**(32,447)**	**(6,307)**	**(4,696)**	**13,795**	**54,399**	**(1,469)**	**16,742**	**15,273**
Derivatives		(74)	(73)	(575)	(1,409)	(1,814)	-	-	-
Available liquid assets		41,410	43,386	50,370	59,303	**60,537**	**-**	-	-
Commitments available to third parties	(5,858)	-	-	-	-	-	-	-	-
CORRECTED GAP	**(32,071)**	**8,889**	**37,006**	**45,099**	**71,689**	**113,122**	**-**	-	-

To evaluate the adequacy of the available effective liquid assets, the Bank carries out stress tests that assume the non-renewal of all the maturities of wholesale funding sources.

19. Cash and balances with central banks

These headings in the consolidated balance sheet comprise the cash balances of Group companies, basically the banks. The balances with Banco de España relate to deposits by the Group's Spanish banks. These deposits are obligatory, in part, in order to maintain minimum reserves in each central bank, based on the credit institution's eligible liabilities. Interest is paid on the balances by the central banks. Note 49 provides details of the interest received.

€ thousands	**2015**	**2014**
Cash	472,868	451,251
Central banks:		
Banco de España	3,027,072	630,128
Other central banks	23,046	111,420
Valuation adjustments	21	15
Total	3,523,007	1,192,814

The breakdown of deposits with other central banks, by position held by Banco Popular Portugal, S.A, and TotalBank, is as follows:

€ thousands	**2015**	**2014**
Banco de Portugal	11,568	85,678
US Federal Reserve	11,478	25,742
Total	23,046	111,420

20. Financial instruments held for trading

Includes the amounts of those items of assets and liabilities that the Group originally defined as realisable in the short term or corresponding to the valuations of derivatives that are not designated as hedging instruments.

Set out below is a breakdown of these items in the consolidated balance sheets as at 31 December 2015 and 2014:

€ thousands	**Assets**		**Liabilities**	
	2015	**2014**	**2015**	**2014**
Deposits with/from credit institutions	-	-	-	-
Loans and advances to/deposits from customers	-	-	-	-
Debt securities	20,971	40,339	-	-
Debt certificates	-	-	-	-
Other equity instruments	21,523	163,923	-	-
Trading derivatives	1,243,389	1,485,382	1,043,063	1,397,389
Short positions	-	-	-	-
Other financial liabilities	-	-	-	-
Total	1,285,883	1,689,644	1,043,063	1,397,389

The fair value of the financial instruments held for trading was calculated as follows:

The fair value of all assets and liabilities was calculated based on market quotations, prices and interest rate curves, as applicable. Most debt securities and marketable debt securities in this portfolio are traded in organised markets. For all cases in which the market is deep enough, the listing and their price exactly matches their fair value. Listed financial assets deemed to be illiquid are measured using observable market variables or internal models. For derivatives traded bilaterally with an individual counterparty (OTC), fair value is determined by reference to derivative contracts in the organised market. Where there is no applicable reference value in an organised market, due to the nature of the derivative contract, the value is obtained using techniques that include a realistic estimate of the instrument's price, in accordance with habitual market practice, based on factors such as the time value of money, credit risk, foreign exchange rates, prices of equity instruments, volatility, liquidity, early repayment risk and administrative overheads.

As regards the option provided by regulations to reclassify non-derivative financial assets outside financial instruments held for trading in exceptional circumstances, in 2014, the Group reclassified €20,808 thousand (nominal) of Investments in a Banco Popular Portugal, S.A. venture capital fund, as recommended by the Portuguese regulatory authority. In 2015, no reclassifications were made.

The year-end balances of financial instruments held for trading are provided in euros, except for the currency purchase and sale values, which are reflected in the item Trading derivatives. Note 45 contains a breakdown of the consolidated financial statements by maturity of this caption.

The effect of this consolidated balance sheet item on the consolidated income statement reflected in the item Gains/(losses) on financial transactions (net) (see Note 54) for the financial years ended 31 December 2015 and 2014 is set out below:

€ thousands	**Net amount**	
	2015	**2014**
On debt securities	744	81,089
On equity instruments	(9,721)	13,517
On derivatives	20,517	(62,387)
On other assets	-	-
Total	11,540	32,219

a) Debt securities

Set out below is a breakdown of the balances of debt securities included under financial instruments held for trading in the consolidated balance sheets at 31 December 2015 and 2014:

€ thousands	Net amount	
	2015	2014
Spanish government debt securities	20,519	40,339
Treasury bills	-	-
Government bonds	-	-
Other book-entry debt securities	20,519	40,339
Other Spanish government debt securities	452	-
Foreign government debt securities	-	-
Issued by credit institutions	-	-
Resident sectors	-	-
Non-resident sectors	-	-
Other debt securities	-	-
Issued by the public sector	-	-
Issued by other resident sectors	-	-
Issued by other non-resident sectors	-	-
Doubtful assets	-	-
Total	20,971	40,339

b) Equity instruments

Set out below is a breakdown of equity instruments included in financial instruments held for trading in the consolidated balance sheets at 31 December 2015 and 2014:

€ thousands	2015	2014
Investments in Spanish companies	15,303	131,186
Credit institutions	10,988	122,103
Other resident sectors	4,315	9,083
Investments in foreign entities	6,220	32,737
Total	21,523	163,923

c) Trading derivatives

Set out below is a breakdown of trading derivatives included under financial assets and liabilities held for trading in the consolidated balance sheets at 31 December 2015 and 2014:

€ thousands	2015			2014		
	Notional amount	Valuation		Notional amount	Valuation	
Type of risk and instrument		Positive	Negative		Positive	Negative
Exchange risk	**4,557,480**	**49,063**	**42,464**	**3,573,477**	**48,783**	**49,282**
Forward transactions	4,148,048	44,882	38,451	3,272,777	45,098	45,330
Purchase of foreign currency against foreign currency	1,237,971	1,959	3,083	413,545	734	817
Procurement	1,145,808	37,900	1,430	1,053,055	44,364	-
Sales	1,764,269	5,023	33,938	1,806,177	-	44,513
Financial swaps in different currencies	-	-	-	11,015	453	453
Currency options	409,432	4,181	4,013	289,685	3,232	3,499
Purchased	203,651	4,181	-	134,433	3,232	-
Sold	205,781	-	4,013	155,252	-	3,499
Interest rate risk	**36,987,155**	**1,163,794**	**981,775**	**27,204,316**	**1,224,597**	**1,330,852**
Financial futures (organised markets)	212,508	-	-	276,807	-	-
Options (organised markets)	-	-	-	12,378	139	159
Forward interest rate agreements (FRA)	-	-	-	200,000	228	4
Financial swaps (IRS, CMS, etc.)	23,792,366	755,534	759,417	12,521,531	640,280	779,734
Interest rate options	12,962,608	408,243	222,174	13,831,600	582,730	550,829
Purchased	7,219,605	408,243	-	7,570,384	582,730	-
Sold	5,743,003	-	222,174	6,261,216	-	550,829
Other products	19,673	17	184	362,000	1,220	126
Share price risk	**183,885**	**26,147**	**14,439**	**368,291**	**207,388**	**12,641**
Financial futures (organised markets)	22,852	155	89	26,444	-	-
Options (organised markets)	35,507	160	184	1,373	3	185
Financial swaps (IRS, CMS, etc.)	64,404	775	1,550	27,577	360	801
Options on securities	61,122	25,057	12,616	61,122	20,938	11,655
Purchased	41,122	25,057	-	41,122	20,938	-
Sold	20,000	-	12,616	20,000	-	11,655
Other products	-	-	-	251,775	186,087	-
Commodities risk	**3,218**	**4,385**	**4,385**	**6,373**	**4,614**	**4,614**
Total	**41,731,738**	**1,243,389**	**1,043,063**	**31,152,457**	**1,485,382**	**1,397,389**

The Group contracts derivatives to hedge customer interest rate through the branch office network, in the form of financial swaps and options. The Group in turn contracts those derivatives with other credit institutions or on organised futures and options markets. A breakdown of this type of transactions with customers through the branch office network for the past two years is as follows:

€ thousands	2015			2014		
	Notional amount	Valuation		Notional amount	Valuation	
		Positive	Negative		Positive	Negative
Customers:						
Financial swaps	183,790	37,309	-	13,280	669	-
Options	40,608	-	37	29,107	16	1
Total network customers	224,398	37,309	37	42,387	685	1
Entities:						
Financial swaps	386,103	25	47,288	50,702	35	1,537
Options	214,450	-	-	244,647	1	1
Total entities	600,553	25	47,288	295,349	36	1,538
Total activities	824,951	37,334	47,325	337,736	721	1,539

The notional amount of trading derivative contracts does not reflect the market risk assumed by the Group. This may be inferred from the difference between the fair values of the instruments recognised in assets and liabilities to which a risk and results valuation, management and control system is permanently applied, allowing the monitoring of all the financial assets included and the verification that the risk is effectively and significantly mitigated.

21. Other financial assets and liabilities at fair value through profit or loss

Assets include hybrid financial assets that are not included in financial instruments held for trading and are measured in full at fair value, and assets managed together with “other liabilities at fair value through profit or loss”, or with derivative financial instruments whose purpose is to significantly reduce exposure to changes in fair value, or that are managed jointly with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk. Financial assets may be included in this category only at the date of origination or acquisition and must be permanently measured, managed and controlled to identify risks, gains and losses so as to monitor all the financial assets and verify that risk is effectively and significantly reduced.

Financial liabilities at fair value through profit or loss include all hybrid financial liabilities not included in financial instruments held for trading that are measured in full at fair value because the embedded derivative cannot be separated and measured. They also include the deposit component of life insurance policies linked to investment funds, which are in turn measured at fair value through profit or loss. The balances under these headings relate entirely to the Group’s insurance companies.

Set out below is a breakdown of these headings in the consolidated balance sheets for 2015 and 2014:

€ thousands	Assets		Liabilities	
	2015	2014	2015	2014
Deposits with/from credit institutions	-	-	-	-
Loans and advances to/deposits from customers	-	-	-	-
Debt securities	313,869	351,544	-	-
Debt certificates	-	-	-	-
Equity instruments	221,450	159,255	-	-
Subordinated liabilities	-	-	-	-
Other financial liabilities	-	-	599,419	649,354
Total	535,319	510,799	599,419	649,354

These balances relate in full to transactions denominated in euros. Note 45 to these consolidated financial statements contains a breakdown by maturity.

The balances recognised under "Other financial liabilities" relate to balances for the subsidiary Eurovida, Portugal and relate to unit-linked products, contracts in which the insurance policyholder fully assumes both market risk and credit risk, and are recognised in accordance with this principle to avoid accounting mismatches. The assets of the investment portfolios associated with these unit-linked products are classified under financial assets at fair value through profit or loss. Changes in the fair value of the assets invested are assumed by the policyholder and, therefore, give rise to adjustments in the fair value of the financial liability for the same amount.

Changes in the fair value of these financial liabilities are therefore determined mainly by market risk, as there are no changes attributable to credit risk for these liabilities.

The effect of these consolidated balance sheet headings on the consolidated income statement included under Gains/(losses) on financial transactions (net) (see Note 54) for the years ended 31 December 2015 and 2014 is set out below:

€ thousands		Net
	2015	2014
On debt securities	(18,293)	-
On equity instruments	2,407	1,998
On derivatives	-	-
On other assets*	9	(26,666)
Total	(15,877)	(24,668)

* Most of the balance relates to the portfolio of Eurovida, S.A. (Portugal).

Debt securities

A breakdown of debt securities is as follows:

€ thousands	2015	2014
Spanish government debt securities	-	-
Treasury bills	-	-
Government bonds	-	-
Other book-entry debt securities	-	-
Other Spanish government debt securities	-	-
Foreign government debt securities	64,232	63,012
Issued by credit institutions	63,539	92,578
Resident sectors	11,969	8,640
Non-resident sectors	51,570	83,938
Other fixed-income securities	186,098	195,954
Issued by the public sector	-	-
Issued by other resident sectors	12,787	20,192
Issued by other non-resident sectors	173,311	175,762
Doubtful assets	-	-
Total	313,869	351,544

A breakdown by maturity term of Foreign Government Debt Securities, which pertains to Eurovida Portugal, at 31 December 2015 and 2014 is as follows:

		Portugal
€ thousands	**2015**	**2014**
Within 3 months	2,500	508
3 months to 1 year	1,876	2,459
1 to 2 years	776	6,001
2 to 3 years	2,442	2,777
3 to 5 years	8,424	8,888
5 to 10 years	46,452	41,070
More than 10 years	1,762	1,309
Total	64,232	63,012

A breakdown by maturity of non-resident Other Fixed-Income Securities, corresponding to Eurovida Portugal, at 31 December 2015 and 2014 is shown below:

€ thousands	2015	2014
Within 3 months	10,494	13,354
3 months to 1 year	10,716	7,076
1 to 2 years	9,991	23,382
2 to 3 years	24,399	9,886
3 to 5 years	74,177	57,810
5 to 10 years	41,180	61,755
More than 10 years	2,194	2,499
Total	173,151	175,762

Equity instruments

Set out below is a breakdown of equity instruments:

€ thousands	2015	2014
Investments in Spanish companies	1,266	878
Credit institutions	568	489
Other resident sectors	698	389
Investments in foreign entities	220,184	158,377
Total	221,450	159,255

22. Available-for-sale financial assets

This heading includes debt securities and equity instruments not classified in other categories. These debt securities are debentures and other securities that recognise a debt for the issuer, may or may not be marketable and accrue remuneration consisting of implicit or explicit interest.The interest rate may be fixed or linked to other rates and is stipulated contractually, and the securities may take the form of certificates or book entries.

Equity instruments comprise those not included under financial instruments held for trading and not related to joint ventures or associates. They are presented in the consolidated balance sheet at fair value and value differences, net of the tax effect, are adjusted through shareholders' equity. In 2014, 20,800 thousand euros (nominal) was transferred from the Banco Popular Portugal, S.A. financial instruments held-for-trading to the available-for-sale portfolio, corresponding to investments in a venture capital fund, as recommended by the Portuguese regulatory authority.

During 2015 there were no transfers from the available-for-sale financial assets portfolio and other portfolio categories.

a) On the balance sheet

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2014 and 2015:

€ thousands	2015	2014
Debt securities	24,746,646	29,363,902
Spanish government debt securities	15,985,128	19,378,868
Treasury bills	-	1,227,161
Government bonds	-	3
Other book-entry debt securities	15,985,128	18,151,704
Other Spanish government debt securities	350,267	379,580
Foreign government debt securities	1,491,946	900,188
Issued by credit institutions	3,627,719	5,250,936
Resident sectors	2,788,220	4,344,324
Non-resident sectors	839,499	906,612
Other debt securities	3,291,253	3,453,733
Issued by the public sector	-	-
Issued by other resident sectors	1,814,138	2,330,544
Issued by other non-resident sectors	1,477,115	1,123,189
Doubtful assets	-	-
Valuation adjustments (+/-)	333	597
Micro-hedge adjustments	333	597
Value corrections	-	-
Other	-	-
Equity instruments	446,509	401,450
Investments in Spanish companies	257,755	231,675
Credit institutions	30,268	170
Resident sector	227,487	231,505
Investments in foreign entities	188,754	169,775
Total	25,193,155	29,765,352

Note 45 to these consolidated financial statements provides a breakdown by maturity.

The balance at 31 December 2015 and 2014 of 1,491,946 and 900,188 thousand euros, respectively, in foreign government debt securities reflected in the above table relate to fixed income balances distributed by country as follows: Does not include CDS risks.

2015

€ thousands	USA	Portugal	Italy	Germany	Other countries
Within 3 months	-	-	-	80	562
3 months to 1 year	-	-	-	-	-
1 to 2 years	2,394	-	845	-	2,223
2 to 3 years	-	-	512	-	-
3 to 5 years	1,309	17,399	307	519	-
5 to 10 years	151,248	1,153,320	35,987	21,449	18,193
More than 10 years	23,851	5,928	23,146	29,594	3,080
Total	178,802	1,176,647	60,797	51,642	24,058

2014

€ thousands	USA	Portugal	Italy	Germany	Other countries
Within 3 months	-	-	2,853	-	3,075
3 months to 1 year	-	-	284,652	6,122	1,891
1 to 2 years	-	-	2,482	-	833
2 to 3 years	2,158	-	10,962	-	5,366
3 to 5 years	509	14,014	1,780	-	-
5 to 10 years	33,123	81,613	9,018	15,180	16,092
More than 10 years	333,907	5,467	18,884	27,579	22,628
Total	369,697	101,094	330,631	48,881	49,885

In 2015, the balance in "Other countries" mainly comprised the following: Ireland 6,787 thousand euros, France 2,966 thousand euros, Belgium 2,108 thousand euros, Austria 4,256 thousand euros, South Korea 809 thousand euros, Finland 898 thousand euros, Holland 4,461 thousand euros, Israel 23 thousand euros and Mexico 1,750 thousand euros

In 2014, the balance in "Other countries" mainly comprised the following: Ireland, 18,543 thousand euros; France, 8,931 thousand euros; Belgium, 5,660 thousand euros; Austria, 3,415 thousand euros; United Kingdom, 3,091 thousand euros and Holland, 2,567 thousand euros.

b) Gains/losses on financial assets and liabilities

The effect of this item on the consolidated income statements is reflected in the item Gains/(losses) on financial operations (net) (see Note 54).

€ thousands	**2015**	**2014**
On debt securities	460,039	707,122
Gains	540,754	876,613
Losses	(80,715)	(169,491)
On equity instruments	11,579	12,847
Gains	13,269	13,793
Losses	(1,690)	(946)
Total	471,618	719,969

c) Valuation adjustments

The balance under Valuation adjustments to shareholders' equity at 31 December 2015 and 2014 resulting from changes in the fair value of the assets included in Available-for-sale financial assets, net of the tax effect, is as follows:

€ thousands	**2015**	**2014**
Debt securities	(206,066)	(137,195)
Gains	198,643	299,710
Losses	404,709	437,305
Equity instruments	14,900	7,954
Gains	21,487	16,834
Losses	6,587	8,880
Total	(191,166)	(129,641)

2015

The balance under Valuation adjustments relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to 14,900 thousand euros, which is broken down into 21,487 thousand euros in positive adjustments and 6,587 thousand euros in negative adjustments.

The balance under Valuation adjustments relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a (206,066) thousand euros, consisting of 198,643 thousand euros in positive valuation adjustments and 404,709 thousand euros in negative valuation adjustments.

A breakdown of the relevant gross amounts recorded in shareholders' equity in the year as capital gains and losses is included in Note 42, Valuation adjustments in shareholders' equity, to these consolidated financial statements.

2014

The balance under Valuation adjustments relating to investments in equity instruments in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to 7,954 thousand euros, which is broken down into 16,834 thousand euros in positive adjustments and 8,880 thousand euros in negative adjustments.

The balance under Valuation adjustments relating to debt securities in the available-for-sale financial asset portfolio, net of the related tax effect, amounted to a (137,595) thousand euros, consisting of 299,710 thousand euros in positive adjustments and 437,305 thousand euros in negative adjustments.

A breakdown of the relevant gross amounts recorded in shareholders' equity in the year as capital gains and losses is included in Note 42, Valuation adjustments in shareholders' equity, to these consolidated financial statements.

The losses and gains included in this table, corresponding to 2015, and associated with the positions in foreign government debt securities detailed in the table in section a) of the same note are as follows:

€ thousands	Italy	Germany	Portugal	France	Other countries
Capital Gains/(Losses)	8,471	1,616	(10,583)	(3,009)	1,733
% calculated on position balance	13.93%	3.13%	0.90%	1.68%	7.20%

The amount included under "Other countries" mainly breaks down as follows: Belgium 767 thousand euros, Austria 547 thousand euros, Ireland 302 thousand euros, France 155 thousand euros, Korea 52 thousand euros, Finland 38 thousand euros, Mexico (8) thousand euros and Holland (120) thousand euros.

The information for 2014 is the following:

€ thousands	Italy	Germany	Portugal	France	Other countries
Capital Gains/(Losses)	6,253	5,012	2,544	1,425	5,736
% calculated on position balance	1.89%	10.25%	2.52%	15.96%	1.40%

The amount included under "Other countries" mainly breaks down as follows: United States 1,336 thousand euros, Belgium 969 thousand euros, Canada 948 thousand euros, and United Kingdom 699 thousand euros.

d) Breakdown by currency

Set out below is a breakdown by currency, other than the euro, of Available-for-sale financial assets in the consolidated balance sheets at 31 December 2015 and 2014:

	Debt securities		Other equity instruments	
€ thousands	**2015**	**2014**	**2015**	**2014**
USD	509,337	415,479	15,285	14,475
CHF	-	-	772	696
Total	509,337	415,479	16,057	15,171

e) Impairment losses

A breakdown of the balance in Impairment losses on assets (net) - Available-for-sale financial assets in the consolidated income statements (Note 62) for the years ended 31 December 2015 and 2014 is set out below:

€ thousands	2015	2014
Debt securities	630	394
Equity instruments	42,040	17,606
Total	42,670	18,000

Reflected in the consolidated income statements as follows:

€ thousands	2015	2014
Impairment losses charged to profit and loss	44,363	18,089
Determined individually	44,363	18,089
Determined collectively	-	-
Recoveries	1,693	89
Total	42,670	18,000

In 2015, evidence of deterioration in the available-for-sale financial assets portfolio are recorded by the provisions made mainly by the securities of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) at 14,110 thousand euros and 14,240 in Constructora San José, S.A.

In 2014, among the investments in equity instruments recognised in the available-for-sale financial asset portfolio, indications of impairment were observed in the case of the investment in Inmobiliaria Colonial.

The balance changes in 2015 and 2014 as regards Impairment of Asset Value Corrections in the Debt Securities caption are as follows:

€ thousands	Specific provision	Collective allowance	Total
Beginning balance 2014			-
Allocated to profit or loss:			
Additions to Provisions for the year	394	-	394
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other transfers	(394)	-	(394)
Closing balance 2014	-	-	-
Allocated to profit or loss:			
Additions to Provisions for the year	630	-	630
Releases for the year	-	-	-
Reversal of impairment losses recognised in prior years	-	-	-
Provisions applied	-	-	-
Other changes and transfers	(630)	-	(630)
Closing balance 2015	-	-	-

23. Loans and receivables

This consolidated balance sheet heading includes financial assets carried at amortised cost using the effective interest method.

The first table shows the data for typical lending activities, loans and advances made to other institutions and other debts incurred by users of financial services.

€ thousands	**2015**	**2014**
Loans and advances to credit institutions	6,244,267	5,049,952
Loans and advances to customers	99,637,769	100,582,923
Debt securities	1,136,961	2,194,741
Total	107,018,997	107,827,616

With regard to country distribution of the 1,136,961 thousand euros in debt securities - fixed income securities - , 220,953 thousand euros relates to Holland, 21,776 thousand euros to Italy, and the remainder to Spain. In 2014 of the 2,194,741 thousand euros in debt securities, 22,462 thousand euros related to Italy, 220,278 thousand euros to Holland, 29,969 thousand euros to France, 899 thousand euros to the United Kingdom, and the remainder to Spain.

The following table expands the above information, showing gross lending and valuation adjustments, together with certain additional details:

€ thousands	**2015**	**2014**
Loans and advances to credit institutions	6,247,105	5,052,132
Loans and advances to customers	107,085,210	108,379,386
Accounts receivable from public authorities	5,327,992	6,075,612
Resident sectors	5,327,992	6,065,612
Non-resident sectors	-	10,000
Other private sectors	101,757,218	102,303,774
Resident sectors	90,569,946	91,742,410
Non-resident sectors	11,187,272	10,561,364
Debt securities	1,097,442	2,119,803
Subtotal	114,429,757	115,551,321
Valuation adjustments (±):	(7,410,760)	(7,723,705)
Value corrections for impairment of assets	(7,724,111)	(8,236,591)
Loans and advances to credit institutions	(3,041)	(2,810)
Loans and advances to customers	(7,721,070)	(8,233,781)
Debt securities	-	-
Other valuation adjustments	313,351	512,886
Loans and advances to credit institutions	203	630
Loans and advances to customers	273,629	437,318
Debt securities	39,519	74,938
Total	107,018,997	107,827,616

A breakdown of loans and receivables, in euros and foreign currencies, in the consolidated balance sheets at 31 December 2015 and 2014 is the following:

€ thousands	**2015**		**2014**	
	Euros	**Foreign currency**	**Euros**	**Foreign currency**
Loans and advances to credit institutions	5,805,712	441,393	4,929,817	122,315
Loans and advances to customers	102,932,162	4,153,048	104,457,796	3,921,590
Debt securities	1,097,442	-	2,119,803	-
Subtotal	109,835,316	4,594,441	111,507,416	4,043,905
Valuation adjustments (±):				
Loans and advances to credit institutions	(1,577)	(1,261)	(784)	(1,396)
Loans and advances to customers	(7,417,476)	(29,965)	(7,752,124)	(44,339)
Debt securities	39,519	-	74,938	-
Subtotal	(7,379,534)	(31,226)	(7,677,970)	(45,735)
Total	102,455,782	4,563,215	103,829,446	3,998,170

Set out below is a breakdown of the gross amounts of loans and advances to credit institutions by instrument:

€ thousands	**2015**	**2014**
Reciprocal accounts	88,775	76,537
Term accounts	253,190	245,293
Asset repos	1,506,985	268,339
Other accounts	4,299,130	4,232,077
Cheques	99,007	94,630
Clearing house	18	135,256
Doubtful assets	-	-
Total	6,247,105	5,052,132

Note 45 to these financial statements provides details of the residual terms of these consolidated balance sheet captions. A breakdown of the gross amounts of Loans and advances to credit institutions in the Loans and receivables caption at 31 December 2015 and 2014, without accounting for valuation adjustments, is as follows:

€ thousands	**2015**	**2014**
By nature		
Banks operating in Spain	1,849,225	1,602,157
Savings banks	1,147	977
Credit cooperatives	61	61
Resident credit establishments	-	-
Non-resident credit institutions	2,790,662	2,950,712
Asset repos	1,506,985	268,339
Banks operating in Spain	200,639	-
Savings banks	-	-
Credit cooperatives	-	-
Non-resident credit institutions	1,306,346	268,339
Cheques	99,007	94,630
Clearing house	18	135,256
Doubtful assets	-	-
Other	-	-
Total	6,247,105	5,052,132
By currency		
Euros	5,805,712	4,929,817
Foreign currency	441,393	122,315
Total	6,247,105	5,052,132
Non-performing loans and related provisions		
Doubtful assets	-	-
Value corrections for impairment of assets	(3,041)	(2,810)
Of which: country risk	-	-

The average interest rate in 2015 was 0.20% and 0.37% in 2014, as detailed in the chapter on yields and costs of the Management Report of this document. A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

€ thousands	**2015**	**2014**
USD	386,675	100,751
GBP	20,559	4,651
CHF	7,648	3,007
JPY	13,909	7,922
Other	12,602	5,984
Total	441,393	122,315

The balances of Loans and advances to customers under Loans and receivables at 31 December 2015 and 2014, excluding valuation adjustments, by type, were as follows:

€ thousands	**2015**	**2014**
Trade credit	4,140,855	3,709,669
Debtors with mortgage security	37,701,706	38,096,706
Other secured loans	947,002	818,209
Asset repos	6,504,071	6,586,483
Other term loans	34,816,134	34,668,817
Financial leasing	2,237,495	2,203,596
Overdrafts and other	2,398,743	2,132,816
Other loans	196,947	239,417
Doubtful assets	18,142,257	19,923,673
Total loans and advances to customers	107,085,210	108,379,386
Valuation adjustments (±)	(7,447,441)	(7,796,463)
Of which: value corrections for asset impairment	(7,721,070)	(8,233,781)
Total	99,637,769	100,582,923

The amounts recognised under “Mortgage loans” and in “Other secured loans” concern loans formally backed by mortgages, securities pledged, cash deposits or other collateral securing the full repayment of the loans. Loans that are partially secured are recognised under “Other term loans”.

In the case of doubtful assets, the renewal or restructuring of loans does not interrupt non-performing balances, unless there is reasonable certainty that the customer will make payment as scheduled or effective new collateral is furnished and, in both cases, outstanding ordinary interest is received.

The Group has a number of guarantees for each type of risk which partially or fully mitigate the risks to which commercial activities are exposed and may be called in should the principal debtor default. The Group prudently manages its guarantee policy to minimise the risks to which its lending activity is exposed. The following table contains an analysis of the guarantees, which are ordered in terms of liquidity and assurance of repayment. Surplus guarantees for over-guaranteed loans were eliminated when the table was prepared. The efforts made by the Group in the past year to strengthen collateral for its lending activities may be observed in the table.

€ thousands	**2015**	**2014**
Loans and advances to customers	107,085,210	108,379,386
Related collateral		
Cash	10,017,218	12,481,586
Public sector and credit institutions	10,556,411	11,645,032
Mortgages	75,945,995	78,326,580
Securities	1,233,047	1,635,133
Bank guarantees and other	3,683,051	3,552,500
Total collateral	101,435,722	107,640,831
% cover		
Cash	9.35	11.52
Public sector and credit institutions	9.86	10.74
Mortgages	70.92	72.27
Securities	1.15	1.51
Bank guarantees and other	3.44	3.28
Total collateral	94.72	99.32
Correction for impairment	7,721,070	8,233,781
% cover	7.21	7.60

Set out below is an analysis of Loans and advances to customers by borrower sector. The residual terms of these balances are indicated in Note 45.

€ thousands	**2015**	**2014**
Accounts receivable from public authorities	5,327,992	6,075,612
Resident sectors	5,327,992	6,065,612
Central government	3,387,499	3,872,441
Other term loans	3,061,250	3,492,484
Asset repos	326,249	379,957
Regional government	1,752,502	1,877,186
Other term loans	1,752,502	1,877,186
Asset repos	-	-
Local government	186,925	312,228
Other term loans	186,925	312,228
Asset repos	-	-
Social security	651	744
Other term loans	651	744
Asset repos	-	-
Doubtful assets	415	3,013
Non-resident sectors: Other term loans	-	10,000
Private sectors:	101,757,218	102,303,774
Resident sectors:	90,569,946	91,742,410
Trade credit	3,723,722	3,312,171
Secured loans	34,302,814	34,817,047
Mortgages	33,382,129	34,016,129
Remainder	920,685	800,918
Asset repos	6,177,822	6,206,526
Other term loans	24,982,146	24,517,838
Financial leasing	1,903,505	1,875,768
Overdrafts and other	1,900,206	1,667,683
Other loans	196,810	237,870
Doubtful assets	17,382,921	19,107,507
Non-resident sectors:	11,187,272	10,561,364
Trade credit	341,084	328,981
Secured loans	4,345,894	4,097,868
Mortgages	4,319,577	4,080,577
Remainder	26,317	17,291
Asset repos	-	-
Other term loans	4,908,776	4,527,004
Financial leasing	333,990	327,828
Overdrafts and other	498,470	464,983
Other loans	137	1,547
Doubtful assets	758,921	813,153
Total loans and advances to customers	107,085,210	108,379,386
Valuation adjustments (+/-)	(7,447,441)	(7,796,463)
Of which: value corrections for asset impairment	(7,721,070)	(8,233,781)
Total	**99,637,769**	**100,582,923**

Set out below is a breakdown of loans and advances to customers net of value adjustments by activity at 31 December 2015, also showing the value of collateral and the carrying amount of the loans as a percentage of the collateral:

€ thousands	Total	Of which: Mortgage guarantee	Of which: Other collateral	Secured loans, Loan to value: Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
1 General government	**5,393,752**	**3,065,664**	**62,913**	**70,879**	**14,145**	**7,967**	**3,019,162**	**16,405**
2 Other financial institutions	**6,287,290**	**75,068**	**6,178,107**	**12,473**	**-**	**6,098**	**6,230,233**	**4,371**
3 Non-financial corporations and individual entrepreneurs	**61,737,052**	**30,852,132**	**3,415,462**	**5,914,367**	**12,501,017**	**6,750,218**	**2,497,212**	**6,604,780**
3.1 Construction and property development (b)	13,831,813	12,536,337	275,216	1,912,357	4,254,793	2,921,922	1,115,506	2,606,975
3.2 Civil engineering	1,763,906	657,336	90,574	93,279	179,066	112,057	100,082	263,426
3.3 Other purposes	46,141,333	17,658,459	3,049,672	3,908,731	8,067,158	3,716,239	1,281,624	3,734,379
3.3.1 Large companies (c)	11,054,311	1,743,814	1,392,542	292,221	1,590,587	255,732	89,358	908,458
3.3.2 SMEs and individual entrepreneurs (c)	35,087,022	15,914,645	1,657,130	3,616,510	6,476,571	3,460,507	1,192,266	2,825,921
4 Other households and non-profit institutions serving households (ISFLSH)	**26,219,675**	**24,616,998**	**155,672**	**5,008,826**	**6,886,509**	**8,850,860**	**2,255,632**	**1,770,843**
4.1 Housing (d)	21,788,800	21,604,983	19,534	4,064,476	6,062,987	8,093,885	2,027,713	1,375,456
4.2 Consumption (d)	1,858,621	938,556	77,923	289,397	241,181	245,387	92,893	147,621
4.3 Other purposes (d)	2,572,254	2,073,459	58,215	654,953	582,341	511,588	135,026	247,766
SUBTOTAL	99,637,769	58,609,862	9,812,154	11,006,544	19,401,671	15,615,163	14,002,239	8,396,399
5 Less: Asset impairment adjustments not allocated to specific loans								
6 TOTAL	**99,637,769**	**58,609,862**	**9,812,154**	**11,006,544**	**19,401,671**	**15,615,163**	**14,002,239**	**8,396,399**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured loans	**12,624,916**	**9,763,794**	**349,986**	**1,220,648**	**2,824,533**	**2,534,528**	**1,046,841**	**2,487,230**

The following table shows the same information at 31 December 2014:

€ thousands	Total	Of which: Mortgage guarantee	Of which: Other collateral	Secured loans, Loan to value: Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
1 General government	**6,075,612**	**183,220**	**14,899**	**30,375**	**22,845**	**48,014**	**33,436**	**63,448**
2 Other financial institutions	**6,690,121**	**-**	**6,206,022**	**-**	**-**	**-**	**6,206,022**	**-**
3 Non-financial corporations and individual entrepreneurs	**59,411,500**	**32,609,327**	**2,399,260**	**5,848,283**	**12,548,186**	**7,135,204**	**2,957,122**	**6,519,790**
3.1 Construction and property development (b)	14,818,670	13,525,936	353,745	1,907,195	4,506,944	3,344,936	1,244,885	2,875,720
3.2 Civil engineering	1,901,736	794,359	64,982	38,139	222,224	134,679	67,869	396,430
3.3 Other purposes	42,691,095	18,289,032	1,980,533	3,902,949	7,819,018	3,655,589	1,644,368	3,247,640
3.3.1 Large companies (c)	10,857,168	2,696,176	623,895	400,523	1,404,779	416,889	415,488	682,392
3.3.2 SMEs and individual entrepreneurs (c)	31,833,927	15,592,856	1,356,638	3,502,426	6,414,239	3,238,700	1,228,880	2,565,248
4 Other households and non-profit institutions serving households (ISFLSH)	**28,405,689**	**25,832,579**	**166,291**	**5,065,314**	**7,386,821**	**9,799,222**	**2,439,297**	**1,308,216**
4.1 Housing (d)	22,665,970	22,483,482	20,555	4,089,894	6,363,833	8,870,335	2,205,340	974,636
4.2 Consumption (d)	2,418,887	888,781	46,612	297,831	225,614	262,246	66,134	83,567
4.3 Other purposes (d)	3,320,832	2,460,316	99,124	677,589	797,374	666,641	167,823	250,013
SUBTOTAL	100,582,923	58,625,126	8,786,471	10,943,972	19,957,852	16,982,440	11,635,876	7,891,454
5 Less: Asset impairment adjustments not allocated to specific loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
6 TOTAL	**100,582,923**	**58,625,126**	**8,786,471**	**10,943,972**	**19,957,852**	**16,982,440**	**11,635,876**	**7,891,454**
MEMORANDUM ITEM	-	-	-	-	-	-	-	-
Refinancing, refinanced and restructured loans	**11,866,172**	**9,861,758**	**436,640**	**1,171,747**	**3,220,377**	**2,525,460**	**895,400**	**2,485,414**

Loans and advances to customers include refinanced or restructured loans. Set out below are the balances of these loans in the consolidated balance sheet at 31 December 2015:

	PERFORMING					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations					13	27,956
2. Other legal entities and individual entrepreneurs	9,589	2,833,728	71	50,212	10,670	1,500,386
Of which: Financing for construction and property development	913	759,114	12	10,810	250	68,656
3. Other individuals	10,720	890,582	55	17,511	16,160	191,783
TOTAL	20,309	3,724,310	126	67,723	26,843	1,720,125

	SUBSTANDARD					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations						
2. Other legal entities and individual entrepreneurs	481	1,265,426	8	15,929	181	124,888
Of which: Financing for construction and property development	194	861,982	2	932	17	24,392
3. Other individuals	202	56,840	3	866	126	128,002
TOTAL	683	1,322,266	11	16,795	307	137,690

	DOUBTFUL					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**	**No. of loans**	**Amount Gross**
1. Public administrations					3	180
2. Other legal entities and individual entrepreneurs	12,321	6,647,872	81	75,833	8,189	1,730,991
Of which: Financing for construction and property development	4,200	4,526,053	45	67,941	533	647,342
3. Other individuals	4,752	406,136	20	5,429	3,943	59,000
TOTAL	17,073	7,054,008	101	81,262	12,135	1,790,171

	TOTAL		
	No. of loans	**Gross amount**	**Specific provision**
1. Public administrations	16	28,136	151
2. Other legal entities and individual entrepreneurs	41,591	14,245,265	23,287,973
Of which: Financing for construction and property development	6,166	6,967,222	2,105,196
3. Other individuals	35,981	1,640,949	105,754
TOTAL	77,588	15,914,350	3,393,878

The average probability of default (PD) of refinanced/restructured loans classified as performing instrument:

	Average PD 2015
1. Public administrations	-
2. Other legal entities and individual entrepreneurs	14.9%
Of which: Financing for construction and property development	14.7%
3. Other individuals	8.0%

In 2015, the balance of refinancing operations classed as doubtful has reduced by 114,658 thousand euros while the total balance of these operations increased by 331,584 thousand euros. 22.4% of all refinancing transactions classified as doubtful relate to situations other than non-performing balances. Provisions allocated to risks in difficulty reduced in 2015 by 322,716 thousand euros

The balances of these refinanced or restructured loans at 31 December 2014 are shown below:

	PERFORMING					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	17	70,187
2. Other legal entities and individual entrepreneurs	8,836	2,418,743	283	94,339	9,406	847,463
Of which: Financing for construction and property development	1,071	695,813	28	15,508	248	41,382
3. Other individuals	9,048	656,999	65	13,509	16,393	201,092
TOTAL	17,884	3,075,742	348	107,848	25,816	1,118,742

	SUBSTANDARD					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	1	4,025
2. Other legal entities and individual entrepreneurs	1,631	1,887,257	21	12,692	534	178,526
Of which: Financing for construction and property development	448	1,019,396	2	5,095	43	62,959
3. Other individuals	910	126,913	11	4,766	612	26,156
TOTAL	2,541	2,014,170	32	17,458	1,147	208,707

	DOUBTFUL					
	Fully secured by mortgages		Secured by other assets		Unsecured	
€ thousands	No. of loans	Amount Gross	No. of loans	Amount Gross	No. of loans	Amount Gross
1. Public administrations	-	-	-	-	-	-
2. Other legal entities and individual entrepreneurs	11,253	6,983,161	102	88,810	5,825	1,577,465
Of which: Financing for construction and property development	4,037	4,988,751	40	62,329	393	656,410
3. Other individuals	4,198	343,841	19	1,620	2,603	45,202
TOTAL	15,451	7,327,002	121	90,430	8,428	1,622,667

TOTAL			
	No. of loans	Amount Gross	Specific provision
1. Public administrations	18	74,212	604
2. Other legal entities and individual entrepreneurs	37,891	14,088,456	3,630,027
Of which: Financing for construction and property development	6,310	7,547,643	2,468,686
3. Other individuals	33,859	1,420,098	85,963
TOTAL	71,768	15,582,766	3,716,594

The average probability of default (PD) of refinanced/restructured loans classified as performing is the following:

	Average PD 2014
1. Public administrations	-
2. Other legal entities and individual entrepreneurs	15.0%
Of which: Financing for construction and property development	14.3%
3. Other individuals	11.7%

In 2014, the balance of refinancing operations classed as doubtful rose by 179,138 thousand euros and the balance of refinanced loans increased by 625,070 thousand euros. 24% of all refinancing transactions classified as doubtful related to situations other than non-performing balances. Allocated provisions grew by 262,715 thousand euros in 2014.

Refinancing/restructuring policy:

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

There are two scenarios, depending on whether the original agreement is amended or a new loan is granted:

- Refinancing: loans arranged to repay one or more loans granted. In this case, the original agreement(s) is cancelled and replaced by new agreements.
- Restructuring: the financial terms of the original loans are modified without replacing them with new loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group specifically monitors refinancing/restructuring operations to the extinction of the obligation, analysing in detail the evolution of the operations and fulfilment of agreed terms. This special monitoring procedure will only be discontinued if the conclusion is drawn, following a comprehensive review of the borrower's assets and finances, that the borrower is unlikely to have financial difficulties and will therefore be in a position to make payments of principal and interest on all loans from the Bank, in due time and form. Principal and interest payments must have been made, at least two years must have elapsed since the operation and the loan principal must have decreased by at least 20%. Such situations will also be specifically addressed by the Group's internal auditors.

Ratings and impairment of refinanced loans

For the reasons explained above, the refinancing policy is a necessary management tool. Nonetheless, it is at times a sign of loan impairment. The Group's accounting principles address the circumstances in which a refinanced loan must be deemed impaired. In order to derecognise refinanced loans, the Group uses quantitative and qualitative criteria to identify substantial changes. However, in view of the nature of these operations, the essential terms are usually maintained, meaning that the impact of any derecognition is not significant.

In both refinancing and restructuring transactions, the loans and borrowers are analysed to identify any impairment exists and, if applicable, to determine the amount of the impairment charge necessary. Impairment losses are recognised in the consolidated income statement as value corrections for asset impairment.

This ongoing review process is performed using the Group's ordinary risk management systems, so that refinancing analysis forms part of daily management activities. Refinancing transactions are reviewed using the same management tools, such as advanced credit risk assessment models, in which default probabilities and expected losses may be assigned to each specific customer or loan, and the risk monitoring and control system, through specialised departments that analyse and assess the outstanding risk portfolio, assigning ratings to customers and determining specific policies to detect impairment. Consequently, the portfolio is permanently subject to systematised impairment evaluation processes.

The classification of an operation as Refinancing involves additional analysis to confirm the existence of such impairment. In cases which show the analysis shows the existence of impairment, the necessary provisions are calculated. Where mitigating factors are sufficient, impairment is deemed not to have occurred and performing status is maintained.

The Bank analyses borrowers with impairment arising from their activities, assessing their viability and the level of recoverability of the debt, comparing the carrying amount with the present value of the future cash flows available and of guarantees not assigned to operations. In cases that are not considered to be viable, total security, including guarantors, is evaluated in order to determine the level of impairment and the provisions necessary to cover this impairment.

Signs of impairment:

- Internal customer ratings and warnings, maintained and supervised by the Group's Risk Management.
- Status of the original loan refinanced or restructured without new collateral being provided.
- Operations with lack of interest (any term) or aperiodic interest instalments.
- Operations of liquidation of interest with a period greater than one year.
- Operations with lack of capital or single amortisation at maturity greater than 30 months.
- Operations where the titleholder's risk increases to meet future payments.
- Reasonable doubt on sufficient Cash-Flow to cover the debt.

There may be mitigating factors, such as:

- Not having a lack of interest (no deadline) and lack of principle less than 18 months.
- No having aperiodic instalments at the end.

Improved in the recovery expectations, shown by any of the following circumstances:

- Incorporation of new mortgage guarantees (first charge) or the repayment whose value (where appropriate, valuation date less than one year old) fully covers the risk or new guarantees with a rating greater than CCC+.
- Operations with suitable effort rate calculated with the economic data of the participants.

The following table shows changes in refinancing stock at 31 December 2015.

This movement at 31 December 2015 was:

€ thousands		Risk		Total	
	Performing	Substandard	Doubtful	Risk	Provisions
Situation as at 31/12/2014	4,302,331	2,240,335	9,040,100	15,582,766	3,716,594
Updates of accounting ratings	105,017	(781,968)	676,950	-	109,197
Remainder of movements	1,104,809	18,384	(791,609)	331,584	(431,913)
Of which:deregistrations through purchases	(57,494)	(56355)	(531,521)	(645,371)	(200,585)
Of which: Other movements	1,162,303	74,739	(260,088)	976,955	(231,328)
Situation as at 31/12/2015	5,512,157	1476751	8,925,441	15,914,350	3,393,878

For loans classified as doubtful or substandard, following initial classification, cure criteria is applied so that subsequent developments may allow reclassification to performing loans. This criteria may be applied when refinanced loans have been effectively repaid (fulfilment of terms for one year as of arrangement and for six months in the case of mortgages and monthly payments, or repayment of 10% of the principal), removing doubts as to collection, taking into account both the amount repaid and the period during which the borrower has fulfilled the terms. The cure scenario allows the accounting classification to be upgraded, but in any event the loans continue to be identified as refinancing or restructuring transactions.

The refinanced loans are reclassified from performing to doubtful in those cases in which weakness is evidenced regarding the borrower's ability to pay and make this classification advisable, taking into account factors such as granting interest grace periods greater than 12 months, the amortisation of capital over 30 months, or a single repayment on maturity.

In those cases in which there are signs of impairment, but the factors do not become clearly apparent, or if they do exist but there are mitigating conditions that significantly improve the possibilities of collection – for example, provision of new effective guarantees considering updated values, recoverability of the loan endorsed by the effort rate or new guarantors (CCC+ rating) –, these loans are generally classified as substandard, unless their viability or recoverability is taken into account, in which case they are considered performing.

This criteria is periodically reviewed for the purpose of detecting changes in the refinancing terms and conditions (extensions of principal and interest grace periods) and in the mitigating factors (effort rates, guarantors or decrease in value of guarantees), which may evidence weakness in the borrower's ability to pay and lead to the subsequent reclassification of the risk to substandard or doubtful categories.

The updated estimates include the impact of changes in estimates after taking into consideration additional information received and the classification transfers.

In 2015, no changes have been made to signs and mitigating factors.

Securitisations

Balances of securitisation operations completed by the Group in 2015 and 2014 that have not been derecognised in assets because the risks and rewards have not been substantially transferred are carried at amortised cost on the basis of the instrument securitised.

Note 69 provides information and comments on the securitisation operations completed. The items Public sector and Private sector, Residents include 4,244,706 and 2,360,568 thousand euros, respectively, at year-end 2015 and 2014 in respect of securitised receivables; they remain in the balance sheet because derecognition requirements have not been fulfilled, due mainly to the Group's acquisition of bond series having the lowest credit rating, reflecting the expected loss on the loan portfolio assigned.

Note 2 to these consolidated financial statements describes the special-purpose vehicles formed as asset securitisation vehicles in the last two years. Pursuant to disclosure requirements for this type of operations, set out below is a breakdown of the securitised receivables, including the initial amounts and balances outstanding at each year end, and the date of the operations, for each securitisation fund:

€ thousands			Balances at 31 December	
	Transaction date	Initial amount	2015	2014
IM Banco Popular FTPYME1, FTA	Dec 2004	2,000,000	-	108,812
EDT FTPYME Pastor 3, FTA	Dec 2005	520,000	21,537	30,547
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	131,955	197,139
GC FTPYME Pastor 4, FTA	Nov 2006	630,000	51,392	69,259
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	221,302	284,633
IM Grupo Banco Popular FTPYME II, FTA	Jul 2007	2,039,000	-	178,929
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	478,187	512,430
IM Grupo Banco Popular Empresas V, FTA	Feb 2013	2,650,000	500,005	978,819
IM Grupo Banco Popular Empresas VI, FTA	Mar 2015	3,000,000	1,943,257	-
IM Grupo Banco Popular MBS3, FTA	Dec 2015	900,000	897,071	-
Total		16,286,400	4,244,706	2,360,568

Note 69, "Securitisation detail" shows all relevant information corresponding to these operations as well as in Note 35 "Financial liabilities at amortised cost" in the section "Debt certificates".

A breakdown by nature of these securitised lending operations is as follows:

€ thousands	2015	2014
Public administrations	-	156
Personal	2,483,970	1,059,776
Leases	-	-
Mortgages	1,682,930	1,300,463
Other collateral	77,806	173
Total	4,244,706	2,360,568

Set out below is a breakdown by Autonomous Region of Spain, based on the location of the branches where loans and advances to public and private sector resident customers were arranged, and transactions generated in the Portuguese branch office network with Spanish residents, irrespective of the use of the funds:

€ thousands	**2015**	**2014**
Branches in Spain	95,872,278	97,781,152
Andalusia	15,295,224	15,848,788
Aragón	1,384,360	1,354,688
Asturias	1,547,369	1,641,446
Balearic Islands	1,789,185	1,781,075
Canary Islands	2,082,159	2,144,702
Cantabria	350,580	350,487
Castilla - La Mancha	2,166,002	2,301,299
Castilla y León	5,003,578	5,282,881
Catalonia	10,304,235	10,752,018
Extremadura	877,872	934,518
Galicia	7,990,229	8,293,799
Madrid	34,421,585	33,944,060
Murcia	2,618,306	2,804,808
Navarra	999,722	1,047,886
Basque Country	2,688,565	2,746,954
La Rioja	532,726	541,936
Valencia	5,753,566	5,946,095
Ceuta	30,168	29,196
Melilla	36,847	34,516
Branches in Portugal	25,660	26,870
Total	95,897,938	97,808,022

Set out below is a breakdown by country of the branches in which the lending transactions with non-residents were arranged:

€ thousands	**2015**	**2014**
Spain	3,243,854	3,259,979
Portugal	6,159,160	5,819,311
USA	1,784,121	1,492,069
In Argentina	66	5
Total	11,187,201	10,571,364

The average interest rate on loans and advances to customers was 3.21% in 2015 and 3.72% in 2014.

A breakdown of loans and advances to customers into euros and foreign currencies, based on the currency in which refund occurs regardless of the currency in which it was executed, it is as follows

€ thousands	**2015**		**2014**	
	Euros	**Foreign currency**	**Euros**	**Foreign currency**
Accounts receivable from public authorities	5,327,992	-	6,075,612	-
Resident sectors:	5,327,992	-	6,065,612	-
Central government	3,387,499	-	3,872,441	-
Regional government	1,752,502	-	1,877,186	-
Local government	186,925	-	312,228	-
Social security	651	-	744	-
Doubtful assets	415	-	3,013	-
Non-resident sectors:	-	-	10,000	-
Private sectors:	97,604,170	4,153,048	98,382,184	3,921,590
Resident sectors:	88,961,453	1,608,498	90,103,076	1,639,334
Trade credit	3,723,662	60	3,311,935	236
Secured loans	33,451,506	851,308	33,882,299	934,748
Mortgages	32,531,993	850,136	33,083,902	932,227
Remainder	919,513	1,172	798,397	2,521
Asset repos	6,177,822	-	6,206,526	-
Other term loans	24,291,887	690,259	23,872,319	645,519
Financial leasing	1,903,505	-	1,875,768	-
Overdrafts and other	1,896,580	3,626	1,663,326	4,357
Other loans	196,810	5	237,865	5
Doubtful assets	17,319,681	63,240	19,053,038	54,469
Non-resident sectors:	8,642,717	2,544,550	8,279,108	2,282,256
Trade credit	341,084	-	328,981	-
Secured loans	2,665,809	1,680,085	2,635,204	1,462,664
Mortgages	2,650,420	1,669,157	2,618,211	1,462,366
Remainder	15,389	10,928	16,993	298
Asset repos	-	-	-	-
Other term loans	4,072,192	836,584	3,731,007	795,997
Financial leasing	333,990	-	327,828	-
Overdrafts and other	476,957	21,513	454,606	10,377
Other loans	-	132	-	1,547
Doubtful assets	752,685	6,236	801,482	11,671
Total loans and advances to customers	102,932,162	4,153,048	104,457,796	3,921,590
Valuation adjustments (±)	(7,417,476)	(29,965)	(7,752,124)	(44,339)
Total	95,514,686	4,123,083	96,705,672	3,877,251

A breakdown of gross loans and receivables denominated in foreign currencies by the currency in which the transactions were arranged is as follows:

€ thousands	2015	2014
USD	3,054,627	2,716,593
GBP	92,393	93,706
CHF	283,098	287,178
JPY	666,576	679,513
Other	26,389	100,261
Total	4,123,083	3,877,251

The heading "Other loans" under loans and advances to customers is as follows:

€ thousands	2015	2014
Financial transactions pending settlement	6,202	16,137
Cash guarantees provided	74,488	82,998
Commissions and fees for financial guarantees	18,116	24,179
Other	98,141	116,103
Total	196,947	239,417

The balance of "Cash guarantees provided" includes those lodged with various European clearing houses covering the sale of securities from our portfolio.

Financial guarantee commissions and fees reflect the present value of future cash flows pending collection, with a balancing entry in "Other financial liabilities", from where they are taken to the income statement on a straight-line basis as fee and commission income.

Impairment of loans and receivables

The Group estimates that the value corrections for impairment and provisions recognised by the Group are adequate to cover possible impairment of assets and the results of the contingencies that the Group has in progress.

The changes in the impairment of loans and receivables through the income statement (Note 62) in 2015 and 2014 were as follows:

€ thousands	2015	2014
Loans		
Net provisions	1,472,072	1,900,552
Depreciation and Amortisation	39,112	4,438
Recoveries of written-off assets	(128,267)	(214,158)
Total	1,382,917	1,690,832

Set out below is a breakdown of Value corrections for asset impairment in Loans and receivables at 31 December 2015 and 2014:

€ thousands	2015	2014
By type of cover		
Specific provision	7,723,604	8,235,678
Credit institutions	3,041	2,810
Resident sectors	7,173,988	7,620,030
Non-resident sectors	546,575	612,838
Generic provision	-	-
Credit institutions	-	-
Resident sectors	-	-
Non-resident sectors	-	-
Country-risk provision	507	913
Credit institutions	-	-
Resident sectors	40	1
Non-resident sectors	467	912
Total	7,724,111	8,236,591

The changes in 2015 and 2014 in value corrections for asset impairment under Loans and advances to customers were as follows:

€ thousands	Specific provision	Generic provision	Country-risk provision	Total
Beginning balance 2014	8,364,816	-	1,153	8,365,969
Allocated to profit or loss:				-
Net provisions	1,900,757	-	(205)	1,900,552
Provisions applied	(1,347,503)		-	(1,347,503)
Other changes and transfers	(682,392)	-	(35)	(682,427)
Closing balance 2014	8,235,678	-	913	8,236,591
Allocated to profit or loss:				-
Net provisions	1,472,493	-	(421)	1,472,072
Provisions applied	(1,267,908)		-	(1,267,908)
Other changes and transfers	(716,659)	-	15	(716,644)
Closing balance 2015	7,723,604	-	507	7,724,111

Set out below is a breakdown showing individual and collective provisions:

€ thousands	2014	2014
Determined individually	2,597,273	2,785,996
Determined collectively	4,711,989	4,847,424
Collective provisions for losses incurred but not reported (IBNR)	414,849	603,171
Total	7,724,111	8,236,591

Other risks

On 21 January 2016 the Group was notified of the Supreme Court ruling of 23 December 2015 handing down the collective order subtmitted by the OCU (Consumers and Users Organisation). The ruling declares the nullity of the clause in Banco Popular Español and orders the cessation in its use

After receiving the judgement OCU 21/01/2016 the Group informed the market that from the date of publication of the ruling it upheld the decision and from that date the floor clauses included in Banco Popular Español's contracts would be removed.

Additionally, in 2010, ADICAE presented a collective macroprocess before Commercial Court 11 in Madrid against practically all financial entities which include limits on the variation of interest rates on their mortgage loan contracts for natural persons, including Banco Popular Español and Banco Pastor, a collective action requesting the cessation of the floor clause refund- ing charges levied by its application. This process was seen for sentencing in the first instance dated 24 June 2015, but to date the judgement has not been served. The Group has argued in favour that the floor clauses on their mortgage deeds were lawful, non-abusive and transparent. However, it should be noted that the aforementioned judgement of the Court may be appealed by the affected parties in those courts referred to in the legislation.

On the other hand, there are also individual actions that are underway in various courts. Regarding individual actions whose processes have been completed, it should be noted that the sentences have been completed in different ways either for or against the plaintiff.

In this context, the Bank has made its estimate of the risk related to the ongoing processes mentioned above and, under the principle of prudence, recorded against the income statement an amount of 350 million euros to cover the impairment of instruments and financial assets related to customers of these potentially affected groups.

Set out below is a breakdown of the carrying amounts of Loans and advances to customers past-due and not impaired, by debtor residence and period since default:

€ thousands	2015			2014		
	Resident sectors	Non-resident sectors	Total	Resident sectors	Non-resident sectors	Total
Up to 1 month	444,559	10,994	455,553	396,851	2,532	399,383
1 to 2 months	91,936	18,169	110,105	82,733	5,079	87,812
2 to 3 months	47,278	7,815	55,093	62,548	2,232	64,780
Total	583,773	36,978	620,751	542,132	9,843	551,975

Accrued interest accumulated, past-due and receivable on impaired financial assets, up until the date on which accrual was interrupted due to their classification as doubtful assets, totalled 620,751 thousand euros in 2015 and 551,975 thousand euros in 2014.

Not taking into account the adjustments or eliminations on consolidation, the following table shows written-off assets, defined as the principal of impaired financial assets plus interest accrued and receivable that have been written off the balance sheet when chances of recovery are deemed to be remote.

Derecognition does not in any case preclude the instigation by the Group of legal actions to recover the debts.

The definitive derecognition of these accounts occurs when the amounts due are recovered, the debt is cancelled, the statute-of-limitations period expires or for other reasons.

€ thousands	2015	2014
Balance at 31 December of the previous year	5,116,143	4,664,825
Additions: Charged to value corrections for asset impairment	1,270,112	1,339,092
Charged directly to the income statement	40,984	4,232
Uncollected past-due amounts	269,694	177,949
Other	303	187
Change in scope of consolidation (B. Pastor)		187
Total recognition	1,581,093	1,521,460
Derecognition: Recovery in cash of principal	109,802	160,924
Due to recovery of uncollected past-due amounts in cash	8,470	14,486
Due to cancellation	457,645	480,658
Due to expiry of the statute-of-limitations period	-	-
Due to foreclosure of tangible assets	2,581	26,160
Due to foreclosure of other assets	1	-
Due to debt restructuring	2,116	-
Due to other reasons	937,730	387,915
Total reductions	1,518,345	1,070,143
Net change due to exchange differences	1	1
Balance at 31 December of reporting year	5,178,892	5,116,143

In reductions for other reasons the sale of written-off assets in 2015 amounting to 439,645 thousand euros should be noted.

Property market

As part of the policy to continuously improve the Banco Popular Group's transparency policy, which is its calling card, set out below is information on the Group's exposure to the property market in Spain at 31 December 2015.

Construction and property development

The Group's exposure to these market sectors in Spain is analysed in the following tables:

Financing for construction and property development and related allowances

€ thousands	Gross amount	Surplus over value of collateral	Specific provision
Financing for construction and property development (transactions in Spain)	15,891,503	6,342,634	3,957,530
- Of which: Doubtful	9,488,456	3,922,251	3,659,767
- Of which: Substandard	1,356,352	441,307	297,763
Memorandum item:			
- Written-off assets	1,835,065	-	-
Memorandum item:	Carrying amount		
Total loans and advances to customers, excluding public authorities (transactions in Spain)	94,243,986	-	-
Total assets (total businesses)	158,649,873	-	-
Valuation adjustments and credit risk provisions. Total generic provision (all transactions)	-	-	-

(*) Only considers the value of eligible guarantees by Banco de España for the calculation of provisions. It does not include the value of financial guarantees received.

Set out below is a breakdown of this financing by type of collateral and purpose of the transaction:

Breakdown of financing for construction and property development

€ thousands	Gross amount
Unsecured	1,875,252
Secured	14,016,251
1 Completed buildings	6,682,660
1.1 Housing	3,219,786
1.2 Other	3,462,874
2. Buildings under construction	1,280,447
2.1 Housing	884,669
2.2 Other	395,779
3 Land	2,635,177
3.1 Developed land	2,439,454
3.2 Other land	195,723
4 Other collateral	3,417,966
TOTAL	15,891,503

As regards exposure to the retail mortgage market, the following table contains details of home loans granted in Spain:

€ thousands	Gross amount	Of which: Doubtful
Home purchase loans	17,519,167	799,876
- Without mortgage security	10,786	-
- With mortgage security	17,508,381	799,876

The following table shows exposure as a percentage of the appraised value of properties for the home loans with mortgage guarantees reflected in the previous table:

Breakdown of loans with mortgage security by total risk as a percentage of the latest available appraisal (loan-to-value).

€ thousands	RISK AS % OF LATEST AVAILABLE APPRAISAL (loan to value)					
	Less than or equal to 40 %	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100 %	Total
Gross amount	3,822,345	5,710,758	5,019,994	1,657,278	1,298,006	17,508,381
Of which: Doubtful	124,844	155,772	296,851	131,011	91,398	799,876

Lastly, set out below is information on the assets foreclosed in Spain by Group entities (non-current assets held for sale, inventories and investment property):

€ thousands	**Carrying amount**	**Of which: Value corrections for impairment of assets**
Property assets from financing for construction and property development	6,891,135	4,548,690
1 Completed buildings	3,106,670	1,248,588
1.1 Housing	1,934,853	807,431
1.2 Other	1,171,817	441,157
2 Buildings under construction	264,020	134,645
2.1 Housing	233,100	116,050
2.2 Other	30,920	18,595
3 Land	3,520,445	3,165,457
3.1 Developed land	1,615,769	1,196,589
3.2 Other land	1,904,676	1,968,868
Property assets from home purchase mortgage loans to households	1,023,892	413,105
Other property assets received in settlement of debt	2,041,307	685,800
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	165,000	364,000

Set out below are the figures for 2014:

€ thousands	**Gross amount**	**Surplus over value of collateral**	**Specific provision**
Financing for construction and property development (transactions in Spain)	18,151,259	7,022,870	4,399,894
- Of which: Doubtful	10,888,389	4,092,648	4,103,565
- Of which: Substandard	2,172,667	883,901	296,329
Memorandum item:			
- Written-off assets	1,914,844	-	-
Memorandum item:	**Carrying amount**		
Total loans and advances to customers, excluding public authorities (transactions in Spain)	94,395,408	-	-
Total assets (total businesses)	161,456,478	-	-
Valuation adjustments and credit risk provisions. Total generic provision (all transactions)	-	-	-

€ thousands	
	Gross amount
Unsecured	1,851,360
Secured	16,299,899
1 Completed buildings	7,840,446
1.1 Housing	4,090,126
1.2 Other	3,750,320
2. Buildings under construction	1,577,496
2.1 Housing	1,122,352
2.2 Other	455,144
3 Land	2,802,511
3.1 Developed land	2,539,478
3.2 Other land	263,033
4 Other collateral	4,079,446
TOTAL	18,151,259

€ thousands		
	Gross amount	**Of which: Doubtful**
Home purchase loans	17,154,957	867,460
- Without mortgage security	43,233	6
- With mortgage security	17,111,724	867,454

€ thousands						
	RISK AS % OF LATEST AVAILABLE APPRAISAL (loan to value)					
	Less than or equal to 40 %	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**More than 100 %**	**Total**
Gross amount	3,585,576	5,462,862	5,790,441	1,568,607	704,238	17,111,724
Of which: Doubtful	129,893	164,057	355,817	154,845	62,842	867,454

€ thousands		
	Carrying amount	**Of which: Value corrections for impairment of assets**
Property assets from financing for construction and property development	6,355,880	4,611,423
1 Completed buildings	3,055,296	1,347,961
1.1 Housing	2,014,611	912,646
1.2 Other	1,040,685	435,315
2 Buildings under construction	278,602	120,439
2.1 Housing	221,865	101,815
2.2 Other	56,737	18,624
3 Land	3,021,982	3,143,023
3.1 Developed land	1,369,517	1,129,478
3.2 Other land	1,652,465	2,013,545
Property assets from home purchase mortgage loans to households	982,461	425,370
Other property assets received in settlement of debt	1,756,234	659,649
Equity instruments, investments and financing provided to non-consolidated companies holding these assets	202,000	467,000

Property risk management

In view of its depth and significance, property risk is managed by two specialised units with a thorough knowledge of the Spanish property market:

- The Specialised Business Management (previously SBU), reporting to Retail Banking Management, performs the following tasks: Authorisation of the Group's Purchases and Dations, divestment from the Promotor's balance sheet and management of unique customers.
- Aliseda SGI, a subsidiary set up in December 2013, bringing on board new shareholders, Värde and Kennedy Wilson, to which the management of property assets received through foreclosure, purchase or dation has been sold in order to facilitate the orderly disposal of the assets. The company has also been assigned the management of impaired loans and receivables to customers linked to the property sector with the aim of boosting the transformation into buildings of transactions in which the borrowers are not considered viable so as to streamline their sale.

As well as healthy risk management, the Specialised Business Unit takes decisions on restructuring, and asset purchase and sale transactions that are not part of the business sold to Aliseda, SGI. For this purpose there is a specific hierarchy of authority, similar to that for wholesale or retail banking, which is described briefly below.

When a customer is having difficulties, this may give rise to:

a) A refinancing or restructuring proposal
b) A purchase or dation proposal

Proposals for refinancing or restructuring originate at the branches, which have the support of specific advisers in each Territorial Office (Risk Admissions).

Purchase or payment-in-kind proposals come directly from the regional/territorial headquarters and are drawn up by specialised advisers.

The review of any of the risks of these customers follows the same Group system for its control: the proposal travels from the branch to the Territorial Office (where there are specialised advisers) and then on to the specific SBU Risk office which reports to Risk Admissions. Proposals are therefore approved within the limits of authority of the UNE itself or passed up to a higher level, which means that in any event transactions follow the normal Group process as regards approval and communication to the Bank's Delegated Risk Committee.

When the proposal is purchase or dation, it also arrives at the Purchasing and Dations Office, reporting to the Specialised Business Management, where it is analysed and, depending on the terms of reference, submitted to the Purchasing Committee if required.

The Purchasing Committee submits monthly reports on its activities to the Management Committee.

Purchasing and dation operations by Aliseda SGI are also reviewed by the SBU when they are beyond its scope of authority. It should be noted that although the management of part of the property business has been sold, as described above, the loans and receivables and property assets are still owned by the Group.

The management of property assets aims to maximise their sale value and obtain the profitability stipulated by the Group, taking into account capital invested, liquidity absorbed by the business and expected results. Different policies and strategies are applied depending on the asset in question: finished product held for sale or lease, work in progress or land.

24. Held-to-maturity investment portfolio

At 31 December 2015 and 2014, there was no balance in the Group's held-to-maturity portfolio investment because a significant part of the portfolio was sold in June 2013; under IAS 39-Financial instruments: recognition and measurement, the remaining balance recognised by both the parent company and the Group entities had to be transferred to the available-for-sale portfolio under the so-called contamination rule. Assets were sold in the amount of 2,605,839 thousand euros for a gain of 51,957 thousand euros.

25. Adjustments to financial assets and liabilities in respect of macro-hedges

In 2015 the Group, in addition to the active micro-hedges at the end of 2014, carried out a new operation for a nominal amount of 1,130,436 thousand euros in September 2015. The balance of this item in the current year amounts to 233,228 thousand euros, as compared with 261,023 thousand euros at year-end 2014.

Changes in the fair value of the hedged assets have been registered to the income statement with a balancing entry in "Adjustments to financial assets in respect of macro-hedges". No macro-hedges have been arranged for Financial liabilities.

26. Asset and liability hedging derivatives

These balance sheet captions reflect the fair values for (Assets) or against (Liabilities) of the entities in respect of derivatives designated as hedging instruments in accounting hedges.

The criteria for determining the conditions and recognition of hedges are explained in Note 15.d). The net gain/(loss) on hedging derivatives is reflected on the line "Other" in the table in Note 54, as analysed below:

€ thousands	2015			2014		
	Gain	Loss	Net	Gain	Loss	Net
Hedging instruments	644,230	612,981	31,249	621,841	712,935	(91,094)
Hedged items	623,036	657,881	(34,845)	702,541	584,818	117,723
Total	1,267,266	1,270,862	(3,596)	1,324,382	1,297,753	26,629

a) Fair value hedges

The following table shows the type of risks hedged, the instruments used for fair value hedges and the notional and carrying amounts of the hedges.

€ thousands	2015			2014		
	Notional amount	Valuation		Notional amount	Valuation	
Risk hedged and instrument used		Positive	Negative		Positive	Negative
Exchange risk	**-**	**-**	**-**	**94,817**	**-**	**1,060**
Forward transactions	-	-	-	-	-	-
Purchase of foreign currency against foreign currency	-	-	-	-	-	-
Procurement	-	-	-	-	-	-
Sales	-	-	-	-	-	
Financial swaps (CCS)	-	-	-	94,817	-	1,060
Currency options	-	-	-	-	-	-
Purchased	-	-	-	-	-	-
Sold	-	-	-	-	-	-
Interest rate risk	**33,950,366**	**385,942**	**1,903,201**	**38,663,664**	**404,026**	**2,101,355**
Financial futures (organised markets)	895,638	-	-	457,559	-	-
Financial swaps (IRS, CMS, etc.)	28,384,219	385,942	1,412,656	33,182,105	404,026	1,764,405
Interest rate options	4,670,509	-	490,545	5,024,000	-	336,950
Purchased	-	-	-			
Sold	4,670,509	-	490,545	5,024,000		336,950
Share price risk	**2,595,947**	**46,869**	**42,139**	**1,113,172**	**35,510**	**34,578**
Options on securities	1,198,585	6,368	298	374,187	6,070	68
Purchased	1,151,754	6,368	-	364,018	6,070	-
Sold	46,831	-	298	10,169	-	68
Financial swaps (CDS)	199,869	1,770	35,170	738,985	29,440	34,510
Other products	1,197,493	38,731	6,671			
Total	36,546,313	432,811	1,945,340	39,871,653	439,536	2,136,993

The notional amounts of fair value hedge instruments reflected in the above table relate to the following hedged balance sheet items:

€ thousands	2015	2014
Asset hedges	27,818,698	29,376,150
Loans and advances to credit institutions	-	-
Loans and advances to customers	6,104,731	6,887,380
Available-for-sale assets	21,713,967	22,488,770
Liability hedges	8,727,615	10,980,463
Deposits from credit institutions	-	-
Customer deposits	2,595,949	1,150,085
Debt certificates	6,131,666	9,830,378
Total	36,546,313	40,356,613

b) Cash flow hedges

The following table shows the notional and carrying amounts at year-end 2015 and 2014 of the types of cash flows that are fully hedged at that date, Debt certificates. As explained in Note 42, in Valuation adjustments in shareholders' equity, the amount recognised in this item is the value of the effective portion of 2015 cash flow hedges, which matured in 2015.

€ thousands	2015			2014		
	Notional amount	Valuation		Notional amount	Valuation	
Risk hedged and instrument used		Positive	Negative		Positive	Negative
Interest rate risk:						
Financial swaps (IRS, CMS, etc.)	1,384,756	5,381	68,634	389,817	-	24,081
Total	1,384,756	5,381	68,634	389,817	-	24,081

The gross amount recognised in Valuation adjustments in shareholders' equity deriving from the valuation of cash flow hedging derivatives totalled (131,822) thousand euros in 2015 and (33,805) thousand euros in 2014. (Note 42).

For the table to 31 December 2015, the current cash hedges correspond to operations which cover issues from floating-rate liabilities amounting to €1.205 million. There is also another contracted operation in 2014 in the amount of €179 million for overseas business relating to Banco Popular's 24.9% shareholding in the Mexican financial group Ve por Más, S.A. de C.V.

At 31 December 2015, the existing cash hedges from operations which cover issues from floating-rate liabilities from 2016 amounted to €295 million and are the same operations it already had at 31 December 2014. There is also another contracted operation in 2014 in the amount of €94 million for overseas business relating to Banco Popular's 24.9% shareholding in the Mexican financial group Ve por Más, S.A. de C.V.

c) Hedges of net investments in foreign operations

The following table shows the nominal value and the corresponding valuations, at 2015 and 2014, on the net investments in foreign operations which are fully hedged which, at that time, the corresponding operation shows Banco Popular's 24.9% shareholding in Mexican financial group Ve por Más, S.A. de C.V.

€ thousands	2015			2014		
	Notional	Valuation		Notional	Valuation	
Risk hedged and instrument used	amount	Positive	Negative	amount	Positive	Negative
Exchange risk	104,801	4,876	-	95,143	1,620	-
Other products	104,801	4,876	-	95,143	1,620	-
Total	104,801	4,876	-	95,143	1,620	-

27. Non-current assets held for sale

This caption in the Group's consolidated balance sheet relates basically to purchased or foreclosed assets received by the Group from its borrowers or other debtors for total or partial settlement of financial assets representing debt claims against the borrowers or debtors. Additionally, the Group has obtained buildings by means of purchase or the dation of debt claims so as to avoid, in many cases, difficulties that could be encountered by debtors when repaying their debts. These assets are initially recognised at the net amount of the financial assets delivered, taking into account any valuation adjustments to the assets. The amounts for both periods are analysed below.

€ thousands	2015	2014
Non-current assets held for sale	9,045,928	8,201,378
Debt securities	-	-
Equity instruments	-	-
Tangible assets	9,045,928	8,201,378

In the sale of these assets the Group recognised a net result of (88,498) thousand euros (profit of 383,518 and loss of 472,016) in 2015 and a net result of (51,987) thousand euros (profit of 301,232 and loss of 353,219) in 2014.

Additions to this caption relate basically to foreclosed assets, payment-in-king in payment of debt claims and purchases of assets that secured loans which were not repaid on a timely basis. Disposals arise in all cases from the sale or transfer of the assets to tangible fixed assets for own use, investment property or inventories.

Transactions in 2015 and 2014 in Non-current assets held for sale are as follows:

€ thousands	
Beginning balance 2014	6,296,601
Additions	3,537,430
Disposals	1,510,306
Change in value corrections (1)	122,347
Closing balance 2014	8,201,378
Additions	3,045,563
Disposals	2,464,005
Change in value corrections (2)	(262,992)
Closing balance 2015	9,045,928

(1) Includes 381,742 thousand euros arising from the contribution of real estate by the banks and related value adjustments due to the capital increase in the group's real estate companies, mainly Aliseda, S.A., Inversiones Inmobiliarias Canvives, S.A. and Inversiones Inmobiliarias Tamadaba, S.A.
(2) Includes 226,932 thousand euros arising from the contribution of real estate by the banks and related value adjustments due to the capital increase in the group's real estate companies, mainly Aliseda, S.A., Inversiones Inmobiliarias Canvives, S.A. and Inversiones Inmobiliarias Tamadaba, S.A.

The impairment of foreclosed property is calculated by comparing the property's fair value less costs to sell with its carrying amount. If the carrying amount of the property is higher, impairment is recognised in the amount of the difference. The appraisal value at foreclosure is determined for the Group's Spanish entities by valuation companies registered with Banco de España.

Transactions recognised in Profits/losses on non-current assets held for sale in the consolidated income statements in 2015 and 2014 are as follows:

€ thousands	**2015**	**2014**
With balancing entry in profit and loss (Note 66)		
Net profit per sale	(88,498)	(51,987)
Impairment losses	245,753	444,471
Total	(334,251)	(496,458)

28. Investments

This caption in the Group's consolidated balance sheets solely covers equity-consolidated associates and joint ventures.

The carrying amount includes the balances of the subordinated loans granted by the Group, if applicable. The changes in these investments in 2015 and 2014 are set out below:

€ thousands	**2015**	**2014**
Joint ventures	445,596	614,407
Credit institutions	320,873	455,267
Insurance companies	-	-
Other joint ventures	124,723	159,140
Total carrying amount of joint ventures	445,596	614,407
Value corrections for impairment of assets	-	-
Other valuation adjustments Goodwill	208,963	381,838
Total joint ventures	654,559	996,245
Associates	580,953	484,019
Credit institutions	163,224	-
Insurance companies	92,178	86,445
Other associates	325,551	397,574
Total carrying amount of associates	580,953	484,019
Value corrections for impairment of assets	-	-
Other valuation adjustments Goodwill	558,497	390,521
Total associates	1,139,450	874,540
Total Investments	1,794,009	1,870,785

In accordance with IFRS 11, joint ventures have been accounted for using the equity method since January 2014.

In 2015 the more significant movements with respect to Joint ventures were the following:

- The transfer of Targobank, S.A. and TargoInmuebles, S.A. from joint venture to business partners, as a result of the sale of 1% as referred to in Note 2 c), which also involves the transfer of scope of consolidation, a reduction of the carrying value of the shareholding amounting to 2,643 thousand and a decrease in goodwill amounting to 3,598 thousand, as evidenced in Other valuation adjustments.
- The amount of the transfer of joint ventures to business partners, for the loss of control Targobank S.A., is 169,277 thousand euros in Other valuation adjustments for associated Goodwill consolidation, and 163,224 thousand euros, in the carrying value of the shareholding,
- The incorporation as a Joint Venture of the Portuguese company Recbus- Recovery To Business, S.A., a company in which is owns 20% as referenced in Note 2.
- And in company Aliseda SGI two issue premiums dated 29/06/2015 and 27/11/2015 were made for the amount of 5,044 and 59,444 thousand euros respectively, which implicitly assumes a reduction in the carrying value of the shareholding.

Regarding associates, in 2015, there have been reductions in the shareholdings of the following companies through their sale;

- Universal Pay entidad de pago, S.L, a company which had a 50%. shareholding.
- Puertos Futuros, a company which had a 49% shareholding.
- And, Amarres deportivos, a company which had an 80% shareholding.

In 2014 the more significant movements with respect to Joint ventures and associates were the following:

The sale of the 51% interest of Bancopopular-e, S.A., said company was reclassified as a joint venture, and Popular-e Operador de Banca Seguros Vinculado, S.A.U., Popular-e Cobros A.I.E., and IM Tarjetas 1 F.T.A., including part of the transaction with Bancopopular-e, S.A., were also classified as such, while Platja Amplaries, S.L. was sold.

In relation to associates, a 50% interest was acquired in Euro Automatic Cash Entidad de Pago, S.L., and a 24.99% interest in Grupo Financiero Ve por Más, S.A. de CV, while Nuevo Agora Centro de Estudios, S.L., Inversiones Area Sur, S.L., and Ronáutica Marinas Internacional, S.A. were sold.

“Other valuation adjustments” under Joint Ventures includes the revaluation relating to the sale, in 2014, of the 51% interest in Bancopopular-e for 208,963 thousand euros , and the sale of the 50% interest of TargoBank for 172,875 thousand euros.

“Other valuation adjustments” under Associates includes the revalued acquisition of Grupo Financiero Ve por Más, S.A. de CV (43,698 thousand euros) and the revaluation of the retained investment carried out as a result of the creation in 2011 of a new company, Allianz Popular, S.L. (346,823 thousand euros).

The shares of these associates are not listed on organised markets.

Of the goodwill included, tests are run to check for impairment, pursuant to the provisions of IAS 36. The detail of the testing methodology is shown in note 15s.

a) Goodwill of Targobank

At 31 December 2015 it was €169.3 million, having been €172.9 million at 31 December 2014.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Group Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on will include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 8.73% discount rate, comprising a risk-free rate (Spanish 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2014 or 2015 as a result of this evaluation carried out.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (6.5)% and 7.6%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 3.3% and 2.8% respectively.

The sensitivity analyses performed revealed no significant problems between the CGU's value and its carrying amount.

b) Goodwill of Allianz

At 31 December 2015 it amounted to €346.8 million, the same as in December 2014.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used. The projections were calculated conservatively at ten years, in view of the current phase of the cycle. This CGU includes three different business types: life, pensions and asset management, with estimates made separately. Growth rates of 3.5%, 2.10% and 0% have been used respectively. As regards the discount rate used, it is also different on account of the different correlation concerning these businesses with the risk-free premium. The rates of 7.46%, 8.66% and 8.66% have been used respectively.

Additionally an analysis has been carried out on the sensitivity of growth variables and the cost of capital. It generated a variation of +/- 9% in value in use, but remains above the company's reference value.

This evaluation has revealed that no impairment need be recognised at 31 December 2015 and 2014.

c) Goodwill of Grupo Financiero Ve por Más S.a. de CV

At 31 December 2015 it was €42.4 million, having been €43.6 million at 31 December 2014.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used.

In order to determine the present value of projected flows, a sustainable growth rate of 2.4% has been used to extrapolate flows to perpetuity (taking into account provisions made by the OECD), and a 14.33% discount rate, comprising a risk-free rate (Mexican 10-year bond at 30 September) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Mexican bonds, to which the average beta of similar financial institutions in this country have been applied.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (4.8)% and 5.27%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 0.92% and 0.89% respectively.

It was not considered necessary to recognise impairment as at 31 December 2015 as a result of this evaluation. As contrast an analysis of backtesting has been carried out checking that the objectives outlined in the business plan as a basis for analysis are being met on a recurring basis

d) Goodwill in Bancopopular-e SA

At 31 December 2015 it amounted to €208.9 million, the same as in December 2014.

The Bank tested the goodwill for impairment by comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by Entity Management were used.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 8.73% discount rate, comprising a risk-free rate (Spanish 10-year bond) plus a premium reflecting the risk inherent in the business evaluated, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's average beta has been applied to similar financial institutions in Spain.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (7.6)% and 9%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 6.4% and 5.5% respectively.

It was not considered necessary to recognise impairment as at 31 December 2015 as a result of this evaluation. As contrast an analysis of backtesting has been carried out comparing the results of the year with the forecasts used in the model for this year.

Other investments

Regarding the significant influence exercised on Metrovacesa, S.A., as indicated in Note 2 c of the Report, it should be noted that:

- As a significant corporate milestone, a public acquisition offer was made in May 2013, to delist the company's shares from the stock market; the offer was made by the shareholder financial institutions, except for Bankia (i.e. by Santander, BBVA, Sabadell and Banco Popular), on the free float existing at the time (around 4.4%). The delisting public acquisition offer represented an increase in control by the current shareholders, whereby Banco Popular's ownership interest in the share capital Metrovacesa increased to 12.64%, since the shareholder banks that made the public acquisition offer acquired the shares included in the offer in proportion to their previous shareholdings (11.97% in the case of Banco Popular) and by Bankia (as this bank did not take part in the public acquisition offer, as indicated above).

- At Board meetings held in 2013, very important decisions were adopted, with the favourable vote of Banco Popular, regarding the company's future, such as the commencement of the Jupiter project, which will contribute to the company's sustainability by restructuring its debt. This project, after many months of work, was carried out in June and July 2014 through the sale of the shareholdings that Metrovacesa had in Gecina. The amount obtained from the sale was used to repay a large portion of tranche A of the syndicated financing.

- A non-monetary and monetary contribution formalised in early January 2016 was approved at the Extraordinary General Meeting of 29 December 2015, by the favourable vote of Banco Popular. As a result of these contributions, the Group will have a stake of 9.14% compared with 8% it had at the close on 31 December 2015. These contributions are part of steps designed in the proposed partial split of the land-promotion branch in which Metrovacesa had worked for several months. The project was published in November 2015 and materialised in the Extraordinary General Meeting of 11 January 2016 with the favourable vote of Banco Popular.

As mentioned in Note 2 c), the conditions in which the Group participates in the management of said entity calls for its consideration as an associate.

The investees amount includes goodwill recorded in the balance sheets for these companies. Worth particular mention is the goodwill of Aliseda SGI, which recorded intangible assets of €642 million, of which 49% (€315 million) form part of the group's stake. During 2014, the purchase price allocation was carried out by an independent third party, who deemed that 85.7% of said intangible assets were finite useful life assets associated to the significance of the exclusive agreement with Banco Popular Group, the brand, relationship with suppliers, etc. with the remainder, 14.3% corresponding to goodwill (€45 million). Over the course of the year, the company has carried out, via an independent expert, the appropriate impairment test which did not reveal impairment to the goodwill.

In 2014, Universal Pay recorded goodwill of €31 million and carried out a purchase price allocation; said activity was performed by an independent third party, allocating 87.2% to finite useful life intangible assets and the remaining 12.8% (€4) to goodwill.

All companies have carried out their corresponding goodwill impairment tests and have been revised by the entity.

The change in investments during the year is as follows:

€ thousands	Total	Insurance companies	Credit institutions	Other institutions
Beginning balance 2014	1,263,136	446,807	332,957	483,372
Additions	413,583	-	281,037	132,546
Disposals	42,251	-	-	42,251
Changes in value	236,317	(13,539)	223,111	26,745
Profit or loss for the year	16,951	(13,628)	15,391	15,188
Impairment	-	-	-	-
Adjustments	219,366	89	207,720	11,557
Closing balance 2014	1,870,785	433,268	837,105	600,412
Additions	13,019	-	-	13,019
Disposals	109,876	-	6,241	103,635
Changes in value	20,081	5,733	31,473	(17,125)
Profit or loss for the year	35,870	2,461	40,557	(7,148)
Impairment	(550)	-	-	(550)
Adjustments	(15,239)	3,272	(9,084)	(9,427)
Closing balance 2015	1,794,009	439,001	862,337	492,671

Set out below is a breakdown of the carrying amounts of the companies included in this heading in 2015 and 2014:

€ thousands	2015	2014
Joint ventures	**654,559**	**996,245**
Aliseda SGI	103,692	144,347
Targo Inmuebles	-	-
Inverlur Águilas I	2,239	2,241
Inverlur Águilas II	6,953	6,962
IberiaCard	9,811	9,496
TargoBank	-	331,836
Banco Popular-e	520,025	495,773
Recbus	5,473	-
Popular-e Mediador	174	-
Popular-e Cobros AIE	-	-
Saite	6,192	5,590
IM Tarjetas 1, FTA	-	-
Saite-Cobal	-	-
Associates:	**1,139,450**	**874,540**
Sistema 4B, S.A.	445	308
TargoInmuebles	-	-
Targobank	332,501	
Trindade Fundo Investimento Inmobiliario Fechado	20,147	22,044
Aviación Intercontinental, A.I.E.	26,846	25,765
Allianz Popular, S.L.	439,001	433,268
Metrovacesa, S.A.	165,037	202,349
Puertos Futuros, S.L.	-	70
Universal Pay	-	39,077
Inversiones en Resorts Mediterráneos, S.L.	-	-
Euroautomatic Cash	38,874	36,832
Fotovoltaica Monteflecha, S.L.	7,149	7,597
Aevis Europa, SL.	270	262
Master Red Europa, S.L.	274	265
Gefrasan	3,360	5,152
Ve por Mas, S.A.	105,546	101,551

29. Insurance contracts linked to pensions

This heading includes the technical mathematical provisions for post-employment obligations outsourced to the insurance company Allianz S.A. and technical mathematical provisions or fair values of pension and similar obligations insured by Group companies.

The retirement bonuses arranged through insurance policies with Allianz Popular Seguros S.A. are first reflected, together with the fair value of the fund administered in relation to Banco Popular Portugal, S.A.'s obligations.

Accordingly, "Other entities" includes the technical mathematical provisions for the early retirement policy taken out with the insurance company Allianz, S.A. de Seguros y Reaseguros.

€ thousands	**2015**	**2014**
Group companies	163,522	154,511
Other entities	4,396	8,143
Total	167,918	162,654

30. Reinsurance assets

Set out below in this heading is a breakdown by company of the consolidated balance sheet at 31 December 2015 and 2014:

€ thousands	**2015**	**2014**
Eurovida, S.A. (Portugal)	15,834	15,048
Popular Seguros, S.A.	1,690	1,873
Total	17,524	16,921

31. Tangible assets

There follows a breakdown of the reported investment in property, plant and equipment, net of depreciation and impairment adjustments. Tangible assets for the Group's own use include, if applicable, assets acquired under financial leasing from consolidated Group companies engaged in leasing activities.

Property leased between Group companies has also been classified as tangible assets for own use.

€ thousands	**2015**	**2014**
Tangible assets for own use:	777,713	746,830
IT equipment and installations	23,667	19,570
Furniture, vehicles and other installations	154,644	144,804
Buildings for own use	438,145	463,840
Assets under construction	164,029	121,995
Other	13,012	12,405
Value corrections for asset impairment (-)	(15,784)	(15,784)
Assets assigned under operating leases	-	10,339
Tangible assets at amortised cost	-	10,363
Value corrections for asset impairment (-)	-	(24)
Investment property	920,072	954,055
Buildings and other structures	1,524,156	1,663,764
Value corrections for asset impairment (-)	(604,084)	(709,709)
Total	1,697,785	1,711,224

The "Investment property" activity relates, in a small portion, to activities undertaken by the majority of the Group's banks and, additionally, to the Group's real estate subsidiaries that hold these investments to obtain income or gains and are not expected to sell them in the ordinary course of business.

The evolution of individual items in this heading in the consolidated balance sheets braking down gross amounts, accumulated depreciation and net value adjustment amounts at 31 December 2015 and 2014 is as follows:

€ thousands	For own use	Investment property	Assets leased out under operating leases	Total
Gross				
Balance at 01/01/2014	1,911,843	1,756,360	26,184	3,694,387
Additions	86,912	219,879	-	306,791
Disposals	246,439	276,189	15,821	538,449
Balance at 31/12/2014	1,752,316	1,700,050	10,363	3,462,729
Additions	100,951	81,927	-	182,878
Disposals	153,726	221,189	10,363	385,278
Balance at 31/12/2015	1,699,541	1,560,788	-	3,260,329
Accumulated amortisation				
Balance at 01/01/2014	1,091,491	35,716	-	1,127,207
Additions charged to profit and loss	53,582	7,634	-	61,216
Disposals	155,371	7,064	-	162,435
Balance at 31/12/2014	989,702	36,286	-	1,025,988
Additions charged to profit and loss	45,365	6,427	-	51,792
Disposals	129,023	6,081	-	135,104
Balance at 31/12/2015	906,044	36,632	-	942,676
Value corrections for impairment of assets				
Balance at 01/01/2014	21,749	709,504	24	731,277
Net Impairment 2014	(5,965)	205	-	(5,760)
Balance at 31/12/2014	15,784	709,709	24	725,517
Net Impairment 2015	*	(105,625)	(24)	(105,649)
Balance at 31/12/2015	15,784	604,084	-	619,868
Net				
Balance at 01/01/2014	798,603	1,011,140	26,160	1,835,903
Balance at 31/12/2014	746,830	954,055	10,339	1,711,224
Balance at 31/12/2015	777,713	920,072	-	1,697,785

Impairment losses recognised in the year can be seen in Note 63 to the consolidated profit and loss account.

Set out below is an analysis of tangible assets for own use in the consolidated balance sheets for each period:

€ thousands	Gross	Accumulated amortisation	Impairment adjustments	Net
At 31 December 2015:				
Furniture, IT equipment & installations	1,010,032	831,721	-	178,311
Buildings for own use	511,012	72,867	15,784	422,361
Other tangible assets for own use	178,497	1,456	-	177,041
Total	1,699,541	906,044	15,784	777,713
At 31 December 2014:				
Furniture, IT equipment & installations	1,078,845	914,471	-	164,374
Buildings for own use	538,287	74,446	15,784	448,057
Other tangible assets for own use	135,183	784	-	134,399
Total	1,752,316	989,702	15,784	746,830

At 31 December 2015 the amount of fully depreciated tangible assets for own use is 730,817 thousand euros. At 31 December 2014 this amount was 773,885 thousand euros.

The Group has been divesting property for own use since 2008. As a result, a number of buildings (branches and other premises) were sold, mostly under sale and lease-back arrangements. The Group has recognised the results of these transactions in the income statement because they were completed at fair value and all the lease-back operations fulfil the requirements to be treated as operating leases.

The agreed terms, which are common practice in the operating lease market, include the provision that the Group's lessees have the right not to extend the lease for a longer period than that stipulated as the first maturity, although the majority of leases include options for the Group to extend the lease for equal periods subject to the update or revision of rentals.

These clauses related to the rental review tie the revision to the performance of the consumer price index. The standard clause included in the lease agreements is as follows:

"RENTAL REVIEW

The monthly rental agreed upon will be updated on a yearly basis in accordance with the changes in the Spanish General Consumer Price Index (CPI, General Index), published by the Spanish National Statistics Institute or such body as might replace it.

The Lessee shall be required to pay the updated rental at the end of each year of the lease agreement. For the purposes of determining the updated rental, the rental that the Lessee has been paying in the immediately preceding month, resulting from the various updates that may have been applied in previous years, will be used as a basis for the calculation. For the first year of the agreement, the total rental will be obtained by multiplying the monthly rental by twelve.

Given that this index is published with a certain delay, if the index is not available at the time of the rental review, the Lessee will continue to pay the rental stipulated for the previous period. Once the final index is published, the Lessee will pay the updated rental in the next monthly payment in accordance with the stipulations of this clause. In addition, at this date and according to whether the index has decreased or increased, the parties will adjust the accounts by paying each other the amounts not received since the date on which the rental should have been adjusted. For such purposes, the Lessor must notify the Lessee of the new updated rental in writing, including the new percentage applied and the appropriate certificate from the Spanish National Statistics Institute.

In the event that the Spanish National Statistics Institute should cease to publish the indices referred to in this clause, the stipulated review will be calculated based on such indices or modules as may replace them."

This clause on rental review does not include adding a spread to the performance of the consumer price index, but rather only increases or decreases the rental based on the performance of the reference index.

The average maturity period of the lease agreements was set at 13 years on the date of execution, while agreements in force at year-end 2015 had an average residual maturity of 7.21 years, whereas this figure was 8.1 years for 2014.

The accounting treatment applied is that the embedded derivative is not separated, given that it is considered to be closely related to the host contract, since:

- It is not leveraged, i.e. it is tied to the CPI without a multiplier
- The index refers to the same economic environment: Spain

The specific paragraph of the standard on which this treatment is based is included in paragraph AG33.f) of IAS 39: an embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) contingent rentals related to sales made, and (iii) contingent rentals relate to variable interest rates.

With regard to the counterparty, of the 916 lease agreements in force on 31 December 2015, only 7 agreements were entered into with related parties, at market conditions, which represent 0.76% of the total agreements and 6.4% of the lease payments made. In 2015, 5,973 thousand euros was paid. In other words, 99.24% of the agreements were executed with counterparties not included in the Group.

In 2014, existing contracts with related parties were the same supposing 6.94% on the lease abouts having paid 5,832 thousand euros. In other words, in 2014, 99.3% of the current agreements were with counterparties independent to the Group.

In 2015, a total of €82.3 million was recognised as an expense for the period in respect of operating lease payments made, an amount which in 2014 was €83.2 million.

Amounts payable in 2016 (based on current rental data and amounts paid in 2015) are estimated at €81.97 million and payments for the next four years (2017 to 2020) are estimated at €266.91 million. Lease payments made after more than five years, from 2021 until maturity, will amount to €256.85 million.

As regards the leases that contain a purchase option, the option exercise price is the market value of the buildings on the lease expiration dates. That price will be determined in all cases by independent experts. The Group has not provided the buyers with any additional guarantees to reduce possible losses arising from early termination of the leases or changes in the residual values of the leased buildings.

The Group bears any costs payable as the lessee relating to operating and upkeep expenses and taxes.

Rentals collected under these leases in 2015 has totalled 566.5 thousand euros (€573.8 thousand euros in 2014). For 2016, the related receivable (using current rent data) will amount to 627 thousand euros; the amounts estimated for the coming four years (2017 to 2020) will be 2,302 thousand euros and from 2021 to maturity, 3,704 thousand euros, respectively.

The general terms and conditions of the lease agreements linked to virtually all sales are usually the same in all leases arranged, including minimum periods during which the Bank must lease the premises of between 10 and 15 years, rental reviews in line with the consumer price index and payment obligations relating to taxes, insurance and other costs payable by the Bank as the lessee.

In 2015, 27 premises for own use were sold (47 premises for own use in 2014) for a total of €4.7 million (€11.10 million in 2014) with capital gains of €1.3 million. (€5.4 million in 2014). Furthermore, as a result of the sale of other tangible assets, a loss of 839 thousand euros was recognised (a capital gain of €18.6 million in 2014). These results are recorded in the Gains (losses) on disposal of assets not classified as non-current held for sale caption.

32. Intangible assets

The balance of intangible assets recognised by the consolidated entites as described in Note 15.s are analysed below, distinguishing between goodwill and other intangible assets:

€ thousands	**2015**	**2014**
Goodwill	2,072,901	2,058,470
Other intangible assets	498,978	434,205
Total intangible assets	2,571,879	2,492,675

Goodwill		
In company balance sheets:	1,758,106	1,756,868
On consolidation:	314,795	301,602
Total goodwill	2,072,901	2,058,470

Other intangible assets		
Amortised cost	499,221	434,448
on company acquisitions	158,830	183,100
computer software	340,391	251,348
Value corrections for asset impairment (-)	(243)	(243)
Total other intangible assets	498,978	434,205

Goodwill recognised on the subsidiaries' balance sheets relates to the items already recorded by the subsidiaries when they joined the Group, and/or as a result of transactions completed. Set out below is a breakdown:

€ thousands		**2015**			**2014**		
	Business segment with which the CGU is associated	**Gross**	**Impairment adjustments**	**Net**	**Gross**	**Impairment adjustments**	**Net**
Popular Factoring (Portugal), S.A	Commercial Banking	1,601,065	-	1,601,065	1,601,065	-	1,601,065
Banco Popular Portugal, S.A.	Commercial Banking	145,056	-	145,056	145,056	-	145,056
TotalBank	Commercial Banking	11,985	-	11,985	10,747	-	10,747
Total		1,758,106	-	1,758,106	1,756,868	-	1,756,868

Goodwill on consolidation arises as the difference between: (i) the sum of the payment made, the amount of the investments not controlled in the target company and, in acquisitions completed in phases, the fair value of the interest in the target's shareholders' equity held previously by the acquiring party; and (ii) the net amount of the identifiable assets acquired and liabilities assumed at the acquisition date.

Set out below is a breakdown of goodwill on consolidation by consolidated company in the scope of consolidation:

€ thousands		**2015**			**2014**		
	Business segment with which the CGU is associated	**Gross**	**Impairment adjustments**	**Net**	**Gross**	**Impairment adjustments**	**Net**
Banco Popular Español, S.A.	Commercial Banking	2,615	-	2,615	2,615	-	2,615
Banco Pastor, S.A.	Commercial Banking	184,447	-	184,447	184,447	-	184,447
TotalBank	Commercial Banking	127,733	-	127,733	114,540	-	114,540
Total		314,795	-	314,795	301,602	-	301,602

The Group has performed the necessary impairment tests on the Goodwill, using the method described in Note 15.s, with the following results:

GOODWILL ON COMPANIES' BALANCE SHEETS

Goodwill from the acquisition of Banco Pastor (Banco Popular Español)

In 2012, Banco Popular took control over Banco Pastor, which was subsequently absorbed by the parent company. The acquisition generated goodwill of €1,746 million.

Accordingly, at 31 December 2015, goodwill is allocated in the amount of €1,601 million to the Commercial Banking Spain CGU; this groups together the retail banking business in Spain, excluding the new Banco Pastor business (see analysis in the item below).

The Bank has tested the goodwill assigned to the Commercial Banking Spain CGU for impairment, comparing its recov- erable amount with its carrying amount. We used cash flow projections estimated by the Group's Management, not taking into account restructuring or improvements not carried out, although they are expected, and using external sources of information on the performance of its key parameters. In accordance with the provisions of current legislation, the projections were based on and are in line with the Banco Popular Group's latest Business Plan.

The projections are calculated in a 10-year term in a conservative manner in view of the current phase of the cycle, as explained in Note 15.s.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 8.73% discount rate, comprising a risk-free rate of 2.06% plus a premium reflecting the inherent risk in the evaluated business of 6.67%, estimated to be the risk premium of an efficiently diversified equity portfolio on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2015 nor 2014 as a result of this evaluation carried out.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (7.4)% and +8.7%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +3.6% and (3.1)% respectively.

The sensitivity analysis performed revealed a sufficient difference between the CGU's value and its carrying amount.

The valuation of this goodwill, required as it amounts to more than 5% of the Group's shareholders' equity, has been reviewed by an independent expert who concluded favourably on the process, and on the reasonability of the impairment test performed by the Bank, having carried out its work on the basis of IFRS and Circular 4/2004 and, specifically, it concluded favourable on the following aspects of the impairment test:

- Reasonability of the various components of the valuation parameters (discount rate, residual value, valuation premises, etc.).
- Appropriateness and reasonableness of the 10-year period used for the projections included in the calculation of the value in use of the CGUs. Application of the appropriate valuation methodology according to the purpose and nature of the business and intangible asset valued.
- Attainment of the value range by using generally accepted valuation methodologies, such as the dividend discount model and market multiples.
- Sensitivity analysis.

Furthermore, the independent expert concluded there was no impairment to the goodwill.

Goodwill of Banco Pastor

Goodwill totalling 145,056 thousand euros at 31 December 2015 was assigned to the Pastor CGU following the segregation of the branch office network in Galicia from the Commercial Banking Spain CGU; equal to that in 2014. This CGU pools the retail banking business in Galicia.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections have been calculated at a ten year term, as mentioned, as at the end of that year it will be possible to obtain a stable and normalised full year to be used as a reference to perpetuity, on a going concern basis. In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 8.73% discount rate, comprising a risk-free rate of 2.06% plus a premium reflecting the inherent risk in the evaluated business, of 6.67%, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied, considered applicable to Banco Pastor.

It was not considered necessary to recognise impairment as at 31 December 2015 nor December 2014 as a result of this evaluation carried out.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (6.9)% and 8.1%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +3.7% and (3.1)% respectively.

The sensitivity analysis performed revealed a sufficient difference between the CGU's value and its carrying amount.

As in the case of Banco Popular's CGU, the valuation of the goodwill of the Banco Pastor's CGU, which represents 84% of the Bank's total goodwill.has been reviewed by an independent expert who has deemed that there is no impairment. The following valuation methods were used: estimated present value of future capital flows, the multiples in comparable transactions' method and the cost method.

Taking the current circumstances into account, we consider the cash flow projections made for the 10-year period to clearly and reliably reflect the economic environment.

GOODWILL ON CONSOLIDATION

Goodwill of Banco Popular Portugal

At 31 December 2015 and 2014 the gross amount totalled 184.4 million euros.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections were calculated conservatively at a ten year term, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 2.5% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts and the correlation between nominal GDP growth and loans granted to the private sector), and a 9.01% discount rate, comprising a risk-free rate (profitability of the Portuguese 10-year bond at 30 September) plus a premium reflecting the inherent risk in the evaluated business, estimated to be the equity risk premium on Portuguese bonds, to which Banco Popular's beta has been applied.

As a result of the evaluation performed, no impairment was recognised as at 31 December 2015, nor at December 2014.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (8.0)% and 9.4%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by 2.7% and (2.3)% respectively.

The sensitivity analysjs performed revealed that the CGU's value is higher than its value in pounds, for the most probable macroeconomic environments at this time, of low interest rates.

Goodwill of Totalbank

At 31 December 2015, this goodwill amounts to €139.7 million, of which €11.9 million was recognised in subsidiaries and €127.7 million on consolidation. At 31 December 2014, this goodwill amounted to €125.2 million, of which €10.7 million was recognised in subsidiaries and €114.5 million in consolidation.

The Bank tested this goodwill for impairment, comparing the CGU's recoverable value with its carrying amount. Cash flow projections estimated by the Group's Management were used. The projections were calculated conservatively at a ten year term, in view of the current phase of the cycle. According to current generally accepted growth forecasts, a five-year model would only encompass the expected upward portion of the cycle, obtaining a residual value that is not normalised. Estimates made from year five on include flat or negative growth rates compared with previous years.

In order to determine the present value of projected flows, a sustainable growth rate of 4% has been used to extrapolate flows to perpetuity (taking into account analysts' consensus inflation and nominal GDP forecasts), and a 10.54% discount rate, comprising a risk-free rate (profitability of American 10-year bond at 30 September 2015 at 10 years) plus a premium reflecting the inherent risk in the evaluated business, estimated to be the equity risk premium on Spanish bonds, to which Banco Popular's beta has been applied.

It was not considered necessary to recognise impairment as at 31 December 2015 or 2014 as a result of this evaluation.

Additionally, sensitivity analysis was performed on the assumptions deemed most relevant to the analysis: discount rate (+/- 50 basis points), growth rate (+/- 50 basis points), profitability on average total assets (ATAs) applied to the terminal value (+/- 5 basis points), cost-to-income ratio applied to the terminal value (+/- 50 basis points) and provisions for loans and receivables, applied to the terminal value (+/- 5 basis points). The most sensitive parameters are the discount rate and the growth rate. Had the discount rate increased or decreased by 50 basis points, the recoverable amount would have decreased or increased by (6.4)% and 7.4%, respectively. If the growth rate had increased or decreased by 50 basis points, the recoverable amount would have increased or decreased by +4.3% and (3.7)% respectively.

The sensitivity analysis performed revealed that the CGU's value is higher than its value in pounds, for the most probable macroeconomic environments at this time, of low interest rates.

Other intangible assets

Set out below is a breakdown of the gross amount, accumulated amortisation and deterioration and net balance of "Other intangible assets":

€ thousands	2015	2014
Intangible assets (gross)	919,467	826,594
Accumulated amortisation and corrections due to impairment	(420,489)	(392,389)
Intangible assets (net)	498,978	434,205

Other intangible assets are classified as follows on the basis of their useful lives:

- The trademark is considered to have an indefinite useful life; it relates to the intangible asset recognised when Banco Pastor was acquired and has a balance sheet amount of 47,945 thousand euros at 31 December 2015.
- IT projects have a useful life of four years, barring significant projects which are individually analysed to estimate their useful life. The corresponding amount was 340,148 thousand euros as at 31 December 2015.
- Customer relationships capitalised as a result of business combinations are estimated on the basis of a useful life of ten years. The corresponding amount was 106,042 thousand euros as at 31 December 2015. Of these, 105,960 thousand euros corresponds to Core deposits originating in the acquisition of Banco Pastor, S.A. In 2012, of which 195,633 thousand euros were activated and 89,673 thousand euros are amortised. It is estimated that they will be amortised over an average term of 5.15 years.
- The remaining Other intangible assets amounted to 4,843 thousand euros as at 31 December 2015.

At 31 December 2014, the breakdown was the following:

- The trademark balance sheet rose to 47,945 thousand euros as at 31 December 2014.
- At 31 December 2014, IT projects showed a balance of 251,105 thousand euros.
- Customer relationships at 31 December 2014 had a balance of 129,212 thousand euros.
- The remaining Other intangible assets amounted to 5,943 thousand euros as at 31 December 2014.

At 31 December 2015, the amount of the totally amortised intangible asset elements was 205,359 thousand euros. At 31 December 2014, this amount was 205,815 thousand euros.

Other intangible assets recognised in the year were as follows:

€ thousands	2015	2014
Intangible assets	148,221	97,927
Intangible assets derived from capitalisation of internal costs	34,843	5,364
Intangible assets derived from external costs borne	113,378	92,563

The following table shows the evolution in the past two years in intangible assets by its components, goodwill and other intangible assets. The exchange differences "on consolidation" arise from the conversion to euros of the goodwill (denominated in US dollars) attributable to Totalbank.

€ thousands	Goodwill		Other intangible assets
	On consolidation	In subsidiaries	
Balance at 01 January 2014	287,898	1,755,582	414,070
Change in scope of consolidation	-		1,472
Exchange differences and other movements (net)	13,704	1,286	101,977
Amortisation/Impairment	-	-	83,314
Closing balance 2014	301,602	1,756,868	434,205
Change in scope of consolidation	-		
Exchange differences and other movements (net)	13,193	1,238	150,734
Amortisation/Impairment (*)	-	-	85,961
Closing balance 2015	314,795	1,758,106	498,978

(*) See Note 60.

33. Tax assets and liabilities

Set out below is a breakdown of these items in the consolidated balance sheets as at 31 December 2015 and 2014:

€ thousands	Assets		Liabilities	
	2015	2014	2015	2014
Current taxes	**160,173**	**181,610**	**45,575**	**97,047**
Corporate income tax	89,421	139,341	7,136	52,537
Value added tax and other taxes	70,752	42,269	38,439	44,510
Deferred taxes	**3,443,990**	**3,436,488**	**467,908**	**621,412**
1. Deferred taxes recognised in shareholders' equity	374,049	486,310	304,997	417,115
2. Adjustments for temporary differences (charged/ credited to Profit and Loss)	3,069,941	2,950,178	162,911	204,297
Of which: Monetisable	2,127,713	*1,737,980*	-	-
Depreciation and Amortisation	4,291	13,425	20,627	22,360
Goodwill	6,163	7,613	70,188	73,864
Commissions, fees and financial expenses	2,691	3,518	-	-
Provisions for credit losses and property assets	2,179,156	1,799,584	18,271	50,948
Of which: Monetisable	2,058,341	*1,639,407*	-	-
Pension funds and similar obligations	84,616	113,405	-	-
Of which: Monetisable	69,372	*98,573*	-	-
Tax-loss carryforwards	679,252	873,960	-	-
Tax adjustment for impairment of investments and other funds	61,186	74,161	1,378	1,378
Accounting consolidation adjustments	38,204	33,763	2,564	2,616
Reinvestment deduction pending application	10,194	17,871	-	-
Revaluation of investment property (IFRS)	-	-	6,267	6,372
Tax regime for mergers	4,114	6,079	-	-
Tax bases recognised	-	-	18,571	18,882
Other deferred taxes	74	6,799	25,045	27,877

In accordance with prevailing income tax applicable to Banco Popular and its investee companies, in 2015 and 2014 certain differences between accounting and tax principles gave rise to the recognition of deferred tax assets and liabilities for corporate income tax purposes.

Movements and changes experimented in the deferred tax assets and liabilities balances in 2015 and 2014 are set out below:

€ thousands	**Assets**		**Liabilities**	
	2015	**2014**	**2015**	**2014**
Beginning balance	**3,436,488**	**3,137,435**	**621,412**	**307,002**
Adjustments for differences recognised in shareholders' equity	**(112,261)**	**217,628**	**(112,118)**	**310,728**
Adjustments for differences recognised in profit and loss	**119,763**	**81,425**	**(41,386)**	**3,682**
Accounting depreciation and amortisation	(9,134)	57	(1,733)	(22,823)
Goodwill	(1,450)	4,436	(3,676)	(1,063)
Commissions, fees and financial expenses	(827)	(1,105)	-	-
Provisions for credit losses and property assets	379,572	(32,621)	(32,677)	35,427
Pension funds and similar obligations	(28,789)	12,027	-	-
Tax-loss carryforwards	(194,708)	71,051	-	-
Tax adjustment for impairment of investments and other funds	(12,975)	13,072	-	(20,483)
Consolidation and property revaluation adjustments	4,441	(976)	(52)	(491)
Reinvestment deduction pending application	(7,677)	13,398	-	-
Tax bases recognised	-	-	(311)	3,451
Tax regime for mergers	(1,965)	(1,702)	-	-
Other deferred taxes	(6,725)	3,788	(2,937)	9,664
Closing balance	3,443,990	3,436,488	467,908	621,412

The following table shows the foreseeable reversal periods for deferred taxes, including amounts arising from valuation adjustments:

€ thousands	**Assets**		**Liabilities**	
Reversal period	**2015**	**2014**	**2015**	**2014**
From 0 to 1 year	280,717	246,800	79,498	98,000
From 1 to 5 years	1,733,160	1,707,456	308,497	391,966
From 5 to 10 years	1,417,246	1,359,052	40,412	51,065
More than 10 years	12,867	123,180	39,501	80,381
Total	3,443,990	3,436,488	467,908	621,412

As at 31 December 2015, Banco Popular Group carried deferred tax assets in its balance sheet totalling 3,444 million euros, of which 374 million euros are related to valuation adjustments, 679 million euros to tax-loss carryforwards and 2,380 million euros to temporary differences, of which 2,179 million euros relates to credit loss provisions and property assets, arising largely from the balance sheet clean-up completed in recent years.

As at 31 December 2014, the Group carried deferred tax assets in its balance sheet totalling 3,436 million euros, of which 486 million euros related to valuation adjustments, 874 million euros to tax-loss carryforwards and 2,076 million euros to temporary differences, of which 1,800 million euros related to credit loss provisions and property assets, arising largely from the balance sheet clean-up

In order to determine its capacity to absorb these assets, the Group made projections based on different results scenarios. Set out below is the result obtained by applying the full analyst estimates of January 2016 to the 2016-2018 period.

The following hypothesis were introduced in this period:

a) No new deferred tax assets will be generated.
b) Offset of deferred tax assets against deferred tax liabilities.
c) Limitations in reversal of certain temporary differences and of tax-loss carryforwards, to the percentages of 60% and 70% for 2016 and from 2017, respectively, as well as the absorption of tax credits by non-applied deductions, taking into account the limits stated in Corporate Income Tax Act (Law 27/2014).
d) The net amounts of deferred fiscal assets and liabilities due to valuation adjustments do not arise from temporary differences and their absorption does not depend on future carry forwards, and therefore their amounts are included in the following table.

€ millions	**Full analyst estimates**	**Calculations to justify the capacity to absorb deferred taxes**			
Period	**Profit/(loss) before tax**	**Estimated income tax**	**Annual net absorption of deferred taxes**	**Net balance pending reversal**	**% pending reversal**
2015 balance	-	-	-	2,907	-
2016	730	219	(184)	2,723	94%
2017	985	296	(269)	2,454	84%
2018	1,104	331	(301)	2,153	74%

As can be seen, at the end of the third year the Group would already have reduced its deferred tax assets net of liabilities by 26%, and at the end of year 8 they would be fully absorbed, bearing in mind the limits introduced under tax legislation in 2014 as regards the reversal of certain temporary differences and offsetting tax-loss carryforwards. Without these limits the total absorption would occur in the first half of year 8.

It should be noted that of the total 3,444 million euros in deferred tax assets, 2,128 million euros are monetisable (2,058 million euros due to timing differences in credit loss provisions and property assets, and 69 million euros due to pensions) under RDL 14/2013, of 29 November, meaning that they will be converted into a receivable from the Tax Administration in any of the following circumstances:

a) The taxpayer posts accounting losses in its financial statements audited and approved by the relevant body. In this case, the amount of the deferred tax assets converted will be determined by the result of applying to the total figure the percentage of accounting losses for the year in relation to the sum of capital and reserves.
b) A court declares the entity to be in liquidation or insolvent.

Having regard to current taxes, set out below is a breakdown of the main Group entities that have generated current and deferred taxes:

€ thousands	Type of tax	Assets		Liabilities	
		2015	2014	2015	2014
Banco Popular Español, S.A.	Current	111,913	142,139	21,330	71,418
	Deferred	2,646,059	2,316,123	373,366	484,020
Banco Popular Portugal	Current	23,082	24,203	8,914	5,283
	Deferred	115,462	125,901	-	6,600
Other Group entities	Current	25,178	15,268	15,331	20,346
	Deferred	682,469	994,464	94,542	130,792
Consolidated Group total	Current	160,173	181,610	45,575	97,047
	Deferred	3,443,990	3,436,488	467,908	621,412

Note 44 provides details of the Group's tax situation.

34. Other assets

This heading consists of inventories and other assets not recognised under other balance sheet headings.

	Assets	
€ thousands	2015	2014
Inventories	897,315	881,084
Carrying amount	1,497,147	1,502,002
Value corrections for impairment	(599,832)	(620,918)
Other assets	620,695	813,255
Accruals	242,121	293,539
Transactions in transit	31,932	126,316
Other	346,642	393,400
Total	1,518,010	1,694,339

The balances included in "Other items" are broken down by type as follows. It will be seen that they are immaterial relative to Total assets:

€ thousands	2015	% of total assets	2014	% of total assets
Transitory balances	96,705	0.06%	98,898	0.06%
Operations by means of payment	578	0.00%	979	0.00%
Miscellaneous accounts relating to forward currency transactions	2,349	0.00%	54,499	0.03%
Miscellaneous material in stock	4,107	0.00%	4,045	0.00%
Sundry debtors in Group companies	236,279	0.15%	232,416	0.14%
Other assets	6,624	0.00%	2,563	0.00%
Total	346,642	0.22%	393,400	0.24%

The balances of Sundry debtors in Group Companies refer to balances with trade debtors.

Movements over the course of the year in the "Other concepts" balance were as follows:

Balance at 31/12/2014 in thousands of euros	393,400
Additions	200,808
Disposals	247,566
Balance at 31/12/2015	346,642

Changes during the previous year were:

Balance at 31/12/2013 in thousands of euros	430,743
Additions	266,803
Disposals	304,146
Balance at 31/12/2014	393,400

Movements in value corrections for impairment on inventories were as follows:

€ thousands	
Beginning balance 2014	629,931
Value corrections for impairment 2014	(9,013)
Closing balance 2014	620,918
Value corrections for impairment 2015	(21,086)
Closing balance 2015	599,832

For the years ended 31 December 2015 and 2014, the net charge to the income statement totalled 18,345 thousand euros and (40,770) thousand euros respectively (Note 63).

35. Financial liabilities at amortised cost

This consolidated balance sheet caption includes repayable amounts received in cash, arranged as deposits, marketable debt securities or subordinated liabilities. It also includes guarantee deposits and other deposits received in cash by the Group. These liabilities are valued at amortised cost using the effective interest method.

A breakdown by residual term of the items in this heading is presented in Note 45 to these financial statements.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2015 and 2014:

	Assets	
€ thousands	**2015**	**2014**
Deposits with central banks	14,204,120	9,993,427
Loans and advances to credit institutions	19,172,266	17,624,123
Customer deposits	88,335,415	96,036,196
Debt certificates	15,989,048	15,962,018
Subordinated liabilities	2,066,951	1,424,645
Other financial liabilities	740,724	1,187,369
Total	140,508,524	142,227,778
of which:		
euros	136,062,187	137,947,653
foreign currency	4,446,337	4,280,125

Deposits

Set out below is a breakdown of deposits from credit institutions by type of financial instrument:

€ thousands	2015	2014
Reciprocal accounts	316,788	131,702
Term accounts	6,810,628	9,849,971
Asset repos	11,584,621	7,148,219
Other accounts	441,610	457,032
Clearing house	-	-
Valuation adjustments	18,619	37,199
Total	19,172,266	17,624,123

A breakdown by counterparty and by currency (euros or foreign currency) is as follows:

€ thousands	2015		2014	
	Euros	Foreign currency	Euros	Foreign currency
Banks operating in Spain	9,800,208	213,050	4,942,561	223,767
Savings banks	119	-	444	-
Credit cooperatives	1,136,129	-	1,113,979	-
Instituto de Crédito Oficial (ICO, Spain's state finance agency)	3,768,629	-	6,404,123	82,366
Non-resident credit institutions	3,306,737	588,468	3,948,112	658,679
Specialised credit institutions	340,307	-	212,893	-
Clearing house	-	-	-	-
Valuation adjustments	16,394	2,225	36,519	680
Total	18,368,523	803,743	16,658,631	965,492

Set out below is a breakdown of foreign currency balances showing the currencies in which the balances are repayable:

€ thousands	2015	2014
USD	727,876	839,428
GBP	55,092	50,636
CHF	3,151	4,418
JPY	449	37,055
Other	17,174	33,955
Total	803,743	965,492

The average annual interest rate in 2015 and 2014 on loans and advances to credit institutions was 0.55% and 1.05% respectively.

Set out below is a breakdown by sector of "Customer deposits" in the consolidated balance sheets at 31 December 2015 and 2014:

€ thousands	2015	2014
Public administrations	10,845,109	17,402,066
Resident sectors	9,917,806	17,095,696
Non-resident sectors	927,303	306,370
Private sector	77,427,042	78,273,183
Resident sectors	68,642,885	69,650,225
Non-resident sectors	8,784,157	8,622,958
Total customer deposits	88,272,151	95,675,249
Valuation adjustments	63,264	360,947
Total	88,335,415	96,036,196

Set out below is a breakdown of "Valuation adjustments" by sector:

€ thousands	2015	2014
Public administrations	4,824	10,016
Private sector - residents	36,253	311,535
Private sector - non-residents	22,187	39,396
Total	63,264	360,947

Set out below is a breakdown of "Customer deposits" by type of instrument:

€ thousands	2015	2014
Current accounts	29,773,732	18,756,446
Savings accounts	10,012,172	8,253,938
Term deposits	41,882,347	44,838,593
Asset repos	6,173,101	23,360,679
Other accounts	430,799	465,593
Valuation adjustments	63,264	360,947
Total	88,335,415	96,036,196

The following table shows an itemised breakdown of Valuation adjustments:

€ thousands	2015	2014
Accrued interest	91,862	299,613
Micro-hedging transactions (±)	(8,929)	95,832
Premiums and discounts (±)	(19,669)	(34,498)
Other valuation adjustments	-	-
Total	63,264	360,947

Deposits of customers resident in Spain, including General Government and the Private Sector, at each year end, indicating the Autonomous Region in which they were captured, and deposits in the Portuguese branch office network from Spanish residents, are as follows:

€ thousands	**2015**	**2014**
Branches in Spain		
Andalusia	6,599,381	6,691,356
Aragón	728,943	776,874
Asturias	1,141,549	1,176,848
Balearic Islands	906,474	830,951
Canary Islands	1,174,840	1,158,519
Cantabria	372,376	373,452
Castilla-La Mancha	1,227,654	1,347,303
Castilla y León	5,425,947	5,666,033
Catalonia	6,567,433	6,560,721
Extremadura	565,196	566,691
Galicia	9,197,998	9,525,632
Madrid	36,002,476	43,280,073
Murcia	1,068,456	1,074,623
Navarra	1,116,070	1,150,435
Basque Country	2,160,796	2,236,894
La Rioja	320,968	345,013
Valencia	3,845,295	3,842,364
Ceuta	48,761	47,885
Melilla	64,911	69,678
Branches in Portugal	25,167	24,576
Total	78,560,691	86,745,921

Set out below is a breakdown by country of the geographic zones in which the foreign branches and entities captured non-resident deposits:

€ thousands	**2015**	**2014**
Spain	3,153,081	3,690,716
Portugal	4,876,902	3,915,601
USA	1,681,477	1,323,011
Total	9,711,460	8,929,328

An overall breakdown of "Customer deposits" by euros and foreign currency is as follows:

€ thousands	**2015**		**2014**	
	Euros	**Foreign currency**	**Euros**	**Foreign currency**
Public administrations	10,821,399	23,710	17,377,794	24,272
Current accounts	7,486,910	1,804	1,941,930	1,024
Savings accounts	8,472	-	7,723	-
Term deposits	2,526,018	21,906	1,905,142	23,248
Asset repos	799,999	-	13,522,999	-
Private sector	73,913,354	3,513,688	75,084,130	3,189,053
Resident sectors	67,759,830	883,055	68,831,550	818,675
Current accounts	19,222,095	280,152	14,550,395	182,609
Savings accounts	9,353,478	35,821	7,659,217	30,462
Term deposits	33,440,721	539,557	36,357,513	597,340
Asset repos	5,373,102	-	9,837,680	-
Other accounts	370,434	27,525	426,745	8,264
Non-resident sectors	6,153,524	2,630,633	6,252,580	2,370,378
Current accounts	1,566,684	1,216,087	1,350,563	729,925
Savings accounts	491,336	123,065	445,603	110,933
Term deposits	4,064,722	1,289,423	4,429,685	1,525,665
Asset repos	-	-	-	-
Other accounts	30,782	2,058	26,729	3,855
Valuation adjustments (±)	56,492	6,772	352,183	8,764
Total	84,791,245	3,544,170	92,814,107	3,222,089

The average annual interest rate on customer deposits was 0.66% in 2015 and 1.11% in 2014. Set out below is a breakdown of foreign currency balances by currency:

€ thousands	**2015**	**2014**
USD	3,410,793	3,039,165
GBP	77,415	77,574
CHF	17,911	16,563
JPY	5,476	1,904
Other	32,575	86,883
Total	3,544,170	3,222,089

Debt certificates

Debt certificates comprise bearer or demand debt securities such as cash or treasury bonds, covered bonds, mortgage securities, debentures, commercial paper, certificates of deposit and similar instruments.

Set out below is a breakdown by instrument of the marketable securities issued by Group companies and held by third parties outside the Group, which are carried at amortised cost:

€ thousands	2015	2014
Commercial paper and bills	754,840	791,949
Mortgage securities	11,263,079	10,529,398
Debentures and bonds	3,780,600	4,487,927
Valuation adjustments	190,529	152,744
Total	15,989,048	15,962,018

Commercial paper and bills

Banco Popular has a corporate promissory note issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission. The features of this issuance programme are as follows:

The nominal outstanding balance has a maximum limit of 5,000 million and a validity of 12 months. The nominal value of each note is 100,000 euros. The notes are represented by book entries and mature at between three business days and 364 calendar days, as of the date of issuance. They are issued at a discount and their effective value is determined at the issuance date on the basis of the agreed interest rate. The programme is listed on the AIAF organised secondary market.

Banco Popular also sells commercial paper in international markets through a Euro Commercial Paper (ECP), which is registered in Ireland, and also has a 12-month validity.

This programme allows the issuance of commercial papers in any currency (including the euro), up to a maximum limit of 5,000 million euros. The current programme also provides for the issuance of certificates of deposit at a discount, subject to the same limit.

A breakdown by instrument of the balances of these issuance programmes is as follows:

€ thousands	2015		2014	
	Euros	Foreign currency	Euros	Foreign currency
Treasury notes	754,840	-	783,781	8,168
Certificates of deposit	-	-	-	-
Total	754,840	-	783,781	8,168

Mortgage securities

The item “Mortgage securities” includes the outstanding balance held by third parties from the successive issues of mortgage covered bonds under the Fixed Income and Structured Securities issuance programme, the prospectus for which is registered with the Spanish National Securities Market Commission.

The current programme allows the issuance of different types of securities up to a maximum nominal limit of 12,000 million euros.

The outstanding balance held by third parties of Mortgage covered bonds issued under the current programme and under previous programmes is analysed below:

€ thousands	**2015**	**2014**
Mortgage covered bonds	11,263,079	10,529,398

Debentures and bonds

The amount recognised in “Debentures and bonds” mainly comprises Euronotes issued by the Group and bonds issued by the securitisation vehicles, after eliminating intragroup balances and other bonds issued basically by Banco Popular Español, S.A.

€ thousands	**2015**	**2014**
Notes issued by securitisation vehicles	1,158,707	1,328,475
Euronotes	1,874,208	2,133,278
Other	747,685	1,026,174
Total	3,780,600	4,487,927

The outstanding balance of notes issued by securitisation vehicles and held by non-Group parties is as follows:

€ thousands	**2015**	**2014**
IM Cédulas Grupo Banco Popular 3, FTA	921,200	921,200
Total covered bond securitisations	921,200	921,200
IM Banco Popular FTPYME1, FTA	-	18,754
IM Grupo Banco Popular Empresas 1, FTA	61,662	83,330
IM Grupo Banco Popular FTPYME I, FTA	112,483	179,942
IM Grupo Banco Popular FTPYME II, FTA	-	44,649
GC FTPYME PASTOR 4	49,672	62,466
EDT FTPYME PASTOR 3	13,690	18,134
Total loan securitisations	237,507	407,275
Total	1,158,707	1,328,475

Two securitisations were made in 2015. In March 2015 the IM Grupo Banco Popular Empresas VI fund was disbursed for an amount of 3,000,000 thousand euros. In December 2015 a new securitisation fund was disbursed for an amount of 900,000 thousand euros. Both securitisations were fully subscribed by the Group.

In 2014, no securitisation was carried out by Banco Popular Group .

As regards the securitisation vehicles for which no balance is reflected, the Group has acquired all the outstanding notes, which have therefore been eliminated from the consolidated balance sheet.

In 2015 and 2014 the Group's banks recorded in their balance sheets the amounts of 4,319,350 and 2,098,123 thousand euros respectively, of the bonds issued by loan securitisation vehicles (Note 69), which were eliminated on consolidation.

The following table contains a breakdown of Euronote issues by different Group entities, recognised in the item "Debentures and bonds":

€ thousands	**2015**	**2014**
BPE Financiaciones, S.A.	1,874,208	2,133,278
Total	1,874,208	2,133,278

In order to diversify medium- and long-term financing sources, Banco Popular sells euro and foreign currency bonds under a Euronote issuance programme registered in Ireland: Euro Medium Term Note Programme (EMTN).

This programme allows the issuance of notes in any currency (including the euro), up to a maximum limit of 5,000 million euros and a validity period of 12 months.

All issues in currencies other than the euro are hedged by swaps against euros and are referenced to Euribor, meaning that the actual cost of the issues for the Group is in euros.

The following table shows the residual maturities of Euronotes in 2015 and 2014. In the case of issues with early redemption options, the earliest option maturity date has been applied.

€ thousands	**2015**	**2014**
Up to 1 year	716,246	892,160
From 1 to 2 years	568,762	724,799
From 2 to 5 years	589,200	516,319
More than 5 years	-	-
Total	1,874,208	2,133,278

Movements in the item "Euronotes" in 2015 and 2014 are set out below:

€ thousands	**2015**	**2014**
Beginning balance	2,133,278	1,460,211
Issues	650,000	600,000
Depreciation and Amortisation	1,000,000	40,000
Other movements	90,930	113,067
Closing balance	1,874,208	2,133,278

The following table contains a breakdown of issues by Group entities of "Other debentures and bonds" held by third parties:

€ thousands	**2015**	**2014**
Banco Popular Español, S.A.	731,579	971,675
Banco Popular Portugal, S.A.	16,106	54,499
Total	747,685	1,026,174

In 2015, no note were issued by Banco Popular Español, S.A nor were there any Official Credit Institute bond initiatives. In 2014, Banco Popular Español, S. A. completed three issues in the amount of 135,000 thousand euros, in addition to the issue of 67 Official Credit Institute bond initiatives in the amount of 541,674,615 thousand euros.

On the other hand, in 2015, no new issues were made in Banco Popular Portugal S.A. Issues for an amount of 8,622 million euros were made in Banco Popular Portugal S.A. in 2014.

The following table provides a breakdown of outstanding issues for 2015 and 2014:

€ thousands	**Amount**				
	2015	**2014**	**Issue**	**Maturity**	**Cost rate**
Banco Popular Español, S.A.					
Regional covered bonds	200,000	200,000	At 25/05/2012	At 25/05/2020	Euribor 6m+0.895%
Regional covered bonds	95,000	95,000	At 14/03/2013	At 14/03/2023	Euribor 6m+2.95%
Regional covered bonds	135,000	135,000	At 21/07/2014	At 21/07/2022	Euribor 6m+2.9%
	430,000	430,000			
Banco Popular Portugal, S.A.					
Senior debt	-	10,000	At 24/04/2012	At 24/04/2015	6.50%
Senior debt	20,000	20,000	At 26/10/2012	At 26/10/2016	6.50%
Senior debt	6,676	6,676	At 26/02/2013	At 26/02/2016	3.65%
Senior debt	-	6,530	At 26/03/2013	At 26/03/2016	6.50%
Senior debt	-	4,984	At 30/04/2013	At 30/04/2016	3.65%
Senior debt	-	5,692	At 28/05/2013	At 28/05/2016	3.65%
Senior debt	-	5,738	At 25/06/2013	At 25/06/2016	3.65%
Senior debt	4,536	4,576	At 30/07/2013	At 30/07/2016	3.00%
Senior debt	-	1,834	At 27/08/2013	At 27/08/2016	3.00%
Senior debt	-	4,475	At 30/09/2013	At 30/09/2017	4.00%
Senior debt	-	2,664	At 21/10/2013	At 21/10/2015	3.60%
Senior debt	928	928	At 28/10/2013	At 28/10/2016	3.60%
Senior debt	-	4,650	At 30/10/2013	At 30/10/2017	4.00%
Senior debt	-	2,660	At 29/11/2013	At 29/11/2017	4.00%
Senior debt	-	1,300	At 30/12/2013	At 30/06/2017	3.50%
Senior debt	3,955	6,518	At 10/01/2014	At 10/01/2017	3.00%
Senior debt	-	649	At 23/01/2014	At 23/01/2017	3.00%
Senior debt	1,455	1,455	At 26/02/2014	At 26/02/2016	3.00%
	37,550	91,329			
	467,550	521,329			

The interest on debt certificates recognised in the income statement totalled 431,947 thousand euros in 2015 and 494,076 thousand euros in 2014.

Subordinated liabilities

For credit seniority purposes, issues classed as subordinated debt are after all common creditors and are jointly and severally, and irrevocably, guaranteed by Banco Popular Español, S.A., including the principal and interest of the issues of BPE Financiaciones, S.A, Popular Capital, S.A., BPE Preference International, LTD and Pastor Participaciones Preferentes, S.A.U.

They may all be redeemed as of the start of year six at the issuer's discretion, subject to authorisation by Banco de España, or the Bank of Portugal in the case of issues by Banco Popular Portugal, S.A., except for the issue of Banco Pastor and the first issue of Pastor Participaciones Preferentes, which may be redeemed as of the start of year eleven.

Set out below is a breakdown of this balance sheet item:

€ thousands	**2015**	**2014**
Subordinated debt certificates	2,071,025	1,390,509
Subordinated marketable securities - Convertible	1,250,000	516,667
Subordinated marketable securities - Non-convertible	821,025	873,842
Subordinated deposits	-	-
Preferred investments and shares	-	-
Total subordinated liabilities issued	2,071,025	1,390,509
Valuation adjustments	(4,074)	34,136
Total	2,066,951	1,424,645

Set out below is a breakdown of outstanding balances by issuer, including Popular Capital, S.A., the issuer of preferred shares in Spain.

€ thousands	**2015**	**2014**
Banco Popular Español, S.A.	1,855,304	1,117,752
BPE Financiaciones, S.A.	91,700	148,166
BPE Preference International, Ltd.	7,326	7,810
Popular Capital, S.A.	104,491	104,491
Pastor Participaciones Preferentes, S.A.	12,204	12,290
Total	2,071,025	1,390,509

In 2015 perpetual securities eventually convertible into ordinary shares were issued ("Participaciones Preferentes de Banco Popular Español, S.A. I/2015"), for an amount of 750,000 thousand euros.

The issue is considered Additional Tier 1 capital, pursuant Regulation (EU) 575/2013, of the European Parliament and Council, 26 June 2013, about credit entity and investment Company credential requirements.

In 2014, no new subordinated bonds were issued by the Group.

The following table provides details of the outstanding issues of Subordinated Mandatorily Convertible Notes as at 31 December 2015:

€ thousands	Currency	Issue date	Issue amount	Amount outstanding 31/12/2015	Cost rate
Banco Popular Español, S.A.					
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A. I 2013	EUR	At 10/10/2013	500,000	500,000	11.50%
PARTICIPACIONES PREFERENTES DE BANCO POPULAR ESPAÑOL, S.A. I 2015	EUR	At 12/02/2015	750,000	750,000	8.25%
Total (*)				1,250,000	

(*) Excluding treasury shares

The following table provides details of the outstanding issues of Subordinated Mandatorily Convertible Notes as at 31 December 2014:

€ thousands	Currency	Issue date	Issue amount	Amount outstanding 31/12/2015	Cost rate
Banco Popular Español, S.A.					
MCN I 2012	EUR	At 04/04/2012	1,109,376		6.75%
MCN Iii 2012	EUR	At 29/06/2012	256,900		4.00%
MCN Iv 2012	EUR	At 28/06/2012	50,000	16,667	9.50%
Participaciones Preferentes de Banco Popular Español, SA. I 2013	EUR	At 10/10/2013	500,000	500,000	11.50%
Total (*)				516,667	

(*) Excluding treasury shares

1,250 thousand euros of the outstanding balance of these convertible subordinated issues is held by third parties

In January 2015, notes totalling 16,667 thousand euros were converted into 3,866,975 new shares, thus cancelling the MCN, IV-2012 issue.

The following conversions were completed in 2014:

- Subordinated Mandatorily Convertible Notes I/2012:

In January 2014, notes totalling 696,398 thousand euros were converted into 158,892,388 new shares, thus cancelling the issue.

- Subordinated Mandatorily Convertible Notes III/2012:

In March 2014, notes totalling 85,633 thousand euros were converted into 15,916,745 new shares, thus cancelling the issue.

- Subordinated Mandatorily Convertible Notes IV/2012:

In January 2014, notes totalling 16,667 thousand euros were converted into 3,977,723 new shares.
In June 2014, notes totalling 16,667 thousand euros were converted into 3,162,555 new shares.

Set out below is an analysis of outstanding issues of non-convertible subordinated bonds by issuer at 31 December 2015 and 2014:

		Amount		Maturity	Cost rate (*)
		2015	2014		
Banco Popular Español, S.A.					
USD	At 26/07/2004	12,000	12,000	At 17/09/2034	Libor 3m+262bps
USD	At 28/07/2005	12,000	12,000	At 15/09/2035	Libor 3m+155bps
USD	At 29/03/2006	12,000	12,000	At 15/06/2036	Libor 3m+145bps
USD	At 24/08/2006	12,000	12,000	At 15/09/2036	Libor 3m+165bps
EUR	At 22/12/2009	99,700	105,050	At 22/12/2019	MID-SWAP 5 years+3.10
EUR	At 29/07/2011	200,000	200,000	At 29/07/2021	8.00%
EUR	At 19/10/2011	250,000	250,000	At 19/10/2021	8.25%
EUR	At 11/06/2004	12,100	12,400	Indefinite	Euribor 3m+90 bps
Banco Pastor, S.A.					
EUR	At 30/12/2013	90,000	90,000	Indefinite	6%
EUR	At 30/12/2013	67,000	67,000	Indefinite	9%
BPE Financiaciones, S.A. (**)					
EUR	At 23/12/2005	-	69,600	At 23/12/2015	Euribor 3m+15bps
EUR	At 22/10/2010	91,700	108,450	At 22/10/2020	6.873%
BPE Preference International, Ltd.					
EUR	At 16/11/2000	3,654	3,654	Indefinite	3m+2.561%
EUR	At 21/12/2001	2,487	2,487	Indefinite	3m+2.535%
EUR	At 27/12/2002	2,197	2,197	Indefinite	3m+2.560%
Popular Capital, S.A.					
EUR	At 20/10/2003	64,695	64,697	Indefinite	Euribor 3m+0.095%
EUR	At 30/06/2004	24,814	24,876	Indefinite	Euribor 3m+0.093%
EUR	At 06/03/2007	9,400	16,400	Indefinite	Euribor 12m+0.7025%
EUR	At 30/03/2009	5,641	5,641	Indefinite	Euribor 3m+2.585%
Pastor Participaciones Preferentes, S.A.U:					
EUR	At 27/07/2005	7,419	7,492	Indefinite	4.56%
EUR	At 02/04/2009	4,818	4,818	Indefinite	Euribor 3m+460 bps

(*) Including hedge

(**) The spread on issues of BPE Financiaciones will increase by 50 bps from year six.

The outstanding balance of these non-convertible subordinated issues, including the USD 48,000 thousand, valued at the 2015 year-end exchange rate, totals 979,679 thousand euros, of which 821,025 thousand euros is held by third parties and 158,654 thousand euros by the Group.

The outstanding balance of these non-convertible subordinated issues, including the USD 48,000 thousand, valued at the 2014 year-end exchange rate, totalled 1,071,145 thousand euros, of which 873,842 thousand euros were held by third parties and 197,303 thousand euros by the Group.

During 2014 and 2015, no purchases were made by Banco Popular Español.

Interest recognised in the income statement on subordinate financing totalled 53,072 thousand euros in 2015 and 47,488 thousand euros in 2014, thanks to the combined effect of IRS hedges.

Other financial liabilities

This heading relates to payment obligations not included in other items:

€ thousands	2015	2014
Debentures payable	192,131	489,269
Dividends payable	14	10
Trade payables	53,602	73,375
Factoring payables	49,159	51,734
Other *	89,356	364,150
Guarantee deposits received	44,019	39,684
Tax collection accounts	326,184	361,604
Special accounts	137,587	165,359
Financial guarantees	19,967	25,813
Clearing house	139	89,608
Other	20,697	16,032
Total	740,724	1,187,369

* This item considers transitory account movements. In 2014 balance corresponded to securitised assets received pending record of their payment.

36. Liabilities under insurance contracts

This heading includes the technical provisions of the insurance companies included within the scope of consolidation, comprising the life insurance companies: Eurovida, S.A. (Portugal) and Pastor Vida, S.A. and the non-life company Popular Seguros, S.A.

€ thousands	Total		Life		Non-life	
	2015	2014	2015	2014	2015	2014
Technical provisions for unearned premiums and unexpired risks	3,935	3,800	226	207	3,709	3,593
Technical mathematical provisions	361,273	341,213	361,273	341,213	-	-
Technical provisions for life insurance with investment risk borne by policyholders	2,774	1,628	2,774	1,628	-	-
Technical provisions for benefits	8,881	8,261	5,843	5,481	3,038	2,780
Technical provisions for profit-sharing and returns	6,747	12,770	6,747	12,770	-	-
Subtotal insurance companies	383,610	367,672	376,863	361,299	6,747	6,373
Commissions and fees pending accrual on technical guarantees	103,219	116,112	-	-	-	-
Total	486,829	483,784	-	-	-	-

Eurovida, S.A. (Portugal), Popular Seguros, S.A. and Pastor Vida, S.A. are wholly owned by the Group.

Also included are commissions and fees pending accrual in respect of bank guarantees and non-financial guarantees.

37. Pensions and similar commitments

Provisions for pensions and similar defined benefit obligations

The following table shows where pensions and similar commitments are reflected in the financial statements:

€ thousands	2015	2014
On-balance sheet commitments for:		
Post-employment benefits	(145)	(4,539)
Other long-term benefits - early-retired personnel	(40,670)	(76,820)
Net on-balance sheet liabilities:	(40,815)	(81,360)
Assets linked to pensions (*)	45,760	47,083
Surrender rights	167,918	162,448
Net assets (provision) (**)	(254,493)	(290,891)

(*) Financial assets in the subsidiary Pastor Vida, S.A.

(**) At 31 December 2015, the net provision amount is broken down as follows: provision 261,117 thousand euros and other assets 6,624 thousand euros (see note 34 other assets). At 31 December 2014 the breakdown was: Provision 293,653 thousand euros and 2,563 thousand euros (see note 34 other assets).

Set out below is a breakdown of net on-balance sheet liabilities by country as regards employee benefits:

Breakdown by country	At 31/12/2015	At 31/12/2014
Spain	(40,875)	(81,468)
Portugal	60	109
Total	(40,815)	(81,359)

Charges to the consolidated income statement in respect of defined benefit commitments with employees are as follows:

€ thousands	2015	2014
Charges to the consolidated income statement:		
Personnel expenses		
Premiums for death and disability insurance	(6,154)	(7,319)
Cost of current services	(18,889)	(15,788)
Interest and similar expenses	(13)	(595)
Provisioning expenses	(527)	(11,345)
Actuarial losses/gains on long-term employee benefits	1,096	(2,214)
Total charges	(24,487)	(37,260)

(*) Premiums paid under annual insurance policies covering death and disability at work

Amounts recognised in shareholders' equity:

€ thousands	2015	2014
Impacts on Shareholders' equity:		
Actuarial losses/gains on post-employment benefits	(3,144)	(28,837)
Asset limit	-	-
Total impact on shareholders' equity	(3,144)	(28,837)

The main financial or actuarial assumptions used were:

	2015		2014	
€ thousands	**Spain**	**Portugal**	**Spain**	**Portugal**
Discount rate	0.25% - 1.91%	2.33%	0.30% - 1.80%	2.40%
Expected profitability on assets	0.25% - 1.91%	2.33%	0.30% - 1.80%	2.40%
Inflation	1.25% - -1.75%	0.00%	2.00%	0.00%
Future salary increases	1.25%	0.75%	2.00%	0.75%
Increase in Social Security pensions	0.50%	-	1.00%	-
Retirement age	60-65	65	60-65	65
Disability tables	85% 1977 Ministerial Order	ERC Frankona	85% 1977 Ministerial Order	ERC Frankona
Mortality tables	PERMF-2000P	88/90	PERMF-2000P	88/90
Life expectancy				
Persons retiring in 2015				
Men	22.56	16.48	22.44	17.07
Women	27.05	19.66	26.93	20.40
Persons retiring in 2035				
Men	24.9	30.26	24.79	32.75
Women	29.24	35.18	29.14	37.83

The assumptions for each country are applicable to all the commitments on a consistent basis, irrespective of the Entity of origin.

The interest rates used to determine the present value of post-employment commitments are applied based on the duration of each commitment; the reference curve is calculated using market yields, at the reporting date, on high-credit-quality bonds issued in the same currency and for the estimated post-employment benefit payment period.

The rate curve used to value all the commitments in Spain and Portugal was built using the rate-link methodology, by reference to high-quality corporate bonds (AA or higher) in the euro zone, selected using Bloomberg as the main data source. We selected 490 euro zone issues of a minimum of €500 million, with maturities of up to ten years, and a minimum of €10 million for maturities of more than ten years. In the rate-link model, the rate curve was built on the basis of qualifying yields in the 10 to 90 percentile for each group of maturities.

In 2015, the weighted average duration of the defined benefit commitments was 10.39 years for Banks in Spain and 22 years for the Bank in Portugal. The following discount rate was used for the various benefits: for Banks in Spain, post-employment retirement benefits: 1.91% for a duration of 10.39 years; benefits for early-retired personnel: 0.25% for a duration of 1.35 years; post-employment benefits of the Bank in Portugal: 2.33% for a duration of 22 years.

In 2014, the weighted average duration of the defined benefit commitments is 10.57 years for Banks in Spain and 23 years for the Bank in Portugal. The following discount rate was used for the various benefits: for Banks in Spain, post-employment retirement benefits: 1.80% for a duration of 10.57 years; benefits for early-retired personnel: 0.28% for a duration of 1.41 years; post-employment benefits of the Bank in Portugal: 2.40% for a duration of 23 years.

The sensitivity of defined post-employment benefit commitments to changes in the main weighted assumptions corresponding to 2014 is shown below:

		Increase in assumption		Decrease in assumption	
	Change	**Spain**	**Portugal**	**Spain**	**Portugal**
Discount rate	0.50%	(8.96)%	(12.00)%	5.24%	13.00%
Salary growth rate	0.50%	2.96%	10.40%	(0.65%)	(9.60%)

The above sensitivity analysis is based on a change in one assumption while all other assumptions remain constant.

Post-employment defined benefit remuneration in Spain and Portugal

The amounts recognised in the balance sheet are as follows:

		2015			2014	
€ thousands	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
Present value of commitments financed	(1,839,189)	(163,239)	(2,002,428)	(1,978,065)	(154,196)	(2,132,261)
Fair value of plan assets	1,838,983	163,299	2,002,282	1,973,418	154,305	2,127,722
Net balance sheet liabilities:	(206)	60	(145)	(4,648)	109	(4,539)
Surrender rights	45,760	163,299	209,059	47,083	154,305	201,388
Net assets (provision)	(45,965)	(163,239)	(209,204)	(51,731)	(154,196)	(205,927)

Movements in post-employment defined benefit commitments were as follows:

		2015			2014	
€ thousands	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
As at 1 January	(1,978,065)	(154,196)	(2,132,261)	(1,728,672)	(128,411)	(1,857,083)
Transfers and other	(447)	-	(447)	(8,946)	-	(8,946)
Cost of current services	(14,482)	(4,407)	(18,889)	(12,230)	(3,558)	(15,788)
Interest expense	(34,805)	(3,756)	(38,561)	(50,486)	(4,721)	(55,207)
Additions to Provisions for the year	-	-	-	79	-	79
Gains and losses on plan settlements/ reductions	-	-	-	-	-	-
Recalculation of valuations:						
- Gains/(Losses) due to changes in demographic assumptions	-	-	-	-	-	-
- Gains/(Losses) due to changes in financial assumptions	42,823	(2,953)	39,870	(309,493)	(19,255)	(328,748)
- Gains/(Losses) based on experience	53,554	-	53,554	31,947	-	31,947
Benefit payments	92,234	2,073	94,307	90,673	1,749	92,422
Acquired in a business combination	-	-	-	9,062	-	9,062
As at 31 December	(1,839,189)	(163,239)	(2,002,428)	(1,978,065)	(154,196)	(2,132,261)

Movements in post-employment defined benefit plan assets were as follows:

	2015			2014		
€ thousands	**Spain**	**Portugal**	**Total**	**Spain**	**Portugal**	**Total**
As at 1 January	1,973,418	154,305	2,127,723	1,724,310	128,495	1,852,805
Transfers and other	473	-	473	6,100	-	6,100
Interest income	34,962	3,758	38,720	50,624	4,724	55,348
Gains and losses on plan settlements/ reductions	-	-	-	-	-	-
Recalculation of valuations:						
- Yield on plan assets, excluding amounts included in interest (expense)/income	-	-	-	-	-	-
- Gains/(Losses) due to changes in financial assumptions	-	-	-	-	-	-
-Gains/(Losses) based on experience	(92,577)	(3,991)	(96,568)	267,743	836	268,578
- Change in asset limit, excluding amounts included in interest expense	-	-	-	-	-	-
Contributions:	-	-	-	-	-	-
- made by the Bank	14,513	11,300	25,813	26,012	22,000	48,012
- made by plan participants	-	-	-	-	-	-
Benefit payments	(91,806)	(2,073)	(93,879)	(95,272)	(1,749)	(97,021)
Acquired in a business combination	-	-	-	(6,100)	-	(6,100)
As at 31 December	1,838,983	163,299	2,002,282	1,973,418	154,305	2,127,723

Assets allocated to the plan comprise:

	2015		2014	
	Spain	**Portugal**	**Spain**	**Portugal**
Equity instruments	0.00%	29.80%	0.00%	35.35%
Debt instruments	4.57%	59.85%	8.82%	46.73%
Investment properties	0.00%	3.46%	0.00%	3.94%
Qualifying insurance policies	0.00%	0.00%	0.00%	0.00%
Cash and cash equivalents	0.37%	6.89%	1.19%	13.98%
Other (insurance policies not linked to other products)	95.06%	0.00%	89.99%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

Expected contributions to post-employment benefit plans for the next year, in addition to the weighted average duration of post-employment commitments are as follows:

€ thousands	**Spain**	**Portugal**
Expected contributions	21,438	3,204
Weighted average duration	10.39	22

Estimated payments on expected for post-employment benefits in next ten years are as follows:

€ thousands	2015	2016	2017	2018	2019	TV 2020/-2025
Probable post-employment benefits:						
Spain	94,304	96,437	98,300	101,273	101,882	494,977
Portugal	130	177	177	199	199	834
Total	94,434	96,614	98,477	101,472	102,081	495,811

Long-term remuneration for early-retired personnel in Spain

The amounts recognised in the balance sheet are as follows:

€ thousands	2015	2014
Present value of commitments financed	(45,066)	(84,963)
Fair value of plan assets	4,396	8,143
Net balance sheet liabilities:	(40,670)	(76,820)
Surrender rights	4,396	8,143
Net assets (provision)	(45,066)	(84,963)

Movements in commitments for remuneration to personnel for benefits to find during the year were as follows:

€ thousands	2015	2014
As at 1 January	**(84,963)**	**(123,929)**
Transfers and other	-	-
Cost of current services	-	-
Interest expense	(192)	(832)
Additions to Provisions for the year	(527)	(11,424)
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:		
- Gains/(Losses) due to changes in demographic assumptions	-	-
- Gains/(Losses) due to changes in financial assumptions	110	(706)
- (Gains) / Losses based on experience	900	(1,833)
Benefit payments	39,607	53,760
Acquired in a business combination	-	-
As at 31 December	**(45,066)**	**(84,963)**

Movements in assets affecting the plan during the year were as follows:

€ thousands	2015	2014
As at 1 January	8,143	14,216
Transfers and other	-	-
Interest income	19	96
Gains and losses on plan settlements/reductions	-	-
Recalculation of valuations:		
- Yield on plan assets, excluding amounts included in interest (expense)/income	-	-
- Gains/(Losses) due to changes in financial assumptions	-	325
- Gains/(Losses) based on experience	86	-
- Change in asset limit, excluding amounts included in interest expense	-	-
Contributions:		
- Made by the Bank	(181)	(414)
- Made by plan participants	-	-
Benefit payments	(3,671)	(6,080)
Acquired in a business combination	-	-
As at 31 December	4,396	8,143

Estimated payments on expected for post-employment benefits in next ten years are as follows:

€ thousands	2016	2017	2018	2019	2020	TV 2021/-2025
Probable early-retired personnel benefits	23,377	11,383	5,278	1,488	994	-

38. Provisions

Provisions are present obligations arising from past events for which, at the balance sheet date, it is more likely than not that the obligation will have to be settled.

Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2015 and 2014:

€ thousands	2015	2014
Provisions for pensions and similar liabilities	261,117	293,653
Provisions for taxes and other legal contingencies	16,359	31,780
Provisions for contingent risks and commitments	69,311	121,272
Provisions for contingent risks	69,311	121,272
Provisions for contingent commitments	-	-
Other provisions	36,572	23,293
Total	383,359	469,998

Provisions for pensions and similar obligations recognised in the consolidated balance sheet at year-end 2015 and 2014, in the amounts of 261,117 thousand euros and 293,653 thousand euros, respectively, relate basically to the successive early retirement plans approved by the Group's Banks in Spain, referred to elsewhere in these consolidated financial statements, and to the pension commitments of Banco Popular Portugal, S.A., amounting to 163,239 thousand euros in 2015 and 154,196 thousand euros in 2014. As the bank retains the risk arising from these commitments, they must be included in this balance sheet item.

On 17 December 2015, the European Court of Justice issued a ruling on the appeal lodged by the Spanish government in relation to the investigation of the Spanish tax list regime for the acquisition of ships. The appeal lodged on 7 January 2014 by Banco Popular Español, S.A. is pending resolution as well is the appeal that the Spanish Banking Association ("Asociación Española de Banca"), to which the bank belongs, has presented in similar terms to that presented by the government at the time. However, the above-mentioned ruling has the same effect as if the other appeals have been resolved. This implies that formally these matters will still be pending for several months, although with no kind of practical repercussion. Based on the above, given that the Group considers that the risk of the contingency materialising is remote at 31 December 2015, even despite that the present appeal lodged by the European Commission, the Group considers that the provision made for this purpose will not be maintained. At 31 December 2014, the Group had a provision for the amount of 5.1 million euros.

In October 2009, Banco Popular issued and sold "Mandatorily Convertible Subordinated Notes 2009" In April 2012, these notes were exchanged for others called "Mandatorily Convertible Notes II / 2012". In this exchange, Banco Popular improved some characteristics with respect to the original notes. These notes were converted into shares on 25 November. Based on external and internal legal reports, the Group considers that the instruments were sold transparently, in compliance with the regulation on contracts between consumers. However, the entity maintains the provisions it considers necessary for possible related costs that may arise for the population is considered to be not a low risk, which totals 20,000 thousand euros.

Movements in the main Provisions items in 2015 and 2014 are set out below:

€ thousands	Provision for pensions & similar obligations	Provision for taxes & other legal contingencies	Provisions for contingent risks and commitments	Other provisions	Total provisions
Beginning balance 2014	298,212	55,375	160,030	19,347	532,964
Change in scope of consolidation					
Net additions to provisions charged to profit and loss:					
Gross additions to provisions	15,025	5,006	50,921	11,488	82,440
Provisions released	(1,813)	(5,482)	(102,267)	(17,968)	(127,530)
Provisions applied	(47,019)	(1,883)	-	(95)	(48,997)
Transfers and other movements	29,248	(21,236)	12,588	10,521	31,121
Closing balance 2014	293,653	31,780	121,272	23,293	469,998
Change in scope of consolidation					-
Net additions to provisions charged to profit and loss:					
Gross additions to provisions	239	4,360	29,727	53,342	87,668
Provisions released	-	(2,332)	(81,902)	(36,861)	(121,095)
Provisions applied	(35,936)	(6,997)	-	(2,253)	(45,186)
Transfers and other movements	3,161	(10,452)	214	(949)	(8,026)
Closing balance 2015	261,117	16,359	69,311	36,572	383,359

Note 37 contains a breakdown of pension commitments and similar obligations.

For clarity, in view of the special characteristics of pension funds and similar obligations, movements are analysed hereunder:

€ thousands	2015	2014
Beginning balance	293,653	298,212
Additions to provisions charged to profit and loss:	38,177	49,890
Personnel expenses (Note 58)	33,605	30,573
Additions to provisions (net)	239	13,212
Interest and similar expenses	4,333	6,105
Shareholders' Equity transferred to valuation adjustments	3,144	28,837
Payments to pensioners and early retirees	(35,936)	(47,019)
Change in scope of consolidation	-	-
Provisions applied and other movements	(37,921)	(36,267)
Closing balance	261,117	293,653

Shareholders' Equity transferred to valuation adjustments corresponds to actuarial differences between the Group's different banks.

Set out below are the movements in Provisions for contingent risks by type of provision.

€ thousands	Coverage		
	Specific	Country Risk	Total
Beginning balance 2014	159,802	228	160,030
Change in scope of consolidation	-	-	-
Additions to provisions	50,431	490	50,921
Recoveries	102,324	(57)	102,267
Other changes and transfers	13,000	(412)	12,588
Closing balance 2014	120,909	363	121,272
Change in scope of consolidation	-	-	-
Provisions (Note 61)	29,768	(41)	29,727
Recoveries (Note 61)	81,888	14	81,902
Other changes and transfers	213	1	214
Closing balance 2015	69,002	309	69,311

Risks covered by provisions for contingent risks are doubtful guarantees for which provisions have been allocated pursuant to applicable laws, calculated using similar criteria to those calculated for covering the impairment of financial assets valued at their amortised cost, and are recognised under "Provisions for contingent risks and commitments" in the balance sheet.

39. Other liabilities

This heading includes liabilities not recognised in other balance sheet items.

€ thousands	2015	2014
Accruals	404,085	409,416
Transactions in transit	4,875	55,146
Other	177,637	214,213
Total	586,597	678,775

The balances included in “Other items” are broken down by type as follows. It will be seen that they are immaterial relative to Total Liabilities:

Detailed explanation of “Other items”:

		% Liability		% Liability
€ thousands	**2015**	**Total liabilities**	**2014**	**Total liabilities**
Transitory balances	101,979	0.07%	145,237	0.10%
Miscellaneous accounts relating to forward currency transactions	1,974	0.00%	2,994	0.00%
Credit balances	30,279	0.02%	7,991	0.01%
Sundry creditors in Group companies	43,405	0.03%	57,991	0.04%
Total	177,637	0.12%	214,213	0.14%

Changes during the year were as follows:

Balance at 31/12/2014	214,213
Additions	160,899
Disposals	197,475
Balance at 31/12/2015	177,637

Changes during the previous year were:

Balance at 31/12/2013	163,820
Additions	450,643
Disposals	400,250
Balance at 31/12/2014	214,213

40. Shareholders' equity

The Group's consolidated shareholders' equity comprises shareholders' equity, Valuation adjustments and Non-controlling interests, which are analysed and explained separately in Notes 41, 42 and 43 respectively.

The following table contains an analysis showing movements in shareholders' equity during the last two years:

€ thousands	Common Stock	Reserves	Profit/(loss) for the year	Dividends and remuneration	Treasury shares and equity instruments	Other equity instruments	Valuation adjustments	Equity attributable to BPE Group	Non-controlling interests	Shareholders' equity
Balance as at 01 January 2014	948,276	9,928,160	251,543	-	(39)	646,531	(350,069)	11,424,402	51,377	11,475,779
Capital increase	11,043	(11,043)						-		-
Conversion of financial liabilities into capital	91,065	727,479				(3,333)		815,211		815,211
Valuation adjustments							250,891	250,891	-	250,891
Application of prior-year profit/(loss)		251,543	(251,543)					-		-
Dividends		(16,408)						(16,408)		(16,408)
Profit/(losses) on transactions with treasury shares and other		2,599						2,599		2,599
Actuarial differences		-					(33,899)	(33,899)		(33,899)
Equity instruments					(3,419)			(3,419)		(3,419)
Profit/loss for the year			330,415					330,415	(514)	329,901
Interim dividends			-					-	-	-
Change in Group's composition and other movements (net)		(119,473)				-	-	(119,473)	(31,315)	(150,788)
Balance as at 31 December 2014	**1,050,384**	**10,762,857**	**330,415**	**-**	**(3,458)**	**643,198**	**(133,077)**	**12,650,319**	**19,548**	**12,669,867**
Capital increase	11,891	(11,891)						-		-
Conversion of financial liabilities into capital	20,263	641,965				(643,198)		19,030		19,030
Valuation adjustments							(55,874)	(55,874)	-	(55,874)
Application of prior-year profit/(loss)		330,415	(330,415)					-		-
Dividends		(20,033)						(20,033)		(20,033)
Profit/(losses) on transactions with treasury shares and other		(889)						(889)		(889)
Actuarial differences							(32,792)	(32,792)		(32,792)
Equity instruments					(18,021)			(18,021)		(18,021)
Profit/loss for the year			105,432					105,432	502	105,934
Interim dividends		-	-	(42,387)				(42,387)	-	(42,387)
Change in Group's composition and other movements (net)		(106,536)				-		(106,536)	(3,674)	(110,210)
Balance as at 31 December 2015	**1,082,538**	**11,595,888**	**105,432**	**(42,387)**	**(21,479)**	**-**	**(221,743)**	**12,498,249**	**16,376**	**12,514,625**

41. Own funds

This includes shareholders' contributions, cumulative results recognised through the profit or loss account, permanent adjustments against consolidated shareholders' equity due to revaluations arising from business combinations and treasury share issue or redemption costs, and actuarial losses or gains attributed to the parent company. Set out below is a breakdown of this heading in the consolidated balance sheets as at 31 December 2015 and 2014:

€ thousands	**2015**	**2014**
Common Stock	1,082,538	1,050,384
Share premium	7,774,555	7,132,590
Reserves	3,821,333	3,630,267
Other equity instruments	-	643,198
Less: Treasury shares	(21,479)	(3,458)
Profit/(loss) for the year	105,432	330,415
Less: Dividends and remuneration	(42,387)	-
Total	12,719,992	12,783,396

Share capital

Capital includes all the share capital subscribed and paid up by the shareholders of Banco Popular Español, S.A.

As at 31 December 2015 and 2014, share capital consisted respectively of 2,165,075 thousand euros fully-subscribed and paid-up shares, each with a par value of 0.50 euros, and 2,100,769 thousand euros fully-subscribed and paid-up shares, each with a par value of 0.50 euros.

In 2015, Banco Popular Español, S.A. increased capital several times as a result of the exchange of mandatorily convertible debentures and by way of shareholder remuneration through the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A made to tailored dividend).

A breakdown is provided below:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	20,263
Issue of shares for Tailored Dividend	11,891
Total	32,154

In 2014, Banco Popular Español, S.A. increased capital several times as a result of the exchange of mandatorily convertible debentures and by way of shareholder remuneration through the "Dividendo Banco Popular: Un dividendo a su medida" (Banco Popular Dividend: A made to tailored dividend).

A breakdown is provided below:

€ thousands	
Exchange of mandatorily convertible debentures and mandatorily convertible subordinated notes	91,065
Capital increase €450 million	11,043
Total	102,108

Movements in capital in 2015 and 2014 are set out below:

€ thousands	2015	2014
Beginning balance	1,050,384	948,276
Issues	32,154	102,108
Depreciation and Amortisation	-	-
Closing balance	1,082,538	1,050,384

Appendix III contains details of the resolutions adopted as regards the capital increases adopted during the year.

All the shares of Banco Popular Español, S.A. are officially listed on the Spanish stock exchanges and are traded on the continuous market.

As at 31 December 2015 and 2014, no Banco Popular shareholder owned a direct or indirect shareholding of 10% or more. The Management Report forming part of this document provides all the information required by Article 116 bis of Law 24/1988 of 28 July, the Securities Market Act.

As at 31 December 2015 and 2014, shareholdings of 10% or more in consolidated companies held by other non-Group entities, directly or through their subsidiaries, were as follows:

		% Shareholding	
Subsidiaries	**Non-Group person or entity**	**2015**	**2014**
Grupo La Toja Hoteles	Marlolan S.L.	10.00	9.33
	Omura Servigroup, S.L.	15.00	15.00
Pastor privada investment 1 (*)	Holders of 5% shareholdings each	80.00	80.00
	Girbal, S.L.	30.00	30.00
Pastor privada investment 3 (*)	Holders of 5% shareholdings each	65.00	65.00
Hercepopular S.L.	Hercesa Inmobiliaria S.A.	49.00	49.00

(*) The Bank has appointed the majority of the members of these companies' administrative bodies under shareholder agreements.

Share premium

The share premium arises from capital increases and is calculated by multiplying the number of shares issued in the capital increase by the difference between the issue price and the par value per share. Under Spanish corporate law, the share premium may be used to increase capital, there being no restriction on its use.

Movements in the share premium balance in 2015 and 2014 are set out below:

€ thousands	2015	2014
Beginning balance	7,132,590	6,405,111
Issues	641,965	727,479
Depreciation and Amortisation	-	-
Closing balance	7,774,555	7,132,590

During 2014 and 2015 the issues, which lead to increases in share premiums, were a result of the exchange of mandatorily convertible debentures.

Reserves

This includes the net amount of retained earnings from previous years, used to strengthen consolidated shareholders' equity when profits are appropriated, as well as permanent adjustments, equity instrument issue costs and actuarial gains or losses on pension plans.

Spanish corporate law stipulates that 10% of the profit for the year must be allocated to the legal reserve until the balance of the reserve is equal to 20% of share capital. The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it may be used only to offset losses, provided sufficient other reserves are not available for this purpose.

Spanish corporate law also requires companies to set aside restricted reserves for transactions involving treasury shares or the shares of their parent company, in amounts equal to the relevant carrying amounts of treasury shares or assets (loans for the acquisition of, or secured by, the shares). These reserves are restricted until the circumstances giving rise to their recognition cease to exist.

Set out below is a breakdown of this heading as at 31 December 2015 and 2014:

€ thousands	**2015**	**2014**
Reserves of Banco Popular		
Restricted reserves:		
Legal Reserve	83,365	35,696
Reserves for own equity instruments:		
For transactions with own securities	-	-
For guarantees	110,310	144,040
For loans for their acquisition	4,377	7,752
Other restricted reserves	95,053	5,000
Unrestricted reserves	-	-
Statutory reserve	70,046	70,046
Voluntary and other reserves	6,010,773	5,638,154
Total	6,373,924	5,900,688
Consolidation reserve	(2,545,125)	(2,256,876)
Equity method reserve	(7,466)	(13,545)
Total	3,821,333	3,630,267

The variation of the reserves in the parent company in 2015 totalled 473,236 thousand euros as a result of:

- The results of the previous period totalled 476,691 thousand euros, and was charged entirely to reserves.
- Remuneration to shareholders under the formula “Dividendo Banco Popular: Un dividendo a su medida” (Banco Popular Dividend: A made to measure dividend), for an amount of 20,033 thousand euros by means of cash payments and capital increases charged to reserves for an amount of 11,891 thousand euros, which led to a reduction in reserves of 31,924 thousand euros.
- Transactions with own securities and other consolidation adjustments resulted in an increase in the parent company reserves of 28,469 thousand euros.

The variation of the reserves in the parent company in 2014 totalled 627,733 thousand euros as a result of:

- The results of the previous period totalled 281,426 thousand euros, an amount readjusted to 60,078 thousand euros, and charged entirely to reserves.

- Remuneration to shareholders under the formula “Dividendo Banco Popular: Un dividendo a su medida” (Banco Popular Dividend: A made to measure dividend), for an amount of 16,408 thousand euros by means of cash payments and capital increases charged to reserves for an amount of 11,043 thousand euros, which led to a reduction in reserves of 27,451 thousand euros.
- Transactions with own securities and other consolidation adjustments resulted in an increase in the parent company reserves of 239,027 thousand euros.
- By virtue of the adoption of IFRIC 21, the allocation to the Deposit Guarantee Fund was readjusted in accordance with the annual accrual principle; this entailed a charge of 134,731 thousand euros to the Voluntary reserves of the parent company, applied from the end of 2012 year for purposes of comparison, with a reduction of 74,653 thousand euros in 2013 Reserves and a reduction of 60,078 thousand euros in 2013 Results, assuming due to these concepts and increase in the parent company reserves in 2014 of 134,731 thousand euros.

Movements in this heading are set out below:

€ thousands		**Movements in 2014**			**Movements in 2015**		
	2013	**Increases**	**Decreases**	**2014**	**Increases**	**Decreases**	**2015**
Reserves of Banco Popular Español							
Restricted reserves:							
Legal reserve	35,696	-	-	35,696	47,669	-	83,365
Reserves for own equity instruments							
For transactions with own securities	-	199	199	-	-	-	-
For guarantees	150,137	191,849	197,946	144,040	42,112	75,842	110,310
For loans for their acquisition	11,262	12,543	16,053	7,752	1,778	5,153	4,377
Other restricted reserves	5,000	-	-	5,000	95,053	5,000	95,053
Voluntary reserves:				-			
Statutory reserve	70,046	-	-	70,046	-	-	70,046
Voluntary and other reserves	5,000,814	5,124,562	4,487,222	5,638,154	1,410,767	1,038,148	6,010,773
Total	5,272,955	5,329,153	4,701,420	5,900,688	1,597,379	1,124,143	6,373,924

Reasons for changes:							
Appropriation of profit(loss) for the year		281,426	-		476,691	-	
Transfers between reserves		204,591	204,591		138,943	138,943	
Actuarial differences		-	-		-	-	
Other movements		134,731	-		-	-	
Consolidation adjustments		4,704,701	4,495,723		921,441	982,023	
Transactions with own securities		3,704	1,106		60,304	3,177	
Total		5,329,153	4,701,420		1,597,379	1,124,143	

The total balance in these reserves reflected in the consolidated balance sheets differs from the reserves carried in the individual balance sheets of Banco Popular (Note 1) due to certain adjustments and eliminations on consolidation.

The following table shows the effect of these adjustments, relating basically to intragroup dividends and transfers from reserves in consolidated companies to Banco Popular due to consolidation adjustments.

€ thousands	**2015**	**2014**
Amount in Banco Popular's balance sheet	3,379,226	3,034,593
Consolidation adjustments:	2,994,698	2,866,095
In respect of dividends	171,351	76,148
Others (net)	2,823,347	2,789,947
Amount in consolidated balance sheet	6,373,924	5,900,688

Set out below is a breakdown by entity of the balance of reserves/(losses) attributed to subsidiaries, joint ventures and associates as at 31 December 2015 and 2014:

€ thousands	**2015**	**2014**
Deposit-taking institutions:		
Banco Pastor, S.A.U.	3,000	(5,174)
Banco Popular Portugal, S.A.	(36,474)	(99,189)
Popular Banca Privada, S.A.	(66,915)	(62,360)
TotalBank	16,442	5,925
Financing institutions:		
Popular de Factoring, S.A.	43,044	55,047
Popular Factoring, S.A. (Portugal)	(5,599)	(6,691)
Holding and services companies:		
Gestora Popular, S.A.	10,723	6,613
Grupo La Toja Hoteles	(369)	309
Pastor Privada Eólica 2, S.L.	-	(1)
Pastor Privada Eólica 3, S.L.	-	(1)
Pastor Privada Investment 1, S.L.	(1)	(2)
Pastor Privada Investment 2, S.L.	(425)	(249)
Pastor Privada Investment 3, S.L.	(1)	(2)
Popular Bolsa S.V., S.A.	(601)	997
Popular de Participaciones Financieras, S.A.	866	6,179
Popular Gestão de Activos, S.A.	(171)	436
Popular Gestión Privada SGIIC, S.A.	2,541	2,541
Popular Servicios Financieros E.F.C., S.A.	3,285	9,107
Sobrinos de José Pastor Inversiones, S.A.	(853)	2,674
Instrumental entities:		
Aliseda, S.A.	(1,733,808)	(1,575,383)
BPE Financiaciones, S.A.	67	8,318
BPE Preference International, Ltd.	(12)	(12)
BPE Representações y Participações, Ltda.	(31)	(76)
BPP Asesores, S.A.	(754)	(354)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	-	(1)
Consulteam Consultores de Gestão, Lda.	(458,097)	(393,413)
EDT FTPYME Pastor 3	(1,086)	63
FIB Realty Corporation	-	-
Finespa, S.A.	9,043	7,898
Fondo Imopopular, FEIIF	(5,024)	(8,373)
Fundo Popular Predifundo	(1,343)	620
GC FTPYME Pastor 4	28	18

€ thousands	2015	2014
Gestora Europea de Inversiones, S.A.	(50,961)	(50,743)
Gold Leaf Title Company	639	423
Hercepopular S.L.	83	-
IM Banco Popular FPYME 1, FTA	-	8,117
IM Banco Popular MBS 2, FTA	5,810	5,684
IM Cédulas Grupo Banco Popular 3, FTA	(309)	(443)
IM Grupo Banco Popular Empresas 1, FTA	5,417	6,971
IM Grupo Banco Popular Empresas 5, FTA	38,548	23,452
IM Grupo Banco Popular Empresas 6, FTA	-	-
IM Grupo Banco Popular FPYME I, FTA	7,419	7,114
IM Grupo Banco Popular FPYME II, FTA	-	12,622
IM Grupo Banco Popular, MBS 3, FTA	-	-
Inmobiliaria Viagracia, S.A.	109,163	107,830
Intermediacion y Servicios Tecnológicos, S.A.	(226)	286
Inversiones Inmobiliarias Alprosa, S.L.	1,984	2,437
Inversiones Inmobiliarias Canvives, S.A.	(419,022)	(367,052)
Inversiones Inmobiliarias Cedaceros, S.A.	(60,854)	(60,239)
Inversiones Inmobiliarias Gercebio, S.A.	(11,565)	(9,673)
Inversiones Inmobiliarias Jeráguilas, S.A.	(39)	(37)
Inversiones Inmobiliarias Tamadaba, S.A.	(1,880)	(2,915)
Isla de los Buques, S.A.	1,250	1,239
Limatesa Gestion deServicios Integrales, SL	-	-
Manberor, S.A.	(11)	(9)
Meglahe, S.A.	(12)	(11)
Naviera Cañada, S.L.	-	(3)
Naviera Islas Cies, S.L.	-	(71)
Pastor Participaciones Preferentes, S.A.	425	213
Popular Arrendamento - FIIF para Arrendamento Habitacional	(3,185)	(9,678)
Popular Capital, S.A.	109	33,345
Popularcompras, S.L.U.	-	-
Popular de Mediacion, S.A.	(70)	(70)
Popular Español Asia Trade, LTD	-	-
Read Leaf Holding	(2,579)	(4,999)
Residencial Valdemar, S.L.	-	(1,233)
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	11,996	11,923
Velázquez 34, S.A.	(11,763)	(7,582)
Non-financial companies:		-
Cercebelo Assets, S.L.	(1,218)	(398)
Eurovida, S.A. (Portugal)	79,885	77,177
General de Terrenos y Edificios Servicios Integrales, S.L.	988	619
General de Terrenos y Edificios, S.L.	(19,267)	(12,567)
Gestora Inmobiliaria La Toja, S.A.	(90)	(56)
Inti Entertainment	-	-
La Toja S,A,	-	-
Pastor Vida, S.A.	28,809	27,832
Popular de Renting, S.A.	687	10,754
Popular Seguros, S.A.	2,260	1,637
Promoción Social de Viviendas, S.A.	199	201
Vilamar Gestión, S.L.	(35,220)	(24,437)
Total consolidation reserves	**(2,545,125)**	**(2,256,876)**

€ thousands	2015	2014
Joint ventures		
Aliseda Servicios de Gestión Inmobiliaria, S.L.	37,952	(219)
Bancopopular-e, S.A.	74,909	68,235
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(11,187)	(11,185)
Inverlur Águilas II, S.L.	(34,608)	(34,600)
Popular-e Cobros A.I.E.	-	-
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	(1)	-
RecBus-Recovery to Business, S.A.	(2)	
Saite, S.A.	1,287	934
Saite-Cobal, S.A.	(5,772)	(4,603)
Sociedad Conjunta para la Emisión y Gestión de Medi s de Pago "Iberia Cards", S.A.	4,606	4,362
Targo Bank, S.A.		20,341
Targoinmuebles, S.A.		(15)
Subtotal joint ventures	**67,184**	**43,250**
Associates		
Aevis Europa, S.L.	171	169
Allianz Popular, S.L.	41,981	38,708
Amarres Deportivos, S.L.	-	(128)
Aviación Intercontinental, A.I.E	5,751	4,644
Euro Automatic Cash Entidad de Pago, S.L.	2,114	1
Fotovoltaica Monteflecha, S.L.	200	177
Gestora Patrimonial c/Francisco Sancha, 12	1,787	3,589
Grupo Financiero Ve por Mas SA de CV	1,127	-
Inversiones en Resorts Mediterráneos, S.L.	(53,190)	(53,190)
Master Red Europa, S.L.	172	170
Metrovacesa, S.A.	(97,040)	(45,834)
Puertos Futuros, S.L.	-	(4)
Sistema 4B, S.A.	(380)	(444)
Targo Bank, S.A.	28,295	
Targoinmuebles, S.A.	(153)	
Trindade Fundo de Investimento Inmobiliario Fechado	(5,485)	(4,886)
Universal Pay Entidad de Pago, S.L.	-	233
Subtotal associates	**(74,650)**	**(56,795)**
Total equity method reserves	**(7,466)**	**(13,545)**

Other equity instruments

This item relates to the component of hybrid financial instruments having the nature of shareholders' equity, shareholders' equity increases for remuneration of personnel and other shareholders' equity-type items not classified in different items in shareholders' equity.

During the last quarter of 2009, the Group issued mandatorily convertible subordinated debentures amounting to €700 million. The purpose of this issue was to reinforce and optimise the Group's own funds, and it led to a significant increase in the percentage of the Group's Tier 1 capital. These debentures can be converted into shares, by virtue of the voluntary or mandatory conversion requests by owners of the securities, on 23 October 2010, 2011 and 2012, on a voluntary basis, or 23 October 2013 on a mandatory basis.

In October 2012, Banco Popular Español offered the holders of this issue (Issue I-2009) the possibility of exchanging their debentures for another issue of subordinated notes subject to similar terms and a new maturity date in November 2015 (Issue II-2012); acceptances and rejections totalled 656,511 thousand euros and 31,760 thousand euros respectively.

Pursuant to the exchange schedule, Banco Popular Español, S.A., made the voluntary conversion request of 5,018 thousand euros (4,383 thousand euros of the II-2012 issue and 635 thousand euros of the I-2009 issue), and 5,487 mandatorily convertible debentures during the 2012 and 2011 periods respectively, which were capitalised, reducing the amount of this instrument by 5,018 thousand euros and 5,487 thousand euros in each period.

The nominal interest rate on the debentures was 7% to the first anniversary of the issue and the three-month Euribor plus 4% from that date to the maturity date of the issue or conversion into shares if sooner. The fixed annual nominal remuneration rate of new Issue II/2012 is 7%, subject to the conditions relating to the non-receipt of remuneration described in the issue prospectus.

For conversion purposes, the reference price of the shares in Banco Popular Español, S.A. was set at €7.1377 per share and the conversion ratio of the debentures (number of Bank shares per debenture) was 140.101153 shares per debenture. Consequently, the number of shares to be acquired by the debenture holders on conversion will be calculated by multiplying shares per debenture by the number of debentures held. If this calculation gives rise to fractions of shares, such fractions will be rounded down and Banco Popular Español, S.A. will pay the fractions in cash to the debenture holder on the same date as that on which the shares are registered in the holder's name. For the purposes of this cash payment, fractions will be valued at the conversion price. Following the successive capital increases carried out in 2012, the conversion price of these issues was set at €3.64 per share for Issue II/2012 and €3.57 per share for Issue I/2009. Following the counter-split revised in 2013, the conversion price of these issues is €18.20 per share for issue II/2012.

In 2014, 3,333 thousand euros were converted of Issue II-2012.

In 2015 the II-2012 issue of subordinated mandatorily convertible notes was converted for 643,198 thousand euros, resulting in a capital increase of 18,328 thousand euros and 627,232 thousand euros in the share premium.

The following table shows a breakdown of movement under this heading for 2015 and 2014:

€ thousands	**2015**	**2014**
Beginning balance	643,198	646,531
Issues		
Cancellations on conversion	(643,198)	(3,333)
Other movements		-
Closing balance	-	643,198

Treasury shares

This item reflects all the own equity instruments held by all the Group entities. The number of shares held by the Group totals 6,574,056 and 805,026 as at 31 December 2015 and 2014 respectively.

Movement in own equity instruments bought and sold in 2015 and 2014 are set out below:

€ thousands	
Balance at 01 January 2014	39
Increases	1,432,397
Decreases	1,428,978
Balance at 31 December 2014	3,458
Increases	121,475
Decreases	103,454
Balance at 31 December 2015	21,479

The average price of the cost of the treasury shares acquired was 3.845 and 4.783 euros for the 2015 and 2014 periods respectively.

Profit/(loss) for the year

The following table contains the accounting results attributable by each entity to the Group. The eliminations and adjustments shown at the end on a separate line give rise to the attributable amount, which connects the income statement to shareholders' equity.

€ thousands	**2015**	**2014**
Deposit-taking institutions:		
Banco Popular Español, S.A.	136,186	476,691
Banco Pastor, S.A.U.	39,878	21,873
Banco Popular Portugal, S.A.	13,347	2,282
Popular Banca Privada, S.A.	8,416	19,639
TotalBank	14,271	8,584
Financing institutions:		
Popular de Factoring, S.A.	7,291	10,154
Popular Factoring, S.A. (Portugal)	2,629	2,933
Holding and services companies:		-
Gestora Popular, S.A.	4,147	(201)
Grupo La Toja Hoteles	(545)	4,143
Pastor Privada Eólica 2, S.L.	-	-
Pastor Privada Eólica 3, S.L.	-	-
Pastor Privada Investment 1, S.L.	-	-
Pastor Privada Investment 2, S.L.	(141)	(177)
Pastor Privada Investment 3, S.L.	-	-
Popular Bolsa S.V., S.A.	1,276	1,674
Popular de Participaciones Financieras, S.A.	(944)	(3,034)
Popular Gestão de Activos, S.A.	117	290
Popular Gestión Privada SGIIC, S.A.	273	85
Popular Servicios Financieros E.F.C., S.A.	2,932	2,887
Sobrinos de José Pastor Inversiones, S.A.	(34)	(5,045)

€ thousands	2015	2014
Instrumental entities:		
Aliseda, S.A.	(165,730)	(146,701)
BPE Financiaciones, S.A.	323	650
BPE Preference International, Ltd.	20	-
BPE Representações y Participações, Ltda.	43	45
BPP Asesores, S.A.	(493)	(399)
Centro de Análisis y Reclamaciones de Incumplimientos, S.A.	-	-
Consulteam Consultores de Gestão, Lda.	(46,347)	(59,801)
EDT FTPYME Pastor 3	(119)	(1,149)
FIB Realty Corporation	-	-
Finespa, S.A.	1,744	401
Fondo Imopopular, FEIIF	(974)	(1,490)
Fundo Popular Predifundo	(124)	(597)
GC FTPYME Pastor 4	80	10
Gestora Europea de Inversiones, S.A.	(118)	(167)
Gold Leaf Title Company	222	216
Hercepopular S.L.	600	-
IM Banco Popular FPYME 1, FTA	-	(2,847)
IM Banco Popular MBS 2, FTA	(658)	126
IM Cédulas Grupo Banco Popular 3, FTA	-	-
IM Grupo Banco Popular Empresas 1, FTA	(1,013)	(1,554)
IM Grupo Banco Popular Empresas 5, FTA	1,682	15,096
IM Grupo Banco Popular Empresas 6, FTA	8,383	-
IM Grupo Banco Popular FPYME I, FTA	(1,740)	305
IM Grupo Banco Popular FPYME II, FTA	-	(740)
IM Grupo Banco Popular, MBS 3, FTA	54	-
Inmobiliaria Viagracia, S.A.	1,853	1,273
Intermediacion y Servicios Tecnológicos, S.A.	776	(404)
Inversiones Inmobiliarias Alprosa, S.L.	519	446
Inversiones Inmobiliarias Canvives, S.A.	(4,530)	(51,966)
Inversiones Inmobiliarias Cedaceros, S.A.	42	(614)
Inversiones Inmobiliarias Gercebio, S.A.	927	(1,891)
Inversiones Inmobiliarias Jeráguilas, S.A.	23	(1)
Inversiones Inmobiliarias Tamadaba, S.A.	(411)	1,273
Isla de los Buques, S.A.	1	11
Limatesa Gestion deServicios Integrales, SL	-	-
Manberor, S.A.	(51,647)	(2)
Meglahe, S.A.	(2)	(1)
Naviera Cañada, S.L.	-	(2)
Naviera Islas Cies, S.L.	-	(18)
Pastor Participaciones Preferentes, S.A.	221	212
Popular Arrendamento - FIIF para Arrendamento Habitacional	(1,785)	(1,886)
Popular Capital, S.A.	232	306
Popularcompras, S.L.U.	(1)	-
Popular de Mediacion, S.A.	123	205
Popular Español Asia Trade, LTD	1	-
Read Leaf Holding	(1,328)	1,446
Residencial Valdemar, S.L.	-	2,230
Total Sunset Inc.	-	-
Urbanizadora Española, S.A.	43	70
Velázquez 34, S.A.	(2,544)	(4,181)

€ thousands	2015	2014
Non-financial companies:	-	-
Cercebelo Assets, S.L.	(308)	(10)
Eurovida, S.A. (Portugal)	11,366	13,318
General de Terrenos y Edificios Servicios Integrales, S.L.	785	368
General de Terrenos y Edificios, S.L.	(2,608)	(1,542)
Gestora Inmobiliaria La Toja, S.A.	545	(33)
Inti Entertainment	(253)	-
La Toja S,A,	-	-
Pastor Vida, S.A.	459	1,055
Popular de Renting, S.A.	1,793	1,533
Popular Seguros, S.A.	753	626
Promoción Social de Viviendas, S.A.	(3)	(2)
Vilamar Gestión, S.L.	(8,267)	(5,737)
Subtotal parent entity and subsidiaries	**(28,291)**	**300,264**
Joint ventures		
Aliseda Servicios de Gestión Inmobiliaria, S.L.	21,455	38,171
Bancopopular-e, S.A.	46,540	6,672
IM Tarjetas 1, F.T.A.	-	-
Inverlur Águilas I, S.L.	(5)	(5)
Inverlur Águilas II, S.L.	(8)	(7)
Popular-e Cobros A.I.E.	(1)	(1)
Popular-e Operador de Banca Seguros Vinculado, S.A.U.	175	(1)
RecBus-Recovery to Business, S.A.	398	-
Saite, S.A.	639	389
Saite-Cobal, S.A.	(66)	(1,168)
Sociedad Conjunta para la Emisión y Gestión de Medi s de Pago "Iberia Cards", S.A.	315	244
Targo Bank, S.A.	-	7,957
Targoinmuebles, S.A.	-	(141)
Subtotal joint ventures	**69,442**	**52,110**
Associates		
Aevis Europa, S.L.	7	1
Allianz Popular, S.L.	39,135	36,674
Amarres Deportivos, S.L.	-	-
Aviación Intercontinental, A.I.E	1,885	1,911
Euro Automatic Cash Entidad de Pago, S.L.	6,616	6,687
Fotovoltaica Monteflecha, S.L.	27	25
Gestora Patrimonial c/Francisco Sancha, 12	130	120
Grupo Financiero Ve por Mas SA de CV	3,147	776
Inversiones en Resorts Mediterráneos, S.L.	-	-
Master Red Europa, S.L.	10	3
Metrovacesa, S.A.	(44,824)	(51,172)
Puertos Futuros, S.L.	-	(2)
Sistema 4B, S.A.	148	75
Targo Bank, S.A.	8,576	-
Targoinmuebles, S.A.	(71)	-
Trindade Fundo de Investimento Inmobiliario Fechado	(818)	(70)
Universal Pay Entidad de Pago, S.L.	-	2,336
Subtotal associates	**13,968**	**(2,636)**
Total	**55,119**	**349,738**
Consolidation adjustments and eliminations	**50,313**	**(19,323)**
Net income attributable to the Group	**105,432**	**330,415**

Dividends and remuneration

The breakdown of the dividend balance and remuneration is from the consolidated balance sheet is, once the corresponding dividends received by Banco Popular Group companies, at 31 December 2015 and 2014, is as follows:

€ thousands	2015	2014
Paid	-	-
By Banco Popular Español (Note 4)	42,387	-
Eliminated in the consolidation	-	-
Declared (Note 4)	-	-
Total	42,387	-

The movements of this item during these two periods were as follows:

€ thousands	
Balance at 01 January 2014	-
Increases	-
Decreases	-
Balance at 31 December 2014	-
Increases	42,387
Decreases	
Balance at 31 December 2015	42,387

Finally, changes in shareholders' equity in the consolidated balance sheets are set out below:

€ thousands	
Balance at 31/12/2013	11,774,471
Treasury shares	(3,419)
Capital increase	818,083
Remuneration of and other movements in convertibles	(86,134)
Gains/(losses) on transactions with treasury shares	2,599
Consolidation and other operations (net)	(52,619)
Net profit for 2014	330,415
Dividends paid/declared in 2014	-
Balance at 31/12/2014	12,783,396
Treasury shares	(18,021)
Capital increase	641,929
Remuneration of and other movements in convertibles	(743,335)
Gains/(losses) on transactions with treasury shares	(889)
Consolidation and other operations (net)	(6,133)
Net profit for 2015	105,432
Dividends paid/declared in 2015	(42,387)
Balance at 31/12/2015	12,719,992

42. Shareholders' Equity valuation adjustments

This shareholders' equity item includes the amounts, net of the tax effect, of the portion attributable to the Group of the adjustments to assets and liabilities temporarily recognised in shareholders' equity through the statement of comprehensive income until they are extinguished or realised, at which time they are definitively recognised in shareholders' equity through the income statement. The portion of the adjustments attributable to non-controlling interests is recognised in a specific item. Set out below is a breakdown of these consolidated balance sheet items at the end of the last two years:

€ thousands	**2015**	**2014**
Available-for-sale financial assets	(191,166)	(129,641)
Cash flow hedges	(92,207)	(23,580)
Hedges of net investments in foreign operations	-	-
Exchange differences	92,297	54,710
Non-current assets held for sale	-	-
Entities accounted for using the equity method	2,125	(667)
Other valuation adjustments	(32,792)	(33,899)
Total	(221,743)	(133,077)

Gross figures are set out below:

€ thousands	**2015**	**2014**
Available-for-sale financial assets	(273,586)	(185,165)
Debt securities	(294,798)	(196,592)
Equity instruments	21,212	11,427
Cash flow hedges	(131,822)	(33,805)
Hedges of net investments in foreign operations	-	-
Exchange differences	144,684	84,671
Non-current assets held for sale	-	-
Entities accounted for using the equity method	1,838	(954)
Other valuation adjustments	(43,029)	(46,173)
Corporate income tax	80,172	48,349
Total	(221,743)	(133,077)

The item Available-for-sale financial assets includes changes in the value of these financial assets, net of the tax effect, before they are transferred to the income statement, in the event of their disposal or maturity, or asset impairment, should a negative value be obtained.

Movements in shareholders' equity valuation adjustments with respect to available-for-sale financial assets are set out below:

€ thousands	2015	2014
Beginning balance	(185,165)	(510,204)
Net transfer to profit and loss	(428,948)	(701,969)
Transfer to profit and loss due to financial transactions	(471,618)	(719,969)
Equity instruments	11,615	12,876
Gains	13,305	13,822
Losses	1,690	946
Debt instruments	460,003	707,093
Gains	540,718	876,584
Losses	80,715	169,491
Transfer to impairment losses	42,670	18,000
Valuation profit/(losses)	340,527	1,027,008
Equity instruments	(20,641)	(7,712)
Gains	19,504	15,427
Losses	40,145	23,139
Debt instruments	361,168	1,034,720
Gains	398,540	1,250,438
Losses	37,372	215,718
Other movements	-	-
Closing balance	(273,586)	(185,165)

The information on cash flow hedges at year-end 2015 and 2014 includes cumulative gains and losses on the hedging instrument (see Note 26). Consequently, movements for the year reflect the recognition of results due to the change in the value of the hedged item in respect of the hedged exposure, and the relevant tax effect.

€ thousands	2015	2014
Beginning balance	(33,805)	10,717
Net transfer to profit and loss	-	-
Valuation profit/(losses)	(98,017)	(44,522)
Closing balance	(131,822)	(33,805)

Set out below are the movements in shareholders' equity valuation adjustments due to exchange differences:

€ thousands	2015	2014
Beginning balance	84,671	25,616
Net transfer to profit and loss	-	-
Valuation profit/(losses)	60,013	59,055
Closing balance	144,684	84,671

Information on other valuation adjustments includes actuarial differences relating to pension plans.

€ thousands	**2015**	**2014**
Beginning balance	(46,173)	(17,336)
Net transfer to profit and loss	-	-
Valuation profit/(losses)	3,144	(28,837)
Closing balance	(43,029)	(46,173)

Set out below is a breakdown of corporate income tax relating to items in this heading:

€ thousands	**2015**	**2014**
Available-for-sale financial assets	(82,420)	(55,524)
Cash flow hedges	(39,615)	(10,225)
Hedges of net investments in foreign operations	-	-
Exchange differences	52,387	29,961
Non-current assets held for sale	-	-
Entities accounted for using the equity method	(287)	(287)
Other valuation adjustments	(10,237)	(12,274)
Total	(80,172)	(48,349)

Lastly, a breakdown is provided below by entity of the shareholders' equity valuation adjustments resulting from the consolidation process:

€ thousands	**2015**	**2014**
Banco Popular Español, S.A.	(296,478)	(187,287)
Banco Popular Pastor, S.A.	200	222
BPE Representações e Participações, Ltda.	(127)	(78)
TotalBank	76,360	48,292
Inmobiliaria Viagracia, S.A.	1,678	897
Popular de Participaciones Financieras S.C.R. de régimen simplificado, S.A.	4,148	2,941
Banco Popular Portugal, S.A.	(26,651)	(24,639)
Popular Banca Privada, S.A.	1,917	(187)
BPP Asesores (PastorArgentina)	(34)	(43)
Eurovida, S.A. (Portugal)	(667)	1,746
Popular Seguros, S.A.	11	233
BPE Preference International Ltd.	(2)	(2)
Gold Leaf Title Company	279	154
Read Leaf Holding	14,225	6,558
Pastor Vida, S.A.	3,398	18,116
Total	(221,743)	(133,077)

43. Non-controlling interests

This balance sheet heading reflects the portion of the Group entities' shareholders' equity attributable to third parties outside the Group, including income for the year and valuation adjustments through shareholders' equity.

Set out below is a breakdown of this heading by subsidiary:

€ thousands	**2015**	**2014**
Popular Factoring (Portugal), S.A.	65	66
Urbanizadora Española, S.A.	306	306
Fondo Popular Predifundo S.A.	4	2,777
Grupo La Toja Hoteles	6,114	6,725
Hercepopular S.L.	3,761	3,104
Pastor Privada Investment 1, S.A.	4,709	5,057
Pastor Privada Investment 3, S.A.	1,363	1,459
Inti Entertainment S.A.	1	1
Promocion Social de Viviendas, S.A.	53	53
Total	16,376	19,548

Movements in Non-controlling interests in 2015 and 2014 are set out below:

€ thousands	**2015**	**2014**
Beginning balance	19,548	51,377
Net income	502	(514)
Dividends paid	-	-
Consolidation adjustments (net)	(3,674)	(31,315)
Closing balance	16,376	19,548

In 2015, the most significant amounts included in consolidation and other adjustments was the variation in the company Fondo Predifundo S.A. for 3,376 thousand euros as a result of capital amortisation and reduction in the minority shareholder domain.

In 2014, the most significant amounts included in Consolidation and other adjustments were those relating to the following transactions:

- Acquisition of 40% of Popular Banca Privada and its subsidiary Popular Gestión Privada, which led to a reduction of 30,581 thousand euros in Non-Controlling Interests.
- Acquisition of 65.52% of Fondo Popular Predifundo, with an increase of 4,743 thousand euros in Non-Controlling Interests,
- Sale of Finisterre, part of the La Toja Hoteles Group, with a decrease of 6,824 thousand euros in Non-Controlling Interests.
- Acquisition of 51% of Hercepopular S.L.. leading to an increase in Non-Controlling Interests of 3,104 thousand euros.

44. Tax situation

In regards to Corporate income Tax, since 2008, Banco Popular Español, S.A. has been the parent company of the Consolidated Tax Group, the Tax Group subsidiaries being the entities that fulfil the requirements of the Tax Consolidation Regime regulations. The rest of the Group entities are subject to the tax legislation applicable in each case.

Similarly, with regard to Value Added Tax, the Group applies the Special Regime for Groups of Entities provided by Law 36/2006, a regime that constitutes a differentiated sector of activity. The Group of Entities is formed by Banco Popular Español, S.A., as the parent company, and by the Spanish subsidiaries that fulfil the relevant requirements and opted to form part of the VAT Group. The rest of the Group entities are subject to the tax legislation applicable in each case.

Taxes payable by each consolidated entity are recognised in the balance sheet item "Tax liabilities", as required by regulations, net of tax withholdings and prepayments.

As at 31 December 2015, all the Group entities are open to inspection for the main taxes to which they are subject and the periods that are not statute barred. In July 2015, a tax inspection of Banco Pastor was completed for the periods 2009 to 2011.

At 31 December 2015, tax inspections had been raised against and contested by Banco Popular Español and the absorbed entities Banco de Castilla, Banco de Vasconia, Banco de Galicia and Banco Pastor for a total of 8,038 thousand euros for corporate income tax, withholding tax and value added tax, the relevant appeals having been lodged.

In view of the provisions set up by the Group, the Directors of Banco Popular consider that any liabilities that may result from the appeals lodged against the assessments raised will not have a significant effect on the consolidated financial statements.

Due to the different interpretations that may be afforded to the tax regulations applicable to the Group's operations, there could be certain contingent tax liabilities for the years open to inspection that cannot be objectively quantified. However, in the opinion of the parent company's directors, any tax liabilities that might arise would not have a material impact on the consolidated financial statements.

On 28 November 2014 Law 27/2014 on Corporate Income Tax was published. This amendment includes provisions applicable to 2014, specifically relating to the limitation on the reversal of certain temporary differences and tax-loss carryforwards that are considered in the 2014 consolidated financial statements. It has not had a significant impact on them.

Tax benefits in the form of double taxation deductions, allowances, deductions for research and development, donations and other deductions for investments in the Canary Islands are treated as a reduction in corporate income tax each year. The requirements of prevailing regulations must be met in order for these tax deductions to be applicable, having partially capitalised those corresponding to 2014 and deductions generated in previous years shall be partially applied in 2015.

The following table shows, for 2015 and 2014, the reconciliation of Banco Popular Español, S.A.'s reported income and the tax base of corporate income tax, and the calculations necessary to determine income tax expense, taking into account both pre-tax income and permanent differences with respect to reported income, and eliminations, additions and deductions from tax payable, as applicable under the tax consolidation regime.

€ thousands		**2015**	**2014**
Accounting income before tax		70,761	627,458
Permanent differences		(283,233)	10,276
Increases		23,432	27,336
Decreases		306,665	17,060
Temporary differences		791,555	(315,737)
Arising in the year		893,181	648,317
Increases		911,734	666,344
Decreases		18,553	18,027
Arising in prior years		(101,626)	(964,054)
Increases		15,525	23,886
Decreases		117,151	987,940
Deductible expenses charged to shareholders' equity		(133,321)	(320,424)
Offsetting tax-loss carryforwards		(36,779)	(107,173)
Tax base		408,983	(105,600)
Gross tax charge	30%	122,695	(31,680)
Tax deductions		51,647	(3,803)
For double taxation		40,223	(3,803)
For reinvestment		11,424	-
Allowances		378	-
Corporate income tax payable		70,670	(27,877)
Tax due to deductible movements in shareholders' equity		39,996	96,127
Tax relating to capitalisation of tax-loss carryforwards and tax deductions not applied		47,271	(33,415)
Deferred taxes (net)		(237,467)	96,478
Other		14,107	19,452
Total income tax		(65,423)	150,765

The same information provided in the above table is set out below for the consolidated Group as a whole.

€ thousands		2015	2014
Accounting income before tax		114,184	372,991
Permanent differences:		(156,847)	(17,639)
Increases		23,857	87,513
Decreases		180,704	105,152
Temporary differences:		223,212	(293,820)
Arising in the year		384,263	207,132
Increases		453,121	225,164
Decreases		68,858	18,032
Arising in prior years		(161,051)	(500,952)
Increases		90,035	99,796
Decreases		251,086	600,748
Charged to shareholders' equity		(139,658)	(341,895)
Tax-loss carryforwards		(109,032)	226,560
Tax base		(68,141)	(53,803)
Gross tax charge	30%	(20,442)	-
Deductions and allowances on tax payable		-	-
Corporate income tax payable		(20,442)	(16,141)
Adjustment due to application of different tax rates		(2,463)	(1,375)
Tax recognised in shareholders' equity		41,897	102,569
Deferred taxes (net)		(64,127)	88,146
Capitalisation of tax credits for tax loss carry-forwards and deductions		43,930	(154,452)
Other		9,455	24,343
Total income tax		8,250	43,090
Income tax in Portugal and USA		51,850	34,423
Income tax in Spain		(43,600)	8,667

Set out below is an itemised breakdown of the permanent and temporary differences reflected in the previous table:

€ thousands	Permanent differences			
	2015		2014	
	Increases	Decreases	Increases	Decreases
Donations	14,450	-	14,443	-
Capitalisation reserve and monetary correction	-	11,500	-	1,683
Additions to and releases and use of other provisions	627	5,250	2,900	7,811
Exemption due to double taxation	-	79,630	-	-
Adjustments for tax-lease structures	-	-	-	5,858
Equity consolidation adjustments	-	83,410	54,842	89,711
Non-deductible rentals	7,394	-	7,387	-
Other	1,386	914	7,941	89
Total	23,857	180,704	87,513	105,152

€ thousands	Temporary differences			
	2015		2014	
	Increases	Decreases	Increases	Decreases
Pension funds and similar commitments	5,849	44,424	41,585	3,490
Credit loss provision	386,345	154,792	3,582	463,098
Depreciation and Amortisation	4,799	25,127	107,020	32,020
Goodwill	26,554	19,133	23,164	4,837
Additions to and releases and use of other provisions	76,783	5,703	59,800	-
Tax impairment of investments	26,279	54,050	80,868	64,875
Commissions, fees and financial expenses	-	2,658	2,970	4,241
Consolidation adjustments	3,720	-	-	6,527
Allocation of tax bases	-	602	-	13,189
Tax regime for mergers	-	6,549	-	5,673
Other adjustments	12,827	6,906	5,971	20,830
Total	543,156	319,944	324,960	618,780

Set out below is a breakdown of income tax by country for the main Group entities, after consolidation adjustments.

€ thousands	2015	2014
SPAIN		
Banco Popular Español, S.A.	12,901	85,298
Aliseda S.A.	(72,977)	(63,172)
Canvives S.A.	(3,496)	(20,058)
Rest of Consolidated Tax Group	16,409	(7,032)
Remainder	4,341	13,631
Total	(42,822)	8,667
PORTUGAL		
Banco Popular Portugal, S.A.	9,198	22,946
Heller Factoring Portuguesa, S.A.	816	1,456
Eurovida, S.A. (Portugal)	3,914	5,557
Consulteam Consultores de Gestão, S.A.	28,190	(2,389)
Remainder	376	1225
Total	42,494	28,795
USA		
TotalBank	8,408	5,211
Remainder	170	417
Total	8,578	5,628
Total	8,250	43,090

An analysis of the consolidated entities' corporate income tax by geographic zone and business sector is set out below:

€ thousands	**SPAIN**		**PORTUGAL**		**USA**		**TOTAL**	
Business sector	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Deposit-taking institutions	42,972	93,991	9,198	22,946	8,408	5,211	60,578	122,148
Insurance companies	130	489	4,132	5,765	-	-	4,262	6,254
Other companies	(85,924)	(85,813)	29,164	84	170	417	(56,590)	(85,312)
Total	(42,822)	8,667	42,494	28,795	8,578	5,628	8,250	43,090

Set out below is a breakdown of consolidated income tax on ordinary and non-recurring income. Non-recurring income arises generally from non-typical financial operations.

€ thousands	**2015**	**2014**
Corporate income tax on:		
Ordinary income	(13,213)	(71,923)
Non-recurring income	21,463	115,013
Total income tax	8,250	43,090

Set out below is an itemised breakdown of non-recurring income:

€ thousands	**2015**			**2014**		
	Amount	**Corporate inc.**	**Amount**	**Amount**	**Corporate inc.**	**Amount**
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Gains on sale of tangible assets	39,150	11,745	27,405	23,711	6,920	16,792
Gains on sale of investments	57,876	463	57,413	425,083	93,320	331,763
Other gains/losses	30,849	9,255	21,594	49,245	14,774	34,472
Total	127,875	21,463	106,412	498,039	115,014	383,027

The following table contains a breakdown of corporate income tax, distinguishing between tax expense accrued during the year (current and deferred) and other prior-year items. Deductions on the taxable base pending application in the Tax Group in 2015 is made up of those not applied due to insufficient taxable base up to 2014 and those generated in the period. The deductions applied in the Tax Group basically affect dividends, donations and reinvestment.

In relation to the latter, one part of the necessary investment materialised in 2015, required by law in order to consolidate the right to apply it to part of the capital gains recorded up until 2014.

The detail of income tax expense accrued from current and deferred taxes, as well as other adjustments to income tax is as follows:

€ thousands	2015	2014
Current and deferred tax expense accrued	(13,740)	104,376
Deferred tax expense	(64,127)	88,146
Current tax expense	50,387	16,230
Adjustments to income tax	21,990	(61,286)
Tax assessments and regularisations in prior years	6,244	37,696
Tax credit pending application	20,409	(99,951)
Other	(4,663)	969
Total	8,250	43,090

As at 31 December 2015 and 2014, the Group recognised corporate income tax-loss carryforwards or deductions and allowances pending offset or application in future years for which no tax credits have been recorded because the necessary requirements are not fulfilled. These tax-loss carryforwards were mostly generated in years prior to 2012 by entities that subsequently became part of the Tax Group and, therefore, must be absorbed by positive taxable bases generated by each of the entities individually.

Set out below is a breakdown of these corporate income tax-loss carryforwards, deductions and allowances:

€ thousands	2015		2014	
Item	Amount	Tax Rate	Amount	Tax rate
Tax loss carry-forwards	600,714	180,214	600,841	180,252

Set out below is the reconciliation of the consolidated Group's income tax expense calculated based on reported profit before tax, taking into account the different tax rates in Portugal and USA:

€ thousands	2015		2014	
	Amount	Rate (%)	Amount	Rate (%)
Accounting profit before tax	114,184	-	372,991	-
General tax rate on profit before tax	34,255	30.00	111,898	30.00
General tax rate on results of entities accounted for using the equity method	(25,023)	(21.91)	(10,461)	(2.80)
General tax rate on other permanent differences	(22,031)	(19.29)	5,169	1.39
Deductions from tax payable	-	0.00	(855)	(0.23)
Adjustments for rates other than the general rate	(2,463)	(2.16)	(1,375)	(0.37)
Tax assessments and regularisations in prior years	6,244	5.47	37,696	10.11
Capitalisation of deductions NOT applied	20,409	17.87	(99,951)	(26.81)
Other	(3,141)	(2.75)	969	0.26
Corporate income tax expense and average tax rate	8,250	7.23	43,090	11.55

Tax rates for corporate income tax or similar taxes in the main countries in which the Group operates in 2015 and 2014 are set out below:

Tax rate (%). Country	2015	2014
Spain	30.00	30.00
Portugal	26.50	26.50
USA*	37.63	37.63

*State and federal tax

45. Residual terms of the balances in the consolidated balance sheets

Set out below is a breakdown by term to maturity of certain balances in the Group's consolidated balance sheets for 2015:

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	3,523,007	-	-	-	-	-	3,523,007
Financial instruments held for trading	13,856	12,384	289,595	32,801	11,569	925,678	1,285,883
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	535,319	535,319
Available-for-sale financial assets	244,461	33,568	115,621	626,180	11,813,365	12,359,960	25,193,155
Loans and receivables:	1,856,972	7,788,477	5,932,674	15,826,579	22,672,967	53,291,329	107,368,997
Loans and advances to credit institutions	1,236,767	2,188,049	72,474	2,650,070	96,907	-	6,244,267
Loans and advances to customers	620,205	5,600,428	5,854,672	12,994,190	22,248,013	52,670,261	99,987,769
Debt securities	-	-	5,528	182,320	328,046	621,067	1,136,961
Held-to-maturity investment portfolio	-	-	-	-	-	-	-
Hedging derivatives	-	-	11,796	9,454	418,911	2,907	443,068

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial instruments held for trading	-	10,212	276,604	26,369	11,805	718,073	1,043,063
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	599,419	599,419
Financial liabilities at amortised cost	41,065,076	18,328,225	25,588,459	29,010,779	20,005,674	6,510,311	140,508,524
Deposits from central banks	-	-	14,204,120	-	-	-	14,204,120
Loans and advances to credit institutions	710,533	8,528,438	1,464,099	5,119,828	2,750,681	598,826	19,172,405
Customer deposits	41,885,328	5,667,010	9,958,360	20,553,148	9,782,682	488,887	88,335,415
Marketable debt securities	-	544,492	192,695	2,763,572	8,507,183	3,981,107	15,989,048
Subordinated liabilities	-	-	-	-	94,498	1,972,453	2,066,951
Other financial liabilities	-	740,585	-	-	-	-	740,585
Hedging derivatives	-	3,027	840,629	88,885	29,073	1,052,360	2,013,974

The same information is presented below for 2014:

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
ASSETS							
Cash and balances with central banks	1,192,814	-	-	-	-	-	1,192,814
Financial instruments held for trading	127,217	784	1,672	9,342	474,201	1,076,428	1,689,644
Other financial assets designated at fair value through profit or loss	-	-	13,862	9,535	108,744	378,658	510,799
Available-for-sale financial assets	213,765	224,399	283,432	1,631,587	12,671,670	14,740,499	29,765,352
Loans and receivables:	1,834,280	9,279,808	5,892,365	14,851,083	22,124,979	53,845,101	107,827,616
Loans and advances to credit institutions	1,275,447	3,309,021	256,742	3,276	205,466	-	5,049,952
Loans and advances to customers	558,833	5,970,787	5,419,325	14,767,083	20,987,426	52,879,469	100,582,923
Debt securities	-	-	216,298	80,724	932,087	965,632	2,194,741
Held-to-maturity investment portfolio	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	1,172	324,030	115,954	441,156

€ thousands	At sight	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
LIABILITIES							
Financial instruments held for trading	-	716	577	9,495	821,421	565,180	1,397,389
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	649,354	649,354
Financial liabilities at amortised cost	30,878,830	29,629,574	21,876,353	30,742,220	24,986,440	4,114,361	142,227,778
Deposits from central banks	808,858	879,181	8,305,388	-	-	-	9,993,427
Loans and advances to credit institutions	555,499	5,262,317	2,305,684	2,319,420	6,471,358	799,453	17,713,731
Customer deposits	29,514,473	22,033,236	9,670,171	25,846,694	8,485,143	486,479	96,036,196
Marketable debt securities	-	357,079	1,595,110	2,576,106	9,771,389	1,662,334	15,962,018
Subordinated liabilities	-	-	-	-	258,550	1,166,095	1,424,645
Other financial liabilities	-	1,097,761	-	-	-	-	1,097,761
Hedging derivatives	-	-	-	7,678	2,067,432	85,964	2,161,074

46. Fair value

1. Assets and liabilities not valued at fair value in the financial statements

Set out below is a breakdown of the fair value of the main balance sheet items carried at amortised cost and at acquisition cost.

The assets and liabilities reflected at amortised cost were measured by discounting future flows using a risk curve without a spread (zero coupon). This interest rate curve is generated using the rates for Spanish government debt securities, allowing the generation of pure discount factors to calculate present values accepted by the market as unbiased rates. The curve is built applying an equation that is in line with rates observed in the market and results in forward interest rates for any period or interim maturity..

€ thousands	2015		2014		2015	2014	2015	2014	2015	2014
Financial assets at amortised cost	Accounting balances	Fair value	Accounting balances	Fair value	Level 1: Financial instruments traded in active markets		Level 2: Financial instruments whose fair value is based on market observations		Level 3: Financial instruments whose fair value is calculated using internal models	
Cash and balances with central banks	3,523,007	3,523,007	1,192,814	1,192,794	3,523,007	1,192,794				
Loans and receivables	107,368,997	115,983,007	107,827,616	116,565,117	1,240,844	2,393,066	114,742,163	114,169,051	-	3,000
Loans and advances to credit institutions	6,244,267	6,248,744	5,049,952	5,091,502	-	-	6,248,744	5,091,502		
Loans and advances to customers	99,987,769	108,486,833	100,582,923	109,077,549	-	-	108,486,833	109,077,549		
Debt securities	1,136,961	1,247,430	2,194,741	2,396,066	1,240,844	2,393,066	6,586	-	-	3,000
Held-to-maturity investment portfolio	-	-	-	-	-	-	-	-	-	-
Total financial assets at amortised cost	110,892,004	119,506,014	109,020,430	117,757,911	4,763,851	3,585,860	114,742,163	114,169,051	-	3,000

€ thousands	2015		2014		2015	2014	2015	2014	2015	2014
Financial assets at amortised cost	**Accounting balances**	**Fair value**	**Accounting balances**	**Fair value**	**Level 1: Financial instruments traded in active markets**		**Level 2: Financial instruments whose fair value is based on market observations**		**Level 3: Financial instruments whose fair value is calculated using internal models**	
Cash and balances with central banks	14,204,120	14,239,313	9,993,427	9,947,157	-	-	14,239,313	9,947,157		
Loans and receivables	19,172,266	19,820,968	17,713,731	18,579,504	-	-	19,820,968	18,579,504		
Loans and advances to credit institutions	88,335,415	88,812,969	96,036,196	96,810,072	-	-	88,812,969	96,810,072		
Loans and advances to customers	15,989,048	16,829,753	15,962,018	17,384,830	16,829,753	17,384,830				
Debt securities	2,066,951	2,580,108	1,424,645	1,552,377	2,580,108	1,552,377				
Held-to-maturity investment portfolio	740,724	740,724	1,097,761	1,097,761	-	-	740,724	1,097,761		
Total financial assets at amortised cost	140,508,524	143,023,835	142,227,778	145,371,701	19,409,861	18,937,207	123,613,974	126,434,494		

2. Fair value of tangible assets and property assets

The breakdown of carrying amount and the fair value of Tangible Assets, non-current assets held for sale and Inventories is as follows:

€ thousands	**2015**		**2014**	
	Accounting balances	**Fair value**	**Accounting balances**	**Fair value**
Tangible assets	1,697,785	1,714,356	1,711,224	1,722,951
For own use	777,713	794,284	746,830	758,557
Assets assigned under operating leases	-	-	10,339	10,339
Investment property	920,072	920,072	954,055	954,055
Non-current assets held for sale	9,045,928	9,045,928	8,201,378	8,201,378
Inventories	897,315	897,315	881,084	881,084

The Group values property assets at the lower of carrying amount or fair value, which is determined by the valuation of the foreclosed asset carried out on the basis of the latest appraisal value.

The Group requests all its appraisals from appraisal companies authorised by Banco de España, following a random procedure. The aforesaid appraisals are conducted taking into account the principles established by Ministerial Order ECO/805/2003 of 27 March Article 3, including the principle of greatest and best use, according to which the value of a property which may be used for different purposes will be that which results from assigning it, within the legal and physical possibilities, to the use that is economically most advisable, or if it is capable of being built with different degrees of density, the use resulting from building it, within the legal and physical possibilities, with the density that enables the highest value to be obtained.

Our measurements of the reasonable value of property assets are classified in Level 2 (additional variables are used in the valuation other than the listed prices in active markets for identical assets) and in Level 3 of the fair value hierarchy (use of significant non-observable variables).

The technical valuation methods used to determine the value of property assets are as follows:

1. Cost method (Level 3): This method is used to calculate a technical value, which is known as the replacement value. The investment in the land value, the building costs and the expenses needed to carry out the replacement, are added together in order to calculate the aforesaid value. The value can be gross or net. In order to calculate the net replacement value, the physical and functional depreciation of the finished building is subtracted from the gross replacement value.

The physical depreciation of the building is calculated using any one of these three methods: in accordance with its useful and functional life estimated by the appraisal company, by straight-line depreciation or adding up the costs and expenses necessary to transform the building into another similar one.

The residual method is used to value the land; for the cost of building, the tangible execution costs, general expenses, and, if applicable, business gains, shall be taken into account.

2. Comparison method (Level 2): This method is used to determine two technical values which are known as the comparison value, allowing the market value of a certain asset to be determined, and the adjusted comparison value, which can be used to determine its mortgage value. In order to be able to use the comparison method, it is necessary for there to be a representative market of comparable properties, sufficient data on transactions or offers, sufficient information regarding at least six transactions or offers by peers which adequately reflect the current situation on the aforesaid market.

The following general rules are used to calculate the comparison value:

a. Establish the characteristics of the appraised property which have an influence on its value.
b. Analyse the real estate market of peers based on transactions and real offers.
c. Select a representative sample from peers to which homogenisation methods can be applied.
d. Application of homogenisation methods to the selected peers.
e. Assign the property value, net of marketing expenses, in accordance with the homogenised prices.

3. Present value of rentals method (Level 2): This method is used to calculate a technical value known as the present value, and which can be used to determine the market value of a certain asset and its mortgage value. In order to use the present value method, it is necessary for there to be a representative rental market of peers, a lease contract and the appraised property must be producing or be capable of producing income as property connected with an economic activity, and there must also be sufficient accounting data regarding the exploitation or adequate information about average structural ratios of the pertinent branch of activity:

In order to calculate the present value, it is necessary to:

a. Estimate the real estate and operating cash flows (post-tax operating profit plus allocations to depreciation minus yearly investments in the real estate minus changes in working capital).
For rented properties, the collections from comparable properties, the contract clauses, current and foreseeable occupancy, current or foreseeable non-performing balances in collections, and foreseeable market performance, are taken into account.
b. Estimate the reversion value, in other words the value of the land at the end of the useful life of the appraised property.
c. Choose the DCF rate depending on the project risk (volume and degree of liquidity, contract type, etc.) which cannot be lower than the annual average profitability on Government Debt.

4. Residual method (Level 3): The value according to the residual method is calculated using the investment analysis procedure with expected values ("dynamic" calculation procedure) or the investment analysis procedure with current values ("static" calculation procedure).

In order to be able to use the residual method, the following requirements need to be complied with:

- There must be adequate information to determine the most likely development.
- There must be sufficient information regarding construction expenses, necessary expenses.
- There must be a market to calculate the most likely sale prices.
- There must be sufficient information about returns on similar developments.

The calculation method consists of:
a. The cash flows are estimated (collections from final sales or deliveries of credit and payments which it is estimated have to be made for construction expenses).
b. The discount rate representing the annual average profitability on the project without taking into account third-party financing, plus the risk premium shall be chosen.

5. Automated models (Level 2): The value is determined by the use of databases with sufficient quality and depth and methodologically sound valuation methods. The level of confidence must be raised in situations in which asset prices may be experiencing significant falls. The automated model is applicable only to revisions of value, provided the database of the entity has relevant and reliable information on the properties to be valued. The requesting entity has to ensure the quality of the model and the database used by the appointed appraisal company.

In the Group, the technical valuation methods used largely depend on the type of property to be appraised and the available information, more specifically:

a. Finished product:

Housing: Can be valued using automated procedures or individually using the cost method (this method is used to determine the value in single buildings or buildings which do not have a market), comparison (the most common), or present value of rentals if it is or is going to be rented out. As a general principle, the automated method may be used only for properties with a unit value of less than €1 million.

Other finished buildings: They may be valued using the cost, comparison or present value of operating or lease rentals, if it is rented or it is intended to be used for rental (for hotels, petrol stations and other properties under operation, only the present value of rentals method is used). For homogeneous properties (non-singular warehouses and premises), the method can be applied through automated procedures with the same limitations as in housing.

b. Work in progress May be valued using the cost method as the sum of the land value plus executed works. The Hypothetical Value of Finished Building shall not be used:

c. Land for property development: Can be valued using the dynamic residual method (which is the most common) or static method (only for development land with a term for start of works of less than 12 months) in accordance with the land classification.

d. Rural land under operation: Valued using the rental update method.

Below follows a breakdown of the fair value of the portfolio of property assets by type of valuation methods, for each asset type at 31 December 2015 and 2014:

	Type of Measurement of Fair Value							
€ thousands	**2015**				**2014**			
Asset Type	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Housing		3,798,232	-	3,798,232	-	3,787,104	-	3,787,104
Offices, premises, warehouse and others		2,551,936	-	2,551,936	-	2,296,121	-	2,296,121
Land		-	4,024,366	4,024,366	-	-	3,584,208	3,584,208
Work in progress		-	488,781	488,781	-	-	369,084	369,084
TOTAL		6,350,168	4,513,147	10,863,315	-	6,083,225	3,953,292	10,036,517

47. Contingent risks

Set out below is a breakdown of contingent risks, which are amounts that the Group will be required to pay on behalf of third parties in the event of default by the obligors, as a result of commitments undertaken by the Group in the ordinary course of business, at 31 December 2015 and 2014:

€ thousands	**2015**	**2014**
Financial guarantees	1,199,689	1,433,197
Assets assigned to third-party obligations	492,208	605,763
Documentary credits	539,397	492,230
Risks in respect of derivatives contracted with third parties	300,243	542,633
Other guarantees and sureties provided	6,491,294	6,896,961
Other contingent risks	2,136,599	2,583,364
Total	11,159,430	12,554,148
Memorandum item: Doubtful contingent risks	197,268	258,473

However, a significant part of these amounts will reach their maturity without any payment obligation by Banco Popular Español, S.A. or its consolidated companies having materialised, so that the aggregate balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Group.

Income obtained from guarantee instruments is registered in the “Interest and similar income" heading and under "Fee and commission income” (for the amount referring to present value of future commissions and fees) of the income statements and are calculated applying the rate established by contract on the nominal amount of the guarantee.

* This balance relates to:

In 2015

- The guarantee deposits required by the European Investment Bank for lending operations in the amount of 334,900 thousand euros.
- 130,000 thousand euros of securities from the Spanish Treasury pledged and deposited as pledged asset in favour of Bancopopular-e.

The 2014 balance related to the guarantee deposits required by the European Investment Bank to the amount of 601,455 thousand euros.

48. Contingent commitments

This caption refers to irrevocable commitments, basically consisting of amounts drawable by third parties that could give rise to the recognition of financial assets. The following table shows the balances at the end of the last two years.

€ thousands	2015	2014
Drawable by third parties	7,264,597	6,430,379
Credit institutions	363,511	362,339
General government	406,862	257,367
Private sector	6,494,224	5,810,673
Forward financial asset purchase commitments	-	370,000
Asset acquisition contracts	126,043	1,047,144
Securities subscribed but not paid	-	-
Securities placement and subscription commitments	602,390	447,088
Documents delivered to clearing houses	560,092	545,002
Other	15,626	15,626
Total	8,568,748	8,855,239

Set out below is a breakdown of amounts drawable by third parties subject to the limits stipulated in loan agreements, distinguishing between amounts immediately drawable and amounts contingent on the occurrence of future events:

€ thousands	2015	2014
Immediately drawable	6,741,686	5,858,308
Drawable contingent on future events	522,911	572,071
Total	7,264,597	6,430,379

With regard to amounts drawable by third parties (see previous table), credit limits by counterparty are as follows (gross amounts without valuation adjustments):

€ thousands	Limit		Drawn		Drawable	
	2015	2014	2015	2014	2015	2014
Credit institutions	6,610,616	5,414,471	6,247,105	5,052,132	363,511	362,339
Public administrations	5,734,854	6,332,979	5,327,992	6,075,612	406,862	257,367
Private sector	108,251,442	108,114,447	101,757,218	102,303,774	6,494,224	5,810,673
Total	120,596,912	119,861,897	113,332,315	113,431,518	7,264,597	6,430,379

49. Interest and similar income

This heading relates to interest, commissions and fees income, which is calculated by applying the effective interest rate to assets bearing implicit or explicit yields, whether or not they are carried at fair value, and corrections of income as a result of accounting hedges. Interest is carried at the gross amount, without deducting any tax withholdings at source.

This heading includes the financial income of all the Group entities and joint ventures engaged in lending, insurance and non-financial activities.

The following table contains an analysis of interest and similar income, including a breakdown by geographic zone.

€ thousands	**2015**	**2014**
Central banks	338	1,225
Credit institutions	11,719	20,249
Loans and receivables	3,083,173	3,641,962
Debt securities	406,379	491,962
Attributable to pension-linked insurance contracts and similar items	4,320	5,510
Other	2,759	6,326
Total	3,508,688	4,167,234
of which: Spain	3,187,445	3,808,314
European Union	204,646	288,013
Other OECD countries	81,195	70,903
Other countries	35,402	4

Set out below is a breakdown of interest and commissions and fees income:

€ thousands	**2015**	**2014**
Interests	3,221,605	3,992,798
Commissions and fees	287,083	174,436
Total	3,508,688	4,167,234

50. Interest and similar expenses

Interest expense and similar charges consist of interest and commissions and fees costs incurred, which are calculated by applying the effective interest rate to all financial liabilities bearing implicit or explicit yields, including benefits in kind, whether or not they are carried at fair value, and corrections of costs as a result of accounting hedges, and interest expense allocable to pension funds. This heading includes the financial expense of all the Group entities engaged in banking, insurance and non-financial activities.

Set out below is a breakdown of these charges including a breakdown by geographic zone for 2015 and 2014:

€ thousands	**2015**	**2014**
Central banks	12,263	14,137
Credit institutions	165,753	274,635
Customer funds	585,048	994,545
Debt certificates	431,947	494,076
Subordinated liabilities	53,072	47,488
Attributable to pension fund and similar items	4,333	6,105
Other	5,036	4,857
Total	**1,257,452**	**1,835,843**
of which: Spain	1,181,609	1,728,161
European Union	57,445	93,386
Other OECD countries	15,408	13,920
Other countries	2,990	376

Of the total amounts shown above, 11,451 thousand euros and 16,623 thousand euros relate to commissions and fees in 2015 and the previous year, respectively.

51. Return on equity instruments

This income statement heading reflects dividends and remuneration on equity instruments collected from or declared by companies outside the Group's scope of consolidation. The dividends are recognised when the Group's right to receive payment is declared, irrespective of whether or not payment is delayed and provided they accrued after the shareholding was acquired.

€ thousands	**2015**	**2014**
Investments in associates	-	-
Investments in joint ventures	-	-
Investments in Group entities	-	-
Other equity instruments	13,138	14,389
Total	13,138	14,389

In 2015, the dividends collected were 13,138 thousand euros compared with 14,389 thousand euros in 2014, which is incorporated in the operating activities cash flow in consolidated profit/(loss) for the year.

52. Share of profit of entities accounted for using the equity method

This line in the income statement includes the profits or losses generated during the financial year by entities accounted for using the equity method.

€ thousands	2015	2014
Associates	51,385	17,893
Joint ventures	(3,963)	15,499
Total	47,422	33,392

53. Commissions and fees

a) Fee and commission income

Non-financial service commissions and fee income received by the Group in 2015 and 2014 are analysed below by type:

€ thousands	2015	2014
Contingent risks and commitments:	130,415	133,764
Guarantees and other contingent risks	89,980	92,293
Commitment fees and other contingent commitments	40,435	41,471
Services inherent in asset transactions:	55,473	61,223
Discounting of trade bills	15,505	17,873
Factoring operations	5,819	5,687
Other asset transactions	34,149	37,663
Handling services:	469,882	544,413
Collection and payment mediation:	85,083	161,938
Collection of trade bills	6,710	8,404
Cheques	9,932	10,521
Direct debits	13,429	15,001
Means of payment	12,505	83,880
Fund transfers	42,507	44,132
Foreign currency purchase and sale	4,036	3,994
Securities purchase and sale	11,223	14,354
Administration of customers' securities portfolios:	100,666	100,734
Securities portfolio	9,620	23,200
Asset management	5,045	3,848
Investment funds	77,261	64,185
Pension funds	8,740	9,501
Other financial assets	-	-
Administration of sight and savings accounts	109,028	105,251
Other	159,846	158,142
Total	655,770	739,400

b) Fee and commission expenses

Non-financial commissions and fee expense incurred by the Group in the last two financial years are analysed below to the same level of detail:

€ thousands	2015	2014
Contingent risks and commitments:	307	486
Guarantees and other contingent risks	307	486
Commitment fees and other contingent commitments	-	-
Services inherent in asset transactions:	137	164
Discounting of trade bills	-	-
Factoring operations	-	-
Other asset transactions	137	164
Handling services:	60,004	84,043
Collection and payment mediation:	10,548	31,011
Collection of trade bills	644	1,335
Cheques	-	-
Direct debits	-	-
Means of payment	9,360	28,677
Fund transfers	544	999
Foreign currency purchase and sale	-	-
Securities purchase and sale	7,154	6,586
Administration of customers' securities portfolios:	-	-
Securities portfolio	-	-
Asset management	-	-
Investment funds	-	-
Pension funds	-	-
Other financial assets	-	-
Administration of sight and savings accounts	-	-
Other	42,302	46,446
Total	60,448	84,693

c) Net commissions and fees

Finally, for ease of comprehension and analysis of the Group's services activity, the net amounts of commissions and fees are shown below by type:

€ thousands	2015	2014
Contingent risks and commitments:	130,108	133,278
Guarantees and other contingent risks	89,673	91,807
Commitment fees and other contingent commitments	40,435	41,471
Services inherent in asset transactions:	55,336	61,059
Discounting of trade bills	15,505	17,873
Factoring operations	5,819	5,687
Other asset transactions	34,012	37,499
Handling services:	409,878	460,370
Collection and payment mediation:	74,535	130,927
Collection of trade bills	6,066	7,069
Cheques	9,932	10,521
Direct debits	13,429	15,001
Means of payment	3,145	55,203
Fund transfers	41,963	43,133
Foreign currency purchase and sale	4,036	3,994
Securities purchase and sale	4,069	7,768
Administration of customers' securities portfolios:	100,666	100,734
Securities portfolio	9,620	23,200
Asset management	5,045	3,848
Investment funds	77,261	64,185
Pension funds	8,740	9,501
Other financial assets	-	-
Administration of sight and savings accounts	109,028	105,251
Other	117,544	111,696
Total	595,322	654,707

54. Gains/losses on financial transactions (net)

This income statement heading basically reflects the amount of valuation adjustments to financial instruments generated during the year (with the exception of adjustments allocated to interest accrued under the effective interest rate method), asset impairment adjustments and gains or losses on the disposal of assets (except for gains or losses on transactions involving investments of the Group itself, its subsidiaries, joint ventures and associates, and treasury shares) and instruments classified as non-current assets or disposal groups held for sale.

The item "Own securities repurchased" under the heading "Financial instruments not at fair value through profit and loss", reflects the share of profits obtained in 2015 of 2,972 thousand euros corresponding to own bonds and securitisations repurchased. At 31 December 2014, they were 42,270 thousand euros for the same item.

The accompanying table provides an itemised breakdown of this income statement heading for the last two years:

€ thousands	**2015**	**2014**
Financial instruments held for trading (Note 20)	11,540	32,219
Other financial instruments at fair value through profit or loss (Note 21)	(15,877)	(24,668)
Financial instruments not at fair value through profit and loss (Notes 22, 23 and 35)	525,193	786,429
Available-for-sale financial assets (*)	471,618	719,969
Own securities repurchased	2,972	42,270
Other (**)	50,603	24,190
Other (***)	(3,596)	26,629
Total	517,260	820,609

(*) The share of profits from Financial assets for sale relates to sales of securities from the Available-for-sale portfolio. This basically relates to Spanish government debt securities which had a high appreciation during the year due to the improvement in sovereign risk and the lowest absolute level of interest rates.

(**) In 2015, this includes 50,603 thousand euros as a share of profits corresponding to the Loan Investment Portfolio and in 2014, the sale of the Loan Investment Portfolio amounted to 24,190 thousand euros.

(***) Relates to the management of hedges, mainly hedges of highly probable cash flows from financing for the available-for-sale portfolio, and the recognition in results of any hedge ineffectiveness.

55. Exchange differences (net)

This heading reflects the gains or losses on the purchase and sale of foreign currency and differences resulting from the translation of monetary items denominated in foreign currencies to euros.

€ thousands	**2015**	**2014**
Gains	66,081	53,558
Losses	20,517	6,326
Total	45,564	47,232

56. Other operating income

This heading relates to income from the Group's operating activities not included in other headings.

It may be broken down into:

i) Income from insurance and reinsurance contracts issued: insurance premiums collected and reinsurance income accrued by subsidiaries and jointly-controlled insurance and reinsurance companies accounted for using the equity method.

ii) Sales and revenues from provision of non-financial services: sales of goods and income from services in the ordinary course of business of the Group's non-financial companies, such as income from investment property and operating leases, excluding gains on disposal. It includes revenue from the sale of inventories.

iii) Other operating income: operating income not included in the above items, such as financial commissions and fees compensating related direct costs, expenses initially recognised in the income statement by nature which are subsequently added to the value of assets, and indemnities from insurance companies.

The compensating commissions and fees reflect the compensation of direct costs in asset transactions that the Group would not have incurred had the transactions not been effected.

Set out below is a breakdown of this heading for 2015 and 2014:

€ thousands	2015	2014
Income from insurance and reinsurance contracts issued	33,241	134,152
Sales and revenues from provision of non-financial services	13,933	18,543
Other operating income	182,288	189,785
Operating income from investment property	31,756	34,339
Income from other operating lease transactions	5,724	5,907
Financial commissions and fees compensating financial costs	34,306	27,443
Capitalised expenses	34,838	5,364
Other	75,664	116,732
Total	229,462	342,480

The most significant variation, in 2015, related to Income from insurance and reinsurance contracts issued, is due to the change in marketing strategy of the group company Eurovida Portugal, S.A., focusing on Unit link products and abandoning the marketing of products belonging to the insurance contracts with guarantee segment (such as Eurovida Poupança Futuro and Eurovida Poupança Segura). Even though these products imply a very important increase in turnover, this is not the case in terms of profitability margin, as stated in note 57 Other operating charges, with the related impact in the same direction on the Insurance and reinsurance contract costs line.

The most significant changes in 2014 related to the Income from insurance and reinsurance contract line is mainly due to the extraordinary marketing of Eurovida Poupança Futuro products (with 5,500 new policies being taken out) and Eurovida Poupança Segura (with 12,500 new policies taken out).

Other operating income

With respect to the Capitalised expenses line, the significant increase of 29,474 thousand euros originates from activating internal costs incurred in the Group's IT development projects. Policy described in note 15.s.

In 2015, on the Other operating product line, within the Other concepts heading, income for an amount of 43,600 thousand euros related to the signing of a new non-life insurance distribution agreement with Allianz. The signing of the new agreement has received from Allianz an initial and irrevocable compensation the amount of 52,500 thousand euros, which has two components:

- A payment for the compensation received attributable to the guarantee granted to Allianz in relation to the commitment to fulfil minimum guaranteed premiums, which implies a positive obligation to be made in the future and is therefore accrued over time. The value of the guarantee, in the absence of similar transactions of the market, has been determined using an evaluation technique based on present value, pursuant to paragraph B13 of the IFRS 13 (International Financial Reporting Standards), totalling an amount of 8,800 thousand euros, which is recorded in liabilities on the balance sheet.
- Income for an amount of 43,600 thousand euros corresponding to the part of the compensation received similar to a down payment that is banned on signing the contract and that, therefore, is initially recognised given that it meets the requirements mentioned in the IAS18 and that no associated risk is retained with the service provided in the obligation to provide additional services, therefore treated as a negative obligation.

The contract establishes the payment of commissions by Allianz for the non-life insurance policies marketed and it has been verified by an independent expert that these commissions are in accordance with market levels.

In 2014 the most significant operation under the same heading was the income generated in the sale of future receivables for the marketing of insurance and pensions that totalled 96,704 thousand euros, as informed in Note 8.

57. Other operating charges

This heading contains charges relating to operating activities not included under other headings.

A breakdown of this consolidated income statement item for 2015 and 2014 is as follows:

€ thousands	**2015**	**2014**
Insurance and reinsurance contract expenses	41,119	135,859
Cost of sales and change in inventories	10,761	16,326
Remainder of other operating charges:	216,613	215,982
Operating expenses in respect of investment property	33,786	26,685
Contributions to guarantee funds	105,196	116,002
Statutory fees	-	-
Other	77,631	73,295
Total	268,493	368,167

It may be broken down into:

i) Insurance and reinsurance contract expenses: claims paid and other expenses directly related to insurance contracts, reinsurance premiums paid to third parties and net provisions for insurance contracts, incurred by subsidiaries that are insurance or reinsurance companies.

ii) Cost of sales and change in inventories: consists of costs attributable to the sale of goods or provision of services in the ordinary course of business of the Group's non-financial companies and the cost recognised in the income statement in respect of the carrying amount of inventories sold during the year.

iii) Remainder of other operating charges: other operating charges not included in the above items, such as contributions to deposit guarantee (funds, national resolution and investments) and operating charges in respect of investment property, excluding losses on disposal.

Under the heading of Insurance and reinsurance contract costs, there is a minor cost of net additions to liabilities of 109,339 thousand euros with respect to the previous year, explained mainly in Eurovida Portugal, S.A. for the transfer of marketing in 2015 of the Eurovida Popupança Segura and Eurovida Poupança Futuro products, derived from the change in the insurance company's marketing strategy, see Note 56.

Other operating charges

The operating charges for property investments of 33,786 thousand euros in 2015, and 26,685 thousand euros in 2014, derive from properties classified as property investments used for leasing.

"Contributions to guarantee funds" relates to both the Deposit Guarantee Fund, National Resolution Funds and the Investment Guarantee Fund, as explained in Note 13. In 2015, the ordinary contributions to the different funds were as follows: 61,747 thousand euros to the Deposit guarantee fund, 43,408 thousand euros to be National resolution fund and 41 thousand euros to the Investment guarantee fund.

In 2014 an ordinary contribution was recorded for the amount of 115,963 to the Deposit guarantee fund and 39 thousand euros to the Investment guarantee fund. See Note 13.

58. Personnel expenses

This income statement line comprises all remuneration accrued during the year by permanent or temporary staff, irrespective of their functions or activities, including the current service cost of pension plans and net of amounts refunded by the social security system or other social provident entities. A breakdown is as follows:

€ thousands	2015	2014
Salaries and bonuses to serving personnel	692,769	701,415
Social security contributions	180,378	184,200
Provisions for internal pension funds	4,468	3,608
Contributions to external pension funds	29,137	26,965
Severance payments	6,606	6,322
Training expenses	2,799	2,756
Share-based payments	905	690
Other personnel expenses	18,771	20,279
Total	935,833	946,235

The following benefits in kind were allocated to certain employees of the Spanish banks:

€ thousands	2015	2014
Advances	3,052	2,973
Life insurance	2,102	2,136
Health insurance	118	142
Housing	1,910	2,402
Company shop	1,631	1,599
Total	8,813	9,252

Advances consist of those granted under Article 40 of the Collective Bargaining Agreement for the Banking Sector and are subject to a maximum limit of nine interest-free monthly payments to meet the needs addressed in that agreement. It also includes those intended for the Bank's Share Purchase.

Under this same heading "Remuneration in Kind for initiative and productivity" is recognised, which generates the award of rewards or gifts to employees.

The Life Insurance item relates to all the employees of the Group's banks in Spain.

The housing item relates to properties owned or leased by Group entities and used by its employees.

The following tables provide information on the evolution of the Group's headcount by category, grouped as stipulated in the collective bargaining agreement for the Spanish banking sector, the information on the other Group entities having been brought into line with this, at the end of each year and as annual averages.

	Year-end		Annual average	
	2015	**2014**	**2015**	**2014**
Directors and senior management	76	87	83	88
Technical personnel	12,861	12,842	12,760	12,959
Clerical staff	2,142	2,392	2,185	2,439
Total	15,079	15,321	15,028	15,486

Set out below is the distribution of the Group's workforce for the last two years by gender.

	2015		2014	
	Women	**Men**	**Women**	**Men**
Directors and senior management	19	57	21	66
Technical personnel	4,964	7,897	4,833	8,009
Clerical staff	837	1,305	931	1,461
Total	5,820	9,259	5,785	9,536

Set out below is a breakdown of the Group's workforce by age group and length of service at 31 December 2015 and 2014.

Data as % in 2015	Age						
Years of service	**Under From 21**	**From 21 to 30**	**From 31 to 40**	**From 41 to 50**	**From 51 to 60**	**Over From 60**	**Marginal distribution length of service**
Under 6	0.00	5.02	3.50	1.22	0.11	-	9.85
6 to 10	0.00	0.84	18.22	1.09	0.11	-	20.26
From 11 to 20	0.00	-	19.78	13.10	0.57	0.05	33.50
From 21 to 30	0.00	-	0.01	11.05	6.15	0.08	17.29
From 31 to 40	0.00	-	-	0.19	8.07	2.15	10.41
From 41 to 50	0.00	-	-	-	5.95	2.74	8.69
Distribution by age group	0.00	5.86	41.51	26.65	20.96	5.02	100.00

Data as % in 2014	Age						
Years of service	**Under From 21**	**From 21 to 30**	**From 31 to 40**	**From 41 to 50**	**From 51 to 60**	**Over From 60**	**Marginal distribution length of service**
Under 6	0.00	5.03	2.67	0.85	0.09	0.00	8.64
6 to 10	0.00	2.18	22.03	0.95	0.07	0.00	25.23
From 11 to 20	0.00	0.00	18.02	11.41	0.44	0.05	29.92
From 21 to 30	0.00	0.00	0.02	10.89	4.64	0.08	15.63
From 31 to 40	0.00	0.00	0.00	0.25	11.43	1.86	13.54
From 41 to 50	0.00	0.00	0.00	0.00	5.19	1.85	7.04
Distribution by age group	0.00	7.21	42.74	24.35	21.86	3.84	100.00

Group employees with more than 33% disability at 31 December 2015 stood at 143 and at 31 December 2014 there were 153.

59. Other general administrative expenses

This heading contains the Group's other administrative expenses, including levies and taxes on its activities, as analysed below:

€ thousands	2015	2014
On property, plant and equipment:	216,483	224,847
Rent	121,911	124,965
Maintenance of fixed assets	72,638	77,331
Utilities	15,971	16,069
Stationery and office supplies	5,963	6,482
IT	72,349	74,411
Communications	22,157	31,175
Advertising and publicity	21,325	34,083
Legal expenses	18,273	20,636
Technical reports	36,502	45,963
Security and fund transport services	17,076	19,792
Insurance premiums and self-insurance	6,195	7,248
Governance and control bodies	2,152	128
Travel and entertainment expenses	9,887	10,462
Association dues	2,084	3,140
Outsourced administrative services	71,866	145,672
Levies and taxes:	135,706	120,699
On property	18,132	12,541
Other	117,574	108,158
Contributions to foundations	13,492	13,539
Other expenses	22,307	28,255
Total	667,854	780,050

There were reductions in general administration expenses highlighting the headings of Subcontracted administrative services, Communications, Advertising and publicity and Technical reports.

Information about the means of payment to suppliers period. Additional third disposition. "Duty of disclosure" Law 15/2010 of 5 July

The final second disposition of Law 31/2014, 3 December, by which the additional third disposition of Law 15/2010, 5 July, is modified, which in turn modified Law 3/2004, 29 December, by which measures are established for combating late payment, establishes the obligation for commercial companies to publish their means of payment to suppliers in their annual accounts report.

Information is provided below at 31 December for 2015 and 2014, with the breakdown indicated in the applicable law:

	2015	2014
	Days	**Days**
Means of payment to suppliers period*	(25.25)	(20.61)
Ratio of transactions paid*	(24.97)	(20.71)
Ratio of transactions pending payment*	(31.93)	(17.74)

	2015	2014
	Amount (euros)	**Amount (euros)**
Total payments made	618,497,586.59	624,068,275.54
Total payments pending	25,900,263.05	21,681,117.44

* When the data shown in parenthesis refers to a negative amount, representative of either greater clarity, on average, of the payment in relation to the maximum payment period legally provided for of 60 days, or that transactions pending payment are, on average, at a time within this maximum period.

60. Depreciation and amortisation

This heading comprises the amounts charged to the income statement each year for depreciation and amortisation calculated for each asset category based on their estimated useful lives. Set out below is a breakdown of depreciation and amortisation for the past two years for each category of assets:

€ thousands	2015	2014
Tangible assets:	51,792	61,216
Tangible assets for own use:	45,365	53,582
IT equipment and installations	9,463	15,021
Furniture, vehicles and other installations	29,503	32,368
Buildings	6,397	6,191
Remainder	2	2
Investment property	6,427	7,634
Other assets leased out under operating leases	-	-
Intangible assets	85,961	83,314
Total	137,753	144,530

61. Provisions (net)

This heading comprises additions to provisions during the year, net of recoveries of amounts provisioned in prior years, except for additions or contributions to pension funds that are included in personnel expenses for the year.

€ thousands	2015	2014
Provisions for pension funds and similar obligations:	891	13,691
Pension funds	805	85
Early retirements	(566)	13,127
Payments to pensioners	652	479
Extraordinary contributions to defined contribution plans	-	-
Provisions for taxes	2,028	(476)
Provisions for contingent risks and commitments:	(52,175)	(51,346)
For contingent risks	(52,175)	(51,346)
For contingent commitments	-	-
Other provisions	14,228	(6,575)
Total	(35,028)	(44,706)

62. Impairment losses on financial assets (net)

This heading comprises of the amounts of impairment losses on financial assets, net of recoveries of amounts provisioned in prior years, in accordance with the principles described in Note 15.h) to these consolidated financial statements.

A breakdown of these impairment losses by asset type is as follows:

€ thousands	2015	2014
Available-for-sale financial assets (Note 22)	42,670	18,000
Loans and receivables (Note 23)	1,382,917	1,690,832
Held-to-maturity investment portfolio (Note 24)	-	-
Total	1,425,587	1,708,832

63. Impairment losses on other assets (net)

This heading relates basically to losses from the impairment of non-financial assets and equity instruments classed as investments, net of recoveries of amounts provisioned in prior years, which have not been classified as non-current assets held for sale.

Set out below is a breakdown of this income statement heading for 2015 and 2014:

€ thousands	2015	2014
Intangible assets:	-	-
Goodwill	-	-
Other intangible assets	-	-
Other assets:	(21,648)	(30,318)
Tangible assets	(39,993)	6,353
Investments	-	4,099
Other assets	18,345	(40,770)
Total	(21,648)	(30,318)

64. Gains (losses) on disposal of assets not classified as non-current held for sale

This heading reflects gains and losses on the sale of tangible and intangible assets and investments that do not fulfil the requirements to be classified as non-current assets held for sale, as can be seen in Note 31.

A breakdown by nature of assets is set out below:

€ thousands		**Net**
	2015	**2014**
Tangible assets	504	23,711
Other (*)	69,547	49,245
Investments (**)	57,876	425,083
Intangible assets	(52)	-
Total	127,875	498,039

(*) In 2015, Other includes capital gains on the sale of the Property Management Business in Portugal.
In 2014, the same item corresponded to capital gains on sales of the depositary business unit in its entirety.
(**) In 2015, the Gains from shares heading mainly includes the capital gains from the sale of the company Universal Pay (54,810 thousand euros), the gain from the sale of 1% of Targobank (1,080 thousand euros), and returns from the earn-out contract (originating from the non-life insurance distribution agreement signed in 2011) for an amount of 1,722 thousand euros. The other 264 thousand euros is made up of adjustments on sales contracts from previous years or divestments of small shareholdings.

In 2014, shareholdings included the capital gain on the sale of 51% of Banco Popular-e (419,270 thousand euros, of which 208,963 thousand euros relate to revaluation of retained investments) and the rest, amounting to 10,643 thousand euros relates to divestment of small investments in Group companies such as Finisterre, Cartera Premium and Platja Amplaries. This is in addition to returns from the earn-out contract.

65. Negative difference on business combinations

In 2015 and 2014, the Group did not complete any business combinations in which the cost of the business combination was lower than the fair value of the assets, liabilities and contingent liabilities acquired.

66. Gains/(Losses) on non-current assets held for sale not classified as discontinued operations

This heading reflects gains and losses on the disposal of non-current assets or disposal groups, including associated liabilities, classified as for sale but not as discontinued operations, and impairment losses on such assets, net of recoveries.

Set out below is a breakdown of this heading as at 31 December 2015 and 2014 (Note 27):

€ thousands	**2015**	**2014**
Profits on non-current tangible assets held for sale	(88,498)	(51,987)
Impairment loss on non-current assets	245,753	444,471
Total	(334,251)	(496,458)

67. Profit/(loss) attributable to non-controlling interests

This heading shows the profit or loss generated during the year attributable to minority shareholders and related adjustments.

The breakdown of this consolidated income statement item for the past two years is as follows:

€ thousands	2015	2014
Financial Companies:		
Popular Factoring, S.A. (Portugal)	5	6
Holding and services companies:		
Grupo La Toja Hoteles, S.A.	(81)	80
Special-purpose entities:		
Fundo Popular Predifundo	-	(602)
Hercepopular S.L.	577	-
Urbanizadora Española, S.A.	1	2
Total	502	(514)

68. Information on related parties

The amounts recognised in the financial statements arising from transactions with related parties other than Group, subsidiaries, and joint ventures or associates are negligible, and there are no significant transactions on which additional information needs to be provided.

All transactions with significant shareholders, directors and executives form part of the Group's ordinary business and are carried out at arm's length.

Specifically, risks on directors and senior managers, including persons related to them, break down as follows: 136,012 thousand euros in loans and credit lines,148 thousand euros in financial leasing and 18,898 thousand euros in guarantees. Interest rates on the loans and credit lines vary between 0.13% and 21.00%; financial leasing ranges between 0.93% and 5.32%; and guarantee commissions are maintained at 0.000% quarterly.

These figures for 2014 are broken down as: 142,617 thousand euros in loans and credit lines; 766 thousand euros in financial leasing and 17,477 thousand euros in guarantees. Interest rates on the loans and credit lines varied between 0.380% and 6.750%; financial leasing ranged between 1.310% and 6.000%; and guarantee commissions were maintained at 0.000% quarterly.

Additionally, transactions with Group companies, subsidiaries, joint ventures and associates are carried out at arm's length and eliminated on consolidation when appropriate.

The Group has no doubtful debts with related parties.

Set out below is a breakdown by basic balance sheet and income statement heading of balances relating to transactions with significant shareholders, directors and executives of the Group companies under "Other related parties", and balances relating to transactions between Group companies, subsidiaries, joint ventures and associates.

The amounts reflected in paragraph two of this note relate to significant shareholders, directors and executives of Banco Popular and therefore differ from those shown in table as "Other related parties", which include amounts relating to other Group companies.

Transactions between related parties are detailed below:

€ thousands	Other Related Parties		Subsidiaries		Joint ventures		Associates	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets								
Loans and advances to credit institutions	-	-	14,955,301	14,305,018	15,929	77,390	38,280	-
Loans and advances to customers	157,171	322,440	16,554,416	13,948,712	213,682	180,903	118,539	508,814
Liabilities								
Deposits from credit institutions	-	-	23,916,498	21,300,765	351,412	236,815	28,225	-
Customer deposits	502,248	571,100	5,056,274	5,809,029	469,363	443	72,535	385,419
Debt certificates	147,867	53,337	5,546,514	3,691,089	-	-	-	-
Contingent risks	19,039	17,760	2,583,654	1,680,750	110,007	123,924	13,467	24,336
Contingent commitments	-	-	714,547	796,817	525,586	545,992	796	5,564
Earnings	Dec 15	Dec 14	Dec 15	Dec 14	Dec 15	Dec 14	Dec 15	Dec 14
Interest received	3,618	9,771	687,544	723,510	13,446	17,817	45	1,855
Interest paid	8,516	8,559	585,660	672,226	270	635	4,001	5,236
Commissions and fees received	542	915	61,802	74,337	5,933	2,752	114,080	86,092
Fee and commission expenses	-	-	150,536	113,485	9,467	12,326	843	-

69. Securitisations

The following table shows the accounting situation of securitised assets:

€ thousands	2015	2014
Loans and receivables removed from the balance sheet	1,163,371	1,292,259
Mortgage assets securitised through mortgage investments	1,117,869	1,241,715
Mortgage assets securitised through mortgage transfer certificates	27,198	30,212
Other securitised assets	18,304	20,332
Other transfers to credit institutions	-	-
Other transfers	-	-
Memorandum item: Removed from the balance sheet before 1.1.2004	68,786	*82,821*
Retained in full in the balance sheet (Note 23)	4,244,706	2,360,568
Mortgage assets securitised through mortgage investments	-	-
Mortgage assets securitised through mortgage transfer certificates	1,686,318	1,305,751
Other securitised assets	2,511,595	991,074
Other transfers to credit institutions	46,793	63,743
Other transfers	-	-
Partly removed	-	-
Partly retained	-	-
Total	5,408,077	3,652,827

In March 2015, with the backing of a portfolio of loans, the IM Grupo Banco Popular Empresas VI, FTA asset securitisation fund was formed, which issued bonds totalling 3,000 million euros. The Group acquired all the notes issued by the fund, as listed below:

€ thousands	Amount issued	Rating (*)
Series A	2,340,000	A
Series B	660,000	CCC
Total	3,000,000	

(*)DBRS

In December 2015, with the backing of a portfolio of loans, the IM Grupo Banco Popular MBS 3, FTA asset securitisation fund was formed, which issued bonds totalling 900 million euros. The Group acquired all the notes issued by the fund, as listed below:

€ thousands	Amount issued	Rating (*)
Series A	702,000	A
Series B	198,000	C
Total	900,000	

(*)DBRS

In 2014, the Group did not carry out any new securitisation.

In the case of securitisations that had been removed from the balance sheet as at 31 December 2015 and 2014 as a result of the risks and benefits having been transferred to third parties, there is no continuing involvement. In addition, the Group is not exposed to losses from financial assets derecognised in the accounts.

The Banco Popular Group did not recognise any gain or loss on the transfer date of the assets, since these transactions originated in the Banco Pastor Group prior to 16 February 2012, the date on which this entity was acquired, and no income or expense was recognised in 2015 or 2014 in respect of continuing involvement.

Set out below are the amounts issued by the various securitisation funds, together with the date of incorporation and outstanding balances of the securitisation notes issued as at 31 December 2015 and 2014.

€ thousands	Issue date	Amount issued	Outstanding nominal balance as at: 2015	2014
TDA 13 (1)	Dec 2000	150,300	10,465	12,922
TDA Pastor 1 (1)	Feb 2003	494,600	58,321	69,899
IM Pastor 2 (2)	Jun 2004	1,000,000	174,706	201,855
IM Banco Popular FTPYME 1, FTA	Dec 2004	2,000,000	-	102,755
IM Pastor 3 (2)	Jun 2005	1,000,000	254,897	279,543
EDT FTPYME Pastor 3	Dec 2005	520,000	14,641	19,134
IM Pastor 4 (2)	Jun 2006	920,000	329,886	359,374
IM Grupo Banco Popular Empresas 1, FTA	Sept 2006	1,832,400	135,740	198,864
GC FTPYME Pastor 4	Nov 2006	630,000	49,935	62,701
IM Grupo Banco Popular FTPYME I, FTA	Dec 2006	2,030,000	197,240	267,831
TDA Pastor CONSUMO 1 (2)	Apr 2007	300,000	20,869	23,138
GC Pastor HIPOTECARIO 5 (2)	Jun 2007	710,500	317,615	345,527
IM Grupo Banco Popular FTPYME II, FTA	Jul 2007	2,039,000	-	179,492
IM Banco Popular MBS 2, FTA	Mar 2010	685,000	458,219	493,126
IM Grupo Banco Popular Empresas V, FTA	Feb 2013	2,650,000	527,673	1,181,495
IM Grupo Banco Popular Empresas VI, FTA	Mar 2015	3,000,000	2,273,409	-
IM Grupo Banco Popular MBS 3, FTA	Dec 2015	900,000	900,000	-
Total			5,723,616	3,797,656

Of these securitisations some are maintained off the balance sheet:
(1) The TDA 13 fund as well as the TDA Pastor 1 fund are securitisations prior to 1 January 2004 and are therefore not consolidated by the application of the IFRS first application rule. The balance is not significant in relation to the annual accounts.
(2) The other securitisations were made by Banco Pastor, an entity that was acquired by the Group in 2012, they were already deregistered on the balance sheet, of this entity, as a result of the sale to third parties of the reserve funds of these securities, which involved the transfer of risks and benefits.

Below are the details of the financial assets and liabilities that the entity has recognised (BPE and Pastor) off the balance sheet at 31 December 2015 and 2014 by securitisation funds:

	2015			2014		
	Financial assets		Liabilities	Financial assets		Liabilities
	Debt securities	Loans and advances	Deposits	Debt securities	Loans and advances	Deposits
TDA 13	566			835		
TDA Pastor 1	-	1,993	2	89	1,991	2
IM Pastor 2	3,383	-	4	4,043	-	4
IM Pastor 3	7,154	192	127	7,633	192	145
IM Pastor 4	3,569	391	126	3,901	391	124
TDA Pastor CONSUMO 1	-	508	-	-	483	-
GC Pastor HIPOTECARIO 5	30,851	585	-	33,371	554	-
Total	45,523	3,669	259	49,872	3,611	275

The off-balance-she'd financial assets and liabilities stated previously include balances of the Group's non-consolidated structured entities. These balances are not significant within the Group. Below other tranches corresponding to each bond in the BPE portfolio:

2015	ISIN	SERIES	RATING S&P	Balance
TDA 13	ES0377977006	A	Aaa	566
IM Pastor 2	ES0347861009	A	A+	3,383
IM Pastor 3	ES0347862007	A	B+	6,565
IM Pastor 3	ES0347862015	B	B-	589
IM Pastor 4	ES0347854004	A	B+	3,569
GC Pastor HIPOTECARIO 5	ES0332235011	A2	B-	26,307
GC Pastor HIPOTECARIO 5	ES0332235029	B	CCC-	4,544
Total				45,523

2014	ISIN	SERIES	RATING S&P	Balance
TDA 13	ES0377977006	A	Aaa	835
TDA Pastor 1	ES0377980000	A	AA+	89
IM Pastor 2	ES0347861009	A	A+	4,043
IM Pastor 3	ES0347862007	A	B+	7,059
IM Pastor 3	ES0347862015	B	B-	574
IM Pastor 4	ES0347854004	A	B+	3,901
GC Pastor HIPOTECARIO 5	ES0332235011	A2	B-	28,950
GC Pastor HIPOTECARIO 5	ES0332235029	B	CCC-	4,421
Total				49,872

Banco Popular Group does not retain risks or benefits on the bonds in the portfolio corresponding to these securitisations, as they are bonds with the highest ratings not corresponding, in any case, to the reserve fund or first losses tranche.

The majority of the note issues have been rated by the principal rating agencies: Fitch Ratings, Moody's and Standard & Poor's having granted the highest credit ratings by BCE as eligible for all the notes issued except for those that are subordinated, a very small percentage of the total issued. This may be observed in the following table

€ thousands		**Notes with the highest rating**		**Subordinated notes**	
2015	**Notes issued**	**Amount**	**%**	**Amount**	**%**
TDA 13 Mixto	150,300	150,300	100.00%	-	0.00%
TDA Pastor 1	494,600	490,900	99.25%	3,700	0.75%
IM Pastor 2	1,000,000	993,500	99.35%	6,500	0.65%
IM Pastor 3	1,000,000	1,000,000	100.00%	-	0.00%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
IM Pastor 4	920,000	913,100	99.25%	6,900	0.75%
IM Grupo Banco Popular Empresas I, FTA	1,832,400	1,800,000	98.23%	32,400	1.77%
GC FTPYME Pastor 4	630,000	617,400	98.00%	12,600	2.00%
IM Grupo Banco Popular FTPYME I, FTA	2,030,000	2,000,000	98.52%	30,000	1.48%
TDA Pastor CONSUMO 1	300,000	300,000	100.00%	-	0.00%
GC Pastor HIPOTECARIO 5	710,500	700,000	98.52%	10,500	1.48%
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Grupo Banco Popular Empresas V, FTA	2,650,000	1,987,500	75.00%	662,500	25.00%
IM Grupo Banco Popular Empresas VI, FTA	3,000,000	2,340,000	78.00%	660,000	22.00%
IM Grupo Banco Popular MBS 3, FTA	900,000	702,000	78.00%	198,000	22.00%
Total	16,822,800	15,095,300	89.73%	1,727,500	10.27%

The 2014 data is shown below.

€ thousands		**Notes with the highest rating**		**Subordinated notes**	
2014	**Notes issued**	**Amount**	**%**	**Amount**	**%**
IM Banco Popular MBS 2, FTA	685,000	596,000	87.01%	89,000	12.99%
IM Banco Popular FTPYME I, FTA	2,000,000	1,929,000	96.45%	71,000	3.55%
IM Grupo Banco Popular Empresas I, FTA	1,832,400	1,800,000	98.23%	32,400	1.77%
IM Grupo Banco Popular FTPYME I, FTA	2,030,000	2,000,000	98.52%	30,000	1.48%
IM Grupo Banco Popular FTPYME II, FTA	2,039,000	2,000,000	98.09%	39,000	1.91%
IM Grupo Banco Popular Empresas V, FTA	2,650,000	1,987,500	75.00%	662,500	25.00%
TDA 13 Mixto	150,300	150,300	100.00%	-	0.00%
TDA Pastor 1	494,600	490,900	99.25%	3,700	0.75%
TDA Pastor CONSUMO 1	300,000	300,000	100.00%	-	0.00%
IM Pastor 2	1,000,000	993,500	99.35%	6,500	0.65%
IM Pastor 3	1,000,000	1,000,000	100.00%	-	0.00%
IM Pastor 4	920,000	913,100	99.25%	6,900	0.75%
EDT FTPYME Pastor 3	520,000	504,600	97.04%	15,400	2.96%
GC FTPYME Pastor 4	630,000	617,400	98.00%	12,600	2.00%
GC Pastor HIPOTECARIO 5	710,500	700,000	98.52%	10,500	1.48%
Total	16,961,800	15,982,300	94.23%	979,500	5.78%

Of the nominal amount outstanding at year-end 2015 and 2014, the Group holds notes representing these issues in its portfolio. On the one hand, the notes represent the expected loss on the securitised loan portfolio, which precludes the derecognition of the securitised loans, and on the other hand the Group also retains instruments that can be pledged with Banco de España or the European Central Bank as collateral for a second liquidity line. In both cases, the nominal amount outstanding held by Group banks are eliminated in the consolidation process, the amounts as at 31 December 2015 and 2014 being as follows:

€ thousands	**2015**	**2014**
IM Banco Popular FTPYME1, FTA	-	84,001
IM Grupo Banco Popular Empresas 1, FTA	74,078	115,534
IM Grupo Banco Popular FTPYME I, FTA	84,757	87,889
IM Grupo Banco Popular FTPYME II, FTA	-	134,843
IM Banco Popular MBS 2, FTA	458,219	493,126
IM Grupo Banco Popular Empresas V, FTA	527,673	1,181,495
GC FTPYME PASTOR 4	263	235
EDT FTPYME PASTOR 3	951	1,000
IM Grupo Banco Popular Empresas VI, FTA	2,273,409	-
IM Grupo Banco Popular MBS 3, FTA	900,000	-
Total	4,319,350	2,098,123

70. Events after the reporting period

After the end of the period, the following event must be highlighted:

On 04 January 2016, the third capital increase charged against 2014 reserves was approved and its conditions were reported to the market. On 20 January 2016, the period for negotiating allocation rights for the third capital increase ended. This led to the a capital increase of 5,366,090.50 euros (through the issue of 10,732,181 new shares each with a nominal value of €0.50) with 76.34% of the shareholders holding free allocation rights having chosen to receive new shares. The remaining 23.66% free allocation rights holders exercised the irrevocable commitment to acquiring rights assumed by the Bank, whereby it acquired 512,319,435 rights for a total gross amount of 10,246,388.70 euros. The Bank renounced the free allocation rights acquired in this way.

APPENDIX I

Consolidated statements of sectoral information for the year ended 31 December 2015 (thousands of euros)

CONSOLIDATED BALANCE SHEET AS AT 31/12/2015

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
ASSETS					
Cash and balances with central banks	3,531,999	2	16	(9,010)	3,523,007
Financial instruments held for trading	1,264,912	20,971	-	-	1,285,883
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	20,971	-	-	20,971
Other equity instruments	21,523	-	-	-	21,523
Trading derivatives	1,243,389	-	-	-	1,243,389
Memorandum item: Loaned or pledged	-	-	-	-	-
Other financial assets at fair value through profit or loss	-	559,220	-	(23,901)	535,319
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	337,770	-	(23,901)	313,869
Other equity instruments	-	221,450	-	-	221,450
Memorandum item: Loaned or pledged	-	-	-	-	-
Available-for-sale financial assets	24,670,568	339,366	534	182,687	25,193,155
Debt securities	24,247,078	316,751	-	182,817	24,746,646
Other equity instruments	423,490	22,615	534	(130)	446,509
Memorandum item: Loaned or pledged	11,376,677	-	-	-	11,376,677
Loans and receivables	108,182,503	96,155	31,326	(1,290,987)	107,018,997
Loans and advances to credit institutions	6,349,183	95,901	24,747	(225,564)	6,244,267
Loans and advances to customers	100,696,359	254	6,579	(1,065,423)	99,637,769
Debt securities	1,136,961	-	-	-	1,136,961
Memorandum item: Loaned or pledged	17,417,261	-	-	(244,393)	17,172,868
Held-to-maturity portfolio	-	141,600	-	(141,600)	-
Memorandum item: Loaned or pledged	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedges of interest rate risk	233,228	-	-	-	233,228
Hedging derivatives	427,546	-	-	15,522	443,068
Non-current assets held for sale	9,045,928	-	-	-	9,045,928
Investments	1,313,625	7,500	106	472,778	1,794,009
Associates	1,139,450	-	-	-	1,139,450
Joint ventures	-	-	-	654,559	654,559
Group companies	174,175	7,500	106	(181,781)	-
Insurance contracts linked to pensions	213,678	-	-	(45,760)	167,918
Reinsurance assets	-	17,524	-	-	17,524
Tangible assets	1,685,140	29	25,918	(13,302)	1,697,785
Property, plant and equipment	777,430	29	1,791	(1,537)	777,713
For own use	777,430	29	1,791	(1,537)	777,713
Leased out under operating lease	-	-	-	-	-
Assigned to social projects	-	-	-	-	-
Investment property	907,710	-	24,127	(11,765)	920,072
Memorandum item: Acquired under finance leases	-	-	-	-	-
Intangible assets	3,265,680	302	607	(694,710)	2,571,879
Goodwill	2,413,850	-	-	(340,949)	2,072,901
Other intangible assets	851,830	302	607	(353,761)	498,978
Tax assets	3,590,585	4,531	14,565	(5,518)	3,604,163
Current	150,943	2,285	9,302	(2,357)	160,173
Deferred	3,439,642	2,246	5,263	(3,161)	3,443,990
Other assets	1,297,962	2,709	226,252	(8,913)	1,518,010
Inventories	727,360	-	156,692	13,263	897,315
Other	570,602	2,709	69,560	(22,176)	620,695
Total assets	158,723,354	1,189,909	299,324	(1,562,714)	158,649,873

CONSOLIDATED BALANCE SHEET AS AT 31/12/2015

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
LIABILITIES					
Financial instruments held for trading	1,043,063	-	-	-	1,043,063
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Trading derivatives	1,043,063	-	-	-	1,043,063
Short positions	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	599,419	-	-	599,419
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	599,419	-	-	599,419
Financial liabilities at amortised cost	141,512,358	14,604	288,741	(1,307,179)	140,508,524
Deposits from central banks	14,204,120	-	-	-	14,204,120
Deposits from credit institutions	19,109,846	-	275,986	(213,566)	19,172,266
Customer deposits	89,375,023	-	-	(1,039,608)	88,335,415
Debt certificates	16,016,731	-	-	(27,683)	15,989,048
Subordinated liabilities	2,066,956	2,000	-	(2,005)	2,066,951
Other financial liabilities	739,682	12,604	12,755	(24,317)	740,724
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-
Hedging derivatives	1,966,972	-	-	47,002	2,013,974
Liabilities associated with non-current assets held for sale	-	-	-	-	-
Liabilities under insurance contracts	-	414,298	-	72,531	486,829
Provisions	384,431	-	213	(1,285)	383,359
Provisions for pensions and similar liabilities	261,133	-	-	(16)	261,117
Provisions for taxes	16,541	-	-	(182)	16,359
Provisions for contingent risks and commitments	69,311	-	-	-	69,311
Other provisions	37,446	-	213	(1,087)	36,572
Tax liabilities	497,262	1,010	1,656	13,555	513,483
Current	49,998	269	1,656	(6,348)	45,575
Deferred	447,264	741	-	19,903	467,908
Other liabilities	804,697	8,022	2,725	(228,847)	586,597
Total liabilities	146,208,783	1,037,353	293,335	(1,404,223)	146,135,248

CONSOLIDATED BALANCE SHEET AS AT 31/12/2015

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
EQUITY					
Shareholders' Equity	12,719,992	153,078	5,989	(159,067)	12,719,992
Common Stock	1,082,538	24,100	20,222	(44,322)	1,082,538
Issued +	1,082,538	24,100	20,222	(44,322)	1,082,538
Minus: uncalled capital (-)	-	-	-	-	-
Share premium	7,774,555	-	45,583	(45,583)	7,774,555
Reserves	3,821,333	116,400	(51,500)	(64,900)	3,821,333
Accumulated reserves (losses)	3,844,722	116,400	(51,500)	(80,823)	3,828,799
Reserves (losses) of equity method companies	(23,389)	-	-	15,923	(7,466)
Other equity instruments	-	-	-	-	-
From compound financial instruments	-	-	-	-	-
Other equity instruments	-	-	-	-	-
Minus: Treasury shares	21,479	-	-	-	21,479
Profit (loss) attributable to the parent company	105,432	12,578	(8,316)	(4,262)	105,432
Minus: Dividends and remuneration	42,387	-	-	-	42,387
Valuation adjustments	(221,743)	(522)	-	522	(221,743)
Available-for-sale financial assets	(193,908)	(522)	-	3,264	(191,166)
Cash flow hedges	(92,207)	-	-	-	(92,207)
Hedges of net investment in foreign operations	-	-	-	-	-
Exchange differences	92,297	-	-	-	92,297
Non-current assets held for sale	-	-	-	-	-
Entities accounted for using the equity method	5,394	-	-	(3,269)	2,125
Other valuation adjustments	(33,319)	-	-	527	(32,792)
Non-controlling interests	16,322	-	-	54	16,376
Valuation adjustments	-	-	-	-	-
Remainder	16,322	-	-	54	16,376
Total Equity	12,514,571	152,556	5,989	(158,491)	12,514,625
Total Equity and Liabilities	158,723,354	1,189,909	299,324	(1,562,714)	158,649,873

Memorandum item					
Contingent risks	11,139,225	-	-	20,205	11,159,430
Contingent commitments	11,329,272	-	-	(2,760,524)	8,568,748

CONSOLIDATED PROFIT AND LOSS STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
Interest and similar income	3,638,549	33,082	4,800	(167,743)	3,508,688
Interest and similar expenses	1,278,852	1,399	5,148	(27,947)	1,257,452
Remuneration of capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,359,697	31,683	(348)	(139,796)	2,251,236
Return on equity instruments	7,372	5,778	-	(12)	13,138
Share of profits (losses) of entities accounted for using the equity method	53,898	-	-	(6,476)	47,422
Fee and commission income	730,649	8,451	215	(83,545)	655,770
Fee and commission expenses	90,287	5,049	-	(34,888)	60,448
Net gains (losses) on financial assets and liabilities	527,603	(10,978)	555	80	517,260
Financial instruments held for trading	11,540	-	-	-	11,540
Other financial instruments at fair value through profit and loss	-	(15,877)	-	-	(15,877)
Financial instruments not at fair value through profit and loss	519,739	4,899	555	-	525,193
Other	(3,676)	-	-	80	(3,596)
Exchange differences (net)	43,627	2,240	(3)	(300)	45,564
Other operating income	182,950	34,776	19,493	(7,757)	229,462
Income from insurance and reinsurance contracts issued	-	33,241	-	-	33,241
Sales and revenues from provision of non-financial services	-	1,044	12,945	(56)	13,933
Other operating income	182,950	491	6,548	(7,701)	182,288
Other operating expenses	217,665	41,784	14,494	(5,450)	268,493
Insurance and reinsurance contract expenses	-	41,722	-	(603)	41,119
Change in inventories	-	-	12,160	(1,399)	10,761
Remainder of other operating expenses	217,665	62	2,334	(3,448)	216,613
GROSS INCOME	3,597,844	25,117	5,418	(197,468)	3,430,911
Administration expenses	1,738,196	7,754	5,543	(147,806)	1,603,687
Personnel expenses	975,009	3,824	1,128	(44,128)	935,833
Other general administrative expenses	763,187	3,930	4,415	(103,678)	667,854
Depreciation and amortisation	186,783	301	2,216	(51,547)	137,753
Provisioning expense (net)	(35,195)	-	(885)	1,052	(35,028)
Impairment losses on financial assets (net)	1,430,444	222	156	(5,235)	1,425,587
Loans and receivables	1,387,991	-	156	(5,230)	1,382,917
Other financial instruments not carried at fair value through profit or loss	42,453	222	-	(5)	42,670
Financial assets valued at cost	-	-	-	-	-
Available-for-sale financial assets	42,453	222	-	(5)	42,670
Held-to-maturity portfolio	-	-	-	-	-
NET OPERATING INCOME	277,616	16,840	(1,612)	6,068	298,912
Impairment losses on other assets (net)	(27,935)	-	(12,409)	18,696	(21,648)
Goodwill and other intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	(27,935)	-	(12,409)	18,696	(21,648)
Property, plant and equipment	1,007	-	-	-	1,007
Investment property	(43,878)	-	(5,929)	8,807	(41,000)
Investments	-	-	-	-	-
Remainder	14,936	-	(6,480)	9,889	18,345
Gains (losses) on disposal of assets not classified as non-current held for sale	130,636	-	(21,517)	18,756	127,875
Negative difference on business combinations	-	-	-	-	-
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	(327,312)	-	(1,289)	(5,650)	(334,251)
PROFIT/(LOSS) BEFORE TAX	108,875	16,840	(12,009)	478	114,184
Income tax	2,941	4,262	(3,693)	4,740	8,250
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	105,934	12,578	(8,316)	(4,262)	105,934
Profit (loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	105,934	12,578	(8,316)	(4,262)	105,934
Profit attributable to the parent company	105,432	12,578	(8,316)	(4,262)	105,432
Profit attributable to non-controlling interests	502	-	-	-	502

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31/12/2015

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
A.) CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	105,934	12,578	(8,316)	(4,262)	105,934
B.) OTHER COMPREHENSIVE INCOME	(88,666)	(522)	-	522	(88,666)
B.1) Items that will not be reclassified to profit or loss	284			823	1,107
1. Actuarial profit /(loss) in defined benefit pension plans	1,969			1,175	3,144
2. Non-current assets held for sale					
3. Entities accounted for using the equity method					
4. Income tax relating to items that will not be reclassified to profit or loss	(1,685)			(352)	(2,037)
B.2) Items that may subsequently be reclassified to profit or loss	(88,950)	(522)	-	(301)	(89,773)
1. Available-for-sale financial assets	(65,654)	(323)	-	(22,444)	(88,421)
1.1. Valuation gains/(losses)	358,057	4,413	-	(21,943)	340,527
1.2. Amounts transferred to profit and loss account	423,711	4,736	-	501	428,948
1.3. Other reclassifications	-	-	-	-	-
2. Cash flow hedges	(94,618)	-	-	(3,399)	(98,017)
2.1. Valuation gains/(losses)	(94,618)	-	-	(3,399)	(98,017)
2.2. Amounts transferred to profit and loss account	-	-	-	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-	-	-	-
2.4. Other reclassifications	-	-	-	-	-
3. Hedges of net investment in foreign operations	-	-	-	-	-
3.1. Valuation gains/(losses)	-	-	-	-	-
3.2. Amounts transferred to profit and loss account	-	-	-	-	-
3.3. Other reclassifications	-	-	-	-	-
4. Exchange differences	60,013	-	-	-	60,013
4.1. Valuation gains/(losses)	60,013	-	-	-	60,013
4.2. Amounts transferred to profit and loss account	-	-	-	-	-
4.3. Other reclassifications	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-
5.1. Valuation gains/(losses)	-	-	-	-	-
5.2. Amounts transferred to profit and loss account	-	-	-	-	-
5.3. Other reclassifications	-	-	-	-	-
7. Entities accounted for using the equity method	(14,701)	-	-	17,493	2,792
7.1. Valuation gains/(losses)	(14,701)	-	-	17,493	2,792
7.2. Amounts transferred to profit and loss account	-	-	-	-	-
7.3. Other reclassifications	-	-	-	-	-
8. Other comprehensive income	-	-	-	-	-
9. Income tax relating to items that may subsequently be reclassified to profit or loss	26,010	(199)	-	8,049	33,860
C.) TOTAL RECOGNISED INCOME AND EXPENSIVE (A+B)	17,268	12,056	(8,316)	(3,740)	17,268
C.1.) Attributed to the parent company	16,766	12,056	(8,316)	(3,740)	16,766
C.2.) Attributed to non-controlling interests	502	-	-	-	502

APPENDIX I

Consolidated statements of sectoral information for the year ended 31 December 2014 (thousands of euros)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
ASSETS					
Cash and balances with central banks	1,265,168	4	16	(72,374)	1,192,814
Financial instruments held for trading	1,649,183	40,339	-	122	1,689,644
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	40,339	-	-	40,339
Other equity instruments	163,923	-	-	-	163,923
Trading derivatives	1,485,260	-	-	122	1,485,382
Memorandum item: Loaned or pledged	-	-	-	-	-
Other financial assets at fair value through profit or loss	-	551,912	-	(41,113)	510,799
Loans and advances to credit institutions	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Debt securities	-	392,657	-	(41,113)	351,544
Other equity instruments	-	159,255	-	-	159,255
Memorandum item: Loaned or pledged	-	-	-	-	-
Available-for-sale financial assets	29,300,652	337,479	676	126,545	29,765,352
Debt securities	28,923,690	313,508	-	126,704	29,363,902
Other equity instruments	376,962	23,971	676	(159)	401,450
Memorandum item: Loaned or pledged	20,171,376	-	-	-	20,171,376
Loans and receivables	109,998,634	197,765	17,275	(2,386,058)	107,827,616
Loans and advances to credit institutions	5,138,213	197,765	6,307	(292,333)	5,049,952
Loans and advances to customers	102,665,680	-	10,968	(2,093,725)	100,582,923
Debt securities	2,194,741	-	-	-	2,194,741
Memorandum item: Loaned or pledged	9,975,241	-	-	-	9,975,241
Held-to-maturity portfolio	-	138,316	-	(138,316)	-
Memorandum item: Loaned or pledged	-	-	-	-	-
Adjustments to financial assets in respect of macro-hedges	261,023	-	-	-	261,023
Hedging derivatives	428,564	-	-	12,592	441,156
Non-current assets held for sale	8,210,151	-	-	(8,773)	8,201,378
Investments	1,139,643	7,500	106	723,536	1,870,785
Associates	874,540	-	-	-	874,540
Joint ventures	-	-	-	996,245	996,245
Group companies	265,103	7,500	106	(272,709)	-
Insurance contracts linked to pensions	209,730	7	-	(47,083)	162,654
Reinsurance assets	-	16,921	-	-	16,921
Tangible assets	1,693,840	49	48,461	(31,126)	1,711,224
Property, plant and equipment	775,425	49	673	(18,978)	757,169
For own use	765,086	49	673	(18,978)	746,830
Leased out under operating lease	10,339	-	-	-	10,339
Assigned to social projects	-	-	-	-	-
Investment property	918,415	-	47,788	(12,148)	954,055
Memorandum item: Acquired under finance leases	-	-	-	-	-
Intangible assets	3,374,327	286	2,110	(884,048)	2,492,675
Goodwill	2,656,297	-	-	(597,827)	2,058,470
Other intangible assets	718,030	286	2,110	(286,221)	434,205
Tax assets	3,593,695	9,175	20,754	(5,526)	3,618,098
Current	178,915	1,816	4,718	(3,839)	181,610
Deferred	3,414,780	7,359	16,036	(1,687)	3,436,488
Other assets	1,552,916	2,395	241,908	(102,880)	1,694,339
Inventories	693,980	-	167,557	19,547	881,084
Other	858,936	2,395	74,351	(122,427)	813,255
Total assets	162,677,526	1,302,148	331,306	(2,854,502)	161,456,478

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
LIABILITIES					
Financial instruments held for trading	1,397,247	-	-	142	1,397,389
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Trading derivatives	1,397,247	-	-	142	1,397,389
Short positions	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	649,354	-	-	649,354
Deposits from central banks	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	-
Customer deposits	-	-	-	-	-
Debt certificates	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Other financial liabilities	-	649,354	-	-	649,354
Financial liabilities at amortised cost	144,427,267	21,187	300,254	(2,520,930)	142,227,778
Deposits from central banks	9,993,427	-	-	-	9,993,427
Deposits from credit institutions	17,641,956	190	287,915	(216,330)	17,713,731
Customer deposits	98,130,348	-	2	(2,094,154)	96,036,196
Debt certificates	16,005,115	-	-	(43,097)	15,962,018
Subordinated liabilities	1,424,650	4,000	-	(4,005)	1,424,645
Other financial liabilities	1,231,771	16,997	12,337	(163,344)	1,097,761
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-	-	-
Hedging derivatives	2,119,005	-	-	42,069	2,161,074
Liabilities associated with non-current assets held for sale	-	-	-	-	-
Liabilities under insurance contracts	-	414,755	-	69,029	483,784
Provisions	471,368	-	1,102	(2,472)	469,998
Provisions for pensions and similar liabilities	295,150	-	-	(1,497)	293,653
Provisions for taxes	31,884	-	-	(104)	31,780
Provisions for contingent risks and commitments	122,143	-	-	(871)	121,272
Other provisions	22,191	-	1,102	-	23,293
Tax liabilities	725,984	1,792	911	(10,228)	718,459
Current	125,043	536	911	(29,443)	97,047
Deferred	600,941	1,256	-	19,215	621,412
Other liabilities	866,842	8,381	3,412	(199,860)	678,775
Total liabilities	150,007,713	1,095,469	305,679	(2,622,250)	148,786,611

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
EQUITY					
Shareholders' Equity	12,783,396	204,585	25,627	(230,212)	12,783,396
Common Stock	1,050,384	24,100	20,222	(44,322)	1,050,384
Issued +	1,050,384	24,100	20,222	(44,322)	1,050,384
less: uncalled capital (-)	-	-	-	-	-
Share premium	7,132,590	-	45,583	(45,583)	7,132,590
Reserves	3,630,267	165,486	(34,755)	(130,731)	3,630,267
Accumulated reserves (losses)	3,610,903	165,486	(34,755)	(97,822)	3,643,812
Reserves (losses) of companies accounted for using the equity method	19,364	-	-	(32,909)	(13,545)
Other equity instruments	643,198	-	-	-	643,198
From compound financial instruments	-	-	-	-	-
Other equity instruments	643,198	-	-	-	643,198
Less: Treasury shares	(3,458)	-	-	-	(3,458)
Profit for year attributable to the parent company	330,415	14,999	(5,423)	(9,576)	330,415
Less: Dividends and remuneration	-	-	-	-	-
Valuation adjustments	(133,077)	2,094	-	(2,094)	(133,077)
Available-for-sale financial assets	(148,320)	2,094	-	16,585	(129,641)
Cash flow hedges	(25,959)	-	-	2,379	(23,580)
Hedges of net investment in foreign operations	-	-	-	-	-
Exchange differences	54,710	-	-	-	54,710
Non-current assets held for sale	-	-	-	-	-
Entities accounted for using the equity method	20,095	-	-	(20,762)	(667)
Other valuation adjustments	(33,603)	-	-	(296)	(33,899)
Non-controlling interests	19,494	-	-	54	19,548
Valuation adjustments	-	-	-	-	-
Remainder	19,494	-	-	54	19,548
Total Equity	12,669,813	206,679	25,627	(232,252)	12,669,867
Total Equity and Liabilities	162,677,526	1,302,148	331,306	(2,854,502)	161,456,478

Memorandum item					
Contingent risks	12,616,975	-	-	(62,827)	12,554,148
Contingent commitments	11,609,231	-	-	(2,753,992)	8,855,239

CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
Interest and similar income	4,215,940	40,391	5,276	(94,373)	4,167,234
Interest and similar expenses	1,856,391	1,525	6,759	(28,832)	1,835,843
Remuneration of capital repayable on demand	-	-	-	-	-
NET INTEREST INCOME	2,359,549	38,866	(1,483)	(65,541)	2,331,391
Return on equity instruments	11,355	3,037	-	(3)	14,389
Share of profits (losses) of entities accounted for using the equity method	18,716	-	-	14,676	33,392
Fee and commission income	768,565	12,641	167	(41,973)	739,400
Fee and commission expenses	104,181	8,071	-	(27,559)	84,693
Net gains (losses) on financial assets and liabilities	837,877	(17,060)	7	(215)	820,609
Financial instruments held for trading	32,427	-	-	(208)	32,219
Other financial instruments at fair value through profit and loss	(80)	(24,578)	-	(10)	(24,668)
Financial instruments not at fair value through profit and loss	778,903	7,518	7	1	786,429
Other	26,627	-	-	2	26,629
Exchange differences (net)	45,641	2,677	(2)	(1,084)	47,232
Other operating income	244,218	135,147	23,933	(60,818)	342,480
Income from insurance and reinsurance contracts issued	-	134,542	-	(390)	134,152
Sales and income from provision of non-financial services	-	604	17,982	(43)	18,543
Other operating income	244,218	1	5,951	(60,385)	189,785
Other operating expenses	214,763	136,574	22,665	(5,835)	368,167
Insurance and reinsurance contract expenses	-	136,384	-	(525)	135,859
Change in inventories	-	-	17,414	(1,088)	16,326
Remainder of other operating charges	214,763	190	5,251	(4,222)	215,982
GROSS INCOME	3,966,977	30,663	(43)	(121,564)	3,876,033
Administration expenses	1,790,094	7,736	6,301	(77,846)	1,726,285
Personnel expenses	976,366	3,781	1,599	(35,511)	946,235
Other general administrative expenses	813,728	3,955	4,702	(42,335)	780,050
Depreciation and amortisation	163,447	327	788	(20,032)	144,530
Provisions (net)	(44,278)	-	-	(428)	(44,706)
Impairment losses on financial assets (net)	1,724,067	1,347	598	(17,180)	1,708,832
Loans and receivables	1,707,414	-	598	(17,180)	1,690,832
Other financial instruments not at fair value through profit and loss	16,653	1,347	-	-	18,000
Financial assets valued at cost	-	-	-	-	-
Available-for-sale financial assets	16,653	1,347	-	-	18,000
Held-to-maturity portfolio	-	-	-	-	-
NET OPERATING INCOME	333,647	21,253	(7,730)	(6,078)	341,092
Impairment losses on other assets (net)	(45,130)	-	(117)	14,929	(30,318)
Goodwill and other intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	(45,130)	-	(117)	14,929	(30,318)
Property, plant and equipment	1,662	-	-	(60)	1,602
Investment property	702	-	-	4,049	4,751
Investments	4,099	-	-	-	4,099
Remainder	(51,593)	-	(117)	10,940	(40,770)
Gains (losses) on disposal of assets not classified as non-current held for sale	498,116	-	(94)	17	498,039
Negative difference on business combinations	-	-	-	-	-
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	(497,932)	-	(25)	1,499	(496,458)
PROFIT/(LOSS) BEFORE TAX	378,961	21,253	(7,732)	(19,491)	372,991
Income tax	49,060	6,254	(2,309)	(9,915)	43,090
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	329,901	14,999	(5,423)	(9,576)	329,901
Profit (loss) from discontinued operations (net)	-	-	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	329,901	14,999	(5,423)	(9,576)	329,901
Profit attributable to the parent company	330,415	14,999	(5,423)	(9,576)	330,415
Profit attributable to non-controlling interests	(514)	-	-	-	(514)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2014

	Credit institutions	Insurance companies	Other institutions	Adjustments & elimin.	Total
A.) CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	329,901	14,999	(5,423)	(9,576)	329,901
B.) OTHER COMPREHENSIVE INCOME	213,848	2,094	-	(2,094)	213,848
B.1) Items that will not be reclassified to profit or loss	(20,903)	-	-	(296)	(21,199)
1. Actuarial profit /(loss) in defined benefit pension plans	(28,415)	-	-	(422)	(28,837)
2. Non-current assets held for sale	-	-	-	-	-
3. Entities accounted for using the equity method	-	-	-	-	-
4. Income tax relating to items that will not be reclassified to profit or loss	7,512	-	-	126	7,638
B.2) Items that may be reclassified to profit and loss	234,751	2,094	-	(1,798)	235,047
1. Available-for-sale financial assets	302,058	2,608	-	20,373	325,039
1.1. Valuation gains/(losses)	997,848	8,779	-	20,381	1,027,008
1.2. Amounts transferred to profit and loss account	695,790	6,171	-	8	701,969
1.3. Other reclassifications	-	-	-	-	-
2. Cash flow hedges	(47,920)	-	-	3,398	(44,522)
2.1. Valuation gains/(losses)	(47,920)	-	-	3,398	(44,522)
2.2. Amounts transferred to profit and loss account	-	-	-	-	-
2.3. Amounts transferred at initial carrying amount of hedged items	-	-	-	-	-
2.4. Other reclassifications	-	-	-	-	-
3. Hedges of net investment in foreign operations	-	-	-	-	-
3.1. Valuation gains/(losses)	-	-	-	-	-
3.2. Amounts transferred to profit and loss account	-	-	-	-	-
3.3. Other reclassifications	-	-	-	-	-
4. Exchange differences	59,055	-	-	-	59,055
4.1. Valuation gains/(losses)	59,055	-	-	-	59,055
4.2. Amounts transferred to profit and loss account	-	-	-	-	-
4.3. Other reclassifications	-	-	-	-	-
5. Non-current assets held for sale	-	-	-	-	-
5.1. Valuation gains/(losses)	-	-	-	-	-
5.2. Amounts transferred to profit and loss account	-	-	-	-	-
5.3. Other reclassifications	-	-	-	-	-
7. Entities accounted for using the equity method	17,503	-	-	(18,170)	(667)
7.1. Valuation gains/(losses)	17,503	-	-	(18,170)	(667)
7.2. Amounts transferred to profit and loss account	-	-	-	-	-
7.3. Other reclassifications	-	-	-	-	-
8. Other comprehensive income	-	-	-	-	-
9. Income tax relating to items that may be reclassified to results	(95,945)	(514)	-	(7,399)	(103,858)
C.) TOTAL COMPREHENSIVE INCOME (A+B)	543,749	17,093	(5,423)	(11,670)	543,749
C.1.) Attributed to the parent company	547,407	17,093	(5,423)	(11,670)	547,407
C.2.) Attributed to non-controlling interests	(3,658)	-	-	-	(3,658)

APPENDIX II

Banco Pastor, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
ALVAREZ DOMINGUEZ , ALICIA	LEIRO	SPAIN
ALVAREZ TEIJEIRO , FRANCISCO ANTONIO	VEGADEO	SPAIN
AÑON ROIBAL , JAIME	PAIOSACO	SPAIN
ASESORIA XARPER,S.L.	BANDEIRA	SPAIN
BLANCO CORTIÑAS , RAQUEL	TRASMIRAS	SPAIN
BLANCO SECO , MARIBEL	AGOLADA	SPAIN
CARBIA GONZALEZ, JOSE MANUEL	TARAGOÑA	SPAIN
CASTRO GOMEZ , MARIA BEGOÑA	PALAS DE REI	SPAIN
CELEIRO LOPEZ , ANTONIO	TRIACASTELA	SPAIN
COTA VAZQUEZ , SERGIO	CALVOS DE RANDIN	SPAIN
DIEGUEZ DIEGUEZ , SONIA	AGUDIÑA	SPAIN
DIGON RODRIGUEZ , ANA MARIA	SAN ROMAN DE CERVANTES	SPAIN
ESCUREDO GARCIA , JOAQUINA	A VEIGA	SPAIN
FEIJOO PIÑEIRO , DAVID	CABO DE CRUZ	SPAIN
FEIJOO RIO , ELADIO	OS PEARES	SPAIN
FERNANDEZ FERNANDEZ , JULIO JUSTO	SOBRADELO	SPAIN
FERNANDEZ FERNANDEZ , MAGIN	O BOLO	SPAIN
FERNANDEZ FERNANDEZ , MATILDE	A SEARA	SPAIN
FERNANDEZ MAREY , MARIA FLOR	BARALLA	SPAIN
FRANCISCO FERNANDEZ , MARIA PRAXEDES	CORTEGADA	SPAIN
FRANCO RAMOS, S.L.	AGUIÑO	SPAIN
FRANCO RAMOS, S.L.	PALMEIRA	SPAIN
FRANCO RAMOS, S.L.	XUÑO	SPAIN
GARCIA LOPEZ, NATALIA	MERA	SPAIN
GEADA LOSADA , ANA MARIA	FERREIRA DO VALADOURO	SPAIN
GONZALEZ ANDRADE , MARIA MARTINA	ENTRIMO	SPAIN
GONZALEZ PEDROUZO , AVELINO	DACON	SPAIN
GONZALEZ VAZQUEZ , MANUEL JESUS	PONTEDEVA	SPAIN
LAGARES GOMEZ , MARIA BELEN	PONTECARREIRA	SPAIN
LOPEZ CASTAÑO , MERCEDES	PARAMO	SPAIN
LOPEZ IRIARTE, JOSE MANUEL	O SEIXO	SPAIN
LOPEZ LOPEZ , MARIA ASUNCION	GUNTIN	SPAIN
LOPEZ VALEIRAS SAMPEDRO , ANTON	BARBANTES-ESTACIÓN	SPAIN
LOPEZ YAÑEZ , MARIA FE	NAVIA DE SUARNA	SPAIN
MONTERO RODRIGUEZ , DELFINA	QUINTELA DE LEIRADO	SPAIN
MOURIÑO VARELA , BEGOÑA	ANTAS DE ULLA	SPAIN
NIETO MAROÑO, MONTSERRAT	CALO	SPAIN
NOGUEROL RODRIGUEZ , ANDRES	O IRIXO	SPAIN
PARDO VAZQUEZ , MARIA ESTELA	PARGA	SPAIN
PERALTA CORDERI , JAIME	A SAINZA	SPAIN
PEREIRO LOPEZ , MARIA	O INCIO	SPAIN
PEREZ CARBALLO, JULIO	VILAR DO BARRIO	SPAIN
PEREZ CORRAL , MARIA CARMEN	SAN AMARO	SPAIN
PEREZ OBREGON , SONIA	OIMBRA	SPAIN
PIÑEIRO MARTA, PABLO	CAION	SPAIN
RAMOS GARCIA, MARIA JESUS	MACEDA	SPAIN

RAPADO ASESORES, S.L.	FORCAREI	SPAIN
REY VALIÑO , LUIS CESAR	CORISTANCO	SPAIN
RIVAS FERNANDEZ , MARIA	XUNQUEIRA DE AMBIA	SPAIN
RIVERA GALDO, JOSE	MAÑON	SPAIN
RODRIGUEZ ALVAREZ , BORJA	SAN CLODIO	SPAIN
RODRÍGUEZ FERNÁNDEZ , MARIA DEL CARMEN	CASTROVERDE	SPAIN
RODRIGUEZ LOPEZ, EDITA	PARADELA	SPAIN
RODRIGUEZ SOTELO , CESAR	SARREAUS	SPAIN
RODRIGUEZ TEIXEIRA , SONIA	VILARDEVÓS	SPAIN
ROMERO FORMOSO , FATIMA	ESTEIRO	SPAIN
ROMERO GATO, LAURA	XERMADE	SPAIN
SALGADO FEIJOO , MANUEL	BALTAR	SPAIN
SANTOS GERPE MARIA , MARIA SONIA	CAMARIÑAS	SPAIN
SOBREDO SIGUEIRO , JOSE MANUEL	PONTEVEA	SPAIN
SOMOZA DE LA FUENTE , JULIO	A POBRA DE BROLLÓN	SPAIN
TOURIS FERNANDEZ, MANUEL	A BAÑA	SPAIN
VARELA RIVERA , JULIO	PORTOMARÍN	SPAIN
VAZQUEZ BERTOA , JOSE MANUEL	A SILVA	SPAIN
VAZQUEZ DORADO, SUSANA	A FORXA	SPAIN
VAZQUEZ FERNANDEZ , DIEGO	CASTROCALDELAS	SPAIN
VEIGA ROCANDIO , RUBEN	A PONTENOVA	SPAIN
XIAMA BANDE, S.L.	BANDE	SPAIN

APPENDIX II

Popular Banca Privada, S.A. Agents

SURNAMES, FIRST NAME / COMPANY NAME	CITY/TOWN	AREA OF ACTIVITY
ABOMAR GESTION		SPAIN
ADESIF 2001 SLL	ZARAGOZA	SPAIN
ALAS NEVOT Y VIGIL INVERSIONES SCI	ARAGON	SPAIN
ALEJANDRO ARRAEZ & ASOCIADOS SA	MADRID	SPAIN
ALMENAS TRADER SL	SPAIN	SPAIN
ARAGÓN DE INVERSIONES SCI	ARAGON	SPAIN
ARCONES GARCIA, ROCIO	SPAIN	SPAIN
ARION 90 SA	MADRID	SPAIN
ASEFARMA SL	SPAIN	SPAIN
ASEMVAL HUESCA SL	ARAGON	SPAIN
ASESORES FINANCIEROS DE CORDOBA SL	ANDALUSIA	SPAIN
ASESORIA GORDONIZ SAL	BASQUE COUNTRY	SPAIN
ASESORIA LABORAL FISCAL Y CONTABLE ALE S	ARAGON	SPAIN
ASSESSOR CONSULTORIA I SERVEIS EMPRESARI	CATALONIA	SPAIN
ASSESSORS FINANCERS GIRONA SL	CATALONIA	SPAIN
ASTURAGENTES SL	PRINCIPADO DE ASTURIAS	SPAIN
AYCU SL	ARAGON	SPAIN
BARRACHINA FERRER S CIVIL	ARAGON	SPAIN
BATLLE SALAMERO, MARIO	ARAGON	SPAIN
BERGARECHE GANDARIAS, JAIME	SPAIN	SPAIN
BOADA GUASCH, JOSE	SPAIN	SPAIN
BPB PATRIMONIAL SL	SPAIN	SPAIN
BUFETE SEVERINO MARTINEZ IZQUIERDO SL	MADRID	SPAIN
CASADO DE AMEZUA BUESA, GABRIEL	SPAIN	SPAIN
CASAS VILA, XAVIER	CATALONIA	SPAIN
COMPONENTES ELECTRONICOS ANGEL SAENZ SA	BASQUE COUNTRY	SPAIN
CONSULTIA CORREDURIA DE SEGUROS E INVERS	BASQUE COUNTRY	SPAIN
DEFERRE CONSULTING SL	VALLADOLID	SPAIN
ENDOR INVERSIONES SL	SPAIN	SPAIN
ESCARPENTER HERNANDEZ, JAVIER	CATALONIA	SPAIN
EUROASESORES SCI	ARAGON	SPAIN
FERNANDEZ PEREZ, CARLOS	SPAIN	SPAIN
GLOBAL ADVICE CONSULTORES FINANCIEROS SL	SPAIN	SPAIN
GLOBALTRAMIT GESTION DOCUMENTAL SL	CATALONIA	SPAIN
GRONIOS INTERMEDIARIOS FINANCIEROS SL	SPAIN	SPAIN
HEREDIA ARMADA, ALFONSO MARIA ASUNCION	PRINCIPADO DE ASTURIAS	SPAIN
IBERMEDIACION SL CORREDURIA DE SEGUROS	ARAGON	SPAIN
INDOCTRO CAPITAL	SPAIN	SPAIN
INVERSIONES SIROCO SL	SPAIN	SPAIN
JOSE NORBERTO SUAREZ GOMEZ Y CIA SCI	SPAIN	SPAIN
KIOSTRO SL	CATALONIA	SPAIN
KOTET SERVICIOS PATRIMONIALES SL	SPAIN	SPAIN
LINCE GESTION PATRIMONIAL SL	MADRID	SPAIN
LOREZABAL SL	NAVARRA	SPAIN
LUSALCA ASESORES SL	MADRID	SPAIN
MARKETRENT ABP SL	SPAIN	SPAIN

MATOPO INVESTMENTS SL	SPAIN	SPAIN
MIGUEZ MARTIN, SERGIO	SPAIN	SPAIN
NODUS ASESORES SL	SPAIN	SPAIN
NORFINANCE SL	BASQUE COUNTRY	SPAIN
NYALAND CONSULTORES SL	SPAIN	SPAIN
ORTEMESA SA	CATALONIA	SPAIN
PONCE BUJ, CARLOS	VALENCIA	SPAIN
REPARAZ ABAITUA, GONZALO	SPAIN	SPAIN
RIBAS FARNOS FRANCH ASESORES JURIDICOS Y	BALEARIC ISLANDS	SPAIN
RIBAS MARCHENA & FARNOS FRANCH ABOGADOS	BALEARIC ISLANDS	SPAIN
RODRIGUEZ RUIZ BELLOSO, FRANCISCO JAVIER	ARAGON	SPAIN
RODRIGUEZ SANCHO, MARCOS	VALENCIA	SPAIN
SABARI LLOBET, JOSEP MARIA	CATALONIA	SPAIN
SAN MIGUEL PRIETO ASESORES SRL	VALLADOLID	SPAIN
SANCHEZ CASAS ECONOMISTAS Y ABOGADOS SL	NAVARRA	SPAIN
SEGARRA BARGUES, VICENTE MIGUEL	VALENCIA	SPAIN
SERVISA SA	VALENCIA	SPAIN
SOCAIRE INVESTIMENTOS SL	SPAIN	SPAIN
SOCIEDAD DE GESTIONES DE PATRIMONIO 10 S	SPAIN	SPAIN
TIHISTA BADOSTAIN, MARIA ROSARIO	NAVARRA	SPAIN
TORRENTBO BERTRAL, ENRIQUE	CATALONIA	SPAIN
TORRES SANCHEZ, JOSE ANTONIO	ARAGON	SPAIN
VAL IBÁÑEZ, MARIANO	ARAGON	SPAIN
VIGIL FERNANDEZ, FRANCISCO JOSE	ARAGON	SPAIN
ZALBA BEISTI, RAQUEL	NAVARRA	SPAIN

APPENDIX II

Agentes de Banco Popular Español, S.A.

SURNAMES, FIRST NAME / COMPANY NAME	MUNICIPALITY	AREA OF ACTIVITY
FERNÁNDEZ BLANCO, PATRICIA	CABOALLES DE ABAJO	SPAIN
ARIAS ESCUREDO, JULIO	PUENTE DOMINGO FLOREZ	SPAIN
GONZALEZ GOMEZ, RENATO	TORMALEO	SPAIN

APPENDIX III
Information on authorisations re capital increase as at 31 December 2015

The General Shareholders' Meeting of Banco Popular Español, S.A., held in Madrid on 13 April 2015, approved the following resolutions regarding increases in the share capital:

To delegate to the Board of Directors, under the provisions of Article 297.1.a) of the Corporate Enterprises Act, the power to increase the capital by an amount of five hundred million euros (€500,000,000), to be completed within a maximum period of one year.

Four share capital increases through the issue of shares without a premium and charged against voluntary reserves to be used to remunerate the shareholders, with an alternative offer to receive bonus shares or acquire rights at a guaranteed price.

APPENDIX IV
Annual Bank Report

Article 87 of Law 10/2014 of 26 June

This information has been prepared in compliance with the provisions of Article 87 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions published on 27 June 2014 in the Official State Gazette, which transposes Article 89 of Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013, relating to access to credit institutions' activity and prudential supervision of credit institutions and investment undertakings, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In accordance with this legislation, credit institutions will be obliged to publish, specifying by country where they are established, the following information on a consolidated basis relating to the last approved accounting period.

Company name, nature and geographical location of the activity.

Banco Popular Español, S.A. was incorporated on 14 July 1926, and its registered address is Velázquez 34, Madrid. It is a private law company, whose corporate object, as established by Article 4 of its Articles of Association, is banking. Its activities are subject to the rules and regulations applicable to banks operating in Spain.

It is registered with the Madrid Trade & Companies Registry, Volume 174, Folio 44, sheet 5,458, entry 1.

In addition, for the operations which it performs directly, the Bank is head of a group of subsidiaries, that engage in various business activities and which compose, together with it, the Banco Popular Group.

The consolidated Group mainly carries on its operations in Spain. However, presently it carries out its activities in other countries, the most significant being:
- Portugal
- USA

Business volume and number of full-time employees.

This heading shows the information relating to business volume and the number of employees per country at the close of 2015 on a consolidated basis:

		Data at 31 December 2015
(Data in thousands of euros)	**TURNOVER**	**NUMBER OF EMPLOYEES**
Spain	3,165,979	13,480
Portugal	191,988	1,267
USA	72,944	332
TOTAL	3,430,911	15,079

For the purposes of this report, gross income is considered business volume, as this income is defined and presented in the consolidated income statement which forms part of the Group's consolidated financial statements.
The business volume data by country shown in the table above was obtained from the statutory accounting records relating to 2015 of the Group's companies with the corresponding geographical location.

The employee data was obtained from the workforce of each company/country at the close of 2015.

Gross profit before tax and income tax.

		Data at 31 December 2015
(Data in thousands of euros)	**GROSS PROFIT BEFORE TAX**	**INCOME TAX ON CONSOLIDATED BASE**
Spain	101,167	2,196
Portugal (*)	(7,795)	(1,594)
USA(**)	20,812	7,648
TOTAL	**114,184**	**8,250**

(*) Banking activity in Portugal generated a gross profit/(loss) before taxes of 21.5 million euros.

(**) Banking activity in USA generated a gross profit before taxes of 21.9 million euros.

This information corresponds to the aggregated information of the individual financial statements of the entities that operate in each geographical location showing the consolidation adjustments required to obtain the Group's consolidated financial statements.

In relation to the information about income taxes the information is shown corresponding to the Tax Cost at the end of 2015 on a consolidated basis.

During 2015 Banco Popular Group did not receive public assistance for the purpose of promoting the development of banking activity that is significant. This statement is made for the purposes of the provisions of article 89 of the European Parliament and Council 2013/36/EU Directive, 26 June (related to access to credit entity activity and prudential supervision of credit entities and investment entities) and its implementation into Spanish legislation by means of Law 10/2014, Organisation, Supervision and Solvency of Credit Institutions, 26 June.

At 31 December 2015, the yield on the Group's assets was 0.07%.

APPENDIX V

Effect of legislative change on the consolidated balance sheet as at 31 December 2013 and consolidated profit and loss statements for the year then ended.

CONSOLIDATED BALANCE SHEETS (€ thousands)	**Effect of legislative change**	**Original balance sheet at 31/12/2013**	**Restated balance sheet At 31/12/2013**
ASSETS			
1. Cash and balances with central banks	(8,203)	2,835,041	2,826,838
2. Financial assets held for trading	57	1,510,517	1,510,574
3. Other financial assets at fair value through profit or loss	-	363,680	363,680
4. Available-for-sale financial assets	(54,792)	16,229,930	16,175,138
5. Loans and receivables	(819,934)	108,855,521	108,035,587
6. Held-to-maturity investment portfolio	-	-	-
7. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	159,571	159,571
8. Hedging derivatives	268	578,761	579,029
9. Non-current assets held for sale	(3,948)	6,300,549	6,296,601
10. Investments	421,581	841,555	1,263,136
a) Associates	-	841,555	841,555
b) Joint ventures	421,581	-	421,581
11. Insurance contracts linked to pensions	-	142,948	142,948
12. Reinsurance assets	-	14,462	14,462
13. Tangible assets:	(43,182)	1,879,085	1,835,903
a) Property, plant and equipment	(17,608)	842,371	824,763
b) Property investments	(25,574)	1,036,714	1,011,140
14. Intangible assets:	(523,103)	2,980,653	2,457,550
a) Goodwill	(523,103)	2,566,583	2,043,480
b) Other intangible assets	-	414,070	414,070
15. Tax assets:	(80,295)	3,597,122	3,516,827
a) Current	(74,778)	454,170	379,392
b) Deferred	(5,517)	3,142,952	3,137,435
16. Other assets	(30,664)	1,562,298	1,531,634
TOTAL ASSETS	**(1,142,215)**	**147,851,693**	**146,709,478**
LIABILITIES			
1. Financial instruments held for trading	142	954,284	954,426
2. Other financial liabilities at fair value through profit or loss. .	-	601,367	601,367
3. Financial liabilities at amortised cost	(1,007,732)	131,320,889	130,313,157
4. Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-	-
5. Hedging derivatives	-	1,473,749	1,473,749
6. Liabilities associated with non-current assets held for sale	-	-	-
7. Liabilities under insurance contracts	(1,670)	372,981	371,311
8. Provisions	(492)	533,456	532,964
9. Tax liabilities:	(60,753)	546,854	486,101
a) Current	(65,214)	244,313	179,099
b) Deferred	4,461	302,541	307,002
10. Welfare fund	-	-	-
11. Other liabilities	79,313	421,311	500,624
12. Capital repayable on demand	-	-	-
TOTAL LIABILITIES	**(991,192)**	**136,224,891**	**135,233,699**

	Effect of legislative change	Original balance sheet at 31/12/2013	Restated balance sheet At 31/12/2013
SHAREHOLDERS' EQUITY	**(151,023)**	**11,925,494**	**11,774,471**
1. Common stock	-	948,276	948,276
a) Issued	-	948,276	948,276
b) Minus: Uncalled capital	-	-	-
2. Share premium	-	6,405,111	6,405,111
3. Reserves	(77,267)	3,600,316	3,523,049
4. Other equity instruments	-	646,531	646,531
5. Minus: Treasury shares	-	(39)	(39)
6. Profit (loss) attributable to the parent company	(73,756)	325,299	251,543
7. Minus: Dividends and remuneration	-	-	-
VALUATION ADJUSTMENTS	**-**	**(350,069)**	**(350,069)**
1. Available-for-sale financial assets	(656)	(362,802)	(363,458)
2. Cash flow hedges	-	7,502	7,502
3. Hedges of net investment in foreign operations	-	-	-
4. Exchange differences	-	17,931	17,931
5. Non-current assets held for sale	-	-	-
6. Entities accounted for using the equity method	1,087	-	1,087
7. Other valuation adjustments	(431)	(12,700)	(13,131)
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	**(151,023)**	**11,575,425**	**11,424,402**
NON-CONTROLLING INTERESTS	-	**51,377**	**51,377**
1. Valuation adjustments	-	3,144	3,144
2. Remainder	-	48,233	48,233
TOTAL EQUITY	**(151,023)**	**11,626,802**	**11,475,779**
TOTAL LIABILITIES AND EQUITY	**(1,142,215)**	**147,851,693**	**146,709,478**

MEMORANDUM ITEM			
Contingent risks	125,775	14,623,241	14,749,016
Contingent commitments	(174,046)	10,807,310	10,633,264

CONSOLIDATED PROFIT AND LOSS ACCOUNTS (€ thousands)	Effect of the legislative change	Original profit and loss at 31/12/2013	Restated profit and loss At 31/12/2013
Interest and similar income	(54,047)	4,917,044	4,862,997
Interest and similar expenses	(18,429)	2,469,961	2,451,532
Remuneration of capital repayable on demand	-		
NET INTEREST INCOME	**(35,618)**	**2,447,083**	**2,411,465**
Return on equity instruments	(3)	17,793	17,790
Share of profit from equity method companies	(1,691)	33,955	32,264
Fee and commission income	(21,259)	915,355	894,096
Fee and commission expenses	(10,597)	145,434	134,837
Net gains (losses) on financial assets and liabilities	(1,005)	462,106	461,101
Exchange differences (net)	(956)	53,376	52,420
Other operating income	(3,823)	196,345	192,522
Other operating expenses	101,641	273,929	375,570
GROSS INCOME	**(155,399)**	**3,706,650**	**3,551,251**
Administration costs:	(28,119)	1,600,678	1,572,559
a) Personnel expenses	(17,551)	946,661	929,110
b) Other general administrative expenses	(10,568)	654,017	*643,449*
Depreciation and amortisation	(1,491)	152,113	150,622
Provisions (net)	(271)	87,041	86,770
Impairment losses on financial assets (net)	(20,257)	1,187,719	1,167,462
NET OPERATING INCOME	**(105,261)**	**679,099**	**573,838**
Impairment losses on other assets (net)	(623)	169,126	168,503
Gains/(losses) on disposals of assets not classified as non-current available for sale	(1,853)	948,945	947,092
Negative on business combination difference	-	-	**-**
Gains/(losses) on non-current assets held for sale not classified as discontinued operations	957	(999,447)	(998,490)
PROFIT/(LOSS) BEFORE TAX	**(105,534)**	**459,471**	**353,937**
Income tax	(31,778)	131,322	99,544
Mandatory transfer to welfare projects and funds	-	-	-
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(73,756)**	**328,149**	**254,393**
Profit (loss) from discontinued operations (net)	-	-	-
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**(73,756)**	**328,149**	**254,393**
a) Profit attributable to the parent company	(73,756)	325,299	251,543
b) Profit attributable to non-controlling interests	-	2,850	2,850
	-		
EARNINGS PER SHARE		**Amount in €**	**Amount in €**
Basic	-	0.191	0.148
Diluted	-	0.175	0.137

Popular

DECLARATION OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors of Banco Popular Español, S.A. declare that, to the best of their knowledge, the individual consolidated annual accounts for 2015, prepared in the Board meeting held on 10 February 2016 and in accordance with applicable accounting principles, fairly present the financial position and results of Banco Popular Español, S.A. and companies included in the consolidation taken as a whole and that the individual and consolidated directors' reports for 2015 include a fair analysis of the performance and results of the business and position of Banco Popular Español, S.A. and companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face.

Madrid, 10 February 2016

Mr. Ángel Carlos Ron Güimil Chairman	Mr. Francisco Gómez Martín CEO	Mr. Luis Herrando Prat de la Riba Vice-chairman
Mr. Roberto Higuera Montejo Vice-chairman	Mr. José María Arias Mosquera Vice-chairman	Banque Fédérative du Crédit Mutuel (Mr. Alain Fradin)
Fundación Barrié (Ms. Ana José Varela)	Ms. Ana María Molins López-Rodó	Mr. Jorge Oroviogoicoechea Ortega
Ms. Helena Revoredo Delvecchio	Sindicatura de Accionistas BPE, S.A. (Mr. Miguel Ángel de Solís Martínez Campos)	Mr. Vicente Tardío Barutel
Mr. Antonio del Valle Ruiz	Mr. Francisco Aparicio Valls Secretary - Director	

I, the Vice-Secretary of the Board of Directors, issue this document, as evidence that:

1º The Board of Directors, in the meeting held on 10 February 2016, approved the Annual Accounts and Directors' Report of Banco Popular Español, S.A. and Consolidated Group, which, together with the Declaration of Responsibility for its contents, comprise the Annual Financial Report for 2015.

2º The Directors Banque Fédérative du Crédit Mutuel and Sindicatura de Accionistas de Banco Popular did not sign the Annual Accounts or the Directors' Report of Banco Popular Español, S.A. or its consolidated Group for 2015, or the Declaration of Responsibility, as their respective representants were absent on justified grounds. They delegated their representation and vote to Mr. Luis Herrando, Vice-chairman of the Board, with instructions to vote in favour of the Board of Directors' Proposal.

Madrid, 10 February 2016

Francisco Javier Lleó Fernández
Vice-Secretary of the Board of Directors

Popular

PREPARATION OF THE ANNUAL ACCOUNTS AND THE MANAGEMENT REPORT

In accordance with the requirements of the current Spanish mercantile law, and, in particular, Article 253.2 of the Spanish Companies Act 2010 and Article 366 of the Mercantile Registry Regulations, the members of the Board of Directors sign these individual Annual Accounts and Directors' report of Banco Popular Español, S.A. and of its consolidated Group for 2015. The present document forms an essential and inseparable part of the same.

Madrid, 10 February 2016

Mr. Ángel Carlos Ron Güimil Chairman	Mr. Francisco Gómez Martín CEO	Mr. Luis Herrando Prat de la Riba Vice-chairman
Mr. Roberto Higuera Montejo Vice-chairman	Mr. José María Arias Mosquera Vice-chairman	Banque Fédérative du Crédit Mutuel (Mr. Alain Fradin)
Fundación Barrié (Ms. Ana José Varela)	Ms. Ana María Molins López-Rodó	Mr. Jorge Oroviogoicoechea Ortega
Ms. Helena Revoredo Delvecchio	Sindicatura de Accionistas BPE, S.A. (Mr. Miguel Ángel de Solís Martínez Campos)	Mr. Vicente Tardío Barutel
Mr. Antonio del Valle Ruiz	Mr. Francisco Aparicio Valls Secretary - Director	

I, the Vice-Secretary of the Board of Directors, issue this document, as evidence that:

1º The Board of Directors, in the meeting held on 10 February 2016, approved the Annual Accounts and Directors' Report of Banco Popular Español, S.A. and Consolidated Group, which, together with the Declaration of Responsibility for its contents, comprise the Annual Financial Report for 2015.

2º The Directors Banque Fédérative du Crédit Mutuel and Sindicatura de Accionistas de Banco Popular did not sign the Annual Accounts or the Directors' Report of Banco Popular Español or its consolidated Group for 2015, or the Declaration of Responsibility, as their respective representants were absent on justified grounds. They delegated their representation and vote to Mr. Luis Herrando, Vice-chairman of the Board, with instructions to vote in favour of the Board of Directors' Proposal.

3º The Annual Accounts and Management Report of Banco Popular Español and its consolidated Group, are endorsed by me in each of its leaves, and they correspond with the ones that the Directors have approved as part of the Financial Report approved by the Board of Directors

Madrid, 10 February 2016

Francisco Javier Lleó Fernández
Vice-Secretary of the Board of Directors

Independent Review Report Annual Corporate Governance Report

Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE ANNUAL CORPORATE GOVERNANCE REPORT

To the Board of Directors of Banco Popular Español, S.A.:

We have carried out our work to provide limited assurance on the Annual Corporate Governance Report of Banco Popular Español, S.A. for the year ended 31 December 2015, prepared in accordance with Article 540 of the Spanish Companies Act, Order ECC/461/2013, dated 20 March, which establishes, among other matters, the minimum content and structure of annual corporate governance reports, and the Circular 5/2013, dated 12 June, of the National Securities and Market Commission (CNMV), which provides, among other matters, standard annual corporate governance reports for listed companies.

Regarding the content of section G) of the Annual Corporate Governance Report and with respect to those recommendations of the Unified Code which Banco Popular Español, S.A. has not implemented, the Entity's directors have explained these matters to us as they consider appropriate. Given their nature, in these cases, our work has consisted solely of checking that the statements contained in the Report do not contradict the evidence obtained by applying the procedures performed in our review. Value judgements on the reasonableness of the Directors' explanations do not come within the scope of this assurance report.

Responsibility of the Directors

The preparation and contents of Banco Popular Español, S.A.'s Annual Corporate Governance Report are the responsibility of its Directors, that are also responsible for implementing and maintaining the internal control considered necessary to ensure that the Annual Corporate Governance Report is free from material misstatement due to fraud or error.

The Directors of Banco Popular Español, S.A. are also responsible for defining, implementing and maintaining the management systems from which the necessary information is obtained to prepare the Annual Corporate Governance Report.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures carried out and on the evidence that we have obtained. We have carried out our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (ISAE 3000) (Revised), "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Therefore the assurance provided is also less. Therefore, this report may in no event be understood as an audit report in the terms provided in current audit legislation in Spain.

For the purposes of this engagement, the procedures carried out are based on our professional judgement and included the following, among others:

- Reading and understanding of the information prepared by the Company and included in its Annual Corporate Governance Report 2015 and evaluation of whether such information covers all the contents required by Article 540 of the Spanish Companies Act, Order ECC/461/2013, of 20 March and the Circular 5/2013, of 12 June, of the (National Securities Market Commission), in the wording afforded by Circular 7/2015, of 22 December, of the CNMV.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

- Reading of legal documentation, minutes of General Shareholders' Meetings and Board Meetings, individual and consolidated annual accounts for 2015 and various internal and external communications to verify that the information contained in the Annual Corporate Annual Governance Report is adequate.

- Interviews with Banco Popular Español, S.A. staff, including Management and other bodies responsible for the Entity's different areas of governance reviewed in the Report.

- Analysis of the procedures used to compile and validate the data and information presented in the Annual Corporate Governance Report.

- Verification, through sample review testing, of the quantitative information included in the Annual Corporate Governance Report and its adequate compilation using data provided by Banco Popular Español, S.A.'s management and, if appropriate, the figures included in the individual and consolidated annual accounts for 2015 provided by the Management of Banco Popular Español, S.A.

- Obtaining of the letter of representation related to the work performed, duly signed by the person responsible for preparing and providing the information contained in the Annual Corporate Governance Report.

Our Independence and Quality Control

We have complied with the requirement of independence and other requirements of the Code of Ethics for Accountants issued by the International Ethics Standard Board for Accountants (IESBA), based on the main principles of integrity, professional competence and due care, confidentiality and professional conduct.

PwC applies International Standard on Quality Control (ISQC 1) and consequently, our firm has a global quality control system which includes policies and procedures on the compliance of ethical requirements, professional standards and applicable statutory requirements.

Limited Assurance Conclusion

As a result of the procedures carried out and evidence obtained, nothing has come to our attention that causes us to believe that the Annual Corporate Governance Report of Banco Popular Español, S.A. for the year ended 31 December 2015, contains significant errors or has not been prepared, in all material respects, in accordance with Article 540 of the Spanish Companies Act, Order ECC/461/2013, of 20 March and the Circular 5/2013 of 12 June, of the CNMV.

Use and Distribution

Our limited assurance report is issued solely for the Directors of Banco Popular Español, S.A. in accordance with the terms and conditions of our engagement letter. We accept no responsibility to third parties other than the Board of Directors of Banco Popular Español, S.A.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Mª Luz Castilla

February 11, 2016

(2)

Auditor's report referring to information concerning the Internal Control System on Financial Reporting (ICSFR) of the Banco Popular Group.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON THE "INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING (ICSFR)" OF THE BANCO POPULAR GROUP FOR 2015

To the Board of Directors of Banco Popular Español, S.A.:

In accordance with the request from the Board of Directors of Banco Popular Español, S.A. and its subsidiaries ("the Group") and our engagement letter dated January 7, 2016, we have applied certain procedures on "Internal Control System on Financial Reporting" ("ICSFR") attached, including in section F. Internal Control and Risk Management System in relation to the financial information reporting process (ICSFR) of the Annual Corporate Governance Report for Group listed companies for 2015, which includes a summary of the Group's internal control procedures relating to the annual financial report.

The Board of Directors is responsible for taking the measures that are necessary to reasonably assure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to said system and preparing and establishing the content of the accompanying Information relating to the ICSFR.

In this connection it must be borne in mind that, irrespective of the design quality and efficiency of internal financial reporting control system used by the Group, it can only allow a reasonable - not absolute - degree of assurance in relation to the objectives it seeks to achieve due to the limitations inherent to any internal control system.

In the course of our audit work on the consolidated annual accounts in accordance with the Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of the audit procedures on the Group's annual accounts. Accordingly, our internal control evaluation performed for the purposes of our audit is not sufficient in scope to enable us to issue a specific opinion on the efficiency of the internal financial reporting control system.

For the purposes of the present Report, we have only applied the specific procedures described below and indicated in the Guidelines concerning the auditor's report referring to the information concerning the Internal Control System on Financial Reporting for listed entities published by the National Securities Market Commission on its web site, which lays down the work to be performed, the scope of the work and the content of this Report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or an internal control system review, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial reporting for 2015 described in the accompanying ICSFR information ("the Information"). Therefore, had we applied additional procedures to those determined by said Guidelines or had we performed an audit or internal control system review in relation to the regulated financial information, other matters could have come to light of which you would have been informed.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Additionally, as this special work is not an audit of the accounts and is not subject to the revised Audit Act introduced under Royal Decree-Law 1/2011, we do not express an audit opinion in the terms of those regulations.

The procedures applied are as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – breakdown included in the Directors' Report – and evaluation of whether said information covers all the data required as per the minimum content described in Section F of the description of the ICSFR, in the model of the Annual Corporate Governance Report in Circular nº 5/2013 of the CNMV dated 12 June 2013.

2. Making enquiries with personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described are implemented and functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. In this respect, said documentation includes reports prepared by the Internal Audit function, Senior Management and other internal and external specialists in their support duties towards the Audit and Control Committee.

4. Comparison of the information described in point 1 above with the Group's knowledge of the ICSFR obtained from the application of the procedures performed within the framework of the audit work on the consolidated annual accounts.

5. Reading of the minutes of meetings of the Board of Directors, Audit Committee and other Committees of the Group for the purpose of evaluating consistency between the matters dealt with therein in relation to the ICSFR and the Information described in point 1 above.

6. Reception of the letter of representation concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied to the Information concerning the ICSFR, no inconsistencies or incidents have come to light which could affect it.

This report has been prepared exclusively under the requirements established by Article 540 of the Spanish Corporate Enterprises Act and Circular nº5/2013 of CNMV dated 12 June 2013 for the purposes of description of the ICSFR in the Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
José María Sanz Olmeda

February 11, 2016

Popular

www.bancopopular.es