



## **BANCO POPULAR ESPAÑOL, S.A.**

Audit report,  
Condensed Interim Financial Statements and  
Interim Management Report  
at 30 June 2017



*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 the condensed interim financial statements*

To the Shareholders of Banco Popular Español, S.A. at the request of Management:

### *Report on the condensed interim financial statements*

---

#### *Opinion*

We have audited the condensed interim financial statements of Banco Popular Español, S.A. (the Bank) which comprise the balance sheet as at 30 June, 2017, and the income statement, statement of , the statement of changes in equity, the cash flow statement and the related notes, all condensed, for the six-month period then ended.

In our opinion, the accompanying condensed interim financial statements of Banco Popular Español, S.A. for the six month period ended 30 June, 2017 have been prepared, in all material respects, in accordance with the financial reporting framework applicable to the Bank in Spain, in line with the model condensed interim financial statements provided in Article 13 of Royal Decree 1362/2007, in accordance with the provisions of Article 12 of the aforementioned Royal Decree, regarding the preparation of condensed interim financial statements.

---

#### *Basis for opinion*

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the condensed interim financial statements* section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the condensed interim financial statements in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

---

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed interim financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

---

*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: +34 915 685 400, www.pwc.es*

## Key audit matters

## How our audit addressed the key audit matter

### *Banco Popular Español, S.A. resolution process*

During the second quarter of 2017 there was a major unexpected decrease in the Bank's customer deposits, concentrated particularly on the weeks immediately prior to 6 June 2017.

On 6 June 2017, the European Central Bank notified the Single Resolution Board ("SRB") of the failure of Banco Popular to comply with Article 18.4.c) of Regulation (EU) 806/2014 of 15 July 2014 ("Regulation 806/2014") on the grounds that the entity was not able to settle its debts or other liabilities as these matured or there were objective factors that indicated that it would not be able to do so in the near future.

On 7 June 2017, the SRB, in exercising its powers and having observed a significant and accelerated deterioration in the Bank's liquidity, determined in Decision SRB/EES/2017/08, that the conditions outlined in Article 18.1 of Regulation 806/2014 had been met and therefore it agreed to declare the resolution of the entity and approved the resolution, implementing the aforementioned resolution by means of the sale of the business of Banco Popular Español, S.A. to Banco Santander, S.A., after having redeemed the equity instruments issued and outstanding at said date.

In accordance with Article 22 of Regulation 806/2014, prior to the adoption of the resolution to be implemented, the SRB received a provisional economic valuation prepared by an independent third-party expert in compliance with the criteria established in Article 20 of aforementioned Regulation.

Article 20 of Regulation 806/2014 provides that the economic valuation may be supplemented by an analysis and estimate of the value of the assets and liabilities according to their market value and, additionally, that one of the purposes of said valuation is to ensure that any eventual losses on the assets of an entity subject to a resolution process are fully reflected in the accounting records.

We have performed audit procedures to obtain sufficient evidence over the Banco Popular resolution process.

- Reading and understanding of communications with supervisory bodies in relation to the resolution process.
- Verification of accounting entries generated as a result of the conversion of "Additional Tier 1" and "Tier 2" equity instruments, the redemption of shares and the creation of a restricted voluntary reserve, in accordance with the resolution.
- Analysis of the adequate accounting treatment of the effects of the resolution in accordance with applicable legislation (Regulation 806/2014) and, in particular, the accounting treatment based on the valuations of the assets and liabilities realized.
- Analysis of the estimates of the value of the assets and liabilities at 30 June 2017 in accordance with Regulation 806/2014, considering the resolution of the Bank, the consideration of the market value of the assets and liabilities and the strategy announced for the accelerated sale in the wholesale market, of assets related to the real-estate sector, which has been materialised after 30 June. In the following key audit matters a more detailed description is provided of the procedures performed with respect to the main issues.
- Evaluation of management's assessment of the Bank's capacity to continue as a going concern after the resolution process and the sale of the Bank.

The tests performed have revealed the following:

- The Bank has made the estimates of the value of the assets and liabilities in accordance with Regulation 806/2014, considering the resolution of the Bank, the market value of the assets and liabilities and the divestment strategy for assets related to the real-estate sector.
- These estimates have been recorded as provided in Regulation 806/2014.
- Following the resolution process, which has led to the sale of the Bank to Banco Santander, the application of the going concern principle is appropriate.

Key audit matters	How our audit addressed the key audit matter
<p>Therefore, in accordance with the provisions of Article 20 of Regulation 806/2014, the estimates of the value of the assets and liabilities made in the preparation of the Bank's interim financial statements have taken into account the resolution itself, the market value of the assets and liabilities and the strategy for the accelerated sale in the wholesale market of assets related to the real-estate sector announced by the new shareholder, which was materialised on 8 August 2017 by means of an agreement concluded with a third party (Note 1.f). The application of specific resolution regulations (applicable only in a resolution process) implies that certain aspects have been taken into account in the estimates of the value of the assets and liabilities at 30 June 2017, for which reason these estimates differ significantly from those made in the preparation of the annual financial statements for 2016 in accordance with the regulations applicable at that time and described in said annual financial statements.</p> <p>The main asset and liabilities items affected relate to "Loans and receivables", "Non-current assets and disposal groups classified as held for sale", "Investments in subsidiaries, joint ventures and associates", "Deferred tax assets", "Intangible assets" and "Provisions. Other provisions".</p> <p>See Note 1 to the condensed interim financial statements.</p>	
<p><i>Impairment due to credit risk and real estate assets arising from foreclosures</i></p> <p>Determining impairment of Loans and receivables due to credit risk and foreclosed assets is one of the most significant and complex estimation exercises performed in preparing of the accompanying condensed interim financial statements.</p>	<p>Our work on the estimate of impairment due to both credit risk and risk foreclosed assets has focused on the analysis, evaluation and verification of the internal control system and the performance of tests of detail on provisions, estimated both collectively and individually, and on the review of the application of the resolution rules, particularly the consideration of the market value of the assets and the new strategy for the accelerated sale in the wholesale market devised by the Bank's new shareholder.</p>

Key audit matters	How our audit addressed the key audit matter
<p>The evaluation of impairment due to credit risk is based on:</p> <ul style="list-style-type: none"> <li>• Individualised estimates of impairment provision using various methods for calculating the recoverable amounts (approach based on the discounting of cash flows, the recovery of real-estate collateral or both).</li> <li>• Collective estimates of impairment using the Bank's internal models on the basis of the different portfolios or credit risk segments.</li> </ul> <p>The impairment estimates made in the first half of 2017 have been significantly affected by the application of the resolution rules and as a result of taking into account the strategy for the accelerated sale in the wholesale market of real-estate assets and loans related to the real-estate sector (Notes 1.c) and 1.h). The estimates made therefore differ from those relating to 2016 which were made in accordance with the legislation and circumstances applicable at that time.</p> <p>The internal models and methods involve a high degree of judgement and estimation for determining the impairment losses, considering such factors as:</p> <ul style="list-style-type: none"> <li>• The risk-based classification of the loan portfolios.</li> <li>• Identification and presentation of impaired assets.</li> <li>• The use of significant assumptions such as future income levels, interest rate trends, employment rates, etc.</li> <li>• The inclusion of qualitative adjustments in the calculation of provisions due to economic or judgmental factors, such as internal rating policies or future economic expectations, among others.</li> </ul>	<p>We have performed the following procedures, among others, in relation to the internal control system:</p> <ul style="list-style-type: none"> <li>• Verification that policies and procedures and the approved internal models comply with applicable regulatory requirements.</li> <li>• Review of calculation methodologies and the variables taken into consideration, as well as recalibrations or retrospective checks.</li> <li>• Verification of the reliability and consistency of the sources of data used in the calculations.</li> <li>• Review of the periodic evaluation of risks and monitoring alerts made by the Bank.</li> <li>• Evaluation of the performance of the periodic process for reviewing individual borrower to monitor their classification and, where applicable, recognition of impairment.</li> </ul> <p>Tests of detail have also been conducted consisting of:</p> <ul style="list-style-type: none"> <li>• Verifications with respect to: i) calculation and segmentation methods; ii) historical impairment loss rates in credit risk and in the estimate of future cash flows and of historical discount rates in sales of real-estate assets compared with the appraisal value; iii) the correct classification of lending transactions and real-estate assets in the relevant categories.</li> <li>• Recalculation of collective provisions for a sample of the most significant portfolios, and recalculation of impairment for all real-estate assets based on asset categories (completed residential housing, offices and retail stores, buildings under construction and land).</li> <li>• Review of a sample of individual borrower analysis to assess the appropriate classification and recognition, if applicable, the corresponding impairment provision.</li> <li>• Comparison of impairment losses actually incurred with those estimated in previous periods.</li> <li>• Review of the process for updating real-estate asset valuations and review of a sample of valuations used as a reference value.</li> </ul>



Key audit matters	How our audit addressed the key audit matter
<p>Personal or real-estate guarantees considered as effective are taken into consideration when determining impairment provision for credit risk. The assessment of the recoverable amount of real-estate collateral is subject to the estimate of the reference value less costs to sell, adjusted by a discount against the reference value based on the Bank's historical experience in the disposal of similar assets and the length of time that the assets have remained on the balance sheet, adjusted, if appropriate, on the basis of the sale or recovery strategy.</p> <p>The Bank has developed internal methodologies for estimating discounts on reference values and costs to sell. The determination of the reference value of real-estate collateral is based on the information and/or appraised value provided by valuation companies and agencies. In some cases, when the assets have low exposure and risk, statistical methodologies are used to update appraisals.</p> <p>It should be noted that the estimate of the impairment of real-estate assets arising from its lending activity and which, through payment, purchase or by judicial means are awarded to the Bank, is subject to the same criteria as those detailed above with respect to real-estate collateral.</p> <p>See Notes 1.c), 4.b, 4.c and 5 of the condensed interim financial statements.</p>	<p>Specifically in relation to the application of the resolution rules as established in Regulation 806/2014, applicable on an exceptional basis to the Bank in 2017:</p> <ul style="list-style-type: none"><li>• With the help of our valuation experts, we have assessed the best available estimate of the value of the assets and liabilities at the present date, mainly based on the economic valuation performed by a third party in the purchase price allocation (PPA) exercise performed by Banco Santander as a result of the acquisition of the Bank in accordance with applicable accounting standards, adapted to the specific circumstances of the Bank's individual financial statements.</li><li>• We have reviewed the third-party reports assessing whether the valuation methods, underlying assumptions and mathematical accuracy are appropriate.</li><li>• We have evaluated that the estimates made at 30 June 2017 take into account the potential accelerated sale in the wholesale market of certain assets related to the real-estate sector and, in particular, their consistency with the agreement for the sale of said assets occurring after 30 June 2017.</li><li>• We have reviewed the accounting recognition of said estimates under the relevant financial statement line items in the Bank's individual financial statements based on whether the assets were accounted for in the Bank itself or in its subsidiaries.</li></ul> <p>As a result of our tests with respect to the calculations and estimates of impairment due to credit risk and foreclosed assets, no differences have been identified, outside a reasonable range, in the amounts recorded in the Bank's condensed interim financial statements, considering the new circumstances and the resolution resulting from the applicable legislation.</p>

Key audit matters	How our audit addressed the key audit matter
<p><i>Provisions. Other provisions</i></p> <p>The Bank is involved in judicial and administrative proceedings and in arbitration proceedings mainly of a tax, legal and/or regulatory nature arising in the ordinary course of its business.</p> <p>Accordingly, there are situations which, though not subject to judicial proceedings, require the recognition of provisions according to the evaluation performed.</p> <p>In general, these proceedings are completed after a lengthy period and result in complex processes under the legislation in effect in the various jurisdictions in which the Bank operates.</p> <p>Bank management decides when to record provisions for these items based on estimates made applying calculation procedures that it regards as prudent and consistent with the conditions of uncertainty inherent to the obligations they cover.</p> <p>Among these provisions, the most significant are those relating to contingencies derived from “floor clauses” and the valuation derived from the customer loyalty actions aimed to retail customers of Banco Popular that have been affected by the resolution of the Bank, provided that certain conditions are met.</p> <p>Estimating provisions for litigation is an area that requires a high degree of judgment and estimation.</p> <p>See Notes 1.c) and 10 of the condensed interim financial statements.</p>	<p>We have documented our understanding and review of the estimation process performed by the Directors and by management, as well as the internal control thereof, focusing our review procedures on the following matters:</p> <ul style="list-style-type: none"> <li>• Understanding of the policy for qualifying litigation and the need for provisions, in accordance with the applicable accounting standards.</li> <li>• Analysis of the main lawsuits, both individually and, if applicable, collectively.</li> <li>• Obtaining of letters of confirmation from the Bank’s legal services and external lawyers to check their evaluation of the expected outcomes of the lawsuits, all the information and the proper recognition of the provision, as well as the identification of potential omitted liabilities.</li> <li>• Follow-up on tax inspections in progress.</li> <li>• Evaluation of possible contingencies in relation to compliance with tax obligations for all periods open to inspection.</li> <li>• With the support of our internal experts, analysis of the reasonableness of the estimate of the expected outcome of the most significant tax and legal proceedings.</li> <li>• Analysis of the recognition, reasonableness and movements of accounting provisions.</li> </ul> <p>With specific reference to the provisions aimed at compensating customers affected by the resolution process and the provisions for contingencies relating to “floor clauses”, our procedures focused on:</p> <ul style="list-style-type: none"> <li>• Understanding the control environment, evaluating and verifying the controls associated with the calculation and review of the customer compensation provision, including the processing and approval of assumptions and results of the estimates made.</li> <li>• Evaluating the methodology and assumptions used by the Bank, verifying that it is in line with market practices and the recommendations of supervisory bodies.</li> </ul>



Key audit matters	How our audit addressed the key audit matter
<p data-bbox="312 707 751 741"><i>Recoverability of deferred tax assets</i></p> <p data-bbox="277 770 839 891">Assessing of the recoverability of deferred tax assets is a complex exercise and requires a high degree of judgment and estimation based on the anticipated future tax profits of the Bank.</p> <p data-bbox="277 920 839 1131">In this evaluation process, there are specific and complex considerations that the Directors and management consider to evaluate both the recognition and the subsequent recoverability of the deferred tax assets recorded. The most relevant considerations made by the Bank are as follows:</p> <ul data-bbox="277 1167 839 1464" style="list-style-type: none"> <li data-bbox="277 1167 839 1288">• Ensure that applicable tax regulations are applied correctly and that temporary differences qualifying for deduction are recorded.</li> <li data-bbox="277 1317 839 1464">• Maintain a control environment that ensures that both the recognition, and the valuation and conclusion as to the recoverability of the tax asset, are appropriate.</li> </ul> <p data-bbox="320 1496 839 1706">Revise the projections on the basis of which the tax profits are estimated, from which it may be deduced that the deferred tax assets to be recovered in future periods related to deductible temporary differences and to tax-loss carryforwards pending offset are actually realisable.</p> <p data-bbox="320 1738 839 2004">In particular, at 30 June 2017 the Bank's resolution has been taken into account as a result of its non-viability caused by liquidity difficulties that would imply the impossibility of generating sufficient future tax profits to offset tax losses carried forward. The Santander Group's capacity to take advantage of tax-loss carryforwards has also been considered.</p>	<p data-bbox="868 490 1461 669">From the results of our work it may be deduced that, in general, management applies reasonable judgements in its evaluation and estimation of this type of provisions, considering the events and the specific nature of the various lawsuits, based on available information.</p> <p data-bbox="868 707 1461 891">We have documented, together with our tax specialists, our understanding and review of the estimation process performed by the Directors and by management, as well as the internal control environment, focusing our procedures on the following matters:</p> <ul data-bbox="868 920 1461 1317" style="list-style-type: none"> <li data-bbox="868 920 1461 1041">• Review of the evaluation of the recoverability of deferred tax assets made by a third party, in particular the methodology and assumptions used.</li> <li data-bbox="868 1041 1461 1104">• Review of the criteria used in the calculation of deferred tax assets.</li> <li data-bbox="868 1104 1461 1225">• Review of the assumptions considered by the Bank in their estimates for the calculation of deductible temporary differences, to assess whether they are complete and accurate.</li> <li data-bbox="868 1225 1461 1317">• Review of compliance of the estimates made and amounts recorded with applicable tax and accounting rules.</li> </ul> <p data-bbox="868 1346 1461 1525">We have obtained sufficient audit evidence during our procedures to confirm the reasonableness of the estimates made by the Bank with respect to the recoverability of the deferred tax assets and the impairment recognised.</p>





Key audit matters	How our audit addressed the key audit matter
<p>When preparing the condensed interim financial statements, the Bank has used the best estimate available at the time, which relates to the valuation made by a third party, recording on the basis thereof the impairment of the deferred tax assets derived from active tax-loss carryforwards.</p> <p>See Note 1.c) to the condensed interim financial statements.</p>	
<i>Goodwill impairment testing</i>	
<p>The Bank periodically assesses whether any evidence of impairment has arisen since end of the previous financial year that requires the re-evaluation of the impairment test.</p> <p>As a result of the resolution process affecting the Bank, management has considered that there is evidence of impairment that indicates the need for a complete evaluation of goodwill impairment.</p> <p>In the evaluation of goodwill impairment at 30 June 2017, the Bank took into consideration:</p> <ul style="list-style-type: none"> <li>• The resolution of the Bank considering of its non-viability due to the significant and accelerated deterioration of the liquidity situation.</li> <li>• The amount of the provisional valuation carried out by a third party in accordance with Article 20 of Regulation 806/2014 in the framework of the resolution.</li> <li>• The Bank's situation because of the resolution, which differs significantly from the situation at 31 December 2016 and the projections made for the evaluation of impairment at that date.</li> </ul>	<p>We have documented, with the assistance of our valuation experts, our understanding and review of the following matters:</p> <ul style="list-style-type: none"> <li>• Identification of evidence of impairment that implies a full evaluation of goodwill impairment.</li> <li>• Evaluation process performed by management and the main assumptions considered.</li> <li>• Correct accounting recognition based on the evaluation performed.</li> <li>• Review of the analysis report performed by the independent expert.</li> </ul>
<p>As a result of the resolution process affecting the Bank, management has considered that there is evidence of impairment that indicates the need for a complete evaluation of goodwill impairment.</p> <p>In the evaluation of goodwill impairment at 30 June 2017, the Bank took into consideration:</p> <ul style="list-style-type: none"> <li>• The resolution of the Bank considering of its non-viability due to the significant and accelerated deterioration of the liquidity situation.</li> <li>• The amount of the provisional valuation carried out by a third party in accordance with Article 20 of Regulation 806/2014 in the framework of the resolution.</li> <li>• The Bank's situation because of the resolution, which differs significantly from the situation at 31 December 2016 and the projections made for the evaluation of impairment at that date.</li> </ul> <p>As a result of the evaluation carried out at 30 June 2017, the Bank has recognised the impairment of the entire amount of goodwill.</p>	<p>As a result of the procedures performed:</p> <ul style="list-style-type: none"> <li>• We consider management's conclusions as to the existence of impairment triggers to be adequate in the context of the circumstances in which these condensed interim financial statements have been prepared.</li> <li>• We consider the Directors' conclusion concerning the need to recognise the goodwill impairment considering the resolution of the Bank and the applicable regulations resulting from said resolution to be reasonable.</li> </ul>
<p>The Bank's impairment evaluation has been reviewed by an independent expert.</p> <p>See Notes 1.c) and 7 of the condensed interim financial statements.</p>	



Key audit matters	How our audit addressed the key audit matter
<p data-bbox="312 488 689 519"><i>Financial information systems.</i></p> <p data-bbox="277 551 833 613">The Bank's operations, due to their nature, are highly reliant on systems.</p> <p data-bbox="277 640 759 734">As a result, adequate control over these systems is fundamental to guarantee the correct processing of information.</p> <p data-bbox="277 761 823 945">In addition, as the complexity of the systems and the interrelation between them increases, the risk relating to the organisation's information systems and their management, and therefore to the information processed, also increases.</p> <p data-bbox="277 972 817 1249">The effectiveness of the general internal control framework for information systems is fundamental for the performance of certain procedures related to internal control. In this context, it is essential to evaluate the main controls in areas such as applications maintenance and development, information access management and system operating processes.</p>	<p data-bbox="865 551 1439 734">Our work has consisted of reviewing internal control over the systems that support the main business activities with a relevant impact on the Bank's financial information. We have therefore performed the following procedures, among others:</p> <ul data-bbox="865 761 1471 1249" style="list-style-type: none"><li data-bbox="865 761 1471 972">• Review of the general controls over information systems in the areas of system access management, application maintenance, operation systems management in the business and governance processes, and organisation of the Bank's Information Systems Area.</li><li data-bbox="865 972 1471 1093">• Understanding of the main business processes impacting financial information and identification and validation of controls dependent on the systems.</li><li data-bbox="865 1093 1471 1249">• Understanding and review of the process of generating manual accounting entries considered to involve risk. Extraction, validation of completeness and validation of certain accounting entries.</li></ul> <p data-bbox="865 1308 1471 1429">Generally, we consider that the results of our procedures have been reasonable and no relevant issues have been identified that could significantly affect the condensed interim financial statements.</p>

*Emphasis paragraph*

*Information in the condensed financial statements*

We draw attention to the accompanying Note 1.b) which describes that these condensed interim financial statements do not include all the information required in a complete set of financial statements prepared in accordance with the financial reporting framework applicable to the Bank in Spain, and therefore the accompanying condensed interim financial statements should be read together with the annual accounts of the Bank for the year ended December 31, 2016. Our opinion is not modified in respect of this matter.

*Restatement of comparative figures*

We draw attention to the accompanying Note 1.f), which describes that the Bank's Directors have recorded, with retroactive effect, a correction derived from the definitive impact of the matters disclosed in the Significant Event of 3 April 2017, which did not, individually or collectively, represent a significant impact on the annual accounts for 2016. The comparative figures for the previous year have been restated and, therefore, are different from those contained in the approved annual accounts for that year. The existing differences are described in Note 1.f) of the accompanying condensed interim financial statements. Our opinion is not modified in respect of this matter.



---

### *Other information Interim management report*

Other information comprises only the interim management report for the six month period ended June 30, 2017, the formulation of which is the responsibility of the Bank's directors and does not form an integral part of the condensed interim financial statements.

Our audit opinion on the condensed interim financial statements does not cover the interim management report. Our responsibility regarding the interim management report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the interim management report and the condensed interim financial statements as a result of our knowledge of the Bank obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the interim management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the interim management report is consistent with that contained in the condensed interim financial statements for the for the six month period ended June 30, 2017, and its content and presentation are in accordance with the applicable regulations.

---

### *Responsibility of the directors and the audit committee in relation to the condensed interim financial statements*

The Bank's directors are responsible for the preparation of the accompanying condensed interim financial statements in accordance with the financial reporting framework applicable to the entity in Spain, adapted, in terms of disclosure requirements, to the condensed models provided in Article 13 of Royal Decree 1362/2007 for the preparation of condensed financial information, as provided in Article 12 of the aforementioned Royal Decree, and for such internal control as the directors determine is necessary to enable the preparation of condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim financial statements, the Bank's directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Bank's audit committee is responsible for overseeing the process of preparation and presentation of the condensed interim financial statements.

---

### *Auditors' responsibilities for the audit of the condensed interim financial statements*

Our objectives are to obtain reasonable assurance about whether the condensed interim financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these condensed interim financial statements.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the condensed interim financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the condensed interim financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the condensed interim financial statements, including the disclosures.

We communicate with the Bank's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Bank's audit committee, we determine those matters that were of most significance in the audit of the condensed interim financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



## *Report on other legal and regulatory requirements*

---

### *Appointment period*

The General Ordinary Shareholders' Meeting held on 10 April 2017 appointed us as auditors for the year ending 31 December 2017.

Previously, we were appointed by resolution of the General Shareholders' Meetings and have been auditing the annual accounts uninterruptedly since the year ended 31 December 1990.

---

### *Services provided*

During the period from 1 January to 30 June 2017, PricewaterhouseCoopers Auditores, S.L. has provided the Bank with services other than audit services which include regulatory reviews required of the auditor and regulatory compliance services.

---

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by  
Pedro Barrio Luis (22306)

29 September 2017



# **Banco Popular Español, S.A.**

Management Report and Condensed  
Interim Financial Statements for the six  
months ended 30 June 2017.



## **Interim management report for the six months ended 30 June 2017.**

### **Relevant aspects**

#### **Key aspects of the half-year**

The first half of 2017 is dictated by the following key aspects:

- The Relevant Fact reported to the CNMV on 7 June 2017 communicating the purchase by Banco Santander, S.A. of 100% of the share capital of Banco Popular Español, S.A. under the resolution framework adopted by the Single Resolution Board ("SRB") and carried out by the Fund for Orderly Banking Restructuring ("FROB" for its acronym in Spanish) in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, and Law 11/2015 of 18 June on the recovery and resolution of credit institutions and investment services companies.

The resolution instrument applied consisted of the sale of the Entity's business pursuant to articles 22 and 24 of Regulation 806/2014 following amortisation and conversion of the following equity instruments:

- All outstanding Banco Popular shares at the close of 6 June 2017 and the shares resulting from the conversion of Additional Tier 1 regulatory capital issued by Banco Popular have become unavailable voluntary reserves.
- The conversion of all regulatory Tier 2 equity instruments issued by Banco Popular in new issue Banco Popular shares, all of which have been acquired by Banco Santander for 1 euro.

After this operation Banco Popular Español, S.A. becomes part of Grupo Santander.

On 7 June 2017, Banco Santander obtained dispensation from the European Commission regarding the obligation to give prior notification to the operation. As of 30 June 2017, the European Commission has not granted authorisation in terms of the compatibility of the operation with the common market.

- Banco Popular Español reported the termination of the previous Board of Directors as a whole and the appointment of the new members to the Board of Directors to the CNMV in a Relevant Fact on 7 June.
- The Relevant Fact reported to the CNMV on 20 June appointed the new Chairman and non-executive secretary to the Board of Directors and the new members of the Appointments committee, the Audit Committee, the Compensation Committee, the Risk and Compliance Commission and the modification of the Management Committee with the appointment of its new members.

- On 28 July, the bank performed a capital increase of 2,736 million euros with a share premium of 4,143 million euros. 2,736 million shares were issued with a par value of 1 euro. The capital increase was fully subscribed by Grupo Santander.
- On 28 July, the Bank received a subordinated loan from Banco Santander for 750 million euros which matures in 2027 and which complies with the characteristics to be considered as an increase in Tier 2 shareholders' equity of Banco Popular.
- In virtue of the Regulation on European Union mergers, on 8 August the European Commission authorised the acquisition of the Bank by Banco Santander. The Commission arrived at the conclusion that the proposed operation has no competition issues in the common market.

## Banco Popular

Significant information (Data in thousands of euros)	30.06.17	30.06.16
<b>TURNOVER</b>		
Total assets managed	136,504,664	169,756,756
Total assets on balance sheet	122,059,643	154,780,869
Own funds	332,326	14,543,511
Customer funds	78,745,347	108,291,230
Loans and advances to customers (gross)	85,343,379	104,960,803
<b>SOLVENCY</b>		
CET 1 Ratio (%)	(3.70)	18.17
Tier 1 Ratio (%)	(3.70)	18.71
Total capital ratio (%)	(3.70)	19.40
Basel III phase-in leverage (%) <sup>(1)</sup>	(1.37)	8.37
<b>RISK MANAGEMENT</b>		
Total risks	95,688,378	113,651,420
Non-performing loans	20,397,219	16,391,296
Credit loss provisions	13,199,015	7,830,631
Non-performing loans ratio (%)	21.32	14.42
Non-performing coverage ratio (unamortised) (%)	64.71	47.77
<b>PROFIT/(LOSS)</b>		
Net Interest Income	734,884	863,600
Gross income	693,520	1,298,050
Net operating income (Pre-provision profit/(loss))	(347,945)	574,215
Profit/(loss) before tax	(11,296,962)	(72,357)
Net profit/(loss)	(12,218,407)	(35,399)
<b>OTHER INFORMATION</b>		
Number of employees:	9,209	11,741
Spain:	9,209	11,741
Men	5,223	7,229
Women	3,986	4,512
Number of offices:	1,416	1,651
Spain	1,416	1,651
1. Basel III phase-in leverage ratio according to CRR		
Appendix I offers a description of the main Alternative Performance Measures (APMs).		

## Income Statement

(Data in thousands of euros)	30.06.2017	30.06.2016	Var. %
Interest income	1,123,465	1,366,714	(18)
(Interest expenses)	388,581	503,114	(23)
(Expenses on share capital repayable on demand)	-	-	-
<b>Net Interest Income</b>	<b>734,884</b>	<b>863,600</b>	<b>(15)</b>
Dividend income	49,686	50,912	(2)
Fee and commission income	246,027	251,882	(2)
(Fee and commission expenses)	6,488	13,244	(51)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	(277,481)	166,586	<
Gains or (-) losses on financial assets and liabilities held for trading, net	(24,416)	(3,614)	>
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net.	-	-	-
Gains or (-) losses from hedge accounting, net	(599)	333	<
Exchange differences [gain or (-) loss], net.	18,283	18,228	-
Other operating income.	39,273	47,598	(17)
(Other operating expenses).	85,649	84,231	2
<b>Gross Income</b>	<b>693,520</b>	<b>1,298,050</b>	<b>(47)</b>
(Administrative expenses)	503,530	589,542	(15)
(Staff expenses)	277,930	362,237	(23)
(Other administrative expenses)	225,600	227,305	(1)
(Amortisation)	537,935	134,293	>
<b>Net operating income</b>	<b>(347,945)</b>	<b>574,215</b>	<b>&lt;</b>
- Provisions or (-) reversal of provisions	879,709	(27,171)	<
- Impairment or (-) reversal of impairment on financial assets not recognised through changes in profit and loss	2,609,039	554,340	>
<b>Net operating income</b>	<b>(3,836,693)</b>	<b>47,046</b>	<b>&lt;</b>
- Impairment or (-) reversal of impairment in joint ventures and associates	4,983,467	(7,219)	<
- Impairment or (-) reversal of impairment on non-financial assets	741,852	665	>
+ Gains or (-) losses on derecognition of non financial assets and shareholdings, net	1,470	67,562	(98)
+ Negative goodwill recognised in profit or loss	-	-	-
+ Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(1,736,420)	(193,519)	>
<b>Profit or (-) loss before tax from continuing operations</b>	<b>(11,296,962)</b>	<b>(72,357)</b>	<b>&gt;</b>
- Income tax	921,445	(36,958)	<
<b>Profit or (-) loss after tax from continuing operations</b>	<b>(12,218,407)</b>	<b>(35,399)</b>	<b>&gt;</b>
<b>Profit or (-) loss after tax from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit/(loss) for the year</b>	<b>(12,218,407)</b>	<b>(35,399)</b>	<b>&gt;</b>

Banco Popular recorded losses in the first half of 2017 of 12,218 million euros.

Since the beginning of the year there has been a progressive impairment in the bank's activity with significant reductions in business, especially in customer deposits.

In addition to the reduction in deposits, the level of new loans has been especially low.

As a result, an impairment has occurred in the income of all its lines, producing year-on-year reductions of 15% in net interest income and 47% in Gross Income.

Staff and general expenses have recorded reductions of 23% and 1% respectively as a consequence of the restructuring plans carried out in the previous year.

Based on this line of the account, the results are strongly affected by the recording of certain provisions of the financial statements closed at 30 June 2017, new estimates as a result of the Bank's resolution process and new events produced subsequent to the close of 2016.

Following these significant provisions and taking into account the bank's recapitalisation at the end of July with the capital increase of 2,736 million euros with an share premium of 4,143 million euros, it is expected that the normalization of Banco Popular's in the second half of this year.

Staff expenses are shown below:

### Staff expenses

(Data in thousands of euros)			
	30.06.17	30.06.16	Change %
<b>Staff expenses:</b>	<b>277,930</b>	<b>362,237</b>	<b>(23.3)</b>
Salaries and wages	197,916	260,441	(24)
Social security contributions	59,597	74,074	(19.5)
Other staff expenses	12,206	14,250	(14.3)
Pensions	8,211	13,472	(39.1)

## Balance sheet

(Data in thousands of euros)	30.06.2017	31.12.2016 (*)	Var. %
Cash and cash balances at central banks and other demand deposits	7,588,817	2,288,949	232
Financial assets held for trading	1,842,468	2,136,411	(14)
Financial assets designated at fair value through profit or loss	-	-	-
Available-for-sale financial assets	16,431,284	14,236,883	15
Loans and receivables	81,298,418	99,261,098	(18)
Held-to-maturity investments	-	4,583,511	(100)
Derivatives – Hedge accounting	222,814	269,847	(17)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	249,862	265,519	(6)
Investments in subsidiaries, joint ventures and associates	6,817,288	3,249,452	110
Tangible assets	331,222	791,769	(58)
Intangible assets	51,794	1,263,451	(96)
Tax assets	4,341,329	5,508,396	(21)
Other assets	973,139	524,917	85
Non-current assets and disposal groups classified as held for sale	1,911,208	3,093,567	(38)
<b>Total assets</b>	<b>122,059,643</b>	<b>137,473,770</b>	<b>(11)</b>
Financial liabilities held for trading	1,406,517	1,677,644	(16)
Financial liabilities designated at fair value through profit or loss	-	-	-
Financial liabilities measured at amortised cost	117,237,753	123,269,395	(5)
Derivatives – Hedge accounting	816,079	1,109,309	(26)
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-
Provisions	1,505,322	335,191	349
Tax liabilities	144,389	279,119	(48)
Share capital repayable on demand	-	-	-
Other liabilities	827,869	680,268	22
Liabilities included in disposal groups classified as held for sale	-	-	-
<b>Total liabilities</b>	<b>121,937,929</b>	<b>127,350,926</b>	<b>(4)</b>
Own funds	332,326	10,465,589	(97)
Capital, reserves and other equity instruments	12,550,733	8,703,768	44
Profit or loss attributable to owners of the parent	(12,218,407)	(3,326,407)	267
Interim dividends (-)	-	-	-
Share premium	-	5,277,886	(100)
Treasury shares (-)	-	(189,658)	(100)
Accumulated other comprehensive income	(210,612)	(342,745)	(39)
<b>Total equity</b>	<b>121,714</b>	<b>10,122,844</b>	<b>(99)</b>

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.

## EQUITY

The following shows the Equity position:

<b>(Data in thousands of euros)</b>	<b>30.06.2017</b>	<b>31.12.2016 (*)</b>
Own funds	332,326	10,465,589
Share Capital	684,024	2,098,429
Share premium	-	5,277,886
Equity instruments issued other than capital	-	-
Other equity	-	-
Retained earnings	3,440,193	6,766,600
Valuation reserves	-	-
Other Reserves	8,426,516	(161,261)
<i>Of which Unavailable voluntary reserves by resolution</i>	<i>3,444,971</i>	-
(-) Treasury shares	-	(189,658)
Profit/(loss) attributable to the parent company	(12,218,407)	(3,326,407)
(-) Interim dividends	-	-
Accumulated other comprehensive income	(210,612)	(342,745)
Items that will not be reclassified to profit or loss	(14,716)	(15,756)
Items that may be reclassified to profit or loss	(195,896)	(326,989)
Minority interests	-	-
<b>Total Equity</b>	<b>121,714</b>	<b>10,122,844</b>

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.



## Appendix I. Alternative Performance Measures – APMs

APM	Definition (1)	Accounting Information (2)	Management Information (3)	Section of the Annual Management Report (4)
<b>MONITORING OF RESULTS</b>	<b>The APMs in this section show the main margins of the income statement.</b>			
Net Interest Income	Difference between financial income and financial costs. Mainly the difference between that charged for credits and paid for deposits.	Accounting items of results: Interest income; Interest expenses.		6
Gross income	Net interest income plus: net fees and commissions, dividends received from shareholdings in other companies, results of companies valued using the equity method, the result of financial activities (net), exchange differences and other operating charges and products.	Accounting items of results: Net interest income, Dividend income, Fee and commission income, Fee and commission expenses, Gains or (-) losses from the derecognition of financial assets and liabilities not measured at fair value through profit or loss, net, Gains or (-) losses on financial assets and liabilities held for trading, net, Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net, Gains or (-) losses on hedge accounting, net, Exchange differences [gain or (-) loss], net, Other operating income, (Other operating expenses), Income from assets under insurance and reinsurance contracts, (Expenses from liabilities under insurance and reinsurance contracts expenses).		6
Net operating income	Gross income less operating expenses (staff expenses, other general administrative expenses and amortisations). It is that which best reflects the evolution of the bank's business.	Accounting items of results: Gross Income, Staff Expenses, Other administrative expenses, Amortisations		6
<b>RISK MANAGEMENT</b>	<b>The APMs in this section show the main ratios used in monitoring risk</b>			
Non-performing balances ratio	Ratio between the some of the balances of doubtful assets plus the balance of doubtful contingent exposures divided by total risks.	Accounting items of the balance sheet: Balances of doubtful assets and the balance of doubtful contingent exposures.	Total Risks: balances of balance sheet assets plus the contingent risks and commitments subject to credit risk.	9
Non-performing coverage ratio (unamortised)	Proportion of recorded provisions with respect to the balance classified as doubtful assets plus the balance of doubtful contingent exposures. Excludes balances transferred to write-offs.	Accounting item of results: Credit loss provisions. Accounting item of the balance sheet: Total non-performing loans.		9
(1) Conceptual definition of APM and make-up of calculation variables.				
(2) Variables which make up the APMs whose accounting balances are reflected in the income statement and the balance sheet.				
(3) Variables which make up the APMs whose accounting balances are not directly reflected in the income statement and the balance sheet.				
(4) Section of the Annual Management Report which reflects the use of the APMs in the entity's management.				

**BANCO POPULAR ESPAÑOL, S.A.**

**CONDENSED BALANCE SHEETS AT 30 JUNE 2017 AND 31 DECEMBER 2016**

(Thousands of euros)

ASSETS	Notes	30.06.2017	31.12.2016 (*)
CASH AND CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS		7,588,817	2,288,949
FINANCIAL ASSETS HELD FOR TRADING <i>Memorandum item: loaned or delivered as collateral with right of sale or pledge</i>	4	1,842,468 -	2,136,411 115,748
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH CHANGES IN PROFIT OR LOSS <i>Memorandum item: loaned or delivered as collateral with right of sale or pledge</i>	4	- -	- -
AVAILABLE-FOR-SALE FINANCIAL ASSETS <i>Memorandum item: loaned or delivered as collateral with right of sale or pledge</i>	4	16,431,284 8,053,134	14,236,883 7,231,023
LOANS AND RECEIVABLES <i>Memorandum item: loaned or delivered as collateral with right of sale or pledge</i>	4	81,298,418 1,872,336	99,261,098 4,196,275
HELD-TO-MATURITY INVESTMENTS <i>Memorandum item: loaned or delivered as collateral with right of sale or pledge</i>	4	- -	4,583,511 1,862,889
DERIVATIVES – HEDGE ACCOUNTING		222,814	269,847
FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK		249,862	265,519
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES <i>Consolidated subsidiaries</i> <i>Joint Ventures</i> <i>Associates</i>	8	6,817,288 6,041,035 461,453 314,800	3,249,452 2,251,827 466,863 530,762
TANGIBLE ASSETS Property, Plant and Equipment <i>For own use</i> <i>Assets assigned under operating leases</i> Investment property <i>Of which: assets assigned under operating leases</i> <i>Memorandum item: Acquired under finance leases</i>	6	331,222 237,081 237,081 - 94,141 - -	791,769 264,711 264,711 - 527,058 - -
INTANGIBLE ASSETS <i>Goodwill</i> <i>Other intangible assets</i>	7	51,794 - 51,794	1,263,451 821,149 442,302
TAX ASSETS <i>Current tax assets</i> <i>Deferred tax assets</i>		4,341,329 105,778 4,235,551	5,508,396 185,804 5,322,592
OTHER ASSETS <i>Insurance contracts linked to pensions</i> <i>Inventories</i> <i>Other assets</i>		973,139 48,436 - 924,703	524,917 49,311 - 475,606
NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	5	1,911,208	3,093,567
<b>TOTAL ASSETS</b>		<b>122,059,643</b>	<b>137,473,770</b>

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

**BANCO POPULAR ESPAÑOL, S.A.**

**CONDENSED BALANCE SHEETS AT 30 JUNE 2017 AND 31 DECEMBER 2016**

(Thousands of euros)

LIABILITIES	Notes	30.06.2017	31.12.2016(*)
FINANCIAL LIABILITIES HELD FOR TRADING	9	1,406,517	1,677,644
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	9	-	-
<i>Memorandum item: subordinated liabilities</i>		-	-
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	9	117,237,753	123,269,395
<i>Memorandum item: subordinated liabilities</i>		11,343	2,054,060
DERIVATIVES – HEDGE ACCOUNTING		816,079	1,109,309
FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK		-	-
PROVISIONS	10	1,505,322	335,191
<i>Pensions and other post employment defined benefit obligations</i>		77,078	81,877
<i>Other long term employee benefits</i>		-	-
<i>Pending legal issues and tax litigation</i>		17,480	19,069
<i>Commitments and guarantees given</i>		184,588	185,257
<i>Other provisions</i>		1,226,176	48,988
TAX LIABILITIES		144,389	279,119
<i>Current tax liabilities</i>		36,254	35,918
<i>Deferred tax liabilities</i>		108,135	243,201
OTHER LIABILITIES		827,869	680,268
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE		-	-
<b>TOTAL LIABILITIES</b>		<b>121,937,929</b>	<b>127,350,926</b>
OWN FUNDS		332,326	10,465,589
CAPITAL	11	684,024	2,098,429
<i>Paid up capital</i>		684,024	2,098,429
<i>Unpaid capital which has been called up</i>		-	-
<i>Memorandum item: uncalled capital</i>		-	-
SHARE PREMIUM		-	5,277,886
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		-	-
<i>Equity component of compound financial instruments</i>		-	-
<i>Other equity instruments issued</i>		-	-
OTHER EQUITY		-	-
RETAINED EARNINGS		3,440,193	6,766,600
REVALUATION RESERVES		-	-
OTHER RESERVES		8,426,516	(161,261)
(-) TREASURY SHARES		-	(189,658)
PROFIT/(LOSS) FOR THE YEAR		(12,218,407)	(3,326,407)
(-) INTERIM DIVIDENDS		-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME		(210,612)	(342,745)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		(14,716)	(15,756)
<i>Actuarial gains or (-) losses on defined benefit pension plans</i>		(14,716)	(15,756)
<i>Non-current assets and disposal groups classified as held for sale</i>		-	-
<i>Other fair value changes</i>		-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(195,896)	(326,989)
<i>Hedge of net investments in foreign operations (effective portion)</i>		-	-
<i>Foreign currency translation</i>		-	-
<i>Hedging derivatives, Cash flow hedges (effective portion)</i>		(58,310)	(71,993)
<i>Available-for-sale financial assets</i>		(137,586)	(254,996)
<i>Debt instruments</i>		(140,783)	(258,831)
<i>Equity instruments</i>		3,197	3,835
<i>Non-current assets and disposal groups classified as held for sale</i>		-	-
MINORITY INTERESTS (non-controlling shareholdings)		-	-
<i>Accumulated other comprehensive income</i>		-	-
<i>Other items</i>		-	-
<b>EQUITY</b>		<b>121,714</b>	<b>10,122,844</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>122,059,643</b>	<b>137,473,770</b>
MEMORANDUM ITEM: OFF-BALANCE SHEET EXPOSURE	14		
GUARANTEES GRANTED		11,305,281	11,569,487
CONTINGENT COMMITMENTS GRANTED		6,027,916	7,277,838

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

**BANCO POPULAR ESPAÑOL, S.A.**  
**CONDENSED PROFIT AND LOSS ACCOUNTS FOR**  
**THE SIX MONTHS ENDED**  
**30 JUNE 2017 AND 2016**  
(Thousands of euros)

	Notes	(Debit) Credit	
		01.01.2017 to 30.06.2017	01.01.2016 to 30.06.2016
Interest income		1,123,465	1,366,714
Interest expenses		388,581	503,114
<b>Net Interest Income</b>		<b>734,884</b>	<b>863,600</b>
Dividend income		49,686	50,912
Profit or (-) loss of entities accounted for using the equity method		-	-
Fee and commission income		246,027	251,882
Fee and commission expenses		6,488	13,244
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.		(277,481)	166,586
Gains or losses on financial assets and liabilities held for trading, net		(24,416)	(3,614)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net.		-	-
Gains or losses from hedge accounting, net		(599)	333
Exchange differences, net		18,283	18,228
Other operating income.		39,273	47,598
Other operating expenses		85,649	84,231
Assets under insurance and reinsurance contracts income		-	-
Liabilities under insurance and reinsurance contracts expenses		-	-
<b>Gross income</b>		<b>693,520</b>	<b>1,298,050</b>
Administrative expenses		503,530	589,542
Staff expenses		277,930	362,237
Other administrative expenses		225,600	227,305
Amortisation		537,935	134,293
Provisions or reversal of provisions		879,709	(27,171)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		2,609,039	554,340
Financial assets measured at cost		-	-
Available-for-sale financial assets		77,581	11,614
Loans and receivables	4	2,531,458	542,726
Held-to-maturity investments		-	-
<b>Net operating income</b>		<b>(3,836,693)</b>	<b>47,046</b>
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates		4,983,467	(7,219)
Impairment or reversal of impairment on non-financial assets		741,852	665
Tangible assets		756	665
Intangible assets		741,096	-
Other		-	-
Gains or losses on derecognition of non financial assets, net		1,470	67,562
Negative goodwill recognised in profit or loss		-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	5	(1,736,420)	(193,519)
<b>Profit or loss before tax from continuing operations</b>		<b>(11,296,962)</b>	<b>(72,357)</b>
Tax expense or income related to profit or loss from continuing operations		921,445	(36,958)
<b>Profit or loss after tax from continuing operations</b>		<b>(12,218,407)</b>	<b>(35,399)</b>
Profit or (-) loss after tax from discontinued operations		-	-
<b>Profit or loss for the year</b>		<b>(12,218,407)</b>	<b>(35,399)</b>
<b>Earnings per share:</b>			
Basic		(3.32)	(0.02)
Diluted		(3.32)	(0.02)

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

**BANCO POPULAR ESPAÑOL, S.A.**

**CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE CORRESPONDING  
TO THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016**

(Thousands of euros)

	01.01.2017 to 30.06.2017	01.01.2016 to 30.06.2016
<b>PROFIT OR LOSS FOR THE YEAR</b>	<b>(12,218,407)</b>	<b>(35,399)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>132,133</b>	<b>(124,302)</b>
<b>Items that will not be reclassified to profit or loss</b>	<b>1,042</b>	<b>(2,899)</b>
Actuarial gains or (-) losses on defined benefit pension plans	1,487	(4,142)
Non-current assets and disposal groups held for sale	-	-
Share in other recognised income and expense of investments in joint ventures and associates	-	-
Other fair value changes	-	-
Income tax relating to items that will not be reclassified	(445)	1,243
<b>Items that may be reclassified to profit or loss</b>	<b>131,091</b>	<b>(121,403)</b>
Hedge of net investments in foreign operations (effective portion)	-	-
<i>Valuation gains or (-) losses taken to equity</i>	-	-
<i>Transferred to profit or loss</i>	-	-
<i>Other reclassifications</i>	-	-
Foreign currency translation	-	-
<i>Translation gains or (-) losses taken to equity</i>	-	-
<i>Transferred to profit or loss</i>	-	-
<i>Other reclassifications</i>	-	-
Cash flow hedges (effective portion)	23,219	(94)
<i>Valuation gains or (-) losses taken to equity</i>	31,783	1,823
<i>Transferred to profit or loss</i>	(8,564)	1,917
<i>Transferred to initial carrying amount of hedged items</i>	-	-
<i>Other reclassifications</i>	-	-
Available-for-sale financial assets	163,252	(172,518)
<i>Valuation gains or (-) losses taken to equity</i>	228,422	(85,717)
<i>Transferred to profit or loss</i>	(65,170)	(86,801)
<i>Other reclassifications</i>	-	-
Non-current assets and disposal groups held for sale	-	-
<i>Valuation gains or (-) losses taken to equity</i>	-	-
<i>Transferred to profit or loss</i>	-	-
<i>Other reclassifications</i>	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	(55,380)	51,209
<b>Total comprehensive income for the year</b>	<b>(12,086,274)</b>	<b>(159,701)</b>

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017

**BANCO POPULAR ESPAÑOL, S.A.**

**CONDENSED STATEMENTS OF CHANGES IN EQUITY CORRESPONDING TO THE SIX MONTHS ENDED  
30 JUNE 2017 AND 2016**  
(Thousands of euros)

	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
<b>Opening balance at 31.12.16 (*)</b>	<b>2,098,429</b>	<b>5,277,886</b>	-	-	<b>6,766,600</b>	-	<b>(161,261)</b>	<b>189,658</b>	<b>(3,326,407)</b>	-	<b>(342,745)</b>	<b>10,122,844</b>
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance at 31.12.2016 (*)</b>	<b>2,098,429</b>	<b>5,277,886</b>	-	-	<b>6,766,600</b>	-	<b>(161,261)</b>	<b>189,658</b>	<b>(3,326,407)</b>	-	<b>(342,745)</b>	<b>10,122,844</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	-	-	<b>(12,218,407)</b>	-	<b>132,133</b>	<b>(12,086,274)</b>
<b>Other changes in equity</b>	<b>(1,414,405)</b>	<b>(5,277,886)</b>	-	-	<b>(3,326,407)</b>	-	<b>-8,587,777</b>	<b>189,658</b>	<b>3,326,407</b>	-	-	<b>2,085,144</b>
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	2,030,566	-	-	-	-	-	-	-	-	-	-	2,030,566
Capital reduction	-	-	-	-	-	-	-	479	-	-	-	479
Dividends (or remunerations to partners)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	189,179	-	-	-	189,179
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	(3,444,971)	(5,277,886)	-	-	(3,326,407)	-	-8,722,857	-	3,326,407	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	(135,080)	-	-	-	-	(135,080)
<b>Closing balance at 30.06.17 (*)</b>	<b>684,024</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,440,193</b>	<b>-</b>	<b>-8,426,516</b>	<b>-</b>	<b>(12,218,407)</b>	<b>-</b>	<b>(210,612)</b>	<b>121,714</b>

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.

**BANCO POPULAR ESPAÑOL, S.A.**

**CONDENSED STATEMENTS OF CHANGES IN EQUITY CORRESPONDING TO THE SIX MONTHS ENDED  
30 JUNE 2017 AND 2016**  
(Thousands of euros)

	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
<b>Opening balance at 31.12.15 (*)</b>	<b>1,082,538</b>	<b>7,774,555</b>	-	-	<b>3,479,361</b>	-	<b>(100,135)</b>	<b>20,954</b>	<b>136,184</b>	<b>42,387</b>	<b>(254,799)</b>	<b>12,054,363</b>
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	<b>(256,948)</b>	-	-	-	-	-	-	<b>(256,948)</b>
<b>Opening balance at 31.12.2015 (*)</b>	<b>1,082,538</b>	<b>7,774,555</b>	-	-	<b>3,222,413</b>	-	<b>(100,135)</b>	<b>20,954</b>	<b>136,184</b>	<b>42,387</b>	<b>(254,799)</b>	<b>11,797,415</b>
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	-	-	<b>(35,399)</b>	-	<b>(124,302)</b>	<b>(159,701)</b>
<b>Other changes in equity</b>	<b>1,015,891</b>	<b>1,503,331</b>	-	-	<b>(38,560)</b>	-	<b>(14,169)</b>	<b>102,948</b>	<b>(136,184)</b>	<b>(42,387)</b>	-	<b>2,269,748</b>
Issuance of ordinary shares	1,015,891	1,503,331	-	-	-	-	-	-	-	-	-	2,519,222
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remunerations to partners)	-	-	-	-	-	-	-	-	-	42,387	-	(42,387)
Purchase of treasury shares	-	-	-	-	38,341	-	-	169,733	-	-	-	(131,392)
Sale or cancellation of treasury shares	-	-	-	-	(3,436)	-	-	(66,785)	-	-	-	63,349
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	136,184	-	-	-	(136,184)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	(209,649)	-	(14,169)	-	-	-	-	(223,818)
<b>Closing balance at 30.06.16 (*)</b>	<b>2,098,429</b>	<b>9,277,886</b>	-	-	<b>3,183,853</b>	-	<b>(114,304)</b>	<b>123,902</b>	<b>(35,399)</b>	-	<b>(379,101)</b>	<b>13,907,462</b>

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

(\*) Figures restated for comparative purposes as a result of the Relevant Fact reported to the CNMV on 3 April 2017.



**BANCO POPULAR ESPAÑOL, S.A.**  
**CONDENSED STATEMENT OF CASH FLOWS**  
**GENERATED IN THE SIX MONTHS ENDED**  
**30 JUNE 2017 AND 2016**  
(Thousands of euros)

	Notes	30.06.2017	30.06.2016
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>15,517,299</b>	<b>(4,670,236)</b>
Profit or loss for the year		(12,218,407)	(35,399)
Adjustments to obtain cash flows from operating activities:		11,125,705	1,863,952
Amortisation		537,934	134,293
Other adjustments		10,587,771	1,729,659
Net increase/(decrease) in operating assets:		(18,125,121)	9,142,357
Financial assets held for trading		4,392	(3,363)
Financial assets designated at fair value through profit or loss		-	-
Available-for-sale financial assets		(4,733,860)	3,358,592
Loans and receivables		(14,088,771)	5,557,126
Other operating assets		693,118	230,002
Net increase/(decrease) in operating liabilities:		(1,515,120)	2,625,441
Financial liabilities held for trading		(210)	-
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		(1,722,523)	2,676,554
Other operating liabilities		207,613	(51,113)
Collections/(payments) for income tax		-	18,127
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(10,778,270)</b>	<b>116,933</b>
Payments:		11,071,340	165,242
Tangible assets	6	35,974	27,925
Intangible assets		-	64,945
Investments in joint ventures and associates	8	8,625,000	5,143
Subsidiaries and other business units		-	-
Non-current assets and associated liabilities held for sale		-	67,229
Held-to-maturity investments		2,410,366	-
Other payments related to investing activities		-	-
Collections:		293,070	282,175
Tangible assets	6	2,264	13,457
Intangible assets		-	-
Investments in joint ventures and associates	8	64,000	3,773
Subsidiaries and other business units		-	-
Non-current assets and associated liabilities held for sale	5	226,806	264,945
Held-to-maturity investments		-	-
Other collections related to investing activities		-	-
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>189,179</b>	<b>2,308,242</b>
Payments:		12,456	274,273
Dividends		-	18,551
Subordinated liabilities		-	3,044
Own equity instruments amortisation		-	-
Own equity instruments acquisition		12,456	123,902
Other payments related to financing activities		-	128,776
Collections:		201,635	2,582,515
Subordinated liabilities		-	3,296
Own equity instruments issue		-	2,519,222
Own equity instruments disposal		201,635	59,997
Other collections related to financing activities		-	-
<b>D. EFFECT OF EXCHANGE RATE CHANGES</b>		<b>-</b>	<b>-</b>
<b>E. NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS</b>		<b>4,928,208</b>	<b>(2,245,061)</b>
<b>F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>1,905,846</b>	<b>3,270,982</b>
<b>G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>6,834,054</b>	<b>1,025,921</b>
<b>COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR</b>		<b>-</b>	<b>-</b>
Cash		380,367	386,994
Balance of cash equivalent in central banks		6,453,687	638,927
Other financial assets		-	-
Minus: Bank overdraft refundable on demand		-	-
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>6,834,054</b>	<b>1,025,921</b>

The accompanying Notes 1 to 16 form an integral part of the condensed balance sheet at 30 June 2017.

## **BANCO POPULAR ESPAÑOL, S.A.**

Accompanying notes to the condensed interim financial statements for the six months ended 30 June 2017.

### **1. Introduction, basis of presentation for the condensed interim financial statements and other information**

#### ***a) Introduction***

Banco Popular Español, S.A. (hereinafter, the Entity, Banco Popular or the Bank) was incorporated on 14 July 1926, and its registered address is 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 condensed interim financial statements for the six-months ending 30 June 2017 (hereinafter, interim financial statements) were prepared by its directors at its meeting on 27 September 2017. The Bank's financial statements for 2016 were approved by the Bank's general shareholders' meeting held on 10 April 2017.

On 6 June 2017, the European Central Bank notified the Single Resolution Board ("SRB") of the non-viability of Banco Popular pursuant to article 18.4 c) of Regulation (EU) 806/2014 of 15 July, ("Regulation 806/2014") on the grounds that the entity could not meet payment of its debts or other liabilities upon maturity or there were objective elements that indicated that it could not do so in the near future. The SRB, in exercising its powers and after noting the significant and accelerated impairment of the Bank's liquidity situation, determined in its Decision SRB/EES/2017/08 that the conditions set forth in art. 18.1 of Regulation 806/2014 had been met and, accordingly, agreed to declare the resolution of the entity and approved the resolution mechanism.

#### ***b) Basis of presentation for the condensed interim financial statements***

The interim financial information has been prepared in accordance with the provisions of Banco de España Circular 4/2004, of 22 December and subsequent amendments, and has been prepared on the basis of the accounting records maintained by Banco Popular Español, S.A. These condensed interim financial statements are also presented in accordance with the models provided for in article 13 of Royal Decree 1362/2007 of 19 October and the requirements of Circular 5/2015 of 28 October, National Securities Market Commission (hereinafter "CNMV"), which amends Circular 1/2008. These condensed interim financial statements will be included in the Half-yearly Financial Information corresponding to 2017 which the Bank presents in accordance with Circular 1/2008, as amended by Circular 5/2015.

Due to the aforementioned resolution, there are significant criteria which should have been applied extraordinarily in the interim financial statements, which differ significantly from those applicable in the preparation of the annual accounts for 2016 as described in these accounts. In the preparation of these interim financial statements and, due to the Bank's resolution, the Directors have considered that established in the applicable resolution regulations contained in Regulation 806/2014 in which the estimated value of the assets and liabilities has taken into account said resolution. Additionally, in the preparation of these interim financial statements, the accelerated sale strategy of assets related to the real estate sector in the wholesale market announced by the new shareholder has been considered (See Note 1.c) and subsequently carried out (see Note 1.h).

In light of the above circumstances, which significantly affect comparability, the condensed interim financial information should be read in conjunction with the financial statements for the year ended 31 December 2016, produced in accordance with Banco de España Circular 4/2004, which were prepared on 20 February 2017 and approved by the General Shareholders' Meeting held on 10 April 2017. Accordingly, in accordance with Article 13 of Royal Decree 1362/2007, of 19 October, the selected accompanying notes include an explanation of the events or variations which are, if applicable, significant for the explanation of the changes in financial position and profit or loss of operations, changes in equity, total income and expenses and cash flows at the Bank since the publication of the aforementioned financial statements, up to 30 June 2017.

During the first six months of 2017, new Norms and Interpretations which apply to the Bank have not come into force, without prejudice to application to the Bank, of the resolution regulations mentioned above.

### **c) Aspects related to the Banco Popular resolution process**

The Relevant Fact reported to the Spanish National Securities Market Commission ("CNMV") on 7 June 2017 communicating the purchase by Banco Santander, S.A. of 100% of the share capital of Banco Popular Español, S.A. under the resolution framework adopted by the Single Resolution Board ("SRB") and carried out by the Fund for Orderly Banking Restructuring ("FROB" for its acronym in Spanish) in accordance with Regulation 806/2014, Directive 2014/59 (EU) of the European Parliament and of the Council of 15 May 2014 ("Directive 2014/59"), and Law 11/2015 of 18 June on the recovery and resolution of credit institutions and investment services companies.

This resolution process has been the first time in which the aforementioned European regulation has been applied.

On 6 June 2017, in exercising its powers and on prior communication of the European Central Bank, the SRB agrees to declare the resolution of Banco Popular considering the conditions provided for in Regulation 806/2014 to have been met, in accordance with article 18.4 c).

The resolution instrument applied consisted of the sale of the Entity's business pursuant to articles 22 and 24 of Regulation 806/2014 following amortisation and conversion of the following equity instruments:

- All outstanding Banco Popular shares at the close of 6 June 2017 and the shares resulting from the conversion of Additional Tier 1 regulatory capital issued by Banco Popular were amortised with the purpose of constituting an unavailable voluntary reserve.
- The conversion of all regulatory Tier 2 equity instruments issued by Banco Popular in new issue Banco Popular shares, all of which have been acquired by Banco Santander for 1 euro.

Pursuant to article 22 of Regulation 806/2014 and, prior to adopting the decision to implement the resolution mechanism, the SRB received the provisional economic valuation made by an independent third party expert in accordance with the criteria set out in article 20 of that Regulation.

Amongst other aspects, article 20 establishes that the economic valuation may be supplemented by an analysis and estimation of the value of the assets and liabilities according to their market value; as such it differs from the estimates applied by the Bank until date of the resolution, in accordance with the applicable regulation. Additionally, it is established in sections 5.g and 11 that one of the purposes of the valuation is to ensure that any losses on the assets are fully recorded in the Entity's accounts. This way, the aspects considered in Banco Santander's purchase of the Bank in the resolution process should exceptionally be taken into account in the Bank's accounts.

Therefore, in consideration of that set out in article 20 of Regulation 806/2014, the Bank has estimated the value of assets and liabilities at 30 June 2017 considering the resolution and sale of the Bank. In addition, the estimates have taken into account the announced accelerated sale strategy of assets related to the real estate sector in the wholesale market, which was implemented in August 2017 (see Note 1.h). As a result, the estimates and circumstances applied differ significantly from those employed in 2016. The criteria and estimates applied by the Bank until the resolution were set in accordance with the regulation applicable at that time, which provided for the majority of the Bank's assets to be recorded based on the historical cost or amortised cost corrected for the estimated impairment in accordance with the applicable regulation and the circumstances at that date (among others Loans and receivables, Investments in subsidiaries, joint ventures and associates and held-to-maturity investments).

In dealing with the purpose established in Regulation 806/2014, the Bank's Directors when preparing the interim financial statements as of 30 June 2017, have used the best estimate available at the date of these financial statements, which are based on the economic valuation performed by an independent third party in the purchase price allocation (PPA) exercise, as required by the accounting standards and carried out as a consequence of the acquisition of the Entity by Banco Santander, adapting it to the specific circumstances of the individual financial statements. This estimate is consistent with the range of provisional assessments received by the SRB and communicated by the FROB in adopting Banco Popular's resolution.

Due consideration of the resolution regulation demands significant changes in the estimates of certain headings be recorded in the interim financial statements as a result of the resolution and the new events occurring subsequent to the close of 2016. In accordance with accounting standards, these changes in estimates are recorded prospectively, i.e. the effect of the change in estimates is recognised as of the current year. In addition, it should be noted that in determining the new estimates, other relevant aspects have been considered such as the changes in the estimates employed taking a possible accelerated sale in the wholesale market of assets related to the real estate sector into account (finally materialised and described in Note 1.h of Subsequent Events).

The following is a breakdown of the main impacts, which resulted in capital losses, due to changes in estimates from the accounts at 31 December 2016 as a result of the Bank's resolution process and new events in 2017 (in millions of euros):

- Loans and receivables:	3,146
- Non-current assets held for sale:	1,145
- Investments in Group companies:	3,488
- Other provisions:	872
- Deferred tax assets:	982
- Goodwill and other intangible assets:	1,137
- Held-to-maturity portfolio and others:	411

The main aspects affecting these estimates at 30 June 2017, based on market valuations other than accounting valuations applied in previous periods or on new events in the first half of 2017, are as follows:

- Loans and receivables, non-current assets held for sale and investments in Group companies: the changes in estimates in these headings mainly relate to property assets and loans related to the real estate sector which have taken into account the new strategy announced by Banco Santander at the time of acquiring Banco Popular of the accelerated sale in the wholesale market, amounting to 5,882 million euros (which materialised on 8 August 2017 as indicated in Note 1.h). The remaining amounts principally correspond to the consideration of the concentration between Banco Popular and Banco Santander and certain homogenisation criteria based on additional information from Banco Santander relating to certain common customers, as well as to the valuation derived from the existence of new evidence and circumstances of the 2017 financial year in the analysis of the portfolios carried out after the purchase.

- Goodwill, Other intangible assets and Deferred tax assets: in assessing the impairment of Goodwill and Other intangible assets, as well the recoverability of Deferred tax assets, consideration has been given to the resolution and the risk of viability driven by the difficulties of liquidity. In view of these new circumstances, goodwill, other intangible assets and deferred tax assets (for negative tax-loss carryforwards) recorded prior to the resolution process have been subjected to a new assessment by Management which has led to the aforementioned consolidation.

- Other provisions: The variation in the provision amount under Other provisions principally corresponds to the valuation derived from the fidelity action directed at Banco Popular's retail customers who have been affected by the Bank's resolution process provided they comply with certain conditions (Note 10), and, to a lesser extent, changes in the estimates related to litigation by floor clause considering the new information for 2017.

- Held-to-maturity portfolio and others: in line with accounting standards, the Held-to-maturity investment portfolio is recorded at amortised cost. Following the acquisition by Banco Santander, this portfolio has been reclassified to Available for sale, with the corresponding recognition of the capital losses of said portfolio when valued at fair value.

The amount and the heading affected by certain changes in estimates differ from those of Banco Santander's condensed consolidated interim financial statements as a result of the consolidation process itself and the differences between the accounting principles applicable in the individual and consolidated interim financial statements (such as the amortisation of goodwill in the individual financial statements).

**d) Estimates made**

The results and determination of individual assets are sensitive to the accounting standards and policies, valuation criteria and estimates followed by the Bank's management for the preparation of the condensed interim financial statements. In addition to that described in this note regarding the resolution, the main accounting standards and policies and valuation criteria are indicated in Note 14 of the report to the 2016 financial statements.

In the six-months ending 30 June 2017 there have been significant changes in certain estimates with respect to those made at the close of 2016 as a result of the resolution process described in the previous section and of new events, which is broken down in the most significant changes in estimates.

This information has been used, where appropriate, in these consolidated financial statements, in the measurement of certain assets, liabilities, revenues, expenses and commitments which have been made by the Bank's Management. Likewise, the main estimates have been reviewed by independent experts who concluded favourably on their reasonableness. These estimates affect the same headings and concepts as to those applied in the 2016 financial statements and correspond mainly to:

- 1.The impairment losses of certain assets.
- 2.The actuarial assumptions used in calculating the liabilities and commitments for post-employment compensation.
- 3.The useful life applied to tangible and intangible assets.
- 4.The fair value of certain unlisted assets.
- 5.The reversal period of timing differences for the purposes of their valuation.
- 6.Income derived from corporate transactions.
- 7.Estimates on provisions for legal and other risks.

Despite the estimates, including those described in section 1 (c), having been made on the basis of the best information available at 30 June 2017, it is possible that events may occur in the future which require them to be modified upwards or downwards in coming years, especially considering the exceptional nature of the resolution process and the estimates made as a result of it. In such case, amendment will be accounted for prospectively, recognising the effects of the change in estimate in the corresponding income statement.

**e) Contingent assets and liabilities**

Note 15.w of the Bank's financial statements at 31 December 2016 provides information on contingent assets and liabilities at that date. Between 31 December 2016 and the preparation date of these interim financial statements, the main significant change occurs in relation to the Bank's contingent liabilities as a result of the resolution process and other legal contingencies, with additional provisions of 872 million euros being recorded.

**f) Comparability**

For comparative purposes, the information related to previous periods within these condensed interim financial statements should be read bearing in mind that significant changes have occurred to the estimates made in 2017 as a result of the Bank's resolution regulation in the first half of 2017 and the accelerated sale of certain assets related to the real estate sector in the wholesale market (See Notes 1.b and 1.c above).

On the other hand, on 3 April 2017, reported a Relevant Fact to the CNMV with certain aspects which, without representing, alone or combined, a significant impact, affected the 2016 financial statements. The following summarises the definitive impacts which affect the comparative financial statements for 2016:

- insufficiency of certain provisions corresponding to risks and other adjustments subjected to individual provisions, affecting the 2016 results by 116 and 40 million euros respectively (81 million euros and 28 million euros respectively net of the tax effect);

- insufficiency of provisions associated with doubtful loans on which the entity has foreclosed on certain guarantees linked to these loans for 359 million euros which, in 2016, mainly affected reserves (252 million euros net of the tax effect);

In Appendix I, quantitative information is provided on the effect of these impacts comparing the restated and non-restated 2016 balance sheet. The comparative financial information of the income statement at 30 June 2016 indicated in these interim financial statements corresponds to that published on that date and, therefore, are not restated with the aforementioned impacts given that they arose in the second half of 2016.

There have been no additional regulatory updates during the first half of 2017 affecting the comparability of the Bank's financial information, except for the resolution regulation stated in sections b) and c) above.

**g) Seasonality of the transactions**

Given the Bank's activity, its transactions have no cyclical or seasonal effect. For this reason, specific breakdowns are not included in the current accompanying notes to the condensed interim financial statements for the six months ended 30 June 2017.

**h) Subsequent events**

From 1 July 2017 until the preparation date of these interim financial statements, the following significant events have occurred:

- On 13 July 2017 a Relevant Fact was published of the announcement of the Fidelity Action referred to in Note 10. Subsequently, on 12 September, a new Relevant Fact was published informing the registration by the CNMV of the mandatory prospectus of the Fidelity Action and the beginning of the offer period.

- On 28 July 2017, the bank performed a capital increase of 2,736 million euros with a share premium of 4,143 million euros. 2,736 million shares were issued with a par value of 1 euro. The capital increase was fully subscribed by Grupo Santander.

- On 28 July 2017, the Bank received a subordinated loan granted by Banco Santander for 750 million euros which matures in 2027 and which complies with the characteristics to be considered as an increase in Banco Popular's Tier 2 shareholders' equity.

- In virtue of the Regulation on European Union mergers, on 8 August 2017 the European Commission authorised the acquisition of the Bank by Banco Santander. The Commission arrived at the conclusion that the proposed operation has no competition issues in the single market.
- On 8 August 2017, the Bank agreed to sell 51% of Banco Popular's real estate business to Blackstone comprising the portfolio of foreclosed properties, doubtful loans from the real estate sector and other assets related to this activity of Banco Popular and certain subsidiaries (including deferred tax assets) for an aggregate gross book value of approximately 30,000 million euros, as well as 51% of the capital of Aliseda SGI. The valuation attributed to the Spanish assets (property assets, credits and tax assets) is approximately 10,000 million euros, and is not expected to have a significant impact on profit or loss in light of the previously made provisions as described in Note 1.c). This operation is pending compliance with certain suspensive conditions which still prevent the transfer of these assets to the potential buyer with the execution deadline for the first quarter of 2018; as a result, the amounts have been estimated with the best information available and will not be final until the end of the operation.
- On 5 September, the Bank's Board of Directors adopted the following resolutions regarding the position of certain Portuguese subsidiaries in the structure of Grupo Santander:
  - i) Authorise the sale to Banco Santander Totta, S.A. of 100% of the shares of Banco Popular Portugal, S.A.
  - ii) Authorise the sale to Totta Urbe-Empresa Administração e Construção, S.A. of the assets of Consulteam - Consultores de Gestão, LDA. which is 86.28% owned by Banco Popular Español.
  - iii) Authorise the sale to Santander Totta, SGPS, S.A. of 84.07% of the capital of Eurovida - Companhia de Seguros de Vida - S.A.

These are intragroup transactions and, therefore, have no effect on the results of Grupo Santander. Likewise, the operations will not have a significant effect on the Bank's results, considering that in the valuation at 30 June 2017 of these investee companies, the valuation criteria included in the resolution regulation (Regulation 806/2014) was taken into account as well as the estimated accelerated and wholesale sale of its property assets.

These operations are also subject to the suspensive conditions and are pending the required administrative authorisations.

#### ***i) Relative importance***

In determining the information to be disclosed on the different items in the interim financial statements or other matters, the Bank, in accordance with Circular 5/2015 of 28 October, has taken into account the relative importance in relation to the interim financial statements corresponding to the six-months ending 30 June 2017.

#### ***j) Cash flow statements***

In cash flow statements, the following expressions are used in the sense indicated below:

- Cash flows: 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.

The Bank considers cash or cash equivalents to be the balances recorded under Cash and cash balances at central banks and other demand deposits on the balance sheet.



- Operating activities: activities typical of credit institutions, as well as other activities which cannot be classified as investment or financing. In the heading corresponding to the net increases/decreases in operating liabilities, it includes the net effect in the half-year of the significant outflow of customer deposits amounting to 18,551 million euros and the contribution of deposits by Banco Santander for an initial amount of 13,000 million euros, and which at 30 June 2017 amounted to 11,219 million euros.
- Investing activities: those of acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities which result in changes in the size or composition of equity and liabilities that are not part of operating activities.

***k) Other information***

Until 6 June 2017, Banco Popular was the parent company of a group of companies which formed the Banco Popular group. Before this date, the Bank's shares were listed on the four Spanish stock exchanges and were traded on the continuous market.

On 7 June 2017, the Relevant Fact was published at the CNMV, reporting the purchase by Banco Santander, SA of 100% of the share capital of Banco Popular under the framework of the resolution regulation adopted by the SRB and executed by the FROB, in accordance with Regulation 806/2014, Directive 2014/59/EU and Law 11/2015.

After this operation the Bank became part of Grupo Santander.

The Bank has continued its banking activity in Spain.

The Bank has issued fixed income securities (euronotes, mortgage covered bonds, regional covered bonds, senior debt and securitisation bonds) listed on the AIAF Fixed Income Market, Euronext Lisbon and the Irish Stock Exchange. Due to the fact that on 30 June 2017, the Bank transferred control of its subsidiaries to Banco Santander, S.A., condensed financial statements of the Bank are prepared but not subconsolidated financial statements of the Banco Popular group as the accounts of the Bank's subsidiaries are included in the consolidated financial statements of Grupo Santander.

## 2. Shareholders' remuneration system

Below shows the cash payment made by the bank to its shareholders in the first six months of 2016:

	30.06.16		
	% on Nominal	Euros per share	Amount (Thousands of euros)
Remuneration charged to profit and loss	-	-	-
Dividends charged to reserves or share premium	0.884	0.004	18,551
Remuneration in kind	-	-	-
<b>Total remuneration paid</b>	<b>0.884</b>	<b>0.004</b>	<b>18,551</b>

In the first half of 2017, no remuneration had been paid to shareholders.

## 3. Remuneration and other benefits to the Bank's Board of Directors and senior management

Note 9 of the Bank's financial statements for the year ending 31 December 2016 details the remuneration and other benefits to the Bank's Board of Directors and senior management for 2016 and 2015.

Below offers a summary of the most significant information of said remuneration and benefits for the six-months ended 30 June 2017 and 2016.

### **Remuneration to members of the Board of Directors (1)**

	Thousands of euros	
	30.06.17	30.06.16
<b>Members of the Board of Directors:</b>		
Salary concept		
Fixed salary for executive directors	1,508	1,191
Fixed salary for non-executive directors	714	720
Cash bonuses for executive directors	5,000	398
Directors' allowances	-	-
Statutory fees (annual allowance)	-	-
Other (except insurance premiums)	49	5
<b>Sub-total</b>	<b>7,271</b>	<b>2,314</b>
Operations on shares and/or other financial instruments	-	268
	<b>7,271</b>	<b>2,582</b>

(1) The 2017 annual report will contain individualised information and all remuneration concepts for all directors, including executive directors.

The remuneration amounts in the table below correspond to the Directors prior to the acquisition of the Bank by Banco Santander.

#### Other benefits to members of the Board of Directors

	Thousands of euros	
	30.06.17	30.06.16
<b>Members of the Board of Directors:</b>		
Other benefits		
Advances	-	61
Loans granted	-	752
Funds and Pension plans: Endowments and/or contributions	3,406	1,083
Funds and Pension plans: Accumulated rights	86,701	77,697
Life insurance premiums	24	11
Guarantees constituted in favour of the directors	-	-

The amount corresponding to Accumulated Rights of Funds and Pension Plans corresponds in full to Directors who no longer hold such position on 30 June 2017.

#### Remuneration to senior management (1)

The table below shows the amounts corresponding to salaries of those who are or were a member of the Bank's senior management during the first half of 2017 and of 2016, excluding executive directors.

	Thousands of euros	
	30.06.17	30.06.16
<b>Senior management:</b>		
Total remuneration received by senior management	2,985	2,594

(1) The number of people of the Bank's general management, excluding executive directors, at 30 June 2017 and 2016 is 13 and 12 respectively.

The bonuses received in 2016 for both directors and the remainder of senior management, were included in the information about salaries in the annual report for that year.

#### 4. Financial assets

##### a) Composition and breakdown

Below states the breakdown of the Bank's financial assets, other than the balances of Cash, cash balances at central banks and other demand deposits, Derivatives - hedge accounting and Investments in subsidiaries, joint ventures and associates at 30 June 2017 and 31 December 2016, presented by nature and categories for valuation purposes:

	Thousands of euros				
	30.06.17				
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Derivatives	1,403,041	-	-	-	-
Equity instruments	11,859	-	193,756	-	-
Debt securities	427,568	-	16,237,528	731,335	-
Loans and advances	-	-	-	80,567,083	-
Central Banks	-	-	-	-	-
Credit Institutions	-	-	-	8,168,492	-
Customers	-	-	-	72,398,591	-
<b>Total</b>	<b>1,842,468</b>	<b>-</b>	<b>16,431,284</b>	<b>81,298,418</b>	<b>-</b>

	Thousands of euros				
	31.12.16				
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables (*)	Held-to-maturity investments
Derivatives	1,701,253	-	-	-	-
Equity instruments	12,181	-	424,280	-	-
Debt securities	422,977	-	13,812,603	754,192	4,583,511
Loans and advances	-	-	-	98,507,716	-
Central Banks	-	-	-	-	-
Credit Institutions	-	-	-	7,634,762	-
Customers	-	-	-	90,872,954	-
<b>Total</b>	<b>2,136,411</b>	<b>-</b>	<b>14,236,883</b>	<b>99,261,908</b>	<b>4,583,511</b>

(\*) Figures restated for comparative purposes

In the first half of 2017, the cancellation of loans granted to certain real estate subsidiaries of the Bank was carried out after capital increases with a cash contribution of 8,625 million euros (Note 8).

**b) Value corrections for impairment of the loans and receivables portfolio**

Below shows the movements for the six months ending 30 June 2017 and 2016 in the balance of provisions which cover the impairment losses of the assets included in the balance of the loans and receivables heading:

	Thousands of euros	
	30.06.17	30.06.16
<b>Balance at the beginning of the year</b>	<b>12,150,570</b>	<b>8,541,059</b>
Provisions charged to profit or (-) loss for the year	2,599,676	582,833
<i>Of which:</i>		
<i>Impairment losses charged to profit and loss</i>	4,836,914	1,655,003
<i>Recovery of provision charged to profit or loss</i>	2,237,238	1,072,170
Elimination of write-off balances against constituted funds	236,744	956,471
Other movements (portfolio sales, foreclosures and others)	(1,499,074)	(501,449)
<b>Balance at the end of the year</b>	<b>13,014,428</b>	<b>7,665,972</b>
<i>Of which:</i>		
<i>Depending on the asset's situation:</i>		
<i>Impaired assets</i>	12,253,011	7,455,663
<i>Of which is for country risk</i>	266	402
<i>Other assets</i>	761,417	210,309
<i>Of which</i>		
<i>Calculated individually</i>	3,933,896	2,180,056
<i>Calculated collectively</i>	9,080,532	5,485,916

Suspended assets recovered during the first six months of 2017 and 2016 amount to 68,218 and 40,107 thousand euros, respectively. Considering these amounts, the recorded impairment of loans and receivables is 2,531,458 and 542,726 thousand euros, respectively, in the first half of 2017 and 2016.

The amount of impairment of loans and receivables recorded in the first half of 2017 has been significantly affected as a result of that described in Note 1.c).

**c) Impaired assets of the loans and receivables portfolio**

Below presents a breakdown of the movement during the six months ending 30 June 2017 and 2016 in the balance of financial assets classified as loans and receivables and considered doubtful as a result of their credit risk:

	Thousands of euros	
	30.06.17	30.06.16
Balance at the beginning of the year	19,207,481	17,076,361
Net additions	1,091,835	184,319
Transferred to write-offs	299,852	1,034,043
<b>Balance at the end of the year</b>	<b>19,999,464</b>	<b>16,226,637</b>

Said amount, after deducting the corresponding provisions, is the Bank's best estimate of the discounted value of the flows expected to be recovered from doubtful assets, considering the aspects indicated in Note 1.c) at 30 June 2017.

**d) Guarantees received**

The value of the guarantees received to ensure the collection of the financial assets included in the loans and receivables heading is detailed below, distinguishing between collateral and other guarantees at 30 June 2017 and 31 December 2016:

	Thousands of euros	
	30.06.17	31.12.16
Value of collateral	41,943,896	45,440,831
<i>Of which: guarantees doubtful risks</i>	8,620,759	8,718,302
Value of other guarantees	14,890,609	15,518,099
<i>Of which: guarantees doubtful risks</i>	1,100,969	1,193,879
<b>Total value of guarantees received (*)</b>	<b>56,834,505</b>	<b>60,958,930</b>

(\*) Maximum amount of the guarantee which can be considered, not exceeding the gross amount of the debt, except for the doubtful risks which will be its estimated recoverable value.

**5. Non-current assets and disposal groups classified as held for sale**

Below states the breakdown of non-current assets held for sale by the Bank at 30 June 2017 and 31 December 2016:

	Thousands of euros	
	30.06.17	31.12.16 (*)
Tangible assets	1,911,208	3,093,567
<i>Of which:</i>		
<i>Foreclosed assets</i>	1,911,208	3,093,567
<i>Other tangible assets for sale</i>	-	-
Other assets	-	-
	1,911,208	3,093,567

(\*) Figures restated for comparative purposes

At 30 June 2017, the hedges recorded for total non-current assets held for sale represent 63% (34% at 31 December 2016). Provisions made during the first six months of those years amounted to 1,913,800 and 277,024 thousand euros respectively, and the recoveries made during the first six months of those years amounted to 188,279 and 96,688 thousand euros respectively.

In the estimation of provisions for the first half of 2017, the planned accelerated sale of real property assets was taken into account, as indicated in Note 1.c., which materialised in August with the sales agreement signed with Blackstone (Note 1.h).

During the first half of 2017, the Bank sold foreclosed properties amounting to 226,806 thousand euros, whose gross value amounted to 360,861 thousand euros, with provisions amounting to 142,502 thousand euros. Taking the expenses inherent to them into account, these sales generated losses of 10,899 thousand euros.

The following table shows the breakdown of property assets (Non-current assets held for sale and Investment property) in Spain at the end of June 2017:

Thousands of euros	Gross book value	Value corrections	Net book value
Property assets coming from financing aimed at construction and property development companies	1,746,300	1,322,274	424,026
<i>Of which:</i>			
<i>Buildings and other completed structures</i>	624,751	374,219	250,532
<i>Housing</i>	332,434	198,105	134,329
<i>Other</i>	292,317	176,114	116,203
<i>Buildings and other structures under construction</i>	50,624	34,416	16,208
<i>Housing</i>	46,001	31,604	14,397
<i>Other</i>	4,623	2,812	1,811
<i>Land</i>	1,070,925	913,639	157,286
<i>Urban land</i>	257,776	219,024	38,752
<i>Other land</i>	813,149	694,615	118,534
Property assets coming from mortgage loans for the purchase of housing	1,376,042	732,118	643,924
Remainder of property assets foreclosed or received in payment of debt	2,309,203	1,399,629	909,574
<b>Total property assets</b>	<b>5,431,545</b>	<b>3,454,021</b>	<b>1,977,524</b>

The Bank values property assets at the lower of carrying amount or fair value less costs of sale, which is determined by the valuation of the foreclosed asset carried out on the basis of the latest appraisal value. In relation to the valuation corresponding to the first half of 2017, the accelerated sale in the wholesale market of certain property assets has been taken into account which materialised with the Blackstone agreement (see Note 1.h).

The Bank 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.

## **6. Tangible assets**

### ***a) Movement in the period***

During the first six months of 2017 and 2016, tangible assets were acquired in the amount of 35,974 thousand euros and 22,179 thousand euros, respectively.

Likewise, during the first six months of 2017 and 2016, tangible assets were disposed of for a net book value of 2,264 and 696 thousand euros generating a net profit or loss of 709 and (308) thousand euros, respectively.

### ***b) Impairment losses***

During the first six months of 2017 and 2016 there were impairment losses on tangible assets (mainly corresponding to investment property) amounting to 756 and 665 thousand euros respectively, recorded under Impairment or reversal of impairment of non-financial assets of the condensed income statement.

### ***c) Tangible asset purchase commitments***

At 30 June 2017 and 2016, the Bank had no significant commitments to purchase tangible assets.

### ***d) Investment property***

At 30 June 2017 and 31 December 2016, this item presented a balance of 91,141 and 527,058 thousand euros respectively. The decrease in the balance corresponds to the reclassification of investment property to non-current assets and disposal groups classified as held for sale, considering a possible accelerated sale in the wholesale market of assets related to the real estate sector.

## **7. Intangible assets**

### ***a) Goodwill***

The breakdown of Intangible Assets - Goodwill at 30 June 2017 and 31 December 2016, based on the cash generating units from which it arises, is as follows:



	Thousands of euros	
	30.06.17	31.12.16
Banco Popular	-	821,149
	-	<b>821,149</b>

Note 14.s of the financial statements for the year ended 31 December 2016 contains detailed information on the procedures followed by the Bank to analyse the potential loss of value of goodwill recorded in respect of its recoverable value and to record, where appropriate, the appropriate impairment.

At the close of the first half of 2017, the assessment of impairment on Goodwill takes into account the Bank's resolution and the Bank's situation at the time of the resolution, which differs significantly from the business plans used in previous periods. Therefore, and considering the range of valuations received by the SRB to adopt the Resolution of Banco Popular, Goodwill has impaired in full (see Note 1.c). The assessment of the impairment of Goodwill has been reviewed by an independent expert.

**b) Other intangible assets**

As a result of the acquisition of the Bank by Banco Santander and in expectation of future integration, the useful life of the IT projects has been re-estimated by recording the accelerated amortisation of these assets under the "Amortisation" heading of the income statement.

**8. Investments in subsidiaries, joint ventures and associates**

Below states the breakdown of "Investments in subsidiaries, joint ventures and associates" at 30 June 2017 and 31 December 2016:

	Thousands of euros	
	30.06.2017	31.12.2016
Consolidated subsidiaries	13,364,973	4,740,025
Credit Institutions	1,907,736	1,907,736
Insurance companies	13,290	13,290
Other institutions	11,443,947	2,818,999
Value corrections for impairment of assets	(7,347,446)	(2,520,687)
Other valuation adjustments	23,508	32,489
<b>Other Consolidated Subsidiaries</b>	<b>6,041,035</b>	<b>2,251,827</b>
Joint Ventures	461,453	466,863
Value corrections for impairment of assets	-	-
Other valuation adjustments	-	-
<b>Total Joint ventures</b>	<b>461,453</b>	<b>466,863</b>
Associates	509,159	635,532
Value corrections for impairment of assets	(181,403)	(86,068)
Other valuation adjustments	(12,956)	(18,702)
<b>Total associates</b>	<b>314,800</b>	<b>530,762</b>
<b>TOTAL SHAREHOLDINGS</b>	<b>6,817,288</b>	<b>3,249,452</b>

The variation in the amount of Investments in Group companies and Associates corresponds principally to the following concepts:

- Capital increases with a cash contribution made in instrumental companies holding the Group's property assets amounting to 8,625 million euros. The purpose of the funds obtained in the capital increase has been the cancellation of the loans and amounts on credit policies which those Group companies held with the Bank. The amount of provisions on these loans has been transferred to this heading as a provision for impairment.
- Provision for impairment amounting to 3,488 million euros corresponding principally to instrumental companies holding property assets (Aliseda, S.A.U., Inversiones Inmobiliarias Canvives, S.A. and Consultam Consultores de Gestao, Lda) as a result of the impairment caused taking into account the valuation of its planned accelerated sale of its assets in the wholesale market. In addition, the corresponding impairment was recorded (mainly in Banco Pastor, S.A.U. and Banco Popular Portugal, S.A.) as a result of the application of the valuation criteria of the resolution regulation to certain assets of the Group companies, the valuation of their goodwill and the accelerated sale of said property assets in the wholesale market.
- Sale of the associate Targobank, S.A. on 2 June 2017, to Grupo Crédito Mutuel-CIC, which acquired 100% of the shares, purchasing the 48.98% interest in the Bank for 65 million euros, without significant impact on profit or loss.

Likewise, full control of all Banco Popular subsidiaries has been transferred to Banco Santander (Note 1.k).

## **9. Financial liabilities**

### **a) Composition and breakdown**

Below shows the breakdown of the Bank's financial liabilities, other than the balances of Derivatives - hedge accounting, at 30 June 2017 and 31 December 2016, presented by nature and category for valuation purposes:

	Thousands of euros			Thousands of euros		
	30.06.17			31.12.16		
	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities measured at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities measured at amortised cost
Derivatives	1,406,517	-	-	1,677,434	-	-
Short positions	-	-	-	210	-	-
Deposits	-	-	104,838,114	-	-	107,353,799
Central Banks	-	-	23,150,363	-	-	15,987,478
Credit Institutions	-	-	28,765,762	-	-	19,892,674
Customers	-	-	52,921,989	-	-	71,473,647
Debt securities	-	-	-	-	-	-
Issued	-	-	11,378,337	-	-	15,028,322
Other financial liabilities	-	-	1,021,302	-	-	887,274
<b>Total</b>	<b>1,406,517</b>	-	<b>117,237,753</b>	<b>1,677,644</b>	-	<b>123,269,395</b>
<i>Memorandum item: subordinated liabilities</i>	-	-	<i>11,343(*)</i>	-	-	<i>2,054,060</i>

(\*) Issue not eligible as Tier 2

The first half of 2017 has witnessed a significant decline in customer deposits which led to liquidity issues which resulted in the resolution of the Entity and the sale to Banco Santander as adopted by the Single Resolution Board (SRB) and executed by the Fund for Orderly Banking Restructuring (FROB) (See Note 1.j).

Subordinated instruments eligible as Tier 1 and Tier 2 for solvency purposes have been converted into capital under the resolution agreement of the Single Resolution Board (SRB) at 6 June 2017 (Note 1.c) for an amount of 2,031 million euros.

**b) Information on issues, repurchases or redemptions of marketable debt securities**

Below details, at 30 June 2017 and 2016, the outstanding balance of the marketable debt securities which had been issued by the Bank at that date for its total nominal amount without taking into account the securities acquired by the Bank itself. It also shows a detail of the movement seen by this balance during the first six months of 2017 and 2016:

Thousands of euros					
30.06.17					
	Opening live balance 01.01.17	Issues	Repurchases/ redemptions or conversions into capital	Adjustments for exchange rate and others	Closing live balance 30.06.17
Not subordinated	17,804,798	2,622,525	(1,966,307)	-	18,461,016
Subordinated	1,857,336	-	(1,845,636)	-	11,700(*)
<b>Total marketable debt securities issued</b>	<b>19,662,134</b>	<b>2,622,525</b>	<b>(3,811,943)</b>	<b>-</b>	<b>18,472,716</b>

(\*) Issue not eligible as Tier 2

Subordinated issues by the Bank eligible as capital have been converted into capital under the resolution agreement of the Single Resolution Board (SRB) at 6 June 2017 (Note 1.c).

Thousands of euros					
30.06.16					
	Opening live balance 01.01.16	Issues	Repurchases or redemptions	Adjustments for exchange rate and others	Closing live balance 30.06.16
Not subordinated	18,004,919	2,585,622	(2,122,007)	-	18,468,534
Subordinated	1,855,889	-	-	(854)	1,855,035
<b>Total marketable debt securities issued</b>	<b>19,860,808</b>	<b>2,585,622</b>	<b>(2,122,007)</b>	<b>(854)</b>	<b>20,323,569</b>

## **10. 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 balance sheets at 30 June 2017 and 31 December 2016:

	Thousands of euros	
	30.06.17	31.12.16 (*)
Pensions and other post employment defined benefit obligations	77,078	81,877
Other long term employee benefits	-	-
Pending legal issues and tax litigation	17,480	19,069
Commitments and guarantees given	184,588	185,257
Other provisions	1,226,176	48,988
<b>Total</b>	<b>1,505,322</b>	<b>335,191</b>

(\*) Figures restated for comparative purposes

During the first half of 2017, 680 million euros has been recorded under Other provisions related to the commercial action launched by Banco Santander and Banco Popular with the objective of retaining the loyalty of retail clients affected by the Bank's resolution (the "Fidelity Action"). Under the Fidelity Action, customers of Banco Santander, Banco Popular and other Group networks which meet certain conditions and have been affected by Banco Popular's resolution will be able to receive, without any payment on their part, marketable securities issued by Banco Santander for a nominal amount equivalent to the investment in shares or certain subordinated obligations of Banco Popular (with certain limits) which were held on the date of Banco Popular's resolution. To receive this action, it is necessary that the customer waives all rights to legal action against Grupo Santander. The Fidelity Action will be executed from 13 September 2017.

In addition, this heading includes the coverage deemed necessary to cover potential contingencies, including those relating to claims related to the floor clauses, which were recorded at 31 December 2016 as adjustments of impairment on loans and receivables amounting to 462 million euros. Such estimates have been made based on hypotheses, assumptions and premises which are considered reasonable even though they may not materialise, apart from a high uncertainty about the potential group of mortgages which could be affected. During the first half of 2017, the Bank has reviewed and updated the provisions estimate, taking into account the returns produced in accordance with Royal Decree-Law 1/2017 of 20 January and the additional information of the different judgements produced during the period.

## 11. Equity

On 30 June 2017, the Bank's share capital was represented by 684,024,000 shares, with a par value of 684 million euros and at 31 December 2016, was represented by 4,196,858,092 shares, with a par value of 2,098 million of euros.

The following shows the breakdown in equity:

(Data in thousands of euros)	30.06.2017	31.12.2016 (*)
Own funds	332,326	10,465,589
Share Capital	684,024	2,098,429
Share premium	-	5,277,886
Equity instruments issued other than capital	-	-
Other equity	-	-
Retained earnings	3,440,193	6,766,600
Valuation reserves	-	-
Other Reserves	8,426,516	(161,261)
<i>Of which Unavailable voluntary reserves by resolution</i>	<i>3,444,971</i>	-
(-) Treasury shares	-	(189,658)
Profit/(loss) attributable to the parent company	(12,218,407)	(3,326,407)
(-) Interim dividends	-	-
Accumulated other comprehensive income	(210,612)	(342,745)
Items that will not be reclassified to profit or loss	(14,716)	(15,756)
Items that may be reclassified to profit or loss	(195,896)	(326,989)
Minority interests	-	-
<b>Total Equity</b>	<b>121,714</b>	<b>10,122,844</b>

(\*) Figures restated for comparative purposes

The main changes in the Bank's share capital and reserves in the first half of 2017 relate mainly to the amortisation of capital and the conversion of capital instruments as a result of the Bank's resolution process:

- Reduction of the share capital from 2,098,429 thousand euros to zero through the amortisation of all shares outstanding at 6 June 2017 and the creation of a unavailable voluntary reserve.
- Capital increase excluding pre-emptive subscription rights amounting to 1,346,542 thousand euros for the conversion of all Tier 1 additional equity instruments.
- Reduction of the share capital to zero euros by means of amortising shares resulting from the conversion of Tier 1 additional equity instruments and creation of an unavailable voluntary reserve for that amount.
- Capital increase excluding pre-emptive subscription rights amounting to 684,024 thousand euros for the conversion of all Tier 2 additional equity instruments.

On 28 July 2017, the bank performed a capital increase in the amount of 2,736 million euros with a share premium of 4,143 million euros (see Note 1.c). After this increase, share capital stands at 3,420 million euros and the capital levels recommended and required by the European Central Bank have been re-established.

## **12. Segmented information**

Pursuant to CNMV Circular 1/2008, as amended by Circular 5/2015, the interest income balance corresponding to the half-years ended 30 June 2017 and 2016 is broken down by geographic area as indicated in the aforementioned Circular:

Geographical area	Interest income by geographic area (Thousands of euros)	
	30.06.17	30.06.16
Spain	1,123,465	1,366,714
Foreign:		
European Union	-	-
OECD countries	-	-
Other countries	-	-
<b>Total</b>	<b>1,123,465</b>	<b>1,366,714</b>

## **13. Related parties**

Considered related parties to the Bank, and to subsidiaries, associates and multigroup entities, are key personnel of the Bank's management (members of its Board of Directors and general managers, together with close relatives), as well as the entities over which key personnel can exert significant influence or control.

Below states the transactions carried out by the Bank during the first six months of 2017 and 2016 with its related parties, distinguishing between significant shareholders, members of the Bank's Board of Directors and the Bank's general managers, consolidated subsidiaries and other related parties. The terms of the transactions with related parties are equivalent to those arising from transactions carried out under market conditions or in which the corresponding remuneration in kind has been charged:

Income and expenses	Thousands of euros				
	30.06.17				
	Significant shareholders	Directors	Companies or consolidated subsidiaries	Other related parties	Total
<b>Expenses:</b>					
Financial expenses	-	-	-	-	-
Management or collaboration contracts	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	2,968	-	-	2,968
Receipt of services	-	-	28,856	-	28,856
Purchase of goods (completed or in progress)	-	-	-	-	-
Valuation corrections for bad or doubtful debts	-	-	-	-	-
Losses for derecognition or disposal or assets	-	-	17,747	-	17,747
Other expenses	-	-	-	-	-
	-	<b>2,968</b>	<b>46,603</b>	-	<b>49,571</b>
<b>Income:</b>					
Financial income	-	-	-	-	-
Management or collaboration contracts	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	35,004	-	35,004
Provision of services	-	-	-	-	-
Sale of goods (completed or in progress)	-	-	-	-	-
Gains on derecognition or disposal or assets	-	-	-	-	-
Other income	-	-	-	-	-
	-	-	<b>35,004</b>	-	<b>35,004</b>

Income and expenses	Thousands of euros				
	30.06.16				
	Significant shareholders	Directors	Companies or consolidated subsidiaries	Other related parties	Total
<b>Expenses:</b>					
Financial expenses	-	-	-	-	-
Management or collaboration contracts	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	2,917	-	-	2,917
Receipt of services	-	-	25,659	-	25,659
Purchase of goods (completed or in progress)	-	-	-	-	-
Valuation corrections for bad or doubtful debts	-	-	-	-	-
Losses for derecognition or disposal or assets	-	-	17,759	-	17,759
Other expenses	-	-	-	-	-
	-	<b>2,917</b>	<b>43,418</b>	-	<b>46,335</b>
<b>Income:</b>					
Financial income	-	-	-	-	-
Management or collaboration contracts	-	-	-	-	-
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	38,502	-	38,502
Provision of services	-	-	-	-	-
Sale of goods (completed or in progress)	-	-	-	-	-
Gains on derecognition or disposal or assets	-	-	-	-	-
Other income	-	-	-	-	-
	-	-	<b>38,502</b>	-	<b>38,502</b>

Also, at 30 June 2017, deposits ceded by the new shareholder amounting to 11,219,084 thousand euros are recorded in the Bank's liabilities.

There were no other significant transactions with related parties in the first half of 2017.

#### **14. Off-balance sheet exposures**

The *Guarantees granted* include financial guarantees, such as financial security, credit derivatives sold and derivatives risks contracted on behalf of third parties; and non-financial which include technical guarantees and the remainder of non financial guarantees granted, and irrevocable documentary credits.

The *Contingent commitments granted* include all off-balance sheet exposures which do not meet the definition of guarantees granted; including among others those available with third parties.

	Thousands of euros	
	30.06.17	31.12.16
<b>Guarantees granted</b>	<b>11,305,281</b>	<b>11,569,487</b>
Financial guarantees granted	2,710,265	2,688,535
Non financial	8,139,056	8,404,717
Irrevocable documentary credits	455,960	476,235
<b>Contingent commitments granted</b>	<b>6,027,916</b>	<b>7,277,838</b>
Loan commitments granted	5,316,900	6,696,141
Other commitments	711,016	581,697

At 30 June 2017 and 31 December 2016, the Bank had guarantees and commitments classified as doubtful to the tune of 397,755 and 289,151 thousand euros, with a provision of 184,587 and 184,426 thousand euros, respectively.

#### **15. Average workforce and number of offices**

Below is a breakdown of the Bank's average workforce for the six months ending 30 June 2017 and 2016, broken down by gender:

Average workforce		
	30.06.17	30.06.16
Men	5,244	7,285
Women	3,995	4,521
	<b>9,239</b>	<b>11,806</b>

The number of offices at 30 June 2017 and 31 December 2016 is as follows:

Number of offices		
	30.06.17	31.12.16
Spain	1,416	1,666
Foreign	-	-
	<b>1,416</b>	<b>1,666</b>

The decrease in both the number of employees and the number of offices corresponds mainly to the implementation of the Restructuring plan approved in the last quarter of 2016.



## 16. Other information

### a) Valuation techniques for financial assets and liabilities

The following table summarises the fair values, at 30 June 2017 and 31 December 2016, respectively, of the financial assets and liabilities indicated below, classified according to the different valuation methodologies followed by the Bank to determine their fair value:

	Thousands of euros					
	30.06.2017			31.12.2016		
	Quotes published on active Markets (Tier 1)	Internal models (Tier 2 & 3)	Total	Quotes published on active Assets (Tier 1)	Internal models (Tier 2 & 3)	Total
Financial assets held for trading	439,985	1,402,483	1,842,468	435,158	1,701,253	2,136,411
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets (1)	16,262,622	-	16,262,622	13,907,914	83,260	13,991,174
Derivatives – hedge accounting (assets)	-	222,814	222,814	-	269,847	269,847
Financial liabilities held for trading	552	1,405,965	1,406,517	210	1,677,434	1,677,644
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – hedge accounting (liabilities)	-	816,079	816,079	-	1,109,309	1,109,309
Liabilities under insurance and reinsurance contracts	-	-	-	-	-	-

(1) In addition to the financial instruments measured at their fair value as shown in the above table above as at 30 June 2017 and 31 December 2016, there were equity instruments recorded in the available-for-sale financial assets portfolio valued at their cost of 168,662 and 245,709 thousand euros, respectively.

A three-level fair value hierarchy has been established, based on the valuation methodology used:

- Level 1 includes financial instruments in which the mark-to-market valuation methodology is applied based on the ability to assign instrument market prices identical to those included in the Bank's portfolio. These prices are obtained from the quoted prices of market makers within financial reporting systems, operations carried out on trading platforms, clearing houses or organised markets.
- Level 2 includes financial instruments whose fair value is based on market observations and to which the mark-to-model valuation methodology has been applied, assuming fair behaviour, generally framed within standard market models, to underlying financial fundamentals and, from them, inferring a valuation for the most complex instruments. A valuation by model is a sophisticated way of interpolating the valuation of a financial instrument for which there is no reliable market price, based on the listed prices and variables observable in the market.
- Level 3 includes financial instruments whose fair value is calculated using the mark-to-model valuation methodology in which a significant parameter is not based on observable market data.

Finally, the following is the movement of the financial instruments classified at Level 3 in the first half of 2017:

	Thousands of euros		
	30.06.2017		
	Financial assets held for Trading	Other financial assets	Assets available for sale
Opening balance	-	-	83,260
Movements:			
in profit and loss	-	-	-
in equity	-	-	-
Purchases/issues	-	-	-
Sales/settlements	-	-	-
Other transfers	-	-	(83,260)
Level 1 and 2 transfers	-	-	-
Closing balance	-	-	-

During the first half of 2017 and 2016 there were no significant transfers between Levels 1 and 2, nor from Level 3 to other levels.

Other transfers amounting to 83,260 thousand euros correspond to the classification of certain unlisted debt securities which have been reclassified from the available-for-sale assets portfolio to the loans and receivables portfolio by homogenising the new shareholder's criteria.

#### **b) Refinanced and restructured operations**

Below is quantitative information on this type of operations, understanding:

- **Refinanced operation:** a loan which is totally or partially paid as a result of a refinancing operation, used to cancel one or more operations granted, in order to assist titleholders with the payment of the cancelled or refinanced operations of its debt (principal and interest) because they are not able to, or are not expected to be able to comply in a timely manner with its conditions, for economic or legal reasons related to financial difficulties of the titleholder.
- **Restructured operation:** that which, for economic or legal reasons related to financial difficulties, either current or foreseeable, of the titleholder, their financial conditions are modified in order to facilitate payment of the debt (principal and interest) because they cannot, or are expected to not be able to, comply on time and under such conditions, even if such modification was provided for in the contract.

For the maximum amount of the guarantees to be considered, the following shall be taken into account:

- **Collateral:** amount of the appraisal or valuation of the collateral received, which for each operation will be the amount of the exposure which it guarantees, at a maximum.
- **Personal guarantees:** maximum amount the guarantors will have to pay if the guarantee is executed.

Amounts in thousands of euros, except number of operations which is in units	30.06.2017													
	Total							Of which: DOUBTFUL						
	Unsecured (a)		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk	Unsecured		Secured				Impairment of accumulated value or accumulated losses at fair value due to credit risk
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of collateral which can be considered			Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of collateral which can be considered		
Secured property					Secured by other assets	Secured property	Other guarantees							
Credit Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public administrations	6	5,448	1	183	-	-	-	1	89	-	-	-	-	-
Other financial companies and individual entrepreneurs (financial activity)	48	7,409	29	3,343	2,581	6	940	19	385	15	1,665	1,045	2	825
Non-financial corporations and individual entrepreneurs (non financial activity)	19,979	2,377,555	17,305	9,668,301	5,759,129	231,199	4,317,466	12,11	1,906,108	11,63	7,601,024	4,148,277	130,809	4,257,356
Of which: financing for construction and property development (including land)	934	899,409	3,135	5,216,415	2,726,592	63,562	2,775,289	886	843,542	2,879	4,650,415	2,313,392	56,389	2,762,503
Rest of households	11,231	162,243	11,285	1,078,754	904,422	13,109	164,132	5,177	93,935	5,18	475,573	359,408	4,689	155,213
Total	31,264	2,552,655	28,62	10,750,581	6,666,132	244,314	4,482,538	17,307	2,000,517	16,825	8,078,262	4,508,730	135,5	4,413,394
Financing classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Below shows the movement of these operations in the first half of 2017:

	Thousands of euros
<b>Carrying amount</b>	30.06.17
Opening balance	<b>9,708,376</b>
(+) Refinancing and restructuring in the period	345,115
Memorandum item: impact recorded in the income statement for the period	
(-) Debt amortisations	(810,298)
(-) Foreclosures	(239,719)
(-) Derecognition from the balance sheet (reclassification as write-off)	-
(+)/(-) Other changes	(182,776)
<b>Closing balance</b>	<b>8,820,698</b>

**c) Real estate exposure**

*i) Home purchase loans*

The credit granted to households for the acquisition of housing in Spain at 30 June 2017 is 16,307,417 thousand euros. Of which 99.12% is with mortgage security:

	30.06.2017	
	Gross amount	Of which: Doubtful
Home purchase loans		
- Without mortgage security	144,079	35,498
- With mortgage security	16,163,338	788,082
	16,307,417	823,580

In thousands of euros	30.06.2017					TOTAL
	Risk on amount of last available appraisal (value of the debt)					
	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%	
Gross amount	3,119,907	4,976,826	4,674,907	1,686,911	1,704,787	16,163,338
- Of which: Doubtful	101,995	138,227	268,126	156,663	123,071	788,082

ii) *Financing for construction and property development for property purposes*

At 30 June 2017, the amount of Financing for construction and property development in Spain amounts to 6,273,745 thousand euros net of provisions. In the estimation of the coverage reflected in the following table, a possible accelerated sale in the wholesale market of a significant part of this portfolio has been considered (Note 1.c) which is the reason for the amount of the coverage of doubtful operations being greater than that obtained as the difference between the gross amount and the surplus over the guarantee value:

Thousands of euros	30.06.2017		
	Gross amount	Surplus over value the guarantee value	Coverage
Financing for construction and property development credit institutions (businesses in Spain)	14,476,407	6,228,833	8,202,662
<i>Of which: Doubtful</i>	11,406,873	5,637,664	8,160,186
Memorandum item: - Written-off assets	1,569,166		

Thousands of euros	30.06.2017
	Carrying Amount
Memorandum item: Loans and advances to customers, excluding Public Authorities (businesses in Spain)	67,949,371
Total assets (total businesses)	122,059,643
Impairment value and provisions for exposures classified as normal (total businesses)	1,379,685

At 30 June 2017, this portfolio is concentrated as follows:

Thousands of euros	30.06.2017
	Gross carrying amount
Without mortgage guarantee	<b>3,501,889</b>
With mortgage guarantee (broken down according to asset type received as guarantee)	<b>10,974,518</b>
Buildings and other completed structures	6,020,329
Housing	2,116,857
Other	3,903,472
Buildings and other structures under construction	1,478,365
Housing	491,936
Other	986,429
Land	3,475,824
Urban land	2,931,114
Other land	544,710
<b>Total</b>	<b>14,476,407</b>

**d) Solvency information**

*Phase-in capital ratio*

	30.06.2017	31.12.2016
<b>Capital ratios</b>		
Common equity eligible as tier 1 (thousands of euros)	(1,662,457)	8,222,015
Additional equity eligible as tier 1 (thousands of euros)	-	798,265
Equity eligible as tier 2 (thousands of euros)	-	640,894
Risk-weighted assets (thousands of euros)	44,895,146	61,276,741
Common equity tier 1 (CET 1) ratio	(3.70%)	13.42%
Additional equity tier 1 (AT 1) ratio	-	1.30%
TIER 1 Equity ratio	(3.70%)	14.72%
TIER 2 Equity ratio	-	1.05%
<b>Total equity ratio</b>	<b>(3.70%)</b>	<b>15.77%</b>

*Leverage*

	30.06.2017	31.12.2016
<b>Leverage</b>		
Tier 1 equity (thousands of euros)	(1,662,457)	9,020,280
Exposure (thousands of euros)	121,160,711	132,721,167
<b>Leverage ratio according to CRR</b>	<b>(1.37%)</b>	<b>6.80%</b>

In 2017 Banco Popular Español, S.A. must maintain a minimum CET1 capital ratio of 7.875% phase in (including Pillar I, Pillar II, conservation and systemic buffer requirement) and 11.38% of Total Capital.

Following the resolution of Banco Popular Español, S.A., its subsequent purchase by Banco Santander, S.A. and accounting for the aspects considered in connection with the resolution (Notes 1.b and 1.c), the ratios did not meet these requirements at 30 June 2017. On 28 July 2017, capital was increased by 6,800,000 thousand euros and a subordinated loan from Banco Santander, S.A. received for 750,000 thousand euros, which results in the proforma ratios of Banco Popular Español, S.A. amounting to a CET1 phase in proforma of 12.90% and total capital of 14.48%, which is why the equity situation would be restored at that date.

## Appendix I

### Effect on the presentation of the December 2016 Balance Sheet of the Relevant Fact to the CNMV on 3 April 2017

	31.12.2016 Published	Relevant Fact Adjustments 30.04.2017	31.12.2016 Restated
CASH AND CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	2,288,949	-	2,288,949
FINANCIAL ASSETS HELD FOR TRADING	2,136,411	-	2,136,411
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH CHANGES IN PROFIT OR LOSS	-	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	14,236,883	-	14,236,883
LOANS AND RECEIVABLES	99,758,290	(497,192)	99,261,098
HELD-TO-MATURITY INVESTMENTS	4,583,511	-	4,583,511
DERIVATIVES – HEDGE ACCOUNTING	269,847	-	269,847
FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK	265,519	-	265,519
INVESTMENTS IN JOINT VENTURES AND ASSOCIATES	3,249,452	-	3,249,452
TANGIBLE ASSETS	791,769	-	791,769
INTANGIBLE ASSETS	1,263,451	-	1,263,451
TAX ASSETS	5,353,666	154,730	5,508,396
<i>Current tax assets</i>	185,804	-	185,804
<i>Deferred tax assets</i>	5,167,862	154,730	5,322,592
OTHER ASSETS	524,917	-	524,917
NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	3,111,581	(18,014)	3,093,567
<b>TOTAL ASSETS</b>	<b>137,834,246</b>	<b>(360,476)</b>	<b>137,473,770</b>

	31.12.2016 Published	Relevant Fact Adjustments 30.04.2017	31.12.2016 Restated
FINANCIAL LIABILITIES HELD FOR TRADING	1,677,644	-	1,677,644
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	123,269,395	-	123,269,395
DERIVATIVES – HEDGE ACCOUNTING	1,109,309	-	1,109,309
FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK	-	-	-
PROVISIONS	334,630	561	335,191
TAX LIABILITIES	279,119	-	279,119
CURRENT TAX LIABILITIES	35,918	-	35,918
DEFERRED TAX LIABILITIES	243,201	-	243,201
SHARE CAPITAL REPAYABLE ON DEMAND	-	-	-
OTHER LIABILITIES	680,268	-	680,268
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	-	-	-
<b>TOTAL LIABILITIES</b>	<b>127,350,365</b>	<b>561</b>	<b>127,350,926</b>

	31.12.2016 Published	Relevant Fact Adjustments 30.04.2017	31.12.2016 Restated
OWN FUNDS	10,826,626	(361,037)	10,465,589
CAPITAL	2,098,429	-	2,098,429
PAID UP CAPITAL	2,098,429	-	2,098,429
UNPAID CAPITAL WHICH HAS BEEN CALLED UP	-	-	-
SHARE PREMIUM	5,277,886	-	5,277,886
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	-	-	-
OTHER EQUITY	-	-	-
RETAINED EARNINGS	7,023,548	(256,948)	6,766,600
REVALUATION RESERVES	-	-	-
OTHER RESERVES	(161,261)	-	(161,261)
(-) TREASURY SHARES	(189,658)	-	(189,658)
PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	(3,222,318)	(104,089)	(3,326,407)
(-) INTERIM DIVIDENDS	-	-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME	(342,745)	-	(342,745)
MINORITY INTERESTS	-	-	-
<b>TOTAL EQUITY</b>	<b>10,483,881</b>	<b>(361,037)</b>	<b>10,122,844</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>	<b>137,834,246</b>	<b>(360,476)</b>	<b>137,473,770</b>
<b>MEMORANDUM ITEM</b>			
GUARANTEES GRANTED	11,569,487	-	11,569,487
CONTINGENT COMMITMENTS GRANTED	7,277,838	-	7,277,838



**DECLARATION OF RESPONSIBILITY OF THE FINANCIAL REPORT FOR THE FIRST HALF OF 2017**

The members of the Board of Directors of Banco Popular Español, S.A. affirm that, to the best of their knowledge, the condensed interim financial information corresponding to the first six months of 2017, prepared at the meeting held on 27 September 2017, and in accordance with applicable accounting principles, offer a faithful image of the equity, financial position and results of Banco Popular Español, S.A. and that the management report for the first six months of 2017 includes a true analysis of the information required.

In Madrid, 27 September 2017

Signed: José Antonio García Cantera

Signed: José Francisco Doncel Razola

Signed: Gonzalo José Alonso Tejuca

Signed: Pedro Pablo Villasante Atienza

Signed: Francisco Javier García-Carranza Benjumea

DILIGENCE, issued by me, the Secretary to the Board of Directors, to record:

1. That the meeting of the Board of Directors on 27 September 2017 approved the Condensed Interim Financial Statements and the Interim Management Report of Banco Popular Español, S.A. which, jointly with the Declaration of Responsibility about its content, make up the Financial Report for 2017.
2. That the Company's Interim Financial Statements have been endorsed by my on each page and that they correspond to those approved by the Directors as an integral part of the Financial Report for the first half of 2017, approved by the Board of Directors.

Madrid, 27 September 2017

Signed: Adolfo Díaz-Ambrona Moreno  
Secretary to the Board of Directors